



Life Unlimited

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Our performance

\$5,215m

Group revenue

Reported Underlying¹

+0.1% +4.7%

\$450m -24%

Operating profit

\$901m -4%

Trading profit¹

25.5¢ -57%

Earnings per share (EPS)

\$581m -45%

Cash generated from operations

\$345m -3%

R&D investment

37.5¢ Unchanged

Dividend per share

8.6% -280bps

Operating profit margin

17.3% -70bps

Trading profit margin¹

81.8¢ +1%

Adjusted earnings per share¹ (EPSA)

\$444m -46%

Trading cash flow¹

6.6% -150bps

Return on invested capital¹ (ROIC)

¹ These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on [pages 236–240](#).

The images used throughout the report represent the ways that Smith+Nephew is taking the limits off living and helping patients live Life Unlimited. Images used are not photographs of our patients unless expressly indicated.

Physical health is never just about our body. It's our mind, feelings and ambitions. When something holds us back, it's our whole life on hold.

We're here to change that, to use technology to take the limits off living, and help other medical professionals do the same.

So that farmworkers, athletes, grandads, parents and rugby players stare down fear, see that anything is possible, then go on stronger. Inspired by a simple promise. Two words that bring together all we do...

Life Unlimited



To learn more about our purpose visit
www.smith-nephew.com





Our technology takes
the limits off living

Getting a farmer back to work

Life Unlimited

We are a leading portfolio medical technology company. We exist to restore people's bodies and their self-belief.

19,000

Employees supporting healthcare professionals worldwide

121,963

Medical training sessions provided by Smith+Nephew in 2022

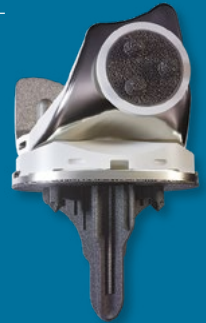
Serving healthcare customers

We serve our markets through three global franchises of Orthopaedics, Sports Medicine & ENT and Advanced Wound Management.

Orthopaedics

Orthopaedics includes an innovative range of Hip and Knee Implants used to replace diseased, damaged or worn joints, robotics-assisted and digital enabling technologies and services that empower surgeons, and Trauma & Extremities products used to stabilise severe fractures and correct hard tissue deformities.

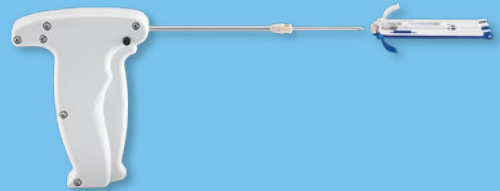
>> 28



Sports Medicine & ENT

Our Sports Medicine & Ear, Nose and Throat (ENT) businesses offer advanced products and instruments used to repair or remove soft tissue. They operate in growing markets where unmet clinical needs provide opportunities for procedural and technological innovation.

>> 34



Advanced Wound Management

Our Advanced Wound Management portfolio provides a comprehensive set of products and services to meet broad and complex clinical needs, delivering on our mission to shape what is possible in wound care.

>> 40



Building a winning culture

We strive to build a purpose-driven culture based on strong and authentic values of Care, Courage and Collaboration.

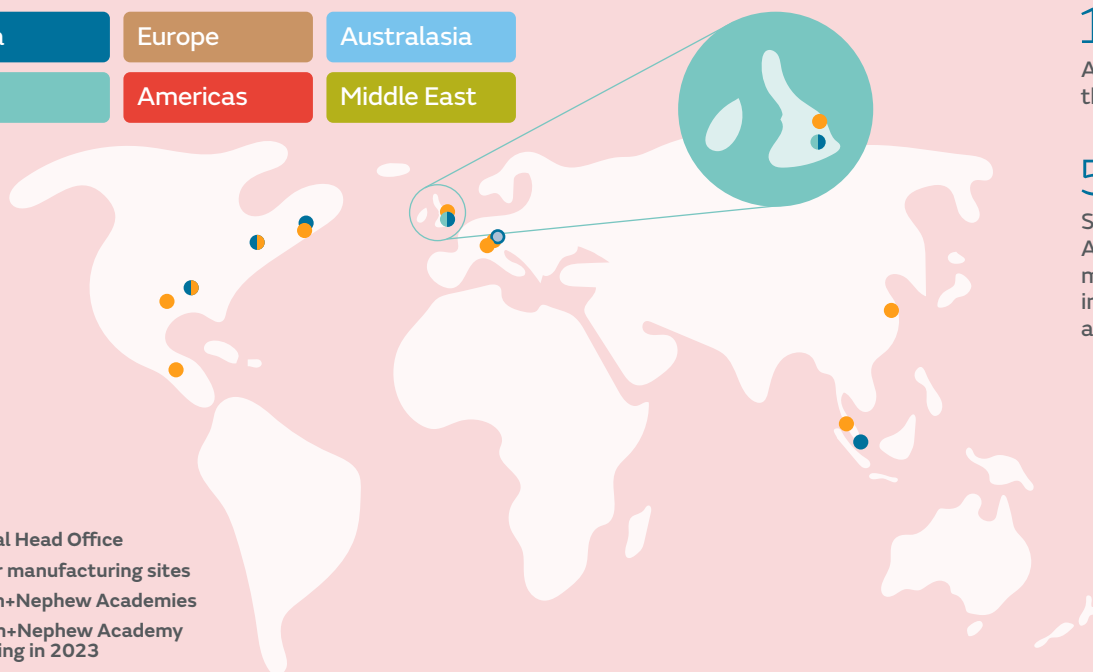
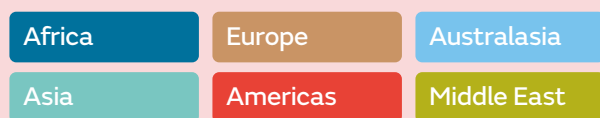
- » **Care:** A culture of empathy and understanding for each other, our customers and patients.
- » **Courage:** A culture of continuous learning, innovation and accountability.
- » **Collaboration:** A culture of teamwork, based on mutual trust and respect.

» 49

Working with integrity, transparency and accountability

- » **Innovation:** Developing new technology through our Research & Development (R&D) programme, and acquiring exciting technologies where we can add value. » 75
- » **Medical education:** Supporting the safe and effective use of our products and providing opportunities to learn innovative surgical techniques. » 26-27
- » **Sustainability:** Addressing the requirements of our stakeholders, creating a lasting positive difference for our customers and minimising our impact on the environment. » 56-68

Improving outcomes across the globe



100+

A presence in more than 100 countries

5+

Smith+Nephew's Academies provide medical education in the US, Europe and Asia Pacific

- Global Head Office
- Major manufacturing sites
- Smith+Nephew Academies
- Smith+Nephew Academy opening in 2023



Focused on improving performance and shareholder value

Dear Shareholder
Smith+Nephew delivered a mixed performance in 2022. Revenue growth was in the upper half of our guided range for the year, but our trading profit margin was below expectations, primarily due to the significant number of macro factors which impacted our industry in 2022. Under the leadership of our new Chief Executive Officer, Dr Deepak Nath, the management team is working to realise maximum value from the opportunities we have built, and address the challenges. We believe we are on the path to sustained higher revenue growth while also improving our trading profit margin over time.

Focused on improvement

The Board feels that the Company, under new leadership, has a renewed energy and all Board members strongly support the actions being taken to move the Company forward, including to address performance in our Orthopaedics franchise and improve productivity to support margin expansion.

37.5¢
Dividend per share

» 110–111

Read about our
Memphis visit

» 49

Read about
our culture

The Board seeks to foster an environment where there is a shared urgency to see measurable improvements in performance whilst recognising that leadership needs time to effect lasting positive change.

We reviewed and endorsed the 12-point plan brought forward by Deepak and his leadership team, welcoming the deep root-cause analysis, focused programme of actions, pace of execution and commitment to demonstrable outcomes. The Board regularly monitors progress and is encouraged by the early successes which Deepak describes in the next few pages.

Shareholder value

Stock markets were challenging in 2022, and Smith+Nephew's share price reflected this as well as our recent performance. While our shares performed in line with or better than many of our European medtech peers during the year, we continued to lag behind our US counterparts. Delivering our commitments with urgency to deliver value to our shareholders is a priority for the Board and management team.

For 2022 the Board is recommending a Final Dividend of 23.1¢ per share. Together with the Interim Dividend of 14.4¢ per share this will give a total distribution of 37.5¢ per share, unchanged from 2021.

The Board welcomes discussion with shareholders and during the year we engaged with many of our larger investors. We also received regular communication from private shareholders and welcomed the opportunity to meet face-to-face at our Annual General Meeting (AGM), which was also live-streamed to enable maximum participation during the meeting.

Culture and sustainability

The Board puts great value on how Smith+Nephew operates, and invests considerable time in meeting employees and understanding their experience and commitment to the Company.

“The Board feels that the Company, under new leadership, has a renewed energy and all Board members strongly support the actions being taken to move the Company forward.”

During the year members of the Board met with employees, both virtually and in person, and were impressed by their enthusiasm for the work they do. In September, the Board had the opportunity to meet with employees at the Company's Memphis site and learn about both our exciting product portfolio and scrutinise our plans to improve manufacturing productivity.

The Board was pleased to see that external benchmarking highlighted a strong employee connection to the purpose of Life Unlimited and an overall upward trend in engagement compared with last year. Management continues to work to build the culture and during the year the Board approved new Commitments which define the specific ways in which the Company expects employees to demonstrate our culture every day. On behalf of the whole Board I would like to take this opportunity to thank all the employees for their contributions during 2022.

Sustainability has continued to receive focus and scrutiny from the Board and its Committees to ensure our sustainability programme is aligned with our stakeholders' expectations and to monitor actions and progress against our targets, including towards net zero carbon emissions by 2045. We welcomed the decision to strengthen executive oversight of sustainability with the creation of the ESG Operating Committee, formed in January 2023, comprising experienced executives from across many Smith+Nephew functions.

Reflections and thanks

As this will be my final year on the Board and as your Chair, I wanted to take the opportunity to reflect on events during my time at Smith+Nephew. In 2014 when I was formally appointed as Chair, no one had any indication of the scale of the global challenges and uncertainty we would all come to experience, in terms

of political and geographical upheaval, the pandemic and the impact it would have on our economies, supply chains and ways of working.

During the early years of my tenure, I was privileged to have been part of driving the growth and success achieved by the Company. The Board supported the Company's strategic expansion into higher growth markets and segments through organic growth and acquisition, all guided by the renewed purpose, enthusiasm and winning culture of Life Unlimited.

However, my time as Chair has not been without its disappointments. As a Board, we have always made every effort to support the Company through the changes required to deliver value and growth for all stakeholders and to enable the Company to achieve its full potential. The loss of momentum emerging from the pandemic was something that the Board was very keen to address with the appointment of Deepak in April 2022 to accelerate business recovery. The Board has been impressed with the way that Deepak has quickly made every effort to evaluate, analyse and improve the business at pace in alignment with the purpose, strategy and values of the Company.

I will retire as Chair of Smith+Nephew in 2023 with a proposed transition over the next few months to our new Chair, Rupert Soames OBE, subject to shareholder approval. I firmly believe the management alignment and focus on execution at pace, the strong culture embedded within the organisation, and our leading portfolio of innovation together give Smith+Nephew the platform to deliver its full potential.



Roberto Quarta
Chair



Read about
Governance



Link to
AGM

Transforming to consistently higher growth

Dear Shareholder

It was an honour to be appointed Chief Executive Officer in April 2022 and I am pleased to have this opportunity to review the last year, and outline what we are doing to transform performance at Smith+Nephew.

When I joined Smith+Nephew I found a company that had many more opportunities than challenges, despite the backdrop of a difficult macro environment, including the impacts of higher inflation, war in Ukraine and Covid in China.

We are a company with innovation at our core, with leading technology across the business. We have a strong, energised management team and employees who are deeply committed to our purpose of Life Unlimited. Together, we are working to improve our execution to realise our opportunities and deliver greater value for our customers, investors, employees and other stakeholders.

We delivered 4.7% underlying revenue growth¹ in 2022 (0.1% reported), operating profit margin of 8.6% and a trading profit margin¹ of 17.3%. Performance in Orthopaedics and manufacturing and supply chain, alongside the difficult macro environment, held back our growth and trading profit margin during the year. We worked hard to closely manage the impact of the widely reported global shortages of some raw materials and components. We are benefitting from our increased investment in innovation, with more than 60% of growth in 2022 coming from products launched in the last five years. We exited the year with good momentum, with all three global franchises contributing to a strong finish to the year, and all accelerated revenue growth over the first nine months.

Executing our 12-point plan

In July 2022 we announced a 12-point plan to fundamentally change the way Smith+Nephew operates, to drive higher growth and improve productivity, maximising the opportunities we have built, and addressing the challenges. Through this plan, we expect to accelerate delivery of our Strategy for Growth and deliver on our ambition to transform to a consistently higher-growth company.

Our Strategy for Growth is based on three pillars:

- First, **Strengthen** the foundations of Smith+Nephew. A solid base in commercial and manufacturing will enable us to serve customers sustainably and simply, and deliver the best from our core portfolio.
- Second, **Accelerate** our growth profitably, through more robust prioritisation of resources and investment, and with continuing customer focus.
- Third, continue to **Transform** ourselves for higher long-term growth, through investment in innovation and acquisitions.

The 12-point plan supports the growth pillars to Strengthen and Accelerate, and is focused on:

- **Fixing Orthopaedics**, to regain momentum across hip and knee implants, robotics and trauma, and earn market share with our differentiated technology;
- **Improving productivity**, to support trading profit margin expansion; and
- Further **accelerating growth** in our already well-performing Advanced Wound Management and Sports Medicine & ENT.

» 32

Read about our CORI[®] Surgical System



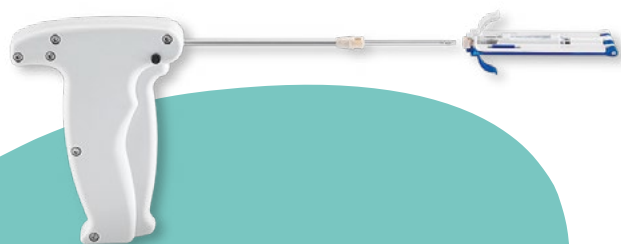
¹ These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 236–240.

Since July we have embedded the teams and structures to drive this work, established internal KPIs to drive accountability, and have made meaningful early progress in delivery. We expect to continue to accumulate operational and financial benefits as we progress through the two-year life of the plan.

While there is still much work to be done to improve our performance in Orthopaedics we are pleased with our progress in the first few months, including reducing our overdue orders by 35% from the peak in the first half of the year and improving the percentage of customer orders that are completely filled, moving towards normal industry standards.

In our global operations, we opened a new high technology orthopaedics manufacturing facility in Malaysia. We also announced plans for a new Advanced Wound Management facility in the UK. Further benefits are expected to come from driving lean methodologies across our manufacturing operations, pursuing opportunities for additional network optimisation and targeting direct procurement savings.

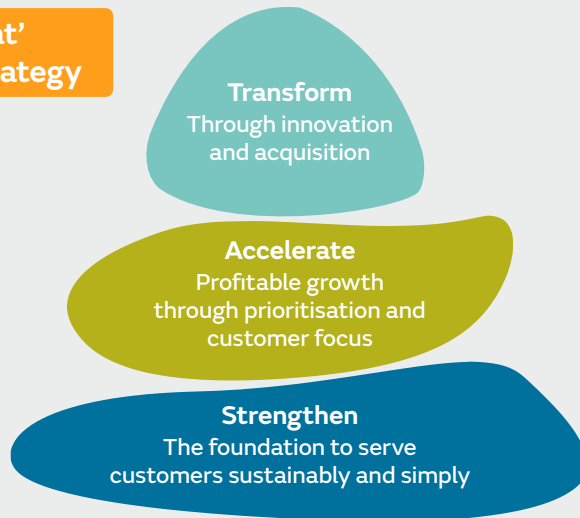
Our Advanced Wound Management franchise has delivered above market performance since 2021 following extensive work to improve commercial execution, and we expect to build on this strong position going forward. Growth drivers include our portfolio breadth and extensive evidence-base. Both are differentiators and we see significant opportunities for further growth, particularly in Negative Pressure Wound Therapy.



» 36-37

Read about our
REGENETEN®
Bioinductive Implant

The 'What' of our strategy



The 'How' – Executing our 12-point plan

Fixing Orthopaedics

Fixing Orthopaedics, to regain momentum across hip and knee implants, robotics and trauma, and win share with our differentiated technology:

- Rewire Orthopaedics commercial delivery.
- Earn market share with our technology.
- Streamline our reconstruction portfolio.

Improving productivity

Improving productivity, to support trading profit margin expansion:

- Improve value and cash processes.
- Optimise procurement.
- Manufacturing optimisation.

Accelerating Sports Med and AWM

Further accelerating growth in our already well-performing Advanced Wound Management and Sports Medicine & ENT businesses, representing approximately 60% of Group revenue:

- Scale Negative Pressure Wound Therapy.
- Drive cross-selling in Ambulatory Surgery Centers (ASCs).

The 'Now' of the opportunity

- More opportunities than challenges.
- Multiple positive factors coming together in Orthopaedics.
 - Next wave of innovative implants coming to market.
 - Unique expansions for CORI.
 - Revitalised management team in place.
 - Rewiring our commercial delivery underway.
- Reinforcing our AWM and Sports Medicine leadership positions.
- Bringing together leading technology and execution to drive performance.

Our Sports Medicine business has delivered above market growth consistently for many years, building on our reputation for innovation. Many of the drivers for further growth are already in place, including expanding both our REGENETEN[®] biologics platform into new indications and our technology leadership by adding advanced surgical capability onto our surgical tower. For ENT, we have a favourably positioned tonsil and adenoid business and are in the early stages of the roll-out of our unique Tula[®] System for in-office delivery of ear tubes.

We expect to continue to deliver further operational and financial benefits as we progress through the two-year life of the plan.

Innovation-led

Our commitment to innovation is central to our Strategy for Growth and we continued to invest behind recent product launches and in our R&D programme as well as clinical evidence to drive future growth.

New product launches in Orthopaedics included expanding our robotics-enabled CORI[®] Surgical System by bringing both cementless total knee and total hip arthroplasty onto the platform. We also became the first company to receive FDA 510(k) clearance for a revision knee indication using a robotics-assisted platform and completed the first cases on CORI. Revisions account for around 10% of all knee procedures in the US.

In Sports Medicine, we announced encouraging evidence supporting REGENETEN, which delivered a significant 86% reduction in rotator cuff re-tear rates at 12 months in interim results from a randomised controlled trial (see [page 37](#)).

» 16-17

Read about our KPIs

“In July 2022 we announced a 12-point plan to fundamentally change the way Smith+Nephew operates, to drive higher growth and improve productivity.”

In Advanced Wound Management, we introduced the WOUND COMPASS[®] Clinical Support App, a comprehensive digital support tool for healthcare professionals that aids wound assessment and decision making to help reduce practice variation, and launched our DURAMAX[®] S Silicon Super Absorbent Dressing for high exuding wounds in Europe, where superabsorbers are one of the fastest growing categories of dressings.

We continued to deliver successful acquisitions, bringing novel and disruptive technologies into our portfolio. In January 2022 we acquired Engage Surgical, owner of the only cementless partial knee system commercially available in the US. The system will have an application on CORI in the future.

Finally, we made further investment behind medical education. I was proud to attend the opening of a new Smith+Nephew Academy in Singapore. Our Academies in the US, Europe and now Asia Pacific, as well as our online resources, provide tens of thousands of healthcare professionals with opportunities to evaluate the latest evidence, learn innovative clinical techniques as well as safe and effective use of our products through hands-on and state-of-the-art digital interactive learning experiences.

Building a winning culture

Our strong culture and connection to our purpose of Life Unlimited helped us navigate the challenges of 2022. We improved our employee engagement scores as measured by Gallup, and made good progress in building a diverse and inclusive workplace through our Employee Inclusion Groups (EIGs). I have spent time with employees at many of our sites and through our global town hall meetings, and was impressed by their welcome and the enthusiasm to go the extra mile to serve our customers. I would like to thank every one of our colleagues for their dedication and care.

We continue to work to build our culture, and to ensure it supports our Strategy for Growth, and during the year we defined the specific expectations and behaviours we believe are needed, introducing our Commitments. We also took steps to support our employees as the cost of living rose sharply in some of our locations. You can read more about these and other initiatives on [pages 48–53](#).

Supporting Net Zero

Our Strategy for Growth also embraces sustainability, and this report details our progress made against our commitment to achieve net zero carbon emissions by 2045. Our Scope 1 and Scope 2 greenhouse gas emissions were independently assured in 2022 and we have reported our 2021 baseline Scope 3 emissions for eight categories. We are developing our Scope 3 emissions reduction roadmap in preparation for submitting this to the Science Based Target Initiative (SBTi) for validation. You can read more about our progress across our sustainability focus areas of People, Planet and Products on [pages 59–63](#).

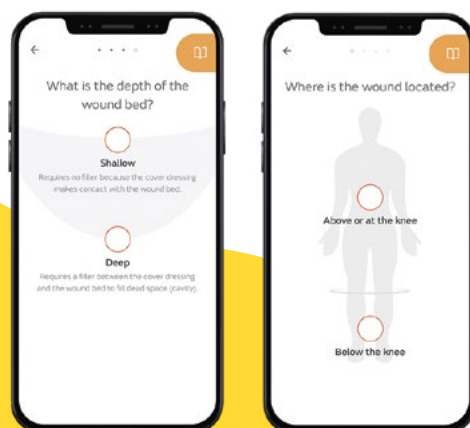
Transforming Smith+Nephew

We will continue to face macroeconomic headwinds in 2023. However, I believe the drivers of further growth are in place, including leading technologies across all three franchises. With our 12-point plan, we are fundamentally changing the way Smith+Nephew operates to drive higher growth and improve productivity. Overall, we expect to deliver both faster revenue growth and margin expansion in the coming year, and are setting a solid foundation for our midterm ambitions as we transform to a consistently higher growth company.

Deepak Nath, PhD
 Chief Executive Officer

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Read about our
WOUND COMPASS
 Clinical Support App





Our technology takes
the limits off living

Helping an athlete back to competing

Life Unlimited

Our business model

How we create value

Through our business model we strive to transform outcomes for the patients we serve, for clinicians and the healthcare systems we support, for the company and our shareholders. Our Strategy for Growth focuses our efforts, and our purpose of Life Unlimited inspires us every single day.

What we need to create value



People

A purpose-driven culture based on authentic values committed to doing business the right way.



R&D

Innovation is at the heart of our business and we prioritise investment in new products, technologies and services.



Financial strength

A robust balance sheet and capital allocation framework balancing investments in the future and returns today.



Sustainability

Addressing the long-term needs of our customers, employees, communities and stakeholders, reducing our impact on the environment.



Global operations

Resilient manufacturing and supply chains to ensure quality and competitiveness.



Medical education

Committed to educating and training healthcare professionals on the safe and effective use of our products.

Delivering value for stakeholders

Investors

Dividend

\$327m

Group revenue

\$5,215m

+0.1%

Operating profit

\$450m

-24%

Community

Volunteer hours

11,500

Employees

Engagement score

4.12

+0.04

Operating profit margin

8.6%

-280bps

Trading profit¹

\$901m

-4%

Trading profit margin¹

17.3%

-70bps

Customers

Training sessions

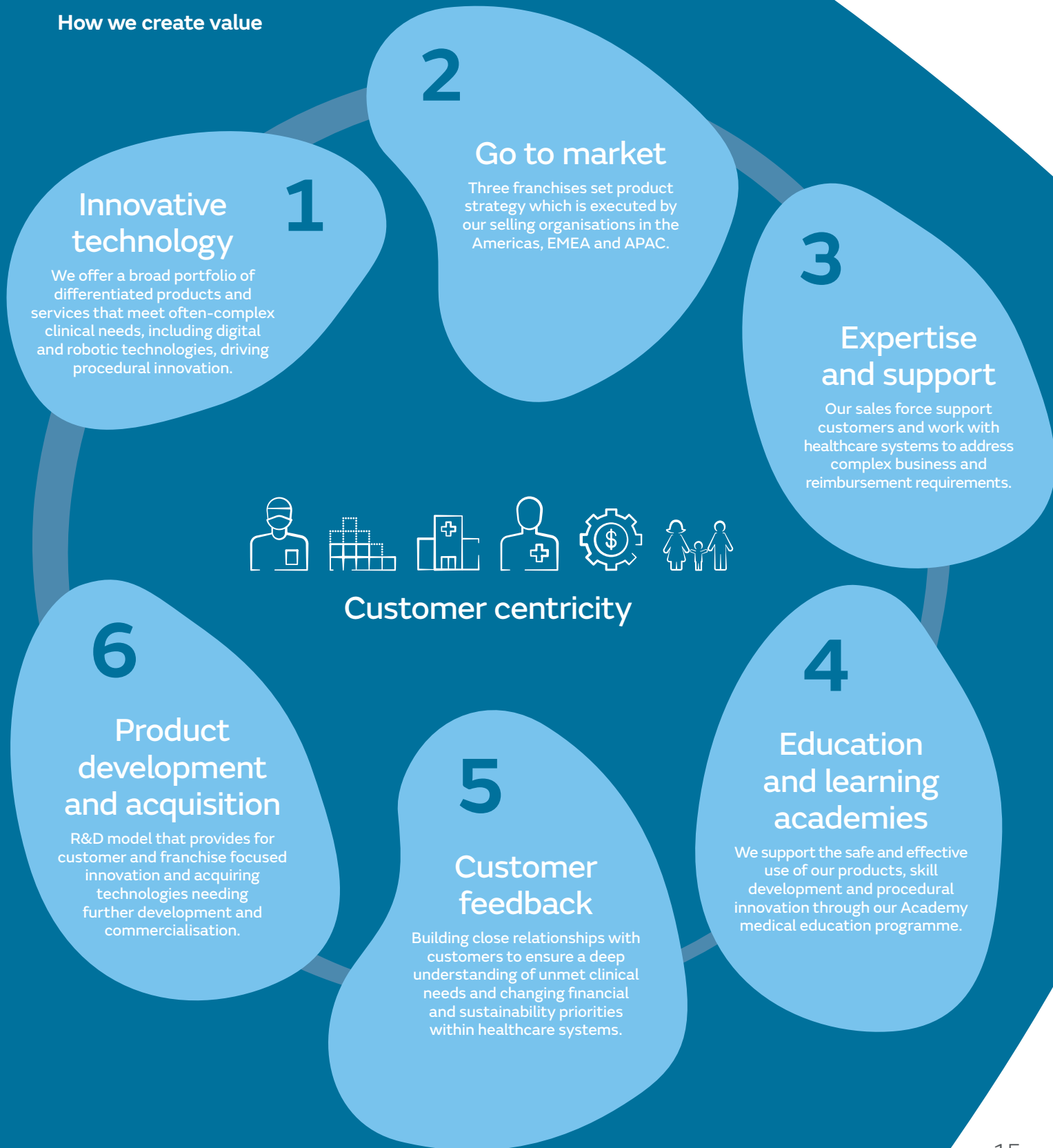
121,963

Product launches

12

¹ These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 236–240.

How we create value



1
Innovative technology

We offer a broad portfolio of differentiated products and services that meet often-complex clinical needs, including digital and robotic technologies, driving procedural innovation.

2

Go to market

Three franchises set product strategy which is executed by our selling organisations in the Americas, EMEA and APAC.

3

Expertise and support

Our sales force support customers and work with healthcare systems to address complex business and reimbursement requirements.



Customer centricity

6

Product development and acquisition

R&D model that provides for customer and franchise focused innovation and acquiring technologies needing further development and commercialisation.

5

Customer feedback

Building close relationships with customers to ensure a deep understanding of unmet clinical needs and changing financial and sustainability priorities within healthcare systems.

4

Education and learning academies

We support the safe and effective use of our products, skill development and procedural innovation through our Academy medical education programme.

Measuring our progress

Smith+Nephew uses a number of financial and non-financial Key Performance Indicators (KPIs) to track and evaluate performance and delivery against its Strategy for Growth and other business objectives. Those KPIs in the public domain are consolidated below. A number of other KPIs are commercially sensitive and are not published but are used internally to drive performance and growth.

Financial Key Performance Indicators

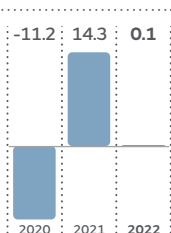
Revenue growth

Revenue growth allows management and investors to measure our relative performance. We are targeting underlying revenue growth of 5%+ in the medium term.

Revenue growth – reported %

+0.1%

Reported revenue growth includes a foreign exchange headwind of 460bps.



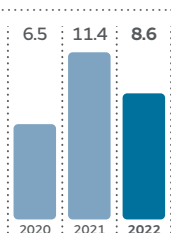
Profit margin

Profit margin allows management and investors to determine our relative performance. We are targeting at least a 20% trading profit margin in 2025, with improvements year-on-year.

Operating profit margin %

8.6%

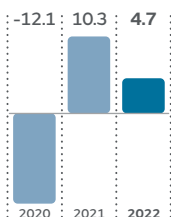
Reported profit margin reflects restructuring costs, as well as acquisition and disposal-related items, amortisation and legal and other items.



Revenue growth – underlying¹ %

+4.7%

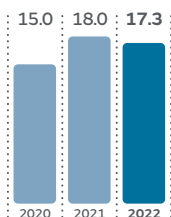
All franchises and geographies delivered revenue growth in 2022.



Trading profit margin¹ %

17.3%

Trading profit margin reflects the impact of higher input inflation in 2022.



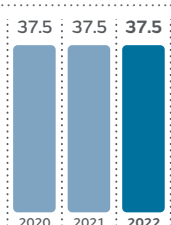
Dividend per share

Dividend payments allow investors to receive a cash return on their investment in Smith+Nephew.

Dividend per share ¢

37.5¢

Total distribution of 37.5¢ per share, unchanged from 2021.



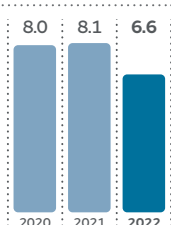
Return on invested capital¹

ROIC allows management and investors to measure the return generated on capital invested, providing a metric for long-term value creation.

Return on Invested Capital %

6.6%

The lower ROIC reflected the fall in operating profit and higher average net operating assets.



12-point plan KPIs

Multiple KPIs are used to measure delivery against the 12-point plan. These examples express some of the process improvement elements of the plan. KPIs covering R&D and growth elements, such as a new product acceleration metric, are commercially sensitive and not disclosed externally.

Orthopaedics non-set line-item fill rate

16

Percentage point improvement in the US year-on-year to 31 December 2022

This KPI helps us track improving performance in filling customer orders.

Orthopaedic Reconstruction set turns

23%

Improvement from 2021 baseline

This KPI helps us measure improvements in utilisation of Orthopaedic Reconstruction surgical instrument sets, enabling more procedures and supporting sales.

Procurement improvements

0%

Reduction since 2022 peak

This KPI enables us to track our productivity by measuring our success reducing direct and indirect spend (including transportation) as a percentage of revenue.

Manufacturing conversion cost

95bps

Reduction since 2022 peak

This KPI measures the cost to convert raw materials to finished products as a percentage of revenue to track manufacturing efficiency improvements.

¹ These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 236–240.

>> 48-49

For more about our employee engagement score

>> 56-68

For more about our sustainability strategy

Non-financial Key Performance Indicators

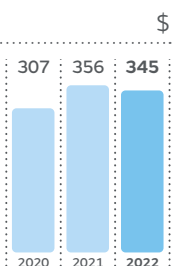
Investment in innovation

This KPI allows management and investors to understand how much is being invested in new innovative products designed to drive future revenue growth and profit.

R&D investment

\$345m

In 2022, we continued to protect our R&D investment and launched multiple new products from our organic pipeline and acquisitions.



New product launches

12

This KPI helps us track the number of on-time new product launches to drive future revenue growth.

Acquisitions

1

This KPI tracks acquisitions that enhance our portfolio and pipeline, including technology that can change the standard of care and assets in high-growth categories.

In January 2022, we acquired Engage Surgical, owner of the only cementless partial knee system commercially available in the US. This gives us a unique position as the only company offering total and partial cemented and cementless knees in the US, our largest market.

Employee engagement score

The Gallup Global Engagement Survey allows management and investors to assess how engaged our employees are, which is a key driver of business performance.

Engagement

4.12

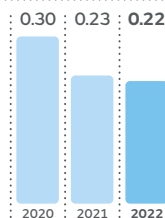
Our Grand Mean score of 4.12 positioned us in the 73rd percentile in Gallup's database (2021: 71st percentile). 88% of employees participated.

Quality and safety

This KPI allows management and investors to verify that we are operating a safe working environment at high standards.

Headline safety rate

We adopt the industry-standard OSHA system to record incidents of occupational injury and ill health. Performance is expressed as the number of incidents per 200,000 hours worked.



Medical education

This KPI helps investors understand how we support the safe and effective use of our products through the provision of medical education.

Practitioner training sessions

121,963

>> 26-27

For more about medical education

Long-term sustainability targets

These KPIs allow management and investors to measure progress against our long-term sustainability targets in the three areas of People, Planet and Products.

Achieve net zero

Achieve net zero Scope 1 and Scope 2 greenhouse gases (GHGs) by 2040 and Scope 3 GHGs by 2045, beginning by achieving a 70% reduction in Scope 1 and Scope 2 GHGs by 2025.

Scope 1 and 2 (market-based)^

27%

Reduction since 2019.

Hours volunteered

11,500

Each year employees are encouraged to use paid volunteering time.

Waste to landfill

26%

Less waste to landfill versus 2019.

Product donations

\$5.0m

Each year we donate products to support underserved communities.

^ Please refer to page 67 for our emissions reporting methodology, materiality and scope.

>> 56-68

For details of the actions we are undertaking to meet our commitments



Building a stronger Smith+Nephew

We made good progress in 2022 as we focused on driving better execution and improving productivity.

2022 performance

Group revenue in 2022 was \$5,215 million, an increase of 0.1% on a reported basis and 4.7% on an underlying basis¹ excluding a 460bps headwind from foreign exchange, within the revenue guidance range of 4.0% to 5.0% we had provided for 2022.

We exited the year with good momentum, with fourth quarter revenue up 1.4% on a reported basis and 6.8% on an underlying basis¹ excluding a 540bps foreign exchange headwind. All three global franchises contributed to this strong finish to the year, with all accelerating revenue growth over the first nine months of the year.

The operating profit was \$450 million with an operating profit margin of 8.6% (2021: 11.4%) after acquisition and disposal related items, restructuring and rationalisation costs, amortisation and impairment of acquisition intangibles and legal and other items.

Trading profit¹ for 2022 was \$901 million (2021: \$936 million) with a trading profit margin¹ of 17.3% (2021: 18.0%) reflecting higher inflation in freight and logistics, the impact of China volume-based procurement (VBP), as well as sales and marketing expenditure levels returning to more normal levels. The trading profit margin¹ was below the updated guidance of 17.5% we gave on 28 July 2022.

The reported profit before tax was \$235 million (2021: \$586 million) after adjusting for an impairment loss of \$109 million in our investment in our associate, Bioventus.

Group performance

	2022 \$ million	2021 \$ million	Change \$ million
Revenue	5,215	5,212	3
Operating profit	450	593	(143)
Trading profit ¹	901	936	(35)
Profit before tax	235	586	(351)
Attributable profit	223	524	(301)
EPS	25.5¢	59.8¢	(34.3)¢
EPSA ¹	81.8¢	80.9¢	0.9¢

Non-IFRS measures

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

	2022 \$ million	2021 \$ million	Reported growth %	Underlying growth %	Reconciling items	
					Acquisitions/ Disposals %	Currency impact %
US	2,764	2,658	4.0	4.0	–	–
Other Established Markets ²	1,504	1,638	(8.2)	3.3	–	(11.5)
Total Established Markets	4,268	4,296	(0.7)	3.7	–	(4.4)
Emerging Markets	947	916	3.5	9.1	–	(5.6)
Total	5,215	5,212	0.1	4.7	–	(4.6)

Trading profit¹ reconciles to operating profit, the most directly comparable financial measure calculated in accordance with IFRS, as follows:

	2022 \$ million	2022 %	2021 \$ million	2021 %
Operating profit	450	8.6	593	11.4
Acquisition and disposal related items	4	0.1	7	0.1
Restructuring and rationalisation costs	167	3.2	113	2.2
Amortisation and impairment of acquisition intangibles	205	4.0	172	3.3
Legal and other	75	1.4	51	1.0
Trading profit¹	901	17.3%	936	18.0%

“For the midterm, the Group is focused on delivering consistently higher revenue growth while also expanding its trading profit margin.”

1 These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 236–240.

2 Other Established Markets are Europe, Canada, Japan, Australia and New Zealand.

Efficiency

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

We are making good progress embedding the plan and are seeing early improvements.

The efficiency and productivity elements of the 12-point plan bring in a range of actions across the areas of cost of goods from our Global Operations and sales & marketing and general & administrative costs from our commercial and corporate activities. In aggregate, the benefits from these actions are expected to result in more than \$200 million of annual savings by 2025. The work to finalise the associated cost is ongoing and will be reported alongside our Q1 results on 26 April 2023.

Earnings per share

Basic earnings per share ('EPS') was down 57% to 25.5¢ primarily due to an impairment loss in our investment in our associate, Bioventus. Adjusted earnings per share¹ ('EPSA') was up 1% at 81.8¢, reflecting the improved trading performance, lower trading tax rate¹ and lower number of outstanding shares due to the share buyback.

Capital allocation

In December 2021 we announced an updated capital allocation policy to prioritise the use of cash as follows:

1. Invest in innovation to drive organic growth, and to meet our sustainability targets and further embed our ESG agenda.
2. Acquire new technologies and expand in higher growth segments, that have a strong strategic fit and meet our financial criteria.
3. Maintain investment grade credit metrics, our existing progressive dividend policy, and an optimal balance sheet position.
4. Return surplus capital to shareholders through buybacks.

Financial review continued

The 2022 share buyback programme commenced on 23 February 2022 and \$150 million was completed by 12 August 2022. As macroeconomic conditions continued to be uncertain, including higher inflation, the Board decided it was prudent to delay further buybacks until conditions improved. We remain committed to returning surplus cash to shareholders over time.

Investments

In January 2022, we completed the acquisition of Engage Uni, LLC (operating as Engage Surgical), owner of the only cementless partial knee system commercially available in the US.

This acquisition strongly supports Smith+Nephew's Strategy for Growth by transforming our business through innovation and acquisition, while also providing differentiation for our customers. The maximum consideration, all payable in cash, is \$135 million and the fair value consideration is \$131 million and includes \$32 million of contingent consideration.

We made further investment behind medical education with the opening of a new Smith+Nephew Academy in Singapore, a major medical education and digital innovation centre covering the Asia-Pacific region. The Group is planning to open a similar new Smith+Nephew Academy in Munich in 2023.

In 2022, we also announced plans to build a new Advanced Wound Management facility on the outskirts of Hull, UK. The design of the new facility takes into account sustainability factors and standards with a focus on energy and resource efficiency.

Dividends

The 2021 final dividend of 23.1¢ per ordinary share, totalling \$202 million, was paid on 11 May 2022. The 2022 interim dividend of 14.4¢ per ordinary share, totalling \$125 million, was paid on 26 October 2022.

Taxation

Smith+Nephew is subject to various taxes in the many countries in which the Group operates. We seek to pay the correct amount of tax in line with local tax laws in each jurisdiction.

	2022 \$ million	2021 \$ million	Change \$ million
Goodwill and intangible assets	4,267	4,387	(120)
Other non-current assets	1,843	2,109	(266)
Current assets	3,856	4,424	(568)
Total assets	9,966	10,920	(954)
Total equity	5,259	5,568	(309)
Non-current liabilities	2,992	3,221	(229)
Current liabilities	1,715	2,131	(416)
Total liabilities	4,707	5,352	(645)
Total liabilities and equity	9,966	10,920	(954)
Net debt ² including lease liabilities	2,535	2,049	486

	2022 \$ million	2021 \$ million	Change \$ million
Cash generated from operations	581	1,048	(467)
Trading cash flow ¹	444	828	(384)
Free cash flow ¹	56	410	(354)

Our business generates tax receipts for the governments in each of these countries. In addition to corporate income taxes, we pay and collect other taxes including payroll (employee) taxes, sales (indirect) taxes and customs duties.

During 2022, we made global tax payments of \$818 million (2021: \$725 million). This comprised of \$241 million of taxes borne by Smith+Nephew (corporate income taxes, employer social security contributions and customs duties) and \$577 million of taxes collected from employees and customers on behalf of governments (employee income taxes and social security contributions and net indirect tax payable).

Balance sheet data and net debt

Our balance sheet remains strong. Key movements are outlined below.

Overall goodwill and intangible assets decreased by \$120 million. Goodwill increased by \$42 million as a result of acquisitions of \$84 million, which was partially offset by foreign exchange movements of \$42 million.

Intangible assets decreased by \$162 million primarily because of amortisation and impairment of \$268 million and foreign currency movements of \$14 million being partially offset by acquisitions of \$44 million and additions of \$77 million. The acquisition of intangible assets relates to the Engage acquisition.

Other non-current assets decreased by \$266 million primarily due to a decrease of \$58 million in property, plant and equipment, a \$141 million decrease in investment in associates and a \$41 million decrease in retirement benefit assets. The decrease in the investment in associates primarily relates to an impairment loss of \$109 million in Bioventus Inc.

Current assets decreased by \$568 million primarily due to a \$940 million decrease in cash at bank, relating to the Engage Surgical acquisition, payment of dividends, share buybacks and repayment of debts. This was partially offset by a \$361 million increase in inventories driven by strategic raw material buys, as part of managing disruption to certain global raw material and component supply, inflation raising the average value of our inventory, and increased inventory to support growth including new product launches, safety stock, or in markets where we expect growth acceleration.

Non-current liabilities decreased by \$229 million primarily due to a \$105 million reclassification of borrowings to current liabilities to reflect repayments due in 2023, and an increase in retirement benefit obligations primarily due to higher discount rates in 2022 to reflect the current economic environment.

Current liabilities decreased by \$416 million primarily related to the repayment of \$407 million debt in 2022 and movements in provisions.

¹ These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on [pages 236–240](#).

² Net debt is reconciled in Note 15 to the Group accounts.

Cash flow

Cash generated from operations was \$581 million after paying out \$22 million of acquisition and disposal related items, \$120 million of restructuring and rationalisation expenses and \$133 million for legal and other items.

Trading cash flow¹ decreased by \$384 million driven by adverse working capital movements, primarily from inventory including from spot buying of raw materials and components to secure supply and mitigate the risk of shortages, and as we continued to invest in capital expenditure, including progressing changes to our manufacturing network.

The free cash flow¹ decreased to \$56 million from \$410 million in the prior year because of the decrease in trading cash flow. As a result of the working capital movement, the trading profit to cash conversion¹ ratio deteriorated to 49% (2021: 88%). We expect a reduction in inventory levels, and for cash conversion to return to historic levels, as we deliver the 12-point plan.

In 2022, the Group purchased a total of 10.1 million ordinary shares at a cost of \$158 million.

Liquidity and capital resources

At 31 December 2022, the Group had access to \$344 million (2021: \$1,285 million) in cash net of bank overdrafts. The Group's debt facilities comprised a \$1,000 million

USD corporate bond, a €500 million EUR corporate bond valued at \$533 million, a \$1,000 million revolving credit facility and \$1,160 million of private placement debt. The Group had committed facilities of \$3.7 billion at 31 December 2022 of which \$2.7 billion was drawn.

The Group's net debt² increased from \$2,049 million at the beginning of 2022 to \$2,535 million at the end of 2022, representing an overall increase of \$486 million as a result of dividend payments (\$327 million), the acquisition of Engage Surgical (\$89 million), and share repurchases (\$158 million).

Return on invested capital

Return On Invested Capital (ROIC)^{1,3} is a measure of the return generated on capital invested by the Group. It encourages compounding reinvestment within the business and discipline around acquisitions. ROIC decreased from 8.1% in 2021 to 6.6% in 2022 due to lower operating profit and higher average net operating assets.

Going concern

The Directors have considered various scenarios in assessing the future financial performance and cash flows. Throughout these scenarios, modelled on severe but plausible outcomes, the Group continues to have headroom on its borrowing facilities and financial covenants. The Directors have a reasonable expectation

that the Company and the Group are well placed to manage their business risks and to continue in operational existence for the period to 30 March 2024. Accordingly, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

Outlook

For 2023 we are targeting both revenue growth and trading profit margin above 2022 levels.

For revenue, we expect to deliver underlying revenue growth in the range of 5.0% to 6.0%. Within this, we expect continued strong growth from our Sports Medicine & ENT and Advanced Wound Management franchises, and further improvement in Orthopaedics as we continue to execute on the 12-point plan. On a reported basis the guidance equates to a range of around 5.0% to 6.0% based on exchange rates prevailing on 13 February 2023.

In terms of phasing, we expect the first quarter to be impacted by the renewed Covid waves in China reducing surgical volumes, as well as the continuing headwind of VBP in Orthopaedics. We expect the business to accelerate from the second quarter for the remainder of the year.

For trading profit margin, we expect to deliver at least 17.5% as the positive operating leverage from revenue growth, productivity improvements and the early benefits of our cost-saving initiatives more than offset continuing macroeconomic headwinds from raw material cost inflation, higher wages and a 100bps headwind from transactional foreign exchange. The tax rate on trading results for 2023 is forecast to be around 19% subject to any material changes to tax law or other one-off items.

For the midterm, the Group is focused on consistently delivering higher revenue growth while also expanding its trading profit margin.

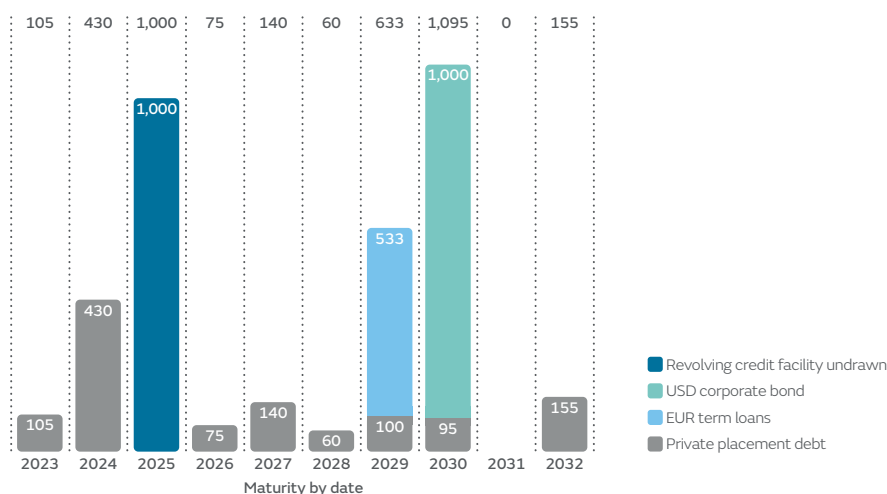
We are now targeting underlying revenue growth consistently 5%+ (previously 4-6%), driven by return on innovation investments and execution of the 12-point plan, and trading profit margin expansion to at least 20% in 2025, driven by productivity improvements (previously 21% in 2024).



Anne-Françoise Nesmes

Chief Financial Officer

Available debt facilities by maturity date (\$m)



1 These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 236–240.

2 Net debt is reconciled in Note 15 to the Group accounts.

3 ROIC is defined as: Operating profit (before amortisation and impairment of acquisition intangibles) less adjusted taxes/(Operating net operating assets + Closing net operating assets)/2.



Our technology takes
the limits off living

Getting a grandad back to playing with his grandchild

Life Unlimited



Serving healthcare customers

Our customers are healthcare professionals. They can range from orthopaedic surgeons to wound care nurses, general practitioners and other clinicians, but increasingly also economic stakeholders such as purchasing professionals in hospitals and healthcare insurers.



Our franchise model

Smith+Nephew has a global franchise structure with three franchises: Orthopaedics, Sports Medicine & ENT and Advanced Wound Management.

The franchise model is designed to ensure that we have subject and market experts leading specialist teams dedicated to serving the specific requirements of our customers. Our franchises are responsible for strategy, determining which products we take to market. The franchises work closely with R&D to ensure we are developing products that address unmet needs and with Global Operations to ensure we have appropriate product availability to meet customer needs.

During 2022, our Orthopaedics and Sports Medicine & ENT were led by one leadership team under the President Orthopaedics, Sports Medicine & ENT and Americas, reporting to the Chief Executive Officer.

Advanced Wound Management was led by the President Advanced Wound Management and Global Commercial Operations, reporting to the Chief Executive Officer. Global Commercial Operations include medical education, sales training, marketing services and healthcare economics and serves all our franchises and regions.

Our regional organisations sell to our customers. In the US, our largest market, the commercial teams were organised by franchise and led by the franchise presidents. The President Orthopaedics, Sports Medicine & ENT and Americas also led our teams in LATAM and Canada. Our EMEA commercial organisation, headquartered in Zug, Switzerland, was led by the President EMEA Region. Our APAC commercial organisation, headquartered in Singapore, was led by the President APAC Region.

Franchise areas

Three franchises set global product strategy

Orthopaedics

Orthopaedics includes Hip and Knee Implants used to replace diseased, damaged or worn joints, robotics-assisted and digital enabling-technologies and services that empower surgeons, and Trauma & Extremities products used to stabilise severe fractures and correct hard tissue deformities.



Sports Medicine & ENT

Our Sports Medicine & Ear, Nose and Throat (ENT) businesses offer advanced products and instruments used to repair or remove soft tissue.



Advanced Wound Management

Our Advanced Wound Management portfolio provides a comprehensive set of products and services to meet broad and complex clinical needs of products and services to meet broad and complex clinical needs.



Regions

Three regional organisations sell to our customers

US/Americas

In the US, our largest market, the commercial teams are organised by franchise and led by the franchise presidents. The President Orthopaedics, Sports Medicine & ENT and Americas also led our teams in LATAM and Canada.

Europe, Middle East & Africa

Our EMEA commercial organisation is headquartered in Zug, Switzerland and led by the President of EMEA Region.

Asia Pacific

Our APAC commercial organisation is headquartered in Singapore and led by the President of APAC Region.

Putting customers at the heart of our business



Surgeons



Healthcare systems



Hospitals



Nurses



Payers



Patients

Our salesforce

Our sales representatives support our customers through their technical knowledge.

Depending on their area of specialism, representatives in our surgical businesses not only know the products that they sell and the surgical instruments used to implant them, but are also expected to have an understanding of the various surgical techniques a customer might use.

Once a sales representative is trained and certified, they typically spend the majority of their time working directly with and supporting customers in the safe and effective use of our advanced medical technologies, or identifying and contacting new customers.

In Advanced Wound Management, sales representatives develop their knowledge of how clinicians seek to prevent and treat wounds, as well as understand the economic benefits of using our products within treatment protocols.

We pride ourselves on giving customers a high standard of service and invest in developing our sales and marketing organisation. Our Global Commercial Training and Education team delivers a consistent content and curriculum-based approach, coupled with commercial training specialisation in key markets.

Smith+Nephew Academy

Smith+Nephew is committed to educating and training healthcare professionals on the safe and effective use of our products.

Every year we provide tens of thousands of surgeons and nurses with opportunities to evaluate the latest evidence, and learn innovative surgical techniques and effective use of our products through our medical education programmes.

Central to Smith+Nephew's commitment to being a global leader in medical education and improving patient outcomes is providing a comprehensive accessible learning environment tailored to the needs of the healthcare professional.

Through the Smith+Nephew Academy, introduced in 2022, we are actively transforming the way we educate our customers around the world by surrounding them with leading-edge technology, clinical content and scientific data.

The multiple elements of the Smith+Nephew Academy offer a blended learning environment inclusive of state-of-the-art digital interactive learning, symposia, procedure-based education through hands-on experiences inclusive of Virtual Reality (VR) simulations, customised curriculum and programming specifically designed to meet the needs of the accomplished physician, resident, fellow and allied health professionals.

Smith+Nephew has three Academies in the US (Memphis, TN, Andover, MA and Pittsburgh, PA) as well as Academy London and Academy Singapore. Smith+Nephew Academy Munich is due to open in 2023. In addition we have smaller training facilities in Phoenix, AZ, Austin, TX and Minneapolis, MN.

121,963

Smith+Nephew medical education sessions attended by healthcare professionals in 2022, accessing in-person and virtual resources



Innovative
medical
education



In 2022, we opened the Smith+Nephew Academy Singapore, a major medical education and digital innovation centre covering the Asia-Pacific region.

Supporting Smith+Nephew's purpose of Life Unlimited, the S+N Academy Singapore offers an engaging, immersive and interactive training environment for healthcare professionals to experience the latest products and technologies, and refine their techniques under the guidance of expert peers.

S+N Academy Singapore includes a state-of-the-art digital operating suite, including handheld robotics and a virtual reality simulation studio, as well as fully equipped surgical super-stations for hands-on procedural training.



Smith+Nephew Academy Singapore was opened by our CEO Deepak Nath on 9 November 2022.

Orthopaedics

A leading portfolio of Hip and Knee Implants, robotics and digital enabling technologies and Trauma products

Smith+Nephew's Orthopaedic franchise vision is to improve mobility and outcomes, with unique and differentiated technologies that allow patients to live a Life Unlimited. Our innovative implants seek to mimic natural movement, are manufactured using materials with a track record of longevity and performance, and are accompanied by our enabling robotic technologies. We are well positioned as the supplier of choice for surgeons across the globe.

Smith+Nephew's Orthopaedics franchise includes an innovative range of hip and knee implants used to replace diseased, damaged or worn joints, robotics-assisted enabling technologies that improve accuracy and facilitate precision during the surgical procedure, and trauma products used to stabilise fractures and correct bone deformities.

In Orthopaedic Joint Reconstruction, we have a broad, clinically proven and what we believe to be a differentiated portfolio that allows us to compete effectively across a market worth around \$14.7 billion^b annually. This portfolio includes our proprietary OXINIUM[®] material which we consider offers a clear advantage over competitors (see [page 31](#)).

In addition, we believe our CORI[®] Surgical System is strongly positioned to take advantage of the trends towards robotic-assisted surgery and outpatient joint replacement seen across the segment. We are already a leader in-industry with CORI being the first robotic-assisted surgery system indicated for revision knee procedures in the US.

The Trauma & Extremities market is worth over \$12.7 billion^b annually, and we are well positioned to compete effectively in this segment. The simplicity and efficiency of our EVOS[®] Plating System gives us an advantage in the largest segment in Trauma, and our TRIGEN[®] INTERTAN[®] Intertrochanteric Nail is backed by the clinical and economic data to position it as the standard of care for hip fracture,^{1,2} the second largest segment. In Extremities, following a portfolio acquisition in 2021, we are excited by our next generation shoulder implant, the AETOS[®] Shoulder System, due to launch in 2023, and expanding our presence in Foot & Ankle.

Highlights

Orthopaedics revenue

\$2,113m

2021: \$2,156m

Reported	Underlying ^a
-2.0%	+1.9%

Orthopaedics trading profit

\$383m

2021: \$367m

	2022 Revenue	2022 Reported growth	2022 Underlying growth ^a
Knee Implants	\$899m	+2.5%	+6.8%
Hip Implants	\$584m	-4.4%	-0.2%
Other Reconstruction	\$87m	-5.6%	-1.8%
Trauma & Extremities	\$543m	-5.7%	-2.6%

a These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on [pages 236-240](#).



OR30[®] Dual Mobility with OXINIUM DH Technology.

2022 performance

Orthopaedics revenue declined -2.0% on a reported basis in 2022, including a 390bps headwind from foreign exchange. Revenue was up 1.9% on an underlying basis^a. The performance reflects the implementation of the previously disclosed hip and knee volume-based procurement (VBP) programme in China.

Within this, our Knee Implant segment performed strongly, offsetting declines in our other segments. Other Reconstruction was held back by global shortages of semiconductors. Franchise trading profit was up 4%, although the Orthopaedics trading profit margin of 18.1% remained below that of our other franchises.

Strategy

Our Orthopaedic business has an innovative portfolio that allows us to compete in joint reconstruction, robotically enabled procedures, and Trauma & Extremities markets. We are building on our strong foundation to build momentum and unlock opportunity. Our areas of focus include optimised supply planning and delivery as well as improved asset deployment.



CONCELOC^o technology allows for bony ingrowth

Smith+Nephew's CONCELOC Advanced Porous Titanium is a patented, proprietary, 3D printed porous structure technology used in Smith+Nephew's leading REDAPT^o Revision Hip System and new LEGION^o CONCELOC Cementless Total Knee System (TKS).

CONCELOC is created in a virtual environment and manufactured through 3D printing additive manufacturing to optimise its porous structure to allow for bony ingrowth.³⁻⁶

Our initiatives are designed to drive growth across the Orthopaedic franchise. In Joint Reconstruction and Robotics we aim to accelerate growth by focusing on robotically enabled procedures in total knee and hip arthroplasty with the CORI Surgical System. Additionally, we will continue to leverage the unique material properties in OXINIUM across the knee and hip platform. For Trauma & Extremities, Smith+Nephew expects to globally scale the EVOS Plating System portfolio to compete more broadly in Trauma centres. In addition, the launch of our AETOS Total Shoulder System is expected to expand our footprint in the Shoulder Replacement market.

Global market share

In our Orthopaedics franchise we are one of four leading players, competing against US-based companies Stryker, Zimmer Biomet and DePuy Synthes.



OXINIUM Tour of Change

During 2022, the Tour of Change mobile exhibit visited leading Orthopaedic centres across the US, providing healthcare professionals with an opportunity to learn how OXINIUM Technology is a truly differentiated implant material, how an implant is made, and how it has been applied clinically during the last 20 years in over two million cases, delivering proven clinical performance in hip and knee replacements.

OXINIUM Technology has established itself as the best performing bearing with the lowest risk of revision in total hip arthroplasty (THA) at 9–18 years,⁷⁻¹⁰ alongside strong clinical performance in knees.¹⁰

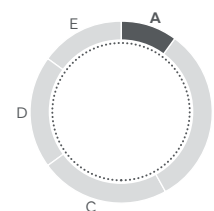
Global market size 2022^b

Hip and Knee Implants

\$14.7bn +4%

2021: \$14.1bn +11%

A	Smith+Nephew	10%
B	Zimmer Biomet	32%
C	Stryker	23%
D	DePuy Synthes ^c	20%
E	Others	15%

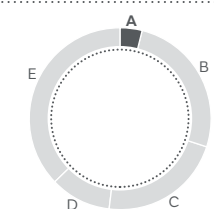


Trauma & Extremities

\$12.7bn +3%

2021: \$12.2bn +10%

A	Smith+Nephew	4%
B	DePuy Synthes ^c	26%
C	Stryker	22%
D	Zimmer Biomet	11%
E	Others	37%



^b Data used in 2021 and 2022 estimates generated by Smith+Nephew is based on publicly available sources and internal analysis and represents an indication of market shares and sizes.

^c A division of Johnson & Johnson.

Our technology takes the limits off living:

Building strength with the R3[◇] Hip System

Getting a weightlifter back to competing.

In 2016, I was winning medals in national powerlifting competitions. By 2018, I was walking with a cane.

My many years in sports had finally caught up with me – the wrestling, marathon running, martial arts, and weightlifting. I was 63 years old with a degenerative left hip and so much pain that I couldn't take my dog for a walk.

I had spent much of my life guiding and motivating others, both as a physical trainer and a counsellor of at-risk youth, but it was my turn to seek help. I went to Dr Trey Remaley at AdventHealth Wesley Chapel. He recommended full replacement with the R3 Hip System with OXINIUM[®].

Flash forward to 2022: I'm back doing what I love and competing in powerlifting. I won first place in the Florida Senior Games for my age and weight division, and I'm able to help other people who need training and support.

I like to think of each day as an experiment. What else can I do? How much stronger can I get?



Patient: Mike

» 256 For patient testimonial reference



R3 is the primary cup used by Smith+Nephew surgeons globally.

R3 Acetabular Cup provides a porous coating designed to enhance fixation and bony in-growth.^{4,5,11,12}



POLAR3[®] System is a total hip solution, meaning that it includes a hip stem, a hip head and an acetabular cup. Together, these three components are designed to replace the ball and socket structure of a natural hip.

R3 Hip System with OXINIUM



Delivering innovation

OXINIUM Technology is a strong, resilient and advanced implant material that is only found in Smith+Nephew's portfolio of joint replacement systems.

OXINIUM Oxidised Zirconium has been used clinically for over 20 years as part of over two million procedures. On a global scale, OXINIUM Technology demonstrates excellent survivorship across a range of patients in hip and knee replacement surgery.

Key products by segment

Knee Implants

In Knee Implants, Smith+Nephew's specialised systems include leading products for total primary replacement and revision, as well as partial and patellofemoral joint resurfacing procedures, offering surgeons and patients the benefits of many proprietary technologies.

These include a unique kinematic knee, the JOURNEY[®] II Total Knee Arthroplasty system, which has been shown to replicate normal knee positions, shapes and motions.¹³⁻¹⁵ and utilises OXINIUM[®], and a new LEGION[®] CONCELOC[®] Cementless Total Knee System (TKS), the first release in a multi-year roll-out of our family of cementless knee implant products.

In 2022, we brought these technologies together in the JOURNEY II ROX[®] Total Knee Solution, a new procedural product solution which aims to provide surgeons with the normal kinematics¹³⁻¹⁹ of JOURNEY II TKA, the cementless technology of CONCELOC Advanced Porous Titanium and the wear resistance^{20,21} of OXINIUM Technology.

We also offer strong differentiation in partial knees. In January 2022, we acquired the ENGAGE[®] Cementless Partial Knee System, the only cementless partial knee system commercially available in the US. With this acquisition, we are the only company offering total and partial cemented and cementless knees in the US, our largest market. The partial knee market is expected to grow faster than the total knee market and we expect cementless partial knees to grow ahead of overall partial knees, in line with recent patterns seen in the total knee segment.

First to market

In September 2022, we were proud to announce the first cases for revision knee replacement utilising our CORI Surgical System. We are the first orthopaedics company to receive US Food and Drug Administration (FDA) 510(k) clearance for a revision indication using a robotics-assisted platform.

RI.KNEE ROBOTICS utilises image-free smart mapping, eliminating the need for pre-operative CT/MRI scans and the potential for image distortion due to in situ components from the primary procedure.

Hip Implants

The Hip Implants portfolio is headlined by the POLAR3[®] Total Hip Solution, that has among the lowest revision rates.²²⁻²⁶ Our OR30[®] Dual Mobility is the first system to use the latest OXINIUM DH advanced bearing technology. Dual mobility hip implants are used in primary as well as revision procedures. In addition, we offer a full breadth of stems to address global philosophies including the ANTHOLOGY[®] Hip System. For revisions, the REDAPT[®] Revision Hip System features CONCELOC Technology. Bridging primary and revision hips is the OR30 Dual Mobility with OXINIUM DH Liner Technology.

Other Reconstruction

Our Other Reconstruction business includes the CORI[®] Surgical System, one of the most advanced and efficient^{*27} solutions on the market. The CORI system is a smaller^{*28}, portable solution capable of performing robotic-assisted knee and computer-guided hip surgery on a single platform. In robotic-assisted knee procedures, CORI utilises handheld precision milling which allows surgeons to execute TKA and UKA procedures with reproducible accuracy^{**29-33} Unlike other systems, the proprietary smart mapping feature creates a 3-D image of the patient's anatomy in surgery, eliminating time, costs, and radiation exposure³³ associated with preoperative CT scans.

RI.HIP NAVIGATION further expands indications on the CORI System, bringing a computer-guided total hip application to a platform previously dedicated to robotic-assisted knee procedures. When combined with Smith+Nephew hip implants, like the POLAR3[®] Total Hip Solution and OR30 Dual Mobility System, and complementary tools to assess spinopelvic mobility (RI.HIP MODELER) and digital templating (TraumaCad™), RI.HIP on CORI delivers a comprehensive solution for navigated total hip arthroplasty. RI.HIP NAVIGATION and RI.HIP MODELER are designed to help maximise accuracy and reproducibility by delivering patient-specific component alignment.

During 2022, we successfully expanded the capabilities of the CORI Surgical System. With the addition of a first-in-market indication in the US for robotic-assisted revision knee using LEGION[®] Revision Knee System, the CORI System is currently the only solution indicated for robotic-enabled knee procedures across the full continuum of care – partial, total, and revision knee arthroplasty. Furthermore, new indications for LEGION CONCELOC Cementless Total Knee System and RI.HIP NAVIGATION were added to CORI. In addition, RI.INSIGHTS, a data management solution, provides surgeon access to on-demand case information with patient-reported outcome measures (PROMs) for hip and knee procedures completed with the CORI Surgical System.



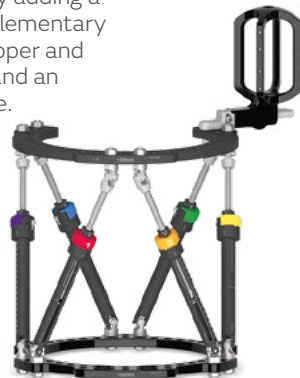
Trauma & Extremities

Smith+Nephew's portfolio includes differentiated technology across the major categories of Plates and Screws, Intramedullary Nails, Hip Fracture, Limb Restoration, Extremities, and Shoulder Replacement.

Leading products include the new EVOS[®] Plating System which includes a wide range of clinical indications from mini and small to large fragment and periprosthetic. Designed to offer surgeons an all-inclusive, expansive plating portfolio, EVOS provides the simplicity of logically organised instrumentation with advanced implant solutions that meets the demands and expectations of trauma surgeons.

The portfolio also includes the TRIGEN[®] INTERTAN[®] Hip Fracture System, which is backed by many years of strong clinical evidence.^{1,2} For Extremities, the launch of SMART TSF[®] expanded the capabilities of the TAYLOR SPATIAL FRAME[®] External Fixator.

In January 2021, we completed the acquisition of an exciting Extremity Orthopaedics portfolio which has strengthened our business by adding a focused sales channel, complementary shoulder replacement and upper and lower extremities portfolio, and an exciting new product pipeline.



Smart trauma technology

The SMART TSF is used in the management of fractures and correction of long bone deformities, including for fracture reduction and limb correction, lengthening and/or straightening. It is a circular, metal frame with two rings that connect with six telescopic struts that can be independently lengthened or shortened relative to the rest of the frame. This allows for six different axes of movement, which gives the TAYLOR SPATIAL FRAME the ability to correct even the most difficult congenital deformities and trauma cases. The SMART TSF application generates a prescription of strut adjustments which the patient can perform at a rate and rhythm determined by their surgeon, potentially reducing the need for travel and face-to-face consultation.



Bringing innovation into the NHS

In July 2022, we announced a pilot with a third party, Rods&Cones, to provide smart surgery glasses and digital remote assistance to customers. This enables Smith+Nephew representatives to 'see' through the eyes of the surgeon, instrumentalist nurse, or any healthcare professional using them, enabling continuous remote support before, during, and after surgical interventions.

Initially used in the UK to support the NHS and other customers, this solution allows Smith+Nephew to increase its ability to offer technical support for safe and effective use of its products at the right time from anywhere in the world. The increased complexity of surgery, advancement of technologies, and need for productivity and efficiency is enabled by ensuring a specialist is available remotely to support healthcare professionals upon request in a way which is not disruptive to the procedure.



Sports Medicine & ENT

Elevating the Standard of Care

Smith+Nephew's Sports Medicine & ENT franchise vision is to lead with innovative procedural solutions and elevate the standard of care in Sports Medicine & ENT. With a comprehensive procedural offering and differentiated technologies, we help healthcare professionals get their patients back to a Life Unlimited.

Smith+Nephew's Sports Medicine & ENT franchise operates in growing markets where unmet clinical needs provide opportunities for procedural and technological innovation.

Smith+Nephew is a global leader in Sports Medicine, a \$5.5 billion^b market annually. Sports Medicine spans a broad patient population, including athletes. People of all ages are more active than ever before, and whenever they seek treatment for an injury or a degenerative condition, they expect a fast recovery and rapid return to activity. The surgeons who serve these patients want to treat them as efficiently and as minimally invasively as possible while ensuring the best possible outcomes. We have a rich history of product development, and our technologies, instruments and implants enable surgeons to perform minimally invasive surgery of the joints, including the repair of soft tissue injuries and degenerative conditions of the shoulder, knee, hip and small joints.

Ear Nose and Throat (ENT) is also an attractive, growing market segment offering the opportunity to address unmet needs with differentiated procedural solutions. The positive momentum is driven by emerging therapies, changes in the point of care, mainly to the office setting, and increasing global access for ENT procedures. We offer a portfolio of technologies focused on the unmet needs of some of the most common procedures general and paediatric ENT surgeons perform today. These include tonsillectomies, epistaxis (severe nose bleeds) and tympanotomies (insertion of ear tubes).

2022 performance

Sports Medicine & ENT delivered revenue growth on a reported basis of 1.9% including a 480bps headwind from foreign exchange. Underlying growth^a was 6.7%.

Within this, all segments contributed positive growth. Sports Medicine Joint Repair performed strongly, in line with previous years, reflecting the strength of our portfolio. Arthroscopic Enabling Technology performance was held back by global shortages of semiconductors. ENT grew strongly as procedure volumes recovered from the impact of Covid. Franchise trading profit was up 3% with a trading profit margin of 29.7%.

Highlights

Sports Medicine & ENT revenue

\$1,590m

2021: \$1,560m

Reported
+1.9%

Underlying^a
+6.7%

Sports Medicine & ENT trading profit

\$472m

2021: \$459m

	2022 Revenue	2022 Reported growth	2022 Underlying growth ^a
SMJR	\$870m	+3.6%	+8.7%
AET	\$567m	-3.8%	+0.9%
ENT	\$153m	+17.1%	+20.4%

^a These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 236–240.

Strategy

We have a strong Sports Medicine & ENT business and are well positioned for long-term leadership and delivering our vision of advancing standards of care. Our franchise is driven by the three strategic priorities – innovation, market development and commercial execution.

Smith+Nephew's Sports Medicine & ENT business is founded on procedural innovation, with differentiated technologies that shape clinical outcomes across the globe. Our portfolio continues to demonstrate strong growth across key segments, and we have an innovative pipeline in development.

In line with our vision, our emphasis on market development will help shift standards of care to technologies and procedures that deliver on the promise of Life Unlimited. We are committed to investments in key areas such as clinical evidence, medical education, and surgeon training for continued market development around key procedures. Our commercial initiatives reflect balanced selling across segments and regions, aligned priorities, and a customer-centric, winning mentality.

Global market share

In Sports Medicine, Smith+Nephew holds a leading position behind Arthrex (US), and also competes against Stryker and DePuy Mitek.

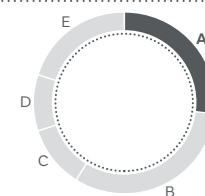
Global market size 2022^b

Sports Medicine^c

\$5.5bn +4%

2021: \$5.3bn +13%

A	Smith+Nephew	27%
B	Arthrex	32%
C	Stryker	11%
D	DePuy Mitek ^d	10%
E	Others	20%



- ^b Data used in 2021 and 2022 estimates generated by Smith+Nephew is based on publicly available sources and internal analysis and represents an indication of market shares and sizes.
- ^c Representing repair products and arthroscopic enabling technologies, and excluding ENT.
- ^d A division of Johnson & Johnson.



Arthroscopy Solutions for the OR

We are driven to design products that enable better outcomes and improved quality of care.

We work with customers to ensure their arthroscopy suite is complete, robust and ready to perform. Whether they need a comprehensive visualisation system, or our COBLATION[®] Technology.

Our INTELLIO[®] Connected Tower Solution provides sports medicine surgeons with a complete suite of enabling technologies in the operating room (OR). It uses a centralised app to wirelessly connect and control the major components of an arthroscopy surgical tower from outside the sterile field, helping to streamline procedure support.

Our technology takes the limits off living:

Supporting new tendon growth with REGENETEN[®]

Back on the green and back in the swing.

I didn't see how a 'patch' was going to fix my shoulder, let alone get me out on the golf course again. But after several years of dealing with chronic pain in my right shoulder, I figured it was worth a shot. I had always been active – from my early years in professional hockey to my later years in golf – and I wasn't ready to give up competing.

The REGENETEN Implant was recommended by my surgeon and friend, Dr. Scott Sigman at Orthopaedic Surgical Associates. He said the 'patch' was really an implant for the damaged part of my shoulder, and that it could help with the partial tear in my rotator cuff.

That was in 2018. Since then, my shoulder has healed to 100%, and I don't have to think about pain anymore. I can sleep better at night, enjoy my work during the day, and I've been out playing golf tournaments from Florida to Maine.

I tell my old friend Dr. Sigman that I'll never have to see him again – except for a round of golf, of course.



Patient: Colin

» 256 For patient testimonial reference



REGENETEN Bioinductive Implant



-86%

Delivered an 86% reduction in rotator cuff re-tear rates at 12 months.^{1-15,30}



Rotator cuff disease is a significant and costly problem.

The REGENETEN Implant stimulates the body's natural healing response to support new tendon growth.^{1,15}



Delivering
innovation

Revolutionising rotator cuff repair

Rotator cuff disease is a significant and costly problem that causes ongoing pain and limits patients' mobility. Progressive in nature, small tears tend to grow in size and severity over time, eventually requiring surgery.

The REGENETEN Implant supports the body's natural healing response to promote the growth of tendon-like tissue and change the course of tear progression.^{1,15,16,28,29} Derived from highly purified bovine Achilles tendon, it creates an environment that is conducive to healing.^{1,15}

In 2022, the results of a new randomised controlled trial showed that the addition of Smith+Nephew's REGENETEN Implant delivered a significant reduction in rotator cuff re-tear rates at 12 months.³⁰



Serving healthcare customers continued

Sports Medicine & ENT continued

Key products by segment

Sports Medicine Joint Repair

Our Sports Medicine Joint Repair business offers innovative procedural solutions for repairing soft tissue injuries.

For shoulder repair, we develop products for Rotator Cuff Repair (RCR) and instability repair to help address pain and restore function.

Advanced Healing Solutions for RCR include the innovative REGENETEN[®] Implant. With at least 12 published clinical studies including 709 patients,¹⁻¹² the REGENETEN Implant has been shown to change the course of tear progression in early studies,^{1,13-16} aid return to normal activity¹³ and reduce re-tears versus conventional surgery.^{17,18} The HEALICOIL[®] Platform of Shoulder Anchors features an open architecture design to facilitate healing¹⁹ and is available in our REGENESORB[®] material which is designed to be absorbed and replaced by bone within 24 months.²⁰⁻²²

In knee repair, arthroscopic repair techniques have become more prevalent and widely recognised for the treatment of meniscal tears in recent years.²³ Our All Tears, All Repairs Meniscal Repair Portfolio provides surgeons with unsurpassed options and possibilities for meniscal repair, including the FAST-FIX[®] FLEX Meniscal Repair System, launched in 2021, which enables all-zone all-inside meniscal repair to treat tears previously not accessible.^{*24-26}

Our portfolio also contains the NOVOSTITCH[®] PRO Meniscal Repair System, which addresses complex meniscal tear patterns, including horizontal cleavage tears affecting approximately one-third of meniscal repair patients.²⁷ We also offer a comprehensive ligament portfolio of high-quality products and thoughtful techniques to address the full spectrum of ligament pathologies and concomitant injuries. Building upon our trusted legacy of data-driven solutions, we continue to innovate in this space.

Our hip preservation portfolio contains a comprehensive offering of technologies and techniques, establishing Smith+Nephew as a leader and innovator in the hip repair segment. The recently launched CAP-FIX[®] Capsular Management Family addresses all capsular management needs, from open to close. We are committed to Redefining Healing Potential in gluteus medius repairs, with the use of the REGENETEN Implant.**

Arthroscopic Enabling Technologies (AET)

In Arthroscopic Enabling Technologies, our products facilitate arthroscopic surgical procedures. The INTELLIO[®] Connected Tower Solution unites high-definition imaging solutions, energy-based and mechanical resection platforms, fluid management and access technologies.

The LENS[®] 4K Surgical imaging system uses 4K UHD image quality and network connectivity in a 3-in-1 console for multi-specialty environments.

Our WEREWOLF[®] Controller enables surgeons to remove soft tissue precisely.^{***31} in a variety of arthroscopic procedures. With COBLATION treatment, patients experienced significantly less bleeding post-operatively.^{***32}

The WEREWOLF FASTSEAL 6.0 Hemostasis Wand, launched in 2021, is used in orthopaedic procedures for hemostasis of soft and hard tissues bringing a technology widely used in sports medicine to orthopaedic customers.

Ambulatory Surgery Centers (ASCs)

At Smith+Nephew, we go beyond product to deliver a comprehensive offering for ASCs. There continues to be a shift of both sports medicine and orthopaedic procedures from Hospital to ASC outpatient settings. We are uniquely positioned to meet the needs of the market with procedural solutions spanning across sports medicine, hip and knee reconstruction, robotics, trauma, extremities, and post-surgical wound care. Smith+Nephew offers a custom approach to the ASC, where we leverage not only our best-in-class products, but also introduce power up their ASC. As the ASC market evolves, Smith+Nephew will continue to meet the unique needs of this segment with procedure innovation and tailored programmes for growth.



FAST-FIX FLEX
Meniscal Repair
System

Ear, Nose and Throat (ENT)

In Ear, Nose and Throat, our COBLATION Plasma Technology, which has been used to remove tonsils and adenoids for over 15 years,^{34,35} has an ability to remove tissue at low temperatures with minimal damage to surrounding tissue.³⁶⁻⁴¹

Evidence shows that COBLATION® Intracapsular Tonsillectomy (CIT) procedures offer less pain, quicker recovery and a decreased risk of post-operative bleeding with similar outcomes to total tonsillectomies.³⁵⁻⁴¹ Smith+Nephew offers a full portfolio of COBLATION Wands for CIT procedures.

Our Tula System provides an in-office solution for placement of tympanostomy tubes.

In addition, we market a range of dissolvable and removable post-operative nasal dressings, as well as a comprehensive portfolio of epistaxis (nosebleed) solutions.



Delivering Innovation with Tula®

Smith+Nephew's Tula System gives ENT surgeons an option to place ear tubes in an awake child during an office visit without the need for general anaesthetic. The physician numbs the eardrum using a novel, child-friendly anaesthetic while the patient may sit up, play, and remain with their parent. A specialised tube delivery system allows the physician to place an ear tube in less than half a second, minimising the amount of time the child needs to remain still. Most children return to normal activities immediately following the Tula procedure.⁴²



WEREWOLF
 FASTSEAL 6.0
 Hemostasis Wand



Advanced Wound Management

Shaping What's Possible in Wound Care

Smith+Nephew's Advanced Wound Management franchise vision is to Shape What's Possible in Wound Care. Through our extensive portfolio, designed to meet broad and complex clinical needs, we help healthcare professionals solve the challenges of preventing and healing wounds.

The global wound care market is worth around \$10.7 billion^b globally per annum. Long-term growth has been driven by the needs of an aging population in many markets and as we experience lifestyle-related health conditions, such as increasing prevalence of obesity, diabetes and vascular disease. These conditions are key drivers of wound prevalence which contribute to the pressure on healthcare spending.

In Advanced Wound Management, we seek to help healthcare systems through innovation in products and services, to deliver accelerated healing or preventing wounds, and to do more with less, such as enabling patients to be treated faster requiring fewer resources, or moved from acute to homecare settings. We do this across our three segments of Advanced Wound Care (AWC), Advanced Wound Bioactives (AWB) and Advanced Wound Devices (AWD).

2022 performance

Advanced Wound Management delivered revenue growth on a reported basis of 1.1% including a 530bps headwind from foreign exchange. Underlying growth^a was 6.4%.

Within this, all segments contributed positive growth. Advanced Wound Care's performance reflected the breadth of our portfolio, Advanced Wound Bioactives delivered sustained good growth from our skin substitutes portfolio, and the strong growth from Advanced Wound Devices was driven by our PICO[®] Single Use Negative Pressure Wound Therapy System. Franchise trading profit was down 8% with a trading profit margin of 28.8%.

Strategy

Our vision of Shaping What's Possible in Wound Care is delivered through the two strategic levers of portfolio enhancement and ever improving commercial execution. Portfolio enhancement includes new product development, line extensions and acquisitions. To drive ever improving commercial execution

Highlights

Advanced Wound Management revenue

\$1,512m

2021: \$1,496m

Reported	Underlying ^a
+1.1%	+6.4%

Advanced Wound Management trading profit

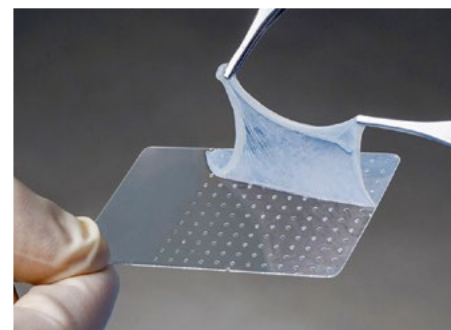
\$436m

2021: \$474m

	2022 Revenue	2022 Reported growth	2022 Underlying growth ^a
AWC	\$712m	-2.6%	+5.2%
AWB	\$520m	+4.9%	+5.4%
AWD	\$280m	+4.3%	+11.6%

^a These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 236–240.

GRAFIX[®] Placental Membranes form our skin substitute product range.



DURAMAX S Silicone Superabsorbent Dressing for highly exuding wounds launched in 2022.



we seek to inspire, engage and align on our global strategy across all regions and functions as efficiently as possible. Through these strategic priorities we are driving performance and supporting delivery of Smith+Nephew's global strategy to Strengthen, Accelerate and Transform through the 12-point plan.

Global market share

We operate in all three categories in wound care, and have the second largest business globally in terms of revenue. In the Advanced Wound Care segment we compete in dressings with Mölnlycke (Sweden), Coloplast (Denmark) and ConvaTec (UK). In Advanced Wound Devices, we are the primary challenger to Negative Pressure Wound Therapy incumbent 3M. In our Advanced Wound Bioactives franchise, we have leadership positions in a number of our respective categories.

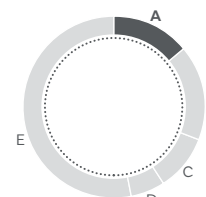
Global market size 2022^b

Advanced Wound Management

\$10.7bn +4%

2021: \$10.3bn +11%

A	Smith+Nephew	14%
B	3M	17%
C	Mölnlycke	10%
D	ConvaTec	6%
E	Others	53%



^b Data used in 2021 and 2022 estimates generated by Smith+Nephew is based on publicly available sources and internal analysis and represents an indication of market shares and sizes.



The future of pressure injury prevention

Hospital-acquired pressure injuries (HAPIs) are on the rise.

Despite a decrease in other hospital-acquired conditions, HAPIs are up 6%.^{38*} Each year, complications from pressure injuries result in an estimated 60,000 deaths in the US. The average incremental cost of treating a pressure injury is \$21,767.

Smith+Nephew's LEAF[®] Patient Monitoring System promotes adherence to patient turning procedures.^{41,42}

Visual alerts in the patient room and at the nurses' station make it easy for the whole team to see who needs to be turned and when⁴³. Plus, the LEAF System's Integrated Positioning Technology is the first tool that

measures the quality and effectiveness of patient turning, including patient turn frequency and turn angle.

Alongside our ALLEVYN[®] LIFE Dressings, which are multi-layered and uniquely constructed for protecting intact skin against pressure injury onset as part of a pressure injury/ulcer prevention protocol⁴⁴⁻⁴⁶ and the SECURA[®] range of skin care products, – Smith+Nephew offers a powerful portfolio to help facilities follow evidence-based protocols, and develop improved practices to prevent HAPIs.⁵¹



RENASYS[®] NPWT System offers options for the hospital and home setting.

* Between 2014 and 2017 in the US.

Our technology takes the limits off living:

A new lease of ALLEVYN[◇] LIFE



ALLEVYN LIFE Foam Dressings are designed to be left in-situ for up to five or seven days.^{22,23,24*}

Rediscovering many of the small things we take for granted.

When Allan, a once active sportsman, developed diabetes 15 years ago he soon found that his passions, interests and many day-to-day tasks suddenly became out of reach. Although he recognised that diabetes was something he needed to manage, pain and discomfort permeated his everyday life to the point that even a leisurely stroll was impossible.

After several complications, with the possibility of foot amputation, it was finally suggested that Allan managed the wound using ALLEVYN LIFE Dressings and the effect on his life was transformational. Recounting the simplicity of using ALLEVYN LIFE Dressings (even administering them himself, as directed by his healthcare professional), he described how our unique foam dressing technology cushioned his wound and helped to alleviate his pain.

“Given me a new lease of life.”

Now rediscovering many of the small things he took for granted – such as gardening, mowing the lawn, or even taking his son a cup of tea – Allan accredits much of his progress to our dressing technology. In a seemingly small treatment intervention, ALLEVYN LIFE Dressings made all the difference in the world to Allan; helping to put him back on a path to Life Unlimited.



Patient: Allan

» 256 For patient testimonial reference

ALLEVYN LIFE dressings manage exudate with visible change indicators and are comfortable to wear.^{25,26,27,28,29}



Delivering innovation

Reducing the burden on nurses through shared-care

In June 2022, a new peer-reviewed article in Wounds International proposed that an estimated 3.5 billion hours of nursing time could be released globally by 2030 if shared-care approaches between nurses and patients are adopted in chronic wound care alongside long-wear advanced foam dressings.¹⁸

Shared-care is the clinical practice of involving patients in the ongoing delivery of care, whilst supported and guided by a healthcare professional. Patients with chronic wounds may be encouraged to have greater involvement in dressing changes, lifestyle and nutrition factors, and monitoring and reporting. The success of shared-care is evidenced in other chronic conditions such as diabetes¹⁹, stoma management²⁰ and incontinence.²¹

ALLEVYN LIFE Foam Dressings complement a shared wound care approach by enabling nurses and patients to support healing. The dressings are designed to be left in-situ for up to 5 or 7 days,^{22-24*} manage exudate with visible change indicators and are comfortable to wear.²⁵⁻²⁹

* Up to 5 days for the sacral area.

ALLEVYN LIFE Dressing

Key products by segment

Advanced Wound Care (AWC)

Smith+Nephew started as a wound care company and through our Advanced Wound Care business we have grown to be a leader in the segment. Today our portfolio includes products that are designed to manage exudate and infection, protect the skin and help prevent pressure injuries.

In exudate management, our products provide appropriate wound fluid handling and absorption to help promote an optimal wound healing environment.¹⁻³ Our ALLEVYN[®] LIFE Foam Dressing is uniquely differentiated, with its EXUMASK[®] change indicator and hyper-absorbent lock away layer with EXULOCK[®] technology for odour control and fluid lock-in.^{2,4,5} The effectiveness of the ALLEVYN Dressing range has been demonstrated across 138 publications in 19 countries on over 12,000 patients and volunteers.⁶ In 2022, we introduced in Europe and the USA our DURAMAX[®] S Silicone Superabsorbent Dressing for highly exuding wounds. Superabsorbers are one of the fastest growing categories of dressings in Europe.

In infection management, our key silver-based ACTICOAT[®] Antimicrobial Barrier Dressings, DURAFIBER[®] Ag Absorbent Gelling Silver Fibrous Dressing, ALLEVYN Ag Antimicrobial Foam Dressing, as well as our range of IODOSORB[®] Cadexomer Iodine products provide clinicians with a range of solutions to address bacterial burden, biofilm and infection.⁷⁻¹⁷

Advanced Wound Bioactives (AWB)

Our Advanced Wound Bioactives portfolio provides a unique approach to debridement, dermal repair, and tissue substitutes with considerable evidence supporting their clinical application.

Collagenase SANTYL[®] Ointment (250 units/gram) is the only FDA-approved biologic enzymatic debridement agent available in the US market, and is indicated for dermal ulcers, severely burned areas and moderate to severe soft tissue burns. REGRANEX[®] gel is the only FDA-approved Platelet-Derived Growth Factor for the treatment of diabetic neuropathic ulcers, formulated to act as a first-line treatment following effective ulcer care.

In our skin substitute product range, GRAFIX[®] Placental Membranes and STRAVIX[®] Umbilical Tissues retain the extracellular matrix, growth factors and native placental components to support wound closure.^{30,31} They are intended for application directly to acute and chronic wounds and as a surgical cover or barrier. In addition, we offer OASIS[®]* Matrix and OASIS MICRO products, which are naturally derived scaffolds of extracellular matrix (ECM), composed of porcine small intestinal submucosa (SIS) and indicated for the management of a wide range of acute and chronic wounds, burns and surgical interventions.³²

* OASIS is manufactured by Cook Biotech, Inc.

Advanced Wound Devices (AWD)

In Advanced Wound Devices, our portfolio helps improve healing outcomes in chronic wounds, reduces surgical site complications and facilitates preventative care for pressure injuries. Within the negative pressure wound therapy (NPWT) category, we offer single-use and traditional (cannister-based) solutions offering customers a one-stop-shop with great flexibility.

Our PICO[®] range of single-use negative pressure wound therapy systems with its proprietary AIRLOCK[®] Technology layer has demonstrated significant healing outcomes for chronic wounds^{35*,34} and in the reduction of surgical site complications in closed incisions,^{35†} in a highly portable form that allows patients to return to their lives.^{36,37} Our traditional RENASYS[®] NPWT System offers options for the hospital and home setting.

AWD also includes the LEAF Patient Monitoring System that supports a hospital's pressure injury prevention strategy, and the VERSAJET[®] Hydrosurgery System, a surgical debridement device.

* Compared to baseline trajectory, n=52 wounds; p<0.006.

† Compared to care with standard dressings; p<0.00001; meta-analysis of 29 studies (odds ratio (OR): 0.37).

PICO

PICO Single Use Negative Pressure Wound Therapy System (sNPWT) is cost effective and improved outcomes compared with standard care to help prevent surgical site complications in patients with surgically closed incisions. A systematic literature review and meta-analysis of 19 studies involving 4,530 patients showed a 63% reduction in the odds of developing surgical site infections with the prophylactic use of PICO sNPWT compared with standard care.³⁵



Hospital-acquired pressure injuries (HAPIs) are on the rise³⁸

Despite a decrease in other hospital-acquired conditions, HAPIs are

+6%^{38*}

Each year, complications from pressure injuries result in an estimated

60,000

deaths in the US³⁹

The average incremental cost of treating a pressure injury is

\$21,767⁴⁰

* Between 2014 and 2017 in the US.

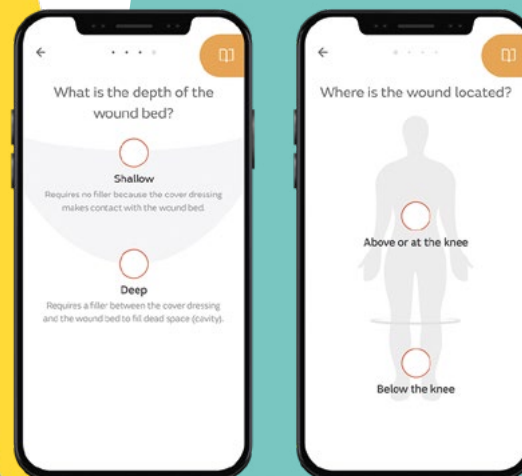


Delivering Innovation

Smith+Nephew's Advanced Wound Management franchise is also focused on utilising digital technology and data analytics to provide new forms of value to our customers. We aim to help optimise outcomes, prevent unnecessary wounds and complications, support patient care self-management where appropriate, drive transition to new efficient business models and establish data as a strategic asset.

In 2022, we launched the award-winning WOUND COMPASS[®] Clinical Support App, a comprehensive digital support tool for healthcare professionals that helps reduce practice variation.⁵²

This simple and easy-to-use app⁵² is accompanied by additional educational resources, images, and diagrams and can be customised to local customer formulary.⁵²



For detailed product information, including the indications for use, contraindications, effects, precautions and warnings, please consult the product's Instructions for Use (IFU) prior to use.

Manufacturing and quality

Smith+Nephew takes great pride in its manufacturing expertise and commitment to distributing innovative, quality products globally.



Our Global Operations team supports the delivery of the Group's strategy by ensuring that we respond efficiently to demand, new product development and changing regulatory requirements.

We operate manufacturing facilities in countries across the globe, and have central distribution facilities in the US, Europe and Asia. Products for our Orthopaedics franchise are primarily manufactured at facilities in Memphis (US), Penang (Malaysia), Aarau (Switzerland), Tuttlingen (Germany), Beijing (China) and Warwick (UK). Sports Medicine products are primarily manufactured at the Alajuela (Costa Rica) and Mansfield (US) facilities. Our major manufacturing sites for Advanced Wound Management products are Hull (UK), Fort Worth (US), Columbia, Maryland (US) and Suzhou (China).

During 2022 our global operations were subject to disruption from a number of factors including the impact of the war in Ukraine on the access and cost of supply channels, the widely reported global shortages of some raw materials and components, and localised factors including Covid-related lockdowns in China. During the year we worked to closely manage the impact of these factors on our business.

We procure raw materials, components, finished products and packaging materials from suppliers globally. These include metal forgings and castings, optical and electronic sub-components, active ingredients and semi-finished goods, as well as packaging materials. Our procurement team aims to contract to ensure value based on total spend across the Group. All our suppliers are subject to our Third Party Guide to Working with Smith+Nephew meaning they agree to conduct business on our behalf in an ethical manner that is compliant with all applicable laws, regulations and industry codes of conduct, and to manage their suppliers in accordance with the same standards.

We work closely with our suppliers to ensure high quality, delivery performance and continuity of supply. During 2022 we saw the impact of significant inflation across our supply chain.

We outsource certain parts of our manufacturing processes where necessary to obtain specialised expertise or to lower cost without undue risk to our intellectual property or quality. We monitor suppliers through on-site assessments and performance audits to ensure the required levels of quality, service and delivery as well as compliance with our Third Party Guide to working with Smith+Nephew.

Improving productivity

The 12-point plan (see pages 8–11) includes focus on improving productivity to support trading profit margin expansion. Areas of opportunity include driving lean methodologies across our manufacturing operations, further network optimisation and direct and indirect procurement savings.

We are reviewing lean methodologies across our operations to simplify processes, drive greater standardisation, and reduce scrap. We expect to roll out the lean programme in a phased approach, focusing initially on the greatest potential by product category and location, and with the oversight and accountability to make improvements sustainable. We will continue to review our network for further strategic opportunities.

We are also targeting procurement savings to help mitigate cost inflation. Opportunities include where spend is fragmented between large numbers of suppliers, or disproportionately using providers in high-cost countries.

Quality and Regulatory Affairs

Our Quality and Regulatory Affairs function supports full product life-cycle management of Smith+Nephew's global product portfolio from design and development through manufacturing and post-market surveillance.

These teams establish appropriate processes and procedures to facilitate compliance with complex global regulations and laws that govern the design, development, approval, manufacture, labelling, marketing and sale of healthcare products.

The Quality and Regulatory Affairs teams directly support expansion of our global portfolio through the registration of new products and existing products in new markets, as well as ensuring compliance with regulatory reporting standards.

The European Union Medical Device Regulation (EU MDR) is a significant regulatory change whereby medical devices carrying a CE mark now face greater scrutiny than ever before to ensure they are effective and safe. Our Regulatory Affairs is working with our Notified Bodies to certify our portfolio to EU MDR during the transition period which is currently scheduled to finish on 25 May 2024.

We are also monitoring the progress of the European Commission's proposal to amend the EU MDR transitional period including extending the transitional period.

Building a world-class network

Aligned to our Strategy for Growth pillar to strengthen our foundation, we are undertaking major investment in our manufacturing network to enable Smith+Nephew to serve customers and their patients sustainably through advanced manufacturing.

In Malaysia we opened our new high technology manufacturing facility Penang in June 2022. The 277,000 square-foot facility will primarily support the Company's Orthopaedics business, which is expected to grow strongly in the Asia Pacific region.

In the UK we announced plans in June 2022 to build a new facility for our Advanced Wound Management franchise on the outskirts of Hull, UK. The design of the new facility takes into account sustainability factors and standards with a focus on energy and resource efficiency.



Strengthening our Culture through leadership

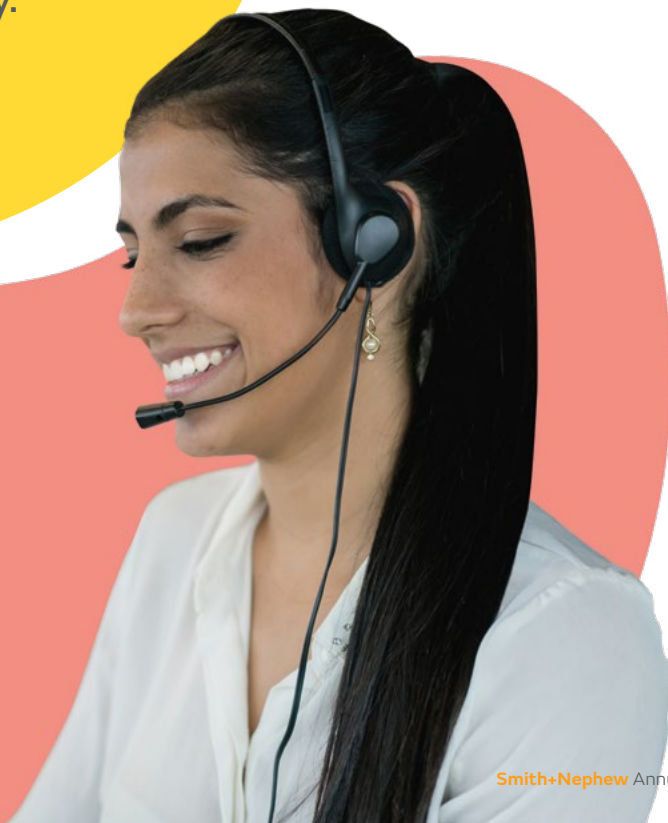
Our Culture of Care, Courage and Collaboration sets Smith+Nephew apart. Our leaders – current and future – set the tone for our culture and the example for our global team to follow. We believe developing our current and future people leaders is an investment that benefits the entire organisation. Engaged leaders create engaged employees and contribute to a high-performing and purpose-driven company.

At Smith+Nephew, we know that our people enable our business strategy. That's why our comprehensive people strategy is focused on making Smith+Nephew a workplace that talented people want to join and stay, creating positive and simple processes to support our employees in the 'moments that matter', from recruitment to retirement, and building a high performing and inclusive culture where everyone feels a sense of respect and belonging.

Our Culture of Care, Courage and Collaboration is central to all we do. In 2022, we advanced this culture through strengthening and embedding our Inclusion, Diversity and Equity (IDE) initiatives, expanding our wellbeing offerings, engaging employees in their role and connection to our business strategy and empowering and enabling our people leaders.

An engaged team

For the fourth year, we conducted our annual Global Employee Survey administered by Gallup, a leader in survey research, using the Q12 survey tool. The Q12 tool measures the key aspects of employee engagement which creates an environment of trust and enables business performance.



The Q12 survey tool focuses strongly on the role of the people leader in engaging their team. People leaders are provided with their individual survey scores and conduct team sessions where the results are discussed and actions agreed – both to improve on opportunity areas and to maintain strengths. These action plans continued throughout the year and are assessed at our annual Gallup Accountability Check-in Survey to determine whether employees are seeing improvements.

In 2022, we saw a strong response rate of 88% and an overall upward trend of our results compared with last year.

Our overall Company engagement score was 4.12, is a slight increase from last year (4.08), putting us in the 73rd percentile of Gallup's database. This gives us a good foundation on which to build.

The survey highlighted overall strengths in employee connection to our purpose and culture and the feeling that opinions count. Given some of the recent challenges around supply chain it was not surprising to see that our greatest areas of opportunity, where our scores fell slightly (down 0.02 points), are having the materials and equipment, as well as overall satisfaction with Smith+Nephew as a place to work.

Introducing our Commitments

In 2022, using results from our Global Employee Survey as well as inputs from leaders and employees across the business, we defined the specific expectations and behaviours needed to deliver our strategy and support our culture. Our Commitments, which take effect from 2023, define the specific ways in which we expect our employees to demonstrate our culture every day. These Commitments were launched through a leader-led cascade so that our leaders truly owned them and made them relevant for their teams.

Our Purpose

Life Unlimited

Our Culture



A culture of empathy and understanding for each other, our customers and patients.



A culture of continuous learning, innovation and accountability.



A culture based on mutual trust, respect and belonging.

Our new Commitments

Deliver for our customers

Understand our customer needs. Constantly deliver the products and services they need, when they need them, every time.

Show empathy

Be authentic, respectful and transparent. Listen, seek to understand and adapt appropriately.

Develop and grow

Foster your own development and that of your teams. Share honest feedback, coach, support and celebrate progress.

Take initiative

Pursue possibilities and take appropriate risks. Speak up and respectfully challenge to improve our Company.

Take accountability

Set priorities and associated KPIs. Take ownership for your decisions, actions and outcomes.

Be adaptable

Learn from successes and failures. Be brave, challenge and be open to change. Try new things and celebrate our wins.

Be inclusive

Value difference and foster diversity and open communication. Always encourage and respect alternative perspectives.

Build trust

Act with integrity, honesty and consistency. Keep commitments and deliver on promises.

Find solutions

Work together to address the root cause of issues. Have the difficult conversations and make decisions. Act in the best interest of our Company.

Strengthening our Culture through leadership continued

Inclusion, Diversity & Equity

We want Smith+Nephew to be recognised as a place where every individual feels they belong, are empowered, valued, and have access to opportunities to build great careers, thrive and achieve their fullest potential.

Our Employee Inclusion Groups (EIGs) cover a broad spectrum of diversity and provide a network for employees to engage and collaborate. Each group is sponsored by a member of our Executive Committee who takes an active role in the Group's development and serves as a champion for their respective focus area.

During 2022, we had 10 EIGs covering gender, race and ethnicity, veterans, mental health and physical wellbeing, generations, and LGBTQ+. We officially launched our tenth EIG, EMPOWER (centred around the differently abled/disabled area of diversity) in December 2022 to coincide with disability awareness month. EIGs currently reach over 3,000 employees, with more than 20 engagement activities per month.

Leaders also take an active role on our Life Councils, which are employee groups at a site or country level aimed at strengthening employee engagement in the workplace and through community activities.

We continue to actively engage externally to attract diverse talent. In 2022, we sponsored the Scientist Mentoring Diversity Program, the National Society of Black Engineers and the Society of Women in Engineering, for which we are also a key corporate sponsor. Our EIGs were involved as brand ambassadors in activities that promote recruitment of diverse talent.

In 2022, Smith+Nephew was recognised by Forbes as a 'Top Female Friendly Company' for a second year running.

Gender ratios

Overall, we saw an increase of female representation in senior roles, up to 33% in 2022 from 31% in 2021. The percentage of female Board members was 36% in 2022, up from 33% in 2021.

Total employees¹

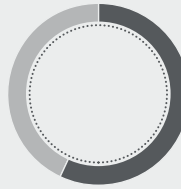
19,012

Male

57%

Female

43%



Senior managers and above²

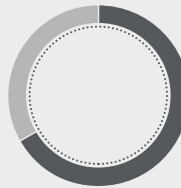
1,099

Male

67%

Female

33%



Board of Directors

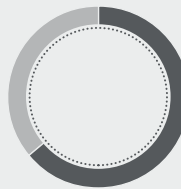
11

Male

64%

Female

36%



¹ Number of employees at 31 December 2022 including part-time employees and employees on leave of absence.

² Senior managers and above include all employees classed as Directors, Senior Directors, Vice Presidents, Executive Officers and includes all statutory directors and Directors of our subsidiary companies at 31 December 2022.



EMPOWER

EMPOWER is the voice within Smith+Nephew for all employees affected by or living with a visible or invisible disability, chronic health condition, neurodiversity, and/or mental health difficulties. Together we can improve the experience of our differently abled colleagues throughout support, advocacy and education.

+ SWE

Society of Women Engineers

+ UNITY

Race + Ethnicity

+ GAIN

Gender Alliance for Inclusion

+ WIN

Women's Inspired Network

+ GLOBAL SNYP

Engage, Develop, Grow, Excel

+ HERIZON

We care, we bond...

+ CARE

Mental Health + Physical Wellbeing

+ VETERANS+UNLIMITED

Veterans of Military Service and Active Reservists

+ PRIDE

LGBTQ + Community + Allies

+ EMPOWER

Support, Advocate, Educate

Wellness

Wellness – physical, mental and financial – plays a critical part in enabling employees to engage and focus on delivering their objectives.

With this in mind, and based on feedback from our Global Employee survey, in 2022 we reviewed several areas of our global rewards programme and implemented several initiatives to support employee wellbeing.

We expanded our global wellness programme to offer a wider range of resources in multiple languages through local Care EIG groups and content on our intranet SNLife. We held wellbeing webinars in local languages several times this year allowing the local teams to pick the topics of most relevance for their populations/countries.

We also improved our Employee Assistance plan to include an enhanced global emotional wellness solution to address mental health concerns. This will provide timely mental health appointments and a care navigator as well as financial, legal and work/life support such as finding day care or elder care for dependants.

Responding to the significant impact of high rates of inflation in a number of our markets on our employees, we made an exceptional off-cycle base pay adjustment for eligible employees in many markets, including the UK and US.

At Smith+Nephew we promote flexibility in where, how, and when we work. This means looking at the spaces in which we work, the ways we work and our work patterns. We believe our approach is an important differentiator, and helps our employees balance work and home life.

Our Global Flexibility Principles serve as the guiding philosophy for identifying flexible work solutions that foster productivity and wellbeing while supporting our culture. While the principles are consistent globally, specific flexibility options will vary depending upon the individual, role and site/country/region.



Wellbeing award

In 2022, we were honoured to be one of only four organisations awarded a Gold level Cigna Healthy Workforce Designation for having created a healthy work culture through our employee wellbeing and engagement programme. Cigna is an American multinational managed healthcare and insurance company and Smith+Nephew's designated insurance provider for employees in the US.



Strengthening our Culture through leadership continued

Leadership development

There has been a five-fold increase in the number of leadership programme participants in 2022 compared to the previous year, with almost 1,900 employees successfully completing programmes. These programmes range from Introductions to leadership for first-time leaders to aspiring Managing Director and Executive Development Programmes. We collaborate with other companies on strategic-level problem-solving development challenges, and offer courses from a range of business schools.

In 2022, we launched the People Leader Hub, which contains resources to support our key people practices, skills and behaviours and includes more than 400 learning and development resources. By year end the People Leader Hub had more than 20,000 views and 10,000 users.

In 2022, more than 2,000 leaders globally took training to reduce bias in the interview process. We aim to practise 'bias interruption', which involves diverse sourcing, diverse slates of candidates, and diverse interview panels.

We will continue to emphasise diverse talent across all management levels and we continue to see progress in female representation. We aim to strengthen our approach towards diversity by setting more goals to progress our racial and ethnic diversity in 2023–2024.

Supporting learning and growth

To truly live our purpose of Life Unlimited, we must realise every employee's full potential. To achieve this, all our employees have robust 70-20-10 development plans, which take a blended approach to learning and development: 70% through experiential/on-the-job learning; 20% by learning from others, for example through coaching; and 10% from formal learning. Our performance management process aligns each individual's objectives with our strategy.

Smith+Nephew's compensation strategy supports high performance and accountability across both financial and cultural performance metrics. A robust compensation framework is vital in attracting, retaining and motivating high calibre people, driving better business results across an equitable work environment. We are Living Wage Accredited in the UK, voluntarily paying above the government required minimum. We also offer a share save plan to the majority of employees globally.



Elevate

200 participants signed up for our Elevate programme to support female professional development in 2022 as we continue to build engagement and retention in our female talent pipeline. Also in 2022, we enhanced and streamlined our female sponsorship programme, which is now called our Diverse Sponsorship programme. We have 12 senior-level employees strategically aligned to each Executive Committee leader to foster leadership transfer of knowledge and professional development.

Achieving results with responsibility

Our Global Compliance Programme helps our business to comply with applicable laws, regulations and industry code requirements in the markets in which we operate. Our comprehensive programme includes policies, guidance, role-based training, monitoring and validation processes supported by data analytics and reporting channels. Our Compliance teams work closely with business partners to ensure that our programme evolves in parallel with business changes and emerging risks in the sector. Data Privacy is an integral part of our Programme and regulation in this area continues to increase. During 2022, we increased our focus on Data Privacy and have added resource and expertise to our team, notably in the US and APAC regions.

We are committed to helping our employees and third-party partners to do business in the right way through simplification of Compliance programme requirements and by embedding key Compliance controls into business processes. We regularly review our Global Policies and associated tools. Through our global intranet, we provide these and other resources to guide employees to make decisions that comply both with the law and our Code of Conduct.

Our business models require that we work closely with third-party distributors, agents and others, and in many countries these partners sell product on our behalf. We have a well-established risk-based Third Party Compliance Programme which includes ongoing due diligence, training and oversight of these partners.

We have a strong ethics, compliance and governance infrastructure with oversight from the Board Compliance & Culture Committee, to ensure managers, employees and third parties act with integrity. Data Privacy has now been fully integrated into the Compliance governance framework. We ensure appropriate oversight of significant interactions with healthcare professionals or government officials, and we comply with all national and state transparency reporting laws which require reporting of physician compensation.

All employees have a responsibility to report violations of our Code. This may be done via their manager, directly to Compliance, HR or Legal functions, or through an externally managed reporting channel where anonymous reports may be made.

An ethical employer

At Smith+Nephew, 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.

Smith+Nephew gives individuals with disabilities fair consideration for all vacancies against the requirements of the role. Where possible, for any employee who has a disability or who becomes disabled while working for us, we make reasonable adjustments and provide appropriate training to ensure that they are supported in their career. We are committed to providing equal opportunities in recruitment, promotion and career development for all employees, including those with disabilities.

We do not use any form of forced, compulsory or child labour. Smith+Nephew supports the Universal Declaration of Human Rights of the United Nations, respecting the human rights, dignity and privacy of individuals and their right to freedom of association, freedom of expression and the right to be heard.

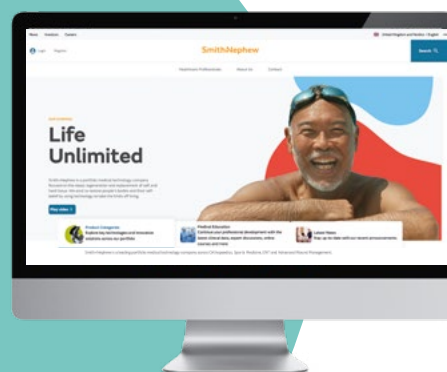
As a global medical technology business, we recognise our responsibility to take a robust approach to preventing slavery and human trafficking. Smith+Nephew is committed to preventing such activities in all of its corporate operations and in its supply chains.

Our full policy on modern slavery is available on our website.

 www.smith-nephew.com

Our Code of Conduct and Business Principles are available on our website

 www.smith-nephew.com





Our technology takes
the limits off living

Helping a parent back to a normal life

Life Unlimited



For a healthy and sustainable future

Our sustainability strategy is built on our purpose – Life Unlimited, our Strategy for Growth and our culture of Care, Courage and Collaboration.



Protecting the future

Through our Strategy for Growth we are working to strengthen the foundation of our business to serve customers sustainably and simply, to accelerate profitable growth through prioritisation and customer focus, and to transform our business through innovation and acquisition.

Our Strategy for Growth is underpinned by our Capital Allocation Framework, which has as its first priority investing in innovation and our sustainability agenda. You can read more about our Strategy for Growth on [pages 8–11](#), and our Capital Allocation Framework on [pages 19–20](#).

We strive to deliver our sustainability strategy in the communities where we live and work through the application of our values:

- We demonstrate **Care** by respecting our global resources and striving to protect the safety and wellbeing of our employees.
- We demonstrate **Courage** by setting ambitious goals to increase our volunteerism, reduce waste and greenhouse gas emissions, and by operating responsibly and sustainably.
- We demonstrate **Collaboration** by working together with our partners who share our commitment and contribute to our communities through individual and team volunteerism.

Our sustainability strategy supports these value drivers by helping us to address the requirements of our stakeholders, creating a lasting positive difference to our communities, and protecting our environment.

Our sustainability strategy is inspired by the United Nations' Sustainable Development Goals (SDGs). It takes into account the social, environmental and economic aspects of our business and reflects the fact that sustainability and financial performance are closely linked. As a profit-seeking business, we aim to meet our economic objectives whilst at the same time managing the social and environmental impacts of our business activities.

Our sustainability strategy focuses on three areas: People, Planet and Products. Our targets and progress against these are summarised on pages 59–63.

People

Creating a lasting positive impact on our communities



Planet

Aiming to reduce our impact on the environment



Products

Innovating sustainably



Our stakeholders' priorities

Through our sustainability strategy we are addressing the needs and expectations of our stakeholders.

Customers

Building sustainability principles into the delivery of healthcare is of growing importance to our customers. Increasingly, customers require us to provide details of our sustainability strategy and targets. Customers place increasing importance on these responses when making contract decisions.

Employees

Employees are looking for companies with strong values and culture, that operate with integrity, transparency and accountability, and offer satisfying career opportunities for all. Living our values and being a force for positive change is part of our sustainability strategy.

Investors

Investors are prioritising investments based on corporate ESG programmes and outputs. Our sustainability programme provides evidence of our progress in these areas.

Communities

The communities where we are located want to see support for local education, health and volunteer programmes from businesses which operate there. Our sustainability strategy prioritises giving back to local communities, for example through employee volunteering programmes.



What our customers are asking

We aim to address the questions our customers are asking us through our disclosures in this Annual Report, and the more extensive disclosures and narrative in our Sustainability Report, available on our website www.smith-nephew.com.

What is your sustainability strategy and how does it help us achieve ours?

Can you help us meet our net zero targets?

Do your products use reusable plastics?

How do you ship products?

How does your local manufacturing operation reduce carbon?

What are you doing locally to reduce carbon emissions?

How will you reduce and minimise single-use plastic?

How are you reducing carbon emissions in your supply chain?

What materials make up your packaging?

Can you use cardboard instead of plastic for transit protection?

Why do you ship so much air in your packaging?

» 112

Read more about our stakeholders



More information on our activities can be found in our 2022 Sustainability Report available on our website.

www.smith-nephew.com

Sustainability governance

In January 2023, we streamlined the governance and operational structure around the delivery of our ESG strategy. We established the ESG Operating Committee to implement and execute our ESG strategy across all business areas, reporting directly into the Executive Committee. The Executive Committee will continue to formulate and drive our ESG strategy with oversight from the Board and its Committees.

The Board reviews the sustainability strategy, key risks and opportunities and progress on a regular basis and three Board Committees review implementation: Compliance & Culture Committee, Audit Committee and Remuneration Committee. For further information on our governance see the Governance Report from [page 84](#) and our Task Force on Climate-related Financial Disclosures (TCFD) reporting on [pages 64–67](#).

Our sustainability strategy focuses on three areas: People, Planet and Products. Within these three areas we have developed comprehensive targets to help us deliver on our sustainability ambitions. Each year we measure and report progress against these targets. We recognise that in some areas, such as employee volunteering and product donations, we are behind where we expected to be at this stage. During 2023, we intend to review options to ensure our targets remain meaningful. In 2022, we revised our Products supply chain due diligence target (see [page 62](#)).

We are proud of our many achievements over the years, including our recurring inclusion in leading indices, such as FTSE4Good, ISS and the Dow Jones Sustainability Index. We achieved an 'A' rating in the most recent MSCI ESG Ratings.

We have reported our 2021 baseline Scope 3 greenhouse gas (GHG) emissions from eight categories and are developing our Scope 3 GHG emissions reduction roadmap in preparation for submitting this to the Science Based Target initiative (SBTi) for validation.

Climate change

During 2022, we have continued to consider the potential impact of climate change on our business operations. The Group announced its plans to build a new Advanced Wound Management facility at Melton, on the outskirts of Hull (UK). The new facility sits at a higher elevation and is further inland, and accordingly has a significantly lower exposure to sea-level rise compared to the current site. The Group also opened its new manufacturing facility in Malaysia. The internal compound road level and internal floor levels of the facility were all raised to a height of 3 metres or more above sea-level to mitigate against the impacts of rising sea levels.

Our physical assets and supply chains are vulnerable to weather and climate change, for example through sea-level rise, more frequent extreme weather events and more severe extreme weather events. Patients are vulnerable to a potential rise in infectious disease propagation. Governments and corporations alike are under increasing pressure to mitigate the expected effects of climate change, potentially resulting in infrastructure projects which would require large capital outlays and further increase pressure on healthcare payments.

In 2021, we made a commitment to net zero. It is in our roadmap to achieve net zero Scope 1 and Scope 2 GHG emissions by 2040 and net zero Scope 3 GHG emissions by 2045, beginning by achieving a 70% reduction in Scope 1 and Scope 2 GHG emissions by 2025.

We are on track to achieve a 70% reduction in Scope 1 and Scope 2 GHG emissions by 2025 compared to the 2019 baseline.

We aim to minimise the disruption to our manufacturing and distribution network. We understand how important it is to balance environmental initiatives with business activities, and strive to reduce emissions through new technology development, renewable energy use and other measures.

Our facilities in Memphis (US), our single largest manufacturing location, continued to source electricity from renewable wind energy in 2022, accounting for over 40% of our Group's total electricity usage.

Our reporting against the TCFD framework and the Sustainability Accounting Standards Board (SASB) framework for our sector of Medical Equipment and Supplies can be found on [pages 64–67](#) and [250–251](#) respectively. The Compliance & Culture Committee and the Audit Committee received updates on TCFD and SASB reporting during 2022.

As part of our Enterprise Risk Management process, we have a sustainability risk register and a business resilience process review built into our review of our Principal Risks (see [pages 71–77](#)). Our Principal Risks capture our physical and transitional climate-related risks in our Enterprise Risk Management process. We believe climate change is not currently a Principal Risk for Smith+Nephew as we do not expect it to fundamentally alter the demand for our products or our ability to manufacture and supply them. However, we will continue to monitor and mitigate risks as appropriate.



Read our TCFD reporting



Member of
**Dow Jones
Sustainability Indices**

Powered by the S&P Global CSA



People

Creating a lasting positive impact on our communities

Our targets	Our progress in 2022	Progress since 2020 baseline
Between 2020 and 2030, contribute 1 million volunteer hours to the communities in which we live and work.	11,500 hrs	29,500 hrs
Between 2020 and 2030, donate \$125 million in products to underserved communities.	\$5.0m	\$11.1m
Empower and promote the inclusion of all .	10 Global Employee Inclusion Groups are now established.	3,000+ Employees now engaged with Employee Inclusion Groups.

People are at the heart of our purpose – Life Unlimited.

We prioritise people in three ways:

- 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.
- We help improve patients’ wellbeing and empower the healthcare professionals who treat them.
- We engage with the communities where we operate. We encourage our people to volunteer in local communities, offer paid volunteering time and match eligible employees’ charitable donations up to \$500 per employee on an annual basis. We have continued to offer additional volunteering for employees with healthcare training to serve on the front line when crisis response is needed, as it was during the pandemic.

Our giving activities during the year totalled donations of \$5.16 million. These consisted of \$5.03 million in product donations, including \$3.5 million of wound care products to support those affected by the war in Ukraine, and \$0.13 million from matching employee gifts to qualified charities. Since inception in 2020, our employee volunteering and product donation strategies have been held back by the impacts of Covid.

Employee engagement is important to us and is measured by the Gallup Global Engagement Survey (see pages 48–49). Our Employee Inclusion Groups (EIGs) continued to flourish during the year, promoting inclusion, and we strengthened our wellness programmes, including additional support to help employees facing an increased cost of living.



Read about our culture



Encouraging STEM careers with Migrant Leaders

In 2022, Smith+Nephew partnered with Migrant Leaders, an independent UK charity that “inspires and develops disadvantaged young migrants across the UK to broaden their horizons and capture opportunities well beyond their aspirations”. Young adults studying in sixth form were invited to spend the day at the Smith+Nephew Academy London, where they toured the facilities, learned about our business and products, and discovered the range of science, technology, engineering and mathematics (STEM) careers available at Smith+Nephew.



Responding to the war in Ukraine

In 2022, in partnership with the Polish Red Cross, we donated over \$3.5 million of wound care products to support those impacted by the war in Ukraine. Additionally, we have matched individual employee donations and provided extra support to colleagues in Poland, many of whom opened their homes to refugees.

Our colleagues in Russia continue to work to provide our products to patients in need; we believe all people deserve to live their lives fully and peacefully.

We donated all profits from our Russian business in 2022 to humanitarian causes through International Red Cross and Médecins Sans Frontières.

Planet

Aiming to reduce our impact on the environment

Our targets

Achieve **net zero** Scope 1 and Scope 2 GHG emissions by 2040 and Scope 3 GHG emissions by 2045, beginning by achieving a 70% reduction in Scope 1 and Scope 2 GHG emissions by 2025.

Achieve **zero waste to landfill** at our facilities in Memphis and Malaysia by 2025 and at all our strategic manufacturing facilities by 2030.

Our progress in 2022

A carbon reduction roadmap for Scopes 1 and 2 through 2025 has been developed and a roadmap for Scope 3 is being developed. We have calculated baseline 2021 Scope 3 emissions data.

Scopes 1 and 2 (total)

73,985 tonnes

CO₂e emitted (location-based)¹

48,847 tonnes

CO₂e emitted (market-based)¹

Our manufacturing sites in Malaysia and Suzhou have installed solar photovoltaic panels and will start generating on-site renewable energy in early 2023.

Scope 3

1.6 million tonnes

CO₂e emitted

1,473 tonnes

Waste sent to landfill from the Group.¹

Our Malaysia facility has achieved zero waste to landfill.

The Memphis facilities sent 1,106 tonnes of waste to landfill compared to 1,462 tonnes in 2019.

Progress since 2019 baseline

Scopes 1 and 2 (total)

4% reduction

CO₂e emitted (location-based)¹

27% reduction

CO₂e emitted (market-based)¹

All

Sites in Memphis continued to source renewable electricity.

26%

Less waste was sent to landfill during 2022 compared to 2019.

The Memphis facilities sent 24% less waste to landfill.

We recognise the need to protect our planet and help mitigate against the impacts of climate change. In response, we manage resources efficiently, reduce our emissions where possible and are mindful of the impact our decisions have on the environment.

In 2022, our impact on the environment continued to be affected by the global pandemic, with many colleagues choosing to adopt remote or hybrid working. Accordingly, some offices continued to see lower occupancy levels. Combined home and office-working can have a higher environmental impact as the conditioning of our buildings is often independent of occupancy levels.

Along with our customers and stakeholders, we work to manage the environmental footprint of our products and services. Internally, we have made progress over several years, improving our performance in waste recycling, water use and GHG emissions.

We are mindful of the importance of biodiversity, particularly in some of the countries in which we operate including Costa Rica and Malaysia. The impact on local biodiversity is one of our considerations when we approve capital expenditure within our Global Operations business. Biodiversity will also be considered in the planning for our new Advanced Wound Management facility at Melton (UK) including impacts on the local landscape, ecosystems and climate stability.

Tree-planting in the UK

Our Hull Leadership Council worked with the Plant A Tree Today (PATT) foundation to provide a new woodland for the local community. Over 150 employees participated, representing around 600 volunteering hours clearing 10 acres of land owned by a charitable trust in Cottingham and planting over 6,000 trees over a five-day period.



¹ Data independently assured by ERM CVS, more details and the full assurance statement are available in the 2022 Sustainability Report on pages 60–61.

Reducing our GHG emissions

Our approach to reducing emissions includes tackling energy efficiency, generating our own renewable energy, and sourcing lower-carbon energy.

In-line with our long-term target to achieve net zero emissions by 2045, we have been working with our global energy partner. We have assessed our Scope 1 and Scope 2 GHG emissions and formulated a carbon reduction roadmap for key locations, aimed at reducing them by 70% by 2025 compared to a 2019 baseline. During 2022, we calculated our 2021 baseline Scope 3 GHG emissions for eight categories, and in 2023 we plan to develop a roadmap for reduction. See [page 68](#) for more details.

In 2022, we continued to source renewable wind energy for all our locations in Memphis (US). This is significant, as the Memphis sites consume over 40% of the Group's total electricity. Sourcing renewable energy reduces our market-based GHG emissions, ie the emissions from the electricity we purchase.

In support of our carbon reduction roadmap steps and our roadmap to net zero, we have installed solar photovoltaic panels at two of our manufacturing sites in Asia. We have installed a 1.7 megawatt (MW) capacity system in Suzhou (China) and a 1.4 MW system in Malaysia. Both systems will be operational in early 2023. We expect the two solar-powered systems to reduce our Scope 2 GHG emissions by over 2,000 tonnes of CO₂e in 2023 and beyond.

Highlights

Installation of new solar photovoltaic panels at our manufacturing sites in Asia

2 sites

Expected reduction in annual Scope 2 GHG emissions in 2023 and beyond

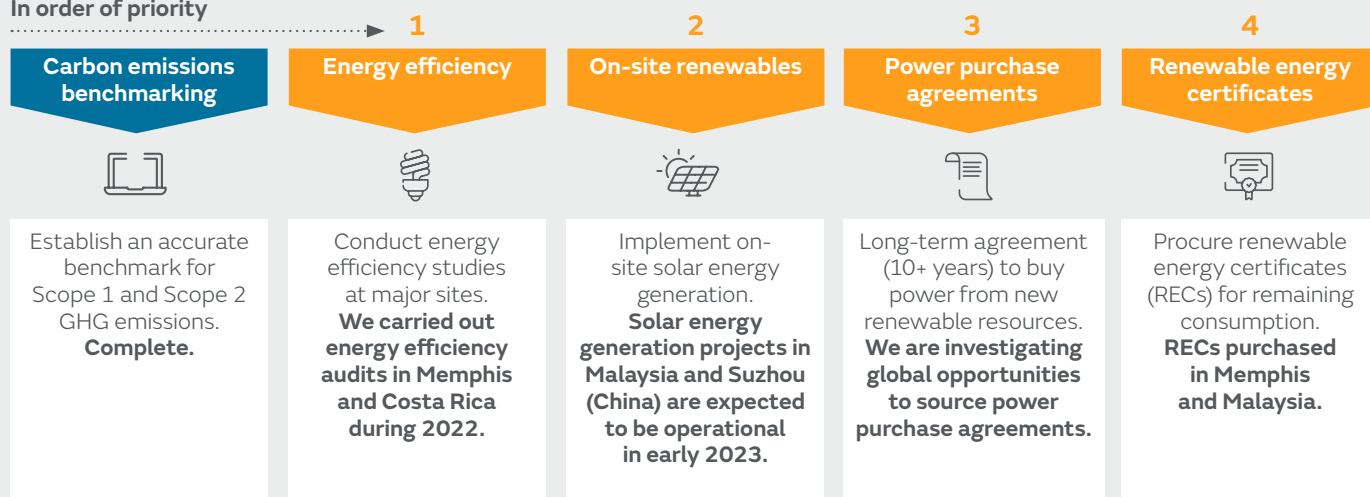
2,000 tonnes



Our Scope 1 and Scope 2 carbon reduction roadmap steps

We have been working with our global energy partner to develop a carbon reduction roadmap aimed at delivering our sustainability targets in the short, medium and long term. These are defined as within one year, within three years and after more than three years respectively. Following a detailed carbon emissions benchmarking project, again with our global energy partner, the roadmap identified the following initiatives:

In order of priority



Products

Innovating sustainably

Our targets

By 2022, include sustainability review in New Product Development (NPD) phase reviews for **all new products** and product acquisitions.

By 2025, incorporate **at least 30%** post-consumer recycled content into all non-sterile packaging materials.

By 2025, incorporate packaging materials from **sustainable sources** for new packaging parts.

By 2025, complete a focused risk-based due diligence of our **Tier 1 suppliers**, including risk-based analysis of sub-tier suppliers, to assure compliance with our sustainability requirements.^a

Our progress in 2022

Complete.

Sustainability is embedded as part of our NPD phase review process, ensuring that we discuss, consider and implement sustainability in our design of new products.

Identified US-based paper board for packaging that contains up to 30% recycled content. Formal testing is planned to start in 2023. On successful completion of testing, non-sterile material specifications will be updated to allow the use of this material before the 2025 target.

Established packaging sustainability strategy and roadmap. Supply chain challenges continued to limit our ability to pursue innovative, more sustainable materials.

We have completed due diligence and assessments of all Tier 1 suppliers according to our risk-based procedure.

We have implemented a supplier on-site audit programme for suppliers identified through risk-based analysis. On-site audits include worker interviews and practical assessment of the implementation of supplier policies and procedures to assure compliance with modern slavery, human trafficking, HSE and sustainability requirements.

We aim to develop products with sustainable attributes, increase access to care, improve our environmental impact and reduce costs. Manufacturing and supplying safe and effective products is at the heart of our business.

Our people, processes and technology are structured to support progress toward the goal of innovating sustainably. All these key product attributes are 'locked in' during new product development or product acquisition and are difficult to change later.

We have integrated a sustainability review into our NPD process to ensure that we intentionally discuss, consider and implement sustainability and efficiency in our product design. This will ensure that our future product portfolio becomes one that has intentional consideration for material and energy usage during production, the recyclability of waste products and a reduced product footprint for shipping and transportation.

Our customers are increasingly requesting information on the chemical components and recyclability of our products and packaging. Our focus on products will assist our customers in reaching their sustainability goals.

Packaging sustainability to minimise environmental impact, both for new products and our existing portfolio continues to be a key area of opportunity, as does moving to digital Instructions For Use (IFU). An initiative to reduce packaging dimensions for our ALLEVYN[®] LIFE Foam Dressings is shown on [page 63](#), this resulted in reduced volumes of packaging materials being used and lower GHG emissions.

By 2025, we aim to have completed a focused risk-based due diligence of our Tier 1 suppliers, including a risk-based analysis of sub-tier suppliers. Supplier risk criteria include country, commodity and spend, and we have updated our global process for managing Corporate Social Responsibility (CSR) supplier risk. In 2022, we completed internal screening due diligence with 100% of our Tier 1 suppliers with additional due diligence with identified potential high-risk Tier 1 suppliers.

^a We have revised our Products supply chain due diligence target as a result of a strategic and operational review which took into account a range of factors including the impact of the pandemic on access to supplier locations, supplier resources and availability of data sets required to verify compliance with the target. We will continue to take a risk-based, proportionate approach to supply chain verification in compliance with all applicable laws and regulations. We will also continue to drive continuous improvement in our programmes in line with guidance and we will continue dialogue with suppliers to proactively guide improvement in their approach to sustainability, aligned with our policies and procedures.

Packaging material for our bordered dressings reduced by 334 tonnes



Less waste, more care

Daily wound care practice involves the routine use of supplies that, in turn, creates substantial amounts of packaging waste. With a focus on reducing carbon emissions and respectful use of global resources, our Advanced Wound Management business spearheaded a 2022 initiative to optimise packaging across a range of dressings.

The new reduced packaging dimensions eliminate some of the 'air' that was being shipped therefore reducing the overall volume of packaging being used. The redesign will eliminate the need for 334 tonnes of packaging material for our bordered dressings, equating to 2.7 million square metres. Ultimately, this could save 92 tonnes of GHG emissions (equivalent to 13 car trips around the globe) when compared to 2021.^{1,2}

Retaining the same high standards of manufacturing and sterilisation, as an example, the ALLEVYN LIFE Foam Dressings will now use 28% less packaging material compared to our 2021 design.³

For healthcare practices and clinicians, we hope this translates to efficiencies in the use of storage space and alignment with their own sustainability objectives.



1 Smith+Nephew 2022. Internal report CSD. AWM.22.064.

2 Smith+Nephew 2022. Internal report CSD. AWM.22.072.

3 Smith+Nephew 2022. Internal report CSD. AWM.22.045.

Net zero

Organisations around the world are making pledges to reduce GHG emissions. These commitments can play a key role in achieving the Paris Agreement, which aims to curb global emissions enough to cap global mean temperature increase to 1.5–2°C relative to the pre-industrial era. 'Net zero' means that the activities within a company's value chain result in no net impact on the climate from GHGs.

Committed to net zero

In 2021, we made a commitment to net zero. It is in our roadmap to achieve net zero Scope 1 and Scope 2 GHG emissions by 2040 and Scope 3 GHG emissions by 2045. We are on track to achieve a 70% reduction in Scope 1 and Scope 2 GHG emissions by 2025 compared to a 2019 baseline.

Our facilities in Memphis (US), our single largest manufacturing location, continued to source electricity from renewable wind energy, accounting for around 40% of our total electricity usage.

Our roadmap to net zero is outlined below. These are our current targets and actions, which will be updated in the coming years as our plans develop.

Our net zero targets

Achieve Scope 1 and Scope 2 net zero GHG emissions by 2040

Achieve Scope 3 net zero GHG emissions by 2045

Begin by reducing Scope 1 and Scope 2 GHG emissions by 70% by 2025

Roadmap to net zero

What we have completed in 2022

- Conducted a detailed analysis of our energy usage data.
- Actioned our carbon reduction roadmap (see [page 61](#)).
- Measured and reported our 2021 baseline Scope 3 GHG emissions from eight categories.
- Sourced renewable electricity for our manufacturing facility in Memphis (US) and installed solar photovoltaic panels to generate renewable electricity in Malaysia and Suzhou (China) (see [page 61](#)).

What we are currently doing

- Preparing a carbon reduction roadmap to reduce Scope 3 GHG emissions.
- Sourcing renewable energy opportunities at all our strategic manufacturing sites.
- Converting our European and UK leased car fleet to electric vehicles (EVs).
- Expanding our supplier engagement through CDP.
- Launching a salary sacrifice scheme in the UK to enable employees to drive EVs.

What we expect to do next

- Implement renewable electricity at all our strategic manufacturing sites by 2025.
- Convert our remaining global leased car fleet to electric vehicles.
- Encourage our suppliers to set their own net zero targets.

TCFD reporting

Pages 64–67 set out Smith+Nephew’s disclosures which are consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) framework. By this we mean the four TCFD recommendations and the eleven recommended disclosures set out in Figure 6 of Section B of the report entitled ‘Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures’ published in October 2021 by the TCFD.

Board:

- Oversight of sustainability strategy and risk management programme.

Audit Committee:

- Oversight of the risk management process and reviewing its operating effectiveness.
- Receives regular updates on sustainability and climate-related financial risks and opportunities.
- Assesses whether climate change has a material impact on our financial statements.
- Ensures the Company reports in line with the recommendations of the TCFD framework.

Compliance & Culture Committee:

- Oversight of sustainability policy and performance versus targets, with reviews undertaken at each committee meeting.
- Receives regular updates on sustainability and climate-related risks and opportunities.

Remuneration Committee:

- Oversight and review of sustainability metrics within Remuneration Policy, and compensation and incentive plans generally.
- Determined that effective from the 2022 financial year, 5% of the Annual Bonus Plan for Executive Directors would be dependent on the achievement of ESG targets.

Executive Committee:

- Driven by the Chief Executive Officer, determination and management of sustainability strategy, with President Global Operations accountable for leading the implementation of the sustainability strategy.
- Ensures that sustainability risks and opportunities are included in decision making as part of each project, initiative and the 12-point plan.

Sustainability Council:

- Develops and implements our sustainability strategy.
- Responsibility for setting, implementing and achieving operational objectives, KPIs and targets.
- Membership includes: Human Resources, Global Operations, Quality and Regulatory Affairs, Research & Development, Public Policy & Government Affairs, Commercial, Finance, Procurement and Supply Chain.
- The Sustainability Council ceased to operate in January 2023 as a result of changes to the governance structure. See [page 65](#) for details of the ESG Operating Committee that was established in January 2023.

Governance

The way in which we evaluate, manage and embed sustainability within our business and culture is directly linked to our Strategy for Growth through a focus on People, Planet and Products. Oversight of our sustainability strategy is one of the Matters Reserved to the Board. The Board reviews the sustainability strategy, key risks and opportunities, and progress on a regular basis and approves the Sustainability Report annually, and reviews and approves the sustainability, TCFD and SASB reporting in the Annual Report.

Three Board Committees are also closely involved in reviewing the elements of sustainability that impact the key areas of our business. All Committees receive regular updates on sustainability strategy, implementation, objectives and targets, and climate-related financial risks and opportunities. The Committee Chairs report to the Board at each Board meeting:

- The Compliance & Culture Committee, chaired by Marc Owen, assesses how we implement our sustainability strategy in the core areas of People, Planet and Products, encompassing the Group’s impact on employees, the environment, the local communities in which it operates, customers, suppliers and other key stakeholders. The Compliance & Culture Committee also tracks progress of the delivery on sustainability objectives and metrics, including a regular review of our net zero emissions progress at each Committee meeting.
- The Audit Committee, chaired by Rick Medlock, is responsible for ensuring oversight of the process by which risks relating to the Group and its operations are managed and reported. The Audit Committee assesses the extent to which climate change and other sustainability risks are likely to have a material impact upon our financial statements by reviewing the possible impact of different scenarios related to climate change.
- The Remuneration Committee, chaired by Angie Risley, is responsible for ensuring that the Remuneration Policy and related incentive schemes incorporate sustainability targets and metrics where appropriate to do so.

» 101

Audit Committee membership

» 108

Compliance & Culture Committee membership

» 116

Remuneration Committee membership

» 89

Executive Committee membership

Our Chief Executive Officer sets strategy together with the Executive Committee, and President Global Operations is responsible for the implementation and regularly reports on our progress to the Board, its Committees and our Executive Committee. In January 2023, we streamlined the governance and operational structure around the delivery of our ESG strategy. We established the ESG Operating Committee to implement and execute our ESG strategy across all business areas, reporting directly into the Executive Committee. The Sustainability Council no longer operates as a result of the changes to the governance structure. The Executive Committee will continue to formulate and drive our ESG strategy with oversight from the Board and its Committees.

Smith+Nephew leaders consider sustainability risks and opportunities in their decision making. For example, when evaluating options for new or extensions of manufacturing sites in Malaysia, UK and Costa Rica, analysis of sustainability requirements and risks was undertaken as part of the project and decision making. In addition, papers which are submitted to the Board by management for review include an analysis of sustainability issues and opportunities where appropriate to enable the Board to consider these factors in decision making and to ensure effective Board oversight on sustainability strategy, risks and opportunities. Detailed information on our sustainability risks can be found in our Sustainability Report.

Strategy

Our sustainability strategy is built on our purpose – Life Unlimited, our Strategy for Growth and our culture of Care, Courage and Collaboration. Our sustainability strategy, which was developed by our Sustainability Council in 2019 and approved by the Board, is inspired by the United Nations' Sustainable Development Goals. Our strategy reflects the importance of social, environmental and economic aspects of sustainable development.

Our Principal Risks capture our physical and transitional climate-related risks in our Enterprise Risk Management (ERM) process:

- Business continuity and business change: impact to our business due to severe weather patterns, global temperature rise and sea-level rise.
- Commercial execution: inability to satisfy customers' sustainability requirements and expectations.
- Global supply chain: severe weather patterns as a result of climate change cause damage to manufacturing or distribution facilities impacting ability to meet customer demand.
- Legal and compliance: failure to identify existing or new legal or regulatory requirements including sanctions programmes and ESG matters which result in non-compliance with applicable laws and regulations. Failure to meet the needs of stakeholders relating to increased focus on and regulation of ESG reporting requirements.
- New product innovation, design & development including intellectual property: sustainability in new products.
- Political and economic: failure to meet the sustainability targets and public policy changes.
- Pricing and reimbursement: limited ability to pass on the cost of sustainability improvements.
- Quality and regulatory: failure to meet stakeholder expectations with regard to increasing sustainability regulations and reporting requirements.

The transitional and physical risks above are primarily expected to occur over the long term (as defined on [page 66](#)). Based on the work undertaken to date, these risks are not expected to have fundamental impacts on our business model. See [page 66](#) for further details.

We address climate-related risk primarily through business strategies in our global operations functions including facilities, health & safety and business continuity management. Refer to the Risk Management section on [page 66](#) and the Risk report on [page 69](#) for more details on our risk management process.

Climate-related opportunities:

Climate-related opportunities are identified and addressed through our sustainability strategy and programmes. Through this process we have identified a number of climate-related opportunities relating to energy sourcing, energy efficiency and packaging reduction initiatives.

In 2020, all our locations in Memphis (US) began sourcing electricity from renewable wind energy via the procurement of renewable energy certificates (RECs) and this has continued through 2022. We completed construction of our Malaysia facility in 2021, and have now completed the installation of solar photovoltaic panels on site. Similarly at our facility in Suzhou (China) we have installed solar photovoltaic panels to generate on-site renewable energy. We expect both systems to be fully operational in early 2023. In December 2022, we sourced additional renewable energy via the procurement of RECs in Malaysia. The UK sites have sourced a green tariff for the supply of electricity from renewable sources beginning in October 2023.

In 2021, we aligned with the recommendations of the Intergovernmental Panel on Climate Change and published our commitment to achieve net zero Scope 1 and Scope 2 GHG emissions by 2040 and Scope 3 GHG emissions by 2045, beginning by achieving a 70% reduction in Scope 1 and Scope 2 GHG emissions by 2025. We understand how important it is to balance environmental initiatives with business activities and strive to reduce emissions through new technology. We have conducted a review of our current state and captured related business risks in our risk register.

Energy efficiency audits have been carried out at sites in Memphis (US) and Costa Rica. All of the 'easy to implement' recommendations have been carried out and the remaining recommendations have been added to improvement action plans.

The new UK site at Melton, on the outskirts of Hull, will be designed to high sustainability standards with a focus on energy and resource efficiency. The site aims to generate on-site renewable energy.

For a healthy and sustainable future continued

TCFD reporting continued

Scenario analysis:

The 2021 scenario analysis focused on our critical manufacturing sites and modelled the potential financial impact of three scenarios:

- a 5-metre sea-level rise;
- a global temperature rise of at least 4°C; and
- extreme weather.

The modelling focused on the material impacts on our business and was based on our current business activities and assumed no mitigation. Based on the analysis undertaken, global temperature rise and extreme weather were not expected to have fundamental impacts on our business model. However, we noted that the Group has a number of manufacturing sites in coastal locations which are at low elevations and these could be impacted by a 5-metre sea-level rise. Existing flood defences are expected to mitigate any near-term impacts and the longer-term impact on the Group's manufacturing footprint is an area of focus being taken into account in our manufacturing strategy.

Based on our high level assessment, the impact of a 2°C global temperature rise is not expected to have a material impact on our business. As outlined on [page 65](#), our physical and transition risks are captured in our ERM process. Refer to our Risk Report on [page 69](#) for further details.

Further work was undertaken in 2022 to better understand the full impact of potential sea-level rises and whether any remedial action is necessary and over what time frame. We noted that in 2013 our Hull (UK) facility was impacted by highly unusual levels of flooding, with the site incurring damage across its entire ground floor, including in the manufacturing facility and office areas. Since then, we have invested £3 million into new flood defences to help protect the site against repeat events. Based on a number of considerations, including sea-level rise, the Group announced in 2022 its plans to build a new Advanced Wound Management facility at Melton on the outskirts of Hull. The new facility sits at a higher elevation and is further inland, and accordingly has a significantly lower exposure to sea-level rise compared to the current site. The facility will be designed to high sustainability standards with a focus on energy and resource efficiency.

In 2022, the Group opened its new high technology manufacturing facility in Malaysia. The internal compound road level and internal floor levels of the facility were all raised to a height of 3 metres or more above sea-level to mitigate against the impacts of rising sea-levels.

During 2022, we expanded our scenario analysis to better understand the exposure of more than 30 facilities to extreme climate events. This analysis continues to support the prior year conclusions that global temperature rise and extreme weather are not expected to have fundamental impacts on our business model, while work continues on determining the full impact of sea-level rises on our manufacturing footprint and whether any further remedial action is necessary and over what time frame.

In 2022, we began preparations to screen and identify suppliers in order to better understand how to incorporate them into our scenario analysis. This work will continue into 2023 to better inform our strategic and financial planning.

Risk management

Climate-related risks are managed through our comprehensive risk governance framework. At the top of our structure, the Board sets our risk appetite and monitors the application of our risk framework, including strategy, execution and outputs of risk reviews by the business and the Group Risk team. The Board cascades our risk appetite throughout our organisation through the Executive Committee, the risk owner community and our management group. A formal 'bottom-up' exercise ensures that risks are escalated back through the process to our Board and are reflected in our Principal Risks as appropriate. Refer to [pages 69–70](#) for more detail.

Climate-related risks

We identify climate-related risks based on short-, medium- and long-term horizons. We consider short term to be within one year, medium term to be within three years and long term to be greater than three years. Short-term risks are captured in our annual financial planning process; medium- and long-term risks are captured within our global footprint planning process.

In 2021, we revised our annual and three-year financial planning, and our capital expenditure planning processes to begin to require climate-related risk information and specific sustainability considerations.

We maintain a separate sustainability risk register where risk owners consider how sustainability and climate risks affect our Principal Risks. These are managed through our ERM process. In 2022, we ran a cross-functional sustainability workshop where risk champions brainstormed and discussed how climate change and sustainability risks could impact their Principal Risks and business areas. After assessing our business activities, we have determined that climate change is not currently a Principal Risk to the business as we do not expect climate change to fundamentally alter the demand for our products or our ability to manufacture and supply them. As outlined on [page 65](#), our Principal Risks capture climate-related risks in our ERM process. Detailed information on our ERM process can be found on [page 69](#) of the Annual Report and in our Sustainability Report.

Metrics and targets

We have published an annual Sustainability Report since 2001 detailing progress against our global targets. We have targets in each of our priority areas: People, Planet and Products. Our key climate-related metrics are greenhouse gas emissions and waste to landfill. Our key targets in relation to these metrics are net zero greenhouse gas emissions by 2045 and zero waste to landfill at our strategic manufacturing facilities by 2030. Detailed information about our targets and progress made against those targets can be found on [pages 59–63](#) of the Annual Report and in our Sustainability Report. The Remuneration Committee determined that with effect from 2022, 5% of the Annual Bonus Plan for Executive Directors will be dependent on the achievement of ESG targets linked to our sustainability strategy.

We have mapped our Scope 1 and Scope 2 GHG emissions, and during 2022 we also began to map our Scope 3 GHG emissions in order to meet our target of reducing total life cycle GHG emissions to net zero by 2045. In 2021, we also established interim carbon reduction targets to 2025. See [page 63](#) for details on our Scope 1 and Scope 2 net zero roadmap.

In 2021, we worked with our global energy partner to model our Scope 1 and Scope 2 GHG emissions in line with scenarios limiting global temperature rises to 2°C and 1.5°C. The outputs of these analyses are being used to inform decisions and prioritise actions. In 2022, we published our 2021 baseline Scope 3 GHG emissions, including data from eight of the fifteen categories. Our Scope 1, 2 and 3 GHG emissions data are provided on [page 68](#) of the Annual Report with more detailed information also available in our Sustainability Report.

In 2022, our location-based and market-based Scope 1 and Scope 2 GHG emissions reduced by 4% and 27% respectively compared to 2019, and we sent 26% less waste to landfill compared to 2019. We did, however, see a small annual increase in energy usage and market-based GHG emissions as a result of the new facility in Malaysia opening and further expansion of our facility in Costa Rica.

During 2022, driver appetite for electric vehicles continued to grow. In the UK, over 26% of our leased car fleet is now fully electric and over 45% of new cars on order, awaiting delivery, are electric vehicles. Fully electric business miles driven in the UK since the introduction of electric vehicles in 2021 are now in excess of 650,000. In addition to the UK, the electric vehicle policy is now implemented in the Netherlands, Denmark, Finland, Norway, Sweden, Germany and Ireland, and is in progress in France and Spain.

The in-country charging infrastructure and the current supply chain issues for the delivery of new vehicles has hindered the speed of the transition as we estimate approximately 6% of the European leased car fleet is now fully electric. This is a great step towards our commitment to achieve net zero carbon emissions. In addition, our employees view this as a positive way to help them reduce their own personal carbon footprint. Being able to choose fully electric vehicles has brought increased motivation and satisfaction among our company car driver population.

In January 2023, we launched a salary sacrifice scheme to make electric vehicles available to all employees in the UK. With electric vehicle chargers in place at the majority of our UK offices and manufacturing facilities, all employees are being encouraged to commute with more consideration for the environment.

CO₂e reporting methodology, materiality and scope

We report the carbon footprint of our Scope 1 and Scope 2 GHG emissions in tonnes of CO₂ equivalent from our business operations for the year ended 31 December 2022. We are including UK specific energy and emissions data to satisfy the Streamlined Energy and Carbon Reporting (SECR) requirements. We also report our 2021 baseline Scope 3 GHG emissions.

Our focus is on the areas of largest environmental impact, including manufacturing sites, warehouses, R&D sites and offices. Smaller locations representing less than 2% of our overall emissions are not included. Acquisitions completed before 2022 are included in the data, with more recent ones excluded. This is in-line with our established policy for the integration of acquired assets.

Our GHG emissions reporting represents our core business operations and facilities that fall within the scope of our consolidated financial statements. Primary data from energy suppliers has been used wherever possible.

We report our emissions in three scopes:

- Scope 1: Direct sources of emissions which mainly comprise the fuels we use on-site, such as gas and heating oil, and fugitive emissions arising mainly from the losses of refrigerant gases. We have included UK vehicle emissions from leased cars since 2020.
- Scope 2: Indirect sources of emissions such as purchased electricity and steam we use at our sites.
- Scope 3: Indirect value chain emissions that arise as a result of activities from assets or processes not owned or controlled by Smith+Nephew, these can be further divided into upstream and downstream emissions and fall into 15 defined categories. During 2022, we have worked on assessing our 2021 baseline Scope 3 GHG emissions and have data available for eight categories.

Location-based emissions are calculated in compliance with the WRI/WBCSD GHG Protocol Corporate Accounting and Reporting Standard and have been calculated using carbon conversion factors published by BEIS/Defra for 2022.

We have applied the emission factors most relevant to the source data, including Defra 2022 (for UK locations), IEA 2020 (for overseas locations) and for the US we have used the most recently available US EPA 'Emissions & Generation Resource Integrated Database' (eGRID) for the regions in which we operate. All other emission factors for gas, oil, steam and fugitive emissions are taken from Defra 2022.

In line with dual-reporting we also report market-based emissions. These are contractual or supplier-specific emission factors that can be applied when procuring low-carbon energy or siting facilities in areas with lower emissions but also recognising that this might be higher than the grid average in some cases. Where market-based factors were not available, we have used 'Residual Mix' data for the EU locations and IEA data for all other countries, except for the remaining US locations where the eGRID factors were applied.

We have also implemented, or benefited from, numerous energy efficiency and low-carbon energy measures during 2022. Some of these savings include: independent energy audits; detailed analysis of our energy usage data to identify saving opportunities; the use of Building Energy Management Systems (BEMS) to control equipment for maximum efficiency; and the installation of solar photovoltaic panels in Malaysia and China.

We have also targeted the use of online 'real time' data to monitor energy usage to make savings. We have a programme to replace older inefficient equipment with highly efficient equipment, such as compressors, chillers, pumps, fans and motors.

For a healthy and sustainable future continued

CO₂e reporting methodology, materiality and scope continued

This year we also continued to convert our company car fleet in Europe to electric vehicles where appropriate.

In Memphis during 2022, we purchased RECs through Green Flex, a voluntary renewable energy programme. Certified by Green-e Energy, North America's leading certification programme for renewable energy, Green Flex RECs are based on wind power generated in the Midwest US. Purchasing RECs gives buyers the right to renewable energy and also makes it possible to track ownership of it. Our participation in this scheme underscores our commitment to supporting renewable energy and helps to reduce our market-based carbon emissions footprint.

Reporting our Scope 3 emissions

During 2022, we have worked with our global energy partner to measure our 2021 baseline Scope 3 GHG emissions for the first time using a recognised protocol, CEDA (Comprehensive Environmental Data Archive). Our estimation of our 2021 baseline Scope 3 GHG emissions was 1.6 million tonnes of carbon dioxide equivalent from the eight categories that we measured. We will increase the number of categories reported and refine the quantity as we continue to reassess our GHG emissions.

This estimate was from the best available 2021 data and is intended to be a baseline benchmark from which we will begin our Scope 3 carbon reduction journey. As expected, in line with our peer group, purchased goods and services contributes the most significant proportion of our Scope 3 GHG emissions, over 80%, which we believe will remain the case as we calculate more categories. Further details are available in the 2022 Sustainability Report on [page 59](#). In 2023, we intend to prepare an emissions transition plan which will cover all three emission scopes.

Independent assurance

In 2022, selected Scope 1 and Scope 2 GHG emissions data were independently assured by ERM CVS. The assurance covered both the current year and the 2019 baseline for Scope 1 and Scope 2 GHG emissions. More details and the full limited assurance statement can be found in the 2022 Sustainability Report on pages 60–61.

 www.smith-nephew.com/sustainability

	2022			2021			2019 (baseline year)		
	UK	Global (excluding UK)	Total	UK	Global (excluding UK)	Total	UK	Global (excluding UK)	Total
CO ₂ e emissions (tonnes) from:									
Direct emissions (Scope 1) ¹	5,563	6,605	12,168 ²	5,892	5,443	11,335	4,747	5,141	9,888 ²
Indirect emissions (Scope 2) (location-based)	3,856	57,961	61,817 ²	3,900	60,987	64,887	4,911	62,413	67,324 ²
Total (location-based)	9,419	64,566	73,985²	9,792	66,430	76,222	9,658	67,554	77,212 ²
Indirect emissions (Scope 2) (market-based)	5,205	31,474	36,679 ²	5,088	30,374	35,462	5,072	52,080	57,152 ²
Total (market-based)	10,768	38,079	48,847²	10,980	35,817	46,797	9,819	57,221	67,040 ²
Energy consumption to calculate Scope 1+2 emissions (GWh)	49	188	237	49	183	232	45	168	213
Intensity ratio (location-based):									
CO ₂ e (t) per \$m sales revenue			14.2			14.7			15.1
CO ₂ e (t) per full-time employee			3.9			4.0			4.3
Other indirect emissions (Scope 3) ³						1,614,573			

1 UK vehicle data included in Scope 1 GHG emissions since 2020.

2 Data independently assured by ERM CVS, more details and the full assurance statement are available in the 2022 Sustainability Report on pages 60–61.

3 Estimation of 2021 Scope 3 GHG emissions from the eight categories measured. Refer to 'Reporting our Scope 3 emissions' above for more details.

2022 data includes recent acquisitions completed and new site openings during 2021.

Revenue: 2022: \$5.2bn, 2021: \$5.2bn, 2019: \$5.1bn. Full-time employee data: 2022: 19,094; 2021: 18,976; 2019: 18,030.

Risk report

Like all businesses, we face risks and uncertainties

Our risk management process

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

As in previous years our Enterprise Risk Management (ERM) process is based on a holistic approach to risk management. Our belief is that the strategic and operational benefits of proactively managing risk are achieved when ERM is aligned with the strategic and operational goals of the organisation. Our process and governance structure achieve this.

2022 has seen a further maturing of risk management. We introduced quarterly Risk Champion workshops focused on topics such as Data Privacy, Supply Chain and Sustainability, which increased awareness of risks and management actions across the Group. We implemented a new and easier to use central risk register system with built in quality checks to ensure consistency in the analysis and management of risk. We also developed data analytics and reporting dashboards to share regular ERM insights with Risk Champions and our Executive Management. Executive Committee risk owners report and discuss Principal Risk trends from an operational perspective in monthly Executive Committee meetings.



Emerging risks

Executive Committee Risk Owners continue to scan the horizon for new and emerging risks and these are discussed and considered in the top down risk discussion. Emerging risks that were identified this year are covered within our existing Principal Risks and include:

- The impact of macroeconomic factors such as inflation and global recession. Similar to our peers in healthcare, we are limited in the extent to which we can pass increased costs onto customers and payers. We take steps to mitigate this risk through our pricing initiative in our 12-point plan.
- Localised lockdowns in China and the war in Ukraine impact our global supply chain and operations. This risk is being mitigated through initiatives in our 12-point plan.
- New and increased medical device regulations in the EU and globally will require increased resources in our priority markets and delays experienced in interactions with notified bodies may further compound the impact on our business. There has been a reduction in the capacity of notified bodies leading to an increase in registration timelines, which impacts our route to market. This risk is being managed under our Quality and Regulatory principal risk.
- Our customers, investors and other internal and external stakeholders are increasingly focused on our approach to Environmental, Social and Governance (ESG) matters and how we embed ESG considerations into all areas of our business. In 2022, we have responded to this increased interest by enhancing our ESG governance structure, ensuring that ESG considerations are taken into account in decision making processes and are reflected within each of our Principal Risks as appropriate.
- The competition for talent has impacted all employers globally. We are managing this risk by continuing to focus on various initiatives to ensure that our purpose and values are ingrained within the culture of the organisation which supports engagement, attraction and retention of new and existing employees.

Risk report continued

Risk management life cycle

Annual improvement and refinement of our risk management process ensures that it remains aligned with strategy and operations.

Our Risk Management Policy, sponsored by our Chief Executive Officer, is driven by an Enterprise Risk Management Manual and the Group Risk team providing training to Business Area Risk Champions. As in prior years, risks continue to be managed through a 'top-down' and 'bottom-up' process, with regular oversight from the Executive Committee and quarterly reports to the Board Committees.

An overview of our risk management life cycle is illustrated on this page.

2023 Risk Management Plan

Our work will continue to evolve in 2023 with a particular focus on strengthening cross-functional risk management in alignment with the 12-point plan.

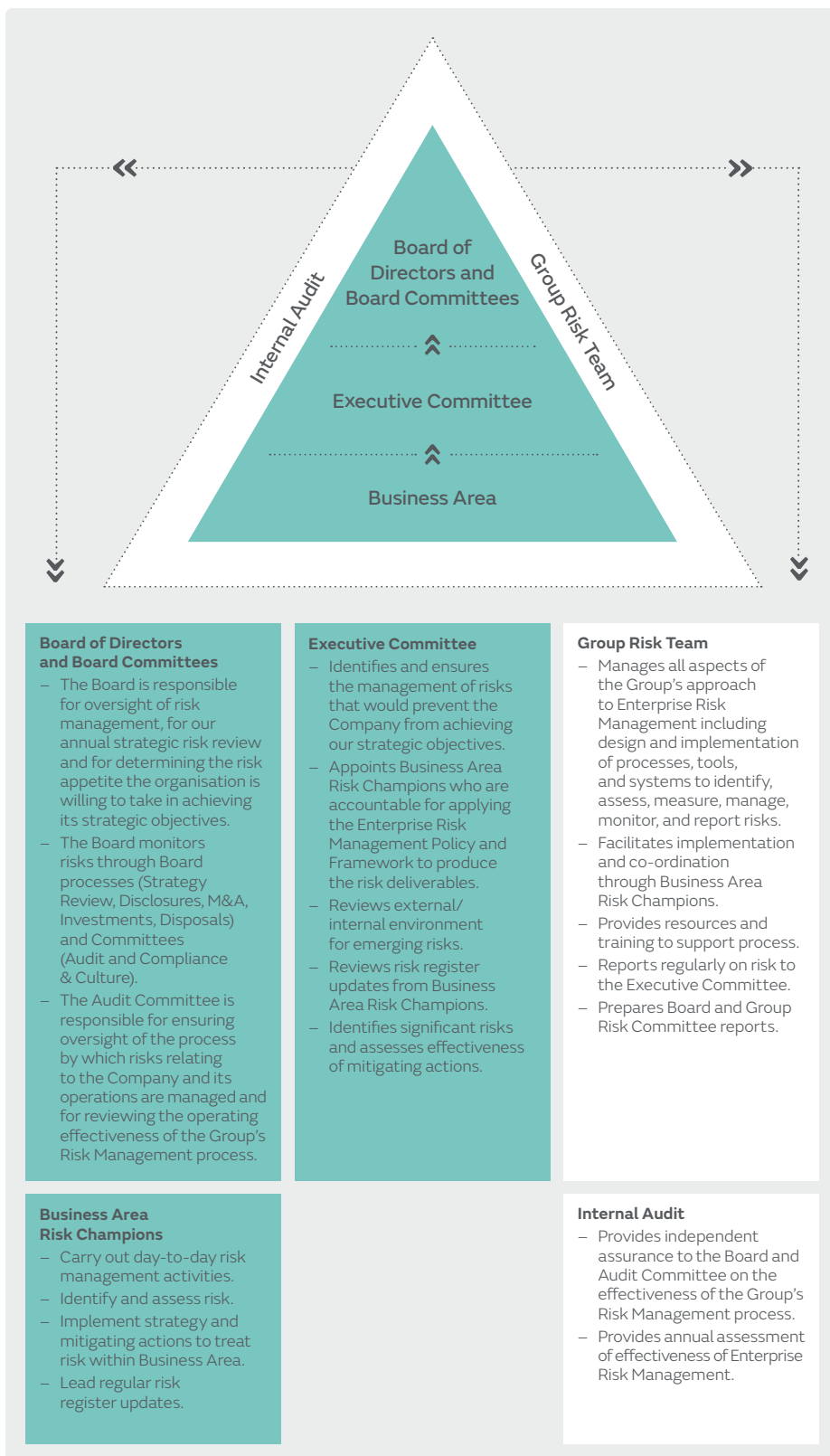
This will include deep-dive sessions into specific risks with cross-functional teams. We will work with the new sustainability risk champion to further develop the risk register in this area. The Group Risk team will also continue to influence decision making through effective challenge to Risk Owners and Risk Champions in the quarterly review process.

Our risk governance framework

At the very top of our structure is our Board with responsibility for oversight of risk management, setting our risk appetite and monitoring the application of our risk framework including strategy, execution, and outputs of risk reviews by the business and Group Risk team. The Board cascades our risk appetite throughout our organisation through the Executive Committee, risk owner community and our management Group. A formal 'bottom-up' risk management exercise ensures that risks are escalated back through the process to our Board and are reflected in our Principal Risks as appropriate.

Providing guidance and rigour across this process is our Executive Committee and the Group Risk team.

At the third line of defence is our Internal Audit function, providing an annual opinion on the effectiveness of our Risk Management process to the Executive Committee, chaired by the Chief Executive Officer, and then to the Board and its Committees.



2022 Principal Risks

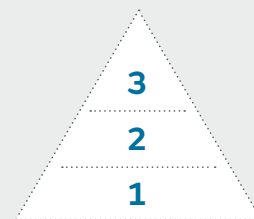
We assess our Principal Risks in terms of their potential impact on our ability to deliver our business strategy. The Principal Risks are presented in alphabetical order below. Sustainability risks are embedded and run through the Principal Risks as appropriate.

Our Strategy for Growth

1 Strengthen the foundation to serve customers sustainably and simply

2 Accelerate profitable growth through prioritisation and customer focus

3 Transform our business through innovation and acquisition



» 8 For further information on our Strategy for Growth

Risk change from 2021 key



Increased risk



Reduced risk



No change

Business continuity and business change

Our business requires continuous improvement and depends on our ability to execute business change programmes such as the 12-point plan at pace, whilst continuing to operate business as usual. The pace and scope of our business change initiatives may increase execution risk for the change programmes as well as for our business-as-usual activities.

Our business depends on our ability to plan for and be resilient in the face of events that threaten one or more of our key locations. Damage caused by environmental and climate change factors, including natural disasters and severe weather, can and do threaten our critical sites. Widespread outbreaks of infectious diseases and the local and global actions and requirements to deal with them, such as the Covid pandemic, create uncertainty and challenges for the Group and our customers.

Examples of risks

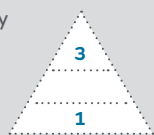
- Multiple change initiatives, including those within our 12-point plan could distract management from delivering business as usual objectives.
- Widespread outbreaks of infectious diseases, including new Covid variants.
- Natural disaster causes disruption to manufacturing and/or distribution at single or sole source facility.
- Severe weather patterns, global temperature rise and sea-level rise caused by climate change or natural disaster causes damage to manufacturing or distribution facilities, impacting ability to meet customer demand.
- Disruption to the business due to critical system infrastructure and applications being unavailable.
- Failure to effectively implement core elements of business change prevents our projects and programmes achieving the intended benefits and disrupts existing business activities.
- Failure to transform to achieve our sustainability targets.

Actions taken by management

- Dedicated Acceleration Office and Executive Steering Committee led by our CEO to monitor the successful delivery of the 12-point plan.
- Global, regional, and local crisis management governance in place.
- Emergency and incident management and business recovery plans in place at major facilities and for key products and key suppliers.
- IT disaster recovery policy in place.
- Project management governance and toolkits and project steering committee oversight to support successful execution of programme and projects.
- A new ESG Operating Committee implements and operationalises ESG strategy and provides data and metrics to monitor implementation.

Oversight Board

Link to Strategy
 1. Strengthen
 3. Transform



Change from 2021



Commercial execution

The long-term success of our business depends on setting the right strategic priorities such as the 12-point plan and our three-year strategic plan and executing on our plans to deliver priority initiatives in highly competitive markets.

This requires effective communication and engagement both internally on a cross-functional basis (for example in order to drive procedure-based selling models) and with our customers, suppliers and other stakeholders. We must also successfully embed the right governance structures, accountability and capabilities across the Group and ensure we adjust and refine strategic priorities and business models when necessary. Failure to set and execute on priorities and drive cross functional accountability within our business will impact our ability to continue to grow our business profitably and sustainably and to serve our customers.

Oversight
Board

Link to Strategy

1. Strengthen
2. Accelerate
3. Transform

Change from 2021



Examples of risks

- Failure to execute our strategy adequately from high-level ambition to specific actions to make the ambition a reality.
- Inability to keep pace with significant product innovation and technical advances to develop commercially viable products.
- Failure to engage effectively with our key stakeholders to meet their evolving needs leading to loss of customers.
- Failure to manage distributors effectively leading to stocking and compliance issues.
- Inability to satisfy customers' sustainability requirements and expectations.
- Limited healthcare professional access to medical education.
- Failure to achieve potential from acquisitions due to integration challenges.

Actions taken by management

- Strategic planning process clearly linked to business and Group risk.
- Continued new product launches and monitoring of innovation pipeline.
- An enhanced Sales Inventory and Operations (SI&OP) process to improve demand and supply planning.
- Enhanced accessible digital sales information and training modules for sales staff.
- Enhanced Virtual Medical Education platforms and opening of the Smith+Nephew Academy in Singapore.
- Integration committee to review/ approve integration plans and monitor ongoing processes.

Cybersecurity

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

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

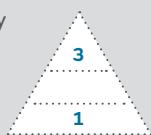
Oversight

Audit Committee

Link to Strategy

1. Strengthen
3. Transform

Change from 2021



Examples of risks

- Loss of confidential or sensitive information, intellectual property and/or data privacy breach.
- Inadequate consideration of cybersecurity in the design of new products, systems and/or processes.
- Disruption to business operations due to a significant cybersecurity incident.
- Increased government focus on cybersecurity and changes in regulatory environment.
- Increasing demand for cybersecurity expertise could impact our ability to attract and retain cybersecurity talent.

Actions taken by management

- Ensured every user has access to and is using a secure Virtual Private Network (VPN) when connecting to Smith+Nephew networks to safeguard remote working.
- Continued security awareness activities including email communications, intranet posts, visuals, videos and more Covid-related email phishing training activities.
- Multi-factor authentication tools reduce the likelihood of remote attacks.
- Security information and event management (SIEM) in place to provide real-time analysis of security alerts generated by applications and network hardware.
- Regular penetration testing and frequent vulnerability scanning undertaken.
- Endpoint protection and intrusion detection/prevention implemented.
- Security governance structure in place including a Security & Privacy Steering Committee.
- Monitor developments from governments and raise changes and developments with Global IT Security.
- Cybersecurity Maturity Programme monitored by the Audit Committee.

Global supply chain

Our ability to make, distribute and sell medical products to customers in over 100 countries involves complex manufacturing and supply chain processes. Increased outsourcing, sophisticated materials, and the speed of technological change in an already complex manufacturing process leads to greater potential for disruption in our supply chain. Post-Covid lack of availability of raw materials and components and localised lockdowns such as in China compound supply and business disruption.

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

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

Examples of risks

- Disruption to manufacturing at a single source facility (lack of manufacturing redundancy).
- Manufacturing and supply chain capacity not adequate to support growth.
- Risks associated with the transition of warehouse and distribution activities to external supplier impacting inbound and outbound logistics.
- Supplier failure impacts ability to meet customer demand (single source supplier).
- Inadequate sales and operational planning impacts ability to meet customer demand for product.
- Excess inventory due to incorrect demand forecasts, inaccurate demand signals and unexpected changes in demand.
- Failure of suppliers and distribution partners to achieve and maintain regulatory compliance.
- Increasing costs of raw materials and freight.
- Increasing salary and wage costs for manufacturing and distribution employees and contractors.
- Severe weather patterns caused by climate change causes damage to manufacturing or distribution facilities, impacting ability to meet customer demand.
- Disruption to the business due to critical system infrastructure and applications being unavailable.
- Critical material shortages leading to supply challenges.
- Increased freight cycle times, increasing in-network inventory while disrupting customer supply.
- Labour attrition and delays in backfilling.

Actions taken by management

- Our 12-point plan includes initiatives to improve product availability and inventory, enhance procurement and management of transportation costs, focus on lean manufacturing and quality and optimise our manufacturing network.
- Delivering Global Operations transformation programme to optimise manufacturing and distribution centres and reduce single source limitations.
- Global Operations project management governance and toolkits to support successful execution of transformation programmes.
- Risk-based review programmes undertaken for critical suppliers.
- Business continuity plans developed and alternative source options identified for critical suppliers.
- Executive oversight of sales and operational planning.
- Increased co-ordination between commercial, supply chain and logistics to improve forecast accuracy.
- Comprehensive product quality processes in place from design to customer supply.
- Supplier contract agreements achieve and manage regulatory compliance.
- Initiatives to improve manufacturing efficiency and reduce overhead costs.
- IT disaster recovery policy in place.
- Leadership taskforce established to resolve cumulative impact of global supply chain events.

Oversight Board

Link to Strategy

1. Strengthen
2. Accelerate

Change from 2021



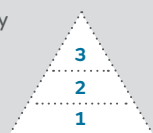
Legal and compliance

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

Operating across this complex and dynamic legal and compliance environment, which includes regulations on bribery, corruption, privacy, sustainability and trade compliance, increases the risk of fines, penalties, and reputational damage. We mitigate this through legal and compliance policies, procedures, training and practices designed to prevent and detect violations of law, regulations and industry codes.

Oversight
Compliance & Culture Committee
Change from 2021
↔

Link to Strategy
1. Strengthen
2. Accelerate
3. Transform



Examples of risks

- Failure to act in an ethical manner consistent with our Code of Conduct and Business Principles.
- Violation of anti-corruption or healthcare laws, breach by employee or third-party representative.
- Misuse or loss of personal information of patients, employees, research subjects, consumers or customers results in violations of data privacy laws, including General Data Protection Regulations.
- The development, manufacture and sale of medical devices entail risk of product liability claims or recalls.
- Failure to identify changes in or new legal or regulatory requirements including sanctions programmes and ESG matters which result in non-compliance with applicable laws and regulations.
- Failure to meet needs of stakeholders relating to increased focus on and regulation of ESG reporting requirements.

Actions taken by management

- Board Compliance & Culture Committee oversees our ethical and compliance practices.
- Global compliance programme, policies and procedures.
- Annually all employees required to undertake training and certify compliance with our Code of Conduct and Business Principles.
- Group monitoring and auditing programmes in place.
- Launched enhanced confidential independent reporting channels for employees and third parties to report concerns.
- Trade compliance programme, policies and procedures.
- The ESG Operating Committee assesses new and enhanced regulations and reporting requirements and works cross-functionally to ensure compliance.
- Monitoring new regulatory and enforcement trends.

Mergers and acquisitions

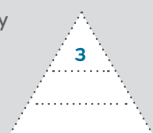
As the Group grows to meet the needs of our customers and patients, we recognise that we are not able to develop all the products and services required using internal resources and therefore need to undertake mergers and acquisitions in order to expand our offering and to complement our existing business.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

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

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

Oversight
Board
Change from 2021
↑

Link to Strategy
3. Transform



Examples of risks

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

Actions taken by management

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

New product innovation, design & development including intellectual property

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

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

Oversight Board

Link to Strategy
3. Transform



Change from 2021



Examples of risks

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

Actions taken by management

- Our 12-point plan includes an initiative to reposition our knee and hip portfolio.
- Continued product and technology acquisitions and product launches and effective implementation of new product launches.
- Global R&D organisation and governance framework providing strategic direction for allocation of R&D investment across all businesses. Clear stage-gate process to continually evaluate R&D investment decisions and development of new products.
- Cross-functional New Product Design and R&D processes focused on identifying new products and potentially disruptive technologies and solutions.
- Replacing global PLM systems.
- Monitored external market trends and collated customer insights to develop product strategies.
- Careful attention to intellectual property considerations.
- Sustainability criteria built into new product development processes.

Political and economic

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

Oversight Board

Link to Strategy
1. Strengthen
2. Accelerate



Change from 2021



Examples of risks

- Global or regional recession and increasing macroeconomic controls due to Covid impact on customer financial strength.
- Global political and economic uncertainty and conflict.
- Failure to meet the sustainability targets and public policy changes.
- Failure to pivot on business strategy in light of increased sanction programmes globally.
- Market access rights.
- Increases in import and labour costs.
- Increases in tariffs and restrictions on global trade.
- Inflationary pressures impacting raw materials, freight, salaries and wages.

Actions taken by management

- Built sustainability strategy on our purpose, business strategy, and culture pillars, and tracked and benchmarked targets within the industry.
- A new ESG Operating Committee implements and operationalises ESG strategy and provides data and metrics to monitor implementation.
- Continued engagement with governments, administrations, and regulatory bodies to enhance education and advocacy efforts with policymakers.
- Global trade compliance programme, policies and procedures.
- Actively participate in trade associations to enhance education and advocacy efforts with policymakers.
- Ongoing engagement and monitoring/lobbying on localisation initiatives.

Pricing and reimbursement

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

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

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

Oversight Board

Link to Strategy

1. Strengthen
2. Accelerate

Change from 2021



Examples of risks

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

Actions taken by management

- Our 12-point plan includes an initiative which focuses on pricing strategy and execution in order to mitigate some of the impact of inflation.
- Developed innovative economic product and service solutions for both established and emerging markets.
- Incorporated health economic components into the design and development of new products.
- Sales training to improve capability to communicate the clinical and economic value proposition to non-clinical decision makers.
- Implementing innovative contracting models designed to lessen the risk of adoption and coverage for healthcare providers and payers.
- Increased engagement with payer bodies to influence reimbursement mechanisms to reward innovation.
- Optimise portfolio mix and promote differentiated products.
- Consideration of price increases.

Quality and regulatory

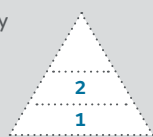
Global regulatory bodies continue to increase their expectations of manufacturers and distributors of medical devices not only in respect of quality and regulation of products but also in respect of sustainability requirements. Our products are used in the human body and therefore patient safety is of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

Oversight Compliance & Culture Committee

Link to Strategy

1. Strengthen
2. Accelerate

Change from 2021



Examples of risks

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

Actions taken by management

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

Talent management

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

Examples of risks

- Loss of key talent, high attrition and lack of appropriate succession planning in context of required skillsets for future business needs.
- Loss of competitive advantage due to an inability to attract and retain top talent.
- Loss of intellectual capital due to poor retention of talent.
- Failure to attract talented and capable candidates.
- Increased talent movement globally due to shifting personal work-life balance priorities.
- Increased salaries globally, particularly in the Cybersecurity, ESG, Research & Development, Quality and Regulatory Affairs, Manufacturing and Distribution functions.

Actions taken by management

- Talent planning and people development processes well established across the Group.
- Talent and succession planning discussed annually by the Board and regularly by the Executive Committee and Nomination & Governance Committee.
- Identification of high-value roles and ensuring that these roles are filled with our high-performance individuals with strong succession plans in place.
- Developed strategic skills resourcing plan by functional areas.
- Provided employees with access to tools and resources to manage their emotional, physical, and mental wellness.
- Enhanced Inclusion, Diversity and Equity (IDE) policy, including establishment of Employee Inclusion Groups (EIGs) and IDE Council in order to foster culture of belonging within the organisation and promote engagement, attraction and retention of top talent.
- Ongoing segmentation of specific job roles and applying focused rewards to ensure we are competitive and attractive to candidates.

Oversight
Board

Link to Strategy

1. Strengthen
2. Accelerate

Change from 2021



Taxation and foreign exchange

We operate a global business and are therefore required to comply with tax legislation in multiple jurisdictions and are also exposed to exchange rate volatility. Adverse changes to tax legislation, including those driven by international agreements such as the Organisation for Economic Co-operation and Development (OECD) global minimum tax rate, and volatility in foreign currency exchange rates can impact our results and it may not be possible to fully mitigate against them.

Examples of risks

- Potential for significant tax rate changes and/or base broadening measures in key jurisdictions where we operate including OECD proposals and US tax reform.
- Failure to comply with current tax laws.
- Transfer pricing policy not correctly implemented or monitored.
- Risk of adverse trading margins due to fluctuating foreign currency exchange rates between our main manufacturing operations (the US, UK, Costa Rica, Malaysia and China) and where our products are sold.
- Changing legislation in the US and other key markets may require changes to our operating model.

Actions taken by management

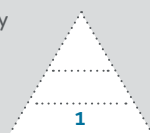
- The Group Tax team continually monitor developments in tax legislation and obtain external advice where relevant.
- The Group Tax team, supported by external advisers, work closely with the business to implement agreed processes and procedures.
- A foreign exchange hedging programme is operated and is overseen centrally by the Group Treasury team.
- The Finance and Banking Committee monitors ongoing treasury and tax matters including foreign exchange exposure.
- Internal Audit and Audit Committee oversight.
- Seeking appropriate independent third-party advice when required.

Oversight
Audit Committee

Link to Strategy

1. Strengthen

Change from 2021



Our Viability Statement

How we assess our prospects

During the year, the Board has carried out a robust assessment of the principal risks affecting the Company, particularly those which could threaten the business model. These risks, and the actions being taken to manage or mitigate them, are explained in detail on [pages 71–77](#) of this Annual Report.

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

- The Audit Committee reviewed the Risk Management process at their meetings in February, April, July and December, receiving presentations from the Group Risk team, explaining the processes followed by management in identifying and managing risk throughout the business.
- In August and November 2022, the Executive Committee met to review the 2022 Principal Risks (the top-down risk review process). The Executive Committee was asked to consider the significant risks which they believed could seriously impact the profitability and prospects of the Group and the principal risks that would threaten its business model, future performance, solvency or liquidity.
- All Executive Committee members nominated the Risk Champions and have worked with them to prepare risk registers. The Risk Champions nominated by the Executive Committee are senior employees and in risk management.
- Using the outputs from the Business Area ‘bottom-up’ risk identification completed in September 2022 and following ‘top-down’ discussions with the Executive Committee, the most significant risks affecting our organisation were presented to the Executive Committee for approval in November as the draft 2022 Principal Risks facing the Company and again in January 2023 as final disclosures.

- Executive Committee agreed to retain the 12 Principal Risks from 2021 with amendments to the descriptions within each Principal Risk to reflect the implementation of the 12-point plan and macro and internal factors to be taken into account in 2022.
- In assessing our TCFD risks we concluded that climate-related risks are not significant in our viability horizon of three years. Nonetheless, we have included an extreme weather event in our Business Continuity and Business Change scenario.
- All relevant executives have attested alignment to the Group’s Enterprise Risk Management Process as part of the annual certification on governance, risk, and compliance.
- The Board debated and agreed the risk appetite for each of the Principal Risks in February 2022.
- Final Principal Risks were presented to the Audit Committee and the Board in February 2022 for their consideration and approval.
- Throughout the year, a number of reviews into different risks were conducted by the Board, the Audit Committee and the Compliance & Culture Committee looking into the nature of the risks and how they were mitigated.

Assessment period

The Board have determined that the three-year period to December 2025 is an appropriate period over which to provide its Viability Statement.

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

Scenario testing

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

These have been modelled as follows:

- In carrying out scenario modelling of the Principal Risks on the following page we have also evaluated the impact of a severe but plausible combination of these risks occurring over the three-year period. We have considered and discussed a report setting out the terms of our current financing arrangements and potential capacity for additional financing should this be required in the event of one of the scenarios modelled occurring.
- We are satisfied that we have robust mitigating actions in place as detailed on [pages 71–77](#) of this Annual Report. We recognise, however, that the long-term viability of the Group could also be impacted by other, as yet unforeseen, risks or that the mitigating actions we have put in place could turn out to be less effective than intended.

Viability Statement

Having assessed the Principal Risks, the Board has determined that we have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over a period of three years from 1 January 2023. In our long-term planning we consider horizons of between five and 10 years. However, as most of our efforts are focused on the coming three years, we have chosen this period when considering our viability.

Our conclusion is based on the Strategic Plan reviewed by the Board in January 2023. We will continue to evaluate any additional risks which might impact the business model.

By order of the Board, on 21 February 2023.



Helen Barraclough
Company Secretary

2022 Scenarios modelled

Scenario 1: Global Economic Downturn

Significant global economic recession, leading to sustained lower healthcare spending across both public and private systems.

Action taken: We have modelled 10% lower revenue throughout 2023 and 5% lower revenue throughout 2024.

Reduced reimbursement levels and increasing pricing pressures.

Action taken: We have modelled annual price erosion of 1% impacting all product lines, along with a full drop through impact on profit in each of the periods 2023–2025.

Link to strategy

- Accelerate profitable growth through prioritisation and customer focus.

Link to Principal Risks

- Business continuity and business change.
- Global supply chain.
- Commercial execution.
- Political and economic.
- Pricing and reimbursement.

Scenario 2: Operational risk

Inability to keep pace with significant product, innovation, and technical advances to develop commercially viable products, losing significant market share to the competition.

Action taken: We have modelled 1% lower growth than planned for a key product range in the US in 2023 and 2024.

Disruption to a Global Distribution Centre (GDC) preventing our ability to supply our customers with all products from the applicable GDC for one quarter.

Action taken: We have modelled an inability to supply products from one of our GDCs for one quarter of 2024.

Key Supplier Disruption – resulting in our inability to manufacture and supply a few key products for a full year.

Action taken: We have modelled an interruption to receiving goods from a key supplier for a period of one year in 2023.

Increases in raw materials, freight and labour costs.

Action taken: We have modelled an increase in our input costs by an additional 5% in 2023 and 2024, due to continued inflationary pressures.

Product Liability Claim.

Action taken: we have modelled a group of product liability claims resulting in a settlement agreement requiring cash payment in 2024 and 2025, without any insurance coverage.

Link to strategy

- Strengthen the foundation to serve customers sustainably and simply.
- Transform our business through innovation and acquisition.

Link to Principal Risks

- Commercial execution.
- New product innovation, design & development including intellectual property.
- Global supply chain.
- Business continuity and business change (weather-related disruption).
- Legal and compliance.
- Political and economic.
- Talent management.

Scenario 3: Tax, foreign exchange, legal, regulatory and compliance risks

Data privacy failure – giving rise to a significant fine or loss.

Action taken: We have modelled a one-off significant fine from regulator of 2% of revenue or loss resulting from a data privacy issue in 2024.

Failure to obtain proper regulatory approvals for products or processes impacting our ability to sell products.

Action taken: We have modelled the complete loss of revenue from a key product effective in mid-2023 for two years, and returning to lower volumes in mid-2025.

Risk of adverse trading margins due to fluctuating foreign currency exchange rates across our markets.

Action taken: We have modelled a reduction in profitability in 2024 and 2025 due to a weakening in other currencies relative to the US Dollar by 5%.

Link to strategy

- Strengthen the foundation to serve customers sustainably and simply.

Link to Principal Risks

- Legal and compliance.
- Quality and regulatory.
- Taxation and foreign exchange.

Scenario 4: Cybersecurity

Disruption to business operations due to a significant cybersecurity incident.

Action taken: We have modelled one of our key regions being unable to invoice also affecting shipping and tracking of deliveries for one month due to a disruption to our IT infrastructure in 2024.

Link to strategy

- Strengthen the foundation to serve customers sustainably and simply.

Link to Principal Risks

- Cybersecurity.

Scenario 5: Mergers and acquisitions

Failure to integrate newly acquired business effectively to achieve expected growth.

Action taken: We have modelled a scenario of zero growth in a recently acquired business over 2023 and 2024.

Link to strategy

- Transform our business through innovation and acquisition.

Link to Principal Risks

- Mergers and acquisitions.

Section 172 statement

In accordance with section 172 of the Companies Act 2006 and the UK Corporate Governance Code 2018, the Board considers the potential impact on the Company's key stakeholders and takes their views and interests into account when making decisions. The Board also takes the opportunity to engage with our stakeholders, as appropriate. Pages 109–115, as well as the pages referenced below, form part of this statement and provide examples of how each of our key stakeholders have been considered and engaged.

» 112

How we engage with our main stakeholders



Governments and regulators

We are subject to the laws and regulations of many governments and regulators across the world and we work to ensure product safety and legal compliance in order to achieve the full potential of our portfolio.

» 46 115



Employees

Our employees are crucial to the success of our business and many of our decisions have an impact on them. We believe that an engaged workforce is better for business.

» 48–53 109 112





Environment and community

People, Planet and Products are at the heart of our sustainability strategy aiming to create a positive impact on our communities reducing the impact on our environment and enabling us to innovate sustainably.



Read more on [pages 56–68](#) and in our 2022 Sustainability Report



Investors

Our investors are the owners of our business and it is important for us to understand their perspectives on performance, value, risk and governance.

>> [113](#) [240–248](#)

Read more on investors



www.smith-nephew.com

Our Investor presentations are available to download on our website



Customers and suppliers

Our business model creates value through customer centricity whilst working in partnership with our suppliers ensures we have the right resources to support our growth.

>> [14–15](#) [24–45](#) [114](#)





Our technology takes
the limits off living

Getting a rugby player back to the game

Life Unlimited



Governance

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Statement of Compliance

The Board is committed to the highest standards of corporate governance. We comply with the provisions and principles of the UK Corporate Governance Code 2018 (2018 Code). The Company's American Depositary Shares and bonds are listed on the New York Stock Exchange (NYSE) and we are therefore subject to the rules of the NYSE as well as to US securities laws and the rules of the Securities and Exchange Commission (SEC) applicable to foreign private issuers. We comply with the requirements of the NYSE and SEC and have no significant differences to report between the US and UK corporate governance standards.

We explain in this 'Governance' section how we comply with and have applied the 2018 Code during the year. The 2018 Code can be found at www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf. We also explain how we have complied with the Financial Conduct Authority's (FCA) Listing Rules and Disclosure & Transparency Rules (DTRs) throughout the year.

Letter from the Chair



Dear Shareholder

On behalf of the Board, I am pleased to present the governance section of our Annual Report, which sets out the Board's structure, roles, responsibilities, activities and stakeholder engagement during 2022.

Supporting strategic and operational improvement

Despite intense macroeconomic and geopolitical headwinds, the Board has remained focused on strategy and value creation. Following Deepak's arrival in April 2022, urgent focus was required in order to set the Company on a trajectory to achieve its full potential and deliver value for shareholders.

The executive directors and management focused on core business strategy and value creation opportunities under the 12-point plan to fix orthopaedics, improve margin and accelerate growth in our Advanced Wound Manufacturing (AWM) and Sports businesses. In parallel, the Board maintained scrutiny over the implementation of the Strategy for Growth in line with the Board's risk appetite to ensure high standards of corporate governance were maintained and that decisions were considered in the interests of the Company's stakeholders and in the best interests of the Company as a whole.

From a governance perspective, the Board has continued to drive improvements in our enterprise risk management programme in order to positively impact the risk culture of the Company. The refreshed focus on our governance structure in order to provide further oversight on environmental, social and governance (ESG) matters has also been a focus for the Board this year.

Board changes in 2022

Deepak joined us at an inflection point for the business and within his first 100 days conducted a deep dive review

and assessment of the opportunities and challenges facing the Company and then presented his 12-point plan to the Board, supported by key KPIs and metrics to execute and deliver on the Company's significant potential for accelerated growth.

Jo Hallas was appointed as a Non-Executive Director to the Board on 1 February 2022 and was subsequently appointed as a member of the Audit Committee with effect from 1 September 2022. Jo's experience on sustainability matters has enhanced Board expertise in this area.

Robin Freestone, our Senior Independent Director took the decision to step down as a Non-Executive Director on 30 September having completed 7 years of service. We wish to thank him for his support to me as Chair, to the Board and the Company more broadly.

Marc Owen was appointed as Senior Independent Director with effect from Robin's departure and led the search for my successor. We also took the opportunity to strengthen the Nomination & Governance Committee, appointing Angie Risley with effect from 1 September 2022.

Board and leadership succession planning

During my tenure we have strengthened the capabilities of the Board in terms of skills, composition and diversity and have appointed Board members with industry specific knowledge and broad geographical experience.

As succession planning is a key focus from both a leadership and governance perspective, we have developed a board composition and skills matrix which feeds into a formal rolling succession plan for directors. We have also worked with an independent third party to review our profile for the Company's Chief Executive Officer and continue to review internal talent pipeline development as part of executive succession planning.

Chair search

The Nomination & Governance Committee and the Board were aligned on three core characteristics which would be required for a successful Chair: (i) a proven track record of delivering shareholder value; (ii) a strong background in governance, ideally within a UK FTSE environment; and (iii) the ability to support and develop the Chief Executive Officer, either through previous CEO experience or within a Chair role.

Marc engaged with various shareholders as part of the search process, who agreed with the characteristics determined by the Board and acknowledged that given the recent changes to Board and management, it was important to take the time to find the right fit for the new Chair.

After an extensive search, we announced on 17 February 2023 that subject to shareholder approval, Rupert Soames OBE will be appointed to the Board as a Non-Executive Director and Chair-designate at our AGM and will join the Nomination & Governance and Remuneration Committees upon appointment. In order to ensure a smooth transition to Rupert, I have agreed to remain as Chair until 15 September 2023 and will put myself forward for re-election at the AGM on this basis.

Rupert has extensive global leadership experience, a strong track record of delivering shareholder value and a deep understanding of the UK corporate governance environment. For more than eight years as Chief Executive Officer of Serco Group plc, Rupert led the transformation of the business and delivered significant improvements to profitability as he transitioned the Group's strategy from turnaround to growth. Rupert was a Non-Executive Director of DS Smith, the FTSE 100 packaging company until September 2022 and was also Senior Independent Director of Electrocomponents plc (now RS Group). He was a member of the Remuneration, Nomination and Audit Committees at both companies.

On behalf of the Board, I am delighted to welcome Rupert as my successor as Chair. I am confident that he is the right person to support the management team, the organisation and the Board through the next stage of Smith+Nephew's transformation.

Stakeholders

Pages 111–115 provide further insight into how the Board engage with and consider the views of our stakeholders in our decision-making process, with one key example being the decision to invest in a new greenfield AWM site in Melton near Hull. The Board evaluated the benefit and impact on employees, customers, suppliers, investors, governments and regulators, the local communities and other stakeholders as part of decision making.

Following easing of restrictions post Covid, various Board members visited our Hull and Memphis sites in May and September 2022 respectively, which provided opportunities for Board members (especially those who had joined during or since the pandemic) to understand more about the core business strategy, value creation opportunities and challenges and the impact of key initiatives and projects on our stakeholders.

Human capital issues including culture and workforce transformation also continue to be important agenda items for the Board. This year the Board amplified its listening session programme, holding five sessions with employees from diverse regional and workforce stakeholder groups. The session with Employee Interest Group (EIG) leadership in particular provided strong insights for the Board in terms of employee-driven initiatives on Inclusion, Diversity and Equity (IDE). Further details can be found on pages 110–112.

Annual General Meeting

Our 2023 AGM will be held at our Croxley offices on 26 April 2023 at 12pm. We strongly encourage shareholders to attend in person to listen to the proceedings, ask questions and vote. Further details of the AGM are included in the Notice of Meeting.

My thanks go to the Board for their commitment, contribution and dedication during 2022. I would also like to thank all of our shareholders for their continued patience during a challenging year for the Company.

It has been an honour to serve as your Chair and I will follow the Company with interest as management and the Board continue to partner together to execute on strategy and create and deliver further value for shareholders. 2023 looks set to be a year in which the resilience of Boards, CEOs and executives will continue to be tested and I believe that the current Board with the new Chair in place will be well positioned to provide support and oversight in a fast-changing environment.



Roberto Quarta
Chair

Board of Directors

Roberto Quarta

Chair

Appointed as an Independent Non-Executive Director in December 2013 and appointed Chair at the 2014 Annual General Meeting



Key skills and competencies:

Roberto's career in private equity brings valuable experience to Smith+Nephew, particularly when evaluating acquisitions and new business opportunities. He has an in-depth understanding of differing global governance requirements having served as a director and chair of a number of UK and international companies.

Current external appointments:

- Chair of WPP plc.
- Partner at Clayton Dubilier & Rice, LLC and Chair of CD&R Europe.
- Independent Non-Executive Director of Gulf Capital.

Previous experience:

He has held several board positions, including Non-Executive Director of Powergen plc, Equant N.V., BAE Systems plc and Foster Wheeler AG. His previous chairmanships include Italtel S.p.A., Rexel SA, IMI plc and SPIE SA. Roberto was a former member of the Investment Committee of Fondo Strategico Italiano S.p.A.

Nationality:

American/Italian

Deepak Nath

Chief Executive Officer

Appointed Chief Executive Officer in April 2022



Key skills and competencies:

Deepak brings global leadership and risk-management expertise and has a track record of driving growth at major healthcare companies through delivering a significant improvement in execution and building a strong results-focused culture.

Current external appointments:

None.

Previous experience:

He began his career as a scientist in computational physics at Lawrence Livermore National Laboratory and holds a BSc and MSc in Mechanical Engineering and a PhD in Theoretical Mechanics from the University of California, Berkeley. Prior to joining Siemens Healthineers, he held roles at both Amgen and McKinsey and spent 10 years at Abbott Laboratories, Inc. culminating in his appointment as President of Abbott Vascular. At Siemens Healthineers (2018–2022) he was President of the Diagnostics business responsible for \$6 billion of revenue and 15,000 employees.

Nationality:

American

Committee key

Member of the Audit Committee
Member of the Nomination & Governance Committee

Committee Chair

Member of the Remuneration Committee
Member of the Compliance & Culture Committee



Rupert Soames

Chair Designate

To be appointed as Non-Executive Director on 26 April 2023 subject to shareholder approval. Member of the Nomination & Governance and Remuneration Committees upon appointment and will succeed Roberto Quarta as Chair in September 2023



Key skills and competencies:

Rupert has extensive global leadership experience, a proven track record of delivering shareholder value and a deep understanding of UK corporate governance. For more than eight years as Chief Executive Officer of Serco Group plc, Rupert led the transformation and delivered significant improvements to profitability transitioning the group's strategy from turnaround to growth.

Current external appointments:

- Advisor to Serco Group plc, will retire in September 2023.

Previous experience:

Rupert stepped down in December 2022 as Group Chief Executive from Serco Group plc, the specialist services business in Health, Defence, Transport and Immigration, employing c.53,000 people and operating in 16 countries. He joined

Serco Group plc from Aggreko plc where he was Chief Executive Officer for 11 years and prior to that he was at software company Misy plc as Chief Executive of its Banking and Securities Division. He spent the first 16 years of his career at GEC plc. He studied Politics, Philosophy & Economics at Oxford University and was President of the Oxford Union. Rupert was a Non-Executive Director of DS Smith the FTSE 100 packaging company until September 2022 and was previously Senior Independent Director of Electrocomponents plc (now RS Group). He was a member of the Audit, Remuneration and Nomination Committees for both companies. Rupert is a Visiting Fellow at Oxford University, and a Visiting Professor of Aston University.

Nationality:

British

Anne-Françoise Nesmes

Chief Financial Officer

Appointed Chief Financial Officer in July 2020



Key skills and competencies:

Anne-Françoise has worked as a senior finance executive in global FTSE listed companies for many years, which alongside a strong business acumen and deep sector knowledge provides her with the experience required to be part of the Smith+Nephew leadership team. She demonstrates a high competency for delivering operational excellence across different geographic markets and leading large teams who are responsible for significant budgets. She has an impressive background and her ability to translate financial insights into results helps guide Smith+Nephew.

Current external appointments:

- NED and Chair of the Audit Committee at Compass Group plc.

Previous experience:

Anne-Françoise joined GlaxoSmithKline plc in 1997 where she worked for 16 years, holding multiple senior roles including Senior Vice President, Global Vaccines. Anne-Françoise served as Chief Financial Officer for Dechra Pharmaceuticals plc in 2013 where she successfully implemented financial strategies to support the growth of the business. She was Chief Financial Officer of Merlin Entertainments Limited (formerly Merlin Entertainments plc) from 2016 to 2020.

Nationality:

British/French

Marc Owen

Senior Independent Director

Appointed Independent Non-Executive Director in October 2017 and Senior Independent Director in September 2022



A C N

Key skills and competencies:

Marc is a proven leader with an astute strategic vision, capable of building significant international healthcare businesses. He has strong commercial healthcare expertise.

Current external appointments:

None.

Previous experience:

Marc commenced his healthcare and technology career at McKinsey & Company where he progressed to senior partner and eventually a founding partner of McKinsey's Business Technology Office. In 2001, Marc joined McKesson Corporation and served as Executive Vice President and member of their Executive Committee. He delivered strategic objectives and led over 40 acquisitions and divestments over a 10-year period.

In late 2011, he headed McKesson Speciality Health, which operates over 130 cancer centres across the US and provides market intelligence, supply chain services, patient access to therapy, provider and patient engagement and clinical trial support. In 2014, he was appointed Chair of the European Management Board at Celesio AG. He retired in March 2017 once he had improved operations, set the strategy and recruited his successor.

Nationality:

British/American

Erik Engstrom

Independent Non-Executive Director

Appointed Independent Non-Executive Director in January 2015



A N

Key skills and competencies:

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

Current external appointments:

- Chief Executive Officer of RELX Group.

Previous experience:

Erik commenced his career at McKinsey & Company and then worked in publishing, latterly as President and Chief Operating Officer of Random House Inc. and as President and Chief Executive Officer of Bantam Doubleday Dell, North America. In 2001, he moved on to be a partner at General Atlantic Partners, a private equity investment firm. Between 2004 and 2009, he was Chief Executive Officer of Elsevier, the division specialising in scientific and medical information and then from 2009 Chief Executive Officer of RELX Group, the division specialising in scientific and medical information and then from 2009 Chief Executive Officer of RELX Group.

Nationality:

Swedish

Jo Hallas

Independent Non-Executive Director

Appointed Independent Non-Executive Director in February 2022



A

Key skills and competencies:

Jo has extensive international experience focused on business transformation through both organic and acquisitive growth in global industrial and consumer sectors. She brings valuable expertise which will help Smith+Nephew build upon and achieve our strategic ambitions.

Current external appointments:

- Chief Executive Officer of Tyman plc.

Previous experience:

Jo commenced her career at Procter & Gamble based in Germany, the US, Thailand and the Netherlands. She then joined Bosch where she held a business unit leadership role in their Power Tools division followed by Invensys in 2009 where she ran their global heating controls business unit including launching its first smart home offer. She then moved to Spectris plc, where she had responsibility for a portfolio of global industrial technology businesses, as well as for the Group's digital strategy. Since 2019, Jo has served as Chief Executive Officer for Tyman plc where she has made sustainability a core foundation of the group's strategy. Jo was also previously Chair of the Remuneration Committee for Norcross plc.

Nationality:

British

John Ma

Independent Non-Executive Director

Appointed Independent Non-Executive Director in February 2021



C

Key skills and competencies:

John has an impressive track record in medical device businesses and his contribution provides value as Smith+Nephew continues to develop innovative ways to grow and serve our markets with a focus towards Asia Pacific regions. He is an established healthcare leader and has strong experience of driving market entry and growth within emerging markets.

Current external appointments:

- Founder, Chair and Chief Executive of Ronovo Surgical.

Previous experience:

In 2000, John joined GE Healthcare and became Vice President and General Manager of their Global Product Company in China. John has also held a number of senior positions as President of Asia Pacific regions at Pentair Inc., Vice President of Express Scripts Inc., and Global Partner of Fosun Group.

He initially joined Fosun Pharma to lead their medical device business and in 2014 became President of Fosun Healthcare Holdings. He served as a key member of their healthcare investment committee which went on to establish a global presence across the US, Europe, Israel and China. In 2017, John joined Intuitive Surgical as their Senior Vice President of Strategic Growth Initiatives. He has previously served as a NED for both Haiier Electronics Group and Clinical Innovations LLC.

Nationality:

American

Board leadership and purpose continued

Board of Directors continued

Katarzyna Mazur-Hofszaess

Independent

Non-Executive Director

Appointed Independent Non-Executive Director in November 2020



Key skills and competencies:

Katarzyna demonstrates a true passion for customer focus and maintains an impressive track record in senior leadership within the MedTech industry. She is a qualified medical doctor (PhD), has an Executive MBA from the University of Minnesota and has a wealth of experience in medical devices and orthopaedic sectors. Her Chief Executive Officer experience of a global company and valuable industry knowledge will help drive innovation and ensure the continued development of Smith+Nephew.

Current external appointments:

- Chief Executive Officer, EMEA, at Fresenius Medical Care AG & Co. KgaA.

Previous experience:

Katarzyna commenced her corporate career in 1998 at Roche in Poland, prior to becoming General Manager for Poland of Allergy Therapeutics plc. In 2001, Katarzyna joined Abbott Laboratories initially to manage their diabetes care division in Poland and became country General Manager. Over the next nine years, her career at Abbott progressed becoming Divisional Vice President Abbott Diagnostics for Europe. In 2010, she became President of EMEA at Zimmer and then led the operations of Zimmer Biomet in EMEA. In 2018, Katarzyna became Chief Executive Officer for the €2.7 billion EMEA renal care business of Fresenius Medical Care, and in January 2022 took over responsibility for the Care Enablement organisation.

Nationality:

German/Polish



Rick Medlock

Independent

Non-Executive Director

Appointed Independent Non-Executive Director in April 2020



Key skills and competencies:

Rick has extensive experience and a deep understanding of technology focused R&D businesses. He has driven value and transformation throughout his executive career which will further reinforce the ability of Smith+Nephew to grow and develop into new and existing markets. Rick brings significant financial and risk management expertise as a well-regarded former FTSE 100 Chief Financial Officer, NED and Audit Committee Chair.

Current external appointments:

- NED and member of the Audit, Risk and Compliance Committee at Datatec Ltd.
- NED and Chair of the Audit Committee at Deliveroo.

Previous experience:

Rick has had a highly successful career as a strong commercial Chief Financial Officer in the technology industry, working for a range of international FTSE 100 and NASDAQ listed businesses during periods of high growth. He has held a number of Chief Financial Officer positions throughout his career, including at NDS Group plc, Inmarsat plc and Worldpay Group plc. Rick brings a wealth of experience as a former NED and Audit Committee Chair of several technology driven businesses, such as Sophos Group plc, Edwards Vacuum, and Thus plc. Rick was also previously Chair of BluJay Solutions Ltd, Chair of Momondo Group and Chair of the Audit Committee and LoveFilm UK Limited.

Nationality:

British



Angie Risley

Independent

Non-Executive Director

Appointed Independent Non-Executive Director in September 2017



Key skills and competencies:

Angie has gained experience in a wide range of sectors, including a regulated environment. This diversity of experience is welcomed by the Board and the Remuneration Committee. Angie is also an additional resource and sounding board for Smith+Nephew's own internal Human Resources function.

Current external appointments:

- J Sainsbury plc Group HRD and member of their Operating Board.

Previous experience:

Between 2007–2013 Angie was the Group HR Director for Lloyds Banking Group, joining J Sainsbury plc as Group HR Director and a member of their Operating Board in January 2013. Over the years, Angie has been a member of the Low Pay Commission and has held a number of Non-Executive Directorships with Biffa plc, Arriva and Serco Group plc, and now Smith+Nephew. At Serco Group plc she was the Chair of the Remuneration Committee. Previously she has attended Remuneration Committees of Whitbread plc, Lloyds Bank.

Nationality:

British



Bob White

Independent

Non-Executive Director

Appointed Independent Non-Executive Director on 1 May 2020



Key skills and competencies:

Bob is an experienced leader with more than 25 years' worth of industry relevant experience. He is an influential and well-known figure in the medical technology sector and has an impressive track record in delivering growth and fostering innovation. He brings valuable global medical technology insight to the Board, which will prove fundamental in helping to shape and develop the future strategic direction of Smith+Nephew healthcare expertise.

Current external appointments:

- Executive Vice President and President, Medical Surgical Portfolio at Medtronic plc.

Previous experience:

Bob has held a number of senior Vice President positions throughout his career, including at Chemdex Corporation, Accelrys Inc., SourceOne Healthcare Technologies, Inc., GE Healthcare and Covidien as President for Emerging Markets and President for Respiratory and Monitoring Solutions. He then became Senior Vice President and President of Medtronic Asia Pacific, having led the integration of Covidien Asia Pacific when it was acquired by Medtronic plc in 2015.

Nationality:

American



Helen Barraclough

Group General Counsel and Company Secretary

Appointed Company Secretary in April 2022

Key skills and competencies:

Helen is a qualified Solicitor admitted in England & Wales and a Chartered Governance Professional. She also serves as the Chief Risk Officer for Smith+Nephew.

Previous experience:

Helen started her career with Allen & Overy LLP and prior to joining Smith+Nephew held senior legal roles at WPP plc and Nomura International plc.

Executive Committee

The Executive Committee of Smith+Nephew is responsible for leading the Company and executing on its strategy.



Brad Cannon
President Orthopaedics, Sports Medicine & ENT and Americas
 Brad brings more than 25 years of experience across medical devices and medtech. Prior to Smith+Nephew, Brad worked in Medtronic plc's Spine and Biologics division and previously served as Chief Marketing Officer and President of Europe and Canada at Smith+Nephew.

Nationality: 🇺🇸 American
Location: Andover, US



Paul Connolly
President Global Operations
 Paul brings more than 30 years of global manufacturing and supply chain experience at multinational companies with a strong track record in delivering operational excellence and transformation programmes. Prior to joining Smith+Nephew, Paul held senior roles at Goodyear, DePuy, Inc., and other Johnson & Johnson family companies.

Nationality: 🇺🇸 American/Irish
Location: Andover, US



Phil Cowdy
Chief Corporate Development & Corporate Affairs Officer
 Prior to joining Smith+Nephew, Phil served as a senior Director at Deutsche Bank AG for 13 years specialising in corporate finance and equity capital markets. He qualified as a chartered accountant with EY. Phil serves as the representative of Smith+Nephew on the Board of Bioventus Inc.

Nationality: 🇬🇧 British
Location: Watford, UK



Myra Eskes
President APAC Region & Global Service
 Prior to joining Smith+Nephew, Myra was President and Chief Executive Officer of GE Healthcare Southeast Asia, Korea, Australia and New Zealand and led the GE Life Sciences business for the Eastern & African growth markets.

Nationality: 🇳🇱 Dutch
Location: Singapore



Simon Fraser
President Advanced Wound Management and Global Commercial Operations
 Simon brings more than 30 years of experience across the sector. Prior to joining Smith+Nephew, Simon held senior roles at Dentsply Sirona, Abbott Laboratories, Alere Inc and Johnson & Johnson. Simon will retire in April 2023.

Nationality: 🇺🇸 American/Canadian
Location: Fort Worth, US



Mizanu Kebede
Chief Quality & Regulatory Affairs Officer
 Mizanu brings more than 20 years of leadership experience in Quality and Regulatory Affairs. Prior to Smith+Nephew, Mizanu held senior roles at Avanos Medical, Life Technologies Corporation, Johnson & Johnson and STERIS Corporation.

Nationality: 🇺🇸 American
Location: Georgia, US



Elga Lohler
Chief HR Officer
 Prior to joining Smith+Nephew, Elga held Human Resources roles at Transnet SOC Ltd, Sensormatic (now Tyco International plc) and Advanced Tissue Sciences, Inc. (acquired by Smith+Nephew in 2002).

Nationality: 🇺🇸 American/South African
Location: Fort Worth, US



Vasant Padmanabhan
President Research & Development
 Vasant has over 25 years of global med-tech leadership experience. Prior to Smith+Nephew, Vasant held senior roles at Thoratec Corporation and Medtronic plc as Vice President of Connected Care R&D and Operations and Vice President of Product Development for the Implantable Defibrillator Business.

Nationality: 🇺🇸 American
Location: Andover, US



Alison Parkes
Chief Compliance Officer
 Prior to moving into her current role, Alison served as the Compliance Officer for the Global Advanced Wound Management business, APAC and Emerging Markets and established and led the Global Compliance Programme Effectiveness & Improvement team.

Nationality: 🇬🇧 British
Location: Fort Worth, US



Helen Barraclough
Group General Counsel and Company Secretary
 Prior to joining Smith+Nephew, Helen started her career at Allen & Overy LLP and held senior roles at WPP plc and Nomura International plc. She also serves as the Chief Risk Officer for Smith+Nephew.

Nationality: 🇬🇧 British
Location: Watford, UK

Executive Officers whose tenure ceased
 Peter Coenen, President EMEA Region, served until 31 December 2022.

Roles and composition of the Board

Chair

Roberto Quarta

- Responsible for the effective leadership and operation of the Board and for facilitating the review of its composition, effectiveness and development.
- Promotes effective board relationships, encouraging constructive challenge and facilitating effective communication between Board members and supporting a culture of openness, challenge and debate.
- Ensures that the Board understand the views and needs of the Company's stakeholders and facilitates effective communication and dialogue, whilst maintaining an appropriate balance between stakeholders.
- Leads relations with shareholders in order to understand their views on governance and performance against strategy
- Responsible for promoting high standards of governance by the Board and its Committees.

The Chair achieves this through effective chairing of Board meetings; setting a board agenda which focuses on strategy, performance, value creation, risk management, culture, stakeholders and accountability; enabling an annual review of Board effectiveness; holding discussions with Board members both inside and outside the boardroom and ensuring appropriate Board induction and development programmes are in place.

Senior Independent Director

Marc Owen

- Acts as a sounding board for the Chair and as an intermediary for other Directors and stakeholders as necessary.
- As a member of the Nomination & Governance Committee, leads the Board evaluation process and search for Chair and Independent Non-Executive Directors to ensure effective succession.
- Acts as an alternative contact for stakeholders to raise concerns (in addition to Chair and senior management).

Independent Non-Executive Directors

Erik Engstrom, Jo Hallas, John Ma, Katarzyna Mazur-Hofsaess, Rick Medlock, Angie Risley and Bob White

- Comprise more than half of Board membership in order to meet the independence criteria set out in the 2018 Code.
- Ensure that no individual/small group can dominate the Board's decision making.
- Provide constructive challenge, give strategic guidance, offer specialist advice and hold executive management to account.

Chief Executive Officer

Deepak Nath

- Responsible for delivering and implementing Group strategy and management of the organisation as a whole. Provides information and participates in Board discussions regarding Group management and operational matters.
- Leads the Executive Committee and ensures its effectiveness in managing the overall operations and resources of the Group.
- Sets tone at the top with regard to culture, compliance and sustainability matters.
- Ensures the Chair and Board are updated regularly regarding key matters and maintains relationships with shareholders, advising the Board accordingly.

Chief Financial Officer

Anne-Françoise Nesmes

- Supports the Chief Executive Officer in developing and implementing Group strategy.
- Responsible for ensuring effective financial reporting, investor relations, tax, treasury and financial controls are in place within the Group.
- Provides information and participates in Board discussions regarding financial matters.
- Leads global finance function, developing key finance talent and succession planning.

Company Secretary

Helen Barraclough

- Supports the Chair and ensures Board members have access to the information required to perform their duties.
- Advises the Board on legal and corporate governance matters and supports the Board in applying the 2018 Code and complying with UK listing obligations, and other statutory and regulatory requirements.
- Provides a channel for Board and Committee communications and a link between the Board and management.

Non-Financial Reporting Regulations

In accordance with the Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016 information can be found on the following pages of this 2022 Annual Report relating to the environment (pages 48–68 of this report and the 2022 Sustainability Report), social (pages 48–53 of this report and the 2022 Sustainability Report), anti-corruption and anti-bribery matters (page 53), employees (pages 48–53) and human rights (page 53).

In advance of the Board and Committee meetings, the Chair met with the Non-Executive Directors in the absence of Executive Directors. In addition, the Chair held one-to-one discussions with each Board Member throughout the year.

Independence of Directors

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

Management of conflicts of interest

None of our Directors or their connected persons, has any family relationship with any other Director or Officer, nor has a material interest in any contract to which the Company or any of its subsidiaries are, or were, a party during the year or up to 21 February 2023.

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

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

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

Bob White is President of the Medtronic Medical Surgical Portfolio at Medtronic plc, a situation which the Board has identified and duly authorised as potentially giving rise to a conflict of interest. Mr White is recused from any matters discussed at a meeting of the Board or of a Board Committee which the Board or relevant committee consider may pose a potential conflict.

Outside directorships

We encourage our Executive Directors to serve as Non-Executive Directors of external companies. We believe that the work they do as Non-Executive Directors of other companies has benefits for their executive roles with the Company, giving them a fresh insight into the role of a Non-Executive Director.

Anne-Françoise Nesmes is a Non-Executive Director of Compass Group plc which is listed on the London Stock Exchange.

Re-appointment of Directors

In accordance with the 2018 Code, all Directors offer themselves to shareholders for re-election annually, except those who are retiring immediately after the Annual General Meeting. Each Director may be removed at any time by the Board or the shareholders.

Board support

Together with the Chief Executive Officer and the Group General Counsel and Company Secretary, the Chair ensures that the Board is kept properly informed. Each Director has access to the Group General Counsel and Company Secretary, who helps to ensure that Board procedures and good corporate governance practices are followed. Directors are permitted to take independent professional advice at the Company's expense if required in order to enable them to fulfil their duties.

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

Purchase of ordinary shares

In December 2021, we announced an updated capital allocation policy to prioritise the use of cash. The 2022 share buyback programme commenced on 23 February 2022 and \$150 million was completed by 12 August 2022. As macroeconomic conditions continued to be uncertain, including higher input cost inflation, the Board decided it was prudent to delay further buybacks until conditions improved. We remain committed to returning surplus cash to shareholders over time.

Corporate governance framework

Our Board

The Board is accountable to shareholders for the performance and long-term sustainable success of the Company. It approves the strategy of the Group, evaluates and monitors the management of risk, and oversees the implementation of the strategy in order to achieve sustainable growth. The Board delegates certain matters to the Audit, Remuneration, Nomination & Governance and Compliance & Culture committees which support the Board in carrying out its responsibilities. Full details of the Matters Reserved to the Board can be found on the Company's website.

www.smith-nephew.com

Audit Committee

» 101

Ensures the integrity of the Company's financial reporting, systems and controls.

Oversight of risk management process. Reviews and monitors climate change disclosures and related ESG financial reporting obligations.

Ensures effectiveness of internal and external audit functions.

Remuneration Committee

» 116

Determines Remuneration Policy and packages for Executive Directors and senior management, having regard to pay across our workforce.

Ensures reward strategy aligns with our purpose, values and long-term strategy.

Nomination & Governance Committee

» 98

Reviews size, skills, experience, knowledge and composition of the Board, succession planning, diversity and governance matters.

Compliance & Culture Committee

» 108

Reviews and monitors and has oversight of ethics and compliance, quality and regulatory, culture, sustainability matters and metrics, stakeholder relationships and related legal matters across the Group.

Finance & Banking Committee

A Committee comprising senior executives which approves banking and treasury matters, guarantees and Group structure changes relating to mergers, acquisitions and disposals.

Disclosures Committee

A Committee comprising senior executives which oversees and approves public announcements and communications to investors and Stock Exchanges. Reviews communications and reporting requirements in respect of market sensitive information.

Executive Committee

» 89

The Board delegates the day-to-day operational management and implementation of Group strategy to the Chief Executive Officer and Executive Committee (see page 89). The Executive Committee recommends, and following Board approval, implements strategy, budget and three-year strategic plan within the Group. It ensures cross-functional alignment in order to deliver on strategy and reviews major investments, divestments and capital expenditure proposals. The Executive Committee also focuses on people and organisational culture, reviewing recruitment, attrition and development initiatives within the Company and developing and monitoring succession planning and talent pipeline below Board level.

The Executive Committee meets at least 10 times per year to review commercial and operating results against budget, key initiatives, KPIs and performance metrics aligned to deliver Group strategy.

The Executive Committee forms subcommittees including those listed below:

Group Ethics & Compliance Committee	ESG Operating Committee	Mergers & Acquisitions Investment Committee	Global Benefits Committee	Health, Safety & Environment Committee
Quarterly Business Review and Franchise/Function/Regional Leadership Team Meetings	Global Crisis Management Team	New Product Development Committee	Inclusion, Diversity and Equity Council	Security and Privacy Steering Committee

Board and Committee attendance

		Board	Audit	Remuneration	Nomination & Governance	Compliance & Culture
Total meetings	Appointed	7	8	8	6	4
Roberto Quarta ¹	December 2013	7/7	-	7/8	5/6	-
Roland Diggelmann ²	March 2018	1/1	-	-	-	-
Deepak Nath ³	April 2022	6/6	-	-	-	-
Erik Engstrom	January 2015	7/7	8/8	-	6/6	-
Robin Freestone ⁴	September 2015	5/5	6/6	7/7	5/5	-
John Ma ⁵	February 2021	6/7	-	-	-	4/4
Katarzyna Mazur-Hofsaess	November 2020	7/7	-	-	-	4/4
Rick Medlock	April 2020	7/7	8/8	-	-	-
Anne-Françoise Nesmes	July 2020	7/7	-	-	-	-
Marc Owen ⁶	October 2017	7/7	8/8	-	6/6	4/4
Angie Risley ⁷	September 2017	7/7	-	8/8	2/2	4/4
Bob White	May 2020	7/7	-	8/8	-	4/4
Jo Hallas ⁸	February 2022	7/7	3/3	-	-	-

- 1 Due to unforeseen travel disruption, Roberto Quarta was prevented from attending the July 2022 Remuneration and Nominations & Governance Committee meetings.
- 2 Roland Diggelmann stepped down as Chief Executive Officer and Executive Director with effect from 31 March 2022.
- 3 Deepak Nath has been appointed as the Company's new Chief Executive Officer (CEO) with effect from 01 April 2022.
- 4 Robin Freestone stepped down as Senior Independent Director and as a Non-Executive Director with effect from 30 September 2022.
- 5 Due to prior commitments, John Ma was not in attendance at the 27 April Board meeting however, he gave his comments to the Chair before the meeting.
- 6 Marc Owen has been appointed as Senior Independent Director with effect from 30 September 2022.
- 7 Angie Risley joined the Nominations & Governance Committee on 1 September 2022.
- 8 Jo Hallas joined the Audit Committee on 1 September 2022.



Board activities

The following pages provide an overview of the key topics reviewed, monitored, considered and debated by the Board in the year to 31 December 2022.

Group Purpose and Culture



- » 48 Employees
- » 108 Compliance & Culture Committee report

- Reviewing and monitoring Group strategy in alignment to the Purpose of Life Unlimited and culture pillars of Care, Collaboration and Courage.
- Monitoring and ensuring the scope and focus of strategic projects and initiatives support the Group’s purpose and culture pillars.
- Review of Sustainability strategy, climate related disclosures and key performance metrics.
- Review of initiatives to support employee wellbeing including further improvement of the employee assistance programme.
- Review of initiatives to strengthen and embed Inclusion, Diversity and Equity throughout the Group, including receiving reports on engagement with employee interest groups at Board listening sessions.
- Review of initiatives to increase manager competencies and capabilities at the Compliance & Culture Committee meetings.

Strategy and transformation



- » 84 Letter from the Chair
- » 18 Financial Review

- Setting priorities for capital investment across the Group.
- Reviewing and monitoring progress against the 12-point plan and related metrics in support of the Group strategy.
- Approving annual budget, financial plan, three-year strategic plan.
- Approving major borrowings and finance and banking arrangements.
- Issuance of debut €500 million EUR Corporate Bond.
- Repayment of €757 million of EUR bank term loans and \$125 million of private placement debt.
- Approving changes to the composition of the Board, its Committees and the Executive Committee.
- Approving Group policies relating to sustainability, health and safety, Code of Conduct and Code of Share Dealing and other matters.



Performance

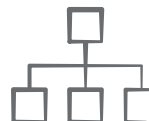


» 108 Compliance & Culture Committee report

» 101 Audit Committee report

- Reviewing performance against strategy, budgets and financial and business plans.
- Approving half-year, full-year and trading updates.
- Strategic deep dives on global and regional franchise plans in Orthopaedics, Sports Medicine & ENT and Advanced Wound Management aligned to 12-point plan initiatives and broader long-term strategic initiatives.
- Monitoring Group operations updates and response to external and internal challenges in line with 12-point plan key metrics and deliverables.
- Determining the dividend policy and dividend recommendations.
- Overseeing succession planning at Board and senior management level.
- Approving the appointment and removal of the External Auditor on the recommendation of the Audit Committee.
- Approving significant changes to accounting policies or practices.
- Approving the use of the Company's shares for the Company's Share Plans.
- Review of performance and return on investment of acquisitions and integration planning.
- Review of global innovation pipeline and product portfolio with a focus on differentiation and delivery for our customers, patients and stakeholders.
- Continuing review and monitoring of impact of external factors such as inflation, supply constraints and localised lockdowns on ability to deliver on strategic objectives.

Stakeholders



» 80 Our stakeholders

» 112 Engaging with Stakeholders

- Overseeing and maintaining relationships with stakeholders including employees, customers, suppliers, investors, regulators and governments. Further details of Board interactions with stakeholders can be found on pages 111–115.
- Review of gender pay gap data and reporting.
- Reviewing investor perspectives with external analysts in September and December 2022.
- Reviewing Gallup results.
- Reviewing Management Talent Pipeline and Succession Planning.
- Engaging with shareholders throughout the year on key issues such as strategy and operational performance, governance and succession planning with a focus on chair succession and ESG and related governance matters.
- Reviewing the fees of the Non-Executive Directors.

Risk



» 69 Risk report

» 105 Risk management programme

- Overseeing the Group's risk management programme and related processes. See pages 69–77 for further details.
- Evaluation of risk with regard to initiatives within the 12-point plan.
- Review of the risk register and annual review of the Board appetite for risk.
- Review and approval of Principal Risks of the Group.
- Ongoing consideration of key risks within all Board discussions including impact of inflation, ESG considerations and reporting requirements, investment in IT and workforce engagement.
- Discussion at Board and Committee meetings on key topics including the potential impact of cybersecurity attacks and breaches in the current geopolitical context, regulatory changes, supply chain disruption, global talent outlook and post pandemic constraints and trends.

Investor Presentation
 October-December 2022



SmithNephew

Our Investor presentations are available to download on our website

 www.smith-nephew.com

Board effectiveness review

The Board effectiveness review in 2022 was conducted internally by the Senior Independent Director Marc Owen supported by the Company Secretary. Mr Owen reviewed the results of the internal Board Evaluation conducted by Robin Freestone in 2020 and the external review conducted by Dr Tracy Long in 2021. Mr Owen spoke with Non-Executive Directors, the Chair and CEO in one-to-one discussions in November 2022 prior to summarising his findings which he presented to the Board for discussion in December 2022.

Mr Owen noted that 2022 has seen a period of significant change for the Company. Against a backdrop of external and internal operational challenges and share price performance, the Company has been through a CEO transition, SID transition and will undertake an upcoming Chair transition. He noted that this creates a Board environment where there is a shared urgency to see measurable improvements in performance whilst recognising that leadership needs time to effect lasting positive change.

The evaluation demonstrated the view that overall the Board operates effectively and that post pandemic the opportunity to meet in person and spend time informally with other Board members has been widely welcomed. It was felt that the Company, under new leadership, has a renewed energy and all Board members are anxious to support the actions being taken to improve performance. Feedback on Board mechanics was positive, with the number and duration of meetings being highly rated, the induction process positively regarded, and Board succession planning working well.

During the 2021 review, enhanced collaboration between Executive and Non-Executive Directors was highlighted as being an area for further development. As part of the 2022 Evaluation discussion, the Board continued to challenge themselves in terms of discussing the best way to constructively support and build trust with management and how best to focus on longer-term strategies to create shareholder value for the Company.

As a result of the internal evaluation, the Board has agreed the following actions for the next 12 months:

Actions identified	Actions Proposed/Taken
Management talent development – assess long-term approach to internal talent development and the Board's role in supporting this process.	In 2022, the Board undertook an external evaluation and review of the CEO profile and internal talent succession in order to understand the strategic and operational needs and requirements of the Company and the desire to build an internal talent pipeline.
External perspectives to inform Board discussions, with more information on industry trends and competitors.	As part of the 2023 Yearly Planner, sessions and speakers with external perspectives are planned covering the medical devices regulatory environment, ESG and customer views on the Company.
Focus on longer-term strategic value and management support.	Emphasis at each Board meeting on constructive support and building trust and focusing on longer-term strategy.

The areas for attention identified in the 2021 review externally facilitated by Dr Tracy Long, have been addressed as follows:

Actions identified	Action taken
Focus on enhancing communication between the Board and management team between meetings, to develop a shared purpose.	Informal Monthly Board Meetings were established as regular touchpoints for the Board to communicate and hear from the Chief Executive Officer and the Chief Financial Officer directly.
Commence the search for a new Chair to replace Roberto Quarta, who will complete nine years' service at the end of 2022.	The Senior Independent Director led an extensive search, Rupert Soames OBE to be appointed as Non-Executive Director and Chair Designate with effect from 26 April 2023, subject to shareholder approval.
Ensure that Executive succession planning is discussed more frequently by the Board.	The Board skills and composition matrix was discussed at Nomination & Governance Committee in July 2022 and circulated to the full Board for review. The matrix outlines tenure, skills and succession planning relating to a number of core metrics, which include the key areas on which the Board is required to report.

The reviews in 2023 and 2025 will be facilitated internally and led by the Senior Independent Director, supported by the Company Secretary. The 2024 review will be facilitated externally.

Board development

Timeline 2022

May

- Site visit to Hull for Jo Hallas and Rick Medlock to meet with AWM Marketing Franchise leads, new Operations leadership, the Melton site project team and groups of key employees.

September

- Board listening session with teams at manufacturing sites in Memphis, US.
- Site visit to manufacturing facilities in Memphis and the Power of One tour which provided an exhibition of Robotics and Real Intelligence strategy, innovation pipeline and differentiated sales and marketing strategies.

December

- Interactive session with external expert on macro factors likely to impact global markets and within the healthcare industry in 2023 and beyond.
- Strategy review session with all key franchise leads and senior management to deep dive into key metrics for the 12-point plan and longer term plans for each global and regional franchise.



Board development programme

Our Board development programme is directed to the specific needs and interests of our Directors. We focus the development sessions on facilitating a greater awareness and understanding of our business and stakeholders rather than formal training in what it is to be a Director. In 2022, we were able to resume in person visits and sessions within our Smith+Nephew facilities. Jo Hallas and Rick Medlock visited the Hull site in May which focused on our AWM business. Board members heard from the AWM global marketing team, the new Operations management team at the site and heard more about the Melton site project and other key initiatives. Board members were also able to tour the manufacturing facility and engage in discussions with the R&D team and other key employees during the visit. In September, prior to the full Board meeting, various Smith+Nephew sites in Memphis hosted the Board including the Brooks Road manufacturing facility and Appling Road. The Board also attended the Power of One exhibition where Board members were shown current products and our innovation pipeline, enhancing understanding of the differentiated offering through procedural selling within Orthopaedics and Sports Medicine.

We have also continued to provide our Directors with both virtual and physical opportunities to understand the business better as follows:

- At our Board meeting in September, our Chief R&D Officer, Vasant Padmanabhan and his R&D team presented on the global product innovation strategy across each of our franchises and our differentiated product pipeline demonstrating the future of innovation.
- Members of our Compliance & Culture Committee have held a number of Board/employee listening sessions both physically and virtually, where they have talked with employees and heard from them their views on what it means to work for Smith+Nephew. These sessions are discussed in more detail on [pages 110 and 112](#).

The Chair regularly reviews the development needs of individual Directors and the Board as a whole.

Induction for new Directors

During 2022, we implemented induction programmes for our CEO Deepak Nath who joined on 1 April 2022 and for Jo Hallas who had recently joined as a Non-Executive Director.

These programmes were tailored to their individual skills and experiences, and their roles on the Board. These induction programmes included:

- One-to-one meetings with senior executives to understand the roles played by our senior employees and specifically how we do things at Smith+Nephew.
- Meetings with our external advisers including brokers, external counsel, remuneration consultants and auditors, to explain the legal and regulatory background to their role on our Board and how these matters are approached at Smith+Nephew.
- Strategic presentations and site visits which were tailored to Executive and Non-Executive needs respectively in order to provide a strong foundation to learn about the organisation, its history, current and future opportunities and challenges and to give Board members an opportunity to ask questions and interact with our wider workforce.

Nomination & Governance Committee report

Roberto Quarta
Chair of the Nomination & Governance Committee



Membership

	Member from	Meetings attended
Roberto Quarta (Chair) ¹	April 2014	5/6
Erik Engstrom	April 2019	6/6
Robin Freestone ²	April 2019	5/5
Marc Owen	March 2020	6/6
Angie Risley ³	September 2022	2/2

Our focus for 2023 will include:

- Search for Non-Executive Director to replace Erik Engstrom following completion of his 9 year tenure, in addition to the proposed replacement for Robin Freestone.
- Continuous review of Board composition to ensure alignment with the Company's strategic objectives and culture pillars.
- Continued oversight of succession planning below Board level.

www.smith-nephew.com/investor-centre/about-us/governance/corporate-documents-and-policies/terms-of-reference/

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

Responsibilities of the Nomination & Governance Committee

Board composition

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

Corporate governance

- Overseeing governance aspects of the Board and its Committees.
- Overseeing the review into the effectiveness of the Board.
- Considering and updating the Schedule of Matters Reserved to the Board and the Terms of Reference of the Board Committees.
- Monitoring external corporate governance activities and keeping the Board updated.
- Overseeing the Board Development Programme and the induction process for new Directors.

In 2022, the Committee held six meetings together with a number of informal updates for Committee and Board members, which reflects the increased focus on Board succession planning including the Chair succession and search process. In addition to members of the Committee, the Company Secretary and Chief Executive Officer also attended these meetings as appropriate.

The following matters and actions were undertaken by the Committee in 2022:

- Recommended the appointment to the Board of the Chief Executive Officer, Deepak Nath, effective 1 April 2022. The Board has been impressed and encouraged with the speed at which Deepak has engaged with and developed a deeper understanding of the business and the urgency with which the 12-point plan has been developed, implemented and communicated both internally and externally aligned with our Strategy for Growth.
- Engaged with shareholders in relation to the chair search process.
- Continued to review the composition of the Board and its committees to ensure alignment with the Company's strategic objectives and culture pillars and with the developing external regulatory environment.

¹ Due to unforeseen travel disruption, Roberto Quarta was prevented from attending the July 2022 Committee meeting.

² Robin Freestone stepped down as a member of the Committee on 30 September 2022.

³ Angie Risley joined the Committee with effect from 1 September 2022.

- Reviewed and approved the updated Board Skills Composition Matrix (please see table on [page 100](#)) which sets out the tenure, skills, competencies and diversity of the Board to enable effective succession planning for Non-Executive and Executive Directors.
- Following Robin Freestone’s decision to step down as Senior Independent Director and member of the Nomination & Governance and Audit Committees, it was recommended that Marc Owen be appointed as Senior Independent Director in light of his skills, competencies and knowledge of the Company, the industry in which it operates and his commitment to best practice in terms of corporate governance.
- Strengthened the Nomination & Governance Committee with the appointment of Angie Risley and the Audit Committee with the appointment of Jo Hallas in September 2022 to add diversity of perspective.
- Circulated and discussed a refreshed CEO profile with a view to succession planning in respect of both internal and external candidates, taking into account the challenges and opportunities facing the Company, the skills and expertise likely to be required by the Board in the future and the benefits of diversity in its widest sense.
- Monitored the changes to the organisational structure and approved changes to key leadership roles. Individual Directors have acted as a sounding board for the executive team when considering succession plans in key areas.
- Discussed succession plans with management for executives below Board level. These plans included consideration of diversity in the executive pipeline. [Page 89](#) gives details of the members of the Executive Committee, 40% of whom are female, one of whom is of African heritage and one of Asian ethnicity. The Committee will continue to monitor diversity in the executive pipeline.
- Conducted a mid year review of conflicts of interest in order to review and ensure the continued independence of the Non-Executive Directors.

- Reviewed the governance of the Board and its Committees, approving the Terms of Reference of the Board Committees and the Matters Reserved to the Board.
- Led by the Senior Independent Director, ensured oversight of the internal Board Evaluation process and recommended follow-up actions to the Board following the Evaluation review in December 2022.

Chair and Non-Executive Director search

Following Robin Freestone’s departure, Marc Owen drove the continued search for our new Chair. Russell Reynolds¹ was appointed as search agent to progress the Chair search at pace, ensuring that we were presented with a diverse set of candidates for consideration. The Committee recommended and the Board aligned on three core characteristics required for the new Chair: (i) a proven track record of demonstrating creation and delivery of shareholder value; (ii) a strong background in governance, ideally within a UK FTSE environment; and (iii) the ability to support and develop the Chief Executive Officer, either through previous CEO experience or through development of a CEO as part of a Board role.

The Committee also considered the criteria of healthcare industry experience and corporate finance experience but the search was focused on finding a Chair who demonstrates performance ethic and track record, UK governance experience and CEO development. In advance of finalising the shortlist of candidates for the new Chair, Marc Owen engaged with shareholders on the proposed criteria which resonated well with the consultation group based on feedback received.

After an extensive search, it was announced on 17 February 2023 that subject to shareholder approval, Rupert Soames will be appointed to the Board as a Non-Executive Director and Chair-designate at our AGM and will join the Nomination & Governance and Remuneration Committees upon appointment. In order to ensure a smooth transition to Rupert, Roberto Quarta has agreed to remain as Chair until 15 September 2023 and will put himself forward for re-election at the AGM on this basis.

Diversity

The Committee believes that a balanced, diverse Board is stronger and better equipped to consider the risks, opportunities and challenges facing the Company, understanding the views of all stakeholders, including our shareholders, in order to reach decisions which take into account a wider range of perspectives. The aim is for the Board to have a wide range of backgrounds, skills and experiences and value a diversity of outlook, approach and style in Board members. The Committee believes the Board’s composition gives us the necessary balance of diversity, skills, experience, independence and knowledge to ensure continued efficiency in running the business and delivery of sustainable growth.

In order to ensure that the Board remains diverse and that members have the skillsets to support and deliver shareholder value as the business evolved, the Committee analyses the skills and experiences required on an ongoing basis against the skills and experiences of the Board using the matrix on [page 100](#). The Committee review this matrix regularly to ensure that it is refreshed to meet the changing needs and strategic and operational imperatives of the Company.

Diversity is not simply a matter of gender, ethnicity, social or other measurable characteristics. Diversity of outlook and approach is harder to measure than gender or ethnicity but is equally important. A Board needs a range of skills from technical competence on governance and regulatory matters to understanding the business in which we operate and the needs of our stakeholders. It needs some members with a long corporate memory and others who bring new insights from other fields. To perform effectively, the Board needs to be both supportive and challenging. When selecting new directors for the Board, the Committee looks for members with suitable professional backgrounds, who provide new perspectives. The Committee will continue to appoint Directors on merit, valuing the unique contribution that they will bring to the Board, regardless of gender, ethnicity or any other diversity measure. The diversity statement is located on our website: www.smith-nephew.com/en/about-us/corporate-governance/diversity-statements.

1 Russell Reynolds was also selected by the Company in 2022 to act as agent for two other senior management search processes.

Composition, succession and evaluation continued

Nomination & Governance Committee report continued

Board and Leadership Succession Planning

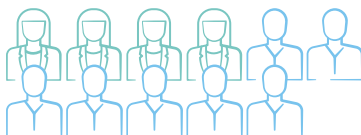
In order to support the Company to meet its strategic objectives, the Committee has aimed to strengthen the capabilities of the Board in terms of skills, composition and diversity and have appointed Board members with industry specific knowledge and broad geographical experience. The Committee has also sought to enhance the induction programmes for new Board members who had joined during the pandemic through site visits, listening sessions and focused Board sessions relating to strategic and macroeconomic matters.

Succession planning is a key focus for the Board from both a leadership and governance perspective. The Board composition and skills matrix feeds into a formal rolling succession plan for Directors. The Committee starts board recruitment well ahead of retirements, understanding the competitiveness of the market. Priorities for recruiting and succession planning include the ability to respond to evolving strategic imperatives for the company, adding and enhancing Board skills including in the areas of healthcare sector perspectives, operational experience and ESG and enhancing diversity in the boardroom.

The Committee has also worked with an independent third party to review the profile of the Chief Executive Officer role and has developed a profile focused on the skills required to lead the business moving into the future. The Committee also focused on development for leaders to ensure that the potential internal pipeline of candidates is strengthened.

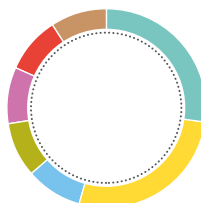
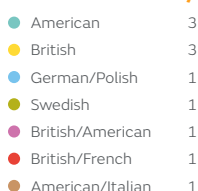
Russell Reynolds, a third party search agent, has been appointed to find a candidate with the requisite financial skills and experience to provide support to the Board and particularly to Rick Medlock on the Audit Committee following Robin Freestone's departure. The Board will provide an update on this search process once a recommendation has been considered and approved.

Board gender diversity

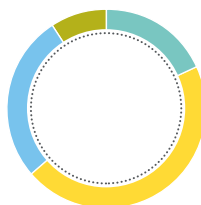


63.7% male
36.3% female

Board nationality



Board tenure



Skills and experience matrix

	CEO	Financial	International	Healthcare/ Medical Devices	Emerging Markets	UK Governance	Remuneration
Roberto Quarta	•		•		•	•	•
Deepak Nath			•	•	•		
Anne-Françoise Nesmes		•	•	•	•	•	
Erik Engstrom	•		•			•	•
Jo Hallas	•		•		•	•	•
John Ma	•		•	•	•		
Katarzyna Mazur-Hofsaess			•	•	•		
Rick Medlock		•	•			•	•
Marc Owen	•		•	•			
Angie Risley						•	•
Bob White			•	•	•		•

During 2022, the Board has benefitted from the diversity of experience, background and global and regional expertise of its members. As a new Chair takes the reins, the Board will continue to evaluate the requirements of a Company which is dual listed on the London and New York Stock Exchanges with its focus on key priority markets.



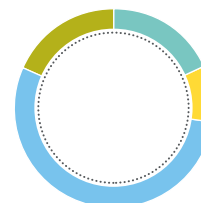
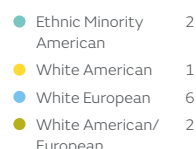
FTSE 350 companies to have at least one woman in the Chair or Senior Independent director role on the Board, and/or one woman in the Chief Executive or Finance Director role in the company by the end of 2025.



Year achieved
2020

Anne-Françoise Nesmes was appointed Chief Financial Officer in July 2020.

Board ethnicity



The balance on the Board of strong industry knowledge and experience with a solid appreciation of the UK environment will enable the Board to continue to support and challenge effectively in the years to come.

Audit Committee report

Rick Medlock
 Chair of the Audit Committee



Membership*

	Member from	Meetings attended
Rick Medlock (Chair) ¹	April 2020	8/8
Erik Engstrom	January 2015	8/8
Robin Freestone ²	September 2015	6/6
Marc Owen	October 2017	8/8
Jo Hallas ³	September 2022	3/3

Our focus for 2023 will include:

- Monitoring ESG and TCFD reporting.
- Continued oversight of risk management process.
- Monitoring of Cybersecurity controls.
- Supporting the transition of the external auditors.
- Ensuring that we review and consider all UK governance changes following the establishment of Audit Reporting and Governance Authority (ARGA).

 www.smith-nephew.com

The Terms of Reference of the Audit Committee describe the role and responsibilities more fully and can be found on our website.

Responsibilities of the Audit Committee

The Committee's key roles are to:

- Ensure the integrity of the Company's financial reporting to shareholders and any announcements relating to the Group's financial performance.
- Ensure financial statements comply with UK and US statutory requirements.
- Review the content of the Annual Report and Accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.
- Monitor the effectiveness of internal controls and compliance with the 2018 UK Corporate Governance Code and the SOX Act.
- Ensure the effectiveness of the internal audit function, agree audit plans and consider outcomes of internal audits.
- Review the operation of the Group's risk management framework.
- On behalf of the Board, carry out a robust assessment of the principal and emerging risks facing the Group.
- Ensure the effectiveness of the external audit function, agree the scope of the audits (including materiality thresholds and areas of risk for focus) and the auditor's fees and terms of engagement.
- Consider any reported frauds and any concerns raised by the Company's whistleblowing process.
- Oversee other matters, including cybersecurity, IT governance, ESG, tax and treasury.

The Committee met eight times during the year, with meetings timed to coincide with the financial and reporting cycles of the Company. In addition the Committee met with both the Company's external auditor and Group Head of Internal Audit without management present.

During 2022, outside of the routine matters undertaken by the Committee (as set out in its Terms of Reference), the Committee has focused on the following matters:

- Monitored progress on and enhancement of our ESG reporting plan including TCFD.
- Continued oversight of the governance and maturity plan for our IT framework and controls.
- Implemented the recommendations from the external review of the Internal Audit function that was carried out in 2021.
- Carried out a deep dive on information security and cyber resilience.

The Committee also accelerated the audit tender process, which resulted in Deloitte being recommended to the Board as the Company's new auditors, effective from 1 January 2024. Information on the tender process can be found on [page 104](#) of my report.

The Committee has satisfied itself that the Smith & Nephew plc 2022 annual report and accounts is fair, balanced and understandable. The Committee therefore supports the Board in making its formal statement on [page 147](#).

1 Designated financial expert under the SEC Regulations or recent and relevant financial experience under the UK Corporate Governance Code.

2 Robin Freestone stepped down as member of the Committee on 30 September 2022.

3 Jo Hallas joined the Audit Committee on 1 September 2022.

* All members of the Committee are deemed to be independent Directors.

Significant matters related to the financial statements

We considered the following key areas of judgement in relation to the 2022 financial statements and at each half year and quarterly trading report, which we discussed in all cases with management and the External Auditor:

Valuation of inventories

A feature of the Orthopaedics franchise (which accounts for approximately 60% of the Group's total inventory and approximately 80% of the total provision for excess and obsolete inventory) is the high level of product inventory required, some of which is located at customer premises and is available for customers' immediate use. Complete sets of products, including large and small sizes, have to be made available in this way. These sizes are used less frequently than standard sizes and towards the end of the product life cycle are inevitably in excess of requirements. Adjustments to carrying value are therefore required to be made to orthopaedic inventory to anticipate this situation. 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 typically 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 involve management estimation of customer demand, effectiveness of inventory deployment, length of product lives and phase-out of old products.

Our action

At each quarter end, we received reports from, and discussed with, management the level of provisioning and material areas at risk. The provisioning level was 21% at 31 December 2022 (2021: 21%). We challenged the basis of the provisions and concluded that the proposed levels were appropriate and have been consistently estimated.

Challenge by KPMG

During 2022 KPMG challenged management's approach to inventory provisioning considering recovery of demand in 2022.

Liability provisioning

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

Our action

As members of the Board, we receive regular updates from the Group General Counsel & Company Secretary. These updates form the basis for the level of provisioning. The Group carries a provision relating to potential liabilities arising on its portfolio of metal-on-metal hip products of \$239 million as of 31 December 2022. We received detailed reports from management on this position, including the actuarial model used to estimate the provision, and challenged the key assumptions including the number of claimants and projected value of each claim. The provisions for legal matters have decreased by \$56 million during the year, primarily due to utilisation of the metal-on-metal provision. We have determined that the proposed levels of provisioning at year end of \$264 million included within 'provisions' in Note 17.1 in 2022 (2021: \$320 million) were appropriate in the circumstances.

Challenge by KPMG

KPMG challenged management's assumptions in determining the provisions for metal-on-metal hip claims including the work of management appointed actuaries.

Impairment

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

Our action

We reviewed management's reports on the key assumptions with respect to goodwill and acquisition intangible assets – particularly the forecast future cash flows and discount rates used to make these calculations. We had a particular focus on goodwill impairment testing for the Orthopaedics CGU as the level of headroom has decreased and is sensitive to a reasonably possible change in assumptions. We challenged the downside sensitivity analyses undertaken. We concluded that the carrying value of these assets is appropriately supported by the cash flow projections. We have also considered the disclosure surrounding these reviews, and concluded that the review and disclosure were appropriate.

Challenge by KPMG

KPMG challenged management on the impairment conclusions and the basis of the assessment.

Other matters related to the financial statements

As well as the identified significant matters, other matters that the Audit Committee considered during 2022 were:

Going concern

The impact of a global economic recession has been considered as part of the adoption of the going concern basis in these financial statements. We reviewed three-year projections as part of the Group's Strategic Plan, and also more detailed cash flow scenarios to 30 March 2024 for going concern purposes and concurred with management that the continued adoption of the going concern basis is appropriate.

Taxation

The Group operates in numerous tax jurisdictions around the world and is subject to factors that may affect future tax charges. We annually review policies and approve the principles for management of tax risks. We review quarterly reports from management evaluating the existing tax profile, tax risks and tax provisions. Based on a thorough report from management of tax liabilities and our challenge of the basis of any tax provisions recorded, we concluded that the levels of provisions and disclosures were appropriate.

We noted The Financial Reporting Council (FRC) included the Group's financial statements for the year ended 31 December 2021 in their selection for the thematic review of companies' disclosures relating to deferred tax assets. The FRC completed a limited scope review of the Group's 2021 Annual Report and, based on their review, the FRC has not raised any questions to date with the Group.

Post-retirement benefits

The Group has post-retirement defined benefit pension schemes, which require estimation in setting the assumptions. We received a report from management setting out their proposed assumptions for the UK and US schemes and concurred with management that these assumptions were appropriate.

Climate change

The impact of climate change has been considered as part of our review of the impairment testing of goodwill and acquired intangible assets, and the going concern assessment. We have also considered the disclosures on climate change and considered them appropriate.

Since the year end

Since the year end, we have also reviewed the results for the full year 2022, Annual Report and Accounts for 2022, and have concluded that they are fair, balanced and understandable. In coming to this conclusion, we have considered the description of the Group's strategy and key risks, the key elements of the business model, which is set out on [pages 14–15](#), risks and the key performance indicators and their link to the strategy.

External auditor

Independence of external auditor

Following a competitive tender in 2014, KPMG was appointed external auditor of the Company in 2015. We are satisfied that KPMG is fully independent from the Company's management and free from conflicts of interest. Our Auditor Independence Policy, which ensures that this independence is maintained, is available on the Company's website.

We believe that the implementation of this policy helps ensure that auditor objectivity and independence is safeguarded. The policy also governs our approach when we require our external auditor to carry out non-audit services, and all such services are strictly governed by this policy.

The Auditor Independence Policy also governs the policy regarding audit partner rotation with the expectation that the audit partner will rotate at least every five years. Paul Nichols was appointed as our senior lead audit partner on 1 January 2022.

The Audit Committee confirms it has complied with the provision of the Competition and Markets Authority (CMA) Order 2014.

Effectiveness of external auditor

We conducted a review into the effectiveness of the external audit as part of the 2022 year-end process, in line with previous years. We sought the views of key members of the finance management team, considered the feedback from this process and shared it with management.

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

The Audit Committee regularly receives feedback from KPMG, including at each meeting where management present their summary of critical accounting estimates as at each quarter end.

Overall therefore, we concluded that KPMG had carried out their audit for 2022 effectively.

The Audit Committee continues to review the effectiveness of the external auditor, KPMG.

Appointment of external auditor at Annual General Meeting

Resolutions will be put to the Annual General Meeting to be held on 26 April 2023 proposing the re-appointment of KPMG as the Company's auditor and authorising the Board to determine its remuneration, on the recommendation of the Audit Committee in accordance with the CMA Order 2014.

Audit, Risk and Control continued

Audit Committee report continued

Audit Tender

KPMG has been our auditors since 2015 and during the year we recommended to the Board that the audit tender process be accelerated with a view to appointing new auditors from 1 January 2024. As well as KPMG, two other firms were invited to submit tenders. The audit tender process was led by me as Chair of the Audit Committee and a robust process was carried out.

We had a common set of criteria for evaluating the proposals including:

- Audit approach and quality.
- The lead partner and their audit team.
- Sector experience.
- Approach to resolving issues or matters of judgement.
- Transition plans.
- Use of technology.

The proposals presented by the firms were subject to detailed evaluation and discussion which enabled us to recommend to the Board the appointment of Deloitte as the preferred new auditor. The Board endorsed this recommendation. Deloitte will begin transitioning in 2023 and become auditors from 1 January 2024, subject to shareholders' approval at the Annual General Meeting in 2024.

Disclosure of information to the auditor

In accordance with Section 418 of the Companies Act 2006, the Directors serving at the time of approving the Directors' Report confirm that, to the best of their knowledge and belief, there is no relevant audit information of which the auditor, KPMG, 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.

Non-audit fees paid to the auditor

Non-audit fees are subject to approval in-line with the Auditor Independence Policy which is reviewed annually and forms part of the Terms of Reference of the Audit Committee.

The Audit Committee recognises the importance of the independence of the external auditor and ensures that the auditor's independence should not be breached. The Audit Committee ensures that the auditor does not receive a fee from the Company or its subsidiaries that would be deemed large enough to impact its independence or be deemed a contingent fee. The total fees for permitted non-audit services shall be no more than 70% of the average of the fees paid in the last three consecutive financial years for the statutory audits of the Company and its subsidiaries.

Any pre-approved aggregate, individual amounts up to \$25,000 may be authorised by the Group Treasurer and SVP Group Finance respectively and amounts up to \$50,000 by the Chief Financial Officer. Any individual amount over \$50,000 must be pre-approved by the Chair of the Audit Committee. If unforeseen additional permitted services are required, or any which exceed the amounts approved, again pre-approval by the Chair of the Audit Committee is required.

The following reflects the non-audit fees incurred with KPMG in 2022, which were approved by the Chair of the Audit Committee.

	2022 \$ million	2021 \$ million
Audit-related services	0.4	0.1

Audit related fees in 2022 primarily consist of routine services provided in respect of the EUR bond issue and was deemed by the Committee not to infringe auditor objectivity or independence. The ratio of non-audit fees to audit fees for the year ended 31 December 2022 is 0.04. The ratio of non-audit fees to audit fees for the year ended 31 December 2021 was 0.01.

Full details are shown in Note 3.2 to the Notes to the Group accounts.

Audit fees paid to the auditor

Fees for professional services provided by KPMG, the Group's independent auditor in each of the last two fiscal years, in each of the following categories were:

	2022 \$ million	2021 \$ million
Audit fees	9.4	7.5
Audit-related fees	0.4	0.1
Total	9.8	7.6

Internal audit

The internal audit team, which reports functionally to the Audit Committee, carries out risk-based reviews across the Group. These reviews examine the management of risks and controls over financial, operational, commercial, IT and transformation programme activities.

The audit team, led by the Group Head of Internal Audit, consists of appropriately qualified and experienced employees. Third parties may be engaged to support audit work as appropriate.

The Group Head of Internal Audit has direct access to, and has regular meetings with, the Audit Committee Chair and prepares formal reports for Audit Committee meetings on the activities and key findings of the function, together with the status of management's implementation of recommendations. The Audit Committee has unrestricted access to all internal audit reports, should it wish to review them.

During the year, the team completed 35 risk-based audits and reviews across the Group. These included: financial controls effectiveness reviews across the EMEA, APAC, US and LATAM regions; IT and various programme assurance reviews ranging from end user computer security to IT controls effectiveness; and an ERP pre-implementation review in Malaysia. Group-level reviews included enterprise risk management effectiveness, data privacy controls, ESG governance, capital expenditure controls, shared services operations and fraud risk management effectiveness. Key issues noted during reviews included the need for all documentation relating to controls operation to be stored in the central repository. Management has taken swift action to implement Internal Audit's recommendations. The team was able to travel to a number of locations, following the relaxing of Covid-related restrictions and there was continued use of data extraction and analysis techniques during all work.

The function carries out its work in accordance with the standards and guidelines of the Institute of Internal Auditors. Its performance is annually assessed using a structured questionnaire, allowing non-executive, executive and senior management, plus the external auditor, to comment on key aspects of the function's performance. In addition, Grant Thornton carried out an evaluation of the function and concluded that it was operating effectively. The Audit Committee, which re-approved the function's charter in December 2022, has satisfied itself that adequate, objective internal audit standards and procedures exist within the Group and that the Internal Audit function is effective.

Risk management programme

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

During the year, we reviewed our Risk Management processes and progress was discussed at our meetings in February, April, July, and December. We approved the Risk Management programme for 2022 and monitored performance against that programme, specifically reviewing the work undertaken by the risk champions across the Group, identifying the risks which could impact their areas of our business.

The Risk Management programme followed the risk management policy and manual communicated company-wide in 2022. This programme combines a 'bottom-up' approach (whereby risks are identified within business areas by local risk champions working with their leadership teams), with a 'top-down' approach (when the Executive Committee meets as the Risk Committee to consider the risks facing the Group at an enterprise level).

Throughout the year, the Audit Committee maintained oversight of this programme. We reviewed the Principal Risks identified and the heat maps prepared by management showing how these risks were being managed. We considered where the risk profile was changing.

Since the year end, we have reviewed a report from the Group Head of Internal Audit into the effectiveness of the Risk Management programme throughout the year. We considered the Principal Risks, the actions taken by management to review those risks and the Board risk appetite in respect of each risk. We concluded that the Risk Management process during 2022 and up to the date of approval of this Annual Report was effective. Work will continue in 2023 and beyond to continue to enhance the process.

» 69 Risk Report

Viability Statement

We also reviewed management's work in conducting a robust assessment of those risks which would threaten our business model and the future performance or liquidity of the Company, including its resilience to the threats of viability posed by those risks in severe but plausible scenarios. Management have considered various scenarios in assessing the impact of a global economic recession, with the key judgement applied being the speed and sustainability of the return to a normal volume of elective procedures in key markets. This assessment included stress and sensitivity analyses of these risks to enable us to evaluate the impact of a severe but plausible combination of risks. We then considered whether additional financing would be required in such eventualities. Based on this analysis, we recommended to the Board that it could approve and make the Viability Statement on [pages 78–79](#).

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the financial review on [pages 18–21](#) and the Principal Risks on [pages 71–77](#).

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on [pages 18–21](#). In addition, the Notes to the Group accounts include: the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Group has considerable financial resources and its customers and suppliers are diversified across different geographic areas. As a consequence, the Directors believe that the Group is well placed to manage its business risk successfully despite the ongoing uncertain economic outlook.

The continued uncertainty as to the future impact on the financial performance and cash flows of the Group as a result of a global economic recession has been considered as part of the adoption of the going concern basis in these financial statements. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis for accounting in preparing the annual financial statements. Management also believes that the Group has sufficient working capital for its present requirements.

Evaluation of internal controls

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

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

- The management of each country and Group function is responsible for the establishment, maintenance and review of effective financial controls within their business unit or function.
- The Group's IT organisation is responsible for the establishment of effective IT controls within the core financial systems and underlying IT infrastructure.
- The Financial Controls & Compliance Group has responsibility for the review of the effectiveness of controls operating in the countries, functions and IT organisation, by either: performing testing directly, reviewing testing performed in-country, or utilising a qualified third party to perform this management testing on its behalf.
- The Group Finance Manual sets out financial and accounting policies, and is updated regularly. The Group's Minimum Acceptable Practices (MAPs) were updated in 2022 emphasising the timing of control operation and splitting controls between Key and Non-Key controls within the Risk and Control Matrix. The business is required to self-assess their level of compliance with the MAPs on a monthly basis and remediate any gaps.
- MAPs compliance is validated through spot-checks conducted by the Financial Controls & Compliance Group and Internal Audit, as well as during wider Internal Audit reviews performed throughout the year. The technology solution to facilitate the real time monitoring of the operation and testing of controls is now fully operational and has driven improvements in the control environment.

- There are clearly defined lines of accountability and delegations of authority.
- The Internal Audit function executes a risk-based annual work plan, as approved by the Audit Committee. The Audit Committee reviews reports from Internal Audit on their findings on internal financial controls, including compliance with MAPs and from the SVP Group Finance and the heads of the Financial Controls & Compliance, Taxation and Treasury functions.
- The Audit Committee reviews regular reports from the Financial Controls & Compliance Group with regard to compliance with the SOX (Sarbanes Oxley) Act including the scope and results of management's testing and progress regarding any remediation, as well as the aggregated results of MAPs self-assessments using dashboards which are updated on a daily basis.
- Business continuity planning, including preventative and contingency measures, back-up capabilities and the purchase of insurance.
- Risk management policies and procedures including segregation of duties, transaction authorisation, monitoring, financial and managerial review and comprehensive reporting and analysis against approved standards and budgets.
- A treasury operating framework and Group treasury team, accountable for treasury activities, which establishes policies and manages liquidity and financial risks, including foreign exchange, interest rate and counterparty exposures. Treasury policies, risk limits and monitoring procedures are reviewed regularly by the Audit Committee or the Finance & Banking Committee, on behalf of the Board.
- Our published Group tax strategy which details our approach to tax risk management and governance, tax compliance, tax planning, the level of tax risk we are prepared to accept and how we deal with tax authorities, which is reviewed by the Audit Committee on behalf of the Board.
- The Audit Committee reviews the Group whistle-blower procedures to ensure they are effective.

This system of internal control has been designed to manage rather than eliminate material risks to the achievement of our strategic and business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss. Because of inherent limitation, our internal controls over financial reporting may not prevent or detect all misstatements. In addition, our projections of any evaluation of effectiveness in future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Entities where the Company does not hold a controlling interest have their own processes of internal controls.

We have reviewed the effectiveness of the Company's internal controls over financial reporting. The Company's assessment included documenting, evaluating and testing the design and operating effectiveness of its internal controls over financial reporting. Based on this evaluation, we have satisfied ourselves that we are meeting the required standards and that our internal control over financial reporting is effective both for the year ended 31 December 2022 and up to the date of approval of this Annual Report. No concerns were raised with us in 2022 regarding possible improprieties in matters of financial reporting.

This process complies with the FRC's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' under the UK Corporate Governance Code and additionally contributes to our compliance with the obligations under the SOX Act and other internal assurance activities. There has been no change during the period covered by this Annual Report that has materially affected, or is reasonably likely to materially affect, the Group's internal control over financial reporting.

The Board is responsible overall for reviewing and approving the adequacy and effectiveness of the risk management framework and the system of internal controls over financial, operational (including quality management and ethical compliance) processes operated by the Group. The Board has delegated responsibility for this review to the Audit Committee. The Audit Committee, through its Internal Audit function, reviews the adequacy and effectiveness of internal control procedures and identifies any significant weaknesses and ensures these are remediated within agreed timelines. The latest review covered the financial year to 31 December 2022 and included the period up to the approval of this Annual Report. The main elements of this review are as follows:

- The Chief Executive Officer and the Chief Financial Officer evaluated the effectiveness of the design and operation of the Group’s disclosure controls and procedures as at 31 December 2022. Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded on 21 February 2023 that the disclosure controls and procedures were effective as at 31 December 2022.
- Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management assessed the effectiveness of the Group’s internal control over financial reporting as at 31 December 2022 in accordance with the requirements in the US under section 404 of the SOX Act. In making that assessment, they used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013). Based on their assessment, management concluded and reported that, as at 31 December 2022, the Group’s internal control over financial reporting was effective based on those criteria. Having received the report from management, the Audit Committee reports to the Board on the effectiveness

of controls. KPMG, an independent registered public accounting firm, audited the financial statements included in the 2022 Annual Report, containing the disclosure required by this item, issued an attestation report on the Group’s internal control over financial reporting as at 31 December 2022.

Code of Ethics for Senior Financial Officers

We have adopted a Code of Ethics for Senior Financial Officers, which applies to the Chief Executive Officer, the Chief Financial Officer, the SVP Group Finance and the Group’s senior financial officers. There have been no waivers to any of the Code’s provisions nor have there been any substantive amendments to the Code during 2022 or up until 21 February 2023. A copy of the Code of Ethics for Senior Financial Officers can be found on our website.

In addition, every individual in the finance function certifies to the Chief Financial Officer that they have complied with the Finance Code of Conduct.

Compliance & Culture Committee report

Marc Owen
Chair of the Compliance & Culture Committee



In 2022, the Committee held four meetings. Each meeting was attended by all members of the Committee. The Group General Counsel and Company Secretary, the Chief Compliance Officer, the Chief Quality & Regulatory Affairs Officer, Chief HR Officer and President of Global Operations (responsible for reporting on sustainability) also attended all or part of the meetings by invitation.

Membership

	Member from	Meetings attended
Marc Owen (Chair)	March 2018	4/4
John Ma	December 2021	4/4
Katarzyna Mazur-Hofsaess	April 2021	4/4
Angie Risley	April 2020	4/4
Bob White	July 2020	4/4

Our focus for 2023 will include:

- Continued oversight of the Company's sustainability programme, including targets and monitoring its roll-out to the Group.
- Assist with determining appropriate ESG metrics for the Performance Share Programme.
- Monitoring the progress of the Company's commitment to its net zero roadmap by 2045.
- Ensure stakeholder considerations continue to be embedded into all Board decisions.
- Continue to monitor regulatory developments which may impact the Strategy for Growth and 12-point plan.
- Further Board/employee listening sessions to enable the Board to further monitor and assess the corporate culture globally taking into account post pandemic considerations and impact of localised lockdowns.
- Monitor the actions taken by management following 2022's Board/employee listening sessions.
- Review further employee feedback gathered through the annual survey and other mechanisms to ensure the Board is aware of employees' views and any resulting actions required by management. Recent survey results are discussed on [pages 48–49](#).
- Developing the programme for the Committee and Board to meet and receive direct feedback from our other stakeholders with a focus on ESG considerations which are of interest to specific stakeholder groups.

Responsibilities of the Compliance & Culture Committee

Ethics and compliance

- Overseeing ethics and compliance programmes, strategies and plans.
- Monitoring ethics and compliance process improvements and enhancements.
- Assessing compliance performance based on monitoring, auditing and internal and external investigations data.
- Discussion of allegations of significant potential compliance issues.
- Receiving reports from the Group General Counsel and Company Secretary and Chief Compliance Officer.
- Reviewing data privacy elements of the Global compliance programme

and related regulatory developments which impact our business.

Sustainability

- Overseeing the sustainability strategy and reviewing targets and metrics, particularly with regard to the Scope 3 roadmap and new and enhanced reporting regulations on ESG matters.
- Receiving and assessing regular functional reports from the ESG Operating Committee and Global President Operations.

Culture

- Oversight of our relationship with stakeholders, including the employee voice and sustainability.

- Receiving and assessing regular reports and presentations from the Chief Human Resources Officer relating to key employee issues such as purpose and culture, talent, engagement and Inclusion, Diversity and Equity ("IDE").

Quality and regulatory Affairs (QARA)

- Overseeing the processes by which regulatory and quality risks relating to the Company and its operations are identified and managed.
- Receiving and assessing regular functional reports and presentations from the Chief Quality & Regulatory Affairs Officer.

Ethics and compliance

As stated in the Code of Conduct, the sustainability of our business depends on doing business the right way and ensuring the third parties that we work with share our perspective.

This year the Committee maintained oversight of our ethics and compliance programme activities within our business and continued to review external factors which could impact the business. The Chief Compliance Officer provided regular reports demonstrating the effectiveness of the Global Compliance programme as well as continuous improvement efforts to ensure our ethics and compliance programme activities are evolving in alignment with our strategy for growth and 12-point plan objectives.

The Committee is provided with updates on allegations of potentially significant issues which are raised through the Company's hotline or to our Compliance team and the Company's response to such matters, and also receive an annual review of investigations and enforcement trends in the industry.

The Committee also received an update on the progress of a continuous improvement plan for the Compliance Validation Assignment (CVA) programme and noted significant improvements including reduced report times, enhancements to the risk assessment process for third parties, and increased collaboration and best-practice sharing with other assurance providers. The Committee received a report from a self-assessment of the Compliance programme, which we understand will be conducted on an annual basis.

These reports demonstrated that the organisation has established, mature processes and controls over ethics reporting and investigations.

The Committee received regular updates on findings from compliance verification activities and the adaptation of processes to accommodate restrictions and altered risk profiles post pandemic.

During 2022, the Committee also received an update on our privacy programme, with a specific focus on evolution of the programme in light of changing regulatory environments in many of the markets in which we operate.

Sustainability

In 2022, sustainability and ESG matters more generally have continued to receive focus and scrutiny from the Board and its Committees with strong focus on the Company's sustainability strategy and agenda. The Committee reviewed the Company's sustainability programme to ensure alignment with stakeholder expectations and monitored management's actions taken against our targets.

Throughout the year, the Committee received updates from the Global President Operations on our performance against Scope 1 and 2 emissions and received an update on the proposed development of the Scope 3 roadmap demonstrating our progress towards our net zero commitment by 2045. We also received updates on our network optimisation projects and the ways in which ESG considerations have been considered within our facilities in Malaysia, Costa Rica and the proposed new Advanced Wound Management facility at Melton near Hull. In February 2022 we reviewed and approved the 2021 Sustainability Report and in April we reviewed and approved the Conflict Minerals declaration and Modern Slavery statements, in each case prior to Board approval.

The Company has engaged with ISS and other institutional investment teams to understand how the Company benchmarks against others in the industry and to seek further ways to demonstrate our performance to investors.

Customers are increasingly requiring Smith+Nephew to align with and demonstrate shared sustainability goals. The Committee reviewed the reporting requirements around climate change, reporting against the TCFD and SASB frameworks, and approved our revised carbon reduction target. Since the year end, the Committee has approved the 2022 Sustainability Report.

» 56 Sustainability

Quality and regulatory affairs

Product safety and effectiveness is at the foundation of our business. Regulatory authorities across the world enforce a complex series of laws and regulations that govern the design, development, approval, manufacture, labelling, marketing and sale of healthcare products. During 2022, the Committee received and reviewed summary reports of the Company's performance against internal and external KPIs and metrics, which display oversight regarding the quality and regulatory activities of our business.

At each meeting, the Committee received a briefing on key matters from the Chief Quality & Regulatory Affairs Officer. The Committee reviewed results of external regulatory inspections and audits conducted by the FDA and other regulatory agencies. The Committee also reviewed results of internal quality audits and key performance metrics associated with critical quality and regulatory compliance processes. The Committee received reports regarding preparation for emerging regulations applicable to our business and also received updates on the important efforts to ensure compliance with the EU Medical Device Regulation.

During the year, the Committee reviewed progress in areas of focus such as design for manufacturability at our Malaysia site and overall quality and manufacturing improvements at key sites across the business. The Committee also discussed our continued efforts on Quality System simplification leading to continued efficiency across our network.

Culture

During 2022, the Company's core purpose of Life Unlimited and the supporting culture pillars of Care, Courage and Collaboration continued to be embedded. Our strategic objectives and culture pillars provide alignment across our business and stronger understanding by employees of their role in supporting our collective success.

The Committee was provided with regular updates on culture from the Chief HR Officer throughout 2022. The specific actions for the year relating to culture included the plan for engaging and developing our future leaders, the plans in place to ensure leadership and employees are engaged and contribute to a high performing and purpose driven company; the continuation of Board/employee listening sessions; the launch of the People Leader Hub containing resources to support key management/employee practices, skills and behaviours; a continued focus on inclusion, diversity and equity through employee inclusion groups (EIGs) and internal and external initiatives; and monitoring success through the annual Gallup engagement survey.

The Committee received an update on how the Company had defined the specific expectations and behaviours needed to deliver on its strategy and support the Company's culture. Our Commitments were approved by the Board and define the specific ways in which the Company expects employees to demonstrate our culture. In 2022, the nine Commitments

and three behaviours defining each of our culture pillars were launched to all employees through a leader-led cascade. From the nine culture Commitments, the initial focus for 2023 is on three that are most critical to delivering our strategy and 12-point plan: Deliver for Customers (Care); Take Accountability (Courage) and Find Solutions (Collaboration).

During 2022, the Committee received an update on the ten EIGs covering gender, race and ethnicity, veterans, mental health and physical wellbeing, generations, the differently abled and LGBTQ+.

Katarzyna Mazur-Hofsaess met with leadership from two of the EIGs in December 2022 and was impressed by the passion, drive and grassroots support for the EIGs within the organisation.

The 2022 Gallup global employee survey results were shared with the Committee. These results, which allow Smith+Nephew to benchmark against similar companies in our industry, showed a strong employee response rate of 88%. The Committee was pleased to see that the survey highlighted overall strengths in employee connection to the purpose of Life Unlimited and an overall upward trend of our results compared with last year.

For specific issues where employees may not feel comfortable articulating their views, we have a whistle-blowing policy and confidential line, as discussed above.

Employees

The Board proactively support and further reinforce the Purpose of Life Unlimited and culture pillars of Care, Courage and Collaboration through informal board listening sessions. These sessions give the Board the opportunity to hear directly from employees and understand thoughts and perspectives on a number of topics in connection with our purpose and culture.

Marc Owen hosted Board listening sessions for over 80 of our employees in the Americas at our Memphis manufacturing sites in January 2022 where topics discussed included Talent, IDE strategy, linking strategy and Purpose within the Company, and sustainability initiatives and the Company's impact on society and local communities.

Employees provided further background on the Company's approach to attracting, retaining and developing talent and the implementation of IDE strategy. The employee team mission to add value and be part of the solution was a message which came through clearly from those sessions and employees outlined the various recognition programmes in place. New employee induction and training were highlighted as a key priority which will form part of the Committee's continued monitoring and follow up with management in 2023.

"In our session with EIG leaders in particular, I was struck by the strength of internal support for grassroots employee initiated IDE groups, programmes and events. My dialogue with EIG programme leaders has been a true inspiration – I was impressed by their commitment to Smith+Nephew and conviction that the EIGs make a positive impact on the culture of the Company."

Katarzyna Mazur-Hofsaess



Board Visits

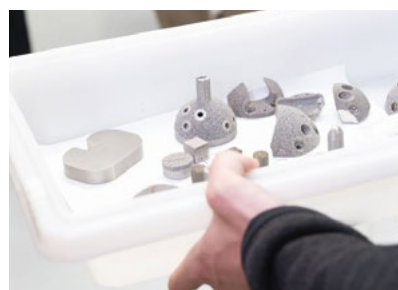
The site visit programmes to Memphis and Hull focused on strategic and operational capabilities and initiatives and sought to highlight areas of interest aligned with key priorities for the Board, including core business strategy, value creation opportunities, culture and workforce, operational transformation and ESG and stakeholder considerations in key projects.

In Memphis, Board members started the visit with a tour of the Brooks Road manufacturing site to review the strategic and operational developments and improvements in progress as part of the 12-point plan and operational transformation.

The morning began with an employee-led wellness session including exercises and movement to start the day. The Board then toured the manufacturing site, experiencing 3D printing capabilities and manufacturing facilities at the Brooks Road site. Board members visited the Power of One Robotics and Real Intelligence platform tour hosted by cross functional teams from Recon, Robotics and Trauma in our “Ox Truck” which tours the US. The Board also attended three “innovation rooms” which showcased the pipeline for future procedural innovation and product development which were hosted by Marketing, R&D and other functional leads. Bob White attended the Appling Road facility and reported back to the Board on the improvements in supply chain and operational efficiency supporting increased completion of sets and inventory turn.

“It was important for Board members to visit, and for some to return, to our Memphis hub in 2022 given the Strategy for Growth focus on fixing Orthopaedics and improving trading margin through productivity and supply chain resilience. It was also gratifying to engage with our Memphis workforce across manufacturing, marketing, R&D and functional teams to hear the passion, enthusiasm and pride in innovation and the business more generally.”

Roberto Quarta



Board members Rick Medlock and Jo Hallas visited the Hull site and attended a session on our AWM Global Strategy led by our Marketing, Supply Chain and Operations teams based in the UK. This was followed by a tour of the Hull site where Board members were able to see our manufacturing operations in action, including our ALLEVYN® production and assembly capabilities. The AWM R&D team presented on our product pipeline and innovation which was followed by a product demonstration of a range of AWM products.

Our Board members engaged with our Hull Site Leadership during lunch and had an informal employee engagement session with various groups of employees including those undertaking apprenticeships with S+N and top talent.

Board members also attended in depth sessions which provided a view of future opportunities for value creation, including a presentation on our new site in Melton and our AWM strategic response to supply chain resilience. Both of these sessions were framed to provide the Board with an overview of the impact of these projects on key stakeholders including employees, suppliers, customers, regulators, government, investors, local communities and the environment.

“The presentations from the teams were thoughtful and focused on Board priorities. Having joined the Board earlier this year, the Hull factory tour and the product demonstrations were essential for understanding more about the business. The opportunity to meet local leadership and employees at the site was invaluable in providing additional insight on the company’s culture and employee engagement.”

Jo Hallas

“Having joined the Board at the start of the pandemic, the Hull site visit was incredibly worthwhile to learn more about our UK AWM manufacturing capabilities and see our products in action. We were impressed by the knowledge, energy and enthusiasm of the teams for our business.”

Rick Medlock

Engaging with stakeholders

The Board understands the importance of ensuring that the views and interests of all stakeholders are considered in the delivery and oversight of the Company's strategy and culture.

Although members of the Board engage directly with stakeholders as part of site visits or employee engagement meetings,

engagement with stakeholders mostly takes place at an operational level and the Board forms its views through reports and information presented to it by management. Management are asked to outline and present the potential impacts on stakeholders to the Board where appropriate.

Employees

» 48 People

» 108 Compliance & Culture Committee

Our employees are crucial to the success of the business and many of the key decisions made by the Board have an impact on them. It is important for us to understand the employee perspective and take their views into account in our decision making.

The Board proactively support and further reinforce the purpose of Life Unlimited and culture pillars of Care, Collaboration and Courage through informal board listening sessions. These sessions give the Board the opportunity to hear directly from employees and understand thoughts and perspectives on a number of topics in connection with our purpose and culture.

Marc Owen hosted three Board listening sessions for over 80 of our employees in the Americas at our Memphis manufacturing sites on 18 January (Brooks Road) and 19 January (Holmes Road) where topics discussed included Talent, Inclusion, Diversity and Equity (IDE) strategy, linking strategy and purpose within the Company, and sustainability initiatives and the Company's impact on society and local communities. Employees provided further background on the Company's approach to attracting, retaining and developing talent and the implementation of IDE strategy and the ways in which the company is advancing inclusion, diversity and equity, wellbeing and a purpose-driven culture of belonging.

The Board heard about the various recognition programmes, employee engagement and the steps taken by site leadership and people managers to connect teams to the purpose of Life Unlimited. Visibility of leaders was a topic that had previously been raised and employees provided feedback that this was now being addressed at the sites in response to comments received on previous sessions. Areas of opportunity identified were to optimise and utilise engagement team and EIGs to support employees, improve communication from management on links to strategy and purpose, development opportunities and improvement on change management.

Areas of interest

- Engagement with purpose of Life Unlimited and our culture pillars of Care, Collaboration and Courage.
- Talent, retention and development.
- Employee wellbeing and cost of living.
- Leadership and succession planning.
- Diversity, Inclusion and Equity.
- Innovation.
- Society and the environment.
- Strategy.
- Customers.

How we engage

- Updates on leadership and talent development, succession planning and inclusion, diversity and equity are provided at Compliance & Culture Committee meetings.
- The Board meets with employees on-site visits, or virtually.
- Board/employee listening sessions.
- The Board discusses results and next steps of annual Gallup survey.

2022 Highlights

- The Board focused on the impact of localised Covid lockdowns on employees' safety and wellbeing (eg in Shanghai), with the Culture and Compliance Committee receiving reports on the implementation of action plans to support employees.
- On 14 June 2022, Angie Risley and Katarzyna Mazur-Hofszaess held a listening session with EMEA Commercial team members which centred on a number of key topics: (i) Leadership inspiration and trust; (ii) Employee engagement where employees shared examples of how people managers are working to engage and provide development opportunities, with employees sharing positive career development stories and experiences; and (iii) Strengths and areas for improvement. Issues were also raised to the Board regarding operational and supply chain challenges. Positive comments were provided supporting the KPI driven cultural step-change within the Company following the arrival of Deepak Nath as CEO in April 2022.
- The September Board meeting incorporated a visit to our offices in Memphis, where the Board met with various employee groups. See [page 111](#) for further details.
- On 1 December 2022, Katarzyna Mazur-Hofszaess hosted a listening session with leaders of three of the EIGs (Empower, Unity and the S+N Global female employee network, GAIN).
- The Board were updated on the activities of our Employee Interest Groups, particularly relating to diversity, mental health and volunteering programmes.
- On 22 December 2022, Angie Risley chaired a listening session with UK employees to discuss highlights of 2022, areas for focus in 2023 and an overview of executive remuneration with an opportunity for questions and comments.

2023 Actions

- Further Board/employee listening sessions planned for site visits.
- Monitoring of management actions with regard to talent pipeline, leadership and succession.
- Further review of culture, inclusion and diversity initiatives with a focus on monitoring the development of EIGs within the organisation.

Investors

» 240 Shareholder information

Our investors are the owners of our business and it is important to understand investor perspective and approach on strategy, performance and governance.

In 2022, the Board has engaged with a number of investors, groups and teams covering a wide range of topics of interest including strategy and operations, supply, governance, succession planning and ESG matters. Following the appointment of Deepak Nath as CEO in April 2022 and the subsequent development and implementation of the 12-point plan aligned with the Strategy for Growth, investors wanted to understand from the Board their impressions on how the new CEO was settling into role. The Board engaged with a number of investors to provide further context on Board oversight and governance around the onboarding of the new CEO and scrutiny relating to the plans for the Company and the 12-point plan.

Another key topic of interest in 2022 was Board succession planning. Upon coming into role in September 2022, Marc Owen our Senior Independent Director engaged with investors on the chair search process and outlined the 3 key criteria the Board were looking for in a new Chair being a proven track record of shareholder value, strong UK corporate governance experience and experience of developing senior executives either whilst in a CEO or Chair role. Investors indicated that they appreciated the dialogue and these characteristics seemed to resonate with the Company's investors, shaping the search and final selection and appointment of Rupert Soames as Chair Designate.

The Board continues to see strong interest from our shareholders in ESG and sustainability matters and has engaged with a number of specialist investor teams who focus on ESG and sustainability. These investor interactions help the Board to frame the approach to ESG strategy and the issues which have importance to investors, enabling the Board and management to further evaluate how we report on the impact of sustainability on our business to ensure we are providing investors with clear communication in this area.

Areas of interest

- Succession planning.
- Strategy.
- Performance.
- Dividend.
- Leadership.
- Remuneration.

How we engage

- The Chair and Non-Executive Directors are available to meet with investors physically or virtually on request.
- The Board receives reports on meetings taking place between investors and Board members and also reviews significant changes to the share register at each Board meeting.
- Board members receive regular copies of analyst reports.
- The Chief Executive Officer and Chief Financial Officer meet with investors.
- The Board engage with and obtain feedback and advice from their brokers on key issues of importance to the Company.
- The Board also receive presentations and regular reports from the investor relations team on external market perceptions of the Company.

2022 Highlights

- Executive Directors held 121 meetings with investors representing 46% of the Company's Share Capital.
- The Chair and Senior Independent Director met with shareholders regularly throughout the year. Their discussions focused on business and share performance and also the chair succession search. Investors were also interested in key topics such as ESG, culture and purpose of the Company, CEO and Board succession planning and Board governance more broadly.
- Our Chair of the Remuneration Committee engaged with investors regarding the approach to our 2023 Remuneration Policy and discussed issues such as addressing the cost of living crisis and ESG metrics related to incentive plans and compensation.
- The Company continued to pay dividends and undertake share buybacks to shareholders in line with our strategy and capital allocation policy (see pages 19 and 20 for further details).
- MSCI upgraded the Company's ESG rating from BBB to A in 2022.

2023 Actions

- The Board will continue to be available to meet with shareholders. Please contact the Company Secretary, if you have matters you wish to raise with the Non-Executive team.
- The Annual General Meeting will be held in person in our auditorium at our headquarters in Watford enabling shareholders to attend, vote and ask questions in person to our Chair, CEO, CFO and the Chairs of each of our Board Committees.

Customers and suppliers

Our Strategy for Growth, 12-point plan and our Commitments are focused on creating value by delivering for customers.

The better we understand the needs of our customers, the better we are able to serve them and this helps to grow our business. Working in partnership with our suppliers ensures we have the right resources to support this growth.

Our customers are increasingly focused on ensuring that ESG and sustainability are taken into account in our decision making aligned with their own policies and procedures.

Areas of interest

- Acting in partnership together, supporting their needs and responding to their requirements.
- Acting ethically and fairly.
- Ensuring product quality, compliant with regulations.
- Prompt and fair payment.

How we engage

- Updates on product quality, regulatory matters and complaints.
- Updates on ethical and compliance matters and complaints.
- The Board receives regular updates on supplier and customer relationships.

2022 Highlights

- The Board has been kept updated of the supply chain issues affecting the Company and the Orthopaedics franchise in particular and have been actively engaged with management to resolve these issues in alignment with 12-point plan initiatives.
- The Compliance & Culture Committee received regular reports on the challenges and impact of the transition to EU MDR throughout 2022.
- In response to customer need, a revision knee application was launched on our robotics platform in 2022.
- Management has reported to the Board on the importance of sustainability matters to our customers and in turn how we engage with our suppliers to ensure they share our view on sustainability matters.
- The Board recognises that supply chain resilience is critical for the success of the Group and in evaluating the recent decision to move to Melton took into account the following: employees; shareholders, sustainability requirements; customers; suppliers; regulators; and governments.
- Post-pandemic there are a number of additional requirements which make it challenging for Board members to accompany our sales representatives in the field. The Board will seek to find alternative ways to understand more on the customer perspective moving forward.

2023 Actions

- The 2023 Board plan provides further opportunities for the Board to hear from external speakers.
- Given the additional challenges post-pandemic in accompanying sales representatives in the field, we will look at alternative ways to understand more on the customer perspective.



Governments and regulators

We are subject to the laws and regulations of many governments and regulators across the world and understanding their requirements is important for us to ensure not only product safety and compliance with relevant legislation, but also in order to implement our Strategy for Growth and our initiatives under our 12-point plan.

Areas of interest

- Product safety.
- Compliance with local legal and regulatory requirements.
- Competition issues.
- Social and economic concerns.
- Investment and innovation in local communities.
- Understanding how the Company's business impacts local communities and global business.

How we engage

- Management is responsible for ensuring compliance with applicable laws and regulations. Direct engagement between the Board and our regulators is therefore not always appropriate.
- Updates on product quality, regulatory matters and complaints at every meeting of the Compliance & Culture Committee.
- Updates on ethical and compliance matters, and complaints at every meeting of the Compliance & Culture Committee.
- The Chief Executive Officer meets with UK government and regulators.

2022 Highlights

- The Compliance & Culture Committee received regular reports from Mizanu Kebede, our Chief Quality & Regulatory Affairs Officer, on the results of FDA inspections at our manufacturing facilities.
- The Compliance & Culture Committee also received reports on the enhancements being made to the data privacy programme to take into account the fast paced regulatory changes relating to data privacy legislation and the roadmap relating to these changes.
- As part of the proposal for the new Melton site, the Board received a report on the terms of engagement with the UK central and local government with regard to the proposed site and the communications plan to ensure stakeholder views had been considered.

2023 Actions

- The Board and the Compliance & Culture Committee will continue to maintain oversight of all matters pertaining to the Company's relationship with governments and regulators across the world.

Further information about our relationship with other stakeholders, including the local communities in which we operate and our impact on the environments and the impact of climate change on our business, can be found in the Sustainability Report and on [pages 56–68](#). The Compliance & Culture Committee regularly received updates on our sustainability programme and our progress towards the achievement of our 2030 sustainability goals.

The Directors' Report, prepared in accordance with the requirements of the Companies Act 2006 and the UK Listing Authority's Listing Rules comprising [pages IFC–115](#) and [240–IBC](#) was approved by the Board on 21 February 2023.



Helen Barraclough
 Company Secretary

The Strategic Report comprising [pages IFC–81](#) was approved by the Board on 21 February 2023.



Deepak Nath
 Chief Executive

Directors' Remuneration report

Angie Risley
Chair of the Remuneration Committee



Membership*

	Member from	Meetings attended
Angie Risley (Chair)	September 2017	8/8
Robin Freestone ¹	September 2015	7/7
Roberto Quarta ²	April 2014	7/8
Bob White	July 2020	8/8

The Committee's role

The Committee's role is to ensure that our Remuneration Policy and practices are aligned to the business strategy and promotes long-term sustainable success. We make sure the Remuneration of our Executive Officers is aligned to the Company's purpose and values and is clearly linked to the successful delivery of the 12-point plan going forward.

Looking forward – Remuneration Committee's focus for 2023

During 2023, the Remuneration Committee intends to:

- Determine the appropriate ESG metrics to introduce into our Performance Share Programme.
- Continue to focus on key remuneration challenges faced by our employees.
- Appoint a new advisor to replace Deloitte who have been appointed our Auditors from 2024.

Dear Shareholder

2022 has been a challenging year for our employees given the macroeconomic environment. One of the key focus areas of the Remuneration Committee (the "Committee") this year has therefore been on remuneration and wellness issues across the Group. Additionally, given our current Remuneration Policy (the "Policy"), which was originally approved by shareholders at the 2020 Annual General Meeting, will shortly expire we have reviewed and will present our new Policy to shareholders for approval at our 2023 Annual General Meeting.

We also welcomed Deepak Nath to the Company as our new CEO in April 2022. Since joining the Company, Deepak has made assessments of the opportunities and challenges facing the Company and has launched his 12-point plan to deliver and accelerate the Company's potential for growth. You can read more about the 12-point plan on [pages 8–10](#).

Broader employee experience

Although this report deals primarily with the remuneration of our Directors, much of the Committee's focus during the past year has been on remuneration issues across the wider workforce during what has been a particularly challenging year for so many of our people. In December, I chaired a Board listening session with some of our employees from our UK teams to explain our remuneration policy, in particular how it aligns to the Company's purpose, values and delivery of the Company's long-term strategy. We also discussed the fall in disposable incomes.

In response to the current cost of living crisis, the Company felt it was important to undertake an off-cycle salary review

for employees. The 2.5% increase was determined by undertaking a thorough review of external data of inflation rates in the markets in which we operate and was applied to employees below senior management level in the markets where the gap between their 2022 annual pay increase and the rate of inflation was above a certain level.

We review annually the gender pay ratio and we continue to make positive progress. The Board and the Committee continue to monitor the pay arrangements for the wider workforce throughout the year to ensure our people are paid fairly and equitably for the work they do.

More broadly, under Deepak's leadership, our culture of Care, Courage and Collaboration continues to be strengthened and embedded by focusing on three key areas in 2022:

- Introduction of our Commitments – aligned to each culture pillar along with our People Leader Hub to clearly define the specific behaviours and expectations to deliver against our strategy.
- Global wellness – increase employee engagement and productivity through wellbeing programs, enhanced employee assistance programmes and tools to support managers in increasing their teams' overall wellbeing. Examples of events/programmes held include Nutrition Awareness month and Mental Health Awareness month.
- Expansion to 10 Employee Inclusion Groups with 3,000+ members globally and the training of over 2,000 managers to drive inclusion in our interviewing and hiring practices.

You can read more about these initiatives together with our new Commitments on [pages 48–53](#).

1 Robin Freestone stepped down as a member of the Committee with effect from 30 September 2022.

2 Due to prior commitments, Roberto Quarta was not in attendance at the July 2022 meeting.

3 These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measures prepared in accordance with IFRS on [pages 236–240](#).

ESG and our Incentive Plans

The Committee recognises that ESG performance forms an important part of Smith+Nephew's short-term and long-term strategic priorities.

As disclosed last year, we took the decision to allocate a minimum of 5% of the performance measures in the 2022 Annual Bonus Plan to ESG and this remains in place for our 2023 Plan.

For long-term incentives, a suitable ESG metric is still under development and the intention is that an ESG objective will be introduced for the awards granted under the Performance Share Programme in 2024.

Review of 2022 Performance

In 2022 the Group delivered revenue growth in line with its guidance issued in May 2022, but trading profit margin was below guidance. Revenue was \$5,215 million, up 0.1% on a reported basis and 4.7% on an underlying basis.³ Operating profit was \$450 million, and the trading profit³ was \$901 million with a trading profit margin³ of 17.3% reflecting higher input inflation.

Good progress was made across 2022 and we ended the year in a much stronger position than we started. We continued to outperform in Sports Medicine & ENT and Advanced Wound Management, which account for around 60% of Group sales, and even though we are early in our work

to fix Orthopaedics, growth improved here too. All three franchises contributed to the 6.8% underlying revenue growth in the fourth quarter. However, we will continue to face macroeconomic headwinds in 2023. Information on operational improvements made during the year can be found on [pages 8–11](#).

Remuneration Outcomes for 2022

Annual Bonus Plan

Performance against the financial targets under the Annual Bonus Plan was therefore above target for Revenue but below threshold for trading margin, resulting in an aggregated payout of 53% of target in respect of the financial objectives.

The Remuneration Committee reviewed the performance of the Executive Directors against their individual business objectives. We concluded both Deepak and Anne-Françoise achieved against their individual business objectives in terms of what they did and exceeded in terms of how they performed and they consequently received an on target payout in relation to this element of their bonus. Our assessment in relation to Roland Diggelmann, our former CEO, was that he had partially achieved his objectives during the first quarter of 2022.

These ratings combined with performance against the financial objectives resulted in an overall bonus amounting to 63% of target for Deepak and Anne-Françoise.

Payouts to both Deepak and Roland were appropriately pro-rated to reflect their period of employment during 2022.

We also considered whether these outcomes fairly represented the performance of the Company and the Executive Directors in 2022. We acknowledged that during 2022, the share price had slightly fallen, that the Company had delivered a mixed performance albeit ending the year in a much stronger position than we started and that there had been no reputational risk issues. We therefore determined that these outcomes were a fair representation of performance and there was no need to apply discretion to these formulaic outcomes.

Performance Share Programme

Similarly, the Remuneration Committee reviewed performance over the past three years against the targets determined in 2020 for the Performance Share Programme and determined that these awards should vest at 0%. This reflects performance against the targets over the three-year performance period since 1 January 2020. Deepak Nath was not employed by the Company at the time the awards were granted under the 2020 Performance Share Programme and therefore did not receive an award.

Measures in our variable pay plans	
Performance measures in Annual Bonus Plan for 2023	
Revenue (40%)	Top-line growth is essential for continued progress and long-term value creation.
Trading margin (40%)	Trading margin focuses on profit.
Business objectives (15%)	Individual business objectives linked to the strategic imperatives to ensure alignment across the Company.
ESG objectives (5%)	Doing the right thing with regard to our employees, the environment and other stakeholders ensures a sustainable business for the future.
Performance measures in our Performance Share Programme for 2023	
Revenue growth (25%)	Top-line growth leading to value creation is a key goal for Smith+Nephew over the next three to five years. Earning market share is important to create a competitive advantage for Smith+Nephew in driving growth.
Return on invested capital (25%)	Provides focus on long-term efficiency and profitability. Bottom-line performance provides balance to revenue measure. Important measure for our investors.
Cumulative free cash flow (25%)	Essential to fund investment, pay down debt and take advantage of market opportunities. Important measure for our investors and forms part of management conversations with the market.
TSR performance against an Index (25%)	Total Shareholder Return (TSR) aligns Executive reward to the shareholder experience. An indexed approach avoids an anomalous result which can arise if there is a small number of extreme outliers in the Group.

Remuneration continued

Directors' Remuneration report continued

Proposed Remuneration Policy

We are required at the 2023 Annual General Meeting to seek the standard triennial shareholder approval for a new Remuneration Policy (the "new Policy"). Ahead of this vote, the Committee has been carefully considering whether existing remuneration arrangements, as set out in our current Policy, are consistent with delivery of the 12-point plan. The Committee has concluded that no immediate, substantive changes should be made to the Policy. However, we intend to keep this issue under careful review during 2023.

The Committee additionally took the opportunity to review the current Policy against the UK Corporate Governance Code (the "Code"), shareholder guidance and general market practice. Following that review, a few minor changes are proposed to the new Policy, details of which are summarised below. Any use of the discretions available to the Committee in this new Policy would be fully explained and justified in the relevant Remuneration Report and, where appropriate, discussed in advance with major shareholders.

- **Pension:** The Executive Director pension arrangements have been updated and are compliant with the Code.
- **Incentive plans:** Consistent with emerging market practice, the new Policy contains scope for the Committee to set and measure bonus targets other than on an annual basis. Use of this option will be reserved for unusual circumstances, for example where there is exceptional economic volatility (as in the recent Covid affected period) and a consequent limited visibility to set robust 12-month targets. In line with the Investment Association guidance, the new Policy also provides for appropriate discretion so that the Committee may ensure incentive outturns properly

reflect the performance of the executives and their contribution to overall corporate performance, the experience of shareholders in terms of value creation, the experience of wider stakeholders and the general market environment. Limitations on the use of this discretion are fully outlined in the Annual Bonus Plan and Performance Share Programme sections of the Policy.

- **Shareholding guidelines:** Whilst the default position in the new Policy remains for a post-employment shareholding guideline to apply for two years after an Executive Director ceases employment, there is discretion for the Committee to, exceptionally, adjust or waive the guideline in circumstances where the Board believes its application would be inappropriate (e.g. in the event of death).
- **Recruitment arrangements:** Consistent with market practice, the new Policy contains flexibility for the reimbursement of legal or other professional fees approved by the Committee incurred by an individual in relation to their appointment. The Committee will also have the flexibility to determine whether a new Executive Director should be subject to a different set of criteria for annual and/or long-term incentive performance measures (within the existing parameters for these plans in this new Policy) during the first twelve months following appointment.
- **Pay for Loss of Office:** Consistent with market practice, the new Policy contains flexibility to make payments to a departing Director in discharge of an existing legal obligation or by way of settlement of any claim arising in connection with cessation of employment. Minor amendments also permit the Committee to determine the form and basis of calculation of a departing Director's annual bonus in

a manner appropriate to the particular circumstances (albeit any such bonus will continue to be time pro-rated and subject to performance).

- **Non-Executive Director (NED) fees:** Where a NED takes on additional responsibilities that involve additional time commitment, consistent with market practice, the new Policy will contain the flexibility to pay an associated supplementary fee. The new Policy also clarifies the flexibility to approve additional benefits (e.g. liability insurance) and to reimburse business expenses to the Chair and NEDs in connection with the performance of their duties. In addition, the new Policy also provides flexibility for fees to be delivered either in a mixture of cash and shares or wholly in cash with an accompanying commitment from the Chair or NED to separately purchase the required number of shares.

I would like to thank our shareholders for their support and engagement during the year.



Angie Risley

Chair of the Remuneration Committee

Compliance statement

We have prepared this Directors' Remuneration report (the Report) in accordance with The Enterprise and Regulatory Reform Act 2012–2013 (clauses 81–84), sections 420 to 422 of the Companies Act 2006 and The Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations), The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 and The Companies (Miscellaneous Reporting) Regulations 2018. The Report also meets the relevant requirements of the Financial Conduct Authority (FCA) Listing Rules.

Pages 129–145 is the annual report on remuneration (the Implementation Report). The Implementation Report will be put to shareholders for approval as an advisory vote at the Annual General Meeting on 26 April 2023. The Implementation Report explains how the Remuneration Policy was implemented during 2022. The following sections have been audited by KPMG: The Single Figure Tables on Remuneration including related notes (pages 130–139); details of awards made under the Performance Share Programme (pages 135–138); Summary of Scheme Interests during the year (page 138); Payments to former Directors (page 135); Payments made to other past Directors (page 139); Directors interests in ordinary shares (page 140) and Senior Management Remuneration (page 145).

This Policy Report describes our Remuneration Policy as it relates to the Directors of the Company. All payments we make in relation to Directors of the Company will be in accordance with this Remuneration Policy. The Policy will be put to shareholders' vote at the Annual General Meeting on 26 April 2023.

Directors' remuneration policy

Compliance with the UK Corporate Governance Code

The new Remuneration Policy has been developed taking into account the following principles set out in Provision 40 of the Code:

- **Simple and clear:** Our remuneration structure is straightforward and transparent with Executive Directors' variable pay consisting of an annual bonus and a single long-term incentive plan.
- **Aligned to culture, purpose and strategy:** The remuneration structure has been designed to support our culture and business purpose with particular attention being paid to remuneration throughout the organisation to ensure that arrangements are appropriate in the context of our approach to reward for the wider workforce. Performance measures used in the incentive plans are aligned with key strategic objectives and the principle of long-term sustainable value creation.

- **Predictability:** Incentive awards are capped so that the maximum potential award under each plan is transparent. The charts on [page 125](#) provide an illustration of the potential total reward opportunity for the Executive Directors.
- **Proportionality and mitigating risk:** Our variable remuneration arrangements are designed to provide a fair and proportionate link between Group performance and reward whilst mitigating risk where appropriate. The Committee has overriding discretion that allows it to adjust formulaic annual bonus or PSP outcomes so as to prevent disproportionate results and Policy provisions allow for the application of malus and/or clawback in specific circumstances. Additionally, there is a clear link between executive remuneration and the longer-term performance of the Group through a combination of bonus deferral into shares, five-year release periods for PSP awards and stretching shareholding requirements that apply during and post employment.

Changes to policy

The new Policy contains no substantive changes to the 2020 Remuneration Policy. The handful of minor changes proposed in the new Policy are summarised on [page 118](#).

In designing the directors' remuneration policy set out on [pages 120–128](#) (the "Policy"), the Smith & Nephew plc Remuneration Committee (the "Committee") followed a robust process which included discussions on the content of the Policy at several Committee meetings and engagement with our shareholders.

In order to avoid any conflicts of interest, the Committee is composed entirely of independent Non-Executive Directors. The Committee considered input from management, while ensuring that conflicts of interest were suitably mitigated, and our independent advisors, and sought the views of Smith & Nephew plc (the Company) major shareholders and other stakeholders, including employees. If approved by shareholders, the Policy will take effect from the date of that approval.

Proposed implementation of new Policy in 2023

Base salary

- 2022 salaries: CEO \$1,475,000; CFO £615,960.
- 2023 salaries: CEO \$1,526,625; CFO £637,519 (3.5% increase). For context, the average 2023 increases for our US and UK workforce (inclusive of a 2.5% off-cycle increase) are 6.5% and 6% respectively.

Pension

- CEO: 7.5% of capped salary (aligned with US employees).
- CFO: 12% of salary (aligned with UK employees).

Annual Bonus

- 2023 opportunity for CEO and CFO: 215% of salary (unchanged from 2022).
- 50% paid in cash, 50% deferred in shares for three years.
- Performance measures: 40% revenue growth, 40% trading profit margin, 20% business objectives including ESG metrics (unchanged from 2022).

Performance Share Programme

- 2023 award for CEO and CFO: 275% of salary (unchanged from 2022).
- Three-year performance period plus two-year holding period.
- Performance measures: 25% relative TSR, 25% ROIC, 25% revenue growth, 25% free cash flow (unchanged from 2022).

Shareholding guideline

- Whilst in employment, build up and maintain shareholding worth at least 300%/200% of salary for CEO/CFO.
- After ceasing employment, remain compliant with their 'in employment' guideline for two years after stepping down as Director.

Remuneration continued

Directors' remuneration policy continued

Future policy table – Executive Directors

Base salary and benefits

Base salary

Core element of remuneration, paid for doing the expected day-to-day job to recruit and retain Executive Directors of the calibre required to deliver the Company's strategy.

How the component operates	Maximum levels of payment	Framework in which performance is assessed
<p>Salaries are normally reviewed annually with any increase usually applying from 1 April. Salary levels and increases take into account:</p> <ul style="list-style-type: none">– scope and responsibility of position;– skill/experience and performance of the individual Executive Director;– general economic conditions in the relevant geographical market;– average increases awarded across the Company, with particular regard to increases in the market in which the Executive Director is based; and– market movements within a peer group of similarly sized listed companies.	<p>While there is no maximum salary level, any increases will normally not exceed the typical increase for the wider employee population within the relevant geographic area. Higher increases may be made under certain circumstances at the Committee's discretion. For example, this may include:</p> <ul style="list-style-type: none">– increase in the scope and/or responsibility of the individual's role; and– development of the individual within the role. <p>A full explanation will be provided in the Implementation Report should higher increases be approved in exceptional cases.</p> <p>In addition, where an Executive Director has been appointed to the Board at a lower than typical salary, larger increases may be awarded to move them closer to market practice as their experience develops.</p>	<p>Performance in the prior year is one of the factors taken into account and poor performance is likely to lead to a zero salary increase.</p>

Pension and payment in lieu of pension

Provide Executive Directors with an allowance for retirement planning to recruit and retain Executive Directors of the calibre required to deliver the Company's strategy.

How the component operates	Maximum levels of payment	Framework in which performance is assessed
<p>Executive Directors receive a cash allowance in lieu of membership of a Company-run pension scheme.</p> <p>In jurisdictions where the local law requires employees to participate in a Company-run pension scheme, Executive Directors participate in the local pension scheme. Base salary is the only component of remuneration which is pensionable.</p>	<p>The maximum pension allowance for an Executive Director will be no more than the percentage of salary contribution paid in respect of the majority of our UK workforce (currently 12% of salary) unless the percentage of salary contribution paid in respect of the majority of the workforce in the Executive Director's home country or the country in which the Executive Director is based is lower, in which case that lower percentage of salary contribution would usually be offered.</p>	<p>None.</p>

Benefits

Provide Executive Directors with a market competitive benefits package to recruit and retain Executive Directors of the calibre required to deliver the Company's strategy.

How the component operates	Maximum levels of payment	Framework in which performance is assessed
<p>A wide range of benefits may be provided depending on the benefits provided for comparable roles in the location in which the Executive Director is based.</p> <p>These benefits will include, as a minimum: healthcare cover, life assurance, long-term disability, annual medical examinations, company car or car allowance.</p> <p>The Committee retains the discretion to provide additional benefits, where necessary or relevant in the context of the Executive Director's location, or, in connection with an Executive Director's recruitment, the country from which the Executive Director is recruited.</p> <p>Where applicable, relocation costs may be provided in-line with the Company's relocation policy for senior executives, which may include, amongst other items: removal costs, assistance with accommodation, living expenses for self and family and financial, tax and/or legal consultancy advice. In some cases, such payments may be grossed up.</p>	<p>While no maximum level of benefits is prescribed, they are set at an appropriate market competitive level, taking into account a number of factors, which may include:</p> <ul style="list-style-type: none"> – the jurisdiction in which the individual is based. – the level of benefits provided for other employees within the Company. – market practice for comparable roles within appropriate pay comparators. <p>The actual amount payable will depend on the cost of providing such benefits to an employee in the location at which the Executive Director is based.</p> <p>The Committee regularly reviews the benefit policy and benefit levels.</p>	<p>None.</p>

Remuneration continued

Directors' remuneration policy continued

All-employee arrangements

All-employee share plans

To enable Executive Directors to participate in all-employee share plans on a similar basis as other employees.

How the component operates	Maximum levels of payment	Framework in which performance is assessed
ShareSave Plans are operated in the UK and 31 other countries internationally. In the US, an Employee Stock Purchase Plan is operated. These plans enable employees to save on a regular basis and then buy shares in the Company. Executive Directors are able to participate in such plans on a similar basis to other employees, depending on where they are located.	Executive Directors may currently invest up to £500 per month in the UK ShareSave Plan, in-line with UK participants. The Committee may exercise its discretion to increase this amount up to the maximum permitted by HM Revenue & Customs. Similar limits will apply in different locations.	None.

Annual incentives

Annual Bonus Plan

Incentivises delivery of the business plan on an annual basis. Rewards performance against key performance indicators which are critical to the delivery of our business strategy.

How the component operates	Maximum levels of payment	Framework in which performance is assessed
<p>The Annual Bonus Plan is designed to reward performance over the year against financial and business objectives.</p> <p>The Committee determines pay out levels based on the extent to which performance against these objectives has been achieved. The Committee retains discretion, in exceptional circumstances, to pay bonuses in respect of the half year and/or full year.</p> <p>The Committee has full discretion to adjust outcomes under the Annual Bonus Plan where: (i) the occurrence of certain events would unfairly advantage or disadvantage participants, in the reasonable opinion of the Committee and/or (ii) the amount that a participant would/could receive under an award would result in the participant receiving an amount which the Committee considers cannot be justified or which the Committee considers to unfairly disadvantage or advantage a participant.</p> <p>In exercising this discretion, the Committee may consider all circumstances, including (but not limited to): the financial performance of the Company; any changes in the Company's share price; and the performance, conduct and contribution of the participant.</p> <p>Malus and clawback provisions apply, as detailed in the notes to this table.</p> <p>Normally, half of the award is paid in cash after the end of the performance year and half is deferred into an award of shares under the Deferred Share Bonus Plan (DBP), which normally vests after three years. The Committee has full discretion to authorise the payment of dividend equivalent payments on DBP awards to the extent they vest.</p>	<p>The maximum opportunity is 215% of base salary.</p> <p>50% of maximum is payable for on-target performance. Up to 15% of maximum is payable for threshold performance.</p>	<p>The Committee will determine the appropriate performance measures for each financial year, in order to ensure that the Annual Bonus Plan focuses on key business priorities for the Company.</p> <p>Typically, 80% of the annual bonus will be based on financial performance measures. The remainder will usually be based on business objectives linked to key areas of strategic focus.</p> <p>The Committee retains the discretion to adjust the relative weightings of the financial and strategic components and to adopt any performance measure that is relevant to the Company.</p> <p>Under whatever measures are chosen, the Committee will set appropriately challenging maximum performance targets and additionally, where appropriate, targets for threshold and/or on-target performance. In doing so, they will take into account a number of internal and external reference points, including the Company's key strategic objectives. The Committee may amend the performance conditions applicable to an award in accordance with the terms of the performance conditions or if events happen which cause the Committee to consider that it fails to fulfil its original purpose and would result in participants being unfairly advantaged or disadvantaged.</p>

Long-term incentives

Performance Share Programme (PSP)

To motivate and reward performance linked to the long-term strategy and share price of the Company.

The performance measures which determine the level of vesting of the PSP awards are linked to our corporate strategy.

How the component operates	Maximum levels of payment	Framework in which performance is assessed
<p>Awards are granted pursuant to the terms of the PSP.</p> <p>Awards are normally made in the form of conditional share awards, but may be awarded in other forms if appropriate, including nil cost options or a combination of awards.</p> <p>Awards usually vest after three years, subject to the achievement of stretching performance targets linked to the Company's strategy. The performance period is usually 3 years.</p> <p>The Committee has full discretion to adjust outcomes under the PSP where: (i) the occurrence of certain events would unfairly advantage or disadvantage participants in the reasonable opinion of the Committee; and/or (ii) the amount that a participant would/could receive under an Award would result in the participant receiving an amount which the Committee considers cannot be justified or which the Committee considers to unfairly disadvantage or advantage a participant.</p> <p>In exercising this discretion, the Committee may consider all circumstances, including (but not limited to): the financial performance of the Company; any changes in the Company's share price; and the performance, conduct and contribution of the participant.</p> <p>Participants may receive an additional number of shares (or, exceptionally, cash) equivalent to the amount of dividends payable on ordinary shares subject to the award that vest during the period up to vesting. On vesting, a number of shares are sold to cover the tax liability.</p> <p>The remaining shares are usually required to be held by the Executive Director for a further two year holding period.</p> <p>Malus and clawback provisions apply as detailed in the notes to this table.</p>	<p>The maximum annual opportunity is 275% of base salary.</p> <p>For on-target levels of performance, 50% of the award vests.</p> <p>For threshold levels of performance, 25% of the award vests.</p>	<p>The Committee aims to align the PSP performance measures with the Company's key long-term strategic objectives. In this manner, strong performance against the measures should lead to long-term sustainable value creation for our shareholders.</p> <p>Measures used will typically include:</p> <ul style="list-style-type: none"> – Financial measures – to reflect the financial performance of our business and a direct and focused measure of Company success. – Shareholder return measures – a measure of the ultimate delivery of shareholder returns, providing direct alignment. – Strategic measures – aligned with the Company's long-term strategy. <p>The make-up and weighting of each measure will be determined by the Committee each year to reflect the particular strategic objectives over the relevant performance period.</p> <p>Maximum pay-outs will only be made for significant outperformance.</p> <p>Under whatever performance measures are chosen, the Committee will set appropriately challenging maximum performance targets and additionally, where appropriate, targets for threshold and/or on-target performance. In doing so, they will take into account a number of internal and external reference points, including the Company's key strategic objectives.</p> <p>The Committee may amend the performance conditions applicable to an award in accordance with the terms of the performance conditions or if events happen which cause the Committee to consider it appropriate to do so provided that this would not result in, in the Committee's reasonable opinion, an unfair benefit to the Executive Director.</p>

Remuneration continued

Directors' remuneration policy continued

Notes to future policy table – Executive Directors

Share awards

The Committee may, in the event of any variation of the Company's share capital, demerger, delisting, or other event which may affect the value of awards, adjust or amend the terms of DBP or PSP awards in accordance with the plan rules.

Malus and clawback

At any time prior to the vesting of a PSP or DBP award or payment of a cash bonus, the Committee may determine that an unvested award or part of an award may not vest, including to zero on the occurrence of a Trigger Event (as defined below), regardless of whether or not the performance conditions have been met). At any time up to three years after the vesting of a PSP or DBP award or payment of a cash bonus, the Committee may determine that any cash bonus, vested shares, or their equivalent value in cash be returned to the Company on the occurrence of a Trigger Event.

A **Trigger Event** will occur if any of the following matters is discovered where:

- There has been a misstatement of the Company's financial results which has resulted in a material overpayment to participants, which is in the form of awards under the applicable programme or otherwise, irrespective of whether the relevant participants are at fault;
- There has been an error in determining the size of the award or to the extent to which the performance conditions have been satisfied, or erroneous or misleading data, which has resulted in the vesting of an award which would not otherwise have vested or which would otherwise have vested to a materially lesser extent;
- There has been a significant adverse change in the financial performance or reputation of the Company, including corporate failure and/or any significant loss at a general level or in respect of a global business unit or function in which a participant worked; and/or
- The Committee determines that the conduct, capability or performance of a participant or any team, business area or profit centre warrants a review.

These provisions will apply under the Global Share Plan 2023 and the Annual Bonus Plan 2023.

In addition to (and without limiting) the foregoing, the Company is intending to adopt an additional clawback policy pursuant to listing standards that have been released by the New York Stock Exchange, pursuant to the final rule adopted by the United States Securities and Exchange Commission enacting the clawback standards applying to U.S. listed companies under the Dodd-Frank Act. In accordance with this policy, the Committee or the Board is also intending to adopt policies requiring repayment of any amounts of incentive compensation from its "executive officers", which may include the Executive Directors, that was calculated erroneously based on financial statements that were required to be restated due to material noncompliance with financial reporting requirements, to the extent required under the new clawback policy.

Legacy matters

The Committee can make remuneration payments and payments for loss of office outside of the Policy set out above where the terms of the payment were agreed (i) before the Policy came into effect, provided the terms of the payment were consistent with any applicable policy in force at the time they were agreed or the terms were agreed before the date on which the Company first obtained shareholder approval for a Directors' remuneration policy; or (ii) at a time when the relevant individual was not an Executive Director of the Company (or other person to whom the Policy set out above applies) and that, in the opinion of the Committee, the payment was not in consideration for the individual becoming an Executive Director of the Company (or such other person). This includes the exercise of any discretion available to the Committee in connection with such payments.

For these purposes, payments include the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted. The Policy set out above applies equally to any individual who would be required to be treated as an Executive Director under the applicable regulations. The Committee can make remuneration payments and payments for loss of office outside of the Policy set out above if such payments are required by law in a relevant country.

Consideration of employment conditions elsewhere in the Group and differences between arrangements for Executive Directors and workforce as a whole

When setting the Policy for Director's Remuneration, the Committee discusses, and takes into account of pay arrangements and employment conditions of employees across the Group when determining the pay of Executive Directors in the following ways:

Base salary

Increases to Executive Director base salaries will generally not exceed base salary budgets in the geography in which the Executive Director is based, although the Committee will also have oversight of base salary budgets across the Company more generally when making the decision.

Recent off-cycle base salary increase adjustments made by the Company in 2022 to its employees in certain geographies to respond to inflation and cost of living challenges were limited to employees within the company three tiers below senior management level and were not awarded to Executive Directors.

Pension contributions and payments in lieu of a pension

A range of different pension arrangements operate across the Group depending on location and/or length of service. Executive Directors either participate in pension arrangements relevant to wider workforce in their local market or receive a cash allowance payable in lieu of a pension at a percentage of base salary in line with the wider workforce in the geography in which they are based.

Benefits

Benefit packages vary across the world depending on local market practice. Executive Directors receive a range of benefits in line with the standard executive benefits package available to the wider executive workforce in the geography in which they are based.

Annual Bonus Plan

Nearly all employees have performance-based pay, primarily in form of the Annual Bonus. Employees at different levels throughout the Group participate in Annual Bonus Plans with different payment outcomes. The annual performance objectives are cascaded down to all employees from the objectives set at the beginning of the year for the Executive Directors and Executive

Officers, to ensure that the performance of all employees is linked to the Company's strategy and the objectives of the Executive Directors and senior management as applicable. In 2022, Executive Officers and senior executives participated in the Annual Bonus Plan on the same basis as the Executive Directors, subject to lower limits.

All Employee Share Plans

We operate two all-employee share plan arrangements depending on the most appropriate arrangement for different geographies. In 2022, US employees participated in the Employee Stock Purchase Plan. In 2022, UK and international employees from 31 other countries, participated in the ShareSave Plan. Executive Directors, executive officers and senior executives participated in these plans aligned to the geography in which they operate.

Long term incentives

Executive Officers and senior executives participate in the PSP on the same basis as the Executive Directors subject to lower limits.

Shareholding requirements

Executive Officers and senior executives who participate in the Annual Bonus Plan and the PSP are also required to build a significant shareholding in the Company.

Corporate events

If there is a takeover of the Company, awards under the PSP and DBP will normally vest early at the time of the transaction. DBP awards will normally vest in full. The extent to which awards under the PSP vests will be determined by the Committee, taking into account, where considered to be appropriate in all the circumstances, the actual or likely achievement of the relevant performance conditions and, unless the Committee determines otherwise, the awards will be time pro-rated by reference to the proportion of the relevant performance period that has elapsed. Any post-vesting holding will normally cease to apply.

In these circumstances, the Committee reserves the discretion to treat the payment of annual bonuses for the financial year in which the takeover takes place in such manner as it considers appropriate (subject to the limit set out in the Policy table above).

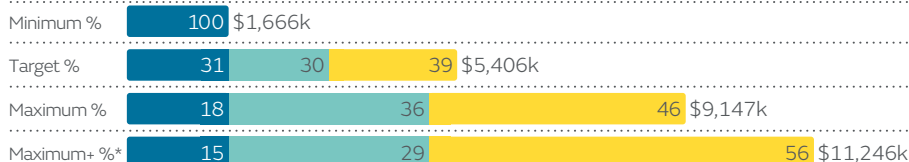
If there is a demerger or other transaction that is likely to materially affect the Company's share price, the Committee may allow awards to vest and bonus to be paid early on the same basis as set out above for a takeover.

Illustrations of the application of the Remuneration Policy 2023

The following charts show the potential split between the different elements of the Executive Directors' remuneration under four different performance scenarios:

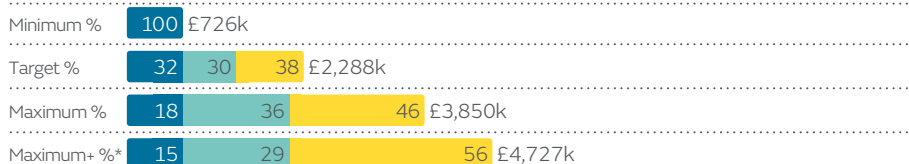
Chief Executive Officer

Current



Chief Financial Officer

Current



* + 50% share price growth ■ Fixed pay ■ Annual bonus ■ PSP

	Assumed performance	Assumptions used for proposed Policy
Fixed pay	All performance scenarios	<ul style="list-style-type: none"> Consists of total fixed pay, including base salary and pension allowance (as at 1 April 2023) and benefits (as received during 2022). Pro-rated for Deepak Nath.
Variable pay	Minimum Performance	<ul style="list-style-type: none"> No pay out under the Annual Bonus Plan. No vesting under the PSP.
	Target Performance	<ul style="list-style-type: none"> 50% of maximum pay out under the Annual Bonus Plan (i.e. 107.5% of salary). 50% vesting under the PSP (i.e. 137.5% of salary).
	Maximum Performance	<ul style="list-style-type: none"> 100% of the maximum pay out under the Annual Bonus Plan (i.e. 215% of salary). 100% vesting under the PSP (i.e. 275% of salary).
	Maximum performance + 50% share price growth	<ul style="list-style-type: none"> As Maximum Performance but this column assumes that the face value of the PSP award increases by 50% as a result of share price growth.

PSP awards have been shown at face value with no discount rate assumptions. The charts provide illustrative values of the remuneration package in 2023. Actual outcomes may differ from those shown.

Remuneration continued

Directors' remuneration policy continued

Policy on recruitment arrangements

Our policy on the recruitment of Executive Directors is to pay a fair remuneration package for the role being undertaken and the experience of the Executive Director appointed. In terms of base salary, we will seek to pay a salary comparable, in the opinion of the Committee, to that which would be paid for an equivalent position elsewhere. The Committee will determine a base salary in line with the Policy and having regard to the parameters set out in the Future Policy Table. Incoming Executive Directors will be entitled to pension (or cash payment in lieu of pension), benefits and incentive arrangements aligned with those set out in the Policy table above. On that basis, the aggregate annual opportunity under their incentive arrangements would not exceed 490% of base salary.

We recognise that in the event that we require a new Executive Director to relocate to take up a position with the Company, we may also pay relocation and related costs, in line with the relocation arrangements we operate across the Group. In addition, where a new Executive Director requires legal or other professional advice related to the appointment with the Company, we may agree to pay directly or reimburse the Executive Director for fees and expenses reasonably and properly incurred including the provision of advice to enable the Executive Director to understand the obligations, duties and legal and regulatory requirements of the new role.

The Committee also has the discretion to determine whether a new Executive Director should be subject to a different set of criteria for annual and/or long-term incentive performance measures during the first twelve months following appointment.

For external appointments, the Committee may award compensation for the forfeiture of remuneration awards or compensation arrangements from a previous employer. In doing so, the Committee would aim to structure the replacement awards in a like-for-like manner to the extent possible, taking into account relevant factors, including:

- the form of the forfeited awards (e.g. cash or shares);
- any performance conditions attached to them and the likelihood of these conditions being satisfied; and
- the proportion of the vesting and/or performance period remaining.

The Committee will have regard to the best interests of both Smith+Nephew and its shareholders and is conscious of the need to pay no more than is necessary, particularly when determining buy-out arrangements.

In making buy-out awards to new appointments, the Committee may grant awards under the relevant provision in the Financial Conduct Authority Listing Rules, which allows for the granting of awards specifically to facilitate, in unusual circumstances, the recruitment of an Executive Director, without seeking prior shareholder approval.

The overall approach outlined above would also apply to internal appointments, with the proviso that any commitments entered into before promotion which are inconsistent with the Policy will continue to be honoured.

Service contracts

We employ Executive Directors on rolling service contracts with notice periods of up to twelve months from the Company and six months from the Executive Director. On termination of the contract, we may require the Executive Director not to work their notice period and pay them (in phased instalments or as a lump sum) an amount equivalent to the base salary, contributions to a pension or equivalent savings plan (or payment in lieu thereof) and benefits they would have received if they had been required to work their notice period. The Executive Directors may become entitled to additional/alternative sums if termination occurs within 12 months of a change in control (as further described in the following section "Policy for payment for loss of office").

Directors' service contracts are available for inspection at the Company's registered office: Building 5, Croxley Park, Hatters Lane, Watford, Hertfordshire WD18 8YE, United Kingdom

Policy for payment for loss of office

Our usual policy regarding termination payments to departing Executive Directors is to limit severance payments to pre-established contractual terms. Where necessary to comply with the mandatory laws of the jurisdiction in which the Executive Director is resident, the Committee may authorise remuneration payments or payments for loss of office in excess of the pre-established contractual terms. In the event that the employment and/or office of an Executive Director

ends, any compensation payable will be determined in accordance with the terms of the service contract between the Company and the Executive Director, as well as the rules of any incentive plans and the Policy. In addition, the Committee will have the discretion to make payments in discharge of an existing legal obligation (or by way of damages for breach of such obligation) or by way of settlement of any claim arising in connection with the cessation of office or employment.

Under normal circumstances (excluding termination for gross misconduct and certain other terminations for 'cause') all leavers are entitled to receive a termination payment (in phased instalments or as a lump sum) in lieu of notice equal to base salary, pension contributions (or payment in lieu of pension) and benefits. The leaver may also be paid a payment in lieu of accrued but untaken holiday leave.

Payments may also include (but are not limited to) costs associated with relocation/repatriation, the costs of legal advice, financial (including tax) advice and outplacement services in connection with cessation of office or employment.

In the event of termination in connection with a change in control of the Company, in circumstances where there is a diminution of status, a reduction in salary or benefits, a mandatory relocation or where termination results from the change in control, the payment in lieu of notice will be payable as a lump sum, the Committee will consider to what extent an annual bonus award should be made, and the leaver will receive reasonable outplacement costs.

In the event that an Executive Director dies or ceases to be an employee because of ill-health, injury, disability, redundancy, retirement with the agreement with the Company, the sale of their employing company or business out of the Group, or for any other reason for which the Committee determines that good leaver treatment is appropriate:

- They may be eligible to receive an annual bonus on a time pro-rated basis for the period of the year that they have worked.
- The annual bonus will typically be subject to business and individual performance in the same manner as for the continuing Executive Directors, and paid at the usual time. The annual bonus may be paid in

such proportion of cash and shares and subject to such deferral arrangements as the Committee may determine. The Committee will have the discretion to take into account performance over the full financial year or up to the date of cessation of employment based on appropriate performance measures determined by the Committee in line with the Policy.

- Outstanding PSP awards will typically, unless the Committee determines otherwise, be pro-rated for the proportion of the relevant performance period that has elapsed at the time Executive Director leaves, and be tested for performance at the end of the performance period, unless the Committee determines to test performance otherwise. The two-year post-vesting holding period will, unless the Committee determines otherwise, continue to be enforced. If an Executive Director dies, awards will normally vest early and only be time pro-rated if the Committee considers it appropriate. Any outstanding awards under the PSP will remain subject to the same terms and conditions (including, malus and clawback) as applied at time of grant. For participants who leave for any other reason, outstanding PSP awards will lapse in full.
- If an Executive Director leaves for any reason other than dismissal or any other reason that the Committee determines, any outstanding DBP awards will remain subject to the same terms and conditions (including malus and clawback) as applied at time of grant and vest as if the Executive Director had not left. In the event of termination in connection with a change in control of the Company or, if an Executive Director dies, any outstanding DBP awards will vest. In any other circumstances any unvested DBP awards will lapse.

One-off awards granted on appointment will normally lapse on leaving except in cases of death, retirement, redundancy or ill-health. The Committee has discretion to permit such awards to vest in other circumstances or to agree to make a cash payment in respect of such an award and will be subject to satisfactorily meeting applicable performance conditions.

We will supply details via an announcement to the London Stock Exchange of a departing Executive Director's termination arrangements as soon as is practicable.

Policy on shareholding requirements

The Committee believes that one of the best ways our Executive Directors' interests can be aligned with that of shareholders is for them to hold a significant number of shares in the Company. The Chief Executive Officer is therefore expected to build a holding of Smith+Nephew shares worth three times base salary and the Chief Financial Officer is expected to build a holding of two times base salary. Executive Directors are required to retain at least 50% of the shares (after tax) vesting under Company incentive plans until this shareholding requirement has been met, recognising that differing international tax regimes affect the pace at which Executive Directors may fulfil the shareholding requirement, unless the Committee determines otherwise.

When calculating whether or not this requirement has been met, Ordinary Shares or ADRs held by the Executive Directors and their immediate family are included, as are unvested awards under the DBP (on a net-of-tax basis), but not PSP awards. Ordinarily we would expect Executive Directors to achieve their shareholding requirement within a period of five years from the date of appointment.

Executive Directors are also usually required to hold any shares vesting under the PSP for a period of two years after vesting.

The Executive Officers and senior executives who participate in the Annual Bonus Plan and PSP are also required to build a significant shareholding in the Company, extending the principle of alignment with our shareholders across the senior management team.

Policy on post cessation shareholding

Executive Directors are usually required to retain any shareholding up to the applicable shareholding requirement (or their actual holding on departure if lower) for a period of two years after cessation of employment. This post employment holding requirement does not apply to shares purchased by an Executive Director in the market which have not been awarded as part of remuneration.

In order to reinforce this expectation, and to the extent that the shareholding requirement has not been reached, all relevant vested DBP and PSP shares will be held in a vested share plan account, which will not usually be accessible until two years post cessation of employment.

In addition, former Executive Directors will be required to seek permission to deal during this period.

The Committee retains the discretion to adjust or waive all or part of the post employment shareholding requirement in appropriate circumstances. In exercising this discretion, the Committee may consider circumstances including (but not limited to) the performance, conduct and contribution of the participant.

Limited discretion to make minor amendments to Policy

The Committee retains the discretion to make minor amendments to the Policy as may be required or reasonably necessary for administrative reasons or to the extent required or reasonably necessary to comply with applicable laws and regulations.

Consultation with employees relating to Executive Director remuneration

While the Committee does not directly consult with our employees as part of the process of determining executive pay, the Chair provided an overview of the compensation of Executive Officers at one of our Board Listening Sessions. No comments were raised by the employees attending that session.

Statement of consideration of shareholder views

Angie Risley, the Committee Chair, engaged with shareholders during development of the Policy. The feedback received was presented to and discussed by the Committee and informed the final shape of the proposed Policy which is being put to the 2023 AGM.

The Committee Chair corresponded with our top twenty shareholders regarding our proposed 2023 Remuneration Policy and also offered meetings to discuss our remuneration arrangements. This included a number of shareholders who, although holding a smaller number of shares, had indicated earlier in the year that they would be interested in engaging with the Company on remuneration matters.

The Committee Chair and shareholders appreciated the engagement and the Committee took all comments received on board during its subsequent discussions and ensured further clarity was included in the narrative detailing the proposed changes to the new Policy (see [page 118](#)).

Remuneration continued

Directors' remuneration policy continued

Future policy table – Chair and Non-Executive Directors

The following table and accompanying notes explain the different elements of remuneration we pay to our Chair and Non-Executive Directors. No element of their remuneration is subject to performance. All payments made to the Chair are determined by the Committee, whilst payments made to the Non-Executive Directors are determined by those Directors who are not themselves Non-Executive Directors, currently the Chair, Chief Executive Officer and Chief Financial Officer.

Annual fees

Basic annual fee

To attract and retain Directors by setting fees at rates comparable to what would be paid in an equivalent position elsewhere. A proportion of the fees is usually paid in shares in the third quarter of each year in order to further align Non-Executive Directors' fees with the interests of shareholders. Where appropriate, the Chair or Non-Executive Director may be provided with an alternative option of receiving their fee wholly in cash in return for them entering into a commitment to separately purchase the required number of shares to comply with the above requirement.

How the component operates

Fees will be reviewed on an annual basis. In future, any increase will usually be paid in shares until 25% of the total fees is paid in shares.

Fees are set in-line with market practice for companies of a similar size and complexity.

Annual fees are set and paid in UK Sterling or US Dollars depending on the location of the Non-Executive Director. If appropriate, fees may be set and paid in alternative currencies and exchange rate fluctuation will be taken into account when determining fees to be paid in alternative currencies.

Maximum levels of payment

Whilst it is not usually expected to increase the fees paid to the Non-Executive Directors and the Chair by more than the increases paid to employees generally, in certain circumstances (including periodic and substantial increases in activity or time commitment), higher fees might become payable.

The total maximum aggregate fees payable to the Non-Executive Directors will not exceed the limit set out in the Company's Articles of Association.

Additional Fees

To compensate Non-Executive Directors for additional responsibilities such as Committee Chair or Senior Independent Director reflecting additional time involved in such roles.

How the component operates

A fixed fee is paid, which is reviewed annually.

Maximum levels of payment

The aggregate amount of fees payable to the Non-Executive Directors may not exceed the limit set out in the Company's Articles of Association.

Intercontinental travel

To compensate Non-Executive Directors for the time spent travelling to attend meetings in another continent.

How the component operates

A fixed fee is paid, which is reviewed annually.

Maximum levels of payment

The aggregate amount of fees payable to the Non-Executive Directors may not exceed the limit set out in the Company's Articles of Association.

Notes to future policy table – Non-Executive Directors

Additional duties undertaken by Non-Executive Directors

In the event that the Chair or a Non-Executive Director is required to undertake significant executive duties in order to support the Executive Directors during a period of absence due to illness or a gap prior to the appointment of a permanent Executive Director, the Committee is authorised to determine an appropriate level of fees which will be payable. These fees will not exceed the amounts which would normally be paid to a permanent Executive Director undertaking such duties and will not include participation in short or long-term incentive arrangements or benefit plans.

Additional Benefits

The Committee will have the discretion to approve such additional benefits for Non-Executive Directors as may

be required or reasonably necessary in connection with the performance of their duties, including without limitation expenses and associated taxes.

Policy on recruitment arrangements

Any new Non-Executive Director will be paid in accordance with the current fee levels on appointment, in-line with the Policy set out above. With respect to the appointment of a new Chair, fee levels will take account of market rates, the individual's profile and experience, the time required to undertake the role and general business conditions. In addition, the Committee retains the right to: (i) authorise the payment of relocation assistance or an accommodation allowance in the event of the appointment of a Chair not currently based in the UK; and (ii) authorise the payment of a contribution towards ongoing administrative support services as may be required or reasonably necessary to enable the Chair to fulfil the required duties and obligations of the role.

Terms of appointment

The Chair and Non-Executive Directors have letters of appointment which set out the terms under which they provide their services to the Company. These are available for inspection at the Company's registered office: Building 5, Croxley Park, Hatters Lane, Watford, Hertfordshire WD18 8YE, United Kingdom.

The appointment of the Non-Executive Directors is not subject to a notice period, nor is there any compensation payable on loss of office, for example, should they not be re-elected at an Annual General Meeting. The Committee has the discretion to waive all or a portion of the notice period of six months applicable for the Chair.

The Chair and Non-Executive Directors are encouraged to acquire a shareholding in the Company equivalent in value to their basic fee within two years of their appointment to the Board.

Remuneration implementation report

The Remuneration Committee presents the Annual Report on Remuneration (the Implementation Report) which will be put to shareholders for an advisory vote at the Annual General Meeting to be held on 26 April 2023. The Terms of Reference of the Remuneration Committee describe our role and responsibilities more fully and can be found on our website: www.smith-nephew.com

Work of the Remuneration Committee in 2022

In 2022, we held eight meetings and determined two further matters by written resolution. The Chief Executive Officer and the Chief Human Resources Officer, key members of the HR and Finance functions, the Company Secretary and Deputy Company Secretary also attended all or part of some of the meetings, except when their own remuneration was being discussed. Attendance by the members of the Committee at each meeting is set out on [page 116](#) of this Annual Report. We also met with the independent remuneration consultants, Deloitte LLP (Deloitte), the remuneration advisors to the Committee. The work carried out by the Committee during the year is set out on [pages 116–118](#).

Since the year end, we have reviewed the financial results for 2022 against the targets under the short-term and long-term incentive arrangements jointly with the Audit Committee.

We have also determined base salary increases for Executive Directors and Executive Officers with effect from April 2023 and have determined the payouts under the 2022 Annual Bonus Plan and the vesting under the Performance Share Programme 2020.

Independent Remuneration Committee advisors

During the year, the Committee received information and advice from Deloitte. Deloitte is a global firm, which provides many services to the Company, including tax and consultancy services. Deloitte was appointed by the Committee following a full tender process in 2018 to provide remuneration advice to the Committee, independent from management.

During the year, Deloitte provided advice on market trends and remuneration issues in general, attended Committee meetings, assisted in the review of the Directors' Remuneration Policy, undertook calculations relating to the TSR performance conditions and advised on annual bonus reviews.

The fees paid to Deloitte for advice to the Committee during 2022, charged on a time and expense basis, were £103,725 (\$127,696). Deloitte complies with the Code of Conduct in relation to Executive Remuneration Consulting in the UK and the Committee is satisfied that their advice is objective and independent.

Deloitte are to be appointed external auditors of the Group effective from 1 January 2024. As a result Deloitte are to be replaced as advisors to the Remuneration Committee at the conclusion of the Annual General Meeting in April 2023. A tender process is currently underway.

Remuneration continued

Remuneration implementation report continued

Role of the Remuneration Committee

Main Responsibilities

- Determination of Remuneration Policy for the Chair, Executive Directors, Executive Officers and senior executives.
- Approval of individual remuneration packages for Executive Directors and Executive Officers, at least annually, and any major changes to individual packages throughout the year.
- Consideration of remuneration policies and practices across the Group in particular relating to CEO Pay Ratio and Gender Pay.
- Approval of appropriate performance measures for short-term and long-term incentive plans for Executive Directors, Executive Officers and senior executives.
- Determination of pay-outs under short-term and long-term incentive plans for Executive Directors, Executive Officers and senior executives.
- Engage with major shareholders and ensure their views are sought and considered when determining the Remuneration Policy.

Key activities of the Committee during the year

- Considered the terms of remuneration for the outgoing and incoming CEO.
- Reviewed the Remuneration Strategy for the Executive Directors, Executive Officers and senior executives.

- Reviewed out-turns for determining payouts to Executive Directors and Executive Officers under the 2019 Performance Share Programme, and 2021 Annual Bonus Plan.
- Approved quantum of cash payments and awards to Executive Directors and Executive Officers under the 2021 Annual Bonus Plan and 2019 Performance Share Programme.
- Approved the 2021 Directors' Remuneration Report.
- Considered principles for setting the targets for the Annual Bonus Plan 2022 and 2022 Performance Share Programme.
- Approved financial targets for the 2022 Annual Bonus Plan for Executive Directors, Executive Officers and senior executives.
- Approved financial measures and targets for 2022 Performance Share Programme for Executive Directors and Executive Officers.
- Reviewed and consulted with shareholders on changes proposed for the new Remuneration Policy for approval by shareholders at the Annual General Meeting in 2023.
- Approved the TSR Peer Group for Performance Share Awards to be made in 2022.
- Noted Gender Pay Report and CEO Pay Ratio figures.
- Reviewed Chair fees.
- Approved 2022 Remuneration Committee Business Plan.

- Reviewed the performance against the targets under the 2022 Annual Bonus Plan, and 2020, 2021 & 2022 Performance Share Programme.
- Commenced the search for a new Remuneration Advisor.

Matters of a routine nature considered by the Committee

- Reviewed current plans and performance versus targets.
- Received updates on the external market context and data.
- Noted grants of awards under the Company's Share Plans.
- Monitored dilution limits and the number of shares available for use in respect of discretionary and all-employee share plans.
- Monitored adherence to shareholding guidelines for Executive Directors, Executive Officers and senior executives.
- Received regulatory/best practice updates from Deloitte and other consulting groups.
- Reviewed and approved the Committee's Terms of Reference.

Single total figure on remuneration (audited)

The amounts for 2022 have been converted into US\$ for ease of comparability using the exchange rates of £ to US\$1.2311 (2021: £ to US\$1.3753) and CHF to US\$1.0469 (2021: CHF to US\$1.0939).

	Deepak Nath Appointed 1 April 2022		Anne-Françoise Nesmes Appointed 27 July 2020		Roland Diggelmann Appointed 1 November 2019 ¹	
	2022	2021	2022	2021	2022	2021
Fixed pay						
Base salary	\$1,083,558	–	\$747,224	\$797,674	\$361,181	\$1,509,582
Pension payments	\$22,875	–	\$89,667	\$95,721	\$43,342	\$182,587
Taxable benefits	\$18,874	–	\$15,248	\$17,005	\$10,284	\$65,923
Total Fixed Pay	\$1,125,243	–	\$852,139	\$910,400	\$414,807	\$1,758,092
Annual variable pay						
Annual Incentive Plan/ Annual Bonus Plan – cash element	\$371,888	–	\$251,194	\$398,053	\$94,148	\$672,167
Annual Incentive Plan/ Annual Bonus Plan – equity element	\$371,887	–	\$251,193	\$398,053	\$94,148	\$672,167
Long-term variable pay						
Performance Share Programme	–	–	–	–	–	–
Total Variable Pay	\$743,775	–	\$502,387	\$796,106	\$188,296	\$1,344,334
Forfeited Incentives²						
Cash Bonus	\$371,414	–	–	–	–	–
Non-Performance Based Awards	\$2,132,844	–	–	–	–	–
Performance Based Award	\$1,581,970	–	–	–	–	–
Total Forfeited Incentives	\$4,086,228	–	–	–	–	–
Total Pay	\$5,955,246	–	\$1,354,526	\$1,706,506	\$603,103	\$3,102,426

¹ Stepped down from the Board on 31 March 2022.

² Cash bonus and performance based award are part of annual variable pay and the non-performance based award is part of fixed pay. Total variable pay is \$2,697,159. Total fixed pay is \$3,258,119.

Base salary	The actual salary receivable for the year.
Pension payments	The value of the salary supplement in lieu of pension or contribution to any pension scheme made by the Company.
Taxable benefits	The gross value of all taxable benefits (or benefits that would be taxable in the UK) received in the year.
Annual Incentive Plan – cash element/Annual Bonus Plan	The value of the cash incentive payable for performance in respect of the relevant financial year.
Annual Incentive Plan – equity element/Annual Bonus Plan	The value of the equity element awarded in respect of performance in the relevant financial year as described on pages 132–135 of this report.
Performance Share Programme	The value of shares vesting that were subject to performance over the three-year period ending on 31 December in the relevant financial year. For awards vesting in early 2023 this is based on an estimated share price of 1,056.07p per share, which was the average price of a share over the last quarter of 2022.
Total	The sum of the above elements.

All data is presented in our reporting currency of US Dollars (USD). Amounts for Roland Diggelmann have been converted from Swiss Francs (CHF) and for Anne-Françoise Nesmes from Sterling (GBP) using average exchange rates. Given currency movements in 2022, this may give the impression of changes that are misleading. Data is presented in local currency in the subsequent sections in the interests of full transparency.

Forfeited Incentives

These relate to buy-out awards received by Deepak Nath in respect of outstanding incentives he forfeited on leaving his former company (details of which were outlined on page 129 of the 2021 Annual Report). They comprise:

- A cash bonus of \$371,414 paid in November 2022 in respect of a forfeited 2022 cash bonus. This relates to legacy arrangements implemented by his previous employer and was based on an estimate of the bonus he forfeited upon leaving Siemens Healthineers (“SH”). The calculated value of the bonus was determined following confirmation from SH of performance against the targets attached to the forfeited bonus.
- Awards of 132,048 Restricted Stock Units (RSU) in respect of forfeited restricted share awards of an equivalent face value. RSU awards over a total of 96,907 shares vested on 16 and 23 May 2022. RSU awards over a total of 12,161 shares vested on 8 and 14 November 2022. The shares are valued at 1,312p being the share price at the date of grant (29 April 2022). More details are on [page 138](#).
- 117,245 performance shares that vested in December 2022 in respect of a forfeited performance share award of an equivalent face value originally granted in 2018. The number of shares that vested was determined following confirmation of performance against the targets attached to the original award. The shares are valued at 1096p being the share price at the date of vesting on 8 December 2022. More details of this award are on [page 138](#) alongside details of the additional 182,228 performance shares awarded to Deepak that will vest, and will be included in the single figure table, in 2023 and 2024.

Remuneration continued

Remuneration implementation report continued

Fixed pay

Base salary

As normal, the base salaries of the Executive Directors were reviewed in February 2023 and it was determined that their salaries be increased by 3.5%. The general increase to base pay in 2023 (inclusive of a 2.5% off-cycle increase), 6.5% for US and 6% for UK employees.

Deepak Nath was appointed as Chief Executive Officer on 1 April 2022 with a base salary of \$1,475,000. This has increased by 3.5% to \$1,526,625 effective from 1 April 2023.

Anne-Françoise Nesmes' base salary also increased by 3.5% to £637,519 (2022: £615,960) effective from 1 April 2023.

Pension payments

Deepak Nath received a Company pension contribution of \$22,875 in line with the limits set forth by the US tax authority and the pension arrangement for the wider US workforce.

Anne-Françoise Nesmes receives a salary supplement of 12% of basic salary to apply towards her retirement savings, in lieu of membership of one of the Company's pension schemes. This is in-line with the pension arrangement for the wider UK workforce.

Roland Diggelmann participated in the Swiss Profund pension plan. He was employed under a Swiss contract, which is where he was domiciled. Between 1 January and 31 March 2022 (the period in which he was CEO and a member of the Board), total Company pension contributions for Roland amounted to CHF41,400, which is equivalent to 12% of his base salary for that period.

Benefits

In 2022, Deepak Nath received life insurance cover of \$1 million plus accidental death and dismemberment insurance of \$1 million. Anne-Françoise Nesmes received life insurance cover of seven times basic salary for the period 1 January 2022 to 31 March 2022 which was changed to four times basic salary in line with the changes made to the wider UK workforce. Roland Diggelmann received death in service cover of seven times basis salary.

Each Executive Director received health cover for themselves and their families, a car and fuel allowance and financial consultancy advice. The same arrangements will apply in 2023. The following table summarises the value of benefits in respect of 2022 and 2021.

	Deepak Nath (Appointed 1 April 2022)		Anne-Françoise Nesmes		Roland Diggelmann (Stepped down from the Board on 31 March 2022)	
	2022	2021	2022	2021	2022	2021
Health cover	\$8,871	–	£986	£965	CHF1,723	CHF6,893
Car and fuel allowance	\$8,467	–	£11,400	£11,400	CHF8,100	CHF32,400
Financial consultancy advice	£1,248	–	–	–	–	£16,680

Annual incentives

Annual Bonus Plan 2022

Following the approval of the Remuneration Policy at the 2020 Annual General Meeting, the maximum opportunity under the Annual Bonus Plan for Executive Directors is 215% of base salary, subject to satisfactory performance against the performance measures detailed below. 50% of the award is paid in cash and 50% is deferred into shares which will vest after three years.

The performance measures and weightings which applied to the Annual Bonus Plan 2022 were as follows:

	Weighting	Threshold as a percentage of salary	Target as a percentage of salary	Maximum as a percentage of salary
Revenue	40%	12.8%	43%	86%
Trading margin	40%	12.8%	43%	86%
Business (including ESG) Objectives ¹	20%	6.4%	21.5%	43%

¹ 25% of this element of the bonus was based on ESG objectives.

The 2022 targets and outturn for revenue and trading margin are shown below:

	Threshold	Target	Maximum	Actual ¹
Revenue	\$5,140m	\$5,372m	\$5,493m	\$5,380m
Trading Margin	18.0%	18.4%	18.9%	17.2%

1 Actual revenue and trading margin is compared with the target range at constant exchange rates to ensure a like-for-like comparison. See [page 236](#).

Financial objectives

The revenue target for 2022 is set by reference to our expectations for growth for the year. Threshold was set at 4.3 percentage points below target and maximum was set at 2.3 percentage points above target.

The trading margin target was set by reference to budgeted trading profit margin for the year. Threshold and maximum were set at 93.6% and 105% of budgeted trading profit margin, divided by threshold and maximum revenue respectively.

Performance resulted in an overall payout of 53% of target against the financial objectives.

Accordingly, the following amounts have been earned by Deepak Nath, Anne-Françoise Nesmes and Roland Diggelmann for 2022 under the Annual Bonus Plan in respect of their financial objectives.

Deepak Nath	\$505,931
Anne-Françoise Nesmes	£277,591
Roland Diggelmann	CHF157,782

As well as considering the monetary outcome of the formulaic calculation of these awards, the Committee considered that this performance fairly represented the overall financial performance during the year.

Business and ESG objectives

In determining performance against the business and ESG objectives, the Executive Directors have been assessed on the same basis as applies to all employees across the Group using a four-point rating scale reflecting both what has been achieved and how it has been achieved. At the beginning of the year, specific objectives were determined relating to achievement of the corporate strategy. For 2022, these objectives were Growth, People and Business processes as in 2021. Performance against these business objectives was considered alongside how the Executive Directors performed in respect of our culture pillars of Care, Collaboration and Courage. This includes consideration of performance against sustainability, compliance and quality metrics. Their overall performance has been assessed according to the extent to which the Executive Directors have met the expectations of the Board. The 20% of the Annual Bonus Plan which is attributable to business and ESG objectives will be paid out as follows:

Performance	% of base salary
Below expectations	Nil
Partially met expectations	6.4%
In-line with expectations (100% of target)	21.5%
Above expectations	43%

When setting objectives for the upcoming year, the Board looks not only at the expected financial performance for the year, but also at the actions it expects the Executive Directors to carry out in the year to build a solid foundation for financial performance over the longer term. In reviewing performance against these objectives at the end of the year, the Board is mindful that there is not always a necessary correlation between financial performance and the achievement of business and ESG objectives. The table below sets out how the Chair and the Board have assessed how Deepak Nath and Anne-Françoise Nesmes have performed against the objectives of Growth, People and Business Processes.

Remuneration continued

Remuneration implementation report continued

Annual incentives continued

Annual Bonus Plan 2022

Deepak Nath

Anne-Françoise Nesmes

People

- Exceeded against target to continue to embed the culture pillars and purpose to drive engagement and continuity as evidenced by improved Gallup engagement.
- Achieved against target to strengthen Executive Committee effectiveness aligned to new strategy with clear objectives to measure performance.
- Partially achieved against target to have talent in place to deliver success and make progress to build a more diverse and inclusive workforce. Missed target of voluntary attrition and incumbent roles filled from our talent pipeline of high value roles. Exceeded target of women in senior leadership with additional focus required on increasing women in middle-management roles.
- Achieved against target to continue development and succession planning for leadership team roles with internal successors identified.

- Achieved against target to implement people Finance priorities per roadmap with launch of the Finance Competency Framework.
- Achieved against target to put in place IT and GBS succession plans, strengthening GBS leadership with a clear organisational design.
- Achieved against target to drive IDE, holding immersion sessions on Culture Commitments to foster adoption.

Organisation and Process

- Achieved against target to strengthen, accelerate and transform Smith+Nephew for structurally higher growth and greater patient impact. Defined a clear 12-point plan to transform the organisation with established KPIs, governance and milestones.
- Achieved against our target to reduce Scope 1 & 2 greenhouse gasses by 70% by the end of 2025 with a carbon roadmap developed.
- Achieved against the delivery of our waste to landfill target for Malaysia and Memphis sites.
- Partially achieved against the target of a clear Scope 3 plan and milestones outline, with the roadmap for Scope 3 under development.
- Achieved against target to uphold the highest standards of Quality and Compliance.

- Achieved against target to partner with Executive Committee to drive trading margin improvement, supporting 12-point plan milestones with financial actions and milestones.
- Achieved against target to define IT/Enterprise Resource Planning strategy for medium to long term, including assessment of SAP, enterprise strategy and roadmap.
- Achieved against target to provide stronger data and insights to support decision making including market analysis.
- Lead the efforts to produce TCFD reporting resulting in integrated ESG reporting and a clear plan for Scope 3 disclosures. Leveraged framework tools to identify risks and opportunities and developed scenario analysis for climate related financial risks and opportunities.
- Achieved against target to improve Finance and IT control environment, ensuring cyber security plans and IT Sox controls are implemented.

Customer

- Achieved against the target of 80% delivery of successful launches for our top 10 NPD programs.
- Achieved against the target to launch at scale through the prioritization of development programmes.
- Achieved against target of seamless integration of value-creating acquisitions and performance against plan. Achieved against target to actively engage with key stakeholders to build support for our new strategy and highlight progress.

- Drove rollout of the sales, inventory and operations planning (SIOP) process and on track to deliver order-to-cash process.
- Achieved against target to ensure comprehensive disclosure and reporting that meets the needs of stakeholders

This resulted in a calculated bonus achievement of 100% of target in respect of Deepak Nath's business and ESG objectives.

This resulted in a calculated bonus achievement of 100% of target in respect of Anne-Françoise Nesmes' business and ESG objectives.

Roland departed on 31 March 2022. The rating of Partially achieved reflects the performance against business and ESG objectives for the period for which he was employed.

Therefore the total amount earned by Executive Directors in 2022 under the Annual Bonus Plan 2022 is:

	Amount earned in respect of financial objectives	Amount earned in respect of business objectives	Total amount earned	Total as percentage of target	Total as percentage of salary
Roland Diggelmann ¹	CHF157,782	CHF22,080	CHF179,862	48.5%	52%
Deepak Nath ²	\$505,931	\$237,844	\$743,775	63%	67%
Anne-Françoise Nesmes	£277,591	£130,499	£408,090	63%	67%

1 Bonus paid is for employment during the period 1 January 2022 to 31 March 2022.

2 Bonus paid is for employment during the period 1 April 2022 to 31 December 2022.

The Board has reviewed the formulaic calculation of these figures. We acknowledged that during 2022, the share price had slightly fallen, that the Company had delivered a mixed performance ending the year in a much stronger position and that there had been no reputational risk issues during the year. We therefore determined this fairly represents the performance of the Company and of the Executive Directors during 2022.

50% of the total amount earned will be paid in cash and the remaining 50% will be deferred into shares which will vest after three years.

2023 Annual Bonus

The maximum opportunity under the Annual Bonus Plan for Executive Directors will be 215% of base salary, subject to satisfactory performance against the performance measures detailed below. 50% of the award will be paid in cash and 50% will be deferred into shares which will vest after three years.

The performance measures and weightings which apply to the Annual Bonus Plan 2023 are as follows:

	Weighting	Threshold as a percentage of salary	Target as a percentage of salary	Maximum as a percentage of salary
Revenue	40%	12.8%	43%	86%
Trading margin	40%	12.8%	43%	86%
Business objectives	15%	4.8%	16.125%	32.25%
ESG objectives	5%	1.6%	5.375%	10.75%

For reasons of commercial sensitivity, we are unable to disclose the precise targets for revenue and trading margin for 2023 now, which are both set by reference to our expectations for growth for the year. They will be disclosed retrospectively in the 2023 Annual Report, when performance against those targets are determined.

Long-term incentives

Performance Share Programme

Performance Share Programme 2020

Since the end of the year, the Committee has reviewed the vesting of conditional awards made to former Executive Directors in 2020 under the Global Share Plan 2020. Vesting of the conditional awards made in 2020 was subject to performance against four equally weighted performance measures – TSR, global revenue growth, cumulative free cash flow and return on invested capital – measured over a three-year period commencing 1 January 2020.

TSR performance 25% of the award was based on the Company's TSR performance relative to two equally weighted peer groups against which the Company's TSR performance was measured as follows:

- A sector-based peer group based on those companies classified as the S&P 1200 Global Healthcare subset comprising medical devices, equipment and supplies companies (official industry classifications of 'Health Care Equipment and Supplies, Life Sciences Tools & Services and Health Care Technology'). The Company's TSR was -33.7% against an index TSR for the peer group of 14.2%.
- FTSE 100 constituents excluding financial services and commodities companies. This is in response to shareholders who assess our performance not based on sector, but instead based on the index we operate in. The Company's TSR was -33.7% against an index TSR for the peer group of -8.1%.

In aggregate therefore, the Company's TSR performance results in a final vesting outcome of 0% out of the 25% target.

Remuneration continued

Remuneration implementation report continued

Long-term incentives continued

Performance Share Programme continued

Global revenue growth 25% of the award was based on global revenue growth. The threshold set in 2020 was \$16,628 million with a target of \$16,968 million. Over the three-year period, the adjusted revenues in Global Revenue Growth were \$14,918 million. These adjustments include translational foreign exchange and Board-approved M&A.

This part of the award therefore vested at 0% out of the 25% target.

Cumulative free cash flow performance 25% of the award was based on cumulative cash flow performance. The target set in 2020 was \$2,285 million with maximum at \$2,742 million. Over the three-year period, the adjusted cumulative free cash flow was \$958 million which was below threshold. These adjustments include items such as Board-approved M&A, restructuring programmes and translational foreign exchange.

This part of the award therefore vested at 0% out of the 25% target.

Return on invested capital (ROIC) 25% of the award was based on return on invested capital defined as follows:

$$\frac{\text{Operating profit}^1 \text{ less adjusted taxes}^2}{(\text{Opening net operating assets} + \text{closing net operating assets})^3 \div 2}$$

1 Operating Profit is as disclosed in the Group income statement in the Annual Report less amortisation of acquired intangible assets.

2 Adjusted taxes represents our taxation charge per the Group income statement adjusted for the impact of tax on items not included in Adjusted Operating Profit notably amortisation of acquired intangible assets, interest income and expense, other finance costs and share of results of associates.

3 Net Operating Assets comprises net assets from the Group balance sheet (Total assets less total liabilities) excluding the following items: accumulated amortisation of acquired intangible assets, investments, investments in associates, retirement benefit assets and liabilities, long-term borrowings, bank overdrafts, borrowings and loans, IFRS 16 lease liabilities and right-of-use assets, and cash at bank.

The target set in 2020 was an average over three years of 12.0% with maximum at 13.5%. The adjusted average ROIC measurement for the three years was 8.2%. These adjustments include Board-approved M&A.

This part of the award therefore vested at 0% of the 25% target.

In summary therefore, the Performance Share Programme award made in 2020 vested at 0% of target as follows:

	Threshold	Target	Maximum	Actual	Percentage Vesting
TSR	Equal to Index	–	8% Above Index	Below Index	0%
Global revenue growth	\$16,628m	\$16,968m	\$17,646m	\$14,918m	0%
Cumulative free cash flow	\$2,057m	\$2,285m	\$2,742m	\$958m	0%
Return on invested capital	10.5%	12.0%	13.5%	8.2%	0%

As well as considering the monetary outcome of the formulaic calculation of these awards, the Committee considered whether discretion should be applied to override these formulaic outcomes and concluded that the monetary outcomes were aligned with the financial performance of the Company during the performance period and the intention of the Remuneration Policy.

Performance Share Programme 2022

In accordance with the Remuneration Policy approved by shareholders at the Annual General Meeting held on 9 April 2020, performance share awards were granted to the Executive Directors under the Global Share Plan 2020 to a maximum value of 275% of salary (137.5% for target performance) measured over the three financial years commencing 1 January 2022 against four equally weighted performance measures: Indexed TSR, Global Revenue Growth, ROIC and Cumulative Free Cash Flow. The performance conditions for these awards were determined in April 2022 and the awards were made in May 2022. The maximum payout under each element will only be for significant outperformance. On vesting, sufficient shares will be sold to cover taxation obligations and the Executive Directors will be required to hold the net shares for a further period of two years.

TSR performance 25% of the award is based on the Company's TSR performance measured against two equally weighted peer groups as defined for the awards made in 2020.

TSR performance is relative to the two separate indices as follows:

Relative TSR	Award vesting as % of salary at date of grant	
	Sector Based Peer Group	FTSE 100 Peer Group
Below the index	Nil	Nil
Equalling the index (Threshold vesting at 50% of target)	8.6%	8.6%
8% above the index (Maximum vesting at 200% of target)	34.4%	34.4%

Awards will vest on a straight-line basis between these points. The maximum has been set significantly above target reflecting the maximum opportunity for outperformance.

Global revenue growth 25% of the award is based on global revenue growth against the following targets:

Revenue growth over three-year period commencing 1 January 2022	Award vesting as % of salary
Below Threshold	Nil
Threshold (-5% of target)	17.2%
Target – set by reference to our expectations	34.4%
Maximum or above (+5% of target)	68.8%

It is not possible to disclose precise targets for sales growth as this will give commercially sensitive information to our competitors concerning our growth plans and is considered to be potentially price-sensitive information. This target however will be disclosed in the 2024 Annual Report, when the Committee will discuss performance against the target. The maximum has been set significantly above target reflecting the increased maximum opportunity for outperformance.

Return on invested capital (ROIC) 25% of the award is based on ROIC, as defined for the awards made in 2020, with the following targets:

Return on Invested Capital (three-year average)	Award vesting as % of salary
Below Threshold 8%	Nil
Threshold 8% (-1% of target)	17.2%
Target 9%	34.4%
Maximum or above 10.5% (+1.5% of target)	68.8%

Awards will vest on a straight-line basis between these points.

Cumulative free cash flow 25% of the award is based on cumulative cash flow performance defined for the awards made in 2020, with the following targets:

Cumulative free cash flow	Award vesting as % of salary
Below \$1,535m	Nil
\$1,535m (-20% of target)	17.2%
\$1,913m	34.4%
\$2,104m or more (+10% of target)	68.8%

The maximum has been set significantly above target reflecting the maximum opportunity for outperformance.

Remuneration continued

Remuneration implementation report continued

Performance Share Programme 2023

In early 2023, the Remuneration Committee considered the performance framework and determined the targets for the Performance Share Programme (“PSP”) awards due to be made in 2023. It was agreed that performance would be measured under the same four equally weighted performance measures which applied in 2022 – indexed TSR, Global Revenue Growth, ROIC, and Cumulative Free Cash Flow, as set out below. The Executive Directors will each be granted an award under the PSP on 9 March 2023 to the value of 275% of their base salary.

TSR performance 25% of the award will be based on the Company’s TSR performance, measured against the same peer groups and with the same targets as the awards made in 2022.

Revenue growth 25% of the award will be based on global revenue growth. It is not possible to disclose precise targets for sales growth as this will give commercially sensitive information to our competitors concerning our growth plans and is considered to be potentially price-sensitive information.

ROIC 25% of the award will be based on ROIC as defined for the awards made in 2022. Targets will be 8.5% at Threshold, 9.5% at Target and 10.5% at Maximum.

Cumulative free cash flow 25% of the award will be based on cumulative cash flow as defined for the awards made in 2022. It is not possible to disclose precise targets for this measure as this is considered to be commercially sensitive information.

Details of outstanding awards made under the Performance Share Programme

Details of conditional awards over shares granted to Executive Directors subject to performance conditions are shown below. These awards were granted under the Global Share Plan 2020. The performance conditions and performance periods applying to these awards are detailed below:

	Date granted	Outstanding number of ordinary shares under award at maximum	Date of vesting
Deepak Nath	20 May 2022	259,422	20 May 2025
Anne-Françoise Nesmes	20 May 2022	134,648	20 May 2025
Anne-Françoise Nesmes	21 May 2021	102,936	21 May 2024
Anne-Françoise Nesmes	21 Dec 2020 ²	42,726	21 Dec 2023
Roland Diggelmann ¹	21 May 2021	55,282	21 May 2024
Roland Diggelmann ¹	21 May 2020 ²	135,766	21 May 2023

1 Roland Diggelmann stepped down from the Board as Chief Executive Officer with effect from 31 March 2022. The awards shown have been pro-rated based on the length of service during the performance period.

2 The awards granted on 21 May 2020 and 21 December 2020 did not achieve the performance conditions and lapsed in full on 21 February 2023.

Summary of scheme interests awarded during the financial year (audited)

Director	Deepak Nath ^{1,2}		Anne-Françoise Nesmes		Roland Diggelmann ³	
	Number of shares	Face value	Number of shares	Face value	Number of shares	Face value
Performance Share Programme award at maximum (see pages 135–137)	259,422	£3,263,528.76	134,648	£1,693,871.84	0	£0
Deferred Share Bonus Plan award (2021 bonus)	0	£0	24,169	£289,423.78	42,113	£504,303.18
Buy-out award agreement ¹	441,737	£5,795,589.44	N/A	N/A	N/A	N/A

1 As outlined on page 129 of the 2021 Annual Report, Deepak Nath’s buy-out awards are in respect of outstanding equity incentives he forfeited on leaving his former company. All awards have been provided on a like-for-like basis in terms of the value provided and their performance and/or vesting periods. The awards (granted on 29 April 2022) comprised the following: 132,048 RSUs vesting between May 2022 and November 2025 127,461/84,868/97,360 performance shares vesting in November 2022/2023/2024 subject to the original performance conditions applicable to the forfeited performance share awards granted to Deepak by Siemens Healthineers AG (“SH”) in November 2018/2019/2020.

2 As noted above, a performance award over 127,461 shares was granted to Deepak Nath with vesting subject to the performance conditions applicable to the performance share award over SH shares originally granted to Deepak by SH in November 2018. Following completion of the performance measurement period, SH provided confirmation that 91.985% of the original award would have vested. Accordingly, 117,245 shares from the buy-out award vest with the balance, 10,216 shares, lapsing.

3 Roland Diggelmann stepped down from the Board as Chief Executive Officer with effect from 31 March 2022.

Please see Policy Table contained within the Annual Report 2020 on pages 128–137 on our website at www.smith-nephew.com for details of how the above plans operate. Following approval of the 2020 Remuneration Policy, no Annual Equity Incentive Programme awards were granted during 2022. The number of shares is calculated using the closing share price on the day before grant, which for the Performance Share Programme award granted on 20 May 2022 was 1,258.0p. The Deferred Share Bonus Plan award granted on 9 March 2022 is calculated using the closing share price on the day before grant being 1,197.5p. The buy-out award agreement granted on 29 April 2022 to Deepak Nath is calculated using the closing share price on the day before grant being 1,312.0p.

Single total figure on remuneration Chair and Non-Executive Directors (audited)

Director	Basic annual fee ¹		Committee Chair/ Senior Independent Director fee		Intercontinental travel fee		Total 2021
	2022	2021	2022	2021	2022	2021	
Roberto Quarta	£428,645	£428,645	–	–	£3,500	–	£432,145
Jo Hallas ²	£64,250	£18,173	–	–	£3,500	–	£67,750
Erik Engstrom	£69,500	£69,500	–	–	–	–	£69,500
Robin Freestone ³	£53,750	£69,500	£15,000	£20,000	–	–	£68,750
John Ma	\$129,780	\$113,472	–	–	\$21,000	–	\$150,780
Katarzyna Mazur-Hofszaes	£69,500	£69,500	–	–	£3,500	–	£73,000
Rick Medlock	£69,500	£69,500	£20,000	£20,000	£3,500	–	£93,000
Marc Owen ⁴	\$129,780	\$129,780	\$35,000	\$35,000	\$21,000	\$7,000	\$185,780
Angie Risley	£69,500	£69,500	£20,000	£20,000	£3,500	–	£93,000
Bob White	\$129,780	\$129,780	–	–	\$7,000	–	\$136,780

1 The basic annual fee includes shares purchased for the Chair and Non-Executive Directors in lieu of part of the annual fee, details of which can be found on the table below.

2 Jo Hallas was appointed as a Non-Executive Director with effect from 1 February 2022.

3 Robin Freestone retired as a Non-Executive Director with effect from 30 September 2022.

4 Marc Owen waived his right to receive a \$35,000 increase in fees pursuant to his appointment as Senior Independent Director on 1 October 2022.

Chair and Non-Executive Director fees

In February 2023 the fees paid to the Chair and the other Non-Executive directors were reviewed and it was determined that with effect from 1 April 2023 the fees paid will remain unchanged:

Annual fee paid to the Chair	£428,645 of which £107,161 paid in shares
Annual fee paid to Non-Executive Directors	£69,500 of which £6,500 paid in shares or \$129,780 of which \$9,780 paid in shares
Intercontinental travel fee (per meeting)	£3,500 or \$7,000
Fee for Senior Independent Director and Committee Chair	£20,000 or \$35,000

As part of the appointment of the new Chair, the Committee undertook the first detailed review of the associated fee since 2014 when the current Chair was first appointed. The review took into account a range of factors including relevant market data and the anticipated time commitment involved with the role. The resulting fee agreed by the Committee is £450,000 effective from 15 September 2023 and the new Chair will be required, each year, to purchase shares worth at least 25% of his post-tax annual fee.

Payments made to former Directors (audited)

Roland Diggelmann ceased to be Chief Executive Officer and a member of the Board on 31 March 2022. As detailed in last year's Remuneration Report, in accordance with his employment agreement and with the Remuneration Policy approved by shareholders on 9 April 2020, Roland Diggelmann continued to receive his base salary of CHF1,380,000, pension payments and benefits up to 28 February 2023.

Roland Diggelmann holds an award over 42,113 shares under the Deferred Share Bonus Plan ("DBP") which was granted on 9 March 2022. This represented 50% of his 2021 bonus which vests after three years in line with the Remuneration Policy. He will receive a further award under the DBP on 9 March 2023 to the value of 50% of his 2022 annual bonus. Roland also holds awards (in aggregate) over 191,048 shares at maximum under the Performance Share Programme, exclusive of dividend equivalents. These shares were pro-rated to his date of leaving and vest subject to achievement of the relevant performance conditions.

Legal fees incurred in connection with Roland Diggelmann's stepping down from the Board of up to CHF 5,000 for Swiss legal advice and of up to £5,000 for English law advice are payable by the Company.

Service contracts

Executive Directors are employed on rolling service contracts with notice periods of up to 12 months from the Company and six months from the Executive Director. Further information can be found on page 125 of the Policy Report contained within the Annual Report 2020.

Remuneration continued

Remuneration implementation report continued

Directors' interests in ordinary shares (audited)

Beneficial interests of the Executive Directors in the ordinary shares of the Company are as follows:

	Deepak Nath			Roland Diggelmann ³			Anne-Françoise Nesmes		
	1 January 2022	31 December 2022	10 February 2023 ¹	1 January 2022	31 December 2022	10 February 2023 ¹	1 January 2022	31 December 2022	10 February 2023 ¹
Ordinary shares	–	97,784²	97,784 ²	18,207	N/A	N/A	–	–	–
Share options	–	–	–	2,534	–	–	1,621	1,621	1,621
Deferred Share Bonus Plan award (2021 bonus)	–	–	–	–	42,113	42,113	–	24,169	24,169
Buy-out award agreement	–	205,208	205,208	–	–	–	–	–	–
Performance Share Programme awards ²	–	259,422	259,422	385,420	191,048	191,048	145,662	280,310	280,310

1 The latest practicable date for this Annual Report.

2 These share awards are subject to further performance conditions before they may vest. The awards granted on 21 May 2020 and 21 December 2020 did not achieve the performance conditions and therefore lapsed in full on 21 February 2023 (see page 138 for further details).

3 Roland Diggelmann stepped down from the Board as Chief Executive Officer with effect from 31 March 2022.

The beneficial interest of each Executive Director is less than 1% of the ordinary share capital of the Company.

Beneficial interests of the Directors in the ordinary shares of the Company are as follows:

Director	1 January 2022 (or date of appointment if later)	31 December 2022 (or date of retirement if earlier)	10 February 2023 ¹	Shareholding as % of annual salary/ fee ^{2,3,9}
Roberto Quarta ⁴	67,468	73,300	73,300	196.51
Roland Diggelmann ⁵	18,207	18,207	18,207	37.68
Erik Engstrom	16,442	16,774	16,774	276.95
Robin Freestone ⁶	16,420	16,752	N/A	N/A
Jo Hallas ⁷	–	5,332	5,332	95.23
John Ma ⁴	296	924	924	9.94
Katarzyna Mazur-Hofsaess	366	880	880	14.53
Rick Medlock	3,264	3,564	3,564	58.84
Deepak Nath ⁸	–	97,784	97,784	92.14
Anne-Françoise Nesmes	–	–	–	23.86
Marc Owen ⁴	8,072	16,478	16,478	177.25
Angie Risley	5,011	5,343	5,343	88.22
Bob White ⁴	6,656	7,284	7,284	78.35

1 The latest practicable date for this Annual Report.

2 Calculated using the closing share price of 1,147.5p per ordinary share and \$27.92 per ADS on 10 February 2023, and an exchange rate of £1:\$1.21125.

3 Due to their length of service some Non-Executive Directors have not met their shareholding requirements, but this will continue to be monitored in accordance with the Remuneration Policy.

4 Roberto Quarta, John Ma, Marc Owen and Bob White hold some of their shares in the form of ADS.

5 Roland Diggelmann stepped down from the Board as Chief Executive Officer with effect from 31 March 2022.

6 Robin Freestone retired from the Board as a Non-Executive Director with effect from 30 September 2022.

7 Jo Hallas was appointed Non-Executive Director with effect from 1 February 2022.

8 Deepak Nath was appointed Chief Executive Officer with effect from 1 April 2022.

9 For the purposes of calculating an Executive Director's performance against their shareholding requirement, ordinary shares or ADRs held by the individual and their immediate family are included as are unvested awards under the DBP (on a net of tax basis) but not awards subject to an ongoing performance condition. The percentages in this column are consistent with this methodology.

The beneficial interest of each Non-Executive Director is less than 1% of the ordinary share capital of the Company.

Chief Executive Officer remuneration compared to employees generally

The percentage change in the remuneration of the Chief Executive Officer between 2021 and 2022 compared to that of employees generally was as follows:

	Salary/fees	% change 2021/2022		Salary/fees	% change 2020/2021		Salary/fees	% change 2019/2020	
		Taxable benefits	Annual incentive		Taxable benefits	Annual incentive		Taxable benefits	Annual incentive
Executive Directors									
CEO ¹ Deepak Nath Roland Diggelmann	0%	-55.54%	44.89%	0%	0%	N/A	0%	0%	N/A
CFO Anne Françoise Nesmes Graham Baker	4.62%	3.97%	-29.50%	0%	0%	N/A	4.00%	-57.00%	-100.00%
Non Executive Directors ²	0%	0%	N/A	0%	0%	N/A	0%	N/A	N/A
Average of all employees	5.95%	N/A	N/A	1.64%	N/A	N/A	3.30%	N/A	N/A

1 Represents the difference between Roland Diggelmann and Deepak Nath.

2 There was no change to the fees paid to Non-Executive Directors during 2022.

The average cost of wages and salaries for employees generally decreased by 1.19% in 2022 (see Note 3.1 to the Group accounts). Figures for annual cash bonuses are included in the numbers.

When considering remuneration arrangements for our Executive Directors, the Committee takes into account pay across the Group in the following ways:

- Salary levels and increases for all employees including Executive Directors take account of the scope and responsibility of position, the skills, experience and performance of the individual and general economic conditions within the relevant geographical market. When considering increases to Executive Director base salaries, the Committee considers the average pay increases in the market where the Executive Director is based.
- All employees including the Executive Directors have performance objectives determined at the beginning of the year which cascade down from the Strategic Imperatives for the Group.
- The level of variable pay determined for all employees, whether in the form of shares or cash is dependent on performance against these imperatives, both financially and personally.
- Executive Directors participate in benefits plans and arrangements comparable to benefits paid to other senior executives in the relevant geography. Executive Directors participate in the same senior executive incentive plans (currently the Annual Bonus Plan and the Performance Share Programme) as other Executive Officers and senior executives. The level of award reflects the differing seniority of participants and the market where the Executive is located. Performance conditions for the Performance Share Programme are the same for Executive Directors and Executive Officers. Executives, however, have only three measures with no reference to ROIC. For the Annual Bonus Plan (ABP) Performance Measures apply to all Executives consistently, however, weighting between Financials and Non-Financials differs based on the position.

Remuneration continued

Remuneration implementation report continued

Chief Executive Officer pay ratio

The regulations provide three options which may be used to calculate the pay for the employees at the 25th percentile, median and 75th percentile. We have used option A (as set out in the Companies (Miscellaneous Reporting) Regulations 2018), following guidance issued by some proxy advisers and institutional shareholders. The ratio has been calculated by comparing against the full-time equivalent pay of all UK employees within the Group including both our entities Smith & Nephew UK Limited and T.J.Smith and Nephew, Limited.

Option A calculates pay for all employees on the same basis as the single figure for remuneration calculated for Executive Directors. The period for which the employee pay has been calculated under Option A is the calendar year 2022. Figures are calculated by reference to 31 December 2022 using actual pay data from 1 January 2022 to 31 December 2022. The single figure for remuneration for each employee includes earned salary, annual incentive, allowance, pension and benefits for 2022. Part-time employees have been excluded for the purpose of calculations. The Chief Executive Office single figure is an amalgamation of the data for the two individuals who held the post during the year.

Comparisons have been made with employees at median (P50), lower (P25) and upper (P75) quartiles. We have used the actual salaries paid to our employees in the UK. The values were listed lowest to highest and three percentiles were identified. We are confident this methodology gives us the most reflective pay at the median. The Committee is satisfied that the individuals identified in the employee comparison group appropriately reflect the employee pay profile at those quartiles, and that the overall picture presented by the ratios is consistent with our pay, reward and progression policies for UK employees.

The table below sets out the ratio at the median, lower and upper quartiles:

Year	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
2019	116:1	81:1	51:1
2020	42:1	29:1	19:1
2021	71:1	49:1	32:1
2022	160:1	107:1	70:1

In 2022, the ratio increased due to the impact of the buy-out award agreement made to Deepak Nath. Excluding this one-off arrangement, the median ratio would have been 47:1.

The table below provides the total pay figure used for each quartile employee, and the salary component within this.

Component	CEO ¹	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
Salary	\$1,816,153	\$38,619	\$59,669	\$52,021
Total pay	\$6,103,705	\$40,977	\$61,046	\$93,464

¹ Roland Diggelmann is paid in Swiss Francs and this figure was converted into US Dollars for comparative reasons using CHF to US\$1.046901.

Relative importance of spend on pay

When considering remuneration arrangements for our Executive Directors and employees as a whole, the Committee also takes into account the overall profitability of the Company and the amounts spent elsewhere, particularly in returning profits to shareholders in the form of dividends and share buy-backs.

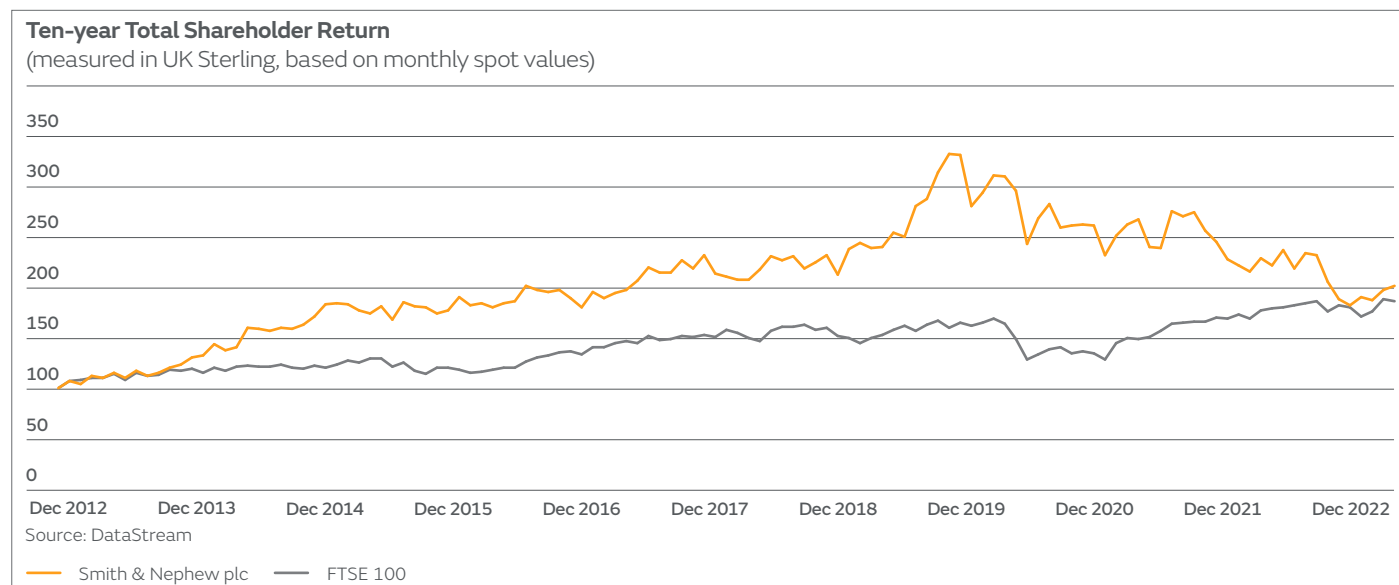
The following table sets out the total amounts spent in 2022 and 2021 on remuneration, the attributable profit for each year and the dividends declared and paid in each year.

	For the year to 31 December 2022	For the year to 31 December 2021	% change
Attributable profit for the year	\$223m	\$524m	-57%
Dividends paid during the year	\$327m	\$329m	0%
Share buy-back ¹	\$158m	\$0m	+100%
Total Group spend on remuneration	\$1,565m	\$1,562m	0%

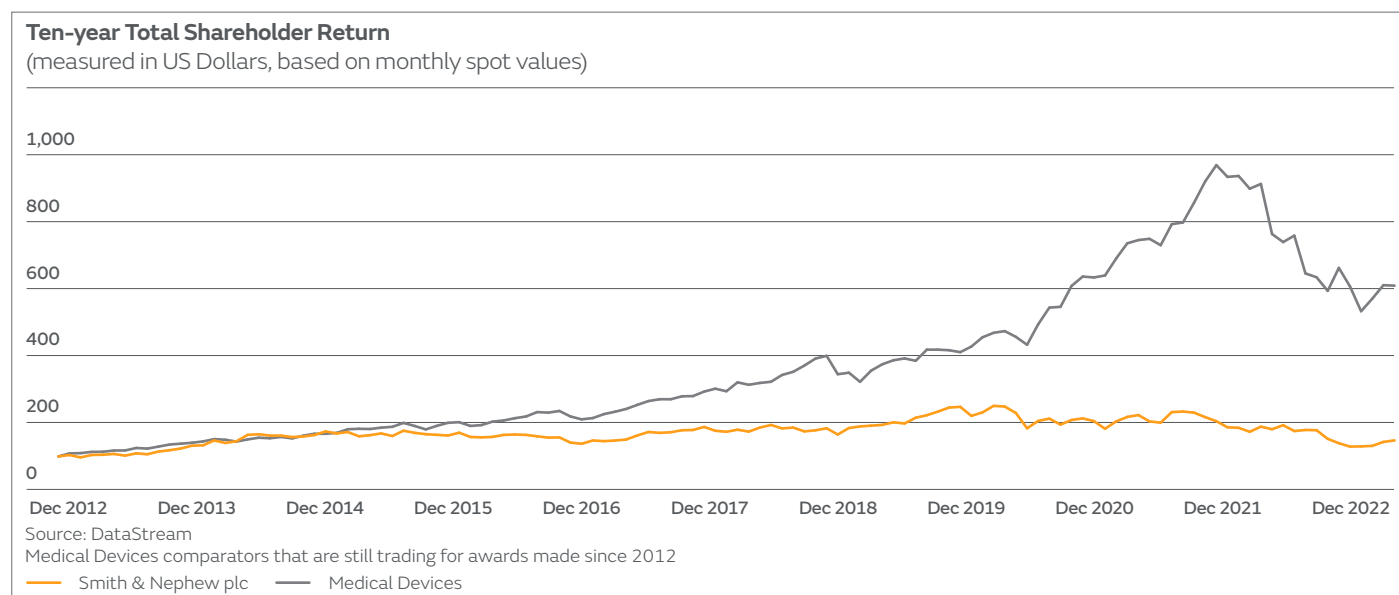
¹ Shares are bought in the market in respect of shares issued as part of the executive and employee share plans. In December 2021 we announced an updated capital allocation policy to prioritise the use of cash. The 2022 share buyback programme commenced on 22 February 2022 and \$150 million was completed by 31 August 2022. As macroeconomic conditions continued to be uncertain, including higher cost inflation, the Board decided it was prudent to delay further buybacks until conditions improved. We remain committed to returning surplus cash to shareholders over time.

Total Shareholder Return

A graph of the Company's TSR performance compared to that of the FTSE 100 index, of which the Company, is a constituent is shown below in accordance with Schedule 8 to the Regulations.



As we also compare the Company's performance to a tailored sector peer group of medical devices companies (see [page 135](#)), when considering TSR performance in the context of the Global Share Plan 2010 and Global Share Plan 2020, we feel that the following graph showing the TSR performance of this peer group is also of interest.



Remuneration continued

Remuneration implementation report continued

Table of historic data

The following table details information about the pay of the Chief Executive Officer in the previous 10 years:

Year	Chief Executive Officer	Single figure of total remuneration \$	Annual Cash Incentive payout against maximum %	Long-term incentive vesting rates against maximum opportunity	
				Performance Share Programme shares %	
2022	Deepak Nath ¹	\$5,955,246	32	–	–
2022	Roland Diggelmann	\$603,103	24	–	–
2021	Roland Diggelmann	\$3,102,426	41	–	–
2020	Roland Diggelmann	\$1,697,773	0 ⁵	–	–
2019	Roland Diggelmann ²	\$265,814	–	–	–
2019	Namal Nawana ³	\$4,489,374	71 ⁶	–	–
2018	Namal Nawana	\$2,883,632	69	–	–
2018	Olivier Bohuon ⁴	\$2,383,582	63	46.5	–
2017	Olivier Bohuon	\$5,116,689	61	54	–
2016	Olivier Bohuon	\$3,332,850	30	8	–
2015	Olivier Bohuon	\$5,342,377	75	33.5	–
2014	Olivier Bohuon	\$6,785,121	43	57	–
2013	Olivier Bohuon	\$4,692,858	84	0	–

1 Appointed Chief Executive Officer on 1 April 2022.

2 Appointed Chief Executive Officer on 1 November 2019 and stepped down on 31 March 2022.

3 Appointed Chief Executive Officer on 7 May 2018 and resigned on 31 October 2019.

4 Retired as Chief Executive Officer on 7 May 2018.

5 Due to the impact of Covid upon the Chief Executive Officer's financial targets, a cash award of 0% was achieved.

6 Calculated as 106.7% for Namal Nawana (disclosed on page 108 of the Company's Annual Report for the year ended 31 December 2019), divided by the maximum potential payout of 150%.

Gender pay ratio

In 2022, the Committee reviewed our UK gender pay ratio. It was noted that today our gender pay gap is greater than we would like it to be, but we are seeing improvements year-on-year. Our mean pay gap for the UK has decreased from 20% in 2021 to 16% in 2022, and the median gap has decreased from 17% in 2021 to 16% in 2022. We shall continue to review these figures.

Shareholding requirements

The Chief Executive Officer is required to hold three times his salary in the form of shares and the Chief Financial Officer is required to hold two times her salary. Executive Directors have five years from their appointment within which to meet that holding requirement. Due to the tenure of the Executive Directors neither have met their shareholding requirements, but this will continue to be monitored in accordance with the Remuneration Policy.

Post cessation shareholding requirements

In addition, Executive Directors are expected to hold vested shares for up to two years post-vesting of the Performance Share Programme and Deferred Share Bonus Plan. They are expected to hold up to their shareholding requirement only. These shares are held in the vested Share Plan Account provided by the Company's share plan administrator.

Statement of voting at Annual General Meeting

At the Annual General Meeting held on 13 April 2022, votes cast by proxy and at the meeting and votes withheld in respect of the votes on the Directors' Remuneration Report are noted below. In addition, votes cast by proxy and at the meeting and votes withheld in respect of the votes on the Directors' Remuneration Policy, which was last approved by shareholders on 9 April 2020 are noted below:

Resolution	Votes for	% for	Votes against	% against	Total votes validly cast	Votes withheld
Approval of the Directors' Remuneration report (excluding policy)	647,076,103	96.71	22,010,946	3.29	669,087,049	1,731,661
Approval of the Directors' Remuneration Policy at the 2020 Annual General Meeting	676,749,445	97.71	15,843,720	2.29	692,593,165	352,762

Senior management remuneration

The Group's administrative, supervisory and management body (senior management) comprises for US reporting purposes, Executive Directors and Executive Officers. Details of the current Executive Directors and Executive Officers are given on [pages 86–89](#).

Compensation paid to senior management in respect of 2020, 2021 and 2022 was as follows:

	2022	2021	2020
Total compensation (excluding pension emoluments, but including cash payments under the performance-related incentive plans)	\$17,211,000	\$15,795,000	\$12,369,000
Total compensation for loss of office	–	–	–
Aggregate increase in accrued pension scheme benefits	–	–	–
Aggregate amounts provided for under supplementary schemes	\$1,626,000	\$1,454,000	\$1,753,000

As at 10 February 2023, senior management owned 530,016 shares and 8,457 ADSs, constituting less than 0.063% of the share capital of the Company. For this purpose, the Group is defined as the Executive Directors, members of the Executive Committee, including the Company Secretary and their Persons Closely Associated. Details of share awards granted during the year and held as at 10 February 2023 by members of senior management are as follows:

	Share awards granted during the year	Total share awards held as at 10 February 2023
Equity Incentive Programme awards	0	99,066
Deferred Share Bonus Plan awards	161,396	108,506
Performance Share Programme awards at maximum	1,400,882	2,121,358
Performance Share Programme – Supplementary awards	0	41,898
Conditional Share Awards under the Global Share Plan 2020	126,337	229,896
Buy-Out Award Agreement	441,737	205,208
Options under Employee ShareSave plans	2,135	3,756

The Smith+Nephew Employee Share Trust

Note 19.2 of these accounts states the movement in Treasury Shares and the Trust during 2022. No more shares are held within the Trust than are required for the next twelve months' of anticipated vestings. Any unvested shares held in the Trust are not voted upon at shareholder meetings. No more than 5% of the issued share capital at 31 December 2022 is held within the Trust. At 31 December 2022 shares were held in the Trust representing 0.37% of the issued share capital.

Dilution headroom

The Remuneration Committee ensures that at all times the number of new shares which may be issued under any share-based plans, including all-employee plans, does not exceed 10% of the Company's issued share capital over any rolling 10-year period (of which up to 5% may be issued to satisfy awards under the Company's discretionary plans). The Company monitors headroom closely when granting awards over shares taking into account the number of options or shares that might be expected to lapse or be forfeited before vesting or exercise. In the event that insufficient new shares are available, there are processes in place to purchase shares in the market to satisfy vesting awards and to net-settle option exercises.

Over the previous 10 years (2013 to 2022), the number of new shares issued under our share plans has been as follows:

All-employee share plans	7,102,563 (0.81% of issued share capital as at 10 February 2023)
Discretionary share plans	15,478,364 (1.77% of issued share capital as at 10 February 2023)

By order of the Board, on 21 February 2023



Angie Risley

Chair of the Remuneration Committee



Accounts

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Statement of Directors' responsibilities in respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report and Form 20-F and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with UK-adopted international accounting standards and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK accounting standards and applicable law, including FRS 101 Reduced Disclosure Framework. In addition the Directors have also chosen to prepare the Group financial statements in accordance with IFRS as issued by the International Accounting Standards Board (IASB).

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 Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable, relevant, reliable and prudent;
- For the Group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards and IFRS as issued by the IASB;
- For the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements;
- Assess the Group and Parent 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 Group or the Parent 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 Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its 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 Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In accordance with Disclosure Guidance and Transparency Rule 4.1.14R, the financial statements will form part of the annual financial report prepared using the single electronic reporting format under the TD ESEF Regulation. The auditor's report on these financial statements provides no assurance over the ESEF format.

Responsibility statement of the Directors in respect of the Annual Report

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Strategic Report, which has been prepared in accordance with the requirements of the Companies Act 2006, comprises [pages IFC–81](#).

The Directors' Report, prepared in accordance with the requirements of the Companies Act 2006 and the UK Listing Authority's Listing Rules, and Disclosure Guidance and Transparency Rules, comprising [pages 7, 20–21, 29–45, 47, 48–53, 56–68, 69–80, 84, 92–93, 97–100, 103–107, 108–109, 112–115, 197–198, 220, 225–228 and 240–248](#), was approved by the Board and signed on its behalf. We consider the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board, on 21 February 2023



Helen Barraclough
 Company Secretary



Independent auditor’s report to the members of Smith & Nephew Plc

1. Our opinion is unmodified

In our opinion:

- the financial statements of Smith & Nephew plc give a true and fair view of the state of the Group’s and of the Parent Company’s affairs as at 31 December 2022, and of the Group’s profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the Group and Parent Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What our opinion covers

We have audited the Group and Parent Company financial statements of Smith & Nephew plc (“the Company”) for the year ended 31 December 2022 (FY22) included in the Annual Report, which comprise:

Group (Smith & Nephew plc and its subsidiaries)	Parent Company (Smith & Nephew plc)
<ul style="list-style-type: none"> – The Group Income Statement. – Group Statement of Comprehensive Income. – Group Balance Sheet. – Group Cash Flow Statement. – Group Statement of Changes in Equity. Notes 1 to 23 to the Group financial statements, including the accounting policies in note 1.	<ul style="list-style-type: none"> – Company Balance Sheet. – Company Statement of Changes in Equity. Notes 1 to 9 to the Parent Company financial statements, including the accounting policies in note 1.

Additional opinion in relation to IFRS as adopted by the IASB

As explained in Note 1 to the Group financial statements, the Group, in addition to complying with its legal obligation to apply UK-adopted international accounting standards, has also applied IFRS as issued by the International Accounting Standards Board (IASB). In our opinion, the Group financial statements have been properly prepared in accordance with IFRS as issued by the IASB.

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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion and matters included in this report are consistent with those discussed and included in our reporting to the Audit Committee (“AC”).

We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities.

2. Overview of our audit

Factors driving our view of risks

Following our FY21 audit, and considering developments affecting the Group since then, we have updated our risk assessment.

Consistent with FY21 audit, we determined Provision for metal-on-metal hip products and Excess and Obsolescence (E&O) provision for Orthopaedics inventory as key audit matters due to a high degree of estimation uncertainty, with a potential range of outcomes greater than our materiality for the financial statements as a whole.

We have identified Recoverability of the Orthopaedics CGU goodwill as a new key audit matter. The profitability of the Orthopaedics business remains below historic levels, which combined with higher input inflation and supply chain challenges means that reasonably possible changes in assumptions could lead to a material impairment.

Parent company financial statements only: Recoverability of Parent Company's investments in subsidiaries – due to their materiality in the context of the Parent Company financial statements as a whole, this is considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our Parent Company audit.

Key Audit Matters	Vs FY21	Item
Recoverability of the Orthopaedics CGU goodwill	+	4.1
Provision for metal-on-metal hip products	↔	4.2
Excess and Obsolescence (E&O) provision for Orthopaedics Inventory	↔	4.3
Parent company financial statements only: Recoverability of Parent Company's investment in subsidiaries	↔	4.4

Audit Committee interaction

During the year, the AC met 8 times. KPMG are invited to attend all AC meetings and are provided with an opportunity to meet with the AC in private sessions without the Executive Directors being present. For each Key Audit Matter, we have set out communications with the AC in section 4, including matters that required particular judgement for each.

The matters included in the Audit Committee report on [page 101](#) are materially consistent with our observations of those meetings.

Our independence

We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities.

We have not performed any non-audit services during FY22 or subsequently which are prohibited by the FRC Ethical Standard.

We were first appointed as auditor of the Company in 2015 following a competitive tender in 2014. The period of total uninterrupted engagement is for the 8 financial years ended 31 December 2022.

This is Paul Nichols first year as a group engagement partner.

The average tenure of partners responsible for component audits as set out in section 7 below is 3.2 years, with the shortest being 1 and the longest being 6.

Total audit fee	\$9.4m
Audit related fees (including interim review)	\$0.4m
Non-audit fee as a % of total audit and audit related fee %	4%
Date first appointed	31 December 2015
Uninterrupted audit tenure	8 years
Tenure of Group engagement partner	1 year
Average tenure of component signing partners	3.2 years

Independent auditor's UK report continued

2. Overview of our audit continued

Materiality (Item 6 below)

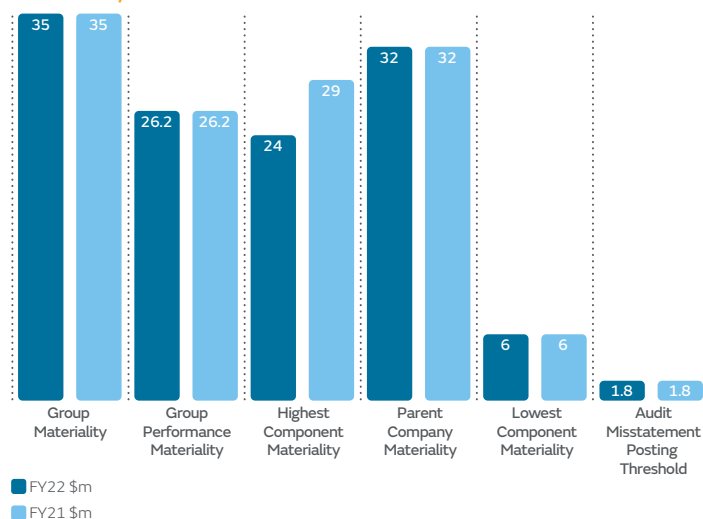
The scope of our work is influenced by our view of materiality and our assessed risk of material misstatement.

We have determined overall materiality for the Group financial statements as a whole at \$35m (FY21: \$35m) and for the Parent Company financial statements as a whole at \$32m (FY21: \$32m).

Consistent with FY21, we determined that adjusted profit before tax remains the benchmark for the Group as we consider it to be the primary measure by which users of the accounts assess the performance of the Group. As such, we based our Group materiality on adjusted profit before tax, of which it represents 5.15% (FY21: 5.13%).

Materiality for the Parent Company financial statements was determined with reference to a benchmark of Parent Company total assets of which it represents 0.3% (FY21: 0.3%).

Materiality levels used in our audit



Group scope (Item 7 below)

We have performed risk assessment and planning procedures to determine which of the Group's components are likely to include risks of material misstatement to the Group financial statements, the type of procedures to be performed at these components and the extent of involvement required from our component auditors around the world.

Of the Group's 121 (FY21: 112) reporting components, we subjected 3 (2021: 6) to full scope audits for group purposes, 33 (FY21: 34) to audits of specific account balances and specified risk focussed audit procedures focussed over revenue, receivables and cash (5 (FY21: 6)), inventory (6 (FY21: 6)) and property, plant and equipment (2 (FY21: 1)). The components within the scope of our work accounted for the percentages illustrated opposite.

In addition, we have performed Group level analysis on the remaining components to determine whether further risks of material misstatement exist in those components.

We consider the scope of our audit, as communicated to the Audit Committee, to be an appropriate basis for our audit opinion.

Coverage of Group financial statements

Profit before tax



Total assets



Revenue



The impact of climate change on our audit

In planning our audit, we considered the potential impacts of climate change on the Group's business and its financial statements.

The Group has set out in the Strategic Report its commitment to achieving net zero Scope 1 and Scope 2 greenhouse gas emissions (GHGs) by 2040 and Scope 3 GHGs by 2045 and its commitment to several other shorter-term targets.

As a part of our audit, we have performed a risk assessment, including enquiries of management, to understand how the impact of commitments made by the Group in respect of climate change, as well as the physical or transition risks of climate change, may affect the financial statements and our audit. There was no impact of this work on our key audit matters.

Based on the procedures we performed in reviewing and challenging the Group's Road map for transitioning to net zero Scope 1 and Scope 2 GHGs, we did not identify any significant risk in this period of climate change having a material impact on the Group's critical accounting estimates. This is due to the shorter-term nature of certain estimates (inventory provisioning) and the nature of the estimate itself (metal on metal liabilities). In addition, we did not identify any significant risks in this period to the carrying value and useful economic lives of property, plant and equipment or intangible assets caused by the projected physical risks of climate change or the transition to a net zero operating model.

We have read the disclosures of climate related information in the annual report and considered their consistency with the financial statements and our audit knowledge.

3. Going concern, viability and principal risks and uncertainties

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Parent Company or to cease their operations, and as they have concluded that the Group's and the Parent 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 their 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").

Going concern

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources and metrics relevant to debt covenants over this period relates to supply chain disruption and macroeconomic factors, including inflation. This could lead to a sustained medium-term decline in revenue and profits.

We also considered less predictable but realistic second order impacts, such as adverse working capital movements, including delays in customer payments, new product liability claims giving rise to significant claims and legal fees, pricing and reimbursement pressures, and currency exchange volatility leading to a long-term decline in revenue and profits.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources and covenants indicated by the Group's financial forecasts.

We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks, and related sensitivities.

Our conclusions

- 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 Group's or Parent Company's ability to continue as a going concern for the going concern period;
- We have nothing material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Parent Company's use of that basis for the going concern period, and we found the going concern disclosure in note 1 to be acceptable; and
- The related statement under the Listing Rules set out on [page 84](#) is materially consistent with the financial statements and our audit knowledge.

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 Group or the Parent Company will continue in operation.

Independent auditor's UK report continued

3. Going concern, viability and principal risks and uncertainties continued

Disclosures of emerging and principal risks and longer-term viability

Our responsibility

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement on [page 78](#) that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Emerging and Principal Risks disclosures describing these risks and how emerging risks are identified and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the viability statement set out on [page 78](#) under the Listing Rules.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. 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 absence of anything to report on these statements is not a guarantee as to the Group's and Parent Company's longer-term viability.

Our reporting

We have nothing material to add or draw attention to in relation to these disclosures.

We have concluded that these disclosures are materially consistent with the financial statements and our audit knowledge.

4. Key audit matters

What we mean

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in the audit; and
- directing the efforts of the engagement team.

We include below the Key Audit Matters in decreasing order of audit significance together with our key audit procedures to address those matters and our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, for the purpose of our audit of the financial statements as a whole. We do not provide a separate opinion on these matters.

4.1 Recoverability of orthopaedics CGU goodwill (Group)

Financial statement elements

	FY22	FY21
Goodwill (Orthopaedics CGU)	\$953m	\$897m

Our assessment of risk vs FY21

We have identified recoverability of the Orthopaedics CGU goodwill as a new key audit matter. The profitability of the Orthopaedics business remains below historic levels, which combined with higher input inflation and supply chain challenges means that reasonably possible changes in assumptions could lead to a material impairment.

+ Our results

FY22:
Acceptable
FY21:
 Acceptable

Description of the key audit matter

Forecast-based valuation

As discussed in Note 8 to the consolidated financial statements, the goodwill balance as of 31 December 2022 was \$3,031 million, of which \$953 million related to the Orthopaedics cash generating unit (CGU).

The Group performs an impairment test for goodwill annually, and additionally whenever an indicator of impairment is identified. The recoverable amounts are based on value-in-use which is calculated from pre-tax cash flow projections for three years using data from the Group's budget and strategic planning process and extrapolated for a further two years. The headroom for the Orthopaedics CGU has decreased from \$1.1bn in the prior year to \$0.6bn in the current year, primarily due to higher input inflation and supply chain challenges.

We identified the recoverability of Orthopaedics CGU goodwill and related disclosure as a key audit matter. Significant auditor judgment was required to evaluate the key assumptions used in the Group's impairment test, specifically the revenue growth rates and trading profit margins. The effect of these matters is that, as part of our risk assessment, we determined that the value in use of goodwill has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (Note 8.4) disclose the sensitivity estimated by the Group.

Disclosure quality

The financial statements (note 8.4) disclose the sensitivity estimated by the Group. These disclosures give relevant information about the estimation uncertainty including the risk of a reduction in the headroom or need for an impairment as a result of a reasonably possible change in one or more of the key assumptions.

Our response to the risk

Our procedures to address the risk included:

- **Control operation:** We evaluated the design and implementation and tested the operating effectiveness of certain internal controls over the Group's goodwill impairment process, including controls over the key assumptions.
- **Benchmarking assumptions and historical comparison:** We assessed the revenue growth rates and trading profit margins assumptions by comparing them to external industry forecasts; and analysts' reports.
- **Our sector experience:** We involved valuations experts with specialised skills and knowledge, who assisted in developing a range of Orthopaedics CGU enterprise values using market based valuation techniques and compared their results to the value in use valuation calculated by management.
- **Sensitivity analysis:** we performed a sensitivity analysis over the key assumptions listed to the left to assess the impact on the value in use.
- **Historical comparisons:** We evaluated the Group's ability to forecast the cash flow projections by comparing historical actual results to the approved budgets in the previous years.
- **Assessing transparency:** We assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to a reasonably possible change in the key assumptions listed to the left, reflects the risks inherent in the estimation of the recoverable amount of goodwill.

Communications with the Smith & Nephew plc Audit Committee

Our discussions with and reporting to the Audit Committee included:

- Our risk assessment and planned substantive procedures and the extent of our control reliance.
- The adequacy of the disclosures, particularly as it relates to the level of estimation uncertainty involved.

Areas of particular auditor judgement

We identified the following as the areas of particular auditor judgement:

- Assumptions used by management in the value in use calculation relate to the revenue growth rates and trading profit margins.

Our results

We found the Group's conclusion that there is no impairment of Orthopaedics CGU's goodwill to be acceptable (2021: acceptable) and we found the sensitivity disclosures made to be acceptable (2021: acceptable).

Further information in the Annual Report and Accounts: See the Audit Committee Report on [page 102](#) for details on how the Audit Committee considered Impairment of Goodwill attributable to Orthopaedics CGU as an area of significant attention, [page 170](#) for the accounting policy on Impairment of Goodwill attributable to Orthopaedics CGU, and note 8 for the financial disclosures.

Independent auditor's UK report continued

4. Key audit matters continued

4.2 Provision for metal-on-metal hip products (Group)

Financial statement elements

	FY22	FY21
Provision for metal-on-metal hip products	\$239m	\$289m

Our assessment of risk vs FY21

Our assessment is that the risk is similar to FY21. We identify provision for metal-on-metal hip products to be a key audit matter due to a high degree of estimation uncertainty involved.

↔ Our results

FY22:
Acceptable
FY21:
Acceptable

Description of the key audit matter

Subjective estimate

As discussed in note 17.1 to the consolidated financial statements, the Group holds a provision of \$239 million (FY21: \$289 million) relating to the present value at 31 December 2022 of the estimated costs to resolve all other known and anticipated metal-on-metal hip claims globally.

The estimate for this provision requires the Group to use an actuarial model and make a number of key assumptions relating to the number of claimants and settlement outcomes. We identified the evaluation of the provision for metal-on-metal hip products and related disclosure for these potential liabilities as a key audit matter because especially challenging auditor judgement and specialised skills and knowledge was required in assessing the key assumptions above. Minor changes to these assumptions would have a significant effect on the provision.

Our response to the risk

Our procedures to address the risk included:

- **Control operation:** We evaluated the design and implementation and tested the operating effectiveness of certain internal controls over the Group's legal provision process. This included controls related to the Group's review, challenge and assessment of the metal-on-metal provision and related key assumptions including estimating the number of claimants and the settlement outcomes.
- **Enquiry of lawyers:** We obtained correspondence directly from the Group's external counsel on the status of open metal-on-metal court proceedings and settlement negotiations. We compared the number of open metal-on-metal claims per the Group's records against this correspondence, and considered any relevant information provided in our evaluation of the related exposure.
- **Our actuarial expertise:** We involved actuarial specialists with relevant skills and knowledge, who assisted in challenging the number of claimants and settlement outcomes used in statistical projections in determining the provision, as well as the range of reasonably possible outcomes determined by the Group, by reference to historical data including settlement amounts, number of new claimants, and experience of other cases. In addition, the actuarial professionals assisted in evaluating the statistical model applied by the Group with actuarial professional standards and industry practice for similar product liability claims. We evaluated the scope, competency, and objectivity of the Group's experts involved in developing the actuarial model used in the determination of the provision by considering the work they were engaged to perform, their professional qualifications, and reporting lines.
- **Assessing disclosures:** We assessed the Group's sensitivity disclosures in respect of the metal-on-metal hip provision over how sensitive the provision is to changes in the key assumptions and how the range of possible outcomes reflect the underlying facts and circumstances.

Communications with the Smith & Nephew plc Audit Committee

Our discussions with and reporting to the Audit Committee included:

- Our approach to the audit of the provision for metal-on-metal hip including details of our planned substantive procedures and the extent of our control reliance.
- Our conclusions on the appropriateness of Smith & Nephew plc's provisioning methodology and policy.
- The adequacy of the disclosures, particularly as it relates to the level of estimation uncertainty involved.

Areas of particular auditor judgement

We identified the following as the areas of particular auditor judgement:

- Assumptions relating to the number of claimants and settlement outcome, which are used in the actuarial model.

Our results

We found the level of provisioning in respect of metal-on-metal hip products to be acceptable (FY21: acceptable).

Further information in the Annual Report and Accounts: See the Audit Committee Report on [page 102](#) for details on how the Audit Committee considered the Provision for metal-on-metal hip products as an area of significant attention, [page 170](#) for the accounting policy on Provision for metal-on-metal hip products, and note 17.1 for the financial disclosures.

4.3 Excess and obsolescence (E&O) provision for orthopaedics inventory (Group)

Financial statement elements

	FY22	FY21
E&O Provision for Orthopaedics inventory	\$504m	\$430m

Our assessment of risk vs FY21

Our assessment is that the risk is similar to FY21. We identify E&O provision for Orthopaedics inventory to be a key audit matter due to a high degree of estimation uncertainty involved.



Our results

FY22:
Acceptable
FY21:
 Acceptable

Description of the key audit matter

Subjective estimate

As discussed in notes 1.2 and 12 to the consolidated financial statements, the Group's total E&O provision is \$504 million (FY21: \$430 million), approximately 80% of which is related to Orthopaedics. The Group has high levels of Orthopaedics inventory that is available for customers' immediate use. Complete sets of products including large and small sizes of inventory (which are used less frequently) have to be available to customers at their premises. An assessment is made by the Group to identify excess or obsolete inventory. The key input into this provision is the estimate of the forecasted usage of inventory on hand.

There is a high degree of subjectivity in assessing a number of the assumptions applied by the Group in calculating the future utilisation of inventory. Future utilisation which is based on assumptions of historical sales of inventory adjusted for other internal or external factors such as effectiveness of inventory deployment, length of product lives and planned phase out of products which may impact the demand for the product.

The effect of these matters is that, as part of our risk assessment, we determined that the provision has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole over the longer term.

Our response to the risk

Our procedures to address the risk included:

- **Control operation:** We evaluated the design and implementation and tested the operating effectiveness of certain internal controls over the Group's process for assessing the E&O provision, including controls over the key assumptions used to determine forecasted usage of Orthopaedics inventory.
- **Test of detail:** We assessed and challenged the key assumptions used to determine the E&O provision through a combination of interviews of both finance and operations personnel and inspection of internal budgets, including a selection of product plans to assess the impact of plans for phasing out product lines on forecasted usage of Orthopaedics inventory.
- **Historical comparisons:** We evaluated the Group's ability to accurately estimate the E&O provision by comparing historically recorded provisions to actual inventory write-offs and historic estimates of forecasted usage to actual usage.
- **Sensitivity analysis:** We assessed the sensitivity of the key assumptions, listed to the left, incorporating the recent volatility in sales of inventory, to consider their impact on the Group's determination of the provision recognised.
- **Assessing disclosures:** We assessed the adequacy of the Group's disclosures in respect of the E&O provision.

Communications with the Smith & Nephew plc Audit Committee

Our discussions with and reporting to the Audit Committee included:

- Our approach to the audit of E&O provision including details of our planned substantive procedures and the extent of our control reliance.
- Our conclusions on the appropriateness of Smith & Nephew plc's provisioning methodology and policy.
- The adequacy of the disclosures, particularly as it relates to the level of estimation uncertainty involved.

Areas of particular auditor judgement

We identified the following as the areas of particular auditor judgement:

- Assumptions used by management in relation to future utilisation of provision.

Our results

We considered the level of E&O provisions for orthopaedics inventory to be acceptable (FY21: acceptable).

Further information in the Annual Report and Accounts: See the Audit Committee Report on [page 102](#) for details on how the Audit Committee considered E&O provision for Orthopaedics Inventory as an area of significant attention, [page 169](#) for the accounting policy on E&O provision for Orthopaedics Inventory, and note 12 for the financial disclosures.

Independent auditor's UK report continued

4. Key audit matters continued

4.4 Recoverability of Parent Company's investment in subsidiaries (Parent Company only)				
Financial Statement Elements			Our assessment of risk vs FY21	↔ Our results
		FY22	FY21	
Investments in subsidiaries		\$7,092m	\$7,092m	FY22: Acceptable FY21: Acceptable
Description of the key audit matter		Our response to the risk		
<p>Low risk, high value</p> <p>The carrying amount of the Parent Company's investments in subsidiaries held at cost less impairment represents 69% (FY21: 64%) of the Parent Company's total assets.</p> <p>We do not consider the valuation of these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement. However, due to their materiality in the context of the Parent Company financial statements as a whole, this is considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our Parent Company audit.</p>		<p>We performed the tests below rather than seeking to rely on any of the Company's controls because the annual assessment meant that detailed testing is inherently the most effective means of obtaining audit evidence.</p> <p>Our procedures to address the risk included:</p> <ul style="list-style-type: none"> – Test of detail: Comparing a sample of the highest value investments representing 98% (FY21: 98%) of the total investment balance with the relevant subsidiaries' draft balance sheets to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. – Assessing subsidiary audits: Assessing the work performed by the subsidiary audit teams on that sample of subsidiaries and considering the results of their work on those subsidiaries' profits and net assets. 		
<p>Communications with the Smith & Nephew plc Audit Committee</p> <p>Our discussions with and reporting to the Audit Committee included:</p> <ul style="list-style-type: none"> – Our audit response to the Key Audit Matter which included challenge of the key aspects of management's impairment assessment and the range of reasonably possible alternatives for significant assumptions. 				
<p>Areas of particular auditor judgement</p> <p>There are no areas of significant auditor judgement in relation to this Key audit matter.</p>				
<p>Our results</p> <p>We found the Directors' assessment of the recoverability of the investment in subsidiaries to be acceptable (FY21: acceptable).</p>				

Further information in the Annual Report and Accounts: See [page 223](#) for the accounting policy on Recoverability of Parent Company's investment in subsidiaries, and [page 223](#) for the financial disclosures.

5. Our ability to detect irregularities, and our response

Fraud – Identifying and responding to risks of material misstatement due to fraud	
Fraud risk assessment	<p>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:</p> <ul style="list-style-type: none"> – Enquiring of directors, the Audit Committee, internal audit, compliance officers and inspection of policy documentation as to the Group’s high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group’s channel for “whistleblowing”, as well as whether they have knowledge of any actual, suspected or alleged fraud. – Reading Board and all relevant committee minutes. – Inspecting management’s own fraud risk assessment and considering the applicability of identified risk factors. – Considering remuneration incentive schemes (primarily the annual bonus plan) and performance targets for management and directors, including revenue and trading margin targets for management remuneration. – Using analytical procedures to identify any unusual or unexpected relationships. – Using our own forensic specialists to assist us in identifying fraud risks based on discussions of the circumstances of the Group and Company.
Risk communications	<p>We communicated identified fraud risk factors throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group audit team to all in-scope component audit teams of relevant fraud risk factors identified at the Group level and request to component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at the group level.</p>
Fraud risks	<p>As required by auditing standards and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as inventory provisioning. On this audit we do not believe there is a fraud risk related to revenue recognition based on the following assessment:</p> <ul style="list-style-type: none"> – The accounting for the majority of the Group’s sales is non-complex, and subject to limited levels of judgement with limited opportunities for manual intervention in the sales process to fraudulently manipulate revenue. There is also a short period of time between order and delivery. – Revenue related rebates and deductions are relevant for sales made to distributors in certain markets, and the calculation of these includes a level of estimation which may be subject to management bias. However, given the materiality of the respective accruals, their contractual terms, and the historic profile of these deductions, including frequency of settlement, we are satisfied that there is no significant risk of fraud associated with these sales. – We are also satisfied that there are no significant risks around fraudulent sales to distributors, including channel stuffing, given the materiality of these arrangements, number and size of agreements and levels of channel inventory. <p>We did not identify any additional fraud risks.</p>
Procedures to address fraud risks	<p>In determining the audit procedures, we considered the results of our evaluation and testing of the operating effectiveness of the Group-wide fraud risk management controls.</p> <p>We also performed procedures including:</p> <ul style="list-style-type: none"> – Identifying journal entries and other adjustments to test for all full scope components based on specific risk-based criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted to unusual accounts, and those with missing user identification; and – Assessing significant accounting estimates for bias.

5. Our ability to detect irregularities, and our response continued

Laws and regulations – Identifying and responding to risks of material misstatement relating to compliance with laws and regulations	
Laws and regulations risk assessment	<p>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, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We engaged forensic specialists to assist in the review of relevant correspondence and attend discussions with management on relevant matters.</p> <p>As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.</p>
Risk communications	<p>We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group audit team to all in-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for component auditors to report to the group audit team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at the Group level.</p>
Direct laws context and link to audit	<p>The potential effect of these laws and regulations on the financial statements varies considerably. Firstly, the Group 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.</p>
Most significant indirect law/regulation areas	<p>Secondly, the Group 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 or the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect: Food and Drug Administration regulations in the US and the compliance of business practices with the UK Bribery Act and the US Foreign Corrupt Practices Act recognising the regulated nature of the Group's activities.</p> <p>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.</p>
Actual or suspected breaches discussed with AC	<p>We discussed with the Audit Committee other matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.</p>
Context	
Context of the ability of the audit to detect fraud or breaches of law or regulation	<p>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 fraud 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.</p>

6. Our determination of materiality

The scope of our audit was influenced by our application of materiality. We set quantitative thresholds and overlay qualitative considerations to help us determine the scope of our audit and the nature, timing and extent of our procedures, and in evaluating the effect of misstatements, both individually and in the aggregate, on the financial statements as a whole.

<p>\$35m (FY21: \$35m)</p> <p>Materiality for the Group financial statements as a whole</p>	<p>What we mean A quantitative reference for the purpose of planning and performing our audit.</p> <hr/> <p>Basis for determining materiality and judgements applied Materiality for the Group financial statements as a whole was set at \$35m (FY21: \$35m). This was determined with reference to a benchmark of Group's adjusted profit before tax. Consistent with FY21, we determined that Group adjusted profit before tax remains the main benchmark for the Group as we consider it to be the primary measure by which users of the accounts assess the performance of the Group. Our Group materiality of \$35m was determined by applying a percentage to the profit before tax, adjusted to exclude this year's restructuring costs of \$168 million, legal & other charges of \$82 million, a charge of \$162 million related to acquisition and disposal related items as disclosed in note 3 and excluding charge for impairment of acquisition intangible assets of \$32 million, as disclosed in note 9. When using a benchmark of adjusted profit before tax to determine overall materiality, KPMG's approach for listed entities considers a guideline range 3%–5% of the measure. In setting overall Group materiality, we applied a percentage of 5.15% (FY21: 5.13%) to the benchmark. Materiality for the Parent Company financial statements as a whole was set at \$32m (FY21: \$32m), determined with reference to a benchmark of Parent Company total assets, of which it represents 0.3% (FY21: 0.3%).</p>
<p>\$26.2m (FY21: \$26.2m)</p> <p>Performance materiality</p>	<p>What we mean Our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.</p> <hr/> <p>Basis for determining materiality and judgements applied We have considered performance materiality at a level of 75% (FY21: 75%) of materiality for Smith & Nephew plc's Group financial statements as a whole to be appropriate. The Parent Company performance materiality was set at \$24m (FY21: \$24m), which equates to 75% (FY21: 75%) of materiality for the Parent Company financial statements as a whole. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.</p>
<p>\$1.8m (FY21: \$1.8m)</p> <p>Audit misstatement posting threshold</p>	<p>What we mean This is the amount below which identified misstatements are considered to be clearly trivial from a quantitative point of view. We may become aware of misstatements below this threshold which could alter the nature, timing and scope of our audit procedures, for example if we identify smaller misstatements which are indicators of fraud. This is also the amount above which all misstatements identified are communicated to the Smith & Nephew plc Audit Committee.</p> <hr/> <p>Basis for determining materiality and judgements applied We set our audit misstatement posting threshold at 5% (FY21: 5%) of our materiality for the Group financial statements. We also report to the Audit Committee any other identified misstatements that warrant reporting on qualitative grounds.</p>

Independent auditor's UK report continued

6. Our determination of materiality continued

The overall materiality for the Group financial statements of \$35m (FY21: \$35m) compares as follows to the main financial statement caption amounts:

	Total Group Revenue		Group adjusted profit before tax		Total Group Assets	
	FY22	FY21	FY22	FY21	FY22	FY21
Financial statement caption	\$5,215m	\$5,212m	\$679m	\$682m	\$9,966m	\$10,920m
Group Materiality as % of caption	0.7%	0.7%	5.15%	5.13%	0.4%	0.3%

7. The scope of our audit

Group scope	What we mean								
	<p>How the Group audit team determined the procedures to be performed across the Group.</p> <p>Of the Group's 121 (FY21: 112) reporting components, we subjected 3 (2021: 6) to full scope audits for group purposes and 33 (FY21: 34) to audits of specific account balances and specified risk focussed audit procedures focussed over revenue, receivables and cash (5 (FY21: 6)), inventory (6 (FY21: 6)) and property, plant and equipment (2 (FY21: 1)).</p> <p>The latter were not individually financially significant enough to require a full scope audit for group purposes but did present specific individual risks that needed to be addressed.</p> <p>The remaining 23% (FY21: 16%) of total group revenue, 23% (FY21: 18%) of group profit before tax and 15% (FY21: 9%) of total group assets is represented by 85 (FY21: 72) reporting components, none of which individually represented more than 5% (FY21: 4%) of any of total group revenue, group profit before tax or total group assets. For these residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.</p> <p>The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from \$6 million to \$24 million (FY21: \$6 million to \$29 million), having regard to the mix of size and risk profile of the Group across the components. The work on 10 of the 36 components (FY21: 15 of the 40 components) was performed by component auditors and the rest, including the audit of the Parent Company, was performed by the Group team.</p> <table border="1"> <thead> <tr> <th>Scope</th> <th>Number of components</th> <th>Range of materiality applied</th> </tr> </thead> <tbody> <tr> <td>Full scope audit</td> <td>3</td> <td>\$6m–\$24m</td> </tr> <tr> <td>Audit of one or more account balances</td> <td>33</td> <td>\$6m–\$12m</td> </tr> </tbody> </table> <p>We have also performed audit procedures centrally across the Group, and beyond the components scope set out above, in the following areas:</p> <ul style="list-style-type: none"> – Testing of IT Systems; – The items excluded from adjusted group profit before tax; – Goodwill and acquired intangible assets impairment assessment; and – Defined benefit pension. <p>In addition, we have performed Group level analysis on the remaining components to determine whether further risks of material misstatement exist in those components.</p> <p>We were able to rely upon the Group's internal control over financial reporting in several areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in the other areas the scope of the audit work performed was fully substantive.</p>	Scope	Number of components	Range of materiality applied	Full scope audit	3	\$6m–\$24m	Audit of one or more account balances	33
Scope	Number of components	Range of materiality applied							
Full scope audit	3	\$6m–\$24m							
Audit of one or more account balances	33	\$6m–\$12m							
Group audit team oversight	What we mean								
	<p>The extent of the Group audit team's involvement in component audits.</p> <p>Senior members of the Group engagement team oversaw the component auditor work, by performing site visits and video conference discussions with management of the component locations in scope of the Group audit. In the course of the year the Group audit team visited component audit teams in the US, China, Japan, UK and Netherlands and in addition visited local/regional management in Switzerland and Poland. The Group engagement team assessed the audit risk and strategy and directed the audit work of component auditors. The Group audit team also evaluated the sufficiency of the audit evidence obtained through discussions and remote review of the audit working papers of component teams.</p>								

8. Other information in the annual report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

All other information

Our responsibility

Our responsibility is to read the other information 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.

Our reporting

Based solely on that work we have not identified material misstatements or inconsistencies in the other information.

Strategic report and Directors' report

Our responsibility and reporting

Based solely on our work on the other information described above we report to you as follows:

- 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.

Directors' remuneration report

Our responsibility

We are required to form an opinion as to whether the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Our reporting

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance disclosures

Our responsibility

We are required to perform procedures to identify whether there is a material inconsistency between the financial statements and our audit knowledge, and:

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the Audit Committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

Our reporting

Based on those procedures, we have concluded that each of these disclosures is materially consistent with the financial statements and our audit knowledge.

We are also required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in this respect.

Independent auditor's UK report continued

8. Other information in the annual report continued

Other matters on which we are required to report by exception

Our responsibility

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited 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.

Our reporting

We have nothing to report in these respects.

9. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on [page 147](#), the directors are responsible for: the preparation of the financial statements including 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 Group and Parent 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 Group or the Parent 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 Company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

10. 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 and the terms of our engagement by the company. 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 the further matters we are required to state to them in accordance with the terms agreed with the company, 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.

Paul Nichols (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
 15 Canada Square
 London E14 5GL

21 February 2023

Group financial statements

Group income statement

	Notes	Year ended 31 December 2022 \$ million	Year ended 31 December 2021 \$ million	Year ended 31 December 2020 \$ million
Revenue	2	5,215	5,212	4,560
Cost of goods sold		(1,540)	(1,543)	(1,396)
Gross profit		3,675	3,669	3,164
Selling, general and administrative expenses	3	(2,880)	(2,720)	(2,562)
Research and development expenses	3	(345)	(356)	(307)
Operating profit	2 & 3	450	593	295
Interest income	4	14	6	6
Interest expense	4	(80)	(80)	(62)
Other finance costs	4	(8)	(17)	(7)
Share of results of associates	11	(141)	9	14
Gain on disposal of interest in associate	11	–	75	–
Profit before taxation		235	586	246
Taxation	5	(12)	(62)	202
Attributable profit for the year¹		223	524	448
Earnings per ordinary share¹	6			
Basic		25.5¢	59.8¢	51.3¢
Diluted		25.5¢	59.7¢	51.2¢

Group statement of comprehensive income

	Notes	Year ended 31 December 2022 \$ million	Year ended 31 December 2021 \$ million	Year ended 31 December 2020 \$ million
Attributable profit for the year¹		223	524	448
Other comprehensive income:				
<i>Items that will not be reclassified to income statement</i>				
Remeasurement of net retirement benefit obligations	18	30	79	10
Taxation on other comprehensive income	5	(7)	(22)	(4)
Total items that will not be reclassified to income statement		23	57	6
<i>Items that may be reclassified subsequently to income statement</i>				
Cash flow hedges – forward foreign exchange contracts				
Gains/(losses) arising in the year		24	34	(24)
(Gains)/losses transferred to inventories for the year		(37)	7	(6)
Exchange differences on translation of foreign operations		(102)	(53)	21
Taxation on other comprehensive income	5	2	(5)	4
Total items that may be reclassified subsequently to income statement		(113)	(17)	(5)
Other comprehensive (loss)/income for the year, net of taxation		(90)	40	1
Total comprehensive income for the year¹		133	564	449

1. Attributable to equity holders of the Company and wholly derived from continuing operations.

The Notes on pages 168–220 are an integral part of these accounts.

Group balance sheet

	Notes	At 31 December 2022 \$ million	At 31 December 2021 \$ million
Assets			
Non-current assets			
Property, plant and equipment	7	1,455	1,513
Goodwill	8	3,031	2,989
Intangible assets	9	1,236	1,398
Investments	10	12	10
Investments in associates	11	46	188
Other non-current assets	13	12	15
Retirement benefit assets	18	141	182
Deferred tax assets	5	177	201
		6,110	6,496
Current assets			
Inventories	12	2,205	1,844
Trade and other receivables	13	1,264	1,184
Current tax receivable		37	106
Cash at bank	15	350	1,290
		3,856	4,424
Total assets		9,966	10,920
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	19	175	177
Share premium		615	614
Capital redemption reserve		20	18
Treasury shares	19	(118)	(120)
Other reserves		(459)	(346)
Retained earnings		5,026	5,225
Total equity		5,259	5,568
Non-current liabilities			
Long-term borrowings and lease liabilities	15	2,712	2,848
Retirement benefit obligations	18	70	127
Other payables	14	90	67
Provisions	17	84	35
Deferred tax liabilities	5	36	144
		2,992	3,221
Current liabilities			
Bank overdrafts, borrowings, loans and lease liabilities	15	160	491
Trade and other payables	14	1,098	1,096
Provisions	17	243	322
Current tax payable		214	222
		1,715	2,131
Total liabilities		4,707	5,352
Total equity and liabilities		9,966	10,920

The accounts were approved by the Board and authorised for issue on 21 February 2023 and are signed on its behalf by:

Roberto Quarta
Chair

Deepak Nath, PhD
Chief Executive Officer

Anne-Françoise Nesmes
Chief Financial Officer

The Notes on pages 168–220 are an integral part of these accounts.

Group cash flow statement

	Notes	Year ended 31 December 2022 \$ million	Year ended 31 December 2021 \$ million	Year ended 31 December 2020 \$ million
Cash flows from operating activities				
Profit before taxation		235	586	246
Net interest expense	4	66	74	56
Depreciation, amortisation and impairment		617	567	562
Loss on disposal of property, plant and equipment and software		11	14	34
Share-based payments expense (equity-settled)	22	40	41	26
Share of results of associates	11	141	(9)	(14)
Gain on disposal of interest in associate	11	–	(75)	–
Net movement in post-retirement benefit obligations		6	–	1
Increase in inventories		(407)	(151)	(45)
(Increase)/decrease in trade and other receivables		(103)	(81)	209
(Decrease)/increase in trade and other payables and provisions		(25)	82	(103)
Cash generated from operations ¹		581	1,048	972
Interest received		7	6	2
Interest paid		(73)	(80)	(61)
Income taxes (paid)/refunded		(47)	(97)	22
Net cash inflow from operating activities		468	877	935
Cash flows from investing activities				
Acquisitions, net of cash acquired		(113)	(285)	(170)
Capital expenditure		(358)	(408)	(443)
Purchase of investments		(2)	(2)	(2)
Distribution from associate	11	1	4	9
Net cash used in investing activities		(472)	(691)	(606)
Cash flows from financing activities				
Proceeds from issue of ordinary share capital	20	1	2	2
Purchase of own shares	20	(158)	–	(16)
Payment of capital element of lease liabilities	20	(54)	(59)	(55)
Settlement of borrowings due within one year	20	(407)	(267)	(5)
Proceeds from borrowings due after one year	20	485	–	1,950
Settlement of borrowings due after one year	20	(474)	–	(400)
Proceeds from own shares	20	5	12	9
Settlement of currency swaps	20	3	(4)	7
Equity dividends paid	19	(327)	(329)	(328)
Net cash (used in)/from financing activities		(926)	(645)	1,164
Net (decrease)/increase in cash and cash equivalents		(930)	(459)	1,493
Cash and cash equivalents at beginning of year	20	1,285	1,751	257
Exchange adjustments	20	(11)	(7)	1
Cash and cash equivalents at end of year²		344	1,285	1,751

1 Includes \$120m (2021: \$108m, 2020: \$117m) of outgoings on restructuring and rationalisation expenses, \$22m (2021: \$28m, 2020: \$24m) of outgoings on acquisition and disposal-related items and \$133m outflow (2021: \$111m, 2020: \$75m) of legal and other items.

2 Cash and cash equivalents is net of bank overdrafts of \$6m (2021: \$5m, 2020: \$11m).

Group statement of changes in equity

	Share capital \$ million	Share premium \$ million	Capital redemption reserve \$ million	Treasury shares ² \$ million	Other reserves ³ \$ million	Retained earnings ⁴ \$ million	Total equity \$ million
At 31 December 2019	177	610	18	(189)	(324)	4,849	5,141
Attributable profit for the year ¹	-	-	-	-	-	448	448
Other comprehensive income	-	-	-	-	(5)	6	1
Equity dividends declared and paid	-	-	-	-	-	(328)	(328)
Share-based payments recognised	-	-	-	-	-	26	26
Taxation on share-based payments	-	-	-	-	-	(4)	(4)
Purchase of own shares	-	-	-	(16)	-	-	(16)
Cost of shares transferred to beneficiaries	-	-	-	37	-	(28)	9
Cancellation of treasury shares	-	-	-	11	-	(11)	-
Issue of ordinary share capital ⁵	-	2	-	-	-	-	2
At 31 December 2020	177	612	18	(157)	(329)	4,958	5,279
Attributable profit for the year ¹	-	-	-	-	-	524	524
Other comprehensive income	-	-	-	-	(17)	57	40
Equity dividends declared and paid	-	-	-	-	-	(329)	(329)
Share-based payments recognised	-	-	-	-	-	41	41
Taxation on share-based payments	-	-	-	-	-	(1)	(1)
Cost of shares transferred to beneficiaries	-	-	-	37	-	(25)	12
Issue of ordinary share capital ⁵	-	2	-	-	-	-	2
At 31 December 2021	177	614	18	(120)	(346)	5,225	5,568
Attributable profit for the year ¹	-	-	-	-	-	223	223
Other comprehensive income	-	-	-	-	(113)	23	(90)
Equity dividends declared and paid	-	-	-	-	-	(327)	(327)
Share-based payments recognised	-	-	-	-	-	40	40
Taxation on share-based payments	-	-	-	-	-	(3)	(3)
Purchase of own shares	-	-	-	(158)	-	-	(158)
Cost of shares transferred to beneficiaries	-	-	-	31	-	(26)	5
Cancellation of treasury shares	(2)	-	2	129	-	(129)	-
Issue of ordinary share capital ⁵	-	1	-	-	-	-	1
At 31 December 2022	175	615	20	(118)	(459)	5,026	5,259

1 Attributable to equity holders of the Company and wholly derived from continuing operations.

2 Refer to Note 19.2 for further information.

3 Other reserves comprises gains and losses on cash flow hedges, foreign exchange differences on translation of foreign operations and net changes on fair value of trade investments. The cumulative translation loss within other reserves at 31 December 2022 was \$452m (2021: \$350m, 2020: \$297m).

4 Within retained earnings is a capital reserve of \$2,266m (2021: \$2,266m, 2020: \$2,266m).

5 Issue of ordinary share capital in connection with the Group's share incentive plans.

Notes to the Group accounts

1 Basis of preparation

Smith & Nephew plc (the “Company”) is a public limited company incorporated in England and Wales. In these accounts, the ‘Group’ means the Company and all its subsidiaries. The principal activities of the Group are to develop, manufacture, market and sell medical devices and services.

The Group has prepared its accounts in accordance with UK-adopted International Accounting Standards. The Group has also prepared its accounts in accordance with IFRS as issued by the International Accounting Standards Board (IASB) effective as at 31 December 2022. IFRS as adopted in the UK differs in certain respects from IFRS as issued by the IASB. However, the differences have no impact for the periods presented.

The preparation of accounts in conformity with IFRS requires management to use estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the year. The accounting policies requiring management to use significant estimates and assumptions are: inventories, liability provisions and impairment. These are discussed in Note 1.2 below. Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The uncertainties as to the future impact on the financial performance and cash flows of the Group as a result of the current challenging economic environment have been considered as part of the Group’s adoption of the going concern basis in these financial statements, in which context the Directors reviewed cash flow forecasts prepared for a period of at least 12 months from the date of approval of these financial statements. Having carefully reviewed those forecasts, the Directors concluded that it was appropriate to adopt the going concern basis of accounting in preparing these financial statements for the reasons set out below.

The Group had access to \$344m of cash and cash equivalents at 31 December 2022. The Group’s net debt, excluding lease liabilities, at 31 December 2022 was \$2,339m with access to committed facilities of \$3.7bn with an average maturity of 5.1 years. At the date of approving these financial statements the funding position of the Group has remained unchanged and the cash position is not materially different.

The Group has \$105m of private placement debt due for repayment in 2023. \$1,160m of private placement debt is subject to financial covenants. The principal covenant on the private placement debt is a leverage ratio of <3.5 which is measured on a rolling 12-month basis at half year and year end. There are no financial covenants in any of the Group’s other facilities.

The Directors have considered various scenarios in assessing the impact of the economic environment on future financial performance and cash flows, with the key judgement applied being the speed and sustainability of the return to a normal volume of elective procedures in key markets, including the impact of a significant global economic recession, leading to lower healthcare spending across both public and private systems. Throughout these scenarios, which include a severe but plausible outcome, the Group continues to have headroom on its borrowing facilities and financial covenants.

The Directors have a reasonable expectation that the Company and the Group are well placed to manage their business risks, have sufficient funds to continue to meet their liabilities as they fall due and to continue in operational existence for a period of at least 12 months from the date of the approval of these financial statements. The financial statements have therefore been prepared on a going concern basis.

Accordingly, the Directors continue to adopt the going concern basis (in accordance with the guidance ‘Guidance on Risk Management, Internal Control and Related Financial and Business Reporting’ issued by the FRC) in preparing these financial statements.

New accounting standards effective 2022

A number of new amendments to standards are effective from 1 January 2022 but they do not have a material effect on the Group’s financial statements.

Accounting standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Group has not early adopted them in preparing these financial statements.

1.1 Consolidation

The Group accounts include the accounts of Smith & Nephew plc and its subsidiaries for the periods during which they were members of the Group.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated in the Group accounts from the date that the Group obtains control and continue to be consolidated until the date that such control ceases. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated on consolidation. All subsidiaries have year ends which are coterminous with the Group's, with the exception of jurisdictions whereby a different year end is required by local legislation.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related components of equity. Any resulting gain or loss is recognised in profit or loss. Any retained interest in the former subsidiary is measured at fair value.

1.2 Critical judgements and estimates

The Group prepares its consolidated financial statements in accordance with IFRS as issued by the IASB and IFRS adopted in the UK, the application of which often requires judgements and estimates to be made by management when formulating the Group's financial position and results. Under IFRS, the Directors are required to adopt those accounting policies most appropriate to the Group's circumstances for the purpose of presenting fairly the Group's financial position, financial performance and cash flows.

The Group's accounting policies do not include any critical judgements. The Group's accounting policies are set out in Notes 1–23 of the Notes to the Group accounts. Of those, the policies which require the most use of management's estimation are outlined below. The critical estimates are consistent with 31 December 2021. Management have considered the impact of the uncertainties around the current challenging economic environment below.

Valuation of inventories

A feature of the Orthopaedics franchise (which accounts for approximately 60% of the Group's total inventory and approximately 80% of the total provision for excess and obsolete inventory) is the high level of product inventory required, some of which is located at customer premises and is available for customers' immediate use. Complete sets of products, including large and small sizes, have to be made available in this way. These sizes are used less frequently than standard sizes and towards the end of the product life cycle are inevitably in excess of requirements. Adjustments to carrying value are therefore required to be made to orthopaedic inventory to anticipate this situation. 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 typically 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. See Note 12 for further details.

Current economic environment impact assessment: In assessing the increase in provision for excess and obsolete inventory, management have considered the impact of higher input cost inflation on increased inventory levels. Management have not changed their accounting policy since 31 December 2021, nor is a change in the key assumptions underlying the methodology expected in the next 12 months. Primarily due to inventory growth, the provision has increased from \$430m at 31 December 2021 to \$504m at 31 December 2022. The provision for excess and obsolete inventory is not considered to have a range of potential outcomes that is significantly different to the \$504m at 31 December 2022 in the next 12 months. The provision has a high degree of estimation uncertainty given the range of products and sizes, with a potential range of reasonable outcomes that could be material over the longer term.

Group financial statements continued

Notes to the Group accounts continued

1 Basis of preparation continued

Liability provisioning

The recognition of provisions for legal disputes related to metal-on-metal cases is subject to a significant degree of estimation. Provision is made for loss contingencies when it is considered probable that an adverse outcome will occur and the amount of the loss can be reasonably estimated. In making its estimates, management takes into account the advice of internal and external legal counsel. Provisions are reviewed regularly and amounts updated where necessary to reflect developments in the disputes. The value of provisions may require future adjustment if experience such as number, nature or value of claims or settlements changes. Such a change may be material in 2023 or thereafter. The ultimate liability may differ from the amount provided depending on the outcome of court proceedings and settlement negotiations or if investigations bring to light new facts. See Note 17 for further details.

Current economic environment impact assessment: Management considered whether there had been any changes to the number and value of claims due to current challenging economic environment and to date have not identified any significant changes in trends. If the experience changes in the future, the value of provisions may require adjustment.

Impairment

In carrying out impairment reviews of intangible assets and goodwill, a number of significant assumptions have to be made when preparing cash flow projections. These include the future rate of market growth, discount rates, the market demand for the products acquired, the future profitability of acquired businesses or products, levels of reimbursement and success in obtaining regulatory approvals. If actual results should differ or changes in expectations arise, impairment charges may be required which would adversely impact operating results. There has been a decrease in the level of headroom in relation to goodwill impairment testing for the Orthopaedics CGU which is sensitive to a reasonably possible change in assumptions. For other intangible assets and goodwill CGUs, this critical estimate is not considered to have a significant risk of material adjustment in 2023 or thereafter based on sensitivity analyses undertaken (as outlined below). See Notes 8 and 9 for further details on impairment reviews.

Current economic environment impact assessment: Management have assessed the non-current assets held by the Group at 31 December 2022 to identify any indicators of impairment as a result of current economic environment. Where an impairment indicator has arisen, impairment reviews have been undertaken by comparing the expected recoverable value of the asset to the carrying value of the asset. The recoverable amounts are based on cash flow projections using the Group's base case scenario in its going concern models, which was reviewed and approved by the Board. Impairments of \$39m, related to immaterial product intangible assets, were identified as a result of the impairment reviews undertaken.

1.3 Climate change considerations

The impact of climate change has been considered as part of the assessment of estimates and judgements in preparing the Group accounts. The climate change scenario analyses undertaken this year in line with TCFD recommendations did not identify any material financial impact. The following considerations were made in respect of the financial statements:

- The impact of climate change on the going concern assessment and the viability of the Group over the next three years.
- The impact of climate change on the cash flow forecasts used in the impairment assessments of non-current assets including goodwill.
- The impact of climate change on the carrying value and useful economic lives of property, plant and equipment.

1.4 Foreign currencies

Functional and presentation currency

The Group accounts are presented in US Dollars. The Company's functional currency is US Dollars.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group companies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rate as at the reporting date. Non-monetary items are not retranslated.

Foreign operations

Balance sheet items of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into US Dollars on consolidation at the exchange rates at the reporting date. Income statement items and the cash flows of foreign operations are translated at average rates as an approximation to actual transaction rates, with actual transaction rates used for large one-off transactions.

Foreign currency differences are recognised in 'Other comprehensive income' and accumulated in 'Other reserves' within equity. These include: exchange differences on the translation at closing rates of exchange of non-US Dollar opening net assets; the differences arising between the translation of profits into US Dollars at actual (or average, as an approximation) and closing exchange rates; to the extent that the hedging relationship is effective, the difference on translation of foreign currency borrowings or swaps that are used to finance or hedge the Group's net investments in foreign operations; and the movement in the fair value of forward foreign exchange contracts used to hedge forecast foreign exchange cash flows.

The exchange rates used for the translation of currencies into US Dollars that have the most significant impact on the Group results were:

	2022	2021	2020
Average rates			
Sterling	1.23	1.38	1.28
Euro	1.05	1.18	1.14
Swiss Franc	1.05	1.09	1.07
Year end rates			
Sterling	1.21	1.35	1.37
Euro	1.07	1.13	1.23
Swiss Franc	1.08	1.10	1.14

2 Business segment information

The Group's operating structure is organised around three global franchises and the chief operating decision maker monitors performance, makes operating decisions and allocates resources on a global franchise basis. Accordingly, the Group has concluded that there are three reportable segments.

Franchise presidents have responsibility for upstream marketing, driving product portfolio and technology acquisition decisions, and full commercial responsibility for their franchises in the US. Regional presidents in EMEA and APAC are responsible for the implementation of the global franchise strategy in their respective regions.

The Executive Committee ('ExCo') comprises the Chief Financial Officer ('CFO'), the franchise presidents, the regional presidents and certain heads of function, and is chaired by the Chief Executive Officer ('CEO'). ExCo is the body through which the CEO uses the authority delegated to him by the Board of Directors to manage the operations and performance of the Group. All significant operating decisions regarding the allocation and prioritisation of the Group's resources and assessment of the Group's performance are made by ExCo, and while the members have individual responsibility for the implementation of decisions within their respective areas, it is at the ExCo level that these decisions are made. Accordingly, ExCo is considered to be the Group's chief operating decision maker as defined by IFRS 8 *Operating Segments*.

In making decisions about the prioritisation and allocation of the Group's resources, ExCo reviews financial information for the three franchises (Orthopaedics, Sports Medicine & ENT and Advanced Wound Management) and determines the best allocation of resources to the franchises. This information is prepared substantially on the same basis as the Group's IFRS financial statements aside from the adjustments described in Note 2.2. Financial information for corporate costs is presented on a Group-wide basis. The ExCo is not provided with total assets and liabilities by segment, and therefore these measures are not included in the disclosures below. The results of the segments are shown below.

Group financial statements continued
Notes to the Group accounts continued

2 Business segment information continued
2.1 Revenue by business segment and geography

Accounting policy

Revenue is recognised as the performance obligations to deliver products or services are satisfied and is recorded based on the amount of consideration expected to be received in exchange for satisfying the performance obligations. Revenue is recognised primarily when control is transferred to the customer, which is generally when the goods are shipped or delivered in accordance with the contract terms, with some transfer of services taking place over time. Substantially all performance obligations are fulfilled within one year. There is no significant revenue associated with the provision of services. Payment terms to our customers are based on commercially reasonable terms for the respective markets while also considering a customer's credit rating. Appropriate provisions for returns, trade discounts and rebates are deducted from revenue. Rebates primarily comprise chargebacks and other discounts granted to certain customers. Chargebacks are discounts that occur when a third-party purchases product from a wholesaler at its agreed price plus a mark-up. The wholesaler in turn charges the Group for the difference between the price initially paid by the wholesaler and the agreed price. The provision for chargebacks is based on expected sell-through levels by the Group's wholesalers to such customers, as well as estimated wholesaler inventory levels.

Orthopaedics and Sports Medicine & ENT (Ear, Nose & Throat)

Orthopaedics and Sports Medicine & ENT consists of the following businesses: Knee Implants, Hip Implants, Other Reconstruction, Trauma & Extremities, 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 is recognised when control is transferred to the customer, which is generally when the goods are shipped or delivered in accordance with the contract terms. Revenue is recognised for the amount of consideration expected to be received in exchange for transferring the products or services.

In general our business in Established Markets is direct to hospitals and ambulatory surgery centers whereas in the Emerging Markets we generally sell through distributors.

Advanced Wound Management

Advanced Wound Management consists of the following businesses: Advanced Wound Care, Advanced Wound Bioactives and Advanced Wound Devices. Substantially all revenue is recognised when control is transferred to the customer, which is generally when the goods are shipped or delivered in accordance with the contract terms. Revenue is recognised for the amount of consideration expected to be received in exchange for transferring the products or services. Appropriate provisions for returns, trade discounts and rebates are deducted from revenue, as explained above.

The majority of our Advanced Wound Management business, and in particular products used in community and homecare facilities, is through wholesalers and distributors. When control is transferred to a wholesaler or distributor, revenue is recognised accordingly. The proportion of sales direct to hospitals is higher in our Advanced Wound Devices business in Established Markets.

Segment revenue reconciles to statutory revenues from continuing operations as follows:

	2022 \$ million	2021 \$ million	2020 \$ million
Reportable segment revenue			
Orthopaedics	2,113	2,156	1,917
Sports Medicine & ENT	1,590	1,560	1,333
Advanced Wound Management	1,512	1,496	1,310
Revenue from external customers	5,215	5,212	4,560

Disaggregation of revenue:

The following table shows the disaggregation of Group revenue by product franchise:

	2022 \$ million	2021 \$ million	2020 \$ million
Revenue by product from continuing operations			
Knee Implants	899	876	822
Hip Implants	584	612	567
Other Reconstruction	87	92	68
Trauma & Extremities	543	576	460
Orthopaedics	2,113	2,156	1,917
Sports Medicine Joint Repair	870	839	710
Arthroscopic Enabling Technologies	567	590	517
ENT (Ear, Nose and Throat)	153	131	106
Sports Medicine & ENT	1,590	1,560	1,333
Advanced Wound Care	712	731	647
Advanced Wound Bioactives	520	496	431
Advanced Wound Devices	280	269	232
Advanced Wound Management	1,512	1,496	1,310
Consolidated revenue from continuing operations	5,215	5,212	4,560

The following table shows the disaggregation of Group revenue by geographic market and product category. The disaggregation of revenue into the two product categories below reflects that in general the products in the Advanced Wound Management franchises are sold to wholesalers and intermediaries, while products in the other franchises are sold directly to hospitals, ambulatory surgery centers and distributors. The further disaggregation of revenue by Established Markets and Emerging Markets reflects that in general our products are sold through distributors and intermediaries in the Emerging Markets while in the Established Markets, with the exception of the Advanced Wound Care and Bioactives product franchises, products are in general sold direct to hospitals and ambulatory surgery centers. The disaggregation by Established Markets and Emerging Markets also reflects their differing economic factors including volatility in growth and outlook.

	2022			2021			2020		
	Established Markets ¹ \$ million	Emerging Markets \$ million	Total \$ million	Established Markets ¹ \$ million	Emerging Markets \$ million	Total \$ million	Established Markets ¹ \$ million	Emerging Markets \$ million	Total \$ million
Orthopaedics, Sports Medicine & ENT	2,949	754	3,703	2,969	747	3,716	2,619	631	3,250
Advanced Wound Management	1,319	193	1,512	1,327	169	1,496	1,170	140	1,310
Total	4,268	947	5,215	4,296	916	5,212	3,789	771	4,560

1 Established Markets comprises the US, Australia, Canada, Europe, Japan and New Zealand.

US revenue for 2022 was \$2,764m (2021: \$2,658m, 2020: \$2,339m), China revenue for 2022 was \$319m (2021: \$352m, 2020: \$318m) and UK revenue for 2022 was \$186m (2021: \$189m, 2020: \$166m).

Group financial statements continued
Notes to the Group accounts continued

2 Business segment information continued

Contract assets and liabilities

The nature of our products and services do not generally give rise to contract assets as we do not typically incur costs to fulfil a contract before a product or service is provided to the customer. The Group generally satisfies performance obligations within one year from the contract inception date. There was no material revenue recognised in the current reporting period that related to carried-forward contract liabilities (deferred income) or performance obligations satisfied in the previous year. There is no material revenue that is likely to arise in future periods from unsatisfied performance obligations at the balance sheet date. Therefore, there are no associated significant accrued income and deferred income balances at 31 December 2022. As of 31 December 2022, contract assets principally comprise trade receivables and contract liabilities principally comprise rebates (as described in the accounting policy above). The accrual for rebates at 31 December 2022 was \$103m (2021: \$97m) with \$369m being recognised in revenue in 2022.

Major customers

No single customer generates revenue greater than 10% of the consolidated revenue.

2.2 Trading and operating profit by business segment

Trading profit is a trend measure which presents the profitability of the Group excluding the impact of specific transactions that management considers affect the Group's short-term profitability and the comparability of results. The Group presents this measure to assist investors in their understanding of trends. The Group has identified the following items, where material, as those to be excluded from operating profit when arriving at trading profit: acquisition and disposal-related items; significant restructuring programmes; amortisation and impairment of acquisition intangibles; gains and losses arising from legal disputes; and other significant items. Further detail is provided in Notes 2.3, 2.4, 2.5 and 2.6.

Segment trading profit is reconciled to the statutory measure below:

	2022 \$ million	2021 \$ million	2020 \$ million
Segment profit			
Orthopaedics	383	367	389
Sports Medicine & ENT	472	459	306
Advanced Wound Management	436	474	316
Segment trading profit	1,291	1,300	1,011
Corporate costs	(390)	(364)	(328)
Group trading profit	901	936	683
Acquisition and disposal-related items	(4)	(7)	(4)
Restructuring and rationalisation expenses	(167)	(113)	(124)
Amortisation and impairment of acquisition intangibles	(205)	(172)	(171)
Legal and other	(75)	(51)	(89)
Group operating profit	450	593	295

2.3 Acquisition and disposal-related items

For the year to 31 December 2022, costs primarily relate to the acquisition of Engage and prior year acquisitions, partially offset by credits relating to remeasurement of deferred and contingent consideration for prior year acquisitions.

For the year to 31 December 2021, costs primarily relate to the acquisition of Extremity Orthopaedics and prior year acquisitions, partially offset by credits relating to remeasurement of contingent consideration for prior year acquisitions.

For the year to 31 December 2020, costs primarily relate to the acquisitions of Tusker and prior year acquisitions, partially offset by credits relating to remeasurement of contingent consideration from prior year acquisitions.

2.4 Restructuring and rationalisation costs

For the year ended 31 December 2022, these costs include efficiency and productivity elements of the 12-point plan.

For the years ended 31 December 2022, 2021 and 2020, these costs also relate to the Operations and Commercial Excellence programme.

For the years ended 31 December 2021 and 2020, the costs also include the implementation of the Accelerating Performance and Execution (APEX) programme that was announced in February 2018.

2.5 Amortisation and impairment of acquisition intangibles

For the years ended 31 December 2022, 2021 and 2020, these costs relate to the amortisation and impairment of intangible assets acquired in material business combinations.

2.6 Legal and other

For the year ended 31 December 2022, charges primarily relate to legal expenses for ongoing metal-on-metal hip claims and an increase of \$19m in the provision that reflects the present value of the estimated costs to resolve all other known and anticipated metal-on-metal hip claims. These charges in the year to 31 December 2022 were partially offset by a credit of \$7m relating to insurance recoveries for ongoing metal-on-metal hip claims.

For the year ended 31 December 2021, charges primarily relate to legal expenses for ongoing metal-on-metal hip claims. These charges in the year to 31 December 2021 were partially offset by a credit of \$35m relating to insurance recoveries for ongoing metal-on-metal hip claims.

For the year ended 31 December 2020, charges primarily relate to legal expenses for ongoing metal-on-metal hip claims and an increase of \$17m in the provision that reflects the present value of the estimated costs to resolve all other known and anticipated metal-on-metal hip claims.

The years ended 31 December 2022, 2021 and 2020 also include costs for implementing the requirements of the EU Medical Device Regulation which came into effect in May 2021 with a transition period to May 2024.

2.7 Non-current assets by geography

The following table presents the non-current assets of the Group based on their location:

	2022 \$ million	2021 \$ million	2020 \$ million
United Kingdom	487	541	403
United States of America	3,918	4,125	4,093
Other	1,387	1,447	1,517
Total non-current assets of the consolidated Group¹	5,792	6,113	6,013

1 Non-current assets exclude retirement benefit assets and deferred tax assets.

3 Operating profit

Accounting policy

Research and development

Research expenditure is expensed as incurred. Internal development expenditure is only capitalised if the recognition criteria in IAS 38 *Intangible Assets* have been satisfied. The Group considers that the regulatory, technical and market uncertainties inherent in the development of new products mean that in most cases development costs should not be capitalised as intangible assets until products receive approval from the appropriate regulatory body.

Payments to third parties for research and development projects are accounted for based on the substance of the arrangement. If the arrangement represents outsourced research and development activities the payments are generally expensed except in limited circumstances where the respective development expenditure would be capitalised under the principles established in IAS 38. By contrast, the payments are capitalised if the arrangement represents consideration for the acquisition of intellectual property developed at the risk of the third party.

Capitalised development expenditures are amortised on a straight-line basis over their useful economic lives from product launch.

Advertising costs

Advertising costs are expensed as incurred.

Group financial statements continued
Notes to the Group accounts continued

3 Operating profit continued

	2022 \$ million	2021 \$ million	2020 \$ million
Revenue	5,215	5,212	4,560
Cost of goods sold ¹	(1,540)	(1,543)	(1,396)
Gross profit	3,675	3,669	3,164
Research and development expenses ²	(345)	(356)	(307)
Selling, general and administrative expenses:			
Marketing, selling and distribution expenses	(2,066)	(2,013)	(1,773)
Administrative expenses ^{3,4,5,6}	(814)	(707)	(789)
	(2,880)	(2,720)	(2,562)
Operating profit	450	593	295

- 1 2022 includes \$4m charge relating to legal and other items, \$20m charge relating to restructuring and rationalisation expenses and \$5m charges relating to acquisition and disposal-related items (2021: \$7m charge relating to legal and other items and \$29m charge relating to restructuring and rationalisation expenses, 2020: \$6m charge relating to legal and other items and \$15m charge relating to restructuring and rationalisation expenses).
- 2 2022 includes \$35m charge relating to legal and other items (2021: \$39m, 2020: \$28m), \$5m charge relating to acquisition and disposal-related items (2021: \$7m, 2020: \$nil) and \$5m charge relating to restructuring and rationalisation expenses (2021: \$nil, 2020: \$nil).
- 3 2022 includes \$56m of amortisation of software and other intangible assets (2021: \$65m, 2020: \$63m).
- 4 2022 includes \$205m of amortisation and impairment of acquisition intangibles and \$142m of restructuring and rationalisation expenses (2021: \$172m of amortisation and impairment of acquisition intangibles and \$84m of restructuring and rationalisation expenses, 2020: \$171m of amortisation and impairment of acquisition intangibles and \$109m of restructuring and rationalisation expenses).
- 5 2022 includes \$36m charge relating to legal and other items (2021: \$5m charge, 2020: \$55m charge).
- 6 2022 includes \$6m credit relating to acquisition and disposal-related items (2021: \$nil, 2020: \$4m charge).

Note that items detailed in 1, 2, 4, 5 and 6 are excluded from the calculation of trading profit, the segments' profit measure.

Operating profit is stated after charging/(crediting) the following items:

	2022 \$ million	2021 \$ million	2020 \$ million
Other operating income	(7)	(35)	–
Amortisation of intangible assets	229	237	234
Impairment of intangible assets	39	2	12
Impairment of property, plant and equipment	30	1	5
Fair value remeasurement of trade investments	–	1	–
Depreciation of property, plant and equipment ¹	319	326	311
Loss on disposal of property, plant and equipment and intangible assets	11	14	34
Advertising costs	92	81	66

- 1 The 2022 depreciation charge includes \$56m (2021: \$56m, 2020: \$51m,) related to right-of-use assets.

In 2022, other operating income comprises insurance recoveries for ongoing metal-on-metal hip claims of \$7m (2021: \$35m, 2020: \$nil). In 2022, \$7m (2021: \$35m, 2020: \$nil) of other operating income was included with legal and other items, as explained in Note 2.6, and does not form part of trading profit, the segments' profit measure.

3.1 Staff costs and employee numbers

Staff costs during the year amounted to:

	Notes	2022 \$ million	2021 \$ million	2020 \$ million
Wages and salaries		1,565	1,562	1,392
Social security costs		215	223	190
Pension costs (including retirement healthcare)	18	88	93	78
Share-based payments	22	40	41	26
		1,908	1,919	1,686

During the year ended 31 December 2022, the average number of employees was 19,094 (2021: 18,976, 2020: 18,581).

3.2 Audit Fees – information about the nature and cost of services provided by the auditor

	2022 \$ million	2021 \$ million	2020 \$ million
Audit services:			
Group accounts	7.2	5.5	5.0
Local statutory audit pursuant to legislation	2.2	2.0	2.0
Other services:			
Audit-related services	0.4	0.1	0.4
Total auditor's remuneration	9.8	7.6	7.4
Arising:			
In the UK	5.3	3.5	3.6
Outside the UK	4.5	4.1	3.8
	9.8	7.6	7.4

4 Interest and other finance costs

4.1 Interest income/(expense)

	2022 \$ million	2021 \$ million	2020 \$ million
Interest income	14	6	6
Interest expense:			
Bank borrowings	(3)	(3)	(4)
Private placement notes	(39)	(46)	(42)
Lease liabilities	(6)	(7)	(6)
Corporate bond	(27)	(21)	(5)
Other	(5)	(3)	(5)
	(80)	(80)	(62)
Net interest expense	(66)	(74)	(56)

4.2 Other finance costs

	Notes	2022 \$ million	2021 \$ million	2020 \$ million
Retirement benefit net interest expense	18	(2)	(3)	(2)
Unwinding of discount		(9)	(10)	(11)
Other		3	(4)	6
Other finance costs		(8)	(17)	(7)

5 Taxation

Accounting policy

The charge for current taxation is based on the results for the year as adjusted for items which are non-assessable or non-deductible. It is calculated using tax rates that have been enacted or substantively enacted as at the balance sheet date.

The Group operates in numerous tax jurisdictions around the world. At any given time, the Group typically is involved in tax audits and other disputes and will have other tax returns potentially subject to audit. Significant issues may take several years to resolve. In estimating the probability and amount of any tax charge, management takes into account the views of internal and external advisers and updates the amount of tax provision where considered appropriate. The ultimate tax liability may differ from the amount provided depending on factors including interpretations of tax law and settlement negotiations.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised: for temporary differences related to investments in subsidiaries and associates where the Group is able to control the timing of the reversal of the temporary difference and it is probable that this will not reverse in the foreseeable future; on the initial recognition of non-deductible goodwill; and on the initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, does not affect the accounting or taxable profit.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date taking into account the recoverability of the deferred tax assets, future profitability and any restrictions on use. The Group considers available evidence to assess future profitability over a reasonably foreseeable time period, depending on the circumstances and typically a minimum of five years. Any material unrecognised deferred tax assets are disclosed in Note 5.2.

Deferred tax is measured on an undiscounted basis, and at the tax rates that have been enacted or substantively enacted as at the balance sheet date that are expected to apply in the periods in which the asset or liability is settled. It is recognised in the income statement except when it relates to items credited or charged directly to other comprehensive income or equity, in which case the deferred tax is also recognised within other comprehensive income or equity respectively.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority, the Group intends to settle its current tax assets and liabilities on a net basis, offset is permissible according to the relevant jurisdiction's tax laws and that authority permits the Group to make a single net payment.

5.1 Taxation charge attributable to the Group

	2022 \$ million	2021 \$ million	2020 \$ million
Current taxation:			
UK corporation tax	17	14	16
Overseas tax	104	126	40
Current income tax charge	121	140	56
Adjustments in respect of prior periods	(10)	(33)	(191)
Total current taxation	111	107	(135)
Deferred taxation:			
Origination and reversal of temporary differences	(77)	(35)	(49)
Changes in tax rates	(5)	(14)	(12)
Adjustments to estimated amounts arising in prior periods	(17)	4	(6)
Total deferred taxation	(99)	(45)	(67)
Total taxation as per the income statement	12	62	(202)
Taxation in other comprehensive income	5	27	–
Taxation in equity	3	1	4
Taxation charge/(credit) attributable to the Group	20	90	(198)

The 2022 and 2021 net prior period adjustments of \$27m and \$29m respectively relate principally to provision releases following the resolution of tax audits and other uncertain tax matters, and other one-off items. The 2020 net prior period adjustment of \$197m is explained predominantly by a \$100m prior year current tax credit due to the successful outcome of UK tax litigation, releases of provisions following the conclusion of tax audits, and loss carry-backs to prior periods.

The total taxation charge of \$12m as per the income statement includes a \$127m net credit (2021: \$85m net credit, 2020: \$274m net credit) as a consequence of restructuring and rationalisation-related costs, acquisition and disposal-related items, amortisation and impairment of acquisition intangibles, legal and other items. The 2020 net credit was significantly higher predominantly as a result of refunds and future recoverable amounts recognised following the successful outcome of the UK tax litigation disclosed in the 2020 Annual Report (\$142m), and also a one-off carry-back of losses attributable to non-trading costs to prior periods taxable at a higher rate.

Factors affecting future tax charges

The Group operates in numerous tax jurisdictions around the world and is subject to factors that may affect future tax charges including transfer pricing, tax rate changes, tax legislation changes, tax authority interpretation, expiry of statute of limitations, tax litigation, and resolution of tax audits and disputes.

At any given time, the Group has unagreed years outstanding in various countries and is involved in tax audits and disputes, some of which may take several years to resolve. Provisions are based on best estimates and management's judgements concerning the likely ultimate outcome of any audit or dispute. Management considers the specific circumstances of each tax position and takes external advice, where appropriate, to assess the range of potential outcomes and estimate additional tax that may be due. Total tax liabilities include \$150m (2021: \$152m) in relation to uncertain tax positions which relate to multiple issues across the jurisdictions in which the Group operates. Other payables include \$10m (2021: \$14m) of interest on these provisions. There are \$37m (2021: \$106m) of tax receivables relating to payments on account and repayments due in a number of jurisdictions, principally relating to the US.

The Group believes that it has made adequate provision in respect of additional tax liabilities that may arise from unagreed years, tax audits and disputes, the majority of which relate to transfer pricing matters, as would be expected for a Group operating internationally. However, the actual liability for any particular issue may be higher or lower than the amount provided, resulting in a negative or positive effect on the tax charge in any given year. A reduction in the tax charge may also arise for other reasons such as an expiry of the relevant statute of limitations. Depending on the final outcome of tax audits which are currently in progress, statute of limitations expiry, and other factors, an impact on the tax charge could arise. Whilst such an impact can vary from year to year, these releases depend on factors which are uncertain, both as to outcome and timing. However, at the current time, we believe the possibility of a material impact on the tax charge for 2023 is unlikely.

OECD BEPS 2.0 – Pillar Two

The OECD Pillar Two Globe Rules introduce a global minimum corporate tax rate of 15% applicable to multinational enterprise (MNE) groups with global revenue over €750m. All participating OECD members are required to incorporate these rules into national legislation. On 2 February 2023, the OECD published its Agreed Administrative Guidance for the Pillar Two Globe Rules providing greater detail on the application of the rules. The Group will be subject to the Pillar Two Model Rules which is likely to result in an increase in our Group tax rate from 2024 onwards. The Group does not meet the threshold for application of the Pillar One transfer pricing rules.

Group financial statements continued
Notes to the Group accounts continued

5 Taxation continued

The UK standard rate of corporation tax for 2022 is 19.0% (2021: 19.0%, 2020: 19.0%). Overseas taxation is calculated at the rates prevailing in the respective jurisdictions. The table below reconciles the expected tax charge at the UK statutory rate with the actual tax charge.

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 in the tax reconciliation below.

	2022 \$ million	2021 \$ million	2020 \$ million
Profit before taxation	235	586	246
Expected taxation at UK statutory rate of 19.0% (2021: 19.0%, 2020: 19%)	45	111	47
Differences in overseas taxation rates	(19)	(17)	(37)
Innovation reliefs	(10)	(12)	(9)
Tax losses and other deferred tax assets not recognised	–	7	15
Recognition of previously unrecognised tax losses	(4)	(2)	(45)
Expenses not deductible for tax purposes ¹	31	22	29
Change in tax rates ²	(5)	(14)	(12)
Withholding tax on unremitted earnings	1	(4)	7
Adjustments in respect of prior years ³	(27)	(29)	(197)
Total taxation charge/(credit) as per the income statement	12	62	(202)

1 In 2022, this includes a \$7m impact of non-tax deductible impairment on UK owned investments (2021: \$17m impact of non-taxable accounting gains recognised on UK-owned investments).

2 In 2022, the tax rate changes primarily relate to an increase in deferred tax resulting from the increase in the UK corporation tax rate due to come into effect on 1 April 2023. In 2021, the net impact to deferred tax assets and liabilities was \$6m which comprised \$14m in the income statement and \$8m in other comprehensive income as shown in the table below.

3 The adjustments in respect of prior years are explained on page 179.

5.2 Deferred taxation

Movements in the main components of deferred tax assets and liabilities were as follows:

	Accelerated tax depreciation \$ million	Intangibles \$ million	Retirement benefit obligations \$ million	Losses and other tax attributes \$ million	Inventory, provisions and other differences \$ million	Total \$ million
At 31 December 2020	(61)	(209)	5	123	203	61
Exchange adjustment	–	–	(1)	–	(7)	(8)
Movement in income statement – current year	16	24	1	4	(10)	35
Movement in income statement – prior years	(2)	10	–	(10)	(2)	(4)
Movement in other comprehensive income	–	–	(15)	–	(5)	(20)
Movement in equity	–	–	–	–	(1)	(1)
Changes in tax rate	–	(2)	(8)	10	6	6
Acquisitions	2	(22)	–	3	5	(12)
At 31 December 2021	(45)	(199)	(18)	130	189	57
Exchange adjustment	–	1	2	–	(10)	(7)
Movement in income statement – current year	(28)	15	1	1	88	77
Movement in income statement – prior years	–	4	1	9	3	17
Movement in other comprehensive income	–	–	(7)	–	2	(5)
Movement in equity	–	–	–	–	(3)	(3)
Changes in tax rate	(2)	(2)	–	–	9	5
At 31 December 2022	(75)	(181)	(21)	140	278	141

Represented by:

	2022 \$ million	2021 \$ million
Deferred tax assets	177	201
Deferred tax liabilities	(36)	(144)
Net position at 31 December	141	57

The deferred tax asset of \$278m (2021: \$189m) relating to inventory, provisions and other differences comprises deferred tax relating to inventory of \$117m (2021: \$116m), provisions and other short-term temporary differences of \$153m (2021: \$65m) and bad debt provisions of \$8m (2021: \$8m).

The Group has gross unused trading and non-trading tax losses of \$839m (2021: \$841m), gross unused research and development tax credits of \$24m (2021: \$21m) and gross unused capital losses of \$97m (2021: \$108m), available for offset against future profits. None of these amounts are due to expire within five years from the balance sheet date if not utilised.

A deferred tax asset of \$140m (2021: \$130m) has been recognised in respect of \$541m (2021: \$508m) of the trading and non-trading tax losses and \$12m (2021: \$21m) of research and development tax credits. No deferred tax asset has been recognised on the remaining unused tax losses as it is not probable that future taxable profits will be available against which they can be utilised.

Management will reassess the recoverability of deferred tax assets at each balance sheet date by taking into account all relevant and available information. The Group assesses the likelihood of these being recovered within a reasonably foreseeable timeframe, being typically a minimum of five years, taking into account the future expected profit profile and business model of each relevant company or country, and any potential legislative restrictions on use. Short-term timing differences are generally recognised ahead of losses and other tax attributes as being likely to reverse more quickly.

6 Earnings per ordinary share

Accounting policy

Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares in issue during the year, excluding shares held by the Company in the Employees' Share Trust or as treasury shares.

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the basic earnings per share for the effect of conversion to ordinary shares associated with dilutive potential ordinary shares, which comprise share options and awards granted to employees.

Adjusted earnings per share

Adjusted earnings per share (or adjusted basic earnings per share) is a trend measure which presents the long-term profitability of the Group excluding the impact of specific transactions that management considers affects the Group's short-term profitability. The Group presents this measure to assist investors in their understanding of trends. Adjusted attributable profit is the numerator used for this measure. The Group has identified the following items as those to be excluded when arriving at adjusted attributable profit: acquisition and disposal-related items including amortisation and impairment of acquisition intangible assets; significant restructuring programmes; significant gains and losses arising from legal disputes and other significant items (including UK tax litigation) and taxation thereon. Adjusted diluted earnings per share is calculated by adjusting the adjusted basic earnings per share for the effect of conversion to ordinary shares associated with dilutive potential ordinary shares, which comprise share options and awards granted to employees.

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6 Earnings per ordinary share continued

The calculations of the basic, diluted and adjusted earnings per ordinary share are based on the following attributable profit and numbers of shares:

	2022 \$ million	2021 \$ million	2020 \$ million
Earnings			
Attributable profit for the year	223	524	448
Adjusted attributable profit (see below)	713	710	564

Attributable profit is reconciled to adjusted attributable profit as follows:

	Notes	2022 \$ million	2021 \$ million	2020 \$ million
Attributable profit for the year		223	524	448
Acquisition and disposal-related items ¹		162	(73)	4
Restructuring and rationalisation costs ²	3	168	113	124
Amortisation and impairment of acquisition intangibles ³	9	205	172	171
Legal and other ⁴		82	59	91
UK tax litigation	5	–	–	(142)
Taxation on excluded items	5	(127)	(85)	(132)
Adjusted attributable profit		713	710	564

1 Acquisition and disposal-related items includes a \$4m charge within operating profit (2021: \$7m charge, 2020: \$4m charge) and a \$158m charge within share of result of associates (2021: \$5m credit, 2020: \$nil) and a \$nil gain on disposal of interest in associate (2021: \$75m gain, 2020: \$nil). See details in Note 11.

2 Restructuring and rationalisation costs include a \$167m charge within operating profit (2021: \$113m, 2020: \$124m) and a \$1m charge within share of result of associates (2021: \$nil, 2020: \$nil).

3 In 2022, amortisation and impairment of acquisition intangibles includes a \$205m charge within operating profit (2021: \$172m charge with operating profit, 2020: \$171m charge within operating profit).

4 Legal and other charge in 2022 includes \$75m (2021: \$51m charge, 2020: \$89m charge) within operating profit (refer to Note 2.6) and a \$7m charge (2021: \$8m charge, 2020: \$8m charge) within other finance costs for unwinding of the discount on the provision for known, anticipated and settled metal-on-metal hip claims globally. In 2020, other finance costs includes a credit of \$6m for interest on a tax refund relating to the UK tax litigation case (see Note 5).

The numerators used for basic and diluted earnings per ordinary share are the same. The denominators used for all categories of earnings per ordinary share are as follows:

	2022	2021	2020
Number of shares (millions)			
Basic weighted number of shares	872	877	875
Dilutive impact of share incentive schemes outstanding	1	1	2
Diluted weighted average number of shares	873	878	877
Earnings per ordinary share			
Basic	25.5¢	59.8¢	51.3¢
Diluted	25.5¢	59.7¢	51.2¢
Adjusted:			
Basic	81.8¢	80.9¢	64.6¢
Diluted	81.6¢	80.8¢	64.4¢

7 Property, plant and equipment

Accounting policy

Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is ultimately recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated. The estimated useful lives of items of property, plant and equipment is 3–20 years and for buildings is 20–50 years.

Assets in course of construction are not depreciated until they are available for use.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Finance costs relating to the purchase or construction of property, plant and equipment and intangible assets that take longer than one year to complete are capitalised based on the Group weighted average borrowing costs. All other finance costs are expensed as incurred.

Leased assets

The assessment of whether a contract is or contains a lease takes place at the inception of the contract. The assessment involves whether the Group obtains substantially all the economic benefits from the use of that asset and whether the Group has the right to direct the use of the asset. The Group allocates the consideration in the contract to each lease and non-lease component.

The non-lease component, where it is separately identifiable, is not included in the right-of-use asset.

The Group leases many assets including properties, motor vehicles and office equipment. The Group availed itself of the exemptions for short-term leases and leases of low-value items for leases other than those for properties and motor vehicles. The use of these exemptions does not have a material impact. The Group recognises a right-of-use asset and a lease liability at the commencement of the lease. The right-of-use asset is initially measured based on the present value of lease payments that are not paid at the commencement date plus initial direct costs less any incentives received. The lease payments are discounted using an incremental borrowing rate which is country-specific and reflective of the lease term. The right-of-use asset is depreciated over the shorter of the lease term or the useful life of the underlying asset.

Cash flows arising on lease interest payments are included in operating cash flows whereas cash flows arising on the capital repayments of the lease liability are included in financing cash flows.

Impairment of assets

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which it belongs.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use. In assessing value-in-use, its estimated future cash flow is discounted to its present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset.

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Notes to the Group accounts continued

7 Property, plant and equipment continued

	Notes	Land and buildings \$ million	Plant and equipment		Assets in course of construction \$ million	Total \$ million
			Instruments \$ million	Other \$ million		
Cost						
At 1 January 2021		616	1,676	1,244	216	3,752
Exchange adjustment		(9)	(53)	(16)	(1)	(79)
Acquisitions	21	9	9	2	2	22
Additions		53	151	40	161	405
Disposals		(10)	(88)	(28)	2	(124)
Impairment		–	–	(6)	–	(6)
Transfers		29	(1)	46	(77)	(3)
At 31 December 2021		688	1,694	1,282	303	3,967
Exchange adjustment		(18)	(66)	(39)	(6)	(129)
Acquisitions	21	–	2	–	–	2
Additions		51	129	24	136	340
Disposals		(45)	(58)	(49)	(1)	(153)
Impairment		–	–	–	(3)	(3)
Transfers		50	9	114	(173)	–
At 31 December 2022		726	1,710	1,332	256	4,024
Depreciation and impairment						
At 1 January 2021		199	1,233	871	–	2,303
Exchange adjustment		(4)	(43)	(13)	–	(60)
Charge for the year		62	178	86	–	326
Impairment		–	–	(5)	–	(5)
Disposals		(10)	(75)	(25)	–	(110)
Transfers		2	(1)	(1)	–	–
At 31 December 2021		249	1,292	913	–	2,454
Exchange adjustment		(8)	(52)	(29)	–	(89)
Charge for the year		62	172	85	–	319
Impairment		18	8	1	–	27
Disposals		(37)	(58)	(47)	–	(142)
Transfers		–	4	(4)	–	–
At 31 December 2022		284	1,366	919	–	2,569
Net book amounts						
At 31 December 2022		442	344	413	256	1,455
At 31 December 2021		439	402	369	303	1,513

Land and buildings includes land with a cost of \$22m (2021: \$23m) that is not subject to depreciation. Transfers from assets in course of construction includes \$nil (2021: \$3m) of software. Assets under construction in 2022 reflect that the Group is undergoing investment in its manufacturing facilities including expanding facilities in Malaysia and Costa Rica, and the development of new manufacturing facility in Hull, UK. Group capital expenditure relating to property, plant and equipment contracted but not provided for amounted to \$20m (2021: \$52m). The amount of borrowing costs capitalised in 2022 and 2021 was minimal.

Information about the Group's right-of-use assets is outlined below:

	Land and buildings \$ million	Plant and equipment \$ million
2022		
Additions	49	10
Depreciation charge in the year	44	12
Net book value at 31 December	160	27

8 Goodwill

Accounting policy

Goodwill is not amortised but is reviewed for impairment annually. Goodwill is allocated to the cash-generating unit (CGU) that is expected to benefit from the acquisition. The goodwill is tested annually for impairment by comparing the recoverable amount to the carrying value of the CGUs. The CGUs identified by management are at the aggregated product franchise levels of Orthopaedics, Sports Medicine & ENT and Advanced Wound Management, in the way the core assets are used to generate cash flows.

If the recoverable amount of the CGU is less than its carrying amount then an impairment loss is determined to have occurred. Any impairment losses that arise are recognised immediately in the income statement and are allocated first to reduce the carrying amount of goodwill and then to the carrying amounts of the other assets of the CGU.

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

	Notes	2022 \$ million	2021 \$ million
Cost and net book value			
At 1 January		2,989	2,928
Exchange adjustment		(42)	(35)
Acquisitions	21	84	96
At 31 December		3,031	2,989

Management has identified four CGUs in applying the provisions of IAS 36 *Impairment of Assets*: Orthopaedics, Sports Medicine & ENT, Advanced Wound Care & Devices and Bioactives.

For the purpose of goodwill impairment testing, the Advanced Wound Care & Devices and Bioactives CGUs have been aggregated (Advanced Wound Management), as this is the level at which goodwill is monitored and level at which the economic benefits relating to the goodwill within these CGUs is realised.

Goodwill is allocated to the Group's CGUs as follows:

	2022 \$ million	2021 \$ million
Orthopaedics	953	897
Sports Medicine & ENT	1,455	1,457
Advanced Wound Management	623	635
	3,031	2,989

Impairment reviews were performed as of September 2022 and September 2021 by comparing the recoverable amount of each CGU with its carrying amount, including goodwill. These were updated during December, taking into account any significant events that occurred between September and December.

The current challenging economic environment, including inflation, was considered in the goodwill impairment reviews and recoverable amounts were based on cash flow projections using the Group's base case scenario in its going concern models. Additionally, severe downside sensitivity analyses have been undertaken on the base case scenario. Although the headroom for the Orthopaedics CGU has decreased and is sensitive to a reasonably possible change in assumptions, no impairment was identified as a result of the impairment reviews and sensitivity analyses undertaken.

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8 Goodwill continued

For each CGU, the recoverable amounts are based on value-in-use which is calculated from pre-tax cash flow projections for three years using data from the Group's budget and strategic planning process, the results of which are reviewed and approved by the Board. These projections were extrapolated for a further two years to reflect expected growth in the CGUs above the terminal growth rate which is based on long term GDP growth. The initial three-year period is in line with the Group's strategic planning process. In determining the growth rates used in the calculations of the value-in-use, management considered annual revenue growth. Projections are based on anticipated volume and value growth in the markets served by the Group and assumptions as to market share movements. Each year the projections for the previous year are compared to actual results and variances are factored into the assumptions used in the current year.

The discount rates used in the value-in-use calculations reflect management's assessment of risks specific to the assets of each CGU. The discount rates are calculated using the weighted average cost of capital which includes a risk-free rate, based on government bond yields, and an equity risk premium specifically adjusted to the medical technology industry.

8.1 Orthopaedics CGU

The cash flows used in the value-in-use calculation for the Orthopaedics CGU, which includes the Reconstruction and Trauma businesses, reflects management's distinctive orthopaedic reconstruction strategy, which combines cutting-edge innovation, disruptive business models and a strong Emerging Markets platform to drive our performance.

The headroom for the Orthopaedics CGU has decreased from \$1.1bn in the prior year to \$0.6bn in the current year, primarily due to higher input inflation and supply chain challenges. Revenue is expected to grow above market growth rates due to new product launches and improved commercial execution. The trading profit margin is expected to grow over the five-year period as a result of revenue growth as well as productivity and efficiency improvements related to the 12-point plan. The average growth rate used to extrapolate the cash flows beyond the five-year period (2021: three-year period) in calculating the terminal value is 2.0% (2021: 2.0%). The pre-tax discount rate used in the Orthopaedics CGU value-in-use calculation reflects the geographical mix and is 10.1% (2021: 9.5%).

8.2 Sports Medicine & ENT CGU

The value-in-use calculation for the Sports Medicine & ENT CGU reflects growth rates and cash flows consistent with management's strategy to rebalance Smith+Nephew towards higher growth areas such as Sports Medicine.

The weighted average growth rate used to extrapolate the cash flows beyond the five-year period (2021: three-year period) in calculating the terminal value is 2.0% (2021: 2.0%). The pre-tax discount rate used in the Sports Medicine & ENT CGU value-in-use calculation reflects the geographical mix of the revenues and is 10.1% (2021: 9.5%).

8.3 Advanced Wound Management CGU

The aggregated Advanced Wound Management CGU comprises the Advanced Wound Care & Devices and Bioactives CGUs.

In performing the value-in-use calculation for this combined CGU, management considered the Group's focus across the wound product franchises, focusing on widening access to the customer, the higher added value sectors of healing chronic wounds and tissue repair using bioactives, and by continuing to improve efficiency.

The weighted average growth rate used to extrapolate the cash flows beyond the five-year period (2021: three-year period) in calculating the terminal value is 2.0% (2021: 2.0%). The pre tax discount rate used in the Advanced Wound Management CGU value-in-use calculation reflects the geographical mix and industry sector and is 10.1% (2021: 9.5%).

8.4 Sensitivity to changes in assumptions used in value-in-use calculations

Management have performed a sensitivity analysis of the value-in-use calculations for the identified CGUs and there was no impact on the reported amounts of goodwill as a result of this review for the Sports Medicine & ENT and Advanced Wound Management CGUs. The calculation of value-in-use for the Orthopaedics CGU is sensitive to reasonably possible changes in assumptions. Management's consideration of these sensitivities is set out below:

Revenue and trading profit margin – management has considered the impact of a decrease in the trading profit margin. This sensitivity analysis shows that for the recoverable amount of the Orthopaedics CGU to be less than its carrying value, the trading profit margin would have to decrease by more than 330 basis points.

9 Intangible assets

Accounting policy

Intangible assets

Intangible assets acquired separately from a business combination (including purchased patents, know-how, trademarks, licences and distribution rights) are initially measured at cost. The cost of intangible assets acquired in a material business combination (referred to as acquisition intangibles) is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. All intangible assets are amortised on a straight-line basis over their estimated useful economic lives. The estimated useful economic life of software ranges between three and seven years. The estimated useful economic life of technology assets ranges between 6–20 years, product-related assets ranges between 2–20 years, and customer and distribution assets ranges between 2–14 years. Internally-generated intangible assets are expensed in the income statement as incurred. Purchased computer software and certain costs of information technology projects are capitalised as intangible assets. Software that is integral to computer hardware is capitalised as plant and equipment.

Impairment of intangible assets

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which it belongs. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use. In assessing value-in-use, its estimated future cash flow is discounted to its present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

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

Group financial statements continued
Notes to the Group accounts continued

9 Intangible assets continued

	Notes	Technology \$ million	Product- related \$ million	Customer and distribution- related \$ million	Software \$ million	Assets in course of construction \$ million	Total \$ million
Cost							
At 1 January 2021		495	2,236	226	477	54	3,488
Exchange adjustment		(8)	(26)	(6)	(7)	(2)	(49)
Acquisitions		101	–	11	–	–	112
Additions		–	1	4	27	24	56
Disposals		–	(1)	(4)	(17)	–	(22)
Impairment		–	(4)	–	–	–	(4)
Transfers		–	–	–	11	(8)	3
At 31 December 2021		588	2,206	231	491	68	3,584
Exchange adjustment		(6)	(21)	(2)	(14)	(2)	(45)
Acquisitions	21	–	44	–	–	–	44
Additions		–	3	7	32	35	77
Disposals		–	–	(1)	(5)	–	(6)
Impairment		–	–	–	–	(1)	(1)
Transfers		–	–	–	4	(4)	–
At 31 December 2022		582	2,232	235	508	96	3,653
Amortisation and impairment							
At 1 January 2021		142	1,373	126	361	–	2,002
Exchange adjustment		(3)	(20)	(4)	(7)	–	(34)
Charge for the year		41	131	23	42	–	237
Impairment		–	(2)	–	–	–	(2)
Disposals		–	–	–	(17)	–	(17)
At 31 December 2021		180	1,482	145	379	–	2,186
Exchange adjustment		(2)	(19)	(2)	(8)	–	(31)
Charge for the year		46	123	17	43	–	229
Impairment		4	28	–	6	–	38
Disposals		–	–	–	(5)	–	(5)
At 31 December 2022		228	1,614	160	415	–	2,417
Net book amounts							
At 31 December 2022		354	618	75	93	96	1,236
At 31 December 2021		408	724	86	112	68	1,398

Transfers into software and assets in course of construction includes \$nil (2021: \$3m) of software transferred from property, plant and equipment. Group capital expenditure relating to software contracted but not provided for amounted to \$7m (2021: \$10m).

Amortisation and impairment of acquisition intangibles is set out below:

	2022 \$ million	2021 \$ million
Technology	51	41
Product-related	142	118
Customer and distribution-related	12	13
Total	205	172

Management have assessed the acquisition intangible assets held by the Group to identify any indicators of impairment as of September 2022. These were updated during December to take into account any significant events that occurred between September and December. Where an impairment indicator has arisen, impairment reviews have been undertaken by comparing the expected recoverable value of assets to the carrying value of assets. In 2022, the Group booked \$32m (2021: \$nil) of impairment charge in relation to immaterial product assets in acquisition intangibles.

The table below provides further detail on the largest intangible assets and their remaining amortisation period:

	Carrying value \$ million	Remaining amortisation period
Intangibles acquired as part of the ArthroCare acquisition	306	1–11 years
Intangibles acquired as part of the Osiris acquisition	204	2–6 years
Intangibles acquired as part of the Healthpoint acquisition	179	5 years

10 Investments

Accounting policy

Investments, other than those related to associates, are initially recorded at fair value plus any directly attributable transaction costs on the trade date. The Group has investments in unquoted entities and an entity that holds mainly unquoted equity securities, which by their nature have no fixed maturity date or coupon rate. These investments are classed as fair value through profit or loss. The fair value of these investments is based on the underlying fair value of the equity securities: marketable securities are valued by reference to closing prices in the market; non-marketable securities are estimated considering factors including the purchase price; prices of recent significant private placements of securities of the same issuer; and estimates of liquidation value. Changes in fair value based on externally observable valuation events are recognised in profit or loss.

	2022 \$ million	2021 \$ million
At 1 January	10	9
Additions	2	2
Fair value remeasurement	–	(1)
At 31 December	12	10

11 Investments in associates

Accounting policy

Investments in associates, being those entities over which the Group has a significant influence and which is neither a subsidiary nor a joint venture, are accounted for using the equity method, with the Group recording its share of the associates' profit and loss and other comprehensive income. The Group's share of associates' profit or loss is included in one separate income statement line and is calculated after deduction of their respective taxes.

The carrying amounts of investments in associates are reviewed for impairment as at the balance sheet date. For the purposes of impairment testing, the recoverable amounts of these investments would be based on their observable market value. Any impairment loss is subsequently reversed only to the extent that the recoverable amounts of the investments increase.

At 31 December 2022, the Group holds 28.3% (2021: 29.2%) of Bioventus Inc. (Bioventus) which is the holding company of Bioventus LLC. The decrease in the Group's holding between 2022 and 2021 was because of the exercise of Bioventus employee share options. The company's headquarters is located in Durham, North Carolina, US, and its medical product development is focused around active healing therapies and the surgical performance of orthobiologics. The active healing therapies product line supports accelerated and more complete healing of bone fractures, and treats the chronic pain associated with osteoarthritis.

The loss after taxation recognised in the income statement relating to Bioventus was \$141m (2021: \$84m profit) which comprises the Group's share of loss of \$32m (2021: \$9m profit), \$nil gain (2021: \$75m gain) on disposal of interest in associate, and an impairment loss of \$109m (2021: \$nil). The balance sheet carrying value relating to Bioventus is \$46m (2021: \$186m). The Group's ability to recover the value of its investment is dependent upon the ongoing clinical and commercial success of these products.

On 11 February 2021, Bioventus commenced trading on the Nasdaq Global Select Market via its holding company, Bioventus Inc., under the symbol 'BVS'. Since its IPO in February 2021, Bioventus's trading share price has decreased significantly and the company has disclosed a substantial doubt about their ability to continue as a going concern. Given these impairment indicators, management performed an impairment review by comparing the fair value of Bioventus using its market share price of \$2.61 as at 30 December 2022 less costs of disposal to its carrying amount and concluded that an impairment loss of \$109m should be charged (2021: \$nil).

Group financial statements continued
Notes to the Group accounts continued

11 Investments in associates continued

The amounts recognised in the balance sheet and income statement for associates are as follows:

	2022 \$ million	2021 \$ million
Balance sheet	46	188
Income statement (loss)/profit	(32)	9
Impairment of interest in associate	(109)	—
Gain on disposal of interest in associate	—	75

Summarised financial information for significant associates

Set out below is the summarised financial information for Bioventus, adjusted for differences with Group accounting policies. For the 2022 financial year, full-year information for Bioventus has not been released at the date of approval of these financial statements and is market sensitive given Bioventus is a publicly traded company. Accordingly, the summary financial information for 2022 is presented for a nine-month period, with adjustments made for any significant transactions or events which occur in the fourth quarter.

	2022 \$ million	2021 \$ million
Summarised statement of comprehensive income		
Revenue	386	300
Attributable (loss)/profit for the year	(129)	22
Group adjustments ¹	17	10
Total comprehensive profit	(112)	32
Group share of profit for the year at 28.3% (2021: 29.2%)	(32)	9

	2022 \$ million	2021 \$ million
Summarised balance sheet		
Non-current assets	1,128	1,021
Current assets	271	229
Non-current liabilities	(730)	(542)
Current liabilities	(288)	(191)
Net assets	381	517
Net equity attributable to owners	381	517
Group's share of net assets at 28.3% (2021: 29.2%)	108	151
Group adjustments ¹	47	35
Impairment loss	(109)	—
Group's carrying amount of investment at 28.3% (2021: 29.2%)	46	186

¹ Group adjustments include adjustments to align with Group policy.

The investment in Bioventus had a fair value less costs of disposal of \$46m as at 31 December 2022.

During the year, the Group received a \$1m (2021: \$4m) cash distribution from its associates.

At 31 December 2022, the Group held equity investments in two other associates (2021: two) with a carrying value of \$nil (2021: \$2m).

12 Inventories

Accounting policy

Finished goods and work-in-progress are valued at factory cost, including appropriate overheads, on a first-in first-out basis. Raw materials and bought-in finished goods are valued at purchase price. All inventories are reduced to net realisable value where lower than cost. Inventory acquired as part of a business acquisition is valued at selling price less costs to sell and a profit allowance for selling efforts.

Orthopaedic instruments are generally not sold but provided to customers and distributors for use in surgery. They are recorded as inventory until they are deployed at which point they are transferred to plant and equipment and depreciated over their useful economic lives of between three and seven years.

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. 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 involves management judgements on effectiveness of inventory deployment, length of product lives, phase-out of old products and efficiency of manufacturing planning systems.

	2022 \$ million	2021 \$ million
Raw materials and consumables	474	424
Work-in-progress	78	79
Finished goods and goods for resale	1,653	1,341
	2,205	1,844

Management have not changed their policy for calculating the provision since 31 December 2021, nor is a change in the key assumptions underlying the methodology expected in the next 12 months. As a result of increased inventory levels, the provision has increased from \$430m at 31 December 2021 to \$504m at 31 December 2022. The provision, however, reduced as a result of foreign exchange movements of \$15m. The determination of the estimate of excess and obsolete inventory is a critical accounting estimate and includes assumptions on the future usage of all different items of finished goods. The provision for excess and obsolete inventory is not considered to have a range of potential outcomes that is significantly different to the \$504m at 31 December 2022 in the next 12 months. The provision has a high degree of estimation uncertainty given the range of products and sizes, with a potential range of reasonable outcomes that could be material over the longer term.

The cost of inventories recognised as an expense and included in cost of goods sold amounted to \$1,302m (2021: \$1,407m, 2020: \$1,129m). No adverse manufacturing variances generated by factory specific shutdowns or reductions in scheduled production due to Covid were directly expensed to cost of goods sold in 2022 (2021: \$nil, 2020: \$85m). In addition, \$117m was recognised as an expense within cost of goods sold resulting from inventory write-offs and provision increases (2021: \$105m, 2020: \$144m).

Notwithstanding inventory acquired within acquisitions, no inventory is carried at fair value less costs to sell in any year.

13 Trade and other receivables

Accounting policy

Trade and other receivables are carried at amortised cost, less any allowances for uncollectable amounts. They are included in current assets, except for maturities greater than 12 months after the balance sheet date when they are classified as non-current assets.

The Group manages credit risk through credit limits which require authorisation commensurate with the size of the limit and which are regularly reviewed. Credit limit decisions are made based on available financial information and the business case. Significant receivables are regularly reviewed and monitored at Group level. The Group has no significant concentration of credit risk, with exposure spread over a large number of customers and geographies. Furthermore, the Group's principal customers are backed by government and public or private medical insurance funding, which historically represent a lower risk of default. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable. The Group does not hold any collateral as security. Allowance losses are calculated by reviewing lifetime expected credit losses using historic and forward-looking data on credit risk. The Group performed the calculation of expected credit loss rates separately for customer groups which were segmented based on common risk characteristics such as credit risk grade and type of customer (such as government and non-government).

	2022 \$ million	2021 \$ million
Trade and other receivables due within one year		
Trade receivables	1,076	1,028
Less: loss allowance	(49)	(57)
Trade receivables – net	1,027	971
Derivatives – forward foreign exchange, currency swaps and interest rate contracts	47	39
Other receivables	114	95
Prepayments	76	79
	1,264	1,184
Due after more than one year		
Other non-current assets	12	15
	1,276	1,199

Other non-current assets primarily relate to long-term prepayments and contingent consideration. Trade receivables are classified as loans and receivables. Management considers that the carrying amount of trade and other receivables approximates the fair value. Allowance losses are calculated by reviewing lifetime expected credit losses using historic and forward-looking data on credit risk. The loss allowance relating to other receivables is de minimis.

The loss allowance expense for the year was \$4m (2021: \$3m, 2020: \$25m).

The following table provides information about the ageing of and expected credit losses for trade receivables:

	2022 Weighted average loss rate %	2022 Loss allowance \$ million	2022 Gross carrying amount \$ million	2021 Gross carrying amount \$ million
Not past due	-0.3%	(2)	610	595
Past due not more than 3 months	-0.4%	(1)	228	217
Past due more than 3 months	-1.0%	(1)	97	88
Past due more than 6 months	-31.9%	(45)	141	128
		(49)	1,076	1,028
Loss allowance			(49)	(57)
Trade receivables – net			1,027	971

The Group's expected credit loss accounting policy includes guidance on how the expected credit loss percentages should be determined; it does not include preset limits as the customer groups and risk profiles are not consistent across all of our markets. Each market determines their own percentages based on historic experience and future expectations, and in line with the general guidance in the Group's policy.

Movements in the loss allowance were as follows:

	2022 \$ million	2021 \$ million
At 1 January	57	71
Exchange adjustment	(3)	(3)
Net receivables provided during the year	4	3
Utilisation of provision	(9)	(14)
At 31 December	49	57

Trade receivables include amounts denominated in the following major currencies:

	2022 \$ million	2021 \$ million
US Dollar	465	429
Sterling	37	34
Euro	215	201
Other	310	307
Trade receivables – net	1,027	971

14 Trade and other payables

	2022 \$ million	2021 \$ million
Trade and other payables due within one year		
Trade and other payables	1,029	1,043
Derivatives – forward foreign exchange, currency swaps and interest rate contracts	43	19
Acquisition consideration	26	34
	1,098	1,096
Other payables due after one year		
Acquisition consideration	66	57
Derivatives – forward foreign exchange, currency swaps and interest rate contracts	13	–
Other payables	11	10
	90	67

The acquisition consideration includes \$78m (2021: \$84m) contingent upon future events.

The acquisition consideration due after more than one year is expected to be payable as follows: \$29m in 2024, \$35m in 2025 and \$2m in 2026 (2021: \$18m in 2023, \$15m in 2024, \$21m in 2025 and \$3m due in over five years).

Group financial statements continued
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15 Cash and borrowings

15.1 Net debt

Net debt comprises borrowings and credit balances on currency swaps less cash at bank.

	2022 \$ million	2021 \$ million
Bank overdrafts, borrowings and loans due within one year	111	435
Long-term bank borrowings	–	554
Corporate bond	1,510	993
Private placement notes	1,055	1,160
Borrowings	2,676	3,142
Cash at bank	(350)	(1,290)
Credit balance on derivatives – interest rate swaps	13	–
Net debt	2,339	1,852
Non-current lease liabilities	147	141
Current lease liabilities	49	56
Net debt including lease liabilities	2,535	2,049

Borrowings are repayable as follows:

	Within one year or on demand \$ million	Between one and two years \$ million	Between two and three years \$ million	Between three and four years \$ million	Between four and five years \$ million	After five years \$ million	Total \$ million
At 31 December 2022							
Bank overdrafts	6	–	–	–	–	–	6
Corporate bond	–	–	–	–	–	1,510	1,510
Private placement notes	105	430	–	75	140	410	1,160
Lease liabilities ¹	49	42	32	24	18	45	210
	160	472	32	99	158	1,965	2,886
At 31 December 2021							
Bank loans	305	554	–	–	–	–	859
Bank overdrafts	5	–	–	–	–	–	5
Corporate bond	–	–	–	–	–	993	993
Private placement notes	125	105	430	–	75	550	1,285
Lease liabilities ¹	56	33	33	23	18	47	210
	491	692	463	23	93	1,590	3,352

¹ The lease liabilities presented above of \$210m (2021: \$210m) are on an undiscounted basis. The lease liabilities on a discounted basis, as outlined above, are \$196m (2021: \$197m).

15.2 Liquidity risk exposures

The Board has established a set of policies to manage funding and currency risks. The Group only uses derivative financial instruments to manage the financial risks associated with underlying business activities and their financing. Liquidity risk is the risk that the Group is not able to settle or meet its obligations on time or at a reasonable price. The Group's policy is to ensure that there is sufficient funding and facilities in place to meet foreseeable borrowing requirements. The Group manages and monitors liquidity risk through regular reporting of current cash and borrowing balances and periodic preparation and review of short-and medium-term cash forecasts, having regard to the maturities of investments and borrowing facilities. The Group has available committed facilities of \$3.7bn (2021: \$4.1bn). During 2022, the Group issued its debut EUR Corporate Bond, in the form of €500m (before expenses and underwriting discounts) of notes bearing an interest rate of 4.565% repayable in 2029. In addition, the Group repaid its €269m, €223m and €265m EUR term loan facilities, as well as \$125m of private placement debt.

The interest payable on borrowings under committed facilities is either at fixed or floating rates. Euro floating rates are typically based on EURIBOR and US Dollar rates are typically based on the Secured Overnight Financing Rate (SOFR). The Company is subject to financial covenants under its private placement agreements. The financial covenants are tested at the end of each half year for the 12 months ending on the last day of the testing period. As of 31 December 2022, the Company was in compliance with these covenants. The facilities are also subject to customary events of default, none of which are currently anticipated to occur.

The Group's committed facilities at 31 December 2022 are:

Facility	Date due
\$105 million 3.26% Senior Notes	November 2023
\$100 million 3.89% Senior Notes	January 2024
\$305 million 3.36% Senior Notes	November 2024
\$25 million Floating Rate Senior Notes	November 2024
\$1.0 billion syndicated revolving credit facility	June 2025
\$75 million 3.99% Senior Notes	January 2026
\$140 million 2.83% Senior Notes	June 2027
\$60 million 2.90% Senior Notes	June 2028
\$100 million 2.97% Senior Notes	June 2029
€500 million 4.565% EUR Corporate Bond	October 2029
\$95 million 2.99% Senior Notes	June 2030
\$1.0 billion 2.032% USD Corporate Bond	October 2030
\$155 million 3.09% Senior Notes	June 2032

Group financial statements continued

Notes to the Group accounts continued

15 Cash and borrowings continued

15.3 Year end financial liabilities by contractual maturity

The table below analyses the Group's year end financial liabilities by contractual maturity date, including contractual interest payments and excluding the impact of netting arrangements:

	Within one year or on demand \$ million	Between one and two years \$ million	Between two and five years \$ million	After five years \$ million	Total \$ million
At 31 December 2022					
Non-derivative financial liabilities:					
Bank overdrafts and loans	6	–	–	–	6
Corporate bond	37	37	111	1,620	1,805
Trade and other payables	1,029	–	–	–	1,029
Private placement notes	143	461	265	444	1,313
Acquisition consideration	26	31	39	–	96
Derivative financial instruments:					
Currency swaps/forward foreign exchange contracts – outflow	2,598	–	–	–	2,598
Currency swaps/forward foreign exchange contracts – inflow	(2,601)	–	–	–	(2,601)
	1,238	529	415	2,064	4,246
At 31 December 2021					
Non-derivative financial liabilities:					
Bank overdrafts and loans	310	554	–	–	864
Corporate bond	20	20	61	1,077	1,178
Trade and other payables	1,043	–	–	–	1,043
Private placement notes	165	142	574	599	1,480
Acquisition consideration	35	19	42	–	96
Derivative financial instruments:					
Currency swaps/forward foreign exchange contracts – outflow	2,322	–	–	–	2,322
Currency swaps/forward foreign exchange contracts – inflow	(2,342)	–	–	–	(2,342)
	1,553	735	677	1,676	4,641

The amounts in the tables above are undiscounted cash flows, which differ from the amounts included in the balance sheet where the underlying cash flows have been discounted.

15.4 Liquidity and capital resources

The Group's policy is to ensure that it has sufficient funding and facilities to meet foreseeable borrowing requirements.

At 31 December 2022, the Group held \$344m (2021: \$1,285m, 2020: \$1,751m) in cash net of bank overdrafts. The Group had committed facilities available of \$3.7bn at 31 December 2022 of which \$2.7bn was drawn.

The principal variations in the Group's borrowing requirements result from the timing of dividend payments, acquisitions and disposals of businesses, timing of capital expenditure and working capital fluctuations. Smith+Nephew believes that its capital expenditure needs and its working capital funding for 2023, as well as its other known or expected commitments or liabilities, can be met from its existing resources and facilities. The Group's net debt including leases increased from \$2bn at the beginning of 2022 to \$2.5bn at the end of 2022, representing an overall increase of \$0.5bn.

16 Financial instruments and risk management

Accounting policy

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at subsequent balance sheet dates. Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges of forecast third-party transactions are recognised in other comprehensive income until the associated asset or liability is recognised. Amounts taken to other comprehensive income are transferred to the income statement in the period in which the hedged transaction affects profit and loss. Where the hedged item is the cost of a non-financial asset, the amounts taken to other comprehensive income are transferred to the initial carrying value of the asset.

On adoption of IFRS 9 on 1 January 2018, the Group elected to continue to apply the hedge accounting guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. Changes in the fair values of hedging instruments that are designated and effective as net investment hedges are matched in other comprehensive income against changes in value of the related net assets. Interest rate derivatives transacted to fix interest rates on floating rate borrowings are accounted for as cash flow hedges and changes in the fair values resulting from changes in market interest rates are recognised in other comprehensive income. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects profit and loss. Interest rate derivatives transacted to convert fixed rate borrowings into floating rate borrowings are accounted for as fair value hedges and changes in the fair values resulting from changes in market interest rates are recognised in the income statement. Any ineffectiveness on hedging instruments and changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement within other finance costs as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is retained there until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the income statement.

16.1 Foreign exchange risk management

The Group operates in many countries and as a consequence has transactional and translational foreign exchange exposure. It is the Group's policy for operating units not to hold material unhedged monetary assets or liabilities other than in their functional currencies.

Foreign exchange variations affect trading results in two ways. Firstly, on translation of overseas sales and profits into US Dollars and secondly, transactional exposures arising where some, or all of the costs of sale are incurred in a different currency from the sale. The principal transactional exposures arise as the proportion of costs in US Dollars, Sterling and Swiss Francs exceed the proportion of sales in each of these currencies and correspondingly the proportion of sales in Euros exceeds the proportion of costs in Euros.

The impact of currency movements on the cost of purchases is partly mitigated by the use of forward foreign exchange contracts. The Group uses forward foreign exchange contracts, designated as cash flow hedges, to hedge forecast third-party trading cash flows up to one year. When a commitment is entered into, forward foreign exchange contracts are normally used to increase the hedge to 100% of the exposure. Cash flows relating to cash flow hedges are expected to occur within 12 months of inception and profits and losses on hedges are expected to enter into the determination of profit (within cost of goods sold) within a further 12-month period. The principal currencies hedged by forward foreign exchange contracts are US Dollars, Euros, Sterling and Singapore Dollars. At 31 December 2022, the Group had contracted to exchange within one year the equivalent of \$2.2bn (2021: \$2.0bn). Based on the Group's net borrowings as at 31 December 2022, if the US Dollar were to weaken against all currencies by 10%, the Group's net borrowings would increase by \$41m (2021: \$75m) principally due to the Euro-denominated term loans.

16 Financial instruments and risk management continued

If the US Dollar were to weaken by 10% against all other currencies, then the fair value of the forward foreign exchange contracts as at 31 December 2022 would have been \$50m lower (2021: \$44m lower). Similarly, if the Euro were to weaken by 10% against all other currencies, then the fair value of the forward foreign exchange contracts as at 31 December 2022 would have been \$35m higher (2021: \$26m higher). Movements in the fair value of forward foreign exchange contracts would be recognised in other comprehensive income or in the income statement.

A 10% strengthening of the US Dollar or Euro against all other currencies at 31 December 2022 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

The Group's policy is to hedge all actual foreign exchange exposures and the Group's forward foreign exchange contracts are designated as cash flow hedges. The net impact of transaction-related foreign exchange on the income statement from a movement in exchange rates on the value of forward foreign exchange contracts is not significant. In addition, the movements in the fair value of other financial instruments used for hedging such as currency swaps for which hedge accounting is not applied offset movements in the values of assets and liabilities and are recognised through the income statement. Hedge ineffectiveness is caused by actual cash flows in foreign currencies varying from forecast cash flows.

16.2 Interest rate risk management

The Group is exposed to interest rate risk on cash, borrowings and certain currency and interest rate swaps which are at floating rates. When required the Group uses interest rate derivatives to meet its objective of protecting borrowing costs within parameters set by the Board. These interest rate derivatives are accounted for as cash flow hedges and, as such, changes in fair value resulting from changes in market interest rates are recognised in other comprehensive income and accumulated in the hedging reserve, with the fair value of the interest rate derivatives recorded in the balance sheet. Additionally, the Group uses interest rate swaps to reduce the overall level of fixed rate debt, within parameters set by the Board. When used in this way, interest rate derivatives are accounted for as fair value hedges. The fair value movement of the derivative is offset in the income statement against the fair value movement in the underlying fixed rate debt.

In 2022, the Group entered into a new €500m fixed to floating interest rate swap.

Based on the Group's gross borrowings and cash as at 31 December 2022, if interest rates were to increase by 100 basis points in all currencies, then the annual net interest charge would increase by \$4m (2021: \$3m). A decrease in interest rates by 100 basis points in all currencies would have an equal but opposite effect to the amounts shown above.

16.3 Credit risk management

The Group limits exposure to credit risk on counterparties used for financial instruments through a system of internal credit limits. The financial exposure of a counterparty is determined as the total of cash and deposits, plus the risk on derivative instruments, assessed as the fair value of the instrument plus a risk element based on the nominal value and the historic volatility of the market value of the instrument. The Group does not anticipate non-performance of counterparties and believes it is not subject to material concentration of credit risk as the Group operates within a policy of counterparty limits designed to reduce exposure to any single counterparty.

The maximum credit risk exposure on derivatives at 31 December 2022 was \$47m (2021: \$39m), being the total debit fair values on forward foreign exchange contracts and currency swaps. The maximum credit risk exposure on cash at bank at 31 December 2022 was \$350m (2021: \$1,290m). The Group's exposure to credit risk on cash is mitigated as the amounts are held in a wide number of high credit quality financial institutions. Credit risk on trade receivables is detailed in Note 13.

The amounts relating to items designated as hedging instruments were as follows:

	Nominal amount \$ million	Carrying amount assets \$ million	Carrying amount liabilities \$ million	Changes in fair value in OCI \$ million	Hedge ineffectiveness in profit or loss \$ million	Amounts reclassified from hedging reserve to profit or loss \$ million	Line item in profit or loss
At 31 December 2022							
Foreign currency risk							
Forward exchange contracts ¹	2,598	47	(43)	(13)	–	(37)	Cash flow hedges
Interest rate risk							
Interest rate swaps ²	(500)	–	(13)	–	–	–	Fair value hedge
At 31 December 2021							
Foreign currency risk							
Forward exchange contracts ¹	2,322	39	(19)	41	–	7	Cash flow hedges
Interest rate risk							
Interest rate swaps ²	–	–	–	–	–	–	N/A

1 Presented in Trade and other receivables and Trade and other payables on the Balance Sheet.

2 Presented in Non-current other payables on the Balance Sheet.

16.4 Net investment hedge

Part of the Group's net investment in its Euro subsidiaries is hedged by €500m (\$533m equivalent) of our debut EUR Corporate Bond which mitigates the foreign currency risk arising from the subsidiaries' net assets. The Bond is designated as a hedging instrument for the changes in the value of the net investment that is attributable to changes in the EUR/USD spot rate.

To assess hedge effectiveness, the Group determines the economic relationship between the hedging instrument and the hedged item by comparing changes in the carrying amount of the debt that is attributable to a change in the spot rate with changes in the investment in the foreign operation due to movements in the spot rate (the offset method). The Group's policy is to hedge the net investment only to the extent of the debt principal. Hedge ineffectiveness occurs if the value of the Euro-denominated Corporate Bond exceeds the value of the Euro subsidiaries.

16.5 Currency and interest rate profile of interest bearing liabilities and assets

Short-term receivables and payables are excluded from the following disclosures.

Currency and interest rate profile of interest bearing liabilities:

	Gross borrowings \$ million	Currency swaps \$ million	Interest rate swaps \$ million	Total liabilities \$ million	Floating rate liabilities \$ million	Fixed rate liabilities \$ million	Fixed rate liabilities	
							Weighted average interest rate %	Weighted average time for which rate is fixed Years
At 31 December 2022								
US Dollar	(2,159)	(163)	–	(2,322)	(193)	(2,129)	2.7	5.9
Other	(517)	(206)	(13)	(736)	(220)	(516)		
Total interest bearing liabilities	(2,676)	(369)	(13)	(3,058)	(413)	(2,645)		
At 31 December 2021								
US Dollar	(2,278)	(201)	–	(2,479)	(226)	(2,253)	2.7	6.5
Other	(864)	(136)	–	(1,000)	(1,000)	–	–	–
Total interest bearing liabilities	(3,142)	(337)	–	(3,479)	(1,226)	(2,253)		

In 2022, the Group also had liabilities due for deferred and contingent acquisition consideration (denominated in US Dollars, Swiss Francs and Euros) totalling \$92m (2021: \$91m, 2020: \$165m) on which no interest was payable (see Note 14). There were no other significant interest bearing or non-interest bearing financial liabilities. Euro floating rates are typically based on EURIBOR and US Dollar rates are typically based on SOFR. The weighted average interest rate on floating rate borrowings as at 31 December 2022 was over 3% (2021: less than 1%).

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16 Financial instruments and risk management continued

Currency and interest rate profile of interest bearing assets:

	Cash at bank \$ million	Currency swaps \$ million	Interest rate swaps \$ million	Total assets \$ million	Floating rate assets \$ million	Fixed rate assets \$ million
At 31 December 2022						
US Dollar	207	205	–	412	412	–
Other	143	164	–	307	307	–
Total interest bearing assets	350	369	–	719	719	–
At 31 December 2021						
US Dollar	1,156	135	–	1,291	1,291	–
Other	134	202	–	336	336	–
Total interest bearing assets	1,290	337	–	1,627	1,627	–

Floating rates on assets are typically based on the short-term deposit rates relevant to the currency concerned.

16.6 Fair value of financial assets and liabilities

Accounting policy

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial assets and liabilities and non-financial assets acquired in a business combination (see Note 21).

When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in the fair value hierarchy based on the inputs used in the valuation techniques as follows: Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices); and Level 3: inputs for the asset or liability that are not based on observable data (unobservable inputs).

The Group recognises transfers between the levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

There has been no change in the classification of financial assets and liabilities, the method and assumptions used in determining fair value and the categorisation of financial assets and liabilities within the fair value hierarchy from those disclosed in the Annual Report for the year ended 31 December 2021.

The Group enters into derivative financial instruments with financial institutions with investment grade credit ratings. The fair value of forward foreign exchange contracts is calculated by reference to quoted market forward exchange rates for contracts with similar maturity profiles. The fair value of currency swaps is determined by reference to quoted market spot rates. As a result, foreign forward exchange contracts and currency swaps are classified as Level 2 within the fair value hierarchy. The changes in counterparty credit risk had no material effect on the hedge effectiveness for derivatives designated in hedge relationships and other financial instruments recognised at fair value. The fair value of investments is based upon third-party pricing models for share issues. As a result, investments are considered Level 3 in the fair value hierarchy. There were no transfers between Levels 1, 2 and 3 during 2022 and 2021. For cash and cash equivalents, short-term loans and receivables, overdrafts and other short-term liabilities which have a maturity of less than three months, the book values approximate the fair values because of their short-term nature.

Long-term borrowings are measured in the balance sheet at amortised cost. The corporate bonds issued in October 2020 and October 2022 are publicly listed and a market price is available. The Group's other long-term borrowings are not quoted publicly, their fair values are estimated by discounting future contractual cash flows to net present values at the current market interest rates available to the Group for similar financial instruments as at the year end. The fair value of the private placement notes is determined using a discounted cash flow model based on prevailing market rates.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value.

						Carrying amount	Fair value		
	Fair value – hedging instruments \$ million	Amortised cost \$ million	Fair value through OCI \$ million	Fair value through profit or loss \$ million	Other financial liabilities \$ million	Total \$ million	Level 2 \$ million	Level 3 \$ million	Total \$ million
At 31 December 2022									
Financial assets measured at fair value									
Forward foreign exchange contracts	46	–	–	–	–	46	46	–	46
Investments	–	–	–	12	–	12	–	12	12
Contingent consideration receivable	–	–	–	18	–	18	–	18	18
Currency swaps	–	–	1	–	–	1	1	–	1
	46	–	1	30	–	77			
Financial liabilities measured at fair value									
Acquisition consideration	–	–	–	(78)	–	(78)	–	(78)	(78)
Forward foreign exchange contracts	(42)	–	–	–	–	(42)	(42)	–	(42)
Interest rate swaps	(13)	–	–	–	–	(13)	(13)	–	(13)
Currency swaps	–	–	(1)	–	–	(1)	(1)	–	(1)
	(55)	–	(1)	(78)	–	(134)			
Financial assets not measured at fair value									
Trade and other receivables	1,123	–	–	–	–	1,123			
Cash at bank	–	350	–	–	–	350			
	1,123	350	–	–	–	1,473			
Financial liabilities not measured at fair value									
Acquisition consideration	–	–	–	–	(14)	(14)			
Bank overdrafts	–	–	–	–	(6)	(6)			
Corporate bond not in a hedge relationship	–	–	–	–	(994)	(994)			
Corporate bond in a hedge relationship	–	–	–	–	(516)	(516)			
Private placement debt not in a hedge relationship	–	–	–	–	(1,160)	(1,160)			
Trade and other payables	–	–	–	–	(1,040)	(1,040)			
	–	–	–	–	(3,730)	(3,730)			

At 31 December 2022, the book value and market value of the USD corporate bond were \$994m and \$783m respectively (2021: \$993m and \$962m), the book value and market value of the EUR Corporate bond were \$516m and \$531m respectively. The book value and fair value of the private placement debt were \$1,160m and \$987m respectively (2021: \$1,285m and \$1,316m).

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16 Financial instruments and risk management continued

During the year ended 31 December 2022, acquisition consideration increased by \$1m due to \$42m increase for acquisitions being partially offset \$24m of payments for acquisitions made in the current and prior years, and \$17m of remeasurement and discount unwind. The fair value of contingent consideration is estimated using a discounted cash flow model. The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate. The expected payment is determined by considering the possible scenarios, which relate to the achievement of established milestones and targets, the amount to be paid under each scenario and the probability of each scenario. As a result, contingent consideration is classified as Level 3 within the fair value hierarchy.

At 31 December 2021						Carrying amount	Fair value		
	Fair value – hedging instruments \$ million	Amortised cost \$ million	Fair value through OCI \$ million	Fair value through profit or loss \$ million	Other financial liabilities \$ million	Total \$ million	Level 2 \$ million	Level 3 \$ million	Total \$ million
Financial assets measured at fair value									
Forward foreign exchange contracts	37	–	–	–	–	37	37	–	37
Investments	–	–	–	10	–	10	–	10	10
Contingent consideration receivable	–	–	–	20	–	20	–	20	20
Currency swaps	–	–	2	–	–	2	2	–	2
	37	–	2	30	–	69			
Financial liabilities measured at fair value									
Acquisition consideration	–	–	–	(84)	–	(84)	–	(84)	(84)
Forward foreign exchange contracts	(17)	–	–	–	–	(17)	(17)	–	(17)
Currency swaps	–	–	(2)	–	–	(2)	(2)	–	(2)
	(17)	–	(2)	(84)	–	(103)			
Financial assets not measured at fair value									
Trade and other receivables	1,046	–	–	–	–	1,046			
Cash at bank	–	1,290	–	–	–	1,290			
	1,046	1,290	–	–	–	2,336			
Financial liabilities not measured at fair value									
Acquisition consideration	–	–	–	–	(7)	(7)			
Bank overdrafts	–	–	–	–	(5)	(5)			
Bank loans	–	–	–	–	(859)	(859)			
Corporate bond	–	–	–	–	(993)	(993)			
Private placement debt not in a hedge relationship	–	–	–	–	(1,285)	(1,285)			
Trade and other payables	–	–	–	–	(1,053)	(1,053)			
	–	–	–	–	(4,202)	(4,202)			

The fair value of contingent acquisition consideration is estimated using a discounted cash flow model. The valuation model considers the present value of risk adjusted expected payments, discounted using a risk-free discount rate. The expected payment is determined by considering the possible scenarios, which relate to the achievement of established milestones and targets, the amount to be paid under each scenario and the probability of each scenario. As a result, contingent acquisition consideration is classified as Level 3 within the fair value hierarchy.

The fair value of investments is based upon third-party pricing models for share issues. As a result, investments are considered Level 3 in the fair value hierarchy.

The movements in 2022 and 2021 for financial instruments measured using Level 3 valuation methods are presented below:

	2022 \$ million	2021 \$ million
Investments		
At 1 January	10	9
Additions	2	2
Fair value remeasurement	–	(1)
At 31 December	12	10
Contingent consideration receivable		
At 1 January	20	37
Remeasurements	–	1
Receipts	(2)	(18)
At 31 December	18	20
Acquisition consideration liability		
At 1 January	(84)	(128)
Arising on acquisitions	(32)	–
Payments	20	23
Remeasurements	19	21
Discount unwind	(1)	–
At 31 December	(78)	(84)

17 Provisions and contingencies

Accounting policy

In the normal course of business the Group is involved in various legal disputes. Provisions are made for loss contingencies when it is deemed probable that an adverse outcome will occur and the amount of the losses can be reasonably estimated. Where the Group is the plaintiff in pursuing claims against third parties, legal and associated expenses are charged to the income statement as incurred. The recognition of provisions for legal disputes is subject to a significant degree of estimation. In making its estimates, management takes into account the advice of internal and external legal counsel. Provisions are reviewed regularly and amounts updated where necessary to reflect developments in the disputes. The ultimate liability may differ from the amount provided depending on the outcome of court proceedings or settlement negotiations or as new facts emerge. Insurance recoveries are recognised when the inflow of benefits is virtually certain and are presented within other receivables.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

A provision for rationalisation is recognised when the Group has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

17.1 Provisions

	Rationalisation provisions \$ million	Metal-on-metal \$ million	Legal and other provisions \$ million	Total \$ million
At 1 January 2021	29	336	52	417
Charge to income statement	115	–	13	128
Release to income statement	(2)	–	(1)	(3)
Unwinding of discount	–	8	–	8
Utilised	(124)	(55)	(13)	(192)
Exchange adjustment	–	–	(1)	(1)
At 31 December 2021	18	289	50	357
Charge to income statement	169	19	19	207
Release to income statement	(2)	–	(5)	(7)
Unwinding of discount	–	7	–	7
Utilised	(154)	(76)	(6)	(236)
Exchange adjustment	(1)	–	–	(1)
At 31 December 2022	30	239	58	327
Provisions – due within one year	30	165	48	243
Provisions – due after one year	–	74	10	84
At 31 December 2022	30	239	58	327
Provisions – due within one year	18	263	41	322
Provisions – due after one year	–	26	9	35
At 31 December 2021	18	289	50	357

The principal elements within rationalisation provisions relate to the Operations and Commercial Excellence programme announced in February 2020 and the efficiency and productivity elements of the 12-point plan.

The Group has estimated a provision of \$239m (2021: \$289m) relating to the present value at 31 December 2022 of the estimated costs to resolve all other known and anticipated metal-on-metal hip claims globally. The estimated value of the provision has been determined using an actuarial model. Given the inherent uncertainty in assumptions including sensitivity to factors such as the number, outcome and value of claims the actual costs may differ significantly from this estimate. A range of expected outcomes between the 60th and 85th percentile generated by the actuarial model would not give rise to a material adjustment. The potential for more adverse outcomes exists and for example at the 95th percentile a charge similar to that incurred in 2019 (\$121m) would be required in 2023 or thereafter. The provision does not include any possible further insurance recoveries on these claims or legal fees associated with defending claims.

Management considered whether there had been any changes to the number and value of claims due to Covid and to date have not identified any changes in trends. If the experience changes in the future the value of provisions may require adjustment.

The legal and other provisions mainly relate to various other product liability and intellectual property litigation matters. The Group carries considerable product liability insurance, and will continue to defend claims vigorously.

All provisions are expected to be substantially utilised within five years of 31 December 2022 and none are treated as financial instruments.

17.2 Contingencies

The Company and its subsidiaries are party to various legal proceedings, some of which include claims for substantial damages. The outcome of these proceedings cannot readily be foreseen, but except as described herein management believes none of them is likely to result in a material adverse effect on the financial position of the Group. The Group provides for outcomes that are deemed to be probable and can be reliably estimated. There is no assurance that losses will not exceed provisions or will not have a significant impact on the Group's results of operations in the period in which they are realised.

17.3 Legal proceedings

Product liability claims

The Group faces claims from time to time for alleged defects in its products and has on occasion recalled or withdrawn products from the market. Such claims are endemic to the medical device industry. The Group maintains product liability insurance subject to limits and deductibles that management believes are reasonable. All policies contain exclusions and limitations, however, and there can be no assurance that insurance will be available or adequate to cover all claims.

This includes matters raising concerns about possible adverse effects of hip implant products with metal-on-metal (MoM) bearing surfaces for which the Group has incurred and will continue to incur expenses to defend claims in this area.

As of December 2022, approximately 1,160 such claims were pending with the Group around the world. This includes approximately 720 cases associated with a Multidistrict Litigation (MDL) pending in Baltimore, Maryland due to a 5 April 2017 court order consolidating Smith+Nephew Birmingham Hip[®] Resurfacing (BHR[®]) cases pending or later filed in US federal court for pre-trial proceedings. Most claims relate to the Group's BHR product, including its two modular metal-on-metal components: the Birmingham Hip Modular Head (BHMH) and the optional metal liner component of the R3[®] Acetabular System (R3ML). The BHMH and R3ML are no longer on the market: the R3ML was withdrawn in 2012 and the BHMH was phased out in 2014. In 2015, the Group ceased offering smaller sizes of the BHR and restricted instructions for BHR use in female patients. These actions were taken to ensure that the BHR is used only in those patient groups where it continues to demonstrate strong performance.

Through the end of 2022, entities of the Group have entered into several group, as well as individual, MoM related settlements without admitting liability. The Group requested indemnity from its product liability insurers for most of these MoM hip implant settlements and insurers have indemnified the Group to the limits of their respective applicable policies.

Litigation outcomes are difficult to predict and defence costs can be significant. The Group takes care to monitor the clinical evidence relating to its products, including its metal hip implant products, to help ensure that its product offerings are designed to serve patients' interests.

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17 Provisions and contingencies continued

Intellectual property disputes

The Group engages, as both plaintiff and defendant, in litigation with various competitors and others over claims of patent infringement and other intellectual property matters. These disputes are heard in courts in the US and other jurisdictions and also before agencies that examine patents. Outcomes are rarely certain and costs are often significant.

Arthrex asserted suture anchor patents against Smith+Nephew in 2014 and 2015 in the US District Court for the Eastern District of Texas. In February 2017, the parties reached a settlement resulting in the dismissal of all patent litigation. Smith+Nephew agreed to pay additional payments contingent on the outcome of patent validity proceedings pending at the US Patent & Trademark Office. In August 2019, the Court of Appeals for the Federal Circuit affirmed US Patent & Trademark Office ruling invalidating one of the asserted Arthrex patents. In October 2019, the Court of Appeals for the Federal Circuit vacated an earlier US Patent & Trademark Office ruling invalidating the other asserted Arthrex patent. The United States Supreme Court granted certiorari. The Supreme Court ruling allowed Arthrex to petition the Director of the US Patent & Trademark Office to review the decision invalidating the second asserted Arthrex patent. The US Patent & Trademark Office declined Arthrex's rehearing request in October 2021. In May 2022, the Court of Appeals for the Federal Circuit affirmed the US Patent & Trademark Office's invalidity ruling and its denial of Arthrex's rehearing request. Arthrex has petitioned the United States Supreme Court to review the US Patent & Trademark Office's denial of Arthrex's rehearing request.

17.4 Tax matters

At any given time the Group has unagreed years outstanding in various countries and is involved in tax audits and disputes, some of which may take several years to resolve. Provisions are based on best estimates and management's judgements concerning the likely ultimate outcome of any audit or dispute. Management considers the specific circumstances of each tax position and takes external advice, where appropriate, to assess the range of potential outcomes and estimate additional tax that may be due. The Group believes that it has made adequate provision in respect of additional tax liabilities that may arise. See Note 5 for further details.

18 Retirement benefit obligations

Accounting policy

The Group sponsors defined benefit plans in a number of countries. A defined benefit pension plan defines an amount of pension benefit that an employee will receive on retirement or a minimum guaranteed return on contributions, which is dependent on various factors such as age, years of service and final salary. The Group's obligation is calculated separately for each plan by discounting the estimated future benefit that employees have earned in return for their service in the current and prior periods. The fair value of any plan assets is deducted to arrive at the net liability.

The calculation of the defined benefit obligation is performed annually by external actuaries using the projected unit credit method. Remeasurements arising from defined benefit plans comprise actuarial gains and losses and the return on the plan assets in excess of the discount rate net of the costs of managing the plan assets. The Group recognises these immediately in other comprehensive income (OCI) and all other expenses, such as service cost, net interest cost, administration costs and taxes, are recognised in the income statement.

A number of key assumptions are made when calculating the fair value of the Group's defined benefit pension plans. These assumptions impact the balance sheet asset and liabilities, operating profit, finance income/costs and other comprehensive income. The most critical assumptions are the discount rate, the rate of inflation and mortality assumptions to be applied to future pension plan liabilities. The discount rate is based on the yield at the reporting date on bonds that have a credit rating of AA, denominated in the currency in which the benefits are expected to be paid and have a maturity profile approximately the same as the Group's obligations. In determining these assumptions management takes into account the advice of professional external actuaries and benchmarks its assumptions against external data.

The Group determines the net interest expense/income on the net defined benefit liability/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/asset.

The Group also operates a number of defined contribution plans. A defined contribution plan is a pension plan under which the Group and employees pay fixed contributions to a third-party financial provider. The Group has no further payment obligations once the contributions have been paid. Contributions are recognised as an employee benefit expense when they are due.

18.1 Retirement benefit net assets/(obligations)

The Group's retirement benefit assets/(obligations) comprise:

	2022 \$ million	2021 \$ million
Funded plans:		
UK Plan	114	137
US Plan	24	40
Other plans	(5)	(18)
	133	159
Unfunded plans:		
Other plans	(52)	(91)
Retirement healthcare	(10)	(13)
	71	55
Amount recognised on the balance sheet – liability	(70)	(127)
Amount recognised on the balance sheet – asset	141	182

The Group sponsors defined benefit pension plans for its employees or former employees in 14 countries and these are established under the laws of the relevant country. Funded plans are funded by the payment of contributions and the assets are held by separate trust funds or insurance companies. The provision of retirement and related benefits across the Group is kept under regular review. Employees' retirement benefits are the subject of regular management review. The Group's defined benefit plans provide employees with an entitlement to retirement benefits varying between 1.3% and 66.7% of final salary on attainment of retirement age. The level of entitlement is dependent on the years of service of the employee.

The Group's two major defined benefit pension plans are in the UK and US. Both these plans were closed to new employees in 2003 and defined contribution plans are offered to new joiners. The US and UK Plans were closed to future accrual in March 2014 and December 2016 respectively.

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.

The 2018 and 2020 court cases in relation to Guaranteed Minimum Pensions do not impact the UK Plan as members were not contracted out of the State Earnings-Related Pension Scheme (SERPS) between 1990 and 1997.

The US Plan is governed by a US Pension Committee which comprises representatives of the Group. In the US, the Pension Protection Act (2006) established both a minimum required contribution and a maximum deductible contribution. Failure to contribute at least the minimum required amount will subject the Company to significant penalties, and contributions in excess of the maximum deductible have negative tax consequences. The minimum funding requirement is intended to fully fund the present value of accrued benefits over seven years.

In October 2022, US Pension plan members were notified that Smith & Nephew Inc. would begin the termination process for the plan. This process is expected to be finalised by late 2023 or early 2024 with no impact in 2022.

There is no legislative minimum funding requirement in the UK. The Trust Deed of the UK Plan and the Plan Document of the US Plan provide the Group with a right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the UK Board of Trustees and US Pension Committee 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 and US Plans is recognised in full.

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18 Retirement benefit obligations continued

18.2 Reconciliation of retirement benefit obligations and pension assets

The movement in the Group's pension benefit obligation and pension assets is as follows:

	2022			2021		
	Obligation \$ million	Asset \$ million	Total \$ million	Obligation \$ million	Asset \$ million	Total \$ million
Amounts recognised on the balance sheet at beginning of the period	(1,582)	1,637	55	(1,714)	1,684	(30)
Income statement expense:						
Current service cost	(9)	–	(9)	(12)	–	(12)
Past service credit	–	–	–	(1)	–	(1)
Settlements	4	(4)	–	1	(1)	–
Interest (expense)/income	(29)	30	1	(25)	25	–
Administration costs and taxes	(3)	–	(3)	(3)	–	(3)
Costs recognised in income statement	(37)	26	(11)	(40)	24	(16)
Remeasurements:						
Actuarial (loss)/gain due to liability experience	(43)	–	(43)	2	–	2
Actuarial gain due to financial assumptions change	503	–	503	43	–	43
Actuarial gain due to demographic assumptions	1	–	1	25	–	25
Return on plan assets (less)/greater than discount rate	–	(431)	(431)	–	9	9
Remeasurements recognised in OCI	461	(431)	30	70	9	79
Cash:						
Employer contributions	–	6	6	–	14	14
Employee contributions	(3)	3	–	(3)	3	–
Benefits paid directly by the Group	2	–	2	2	–	2
Benefits paid, taxes and administration costs paid from scheme assets	81	(83)	(2)	79	(79)	–
Net cash	80	(74)	6	78	(62)	16
Exchange movements	94	(103)	(9)	24	(18)	6
Amount recognised on the balance sheet	(984)	1,055	71	(1,582)	1,637	55
Amount recognised on the balance sheet – liability	(194)	124	(70)	(271)	144	(127)
Amount recognised on the balance sheet – asset	(790)	931	141	(1,311)	1,493	182

Represented by:

	2022			2021		
	Obligation \$ million	Asset \$ million	Total \$ million	Obligation \$ million	Asset \$ million	Total \$ million
UK Plan	(438)	552	114	(819)	956	137
US Plan	(336)	360	24	(463)	503	40
Other Plans	(210)	143	(67)	(300)	178	(122)
Total	(984)	1,055	71	(1,582)	1,637	55

The actuarial gain on obligation of \$461m primarily relates to the increase in discount rates in 2022, which is partially offset by an actuarial loss from the return on plan assets of \$431m, which is due to investment returns being less than the discount rates.

All benefits are vested at the end of each reporting period. The weighted average duration of the defined benefit obligation at the end of the reporting period is 14 years and 9 years for the UK and US Plans respectively.

18.3 Plan assets

The market value of the US, UK and Other Plans assets are as follows:

	2022 \$ million	2021 \$ million	2020 \$ million
UK Plan:			
Assets with a quoted market price:			
Cash and cash equivalents	2	4	10
Equity securities	3	84	91
Other bonds	30	50	49
Short dated credit fund	81	126	127
Liability driven investments	225	370	347
Diversified growth funds	55	89	89
	396	723	713
Other assets:			
Insurance contract	156	233	250
Market value of assets	552	956	963
US Plan:			
Assets with a quoted market price:			
Cash and cash equivalents	120	6	2
Equity securities	–	50	60
Government bonds – fixed interest	43	201	163
Corporate bonds	197	246	316
Market value of assets	360	503	541
Other Plans:			
Assets with a quoted market price:			
Cash and cash equivalents	7	5	5
Equity securities	49	55	51
Government bonds – fixed interest	7	5	9
Government bonds – index linked	–	4	4
Corporate and other bonds	10	11	10
Insurance contracts	21	33	37
Property	22	23	23
Other quoted securities	5	8	5
	121	144	144
Other assets:			
Insurance contracts	22	34	36
Market value of assets	143	178	180
Total market value of assets	1,055	1,637	1,684

Group financial statements continued

Notes to the Group accounts continued

18 Retirement benefit obligations continued

No plans invest directly in property occupied by the Group or in financial securities issued by the Group.

Both the UK and US Plans hold predominantly matching assets. The growth assets of the UK and US Plans are invested in a diversified range of industries across a broad range of geographies. The UK Plan matching 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 IAS 19R *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.

There has been no material change in the Pension Plans' investment strategies.

18.4 Expenses recognised in the income statement

The total expense relating to retirement benefits recognised for the year is \$88m (2021: \$93m, 2020: \$78m). Of this cost recognised for the year, \$77m (2021: \$77m, 2020: \$69m) relates to defined contribution plans and \$11m (2021: \$16m, 2020: \$9m) relates to defined benefit plans.

The cost charged in respect of the Group's defined contribution plans represents contributions payable to these plans by the Group at rates specified in the rules of the plans. These were charged to operating profit in costs of goods sold, selling, general and administrative expenses, and research and development expenses. There were \$nil outstanding payments as at 31 December 2022 due to be paid over to the plans (2021: \$nil, 2020: \$nil).

Defined benefit plan costs comprise service cost which is charged to operating profit in selling, general and administrative expenses and net interest cost and administration costs and taxes which are reported as other finance costs.

The defined benefit pension costs charged for the UK and US Plans are \$nil (2021: \$nil, 2020: \$nil).

18.5 Principal actuarial assumptions

The following are the principal financial actuarial assumptions used at the reporting date to determine the UK and US defined benefit obligations and expense.

	2022 % per annum	2021 % per annum	2020 % per annum
UK Plan:			
Discount rate	4.8	1.9	1.3
Future salary increases	n/a	n/a	n/a
Future pension increases	3.3	3.4	2.9
Inflation (RPI)	3.3	3.4	2.9
Inflation (CPI)	2.3	2.7	2.1
US Plan:			
Discount rate	5.3	2.7	2.4
Future salary increases	n/a	n/a	n/a
Inflation	n/a	n/a	n/a

Actuarial assumptions regarding future mortality are based on mortality tables. The UK uses the S3NA with projections in line with the CMI 2021 table and the US uses the PRI-2012 table with MP-2021 scale. The Directors have considered the impact of the Covid pandemic and, at the present time, do not believe that there is sufficient evidence to require a change in the long-term mortality assumptions. The Directors will continue to monitor any potential future impact on the mortality assumptions used.

The current longevity underlying the values of the obligations in the defined benefit plans are as follows:

	2022 years	2021 years	2020 years
Life expectancy at age 60			
UK Plan:			
Males	27.4	27.6	27.6
Females	30.1	30.1	30.1
US Plan:			
Males	24.9	24.7	24.7
Females	27.1	26.8	26.8
Life expectancy at age 60 in 20 years' time			
UK Plan:			
Males	28.9	29.1	29.1
Females	31.5	31.5	31.5
US Plan:			
Males	24.9	24.6	24.6
Females	27.6	27.3	27.3

18.6 Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions used. The following table summarises the increase/decrease on the UK and US defined benefit obligation and pension costs as a result of reasonably possible changes in some of the assumptions while holding all other assumptions consistent. The sensitivity to the inflation assumption change includes corresponding changes to the future pension increase assumptions. The analysis does not take into account the full distribution of cash flows expected under the plan.

Changes to the inflation assumption will not have any effect on the US Pension Plan as it was closed to future accrual in 2014 and it has no other inflation-linked assumptions.

\$ million	Increase in pension obligation		Increase in pension cost	
	+50bps/+1yr	-50bps/-1yr	+50bps/+1 yr	-50bps/-1yr
UK Plan:				
Discount rate	(29.0)	32.0	(1.0)	2.0
Inflation	29.0	(27.0)	2.0	-
Mortality	16.0	(17.0)	1.0	-
US Plan:				
Discount rate	(14.0)	14.0	-	-
Mortality	8.0	(8.0)	-	-

Group financial statements continued

Notes to the Group accounts continued

18 Retirement benefit obligations continued

18.7 Risk

The pension plans expose the Group to the following risks:

Interest rate risk

Volatility in financial markets can change the calculations of the obligation significantly as the calculation of the obligation is linked to yields on AA rated corporate bonds. A decrease in the bond yield will increase the measure of plan liabilities, although this will be partially offset by increases in the value of matching plan assets such as bonds and insurance contracts.

In the UK, the liability matching portfolio held in conventional and index-linked gilts was transferred into liability driven investments in order to reduce interest rate risk.

Inflation risk

The UK Plan is linked to inflation. A high rate of inflation will lead to a higher liability. This risk is managed by holding inflation-linked bonds and an inflation-linked insurance contract in respect of some of the obligation. In the UK, the liability matching portfolio held in conventional and index-linked gilts was transferred into liability driven investments in order to reduce inflation risk.

The UK Plan is closed to future accrual which reduces the exposure to this risk. The US Plan is also closed to future accrual and has no other inflation-linkage thus eliminating the exposure to this risk.

Investment risk

If the return on plan assets is below the discount rate, all else being equal, there will be an increase in the plan deficit.

In the UK, this risk is partially managed by a portfolio of liability matching assets and a bulk annuity, together with a dynamic de-risking policy to switch growth assets into liability matching assets over time.

The US Plan has a dynamic de-risking policy to shift plan assets from return-seeking (growth) assets to liability matching assets over time. The US Pension Plan has an established glide path that is designed to stabilise funding status by reducing the plan's exposure to return-seeking assets.

Longevity risk

The present value of the plan's defined benefit liability is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment. An increase in the life expectancy of plan participants above that assumed will increase the benefit obligation.

The UK Plan, in order to minimise longevity risk, has entered into an insurance contract which covers a portion of pensioner obligations.

18.8 Funding

A full valuation is performed by actuaries for the Trustees/Pension Committee of each plan to determine the level of funding required. Employer contribution rates, based on these full valuations, are agreed between the Trustees/Pension Committee of each plan and the Group. The assumptions used in the actuarial valuations used for funding purposes may differ from the accounting assumptions set out above.

UK Plan

The most recent full actuarial valuation of the UK Plan was undertaken as at 30 September 2020. Future accruals to the UK Plan ceased as at 31 December 2016. Contributions to the UK Plan in 2022 were \$nil (2021: \$7m, 2020: \$nil). This included supplementary payments of \$nil (2021: \$7m, 2020: \$nil).

Following the completion of the 30 September 2020 valuation, a dynamic contribution mechanism was agreed. Under that dynamic contribution mechanism, no further contributions were required in 2021 or 2022.

US Plan

The most recent full actuarial valuation of the US Plan was undertaken as at 1 January 2022. The next full actuarial valuation will take place as at 1 January 2023. Future accruals to the US Plan ceased as at 31 March 2014. Contributions to the US Plan were \$nil (2021: \$nil, 2020: \$nil) which represented supplementary payments of \$nil (2021: \$nil, 2020: \$nil).

There are no planned supplementary contributions to the US Plan for 2023.

19 Equity

Accounting policy

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is presented within share premium.

19.1 Share capital

	Ordinary shares (20¢)		Deferred shares (£1.00)		Total \$ million
	Thousand	\$ million	Thousand	\$ million	
Authorised					
At 31 December 2020	1,223,591	245	50	–	245
At 31 December 2021	1,223,591	245	50	–	245
At 31 December 2022	1,223,591	245	50	–	245
Allotted, issued and fully paid					
At 1 January 2020	885,207	177	50	–	177
Share options	327	–	–	–	–
Shares cancelled	(649)	–	–	–	–
At 31 December 2020	884,885	177	50	–	177
Share options	306	–	–	–	–
At 31 December 2021	885,191	177	50	–	177
Share options	229	–	–	–	–
Shares cancelled	(7,770)	(2)	–	–	(2)
At 31 December 2022	877,650	175	50	–	175

The deferred shares were issued in 2006 in order to comply with English Company law. They are not listed on any stock exchange and have extremely limited rights and effectively have no value. These rights are summarised as follows:

- The holder shall not be entitled to participate in the profits of the Company;
- The holder shall not have any right to participate in any distribution of the Company's assets on a winding-up or other distribution except that after the return of the nominal amount paid up on each share in the capital of the Company of any class other than the deferred shares and the distribution of a further \$1,000 in respect of each such share there shall be distributed to a holder of a deferred share (for each deferred share held) an amount equal to the nominal value of the deferred share;
- The holder shall not be entitled to receive notice, attend, speak or vote at any general meeting of the Company; and
- The Company may create, allot and issue further shares or reduce or repay the whole or any part of its share capital or other capital reserves without obtaining the consent of the holders of the deferred shares.

The Group's objectives when managing capital are to ensure the Group has adequate funds to continue as a going concern and sufficient flexibility within the capital structure to fund the ongoing growth of the business and to take advantage of business development opportunities including acquisitions.

The Group determines the amount of capital taking into account changes in business risks and future cash requirements. The Group reviews its capital structure on an ongoing basis and uses share buy-backs, dividends and the issue of new shares to adjust the retained capital.

Group financial statements continued
Notes to the Group accounts continued

19 Equity continued

The Group considers the capital that it manages to be as follows:

	2022 \$ million	2021 \$ million	2020 \$ million
Share capital	175	177	177
Share premium	615	614	612
Capital redemption reserve	20	18	18
Treasury shares	(118)	(120)	(157)
Retained earnings and other reserves	4,567	4,879	4,629
	5,259	5,568	5,279

19.2 Treasury shares

Treasury shares represent the holding of the Company's own shares in respect of the Smith & Nephew Employees' Share Trust and shares bought back as part of the share buy-back programme. In 2022, the Group purchased a total of 10.1m shares (2021: nil shares) for a cost of \$158m (2021: \$nil).

The Smith & Nephew 2004 Employees' Share Trust (Trust) was established to hold shares relating to the long-term incentive plans referred to in the Directors' Remuneration Report. The Trust is administered by an independent professional trust company resident in Jersey and is funded by a loan from the Company. The cost of the Trust is charged to the income statement as it accrues. A dividend waiver is in place in respect of those shares held under the long-term incentive plans. The Trust only accepts dividends in respect of nil-cost options and deferred bonus plan shares. The waiver represents less than 1% of the total dividends paid.

The movements in Treasury shares and the Employees' Share Trust are as follows:

	Treasury \$ million	Employees' Share Trust \$ million	Total \$ million
At 1 January 2021	136	21	157
Shares transferred from treasury	(30)	30	–
Shares transferred to Group beneficiaries	(13)	(24)	(37)
At 31 December 2021	93	27	120
Shares purchased	150	8	158
Shares transferred from treasury	(41)	41	–
Shares transferred to Group beneficiaries	(6)	(25)	(31)
Shares cancelled	(129)	–	(129)
At 31 December 2022	67	51	118

	Treasury Number of shares million	Employees' Share Trust Number of shares million	Total Number of shares million
At 1 January 2021	7.9	1.2	9.1
Shares transferred from treasury	(1.7)	1.7	–
Shares transferred to Group beneficiaries	(0.8)	(1.3)	(2.1)
At 31 December 2021	5.4	1.6	7.0
Shares purchased	9.7	0.4	10.1
Shares transferred from treasury	(2.6)	2.6	–
Shares transferred to Group beneficiaries	(0.4)	(1.4)	(1.8)
Shares cancelled	(7.8)	–	(7.8)
At 31 December 2022	4.3	3.2	7.5

19.3 Dividends

	2022 \$ million	2021 \$ million	2020 \$ million
The following dividends were declared and paid in the year:			
Ordinary final of 23.1¢ for 2021 (2020: 23.1¢, 2019: 23.1¢) paid 11 May 2022	202	203	202
Ordinary interim of 14.4¢ for 2022 (2021: 14.4¢, 2020: 14.4¢) paid 26 October 2022	125	126	126
	327	329	328

A final dividend for 2022 of 23.1 US cents per ordinary share was proposed by the Board on 21 February 2023 and will be paid, subject to shareholder approval, on 17 May 2023 to shareholders on the Register of Members on 31 March 2023. The estimated amount of this dividend is \$201m. The Group pursues a progressive dividend policy, with the aim of increasing the US Dollar value of ordinary dividends over time broadly based on the Group's underlying growth in earnings, while taking into account capital requirements and cash flows. Future dividends will be dependent upon future earnings, the future financial condition of the Group and the Board's dividend policy. The Board reviews the appropriate level of total annual dividend each year at the time of the full year results. Smith & Nephew plc, the Parent Company of the Group, is a non-trading investment holding company which derives its distributable reserves from dividends paid by subsidiary companies. The distributable reserves of the Parent Company approximate to the balance on the profit and loss account reserve, less treasury shares and exchange reserves, which at 31 December 2022 amounted to \$3,563m.

20 Cash flow statement

Accounting policy

In the Group cash flow statement, cash and cash equivalents includes cash at bank, other short-term liquid investments with original maturities of three months or less and bank overdrafts. In the Group balance sheet, bank overdrafts are shown within bank overdrafts, borrowings, loans and lease liabilities under current liabilities.

Analysis of net debt including lease liabilities

	Cash \$ million	Overdrafts \$ million	Due within one year \$ million	Due after one year \$ million	Borrowings		Total \$ million
					Net currency swaps \$ million	Net interest swaps \$ million	
At 1 January 2020	277	(20)	(6)	(1,851)	–	–	(1,600)
IFRS 16 lease liabilities	–	–	(46)	(124)	–	–	(170)
Net debt including lease liabilities at 1 January 2020	277	(20)	(52)	(1,975)	–	–	(1,770)
Net cash flow/debt movement	1,484	9	(260)	(1,285)	(7)	–	(59)
Exchange adjustment	1	–	(2)	(79)	7	2	(71)
Corporate bond issuance expense	–	–	–	8	–	–	8
IFRS 16 lease liabilities movement	–	–	(12)	(22)	–	–	(34)
At 31 December 2020	1,762	(11)	(326)	(3,353)	–	2	(1,926)
Net cash flow/debt movement	(466)	7	(162)	429	4	–	(188)
Exchange adjustment	(6)	(1)	–	72	(4)	(2)	59
Corporate bond issuance expense	–	–	–	(1)	–	–	(1)
IFRS 16 lease liabilities movement	–	–	2	5	–	–	7
At 31 December 2021	1,290	(5)	(486)	(2,848)	–	–	(2,049)
Net cash flow/debt movement	(931)	1	302	94	(3)	–	(537)
Exchange adjustment	(9)	(2)	23	45	3	(13)	47
Corporate bond issuance expense	–	–	–	3	–	–	3
IFRS 16 lease liabilities movement	–	–	7	(6)	–	–	1
Net debt including lease liabilities at 31 December 2022	350	(6)	(154)	(2,712)	–	(13)	(2,535)

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Notes to the Group accounts continued

20 Cash flow statement continued

Reconciliation of net cash flow to movement in net debt including lease liabilities

	2022 \$ million	2021 \$ million	2020 \$ million
Net cash flow from cash net of overdrafts	(930)	(459)	1,493
Settlement of currency swaps	(3)	4	(7)
Net cash flow from borrowings	396	267	(1,545)
Change in net debt from net cash flow	(537)	(188)	(59)
IFRS 16 lease liabilities	1	7	(34)
Exchange adjustment	47	59	(71)
Corporate bond issuance expense	3	(1)	8
Change in net debt in the year	(486)	(123)	(156)
Opening net debt	(2,049)	(1,926)	(1,770)
Closing net debt	(2,535)	(2,049)	(1,926)

Cash and cash equivalents

For the purposes of the Group cash flow statement, cash and cash equivalents at 31 December 2022 comprise cash at bank net of bank overdrafts.

	2022 \$ million	2021 \$ million	2020 \$ million
Cash at bank	350	1,290	1,762
Bank overdrafts	(6)	(5)	(11)
Cash and cash equivalents	344	1,285	1,751

The Group operates in over 100 countries around the world, some of which impose restrictions over cash movement. These restrictions have only a minimal impact of the management on the Group's cash.

Cash outflows/(inflows) arising from financing activities

	Repayment of bank loans ¹ \$ million	Borrowing of bank loans ¹ \$ million	Proceeds from Corporate Bond issue \$ million	Repayment of lease liabilities \$ million	Cash outflow/ (inflow) from other \$ million	Dividends \$ million	Purchase of own shares \$ million	Proceeds from own shares/issue of ordinary shares \$ million	Total \$ million
2022									
Debt	881	-	(485)	54	(3)	-	-	-	447
Equity	-	-	-	-	-	327	158	(6)	479
Total	881	-	(485)	54	(3)	327	158	(6)	926
2021									
Debt	267	-	-	59	4	-	-	-	330
Equity	-	-	-	-	-	329	-	(14)	315
Total	267	-	-	59	4	329	-	(14)	645
2020									
Debt	405	(950)	(1,000)	55	(7)	-	-	-	(1,497)
Equity	-	-	-	-	-	328	16	(11)	333
Total	405	(950)	(1,000)	55	(7)	328	16	(11)	(1,164)

1 This includes drawdown and repayment of the syndicated revolving credit facility.

21 Acquisitions

Accounting policy

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Year ended 31 December 2022

On 18 January 2022, the Group completed the acquisition of 100% of the share capital of Engage Uni, LLC (doing business as Engage Surgical), owner of the only cementless unicompartmental (partial) knee system commercially available in the US. This acquisition strongly supports Smith+Nephew's Strategy for Growth by transforming our business through innovation and acquisition, while also providing differentiation for our customers.

The maximum consideration, all payable in cash, is \$135 million and the provisional fair value consideration is \$131 million and includes \$32 million of contingent consideration. The goodwill represents the control premium, the acquired workforce and the synergies expected from integrating Engage Surgical into the Group's existing business. The majority of the consideration is expected to be deductible for tax purposes.

The fair value of assets acquired and liabilities assumed are set out below:

	Engage Surgical \$ million
Intangible assets – Product-related	44
Property, plant and equipment	2
Inventory	2
Trade and other payables	(1)
Net assets	47
Goodwill	84
Consideration (net of \$nil cash acquired)	131

The product-related intangible assets were valued using a relief-from-royalty methodology with the key inputs being revenue, profit and discount rate. The cash outflow from acquisitions of \$113m (2021: \$285m) comprises payments of consideration of \$89m (2021: \$236m) relating to acquisitions in the current year and payments of deferred and contingent consideration of \$24m (2021: \$49m) relating to acquisitions completed in prior years.

The carrying value of goodwill increased from \$2,989m at 31 December 2021 to \$3,031m at 31 December 2022. The acquisition in the year ended 31 December 2022 increased goodwill by \$84m, this was partially offset by foreign exchange movements of \$42m.

For the year ended 31 December 2022, the contribution from Engage Surgical to revenue and to profit was immaterial. If the business combination had occurred at the beginning of the year the contribution to revenue and profit would not have been materially different.

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21 Acquisitions continued

Year ended 31 December 2021

On 4 January 2021, the Group completed the acquisition of the Extremity Orthopaedics business of Integra LifeSciences Holdings Corporation ('Extremity Orthopaedics'). The acquisition significantly strengthens the Group's extremities business by adding a combination of a focused sales channel, complementary shoulder replacement and upper and lower extremities portfolio, and a new product pipeline. The transaction comprised the acquisition of the entire issued share capital of two wholly owned US subsidiaries of Integra LifeSciences Holdings Corporation group and certain assets of the Extremity Orthopaedics business held both in and outside the US. The maximum consideration is \$240m and the fair value of consideration is \$236m and includes no deferred or contingent consideration.

The goodwill represents the control premium, the acquired workforce and the synergies expected from integrating Extremity Orthopaedics into the Group's existing business, and is expected to be partly deductible for tax purposes.

The fair value of assets acquired and liabilities assumed are set out below:

	Extremity Orthopaedics \$ million
Intangible assets – Product-related	101
Intangible assets – Customer-related	11
Property, plant and equipment	22
Inventory	41
Other payables	(23)
Net deferred tax asset	(12)
Net assets	140
Goodwill	96
Consideration (net of \$nil cash acquired)	236

The product-related intangible assets were valued using an excess earnings methodology with the key inputs being revenue, profit and discount rate. The cash outflow from acquisitions of \$285m (2020: \$170m) comprises payments of consideration of \$236m (2020: \$117m) relating to the acquisition which completed in the current year and payments of deferred and contingent consideration of \$49m (2020: \$53m) relating to acquisitions completed in prior years.

The carrying value of goodwill increased from \$2,928m at 31 December 2020 to \$2,989m at 31 December 2021. The acquisition in the year ended 31 December 2021 increased goodwill by \$96m, this was partially offset by foreign exchange movements of \$35m. For the year ended 31 December 2021, the contribution from Extremity Orthopaedics to revenue was \$82m and to profit was immaterial. If the business combination had occurred at the beginning of the year the contribution to revenue and profit would not have been materially different.

Year ended 31 December 2020

On 23 January 2020, the Group completed the acquisition of 100% of the share capital of Tusker Medical Inc. ('Tusker'), a developer of an innovative in-office solution for tympanostomy (ear tubes) called Tula. The acquisition was deemed to be a business combination within the scope of IFRS 3 Business Combinations. The acquisition supports the Group's strategy to invest in innovative technologies that address unmet clinical needs. The maximum consideration is \$140m and the fair value of consideration is \$139m and includes \$6m of deferred consideration and \$35m of contingent consideration. The goodwill represents the control premium, the acquired workforce and the synergies expected from integrating Tusker into the Group's existing business, and is not expected to be deductible for tax purposes. The acquisition accounting was completed in 2021 with no adjustments to the fair value disclosed in the Group's 2020 Annual Report.

For the year ended 31 December 2020, the contribution to revenue and profit from Tusker was immaterial. If the business combination had occurred at the beginning of the year, the contribution to revenue and profit would also have been immaterial.

The fair values of assets acquired and liabilities assumed are set out below:

	Tusker \$ million
Intangible assets – Product-related	53
Property, plant and equipment	6
Other receivables	1
Trade and other payables	(6)
Non-current liabilities	(3)
Net deferred tax asset	5
Net assets	56
Goodwill	83
Consideration (net of \$nil cash acquired)	139

During the year ended 31 December 2020, the Group also completed two other smaller acquisitions in the spheres of remote physical therapy and arthroscopic enabling technology. The maximum aggregated consideration is \$41m and the fair value of consideration is \$26m and includes \$3m of deferred consideration and \$17m of contingent consideration. The fair value of aggregate assets acquired is: intangible assets of \$8m, property and other net assets of \$2m. The goodwill arising on these acquisitions is \$16m, which is not expected to be deductible for tax purposes, and is attributable to future iterations of the technologies and the synergies that can be expected from integrating these acquisitions into the Group's existing business.

For the year ended 31 December 2020, the contribution to revenue and profit from the business combinations was immaterial. If the business combinations had occurred at the beginning of the year, the contribution to revenue and profit would have been immaterial.

22 Other notes to the accounts

22.1 Share-based payments

Accounting policy

The Group operates a number of equity-settled executive and employee share plans. For all grants of share options and awards, the fair value at the grant date is calculated using appropriate option pricing models. The grant date fair value is recognised over the vesting period as an expense, with a corresponding increase in retained earnings.

The Group operates the following equity-settled executive and employee share plans: Smith & Nephew Global Share Plan 2010, Smith & Nephew Global Share Plan 2020, Smith & Nephew ShareSave Plan (2012) and Smith & Nephew International ShareSave Plan (2012). At 31 December 2022, 5,202,000 options (2021: 4,472,000, 2020: 4,582,000) were outstanding with a range of exercise prices from 843 to 1,541 pence.

At 31 December 2022, the maximum number of shares that could be awarded under the Group's long-term incentive plans was 7,371,000 (2021: 5,997,000, 2020: 4,704,000). These include conditional share awards granted to senior employees and equity and performance share awards granted to senior executives under the Global Share Plan 2010 and Global Share Plan 2020.

The expense charged to the income statement for share-based payments for the year is \$40m (2021: \$41m, 2020: \$26m).

22.2 Related party transactions

Trading transactions

In the course of normal operations, the Group traded with its associates detailed in Note 11. The aggregated transactions, which have not been disclosed elsewhere in the financial statements are \$nil (2021: \$nil, 2020: \$nil).

Key management personnel

The remuneration of Executive Officers (including Non-Executive Directors) during the year is summarised below:

	2022 \$ million	2021 \$ million	2020 \$ million
Short-term employee benefits	17	16	12
Share-based payments expense	10	7	5
Pension and post-employment benefit entitlements	2	1	2
	29	24	19

Directors' remuneration disclosures are included on [pages 116–145](#).

Retirement benefit schemes

Details of the Group's retirement benefit schemes are set out in Note 18.

23 Post balance sheet events

There have been no events between the balance sheet date, and the date on which the financial statements were approved by the Board, which would require adjustment to the financial statements or any additional disclosures.

Company balance sheet

	Notes	At 31 December 2022 \$ million	At 31 December 2021 \$ million
Fixed assets			
Investments	2	7,092	7,092
Current assets			
Debtors	3	2,991	2,852
Cash at bank	5	190	1,142
		3,181	3,994
Creditors: amounts falling due within one year			
Borrowings	5	(109)	(432)
Other creditors	4	(947)	(949)
		(1,056)	(1,381)
Net current assets			
		2,125	2,613
Total assets less current liabilities			
		9,217	9,705
Creditors: amounts falling due after one year			
Borrowings	5	(2,565)	(2,707)
Other creditors	4	(13)	–
		(2,578)	(2,707)
Total assets less total liabilities			
		6,639	6,998
Equity shareholders' funds			
Share capital		175	177
Share premium		615	614
Capital redemption reserve		20	18
Capital reserve		2,266	2,266
Treasury shares		(118)	(120)
Exchange reserve		(52)	(52)
Profit and loss account		3,733	4,095
Shareholders' funds			
		6,639	6,998

The accounts were approved by the Board and authorised for issue on 21 February 2023 and signed on its behalf by:

Roberto Quarta
Chair

Deepak Nath, PhD
Chief Executive Officer

Anne-Françoise Nesmes
Chief Financial Officer

Excluding Note 8 'Group Companies', the Parent Company financial statements of Smith & Nephew plc on pages 221–228 do not form part of the Smith & Nephew plc Annual Report on Form 20-F as filed with the SEC.

Statement of changes in equity

	Share capital \$ million	Share premium \$ million	Capital redemption reserve \$ million	Capital reserve \$ million	Treasury shares \$ million	Exchange reserve \$ million	Profit and loss account \$ million	Total shareholders' funds \$ million
At 1 January 2021	177	612	18	2,266	(157)	(52)	2,414	5,278
Attributable profit for the year	-	-	-	-	-	-	1,994	1,994
Equity dividends paid in the year	-	-	-	-	-	-	(329)	(329)
Share-based payments recognised ¹	-	-	-	-	-	-	41	41
Cost of shares transferred to beneficiaries	-	-	-	-	37	-	(25)	12
New shares issued on exercise of share options	-	2	-	-	-	-	-	2
At 31 December 2021	177	614	18	2,266	(120)	(52)	4,095	6,998
Attributable profit for the year	-	-	-	-	-	-	80	80
Equity dividends paid in the year	-	-	-	-	-	-	(327)	(327)
Share-based payments recognised ¹	-	-	-	-	-	-	40	40
Cost of shares transferred to beneficiaries	-	-	-	-	31	-	(26)	5
New shares issued on exercise of share options	-	1	-	-	-	-	-	1
Cancellation of treasury shares	(2)	-	2	-	129	-	(129)	-
Treasury shares purchased	-	-	-	-	(158)	-	-	(158)
At 31 December 2022	175	615	20	2,266	(118)	(52)	3,733	6,639

¹ The Company operates a number of equity-settled executive and employee share plans. For all grants of share options and awards, the fair value as at the date of grant is calculated using an appropriate option pricing model and the corresponding expense is recognised over the vesting period. Subsidiary companies are recharged for the fair value of share options that relate to their employees. The disclosure relating to the Company is detailed in Note 22.1 of the Notes to the Group accounts.

Further information on the share capital of the Company can be found in Note 19.1 of the Notes to the Group accounts.

The total distributable reserves of the Company are \$3,563m (2021: \$3,923m). In accordance with the exemption permitted by Section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. The attributable profit for the year dealt with in the accounts of the Company is \$80m (2021: \$1,994m). The decrease in attributable profit from the prior year is primarily due to lower dividends received from subsidiaries.

Fees paid to KPMG LLP for audit and non-audit services to the Company itself are not disclosed in the individual accounts because Group financial statements are prepared which are required to disclose such fees on a consolidated basis. The fees for the consolidated Group are disclosed in Note 3.2 of the Notes to the Group accounts.

Notes to the Company accounts

1 Basis of preparation

Smith & Nephew plc (the “Company”) is a public limited company incorporated in England and Wales.

The separate accounts of the Company are presented as required by the Companies Act 2006. These financial statements and accompanying notes have been prepared in accordance with the Financial Reporting Standard 101 *Reduced Disclosure Framework* (‘Reduced Disclosure Framework’) for all periods presented. The financial information for the Company has been prepared on the same basis as the consolidated financial statements, applying identical accounting policies as outlined throughout the Notes to the Group accounts. The Directors have determined that the preparation of the Company financial statements on a going concern basis is appropriate as the Company receives dividend cash receipts from its subsidiary undertakings which enable it to meet its liabilities as they fall due.

In applying these policies, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A cash flow statement and related notes;
- Comparative period reconciliations for share capital and tangible fixed assets;
- Disclosures in respect of transactions with wholly-owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share Based Payments* in respect of Group-settled share-based payments; and
- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

The Company proposes to continue to adopt the Reduced Disclosure Framework of FRS 101 in its next financial statements.

Accounting standards issued but not yet effective: A number of new standards and amendments to standards are effective for periods beginning after 1 January 2022 and earlier application is permitted; however, the Company has not early adopted them in preparing these financial statements.

2 Investments

Accounting policy

Investments in subsidiaries are stated at cost less provision for impairment.

	2022 \$ million	2021 \$ million
At 1 January and 31 December	7,092	7,092

Investments represent holdings in subsidiary undertakings. In accordance with Section 409 of the Companies Act 2006, a listing of all entities invested in by the consolidated Group is provided in Note 8.

3 Debtors

	2022 \$ million	2021 \$ million
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	2,896	2,795
Prepayments and accrued income	6	–
Current asset derivatives – forward foreign exchange contracts	46	37
Current asset derivatives – forward foreign exchange contracts – subsidiary undertakings	42	18
Current asset derivatives – currency swaps	1	2
	2,991	2,852

Excluding Note 8 ‘Group Companies’, the Parent Company financial statements of Smith & Nephew plc on pages 221–228 do not form part of the Smith & Nephew plc Annual Report on Form 20-F as filed with the SEC.

Company financial statements continued

Notes to the Company accounts continued

Allowance losses on amounts owed by subsidiary undertakings are calculated by reviewing 12-month expected credit losses using historic and forward-looking data on credit risk. The loss allowance expense for the year was de minimis (2021: de minimis).

4 Other creditors

	2022 \$ million	2021 \$ million
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	837	881
Other creditors	21	12
Current liability derivatives – forward foreign exchange contracts	42	17
Current liability derivatives – forward foreign exchange contracts – subsidiary undertakings	46	37
Current liability derivatives – currency swaps	1	2
	947	949
Amounts falling due after one year:		
Non-current liability derivatives – interest rate swaps	13	–
	13	–

5 Cash and borrowings

Accounting policy

Financial instruments

Currency swaps are used to match foreign currency assets with foreign currency liabilities. They are initially recorded at fair value and then for reporting purposes remeasured to fair value at exchange rates and interest rates at subsequent balance sheet dates.

Changes in the fair value of derivative financial instruments are recognised in the profit and loss account as they arise.

	2022 \$ million	2021 \$ million
Bank loans, borrowing and overdrafts due within one year or on demand	109	432
Borrowings due after one year	2,565	2,707
Borrowings	2,674	3,139
Cash at bank	(190)	(1,142)
Credit balance on derivatives – interest rate swaps	13	–
Net debt	2,497	1,997

All currency swaps are stated at fair value. Gross US Dollar equivalents of \$369m (2021: \$337m) receivable and \$369m (2021: \$337m) payable have been netted. Currency swaps comprise foreign exchange swaps and were used in 2022 and 2021 to hedge intra-group loans.

6 Contingencies

	2022 \$ million	2021 \$ million
Guarantees in respect of subsidiary undertakings	–	–

The Company gives guarantees to banks to support liabilities and cross guarantees to support overdrafts.

The Company operated defined benefit pension plans in 2004 but at the end of 2005 its pension plan obligations were transferred to Smith & Nephew UK Limited. The Company has provided guarantees to the trustees of the pension plans to support future amounts due from participating employers (see Note 18 of the Notes to the Group accounts).

7 Deferred taxation

The Company has gross unused capital losses of \$75m (2021: \$84m) available for offset against future chargeable gains. No deferred tax asset has been recognised on these unused losses as they are not expected to be realised in the foreseeable future.

Excluding Note 8 'Group Companies', the Parent Company financial statements of Smith & Nephew plc on pages 221–228 do not form part of the Smith & Nephew plc Annual Report on Form 20-F as filed with the SEC.

8 Group companies

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries, associates, joint arrangements, joint ventures and partnerships are listed below as at 31 December 2022, including their country of incorporation. All companies are 100% owned, unless otherwise indicated. The share capital disclosed comprises ordinary shares which are indirectly held by Smith & Nephew plc, unless otherwise stated.

Company name	Country of operation and incorporation	Registered Office
UK		
Michelson Diagnostic Limited ³ (6.4%)	England & Wales	Kent
Neotherix Limited ³ (24.9%)	England & Wales	York
Smith & Nephew (Overseas) Limited ^{1,5}	England & Wales	Watford
Smith & Nephew Beta Limited ²	England & Wales	Watford
Smith & Nephew China Holdings UK Limited ¹	England & Wales	Watford
Smith & Nephew Employees Trustees Limited ²	England & Wales	Watford
Smith & Nephew ESN Limited ²	England & Wales	Watford
Smith & Nephew Extruded Films Limited ²	England & Wales	Hull
Smith & Nephew Finance ²	England & Wales	Watford
Smith & Nephew Finance Oratec ²	England & Wales	Watford
Smith & Nephew Group Services Limited	England & Wales	Watford
Smith & Nephew Healthcare Limited ²	England & Wales	Hull
Smith & Nephew Investment Holdings Limited ¹	England & Wales	Watford
Smith & Nephew Lilia Limited ²	England & Wales	Watford
Smith & Nephew Medical Fabrics Limited ²	England & Wales	Watford
Smith & Nephew Medical Limited	England & Wales	Hull
Smith & Nephew Nominee Company Limited ²	England & Wales	Watford
Smith & Nephew Nominee Services Limited ²	England & Wales	Watford
Smith & Nephew Orthopaedics Limited	England & Wales	Watford
Smith & Nephew Pharmaceuticals Limited ²	England & Wales	Hull
Smith & Nephew Raisegrade Limited ^{1,2}	England & Wales	Watford
Smith & Nephew Rareletter Limited ²	England & Wales	Watford
Smith & Nephew Trading Group Limited ¹	England & Wales	Watford
Smith & Nephew UK Executive Pension Scheme Trustee Limited ²	England & Wales	Watford
Smith & Nephew UK Limited ^{1,5}	England & Wales	Watford
Smith & Nephew UK Pension Fund Trustee Limited ²	England & Wales	Watford
Smith & Nephew USD Limited ¹	England & Wales	Watford
Smith & Nephew USD One Limited ¹	England & Wales	Watford
T.J.Smith and Nephew, Limited	England & Wales	Hull
The Albion Soap Company Limited ²	England & Wales	Watford
TP Limited ¹	Scotland	Edinburgh

Company name	Country of operation and incorporation	Registered Office
Rest of Europe		
Smith & Nephew GmbH	Austria	Vienna
Smith & Nephew S.A.-N.V	Belgium	Zaventem
Smith & Nephew A/S	Denmark	Kobenhavn
Smith & Nephew Oy	Finland	Helsinki
Smith & Nephew France SAS ¹	France	Neuilly-sur-Seine
Smith & Nephew S.A.S.	France	Neuilly-sur-Seine
Smith & Nephew Business Services GmbH & Co. KG ¹	Germany	Hamburg
Smith & Nephew Business Services Verwaltungs GmbH	Germany	Hamburg
Smith & Nephew Deutschland (Holding) GmbH ¹	Germany	Hamburg
Smith & Nephew GmbH	Germany	Hamburg
Smith & Nephew Orthopaedics GmbH	Germany	Tuttlingen
Smith & Nephew Robotics GmbH	Germany	Munich
Smith & Nephew (Ireland) Trading Limited	Ireland	Dublin
Smith & Nephew S.r.l.	Italy	Milan
Smith & Nephew International S.A. ¹	Luxembourg	Luxembourg
Smith & Nephew (Europe) B.V. ¹	Netherlands	Amsterdam, 2132NP
Smith & Nephew B.V.	Netherlands	Amsterdam, 2132NP
Smith & Nephew Nederland CV	Netherlands	Amsterdam, 2132NP
Smith & Nephew Operations B.V.	Netherlands	Amsterdam, 2132NP
Serda B.V. ³ (48.32%)	Netherlands	Amsterdam, 1105BP
Smith & Nephew AS	Norway	Oslo
Smith & Nephew sp. z.o.o.	Poland	Warsaw
Smith & Nephew Lda	Portugal	Forte da Casa
S&N ORION PRIME, S.A.	Portugal	Coimbra
DC LLC	Russian Federation	Puschino
Smith & Nephew LLC	Russian Federation	Moscow
Smith & Nephew S.A.U	Spain	Barcelona
Smith & Nephew Aktiebolag	Sweden	Molndal
Lumina Adhesives AB ³ (3.04%)	Sweden	Gothenburg
Atracsys Sàrl	Switzerland	Puidoux
Plus Orthopedics Holding AG ¹	Switzerland	Zug
Smith & Nephew Manufacturing AG	Switzerland	Aarau
Smith & Nephew Orthopaedics AG ¹	Switzerland	Zug
Smith & Nephew Schweiz AG	Switzerland	Zug
Smith & Nephew AG	Switzerland	Zug
Smith & Nephew Orthopaedics AG Aarau Branch ⁶	Switzerland	Aarau

Excluding Note 8 'Group Companies', the Parent Company financial statements of Smith & Nephew plc on pages 221–228 do not form part of the Smith & Nephew plc Annual Report on Form 20-F as filed with the SEC.

Company financial statements continued

Notes to the Company accounts continued

8 Group companies continued

Company name	Country of operation and incorporation	Registered Office	Company name	Country of operation and incorporation	Registered Office
US					
Arthrocare Corporation	United States	Wilmington	Smith & Nephew Chile SpA	Chile	Chile
Ascension Orthopedics, Inc.	United States	Wilmington Centreville	ArthroCare Medical Devices (Beijing) Co. Limited ⁴	China	Chao Yang District, Beijing
Austin Miller Trauma LLC	United States	Wilmington	Plus Orthopedics (Beijing) Co. Limited ²	China	Shunyi District, Beijing
Bioventus Inc. ^{3,7} (28.32%)	United States	Wilmington	Smith & Nephew Medical (Shanghai) Limited	China	Shanghai Ao Na Rd
Bioventus LLC ^{3,8} (20.31%)	United States	Wilmington	Smith & Nephew Medical (Shanghai) Limited Beijing Branch ⁶	China	Dong Cheng
Blue Belt Technologies, Inc.	United States	Philadelphia	Smith & Nephew Medical (Shanghai) Limited Chengdu Branch ⁶	China	Wu Hou
Ceterix Orthopaedics, Inc.	United States	Wilmington	Smith & Nephew Medical (Shanghai) Limited Guangzhou Branch ⁶	China	Yue Xiu
Engage Uni LLC	United States	Wilmington 19808	Smith & Nephew Medical (Shanghai) Limited Shanghai Branch ⁶	China	Jing'an
Integrated Shoulder Collaboration, Inc.	United States	Wilmington 19808	Smith & Nephew Medical (Shanghai) Limited Shanghai Second Branch ⁶	China	Shanghai Xin Jin Qiao Rd
Leaf Healthcare Inc.	United States	Wilmington	Smith & Nephew Medical (Suzhou) Limited	China	Suzhou City
Miach Orthopaedics, Inc. ³ (10.09%)	United States	Dover GD	Smith & Nephew Orthopaedics (Beijing) Co., Ltd	China	Kechuang Dongliujie
Orthopaedic Biosystems Ltd., Inc.	United States	Phoenix	S&N Holdings SAS ¹	Colombia	Bogota
Osiris Therapeutics, Inc.	United States	Columbia	Smith & Nephew Colombia S.A.S	Colombia	Bogota
Rotation Medical, Inc.	United States	Wilmington 1908	ArthroCare Costa Rica Srl	Costa Rica	Alajuela
Sinopsys Surgical, Inc. ³ (1.44%)	United States	Wilmington	Smith & Nephew Curaçao N.V. ²	Curaçao	Willemstad
Smith & Nephew Consolidated, Inc. ¹	United States	Wilmington	Smith & Nephew Beijing Holdings Limited ¹	Hong Kong	Hong Kong
Smith & Nephew, Inc. ¹	United States	Wilmington	Smith & Nephew Limited	Hong Kong	Hong Kong
Surgical Frontiers Series I, LLC ³ (42.16%)	United States	Dover GD	Smith & Nephew Suzhou Holdings Limited ¹	Hong Kong	Hong Kong
Trice Medical Inc. ³ (2.8%)	United States	Wilmington 19808	Smith & Nephew GBS Private Limited	India	Pune
Tusker Medical, Inc.	United States	Wilmington 19808	Smith & Nephew Healthcare Private Limited	India	Mumbai
Africa, Asia, Australasia and Other Americas			Smith & Nephew KK	Japan	Tokyo
Smith & Nephew Argentina S.R.L. ²	Argentina	Buenos Aires	Smith & Nephew Chusik Hoesia	Korea, Republic of	Seoul
Smith & Nephew Pty Limited	Australia	Macquarie park	Smith & Nephew Healthcare Sdn. Bhd	Malaysia	Kuala Lumpur
Smith & Nephew Surgical Holdings Pty Limited ^{1,2}	Australia	Macquarie park	Smith & Nephew Operations Sdn. Bhd	Malaysia	Kuala Lumpur
Smith & Nephew Surgical Pty Limited ²	Australia	Macquarie park	Smith & Nephew Services Sdn. Bhd	Malaysia	Kuala Lumpur
Smith & Nephew Comercio de Produtos Medicos LTDA	Brazil	São Paulo	Smith & Nephew S.A. de C.V.	Mexico	Mexico City
Smith & Nephew Comercio de Produtos Medicos LTDA, Diadema Branch ⁶	Brazil	Diadema	Smith & Nephew Limited ¹	New Zealand	Auckland
Smith & Nephew Comercio de Produtos Medicos LTDA, Rio de Janeiro Branch ⁶	Brazil	Rio de Janeiro	Smith & Nephew Superannuation Scheme Limited	New Zealand	Auckland
Smith & Nephew Comercio de Produtos Medicos LTDA, São José dos Campos Branch ⁶	Brazil	São José	Smith & Nephew (Overseas) Limited Philippines Branch ^{2,6}	Philippines	Manila
Smith & Nephew (Alberta) Inc. ²	Canada	Calgary	Smith & Nephew, Inc.	Puerto Rico	San Juan
Smith & Nephew Inc. ¹	Canada	Toronto	Smith & Nephew Asia Pacific Pte. Limited ¹	Singapore	Singapore
Tenet Medical Engineering, Inc.	Canada	Calgary	Smith & Nephew Pte Limited	Singapore	Singapore
Smith & Nephew Finance Holdings Limited ⁵	Cayman Islands	George Town 1104	Smith & Nephew (Pty) Limited ¹	South Africa	Westville
TEAMfund, LP ³ (6.765%)	Cayman Islands	George Town 9008	Smith & Nephew Pharmaceuticals (Proprietary) Limited ²	South Africa	Westville

Excluding Note 8 'Group Companies', the Parent Company financial statements of Smith & Nephew plc on pages 221–228 do not form part of the Smith & Nephew plc Annual Report on Form 20-F as filed with the SEC.

Company name	Country of operation and incorporation	Registered Office
Smith & Nephew (Overseas) Limited Taiwan Branch ⁶	Taiwan	Taipei
Smith & Nephew Limited	Thailand	Huai Khwang District, Bangkok
Smith ve Nephew Medikal Cihazlar Ticaret Limited Sirketi	Turkey	Istanbul
Smith & Nephew FZE	United Arab Emirates	Jebel Ali, Dubai
Smith & Nephew FZE (DHCC Branch) ⁶	United Arab Emirates	HealthCare City, Dubai
The Representative Office Of Smith & Nephew Asia Pacific Pte. Limited	Vietnam	Ho Chi Minh City

- 1 Holding company.
- 2 Dormant company.
- 3 Not 100% owned by Smith & Nephew Group.
- 4 In liquidation.
- 5 Directly owned by Smith & Nephew plc.
- 6 Branch of a company in Smith & Nephew Group.
- 7 Represents 28.32% voting rights and 8.01% economic interest.
- 8 Represents 20.31% economic interest.

Registered Office addresses

UK	
Watford	Building 5, Croxley Park, Hatters Lane, Watford, Hertfordshire, WD18 8YE
Kent	Ground Floor, Eclipse House, Eclipse Park, Sittingbourne Road, Maidstone, Kent, ME14 3EN
York	25, Carr Lane, York, YO26 5HT
Hull	101 Hessle Road, Hull, HU3 2BN
Edinburgh	4th Floor, 115 George Street, Edinburgh, EH2 4JN
Rest of Europe	
Vienna	Concorde Business Park, 1/C/3 2320, Schwechat, Austria
Zaventem	Ikaroslaan 45, Gebouw D, 1930 Zaventem, Belgium
Kobenhavn	Kay Fiskers Plads 9,1. 2300. Kobenhavn S, Denmark
Helsinki	Ayritie 12 C, 01510, Vantaa, Finland
Neuilly-sur-Seine	40-52, Boulevard du Parc, 92200 Neuilly-sur-Seine, France
Hamburg	Friesenweg 4, Haus 21, 22763, Hamburg, Germany
Munich	Konrad-Zuse-Platz 8, 81829, Munich, Germany
Tuttlingen	Alemannenstrasse 14, 78532, Tuttlingen, Germany
Dublin	13-18 City Quay, Dublin 2, D02 ED70, Ireland
Milan	Sesto San Giovanni (MI) Viale T. Edison 110 CAP 20099 Italy
Luxembourg	1A, rue Jean Piret, L-2350, Luxembourg, Luxembourg
Amsterdam 2132NP	Bloemlaan 2, 2132NP, Hoofddorp, The Netherlands
Amsterdam 1105BP	Paasheuvelweg 25, 1105BP, Amsterdam, The Netherlands
Oslo	Snaroyveien 36, FORNEBU, 1364, Norway
Warsaw	Ul Osmanska 12, 02-823, Warsaw, Poland

Registered Office addresses

Forte da Casa	Rua do Parque Tejo, numbers 7, 7-A and 7-B 2625-437 Forte da Casa, Povoá de Santa Iria and Forte da Casa, Vila Franca de Xira, Portugal
Coimbra	Rua Pedro Nunes, Instituto Pedro Nunes, Edifício IPN-D, 3030-199, Coimbra, Portugal
Moscow	2nd Syromyatnichesky Lane, Moscow, 105120, Russian Federation
Puschino	8/1 Stroiteley Street, 142290, City of Puschino, Moscow Region, Russian Federation
Barcelona	Edificio Conata I, c/Fructuos Gelabert 2 y 4, San Joan Despi – 08970, Barcelona, Spain
Molndal	Krokslatts fabriker 39 431 37 Molndal, Sverige, Sweden
Gothenburg	Varbergsgatan 2A/412 65 Göteborg, Sweden
Puidoux	Route du Verney 20, 1070, Puidoux, Switzerland
Zug	Theilerstrasse 1A, 6300, Zug, Switzerland
Aarau	Schachenallee 29, 5000, Aarau, Switzerland
US	
Wilmington	CT Corporation, 1209 Orange Street, Wilmington DE 19801, USA
Wilmington Centreville	Corporation Services Company, Suite 400, 2711, Centreville Road, Wilmington DE, USA
Philadelphia	CT Corporation 1515 Market Street, Philadelphia, PA 19102, USA
Wilmington 19808	251 Little Falls Drive, Wilmington DE 19808, USA
Dover GD	160 Greentree Drive, Suite 101, Dover, DE, 19904, USA
Pennsylvania	63 Burke Road, Cranberry Township, Butler County PA 16066, USA
Phoenix	CT Corporation System, 3800 North Central Avenue, Phoenix AZ 85012, USA
Columbia	7015 Albert Einstein Dr., Columbia, Howard County MD 21046 USA
Africa, Asia, Australasia and Other Americas	
Buenos Aires	Maipu 1300, 13th Floor, Buenos Aires, Argentina
Macquarie park	Suite 1.01, Level 1, Building B, Pinnacle Office Park, 4 Drake Avenue, Macquarie park
São Paulo	Av. das Nações Unidas, 14171- 23º andar – Torre C-Crystal, Vila Gertrudes, São Paulo, CEP 043794-000, Brazil
Diadema	Avenida Fagundes de Oliveira, 538, Piraporinha, Mbigucci Diadema Business Park, Module B21 and B22, City of Diadema São Paulo CEP 09950-300 Brazil
Rio de Janeiro	Rua Francisco de Sousa e Melo, 1590, Galpao 3 Armazem 103 parte, Bairro Cordovil, Rio de Janeiro, CEP 21010-900, Brazil
São José	Rua Dionizio Chinelato Nr. 100 – Complemento Galpão 01 – Sala 01 CEP 12.238-578 Bairro – Eldorado, Município São José dos Campos SP
Calgary	3500-855-2 Street SW, Calgary AB T2P 4J8, Canada
Toronto	199, Bay Street, 4000, Toronto, Ontario M5L 1A9, Canada
Georgetown 1104	c/o Maples Corporate Services Limited, P.O. Box 309, Uglund house, Grand Cayman, KY1-1104, Cayman Islands

Excluding Note 8 'Group Companies', the Parent Company financial statements of Smith & Nephew plc on pages 221-228 do not form part of the Smith & Nephew plc Annual Report on Form 20-F as filed with the SEC.

Company financial statements continued

Notes to the Company accounts continued

8 Group companies continued

Registered Office addresses

Georgetown 9008	Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman, KY1-9008, Cayman Islands
Chao Yang District, Beijing	Room 17-021, Internal B17 floor, B3-24th floor, No 3 Xin Yuan South Rd, Chao Yang District, Beijing, China
Shunyi District, Beijing	22 Linhe Avenue, Linhe Economic Development Zone, Shunyi District, Beijing, 101300, China
Shanghai Ao Na Rd	Part B, 4th Floor, Tong Yong Building, No 188 Ao Na Rd, Shanghai Free Trade Test Zone, Shanghai, China
Dong Cheng District	Unit B1, 2/F, Tower A, East Gate Plaza No.9, Dongshong Street Dong Cheng District, Beijing, China
Wu Hou District	No 5. 15th Floor, Unit 1, Building, 1 Li Bao Building, No 62 North Ke Hua Rd, Wu Hou District, Chengdu, China
Yue Xiu District	Room 2503, No 33, 6th Jian She Rd, Yue Xiu District, Guang Zhou, China
Jing'an District	Unit 09, Nominal Level 12 (Actual Level 11), Central Section of Bohua Square Office Tower, No. 669 Xinzha Road, Jing'an District, Shanghai, China
Shanghai Xin Jin Qiao Rd	Room 102, Floor 1, Building 3 (B1), No. 1599, Xin Jin Qiao Road China (Shanghai) Pilot Free Trade Zone, Shanghai, China
Suzhou City	12, Wuxiang Road, West Area of Comprehensive Bonded Zone, Suzhou Industrial Park, Suzhou City, SIP, Jiangsu Province, China
Kechuang Dongliujie	No. 98 Kechuang Dongliujie, Beijing Economic and Technical Development Area, Beijing, China
Bogota	Calle 100 No. 7 – 33 to 1 P3, Bogota D.C., Colombia
Alajuela	Building B32, 50 meters South of Revisión Técnica Vehicular, Province de Alajuela, Canton Alajuela, Coyol Free Zone, District San José, Costa Rica
Willemstad	Pietermaai 15, PO Box 4905, Curaçao
Hong Kong	Unit 813 – 816, 8/F, Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong
Pune	Podium Floor Tower 4, World Trade Center S No1 Kharadi, Pune, Maharashtra-MH, 411014, India

Registered Office addresses

Mumbai	501-B – 509-B Dynasty Business Park, Andheri Kurla Road, Andheri East, Mumbai-59, Maharashtra, India
Tokyo	2-4-1, Shiba-Koen, Minato-Ku, Tokyo 105 0011, Japan
Seoul	13th Floor, ASEM Tower, Gangnam-gu 13th Floor, ASEM Tower, 159-1 Samsung-dong, Seoul, Korea
Kuala Lumpur	Level 25, Menara Hong Leong, NO. 6 Jalan Damanlela Bukit Damansara Kuala Lumpur W.P. 50490 Kuala Lumpur, Malaysia
Mexico City	Av. Insurgentes Sur, numero 1602, Piso No.7, Oficina 702, Colonia Credito, Constructor, Delegacion Benito Juarez, C.P. 03940, Mexico
Auckland	621 Rosebank Road, Avondale, Auckland, 1026, New Zealand
Manila	6/F Alfaro St, Salcedo Village, Makati City, Metro Manila, Philippines
San Juan	Edificio Cesar Castillo, Calle Angel Buonomo #361, Hato Rey, 00917, Puerto Rico
Singapore	29 Media Circle, #06-05, Alice@Mediapolis, Singapore, 138565, Singapore
Westville	30 The Boulevard, Westway Office Park, Westville, 3629, South Africa
Taipei	9F-2, No. 50, Sec. 1, Xinseng South Road, Zhongzheng District Taipei City 10059, Taiwan
Huai Khwang District, Bangkok	16th Floor Building A, 9th Tower Grand Rama 9, 33/4 Rama 9 Road, Huai Khwang District, Bangkok, 10310, Thailand
Istanbul	Mahmutbey Mahallesi, 2538. Sokak, Kısık Plaza Apt. No:6/Z1, Istanbul, Bağcılar, Turkey
Jebel Ali, Dubai	PO Box 16993 LB02016, Jebel Ali, Dubai, United Arab Emirates
HealthCare City, Dubai	Floor 1, Building 52, Dubai Healthcare City, Dubai, United Arab Emirates
Ho Chi Minh City	Room 02, 18th floor, TNR building, 180-192, Nguyen Cong Tru street, Nguyen Thai Binh Ward, District 1, Ho Chi Minh City, Vietnam

9 Subsidiary undertakings exempt from audit

The following UK subsidiaries will take advantage of the audit exemption set out within Section 479A of the Companies Act 2006 for the year ended 31 December 2022:

- Smith & Nephew China Holdings UK Limited (Registration number: 9152387)
- Smith & Nephew Investment Holdings Limited (Registration number: 384546)
- Smith & Nephew Trading Group Limited (Registration number: 681256)
- Smith & Nephew USD One Limited (Registration number: 10428326)
- TP Limited (Registration number: SC005366)

Excluding Note 8 'Group Companies', the Parent Company financial statements of Smith & Nephew plc on pages 221–228 do not form part of the Smith & Nephew plc Annual Report on Form 20-F as filed with the SEC.

Group information

Business overview and Group history

Since 2019, Smith+Nephew's operations have been organised into three global franchises (Orthopaedics, Sports Medicine & ENT and Advanced Wound Management) within the medical technology industry.

The Group has a history dating back more than 160 years to the family enterprise of Thomas James Smith who opened a small pharmacy in Hull, UK, in 1856. Following his death in 1896, his nephew Horatio Nelson Smith took over the management of the business.

By the late 1990s, Smith+Nephew had expanded into being a diverse healthcare company with operations across the globe, producing various medical devices, personal care products and traditional and advanced wound care treatments. In 1998, Smith+Nephew announced a major restructuring to focus management attention and investment on three global business units – Advanced Wound Management, Endoscopy and Orthopaedics – which offered high growth and margin opportunities. In 2011, the Endoscopy and Orthopaedics businesses were brought together to create an Advanced Surgical Devices division. In 2015, the Advanced Wound Management and Advanced Surgical Devices divisions were brought together to form a global business across nine product franchises.

Smith+Nephew was incorporated and listed on the London Stock Exchange in 1937 and in 1999 the Group was also listed on the New York Stock Exchange. In 2001, Smith+Nephew became a constituent member of the FTSE 100 index in the UK. This means that Smith+Nephew is included in the top 100 companies traded on the London Stock Exchange measured in terms of market capitalisation.

Today, Smith+Nephew is a public limited company incorporated and headquartered in the UK and carries out business around the world.

Related party transactions

Except for transactions with associates (see Note 22.2 of Notes to the Group accounts), no other related party had material transactions or loans with Smith+Nephew over the last three financial years.

Properties

The table below summarises the main properties which the Group uses and their approximate areas.

	Approximate area (square feet 000's)
Group head office and surgical training facility in Watford, UK	60
Manufacturing and office facilities in Memphis, Tennessee, US	923
Wound management manufacturing, research and office facility in Hull, UK	473
Surgical training and office facilities in Memphis, Tennessee, US	292
Manufacturing facility in Suzhou, China	288
Manufacturing facility in Penang, Malaysia	277
Manufacturing facility in Alajuela, Costa Rica	270
Manufacturing facility in Oklahoma City, Oklahoma, US	155
Manufacturing, Office facilities and laboratory space in Fort Worth, Texas, US	139
Research & development and office facility in Austin, Texas, US	125
Manufacturing facility in Aarau, Switzerland	116
Logistic facility in Lawrenceville, US	115
Office facilities in Andover, Massachusetts, US	112
Manufacturing facility in Beijing, China	109
Manufacturing facility in Mansfield, Massachusetts, US	98
Business services centre in Pune, India	74
Research & development facility in Pittsburgh, Pennsylvania, US	65
Manufacturing, Office facility in Tuttlingen, Germany	64
Manufacturing facility in Columbia, Maryland, US	61

The Group Global Operations strategy includes ongoing assessment of the optimal facility footprint. The Orthopaedics manufacturing facilities in Memphis are largely freehold, a portion of Tuttlingen and the Advanced Wound Management facilities in Hull are freehold while other principal locations are leasehold. The Group has freehold and leasehold interests in real estate in other countries throughout the world, but no other is individually significant to the Group. Where required, the appropriate governmental authorities have approved the facilities.

Other information

Risk factors

There are known and unknown risks and uncertainties relating to Smith+Nephew's business. The factors listed on [pages 230–235](#) could cause the Group's business, financial position and results of operations to differ materially and adversely from expected and historical levels. In addition, other factors not listed here that Smith+Nephew cannot presently identify or does not believe to be equally significant could also materially adversely affect Smith+Nephew's business, financial position or results of operations.

Global supply chain

The Group's manufacturing production is concentrated at main facilities in Memphis, Mansfield, Columbia and Oklahoma City in the US, Hull and Warwick in the UK, Aarau in Switzerland, Tuttlingen in Germany, Suzhou and Beijing in China, Penang in Malaysia and Alajuela in Costa Rica. If major physical disruption or unavailability of critical system infrastructure and applications took place at any of these sites, it could adversely affect the results of operations. Further, disruptions which have taken place at these 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 Group's results of operations. Physical loss and consequential loss insurance is carried to cover major physical disruption to these sites but is subject to limits and deductibles, generally does not cover pandemic or war related disruptions, 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. Further, as the Group continues to move and operationalise its warehouse and distribution functions externally, there is a risk that, if the transition and ongoing operations do not go as planned, the supply of products to its markets may be disrupted and impact its performance.

The Group is reliant on certain key suppliers of raw materials, components, finished products and packaging materials or in some cases on a single supplier. Disruptions in the supply chains and operations of the Group's suppliers, increased freight costs and cycle times and increased sanctions and import and export controls resulting from geopolitical events such as the war in Ukraine could result in a continued increase in the Group's costs of production and distribution. These suppliers must provide the materials in compliance with legal and regulatory requirements and perform the activities to the Group's standard of quality requirements. A supplier's failure to comply with legal or regulatory requirements or otherwise meet expected quality standards could create liability for the Group and adversely affect sales of the Group's related products. The Group may be forced to pay higher prices to obtain raw materials and/or to sterilize its products, which it may not be able to pass on to its customers in the form of increased prices for its finished products. This risk is particularly relevant in the medical devices sector due to complex supply chains and the potential for healthcare budgets globally to be reduced. In addition, some of the raw materials used may become unavailable and/or capacity for sterilization services may become constrained, in particular due to post-pandemic manufacturing and supply challenges and increased regulation, and there can be no assurance that the Group 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 Smith+Nephew's revenue and operating profit.

The Group will, from time to time, including as part of the 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.

Natural disasters, weather and climate change related events and unavailability of critical system infrastructure and applications can also lead to manufacturing and supply delays, product shortages, excess inventory, unanticipated costs, lost revenues and damage to reputation. In addition, the pace of development and expansion of environmental and sustainability regulations globally, coupled with more aggressive enforcement of regulations can impact the Group's ability to manufacture, sterilise and supply product. In addition, the Group's physical assets and supply chains are also vulnerable to weather and climate change (e.g. sea level rise, increased frequency and severity of extreme weather events, and stress on water resources). Where such events impact a manufacturing facility, the Group may be unable to manufacture products. In this case, if there is no manufacturing alternative for the relevant products, the Group may not be able to supply those products to its customers.

The Group is exposed to increasing salary and wage costs for its employees and contractors due to global inflation and the cost of living crisis. This, combined with labour attrition and longer cycle times to backfill roles, may adversely impact the Group's performance. Requirements of global regulatory agencies have become more stringent in recent years and the Group expects this to continue. The Group's Quality and Regulatory Affairs team is leading a cross functional Group-wide programme to implement and transition to the EU Medical Devices Regulation (MDR) regulatory regime. MDR includes new requirements for the manufacture, supply and sale of all CE marked products sold in Europe (i.e. 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. Smith+Nephew continues to make substantial progress towards Group compliance to the new regulation, however expects that there will continue to be significant capacity constraints in implementing MDR given the small number of notified bodies certified under MDR. This could continue to cause delays for medical device approvals for the industry more broadly and may result in delays for patients.

The European Commission has taken some important steps to aid implementation, including delaying the EU database (EUDAMED) and passing a Corrigendum to give a longer implementation timeline for certain Class IR devices (i.e. reusable surgical instruments). More recently the EU Commission has proposed draft revisions to transitional requirements which if approved should support products to continue to be made available. This supports both the Group as well as supporting capacity constraints within the Notified Bodies.

The Group operates with a global remit and the speed of technological change in an already complex manufacturing process leads to greater potential for disruption. Additional risks to supply include inadequate sales and operational planning and inadequate supply chain or manufacturing capacity to support customer demand and growth.

Business continuity and business change

Widespread outbreaks of infectious diseases, including new Covid variants and restrictions and lockdowns arising therefrom, can create uncertainty and challenges for the Group. These include, but are not limited to, declines in and cancellations of elective procedures at medical facilities, reduction in staffing and other support within institutions, disruptions at manufacturing facilities and disruptions in supply and other commercial activities due to travel restrictions and government restrictions on exports.

The Group's business requires continuous improvement and depends on its ability to execute business change programmes such as the 12-point plan at pace, whilst continuing to operate business as usual. The pace and scope of the Group's business change initiatives may increase execution risk for the change programmes as well as for the Group's business-as-usual activities. The Group's business depends on its ability to plan for and be resilient in the face of events that threaten one or more of its key locations. Damage caused by environmental and climate change factors, including natural disasters and severe weather can and do threaten the Group's critical sites and supply chains.

Commercial execution

Strong commercial execution requires effective cross functional alignment, accountability, engagement and communication across the Group within embedded governance structures and frameworks. Effective engagement with customers, suppliers and other stakeholders is also a crucial factor to ensure strong commercial execution. Failure to effectively implement the Group's programmes within appropriate governance frameworks or failure to understand or take into account customer, supplier and stakeholder needs and requirements could adversely affect the Group's performance.

Highly competitive markets

The Group competes across a diverse range of geographic and product markets. Each market in which the Group 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 Group'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 Group's ability to compete with larger companies due to insufficient financial resources. If any of the Group's businesses were to lose market share or achieve lower than expected revenue growth, there could be a disproportionate adverse impact on the 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 Group'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 Smith+Nephew's results of operations and hinder its growth potential.

Additional commercial execution risks include medical facilities stopping or severely restricting sales representative access due to increased post-pandemic pressure on these facilities and their staff.

Relationships with healthcare professionals

The Group seeks to maintain effective and ethical working relationships with physicians and medical personnel who assist in the development of new products or improvements to its existing product range or in product training and medical education. If the Group is unable to maintain these relationships its ability to meet the demands of its customers could be diminished and the Group's revenue and profit could be materially adversely affected.

Customer and other stakeholder sustainability expectations

The Group's customers have developed or are developing more stringent sustainability requirements that they request or expect Smith+Nephew to implement or adhere to. A failure to meet customer's expectations may adversely impact upon the Group's financial performance.

Acquisitions

Challenges in integration of new acquisitions may arise following completion of the deal. This may lead to the Group not achieving the planned synergies and results from the acquisition.

Pricing and reimbursement

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 and healthcare systems. Funds may be made available or withdrawn from healthcare budgets depending on government policy. The Group is therefore largely dependent on future governments providing increased funds commensurate with the increased demand arising from demographic trends.

Other information continued

Risk factors continued

Pricing of the Group'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 Group is exposed to government policies favouring locally sourced products.

The Group is also exposed to changes in reimbursement policy, tax policy and pricing, including as a result of financial pressure on governments and hospitals caused by recession and inflation in its markets, which may have an adverse impact on revenue and operating profit. During 2021 and 2022, reimbursement codes were more widely interpreted to provide for remote delivery of healthcare services which indicates a proposed shift in site of care and management of related healthcare budgets away from traditional inpatient focused treatment. There may also be an increased risk of adverse changes to government funding policies arising from deterioration in macroeconomic conditions from time to time in the Group's markets.

The Group must adhere to the rules laid down by government agencies that fund or regulate healthcare, including extensive and complex rules in the US. Failure to do so could result in fines, reputational damage and/or loss of future funding.

Procurement processes

Global recessionary and inflationary pressures and the commoditisation of entire product groups have led to more price driven approaches to customer procurement processes and tenders, such as the value-based procurement programme in China and further consolidation of customer buying groups. Further, non-clinical staff are often key decision makers in customer's procurement processes, with access to these decision-makers being limited with some customers. These changes are occurring at a time when the input cost to the Group's products is continuing to increase. The effect of these procurement changes can adversely impact the pricing that the Group achieves for its products in parallel

with a continued increase in the cost of production of those products.

New product innovation, design & development, including intellectual property

Continual development and introduction of new products

The medical devices industry has a high level of new product introduction. In order to remain competitive, the Group must continue to develop innovative products that satisfy customer needs and preferences and/or provide cost or other advantages. Developing new products is a costly, lengthy and uncertain process. The Group may fail to innovate due to insufficient 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. Although most countries have eased Covid restrictions, during 2022 localised Covid lockdowns and restrictions resulted in limitations on ability to conduct live product trials. Furthermore, there has been an adverse impact on relationships with healthcare professionals involved in R&D, marketing and sale of products and services, due to limited access to such professionals as a result of restricted hospital access in these markets.

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

All new products that the Group develops need to be designed and manufactured in a sustainable manner. A failure in this aspect may impact the willingness of customers to purchase the new products and adversely impact the Group's ability to continue selling the product.

Where the Group has critical gaps in its product portfolio that are not filled by new products there is a risk that the Group will lose market share to competitors that can offer a broader product portfolio.

Proprietary rights and patents

Due to the technological nature of medical devices and the Group's emphasis on serving its customers with innovative products, the Group 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 Group to expend time and significant resources to engage in dispute resolution and if unsuccessful, pay damages, develop non-infringing products or obtain licences to the products which are the subject of such litigation, thereby affecting the Group's growth and profitability.

Smith+Nephew protects its intellectual property and opposes third-party patents and trademarks where it deems appropriate. If Smith+Nephew fails to protect and enforce its intellectual property rights effectively, its competitive position could suffer, which could harm its results of operations. In addition, intellectual property rights may not be protectable to the same extent in all countries in which the Group operates.

Cybersecurity

Reliance on sophisticated information technology and cybersecurity

The Group uses a wide variety of information systems, programmes and technology to manage its business. The Group also develops and sells certain products that are or will be digitally enabled including connection to networks

and/or the internet. The Group's systems and the systems of the entities it acquires are vulnerable to a cyber-attack, theft of intellectual property, malicious intrusion, loss of data privacy or other significant disruption. The Group's systems have been and will continue to be the target of such threats, including as a result of remote working. There is increasing government focus on cybersecurity including changes in the regulatory environment.

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. The Group has 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 its 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 business operations could be disrupted and the performance of the Group could be materially adversely affected.

Legal and compliance risks including international regulation, product liability claims and loss of reputation

International regulation

The Group operates across the world and is subject to extensive complex legislation and regulation, including with respect to anti-bribery and corruption and data protection, in each country in which the Group operates. The Group's international operations are governed by the UK Bribery Act and the US Foreign Corrupt Practices Act which prohibit the Group or its 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 Group's international operations which operate through distributors increase our Group exposure to these risks. The Group undertakes investigations into allegations of possible violations of laws and regulations, supported by external counsel where appropriate. It is not possible to predict the nature, scope or outcome of investigations, including the extent to which, if at all, this could result in any liability to the Group.

The Group 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 on a global basis may require the Group 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 Group 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 Group's business, reputation, financial condition or results of operations.

Operating in multiple jurisdictions also subjects the Group to local laws and regulations related to tax, pricing, reimbursement, regulatory requirements, trade policy, product safety, sustainability compliance and reporting requirements and varying levels of protection of intellectual property. This exposes the Group to additional risks and potential costs.

Product liability claims and loss of reputation

The development, manufacture and sale of medical devices entails risk of product liability claims or recalls. Design and manufacturing defects with respect to products sold by the Group or by companies it has acquired could damage, or impair the repair of, body functions. The Group 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 Group's reputation. There can be no assurance that customers, particularly in the US, the Group's largest geographical market, will not bring product liability or related claims that would have a material adverse effect on the Group's financial position or results of operations in the future, or that the Group will be able to resolve such claims within insurance limits.

As at 31 December 2022, a provision of \$239m 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 globally. See Note 17 to the Group accounts for further details.

Financial reporting, compliance and control

The Group's financial results depend on its ability to comply with financial reporting and disclosure requirements, comply with tax laws, appropriately manage treasury activities and avoid significant transactional errors and customer defaults (the risk of which has been heightened post-pandemic). Failure to comply with the Group's financial reporting requirements or relevant tax laws can lead to litigation and regulatory activity and ultimately to material loss to the Group. Potential risks include failure to report accurate financial information in compliance with accounting standards and applicable legislation, failure to comply with current tax laws, failure to manage treasury risk effectively and failure to operate adequate financial controls over business operations.

Political and economic

World economic conditions

Demand for the Group's products is driven by demographic trends, including the ageing population and the incidence of osteoporosis and obesity. Supply of, use of and payment for the Group's products are also influenced by world economic conditions which could place increased pressure on demand and pricing, adversely impacting the Group'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 Group's prosperity is linked to general economic conditions and there is a risk of deterioration of the Group's performance and finances during adverse macroeconomic conditions. The impact of geopolitical conditions such as the war in Ukraine and the continuing impacts of the Covid pandemic on global economies and financial markets may trigger a recession or slowdown in various markets in which the Group operate which would significantly reduce customer capital spending and customer financial strength. Economic conditions worldwide continue to create several challenges for the Group, including the US Administration's approach

Other information continued

Risk factors continued

to trade policy, increased global sanctions and countersanctions in response to local or global conflicts, heightened inflation and pricing pressure (arising across the costs of raw materials, freight and employee salaries and wages), increasing tax rates, significant declines in capital equipment expenditures at hospitals and increased uncertainty over the collectability of government debt. These factors could have an increased impact on growth in the future.

The Group is increasingly seeing sustainability targets and public policies being promulgated in the markets in which the Group operates as well as by its customers, suppliers and other stakeholders. A failure to meet these targets and policies could impact the Group's sales and growth in those markets.

Political uncertainties

The Group operates on a worldwide basis and has distribution channels, agents and purchasing entities in over 100 countries. Political upheaval in some of those countries or in surrounding regions may impact the Group's results of operations. Political changes in a country could prevent the Group 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 Group'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.

Quality and regulatory

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 Group does business is towards higher expectations and increased enforcement activity by governmental

authorities. While the Group is committed to doing business with integrity and welcomes the trend to higher standards in the healthcare industry, the Group 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 Group were found to have violated the law, its ability to sell its products to certain customers may be restricted.

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 Smith+Nephew's products include the Food and Drug Administration (FDA) in the US, the Medicines and Healthcare products Regulatory Agency in the UK, the Ministry of Health, Labour and Welfare in Japan, the National Medical Products Administration in China and the Australian Therapeutic Goods Administration. At any time, the Group 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 entered 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 the Group's 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 Group operates which results in increased resourcing and cost to the Group. 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 Group 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 Group 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.

Mergers and acquisitions

Failure to make successful acquisitions

A key element of the Group's strategy for continued growth is to make acquisitions or alliances to complement its existing business. Failure to identify appropriate acquisition targets or failure to conduct adequate due diligence or to integrate them successfully would have an adverse impact on the Group's competitive position

and profitability. This could result from the diversion of management resources from the acquisition or integration process, challenges of integrating organisations of different geographic, cultural and ethical backgrounds, as well as the prospect of taking on unexpected or unknown liabilities. In addition, the availability of global capital and increased interest rates may make financing less attainable or more expensive and could result in the Group failing in its strategic aim of growth by acquisition or alliance.

Talent management

The Group's continued development depends on its ability to hire, successfully engage and retain highly skilled personnel with particular expertise. This is critical, particularly in general management, research, new product development and in the sales force. The Covid pandemic has increased the risk to the health and wellbeing of the Group's personnel. Uncertainty, threat of illness and restricted travel, work and personal activities have affected people globally. Employee priorities have shifted in terms of work life equilibrium resulting in increased global movement of talent. Increased salaries in particular sectors (such as Cybersecurity, Digital, IT and ESG) have also impacted businesses globally. If Smith+Nephew is unable to attract and 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 Group is unable to recruit, hire, develop and fails to engage in and implement effective succession planning, it may not be able to meet its strategic business objectives, may lose competitive advantage and intellectual capital due to retention failure.

Environment and sustainability

Climate change and sustainability related risks have the potential to impact the Group's business model and performance. The impacts of climate change on the Group's business may arise from new regulations and requirements to obtain certain sustainability standards, international sustainability accords and agreements, and changing business practices and trends to accommodate climate-change risks. Further, the Group will be exposed to the physical impacts

of climate change, which may impact the manufacture of its products and the supply chain to deliver them to its markets. The Group may need to adapt its business model and processes to accommodate the changes brought about by climate-related issues and increased focus and regulation of sustainability requirements by governments, regulators, customers, investors and other stakeholders. If the Group does not achieve the climate change and sustainability targets and objectives set by the Group, or set by the governments and regulators in the markets where it operates, or by its customers, there may be an impact on the Group's performance and ability to grow.

Taxation and Foreign Exchange

The Group operates a global business and is therefore required to comply with tax legislation in multiple jurisdictions and is also exposed to exchange rate volatility. There is the potential for an adverse impact on the Group's financial performance due to significant tax rate changes, or broadening of the tax base, in key jurisdictions in which the Group operates. These include OECD Pillar Two (as outlined on [page 179](#)) and US tax reform proposals. These external factors may require the Group to adjust its operating model.

Currency fluctuations

Smith+Nephew'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 Group's manufacturing cost base is situated principally in the US, the UK, China, Costa Rica, Malaysia and Switzerland, from which finished products are exported to the Group's selling operations worldwide. Thus, the Group is exposed to fluctuations in exchange rates between the US Dollar, Sterling and Swiss Franc and the currency of the Group's selling operations, particularly the Euro, Chinese Yuan, Australian Dollar, Malaysian Ringgit and Japanese Yen.

If the US Dollar, Sterling or Swiss Franc should strengthen against the Euro, Australian Dollar and the Japanese Yen, the Group's trading margin could be adversely affected. The Group manages the impact of exchange rate movements on operating profit by a policy of transacting forward foreign currency contracts when firm commitments exist. In addition, the

Group's policy is for forecast transactions to be covered between 50% and 90% for up to one year. However, the Group is still exposed to medium to long-term adverse movements in the strength of currencies compared to the US Dollar. The Group uses the US Dollar as its reporting currency. The US Dollar is the functional currency of Smith & Nephew plc. The Group's revenues, profits and earnings are also affected by exchange rate movements on the translation of results of operations in foreign subsidiaries for financial reporting purposes. See 'Liquidity and capital resources' on [page 196](#).

Factors affecting results of operations

Government economic, fiscal, monetary and political policies are all factors that materially affect the Group's operation or investments of shareholders. Other factors include sales trends, currency fluctuations and innovation. Each of these factors is discussed further in the 'Serving healthcare customers' on [pages 24–45](#), the 'Manufacturing and quality' on [pages 46–47](#), the 'Financial review' on [pages 18–21](#) and 'Taxation information for shareholders' on [pages 243–245](#).

Non-IFRS financial information – Adjusted measures

These financial statements include financial measures that are not prepared in accordance with International Financial Reporting Standards (IFRS). These measures, which include trading profit, trading profit margin, trading profit before tax, adjusted attributable profit, tax rate on trading results (trading tax expressed as a percentage of trading profit before tax), EPSA, ROIC, trading cash flow, free cash flow, trading profit to trading cash conversion ratio, leverage ratio, and underlying revenue growth, exclude the effect of certain cash and non-cash items that Group management believes are not related to the underlying performance of the Group. These non-IFRS financial measures are also used by management to make operating decisions because they facilitate internal comparisons of performance to historical results.

Non-IFRS financial measures are presented in these financial statements as the Group's management believe that they provide investors with a means of evaluating performance of the business segments and the consolidated Group on a consistent basis, similar to the way in which the Group's management evaluates performance, that is not otherwise apparent on an IFRS basis, given that certain non-recurring, infrequent, non-cash and other items that management does not otherwise believe are indicative of the underlying performance of the consolidated Group may not be excluded when preparing financial measures under IFRS. These non-IFRS measures should not be considered in isolation from, as substitutes for, or superior to financial measures prepared in accordance with IFRS.

Payments of lease liabilities are included in trading cash flow. IFRS 16 right-of-use assets and IFRS 16 lease liabilities are included in net operating assets in arriving at ROIC.

Underlying revenue growth

'Underlying revenue growth' is used to compare the revenue in a given year to the previous year on a like-for-like basis. This is achieved by adjusting for the impact of sales of products acquired in material business combinations or disposed of and for movements in exchange rates.

Underlying revenue growth is considered by the Group to be an important measure of performance as it excludes those items considered to be outside the influence of local management. The Group's management uses this non-IFRS measure in its internal financial reporting, budgeting and planning to assess performance on both a business and a consolidated Group basis. Revenue growth at constant currency is important in measuring business performance compared to competitors and compared to the growth of the market itself.

The Group considers that revenue from sales of products acquired in material business combinations results in a step-up in growth in revenue in the year of acquisition that cannot be wholly attributed to local management's efforts with respect to the business in the year of acquisition. Depending on the timing of the acquisition, there will usually be a further step change in the following year. A measure of growth excluding the effects of business combinations also allows senior management to evaluate the performance and relative impact of growth from the existing business and growth from acquisitions. The process of making business acquisitions is directed, approved and funded from the Group corporate centre in-line with strategic objectives.

The material limitation of the underlying revenue growth measure is that it excludes certain factors, described above, which ultimately have a significant impact on total revenues. The Group compensates for this limitation by taking into account relative movements in exchange rates in its investment, strategic planning and resource allocation. In addition, as the evaluation and assessment of business acquisitions is not within the control of local management, performance of acquisitions is monitored centrally until the business is integrated.

The Group's management considers that the non-IFRS measure of underlying revenue growth and the IFRS measure of growth in revenue are complementary measures, neither of which management uses exclusively.

Underlying revenue growth reconciles to reported revenue growth, the most directly comparable financial measure calculated in accordance with IFRS, by making two adjustments, the 'constant currency exchange effect' and the 'acquisitions and disposals effect', described below.

The 'constant currency exchange effect' is a measure of the increase/decrease in revenue resulting from currency movements on non-US Dollar sales and is measured as the difference between: 1) the increase/decrease in the current year revenue translated into US Dollars at the current year average exchange rate and the prior revenue translated at the prior year rate; and 2) the increase/decrease being measured by translating current and prior year revenues into US Dollars using the prior year closing rate.

The 'acquisitions and disposals effect' is the measure of the impact on revenue from newly acquired material business combinations and recent material business disposals. This is calculated by comparing the current year, constant currency actual revenue (which includes acquisitions and excludes disposals from the relevant date of completion) with prior year, constant currency actual revenue, adjusted to include the results of acquisitions and exclude disposals for the commensurate period in the prior year. These sales are separately tracked in the Group's internal reporting systems and are readily identifiable.

Reported revenue growth, the most directly comparable financial measure calculated in accordance with IFRS, reconciles to underlying revenue growth as follows:

2022	Reported growth	Underlying growth	Reconciling items	
			Acquisitions/disposals	Currency impact
Consolidated revenue by franchise	%	%	%	%
Knee Implants	2.5	6.8	–	(4.3)
Hip Implants	(4.4)	(0.2)	–	(4.2)
Other Reconstruction	(5.6)	(1.8)	–	(3.8)
Trauma & Extremities	(5.7)	(2.6)	–	(3.1)
Orthopaedics	(2.0)	1.9	–	(3.9)
Sports Medicine Joint Repair	3.6	8.7	–	(5.1)
Arthroscopic Enabling Technologies	(3.8)	0.9	–	(4.7)
ENT (Ear, Nose and Throat)	17.1	20.4	–	(3.3)
Sports Medicine & ENT	1.9	6.7	–	(4.8)
Advanced Wound Care	(2.6)	5.2	–	(7.8)
Advanced Wound Bioactives	4.9	5.4	–	(0.5)
Advanced Wound Devices	4.3	11.6	–	(7.3)
Advanced Wound Management	1.1	6.4	–	(5.3)
Total	0.1	4.7	–	(4.6)

2021	Reported growth	Underlying growth	Reconciling items	
			Acquisitions/disposals	Currency impact
Consolidated revenue by franchise	%	%	%	%
Knee Implants	6.6	5.1	–	1.5
Hip Implants	7.8	5.8	–	2.0
Other Reconstruction	34.1	32.2	–	1.9
Trauma & Extremities	25.4	5.6	18.0	1.8
Orthopaedics	12.5	6.4	4.3	1.8
Sports Medicine Joint Repair	18.2	15.9	–	2.3
Arthroscopic Enabling Technologies	14.1	11.7	–	2.4
ENT (Ear, Nose and Throat)	23.3	20.6	–	2.7
Sports Medicine & ENT	17.0	14.6	–	2.4
Advanced Wound Care	12.9	9.5	–	3.4
Advanced Wound Bioactives	15.1	14.8	–	0.3
Advanced Wound Devices	16.0	13.0	–	3.0
Advanced Wound Management	14.2	11.8	–	2.4
Total	14.3	10.3	1.9	2.1

Trading profit, trading profit margin, trading cash flow and trading profit to trading cash conversion ratio

Trading profit, trading profit margin (trading profit expressed as a percentage of revenue), trading cash flow and trading profit to trading cash conversion ratio (trading cash flow expressed as a percentage of trading profit) are trend measures, which present the profitability of the Group. The adjustments made exclude the impact of specific transactions that management considers affect the Group's short-term profitability and cash flows, and the comparability of results. The Group has identified the following items, where material, as those to be excluded from operating profit and cash generated from operations, the most directly comparable IFRS measures, when arriving at trading profit and trading cash flow, respectively: acquisition and disposal related items arising in connection with business combinations, including amortisation of acquisition intangible assets, impairments and integration costs; restructuring events; and gains and losses resulting from legal disputes and uninsured losses. In addition to these items, gains and losses that materially impact the Group's profitability or cash flows on a short-term or one-off basis are excluded from operating profit and cash generated from operations when arriving at trading profit and trading cash flow. The cash contributions to fund defined benefit pension schemes that are closed to future accrual are excluded from cash generated from operations when arriving at trading cash flow. Payment of lease liabilities is included within trading cash flow.

Other information continued

Non-IFRS financial information – Adjusted measures continued

Adjusted earnings per ordinary share (EPSA)

EPSA is a trend measure, which presents the profitability of the Group excluding the post-tax impact of specific transactions that management considers affect the Group's short-term profitability and comparability of results. The Group presents this measure to assist investors in their understanding of trends. Adjusted attributable profit is the numerator used for this measure and is determined by adjusting attributable profit for the items that are excluded from operating profit when arriving at trading profit and items that are recognised below operating profit that affect the Group's short-term profitability. The most directly comparable financial measure calculated in accordance with IFRS is basic earnings per ordinary share (EPS).

	Revenue \$ million	Operating profit ¹ \$ million	Profit before tax ² \$ million	Taxation ³ \$ million	Attributable profit ⁴ \$ million	Cash generated from operations ⁵ \$ million	Earnings per share ⁶ €
2022 Reported	5,215	450	235	(12)	223	581	25.5
Acquisition and disposal-related items	–	4	162	(31)	131	22	15.1
Restructuring and rationalisation costs	–	167	168	(30)	138	120	15.8
Amortisation and impairment of acquisition intangibles	–	205	205	(45)	160	–	18.4
Legal and other ⁷	–	75	82	(21)	61	133	7.0
Lease liability payments	–	–	–	–	–	(54)	–
Capital expenditure	–	–	–	–	–	(358)	–
2022 Adjusted	5,215	901	852	(139)	713	444	81.8

Acquisition and disposal-related items: For the year to 31 December 2022, costs primarily relate to the acquisition of Engage and prior year acquisitions, partially offset by credits relating to remeasurement of deferred and contingent consideration for prior year acquisitions. Adjusted profit before tax additionally excludes losses of \$158m related to the Group's shareholding in Bioventus. This primarily includes an impairment charge of \$109m and the Group's share of impairment recognised by Bioventus in its financial statements.

Restructuring and rationalisation costs: For the year to 31 December 2022, these costs relate to the implementation of the Operations and Commercial Excellence programme announced in February 2020 and also includes efficiency and productivity elements of the 12-point plan. Adjusted profit before tax additionally excludes \$1m of restructuring costs related to the Group's share of results of associates.

Amortisation and impairment of acquisition intangibles: For the year to 31 December 2022, charges relate to the amortisation and impairment of intangible assets acquired in material business combinations.

Legal and other: For the year ended 31 December 2022, charges primarily relate to legal expenses for ongoing metal-on-metal hip claims and an increase of \$19m in the provision that reflects the present value of the estimated cost to resolve all other known and anticipated metal-on-metal hip claims. Charges also include the costs for implementing the requirements of the EU Medical Device Regulation that was effective from May 2021 with a transition period to May 2024. These charges in the year to 31 December 2022 were partially offset by a credit of \$7m relating to insurance recoveries for ongoing metal-on-metal hip claims.

	Revenue \$ million	Operating profit ¹ \$ million	Profit before tax ² \$ million	Taxation ³ \$ million	Attributable profit ⁴ \$ million	Cash generated from operations ⁵ \$ million	Earnings per share ⁶ €
2021 Reported	5,212	593	586	(62)	524	1,048	59.8
Acquisition and disposal-related items	–	7	(73)	(3)	(76)	28	(8.8)
Restructuring and rationalisation costs	–	113	113	(22)	91	108	10.3
Amortisation and impairment of acquisition intangibles	–	172	172	(38)	134	–	15.4
Legal and other ⁷	–	51	59	(22)	37	111	4.2
Lease liability payments	–	–	–	–	–	(59)	–
Capital expenditure	–	–	–	–	–	(408)	–
2021 Adjusted	5,212	936	857	(147)	710	828	80.9

Acquisition and disposal-related items: For the year to 31 December 2021, costs primarily relate to the acquisition of Extremity Orthopaedics and prior year acquisitions, partially offset by credits relating to remeasurement of deferred and contingent consideration for prior year acquisitions. Adjusted profit before tax additionally excludes gains of \$75m associated with the two transactions resulting in the dilution of the Group's shareholding in Bioventus and \$5m of other gains relating to the Bioventus IPO.

Restructuring and rationalisation costs: For the year to 31 December 2021, these costs relate to the implementation of the Accelerating Performance and Execution (APEX) programme that was announced in February 2018 and the Operations and Commercial Excellence programme announced in February 2020.

Amortisation and impairment of acquisition intangibles: For the year to 31 December 2021, charges relate to the amortisation and impairment of intangible assets acquired in material business combinations.

Legal and other: For the year ended 31 December 2021, charges primarily relate to legal expenses for ongoing metal-on-metal hip claims and also includes costs for implementing the requirements of the EU Medical Device Regulation that was effective from May 2021 with a transition period to May 2024. These charges in the year to 31 December 2021, were partially offset by a credit of \$35m relating to insurance recoveries for ongoing metal-on-metal hip claims.

Trading cash flow additionally excludes \$7m of cash funding to closed defined benefit schemes. Taxation also includes the effect of an increase in deferred tax assets on non trading items resulting from the prospective UK tax rate increase from 19% to 25% effective from 1 April 2023.

- 1 Represents a reconciliation of operating profit to trading profit.
- 2 Represents a reconciliation of reported profit before tax to trading profit before tax.
- 3 Represents a reconciliation of reported tax to trading tax.
- 4 Represents a reconciliation of reported attributable profit to adjusted attributable profit.
- 5 Represents a reconciliation of cash generated from operations to trading cash flow.
- 6 Represents a reconciliation of basic earnings per ordinary share to adjusted earnings per ordinary share (EPSA).
- 7 The ongoing funding of defined benefit pension schemes is not included in management's definition of trading cash flow as there is no defined benefit service cost for these schemes.

Free cash flow

Free cash flow is a measure of the cash generated for the Group to use after capital expenditure according to its Capital Allocation Framework, it is defined as the cash generated from operations less capital expenditure and cash flows from interest and income taxes. A reconciliation from cash generated from operations, the most comparable IFRS measure, to free cash flow is set out below:

	2022 \$ million	2021 \$ million	2020 \$ million
Cash generated from operations ¹	581	1,048	972
Capital expenditure	(358)	(408)	(443)
Interest received	7	6	2
Interest paid	(73)	(80)	(61)
Payment of lease liabilities	(54)	(59)	(55)
Income taxes (paid)/refunded	(47)	(97)	22
Free cash flow	56	410	437

1 See Group cash flow statement on page 166.

Leverage ratio

The leverage ratio is net debt including lease liabilities to adjusted EBITDA. Net debt is reconciled in Note 15 to the Group accounts. Adjusted EBITDA is defined as trading profit before depreciation and impairment of property, plant and equipment and amortisation and impairment of other intangible assets.

The calculation of the leverage ratio is set out below:

	2022 \$ million	2021 \$ million
Net debt including lease liabilities	2,535	2,049
Trading profit	901	936
Depreciation of property, plant and equipment	319	326
Amortisation of other intangible assets	56	65
Impairment of property, plant and equipment ¹	30	–
Impairment of other intangible assets ¹	7	–
Adjustment for items already excluded from trading profit	(31)	(11)
Adjusted EBITDA	1,282	1,316
Leverage ratio (x)	2.0	1.6

1 Impairments in 2021 were immaterial and did not impact the leverage ratio.

Other information continued

Non-IFRS financial information – Adjusted measures continued

Return on invested capital

Return on invested capital (ROIC) is a measure of the return generated on capital invested by the Group. It provides a metric for long-term value creation and encourages compounding reinvestment within the business and discipline around acquisitions with low returns and long payback. ROIC is defined as Operating Profit (before amortisation and impairment of acquisition intangibles) less Adjusted Taxes/((Opening Net Operating Assets + Closing Net Operating Assets)/2). The ROIC calculation has been updated to reflect the definition of ROIC used in the Performance Share Programme 2020.

	2022 \$ million	2021 \$ million	2020 \$ million
Operating profit	450	593	295
Amortisation and impairment of acquisition intangibles	205	172	171
Operating profit before amortisation and impairment of acquisition intangibles	655	765	466
Taxation	(12)	(62)	202
Taxation adjustment ¹	(86)	(55)	(57)
Operating profit before amortisation and impairment of acquisition intangibles less adjusted taxes	557	648	611
Total equity	5,259	5,568	5,279
Accumulated amortisation and impairment of acquisition intangibles net of associated tax	1,175	1,035	926
Retirement benefit assets	(141)	(182)	(133)
Investments	(12)	(10)	(9)
Investments in associates	(46)	(188)	(108)
Right-of-use assets	(187)	(191)	(196)
Cash at bank	(350)	(1,290)	(1,762)
Long-term borrowings and lease liabilities	2,712	2,848	3,353
Retirement benefit obligations	70	127	163
Bank overdrafts, borrowings, loans and lease liabilities	160	491	337
Net operating assets	8,640	8,208	7,850
Average net operating assets ²	8,424	8,029	7,681
Return on invested capital	6.6%	8.1%	8.0%

1 Being the taxation on amortisation and impairment of acquisition intangibles, interest income, interest expense, other finance costs and share of results of associates.

2 (Opening Net Operating Assets + Closing Net Operating Assets)/2

Shareholder information

Ordinary shareholders

Registrar

All general enquiries concerning shareholdings, dividends, changes to shareholders' personal details and the Annual General Meeting (the 'AGM') should be addressed to:

Computershare Investor Services plc,
The Pavilions, Bridgwater Road,
Bristol, BS99 6ZZ.

Tel: 0370 703 0047

Tel: +44 (0) 117 378 5450

from outside the UK*

www.investorcentre.co.uk

* Lines are open from 8:30 am to 5:30 pm Monday to Friday, excluding public holidays in England and Wales.

Shareholder communications

We make quarterly financial announcements, which are made available through Stock Exchange announcements and on the Group's website (www.smith-nephew.com). Copies of recent Annual Reports, press releases, institutional presentations and audio webcasts are also available on the website.

We send paper copies of the Notice of Annual General Meeting and Annual Report only to those shareholders and ADS holders who have elected to receive shareholder documentation by post. Electronic copies of the Annual Report and Notice of Annual General Meeting are available on the Group's website at www.smith-nephew.com. Both ordinary shareholders and ADS holders can request paper copies of the Annual Report, which the Company provides free of charge. The Company will continue to send to ordinary shareholders by post the Form of Proxy notifying them of the availability of the Annual Report and Notice of Annual General Meeting on the Group's website.

If you elect to receive the Annual Report and Notice of Annual General Meeting electronically you are informed by email of the documents' availability on the Group's website. ADS holders receive the Form of Proxy by post, but will not receive a paper copy of the Notice of Annual General Meeting.

Investor communications

The Company maintains regular dialogue with individual institutional shareholders, together with results presentations. To ensure that all members of the Board develop an understanding of the views of major investors, the Executive Directors review significant issues raised by investors with the Board. Non-Executive Directors are sent copies of analysts' and brokers' briefings. There is an opportunity for individual shareholders to put their questions to the Directors at the Annual General Meeting. The Company regularly responds to letters from shareholders on a range of issues.

UK capital gains tax

For the purposes of UK capital gains tax, the price of the Company's ordinary shares on 31 March 1982 was 35.04p.

Smith & Nephew plc share price

The Company's ordinary shares are quoted on the London Stock Exchange under the symbol SN. The Company's share price is available on the Group's website (www.smith-nephew.com) and at www.londonstockexchange.com where the live financial data is updated with a 15-minute delay.

American Depositary Shares ('ADSs') and American Depositary Receipts ('ADRs')

In the US, the Company's ordinary shares are traded in the form of ADSs, evidenced by ADRs, on the New York Stock Exchange under the symbol SNN. Each American Depositary Share represents two ordinary shares. J.P. Morgan Chase Bank N.A. is the authorised depositary bank for the Company's ADR programme.

ADS enquiries

All enquiries regarding ADS holder accounts and payment of dividends should be addressed to:

EQ Shareowner Services
 P.O. Box 64504
 St Paul, MN 55164-0504

US toll free phone: +1-800-990-1135
 Online: Visit www.shareowneronline.com and select 'Contact Us'.

Smith & Nephew plc ADS price

The Company's ADS price can be obtained from the official New York Stock Exchange website at www.nyse.com and the Group's website (www.smith-nephew.com) where the live financial data is updated with a 15-minute delay, and is quoted daily in the Wall Street Journal.

ADS payment information

The Company hereby discloses ADS payment information for the year ended 31 December 2022 in accordance with the Securities and Exchange Commission rules 12.D.3 and 12.D.4 relating to Form 20-F filings by foreign private issuers. The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them.

Persons depositing or withdrawing shares must pay

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)
 \$0.05 (or less) per ADS

For

- Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property
- Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
- Any cash distribution to ADS registered holders, including payment of dividend

\$0.05 (or less) per ADS per calendar year
 Registration or transfer fees

- Depositary services
- Transfer and registration of shares on our share register to or from the name of the depositary or its agent when shares are deposited or withdrawn

Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

- As necessary

Any charges incurred by the depositary or its agents for servicing the deposited securities

- As necessary

The depositary collects fees for making distributions to investors, including payment of dividends by the Company by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fee for those services are paid.

During 2022, a fee of 1 US cent per ADS was collected by J.P. Morgan Chase Bank N.A. on the 2021 final dividend paid in May 2022 and a fee of 1 US cent per ADS was collected on the 2022 interim dividend paid in October. In the period 1 January 2022 to 10 February 2023, the total programme payments made by J.P. Morgan Chase Bank N.A. was \$815,663.15.

Dividend history

Smith & Nephew plc has paid dividends on its ordinary shares in every year since 1937. Following the capital restructuring and dividend reduction in 2000, the Group adopted a policy of increasing its dividend cover (the ratio of EPSA, as set out in the 'Selected financial data', to ordinary dividends declared for the year). This was intended to increase the financing capability of the Group for acquisitions and other investments. From 2000

to 2004, the dividend increased in line with inflation and, in 2004, dividend cover stood at 4.1 times. Having achieved this level of dividend cover the Board changed its policy, from that of increasing dividends in line with inflation, to that of increasing dividends for 2005 and after by 10%. Following the redenomination of the Company's share capital into US Dollars, the Board reaffirmed its policy of increasing the dividend by 10% a year in US Dollar terms.

On 2 August 2012, the Board announced its intention to pursue a progressive dividend policy, with the aim of increasing the US Dollar value of ordinary dividends over time broadly based on the Group's underlying growth in earnings, while taking into account capital requirements and cash flows.

At the time of the full year results, the Board reviews the appropriate level of total annual dividend each year. The Board intends that the interim dividend will be set by a formula and will be equivalent to 40% of the total dividend for the previous year. Dividends will continue to be declared in US Dollars with an equivalent amount in Sterling payable to those shareholders whose registered address is in the UK, or who have validly elected to receive Sterling dividends.

An interim dividend in respect of each fiscal year is normally declared in July or August and paid in October or November.

Shareholder information continued

A final dividend will be recommended by the Board of Directors and paid subject to approval by shareholders at the Company's Annual General Meeting.

Future dividends of Smith & Nephew plc will be dependent upon: future earnings; the future financial condition of the Group; the Board's dividend policy; and the additional factors that might affect the business of the Group set out in 'Special note regarding forward-looking statements' and 'Risk Factors'.

Dividends per share

The table below sets out the dividends per ordinary share in the last five-years.

Dividends below £2,000 per tax year are tax free for UK income tax purposes and dividends above £2,000 per tax year are subject to UK personal income tax at the rate of 8.75% for basic rate taxpayers, 33.75% for higher rate taxpayers and 39.35% for additional rate taxpayers. If you need to pay UK tax, how you pay depends upon the amount of dividend income you receive in a year. For the tax year 2023–2024, the £2,000 dividend nil rate will be reduced to £1,000, falling to £500 for the tax year 2024–25 and subsequent tax years. If your dividend income is up to £10,000 you can request HMRC to change your tax code so that the tax will be taken from your wages or pension or you can complete a self-assessment tax return. If your dividend income is over £10,000 in the tax year, you will need to complete a self-assessment tax return. This will apply to both cash and dividend reinvestment plan ('DRIP') dividends, although dividends paid on shares held within pensions and ISAs will be unaffected, remaining tax free.

Since the second interim dividend for 2005, all dividends have been declared in US cents per ordinary share.

In respect of the proposed final dividend for the year ended 31 December 2022 of 23.1 US cents per ordinary share, the record date will be 31 March 2023 and the payment date will be 17 May 2023. The Sterling equivalent per ordinary share will be set following the record date.

Shareholders may elect to receive their dividend in either Sterling or US Dollars and the last day for election will be 24 April 2023. The ordinary shares will trade ex-dividend on both the London and New York Stock Exchanges from 30 March 2023. The proposed final dividend of 23.1 US cents per ordinary share, which together with the interim dividend of 14.4 US cents, makes a total for 2022 of 37.5 US cents.

Share capital

The principal trading market for the ordinary shares is the London Stock Exchange. The ordinary shares were listed on the New York Stock Exchange on 16 November 1999, trading in the form of ADSs evidenced by ADRs. Each ADS represents two ordinary shares from 14 October 2014, before which time one ADS represented five ordinary shares. The ADS facility is sponsored by J.P. Morgan Chase Bank N.A. acting as depository. All the ordinary shares, including those held by Directors and Executive Officers, rank *pari passu* with each other. On 23 January 2006, the ordinary shares of 122/9p were redenominated as ordinary shares of US 20 cents (following approval by shareholders at the Extraordinary General Meeting in December 2005). The new

US Dollar ordinary shares carry the same rights as the previous ordinary shares. The share price continues to be quoted in Sterling. In 2006, the Company issued £50,000 of shares in Sterling in order to comply with English law. These were issued as deferred shares, which are not listed on any stock exchange. They have extremely limited rights and therefore effectively have no value. These shares are held by the Company Secretary, although the Board reserves the right to transfer them to a member of the Board should it so wish.

Shareholdings

As at 10 February 2023, to the knowledge of the Group, there were 12,079 registered holders of ordinary shares, of whom 94 had registered addresses in the US and held a total of 156,389 ordinary shares (0.017% of the total issued). Because certain ordinary shares are registered in the names of nominees, the number of shareholders with registered addresses in the US is not representative of the number of beneficial owners of ordinary shares resident in the US.

As at 10 February 2023, 45,620,821 ADSs equivalent to 91,241,642 ordinary shares or approximately 10.45% of the total ordinary shares in issue, were outstanding and were held by 84 registered ADS holders.

Major shareholders

As far as is known to Smith+Nephew, the Group is not directly or indirectly owned or controlled by another corporation or by any Government and the Group has not entered into arrangements, the operation of which may at a subsequent date result in a change in control of the Group.

As at 10 February 2023, the Company is not aware of any person who has a significant direct or indirect holding of securities in the Company, as defined in the Disclosure and Transparency Rules (DTRs) of the Financial Conduct Authority (FCA), other than as shown on [page 243](#), and is not aware of any persons holding securities which may control the Company. There are no securities in issue which have special rights as to the control of the Company. The table on [page 243](#) shows the last notification(s) received by the Company, in accordance with the FCA's DTRs relating to notifiable interests in the voting rights in the Company's issued share capital.

Dividends per share

	Years ended 31 December				
	2022	2021	2020	2019	2018
Pence per share:					
Interim	12.91	10.50	11.07	11.19	10.67
Final	19.07¹	18.40	16.62	18.66	16.99
Total	31.98	28.90	27.69	29.85	27.66
US cents per share:					
Interim	14.40	14.40	14.40	14.40	14.00
Final	23.10	23.10	23.10	23.10	22.00
Total	37.50	37.50	37.50	37.50	36.00

1. Translated at the Bank of England rate on 10 February 2023.

Purchase of ordinary shares on behalf of the Company

	Total shares purchased 000's	Average price paid per share pence	Approximate value of shares purchased \$ million
23 February – 13 April 2022	7,770,113	1,224.5255	125
9–12 August 2022	1,923,363	1,068.6719	25

Purchase of ordinary shares on behalf of the Company

At the AGM, the Company will be seeking a renewal of its current permission from shareholders to purchase up to 10% of its own shares. In December 2021, we announced an updated capital allocation policy to prioritise the use of cash. The 2022 share buyback programme commenced on 23 February 2022 and \$150 million was completed by 12 August 2022. As macroeconomic conditions continued to be uncertain, including higher input cost inflation, the Board decided it was prudent to delay further buybacks until conditions improved. We remain committed to returning surplus cash to shareholders over time.

From 1 January 2022 to 10 February 2023, in the months listed below, the Company has purchased 9,693,476 ordinary shares at a cost of \$150,174,989.80.

The shares were purchased in the open market by Merrill Lynch International and J.P. Morgan Securities plc on behalf of the Company.

Exchange controls and other limitations affecting security holders

There are no UK governmental laws, decrees or regulations that restrict the export or import of capital or that affect the payment of dividends, interest or other payments to non-resident holders of Smith & Nephew plc's securities, except for certain restrictions imposed from time-to-time by His Majesty's Treasury of the United Kingdom pursuant to legislation, such as the United Nations Act 1946 and the Emergency Laws Act 1964, against the Government or residents of certain countries.

Major shareholders

	10 February 2023	As at 31 December			
		2022	2021	2020	2020
	%*	%*	%*	%*	%*
BlackRock, Inc.	5.2	5.2	5.2	5.2	5.2

	10 February 2023	As at 31 December			
		2022	2021	2020	2020
	'000	'000	'000	'000	'000
BlackRock, Inc.	46,427	46,427	46,427	46,427	46,427

* Percentage of ordinary shares in issue, excluding Treasury shares.

of the ownership of ADSs or ordinary shares that may be material to a particular holder and in particular do not deal with the position of US Holders who directly, indirectly or constructively own 10% or more of the Company's issued ordinary shares. This discussion does not apply to (i) US Holders whose holding of ADSs or ordinary shares is effectively connected with or pertains to either a permanent establishment in the UK through which a US Holder carries on a business in the UK or a fixed base from which a US Holder performs independent personal services in the UK, or (ii) US Holders whose registered address is inside the UK. This discussion does not apply to certain US Holders subject to special rules, such as certain financial institutions, tax-exempt entities, insurance companies, broker-dealers and traders in securities that elect to use the mark-to-market method of tax accounting, partnerships or other entities treated as partnerships for US federal income tax purposes, US Holders holding ADSs or ordinary shares as part of a hedging, conversion or other integrated transaction or US Holders whose functional currency for US federal income tax purposes is other than the US Dollar. In addition, the comments below do not address the potential application of the provisions of the US Internal Revenue Code known as the Medicare contribution tax, any alternative minimum tax consequences, any US federal tax other than income tax or any US state, local or non-US (other than UK) taxes. The summary deals only with US Holders who hold ADSs or ordinary shares as capital assets for tax purposes. The summary is based on current UK and US law and practice which is subject to change, possibly with retroactive effect. US Holders are recommended to consult their tax advisers as to the particular tax consequences to them of the ownership of ADSs or ordinary shares.

The Company believes, and this discussion assumes, that the Company was not a passive foreign investment company for its taxable year ended 31 December 2022.

This discussion assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with its terms. For purposes of US federal income tax law, US Holders of ADSs will generally be treated as owners of the ordinary shares represented by the ADSs.

Taxation of distributions in the UK and the US

The UK does not currently impose a withholding tax on dividends paid by a UK corporation, such as the Company.

For US federal income tax purposes, distributions paid by the Company will generally be foreign source dividends to the extent paid out of the Company's current or accumulated earnings and profits as determined for US federal income tax purposes. Because the Company does not maintain calculations of its earnings and profits under US federal income tax principles, it is expected that distributions generally will be reported to US Holders as dividends. Such dividends will not be eligible for the dividends-received deduction generally allowed to corporate US Holders.

Dividends paid to certain non-corporate US Holders of ordinary shares or ADSs may be subject to US federal income tax at lower rates than those applicable to other types of ordinary income if certain conditions are met. Non-corporate US Holders should consult their own tax advisers to determine whether they are subject to any special rules that limit their ability to be taxed at these favourable rates.

Taxation of capital gains

US Holders, who are not resident for tax purposes in the UK, will not generally be liable for UK capital gains tax on any capital gain realised upon the sale or other disposition of ADSs or ordinary shares unless the ADSs or ordinary shares are held in connection with a trade carried on in the UK through a permanent establishment (or in the case of individuals, through a branch or agency). Furthermore, UK resident individuals who acquire ADSs or ordinary shares before becoming temporarily non-UK residents may remain subject to UK taxation of capital gains on gains realised while non-resident.

For US federal income tax purposes, gains or losses realised upon a taxable sale or other disposition of ADSs or ordinary shares by US Holders generally will be US source capital gains or losses and will be long-term capital gains or losses if the ADSs or ordinary shares were held for more than one year. The amount of a US Holder's gain or loss will be equal to the difference between the amount realised on the sale or other disposition and such holder's

tax basis in the ADSs, or ordinary shares, each determined in US Dollars.

Inheritance and estate taxes

HM Revenue & Customs imposes inheritance tax on capital transfers which occur on death and in the seven years preceding death. HM Revenue & Customs considers that the US/UK Double Taxation Convention on Estate and Gift Tax applies to inheritance tax. Consequently, a US citizen who is domiciled in the US and is not a UK national or domiciled in the UK will not be subject to UK inheritance tax in respect of ADSs and ordinary shares.

A UK national who is domiciled in the US will be subject to UK inheritance tax but will be entitled to a credit for any US federal estate tax charged in respect of ADSs and ordinary shares in computing the liability to UK inheritance tax. Special rules apply where ADSs and ordinary shares are business property of a permanent establishment of an enterprise situated in the UK.

US information reporting and backup withholding

Payments of dividends on, or proceeds from the sale of, ADSs or ordinary shares that are made within the US or through certain US-related financial intermediaries generally will be subject to US information reporting, and may be subject to backup withholding, unless a US Holder is an exempt recipient or, in the case of backup withholding, provides a correct US taxpayer identification number and certain other conditions are met.

Any backup withholding deducted may be credited against the US Holder's US federal income tax liability, and, where the backup withholding exceeds the actual liability, the US Holder may obtain a refund by timely filing the appropriate refund claim with the US Internal Revenue Service.

US Holders who are individuals or certain specified entities may be required to report information relating to securities issued by a non-US person (or foreign accounts through which the securities are held), subject to certain exceptions (including an exception for securities held in accounts maintained by US financial institutions). US Holders should consult their tax advisers regarding their reporting obligations with respect to the ADSs or ordinary shares.

UK stamp duty and stamp duty reserve tax

UK stamp duty is charged on documents and in particular instruments for the transfer of registered ownership of ordinary shares. Transfers of ordinary shares in certificated form will generally be subject to UK stamp duty at the rate of ½% of the consideration given for the transfer with the duty rounded up to the nearest £5.

UK stamp duty reserve tax (SDRT) arises when there is an agreement to transfer shares in UK companies 'for consideration in money or money's worth', and so an agreement to transfer ordinary shares for money or other consideration may give rise to a charge to SDRT at the rate of ½% (rounded up to the nearest penny). The charge of SDRT will be cancelled, and any SDRT already paid will be refunded, if within six years of the agreement an instrument of transfer is produced to HM Revenue & Customs and the appropriate stamp duty paid.

Transfers of ordinary shares into CREST (an electronic transfer system) are exempt from stamp duty so long as the transferee is a member of CREST who will hold the ordinary shares as a nominee for the transferor and the transfer is in a form that will ensure that the securities become held in uncertificated form within CREST. Paperless transfers of ordinary shares within CREST for consideration in money or money's worth are liable to SDRT rather than stamp duty. SDRT on relevant transactions will be collected by CREST at ½%, and this will apply whether or not the transfer is effected in the UK and whether or not the parties to it are resident or situated in the UK.

UK legislation provides for a charge to stamp duty (in the case of transfers) or SDRT to be payable at the rate of 1.5% of the consideration (or, in some cases, the value of the shares concerned) where ordinary shares are issued or transferred to the depositary or to certain persons providing a clearance service (or their nominees or agents) for the conversion into ADRs and will generally be payable by the depositary or person providing clearance service. In accordance with the terms of the Deposit Agreement, any tax or duty payable by the depositary on deposits of ordinary shares will be charged by the depositary to the party to whom ADRs are delivered against such deposits.

Following litigation on the subject, HMRC has accepted that it will no longer seek to apply the 1.5% SDRT charge when new shares are issued to a clearance service or depository receipt system on the basis that the charge was not compatible with EU law. HMRC has confirmed that it will not reintroduce the 1.5% charge on the issue of shares (and transfers integral to the raising of capital) into clearance service or depository receipt systems following the UK's exit from the EU and the expiry of the associated implementation period, unless the relevant UK legislation is amended. In HMRC's view, the 1.5% SDRT or stamp duty charge continues to apply to transfers of shares into a clearance service or depository receipt system unless they are an integral part of an issue of share capital. Specific professional advice should be sought before paying the 1.5% SDRT or stamp duty charge in any circumstances.

No liability for stamp duty or SDRT will arise on any transfer of, or agreement to transfer, an ADS or beneficial ownership of an ADS, provided that the ADS and any instrument of transfer or written agreement to transfer remains at all times outside the UK, and provided further that any instrument of transfer or written agreement to transfer is not executed in the UK and the transfer does not relate to any matter or thing done or to be done in the UK (the location of the custodian as a holder of ordinary shares not being relevant in this context). In any other case, any transfer of, or agreement to transfer, an ADS or beneficial ownership of an ADS could, depending on all the circumstances of the transfer, give rise to a charge to stamp duty or SDRT.

Any UK stamp duty or SDRT imposed upon transfers of ADSs or ordinary shares will not be treated as a creditable foreign tax for US federal income tax purposes. US Holders should consult their tax advisers regarding whether any such UK stamp duty or SDRT may be deductible or reduce the amount of gain (or increase the amount of loss) recognized upon a sale or other disposition of the ADSs or ordinary shares.

Charitable and Political Donations

The Group made no political donations during the year (2021: \$nil). Details of charitable donations can be found on [page 59](#).

Suppliers' Payment Policy

Terms of payment are agreed with individual suppliers prior to supply. The Group aims to pay its creditors promptly, in accordance with terms agreed for payment. Further information can be obtained from the government payment practice reporting portal.

Articles of Association

The following summarises certain material rights of holders of the Company's ordinary shares under the material provisions of the Company's Articles of Association, being those which were adopted at the 2021 Annual General Meeting and English law. This summary is qualified in its entirety by reference to the Companies Act and the Company's Articles of Association.

In the following description, a 'shareholder' is the person registered in the Company's register of members as the holder of an ordinary share.

The Company is incorporated under the name Smith & Nephew plc and is registered in England and Wales with registered number 324357.

The Company's ordinary shares may be held in certificated or uncertificated form. No holder of the Company's shares will be required to make additional contributions of capital in respect of the Company's shares in the future. In accordance with English law, the Company's ordinary shares rank equally.

Directors

Under the Company's Articles of Association, a Director may not vote in respect of any contract, arrangement, transaction or proposal in which he or she, or any person connected with him or her, has any interest which is to his or her knowledge a material interest other than by virtue of his interests in securities of, or otherwise in or through, the Company. This is subject to certain exceptions relating to proposals (a) indemnifying him in respect of obligations incurred on behalf of the Company, (b) indemnifying a third party in respect of obligations of the Company for which the Director has assumed responsibility under an indemnity or guarantee, (c) relating to an offer of securities in which he will be interested as an underwriter, (d) concerning another body corporate in which the Director is beneficially interested in less than 1% of the issued shares of any class of shares

of such a body corporate, (e) relating to an employee benefit in which the Director will share equally with other employees and (f) relating to any insurance that the Company is empowered to purchase for the benefit of Directors of the Company in respect of actions undertaken as Directors (and/or officers) of the Company.

A Director shall not vote or be counted in any quorum present at a meeting in relation to a resolution on which he is not entitled to vote.

The Board is empowered to exercise all the powers of the Company to borrow money, subject to the limitation that the aggregate amount of all monies borrowed after deducting cash and current asset investments by the Company and its subsidiaries shall not exceed the sum of \$8,500,000,000.

Any Director who has been appointed by the Board since the previous Annual General Meeting of shareholders, either to fill a casual vacancy or as an additional Director, holds office only until the conclusion of the next Annual General Meeting (notice of which was given after his or her appointment) and then shall be eligible for re-election by the shareholders. The Company's Articles of Association provide that all Directors are subject to annual re-election in accordance with the UK Corporate Governance Code.

If not re-appointed, a Director retiring at a meeting shall retain office until the meeting appoints someone in his place, or if it does not do so, until the conclusion of the meeting.

The Directors are subject to removal with or without cause by the Board or the shareholders. Directors are not required to hold any shares of the Company by way of qualification. Under the Company's Articles of Association and English law, a Director may be indemnified out of the assets of the Company against liabilities he may sustain or incur in the execution of his duties.

Rights attaching to ordinary shares

Under English law, dividends are payable on the Company's ordinary shares only out of profits available for distribution, as determined in accordance with accounting principles generally accepted in the UK and by the Companies Act 2006. Holders of the Company's ordinary shares are entitled to receive final dividends as may be declared

Shareholder information continued

by the Directors and approved by the shareholders in a general meeting, rateable according to the amounts paid up on such shares, provided that the dividend cannot exceed the amount recommended by the Directors.

The Company's Board of Directors may declare such interim dividends as appear to them to be justified by the Company's financial position.

If authorised by an ordinary resolution of the shareholders, the Board may also make a direct payment of a dividend in whole or in part by the distribution of specific assets (and in particular of paid up shares or debentures of the Company).

Any dividend unclaimed after 12 years from the date the dividend was declared, or became due for payment, will be forfeited and will revert to the Company. Provided that during this 12-year period, at least three dividends whether interim or final on or in respect of the share in question have become payable, and provided further the Company has taken steps which the Board considers reasonable during this 12-year period to trace the shareholder (including, if appropriate, engaging a professional tracing agent) and has sent notice of the Board's intention to sell the shares, the Board can sell the shares and use such proceeds for any purpose that the Board thinks fit.

There were no material modifications to the rights of shareholders under the Company's Articles of Association during 2022.

Voting rights of ordinary shares

The Company's Articles of Association provide that voting at any General Meeting of shareholders is by a show of hands unless a poll, which is a written vote, is duly demanded and held. On a show of hands, every shareholder who is present in person at a General Meeting has one vote regardless of the number of shares held. On a poll, every shareholder who is present in person or by proxy has one vote for each ordinary share held by that shareholder. A poll may be demanded by any of the following:

- The Chair of the meeting;
- At least five shareholders present or by proxy entitled to vote on the resolution;
- Any shareholder or shareholders representing in the aggregate not less

than one-tenth of the total voting rights of all shareholders entitled to vote on the resolution; or Any shareholder or shareholders holding shares conferring a right to vote on the resolution on which there have been paid-up sums in aggregate equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

A Form of Proxy will be treated as giving the proxy the authority to demand a poll, or to join others in demanding one, as above.

It is the Company's usual practice to vote by poll at Annual General Meetings.

The necessary quorum for a General Meeting is two shareholders present in person or by proxy carrying the right to vote upon the business to be transacted.

Matters are transacted at General Meetings of the Company by the processing and passing of resolutions of which there are two kinds; ordinary and special resolutions:

- Ordinary resolutions include resolutions for the re-election of Directors, the approval of financial statements, the declaration of dividends (other than interim dividends), the appointment and re-appointment of auditors or the grant of authority to allot shares. An ordinary resolution requires the affirmative vote of a majority of the votes of those persons voting at the meetings at which there is a quorum.
- Special resolutions include resolutions amending the Company's Articles of Association, dis-applying statutory pre-emption rights or changing the Company's name; modifying the rights of any class of the Company's shares at a meeting of the holders of such class or relating to certain matters concerning the Company's winding-up. A special resolution requires the affirmative vote of not less than three-quarters of the votes of the persons voting at the meeting at which there is a quorum.

Annual General Meetings must be convened upon advance written notice of 21 days. Other General Meetings must be convened upon advance written notice of at least 14-clear days. The days of delivery or receipt of notice are not included. The notice must specify the nature of the business to be transacted. Meetings are convened by the Board. Members with 5% of the ordinary share

capital of the Company may requisition the Board to convene a meeting. Any two Members may call a General Meeting in order to appoint one or more additional Directors in the event that there are insufficient Directors to be able to call a General Meeting, or where they are unwilling to do so.

Variation of rights

If, at any time, the Company's share capital is divided into different classes of shares, the rights attached to any class may be varied, subject to the provisions of the Companies Act, with the consent in writing of holders of three-quarters in nominal value of the issued shares of that class or upon the adoption of a special resolution passed at a separate meeting of the holders of the shares of that class. At every such separate meeting, all the provisions of the Articles of Association relating to proceedings at a General Meeting apply, except that the quorum is to be the number of persons (which must be two or more) who hold or represent by proxy not less than one-third in nominal value of the issued shares of the class and at any such meeting a poll may be demanded in writing by any person or their proxy who hold shares of that class. Where a person is present by proxy or proxies, he is treated as holding only the shares in respect of which the proxies are authorised to exercise voting rights.

Rights in a winding-up

Except as the Company's shareholders have agreed or may otherwise agree, upon the Company's winding-up, the balance of assets available for distribution:

- After the payment of all creditors including certain preferential creditors, whether statutorily preferred creditors or normal creditors;
- Subject to any special rights attaching to any other class of shares; and
- Is to be distributed among the holders of ordinary shares according to the amounts paid-up on the shares held by them. This distribution is generally to be made in US Dollars. A liquidator may, however, upon the adoption of any extraordinary resolution of the shareholders and any other sanction required by law, divide among the shareholders the whole or any part of the Company's assets in kind.

Limitations on voting and shareholding

There are no limitations imposed by English law or the Company's Articles of Association on the right of non-residents or foreign persons to hold or vote the Company's ordinary shares or ADSs, other than the limitations that would generally apply to all of the Company's shareholders.

Transfers of shares

The Board may refuse to register the transfer of shares held in certificated form which:

- Are not fully paid (provided that it shall not exercise this discretion in such a way as to prevent stock market dealings in the shares of that class from taking place on an open and proper basis);
- Are not duly stamped or duly certified or otherwise shown to the satisfaction of the Board to be exempt from stamp duty, lodged at the Transfer Office or at such other place as the Board may appoint and (save in the case of a transfer by a person to whom no certificate was issued in respect of the shares in question) accompanied by the certificate for the shares to which it relates, and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do;
- Are in respect of more than one class of shares; or
- Are in favour of more than four transferees.

Deferred shares

Following the re-denomination of share capital on 23 January 2006, the ordinary shares' nominal value became 20 US cents each. There were no changes to the rights or obligations of the ordinary shares. In order to comply with the Companies Act 2006, a new class of Sterling shares was created, deferred shares, of which 50,000 shares of £1 each were issued and allotted in 2006 as fully paid to the Chief Executive Officer. These shares were subsequently transferred and are now held by the Company Secretary, although the Board reserves the right to transfer them to a member of the Board should it so wish. These deferred shares have no voting or dividend rights and on winding-up are only entitled to repayment at nominal value only if all ordinary shareholders have

received the nominal value of their shares plus an additional US\$1,000 each.

Amendments

The Company does not have any special rules about amendments to its Articles of Association beyond those imposed by law.

Iran notice

Section 13(r) of the Exchange Act requires issuers to make specific disclosure in their annual reports of certain types of dealings with Iran, including transactions or dealings with Iranian government-owned entities, as well as dealings with entities sanctioned for activities related to terrorism or proliferation of weapons of mass destruction, even when those activities are not prohibited by US law and do not involve US persons.

The Group does not have a legal entity based in Iran, but in 2021 it exported certain medical devices to Iran, via sales by non-US entities, to a privately-owned Iranian distributor for sale in Iran. Sales by the distributor were made to hospitals that we understand are owned or controlled by the Government of Iran.

The Group's direct and indirect sales of US origin medical devices into Iran are permitted pursuant to section 560.530(a)(3)(i) of the Iranian Transactions and Sanctions Regulations, and its indirect sales of non-US origin medical devices into Iran are made in accordance with applicable law. The Group also provides training to its distributor(s) and surgeons in Iran as necessary and ordinarily incident to the safe and effective use of the medical devices, which is also permitted by applicable law.

In 2022, Smith+Nephew's gross revenues from sales to Iran were US\$nil and net losses were approximately US\$0.0m. The Group is reporting the entire gross revenues and net losses for the activities described above, which figures include sales of US origin medical devices. Although the Group is not required to disclose the sales of US origin medical devices because such sales to Iran are licensed under US law, the Group is including sales of these devices in its total gross revenue and net profit figures as it does not separately break out revenues and profits by country of origin.

About Smith+Nephew

The Smith+Nephew Group (the Group) is a portfolio medical technology business with leadership positions in Orthopaedics, Advanced Wound Management and Sports Medicine, and revenue of approximately \$5.2bn in 2022. Smith & Nephew plc (the Company) is the Parent Company of the Group. It is an English public limited company with its shares listed on the premium list of the UK Listing Authority and traded on the London Stock Exchange. Shares are also traded on the New York Stock Exchange in the form of American Depositary Shares (ADSs).

This is the Annual Report of Smith & Nephew plc for the year ended 31 December 2022. It comprises, in a single document, the Annual Report and Accounts of the Company in accordance with UK requirements and the Annual Report on Form 20-F in accordance with the regulations of the United States Securities and Exchange Commission (SEC).

Smith+Nephew operates on a worldwide basis and has distribution channels in over 100 countries. The Group is engaged in a single business activity, being the development, manufacture and sale of medical technology products and services. In 2022, Smith+Nephew's operations were organised into three global franchises (Orthopaedics, Sports Medicine & ENT, and Advanced Wound Management) within the medical technology industry.

Smith+Nephew's corporate website, www.smith-nephew.com, gives additional information on the Group, including an electronic version of this Annual Report. Information made available on this website, or other websites mentioned in this Annual Report, are not and should not be regarded as being part of, or incorporated into, this Annual Report.

The terms 'Group' and 'Smith+Nephew' are used to refer to Smith & Nephew plc and its consolidated subsidiaries, unless the context requires otherwise.

For the convenience of the reader, a Glossary of terms used in this document is included on [page 252](#).

The product names referred to in this document are identified by use of capital letters and the ∅ symbol (on first occurrence on a particular page) and are trademarks owned by or licensed to members of the Group.

Presentation

The Group's fiscal year end is 31 December. References to a particular year in this Annual Report are to the fiscal year, unless otherwise indicated. Except as the context otherwise requires, 'ordinary share' or 'share' refer to the ordinary shares of Smith & Nephew plc of 20 US cents each.

The Group Accounts of Smith & Nephew plc in this Annual Report are presented in US Dollars. Solely for the convenience of the reader, certain parts of this Annual Report contain translations of amounts in US Dollars into Sterling at specified rates. These translations should not be construed as representations that the US Dollar amounts actually represent such Sterling amounts or could be converted into Sterling at the rate indicated.

Unless stated otherwise, the translation of US Dollars and cents to Sterling and pence in this Annual Report has been made at the Bank of England exchange rate on the date indicated. On 10 February 2023, the latest practicable date for this Annual Report, the Bank of England rate was US\$1.21 per £1.00.

The results of the Group, as reported in US Dollars, are affected by movements in exchange rates between US Dollars and other currencies.

The Group applied the average exchange rates prevailing during the year to translate the results of companies with functional currency other than US Dollars. The currencies which most influenced these translations in the years covered by this report were Sterling, Swiss Franc and the Euro.

The Accounts of the Group in this Annual Report are presented in millions (m) unless otherwise indicated.

Special note regarding forward-looking statements

The Group's reports filed with, or furnished to, the US Securities and Exchange Commission (SEC), including this document and written information released, or oral statements made, to the public in the future by or on behalf of the Group, contain 'forward-looking statements' within the meaning of the US Private Securities Litigation Reform Act of 1995, that may or may not prove accurate. For example, statements regarding expected revenue growth and trading profit margins discussed in the

'Strategic Report', market trends and our product pipeline are forward-looking statements. Phrases such as 'aim', 'plan', 'intend', 'anticipate', 'well-placed', 'believe', 'estimate', 'expect', 'target', 'consider' and similar expressions are generally intended to identify forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results, to differ materially from what is expressed or implied by the statements.

For Smith+Nephew, these factors include: risks related to the impact of Covid, such as the depth and longevity of its impact, government actions and other restrictive measures taken in response, material delays and cancellations of elective procedures, reduced procedure capacity at medical facilities, restricted access for sales representatives to medical facilities, or our ability to execute business continuity plans as a result of Covid; economic and financial conditions in the markets we serve, especially those affecting healthcare providers, payers and customers (including, without limitation, as a result of Covid); price levels for established and innovative medical devices; developments in medical technology; regulatory approvals, reimbursement decisions or other government actions; product defects or recalls or other problems with quality management systems or failure to comply with related regulations; litigation relating to patent or other claims; legal and financial compliance risks and related investigative, remedial or enforcement actions; disruption to our supply chain or operations or those of our suppliers (including, without limitation, as a result of Covid); competition for qualified personnel; strategic actions, including acquisitions and dispositions, our success in performing due diligence, valuing and integrating acquired businesses; disruption that may result from transactions or other changes we make in our business plans or organization to adapt to market developments; disruptions due to natural disasters, weather and climate change related events; changes in customer and other stakeholder sustainability expectations; changes in taxation regulations; effects of foreign exchange volatility; and numerous other matters that affect us or our markets, including those of a political, economic, business, competitive or reputational nature; relationships with healthcare professionals;

reliance on information technology and cybersecurity. Specific risks faced by the Group are described under 'Risk factors' on pages 230–235 of this Annual Report.

Any forward-looking statement is based on information available to Smith+Nephew as of the date of the statement. All written or oral forward-looking statements attributable to Smith+Nephew are qualified by this caution. Smith+Nephew does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances or in Smith+Nephew's expectations.

Product data

Product data and product share estimates throughout this report are derived from a variety of sources including publicly available competitors' information, internal management information and independent market research reports.

Documents on display

It is possible to read and copy documents referred to in this Annual Report at the Registered Office of the Company. Documents referred to in this Annual Report that have been filed with the Securities and Exchange Commission in the US may be read and copied at the SEC's public reference room located at 450 Fifth Street, NW, Washington DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The SEC also maintains a website at www.sec.gov that contains reports and other information regarding registrants that file electronically with the SEC.

This Annual Report on Form 20-F and some of the other information submitted by the Group to the SEC may be accessed through the SEC website.

Corporate headquarters and registered office

The corporate headquarters is in the UK and the registered office address is:

Smith & Nephew plc,
Building 5, Croxley Park,
Hatters Lane, Watford,
Hertfordshire, WD18 8YE,
United Kingdom.

Registered in England and Wales
No. 324357.

Tel. +44 (0)1923 477 100
www.smith-nephew.com

Cross-reference to Form 20-F

This table provides a cross-reference from the information included in this Annual Report to the requirements of Form 20-F.

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SASB reporting

Topic	Metric	2022 Reporting	Code
Affordability and pricing	Ratio of weighted average rate of net price increases (for all products) to the annual increase in the US Consumer Price Index.	Smith+Nephew considers pricing disclosures to be commercially sensitive. Smith+Nephew does not measure price increase relative to the US Consumer Price Index for our business purposes.	HC-MS-240a.1
	Description of how price information for each product is disclosed to customers or to their agents.	Smith+Nephew uses several methods to disseminate price information to customers, including quotes, agreements, responses to requests for proposal, tender bid submissions, discount and rebate reporting and through large group purchasing organisation/ integrated delivery network customers to their members.	HC-MS-240a.2
Product safety	Number of recalls issued, total units recalled.	In 2022, Smith+Nephew reported 7 recalls globally. A total of 6,339 units were impacted globally. All impacted products were either removed from the market or corrected per the applicable regulations and/or standards.	HC-MS-250a.1
	List of products listed in the FDA's MedWatch Safety Alerts for Human Medical Products database.	Smith+Nephew reports all data as required by FDA. The MedWatch database is available at https://www.fda.gov/safety/medwatch-fda-safety-information-and-adverse-event-reporting-program	HC-MS-250a.2
	Number of fatalities related to products as reported in the FDA Manufacturer and User Facility Device Experience (MAUDE).	Smith+Nephew reports all data as required by FDA. The FDA MAUDE database is available at https://www.accessdata.fda.gov/scripts/cdrh/cfdocs/cfmaude/search.cfm	HC-MS-250a.3
	Number of FDA enforcement actions taken in response to violations of current Good Manufacturing Practices (cGMP), by type.	In 2022, Smith+Nephew received: <ul style="list-style-type: none"> – 1 Form 483 (4 observations in total). – 0 Warning letters. – 0 Seizures. – 3 Recalls (FDA reportable events). – 0 Consent decrees. 	HC-MS-250a.4
Ethical marketing	Description of code of ethics governing promotion of off-label use of products.	See the Product Promotion and Scientific Disclosures section of our Code of Conduct and Business Principles (www.smith-nephew.com) and the Acting with Integrity section of our Sustainability Report for additional information.	HC-MS-270a.2

Topic	Metric	2022 Reporting	Code
Product design and lifecycle management	Discussion of process to assess and manage environmental and human health considerations associated with chemicals in products, and meet demand for sustainable products.	Sustainability reviews are incorporated in New Product Development phase reviews for new products and acquisitions. Additionally, regulatory changes regarding chemicals in products are tracked and actioned, as appropriate. See our Sustainability Report for more information.	HC-MS-410a.1
	Total amount of products accepted for takeback and reused, recycled, or donated, broken down by: (1) devices and equipment and (2) supplies.	Smith+Nephew operates takeback schemes where required by law. Smith+Nephew does not measure the amount of products reused or recycled for our business purposes. See the People section of our Sustainability Report for information on product donations.	HC-MS-410a.2
Supply chain management	Percentage of (1) entity's facilities and (2) Tier 1 suppliers' facilities participating in third-party audit programmes for manufacturing and product quality.	All Smith+Nephew direct and third-party manufacturing locations are certified to ISO13485. Additionally, all Tier 1 material suppliers are compliant with ISO13485.	HC-MS-430a.1
	Description of efforts to maintain traceability within the distribution chain.	All Smith+Nephew products are labelled with either Unique Device Identifiers or HIBC barcodes to maintain traceability.	HC-MS-430a.2
	Description of the management of risks associated with the use of critical materials.	Supply chain risks are captured within Smith+Nephew's Enterprise Risk Management process. Both Business continuity and business change and Global supply chain are identified as Principal Risks. See our Risk Report on page 69 and our Conflict Minerals Disclosure Report on our website (www.smith-nephew.com) for additional information.	HC-MS-430a.3
Business ethics	Total amount of monetary losses as a result of legal proceedings associated with bribery or corruption.	In 2022, Smith+Nephew did not have monetary losses due to legal proceedings associated with bribery or corruption.	HC-MS-510a.1
	Description of code of ethics governing interactions with health care professionals.	See our website (www.smith-nephew.com) for our Code of Conduct and Business Principles, our Anti-Bribery Policy, our Annual Report, and also the Acting with Integrity section of our Sustainability Report for additional information.	HC-MS-510a.2
Activity metric	Number of units sold by product category.	Smith+Nephew considers the number of units sold by product category to be commercially sensitive.	HC-MS-000.A

 You can learn more about our sustainability targets and strategy in our 2022 Sustainability Report at www.smith-nephew.com/sustainability

Glossary

Unless the context indicates otherwise, the following terms have the meanings shown below:

Term	Meaning
ADR	In the US, the Company's ordinary shares are traded in the form of American Depositary Shares evidenced by American Depositary Receipts (ADRs).
ADS	In the US, the Company's ordinary shares are traded in the form of American Depositary Shares (ADSs).
Arthroscopic Enabling Technologies (AET)	A product group which includes a variety of technologies such as fluid management equipment for surgical access, high definition cameras, digital image capture, scopes, light sources and monitors to assist with visualisation inside the joints, radio frequency, electromechanical and mechanical tissue resection devices, and hand instruments for removing damaged tissue.
Advanced Wound Bioactives (AWB)	A product group which includes biologics and other bioactive technologies that provide unique approaches to debridement and dermal repair/regeneration, and regenerative medicine products including skin, bone graft and articular cartilage substitutes.
Advanced Wound Care (AWC)	A product group which includes products for the treatment and prevention of acute and chronic wounds, including leg, diabetic and pressure ulcers, burns and post-operative wounds.
Advanced Wound Devices (AWD)	A product group which includes traditional and single-use Negative Pressure Wound Therapy, a patient monitoring system for pressure injury prevention and patient mobility monitoring, and hydrosurgery systems.
AGM	Annual General Meeting of the Company.
Arthroscopy	Endoscopy of the joints is termed 'arthroscopy', with the principal applications including the knee and shoulder.
ASC	Ambulatory Surgery Center.
Basis Point	One hundredth of one percentage point.
Chronic wounds	Chronic wounds are those with long or unknown healing times including leg ulcers, pressure sores and diabetic foot ulcers.
Company	Smith & Nephew plc or, where appropriate, the Company's Board of Directors, unless the context otherwise requires.
Companies Act	Companies Act 2006, as amended, of England and Wales.
Emerging Markets	Emerging Markets include Latin America, Asia (excluding Japan), Middle East, Africa and Russia.
EPSA	Adjusted earnings per ordinary share as defined on page 238 .
Endoscopy	Through a small incision, surgeons are able to see inside the body using a monitor and identify and repair defects.
ENT	Ear, Nose and Throat.
Established Markets	Established Markets are United States of America, Europe, Australia, New Zealand, Canada and Japan.
Euro or €	References to the common currency used in the majority of the countries of the European Union.
FDA	US Food and Drug Administration.
Financial statements	Refers to the consolidated Group Accounts of Smith & Nephew plc.
FTSE 100	Index of the largest 100 listed companies on the London Stock Exchange by market capitalisation.
Group or Smith+Nephew	Used for convenience to refer to the Company and its consolidated subsidiaries, unless the context otherwise requires.
Health economics	A branch of economics concerned with issues related to efficiency, effectiveness, value and behaviour in the production and consumption of health and healthcare.
Hip Implants	A product group which includes specialist products for reconstruction of the hip joint.
IFC	Inside Front Cover.
IBC	Inside Back Cover.

Term	Meaning
IFRS	International Financial Reporting Standards issued by the International Accounting Standards Board.
Knee implants	A product group which includes an innovative range of products for specialised knee replacement procedures.
LSE	London Stock Exchange.
MDR	Medical Device Regulation.
MHRA	The Medicines and Healthcare products Regulatory Agency in the UK.
Negative Pressure Wound Therapy (NPNT)	A technology used to treat chronic wounds such as diabetic ulcers, pressure sores and post-operative wounds through the application of sub-atmospheric pressure to an open wound.
NHS	The UK National Health Service.
NYSE	New York Stock Exchange.
Orthopaedic products	Orthopaedic reconstruction products include joint replacement systems for knees, hips and shoulders and support products such as computer-assisted surgery and minimally invasive surgery techniques. Orthopaedic trauma devices are used in the treatment of bone fractures including rods, pins, screws, plates and external frames.
Other Reconstruction	A product group which includes robotics-assisted surgery, bone cement and accessory products.
OXINIUM	OXINIUM material is an advanced load bearing technology. It is created through a proprietary manufacturing process that enables zirconium to absorb oxygen and transform to a ceramic on the surface, resulting in a material that incorporates the features of ceramic and metal. Management believes that OXINIUM material used in the production of components of knee and hip implants exhibits unique performance characteristics due to its hardness, low-friction and resistance to roughening and abrasion.
Parent Company	Smith & Nephew plc.
Pound Sterling, Sterling, £, pence or p	References to UK currency. 1p is equivalent to one hundredth of £1.
SEC	US Securities and Exchange Commission.
Sports Medicine Joint Repair	The Sports Medicine Joint Repair franchise includes instruments, technologies and implants necessary to perform minimally invasive surgery of joints.
Trading results	Trading profit, trading profit margin (trading profit expressed as a percentage of revenue), trading cash flow and trading profit to trading cash conversion ratio (trading cash flow expressed as a percentage of trading profit) are trend measures, which present the profitability of the Group. The adjustments made exclude the impact of specific transactions that management considers affect the Group's short-term profitability and cash flows, and comparability of results. Refer to page 237 for further information.
Trauma & Extremities	A product group which includes internal and external devices used in the stabilisation of severe fractures and deformity correction procedures.
UK	United Kingdom of Great Britain and Northern Ireland.
Underlying growth	Growth after adjusting for the effects of currency translation and the inclusion of the comparative impact of acquisitions and exclusion of disposals.
US	United States of America.
US Dollars, \$, or cents or ¢	References to US currency. 1 cent is equivalent to one hundredth of US\$1.

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* Compared to NAVIO (trademark diamond) Surgical System.

** With use of handpiece.

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- * Compared to predicate device.
- ** The REGENETEN Implant is cleared for use on any tendon where there is not substantial loss of tendon tissue. REGENETEN Bone Anchors are only indicated for use in rotator cuff repair. Published clinical outcomes are for rotator cuff. The REGENETEN Implant is currently approved for use in treating Gluteus Medius and Achilles tears only in the U.S.
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Patient testimonials (pages 30, 36, 42)

These patient testimonials represent the individual patient's own opinions, findings, beliefs and/or experiences. Individual results will vary. Not everyone who receives a product or treatment will experience the same or similar results; results may vary depending on a number of factors, including each patient's specific circumstances and condition, and compliance with the applicable Instructions for Use. Smith+Nephew is not responsible for the selection of any treatment by a healthcare professional to be used on a particular patient. Smith+Nephew makes no representations, warranties, guarantees or assurances as to the availability, accuracy, currency or completeness of the information presented or its contents.



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Designed and Produced by Radley Yeldar.

Financial calendar

Annual General Meeting

The Company's Annual General Meeting ('AGM') will be held on Wednesday, 26 April 2023 at 12:00pm at Smith+Nephew Academy London, Building 5, Croxley Park, Hatters Lane, Watford, Hertfordshire, WD18 8YE.

Please refer to the Notice of Meeting for detailed information on how to vote and submit your questions.

The meeting will commence at 12:00pm with doors opening from 11.00am. Registered shareholders have been sent either a Notice of Annual General Meeting or notification of availability of the Notice of Annual General Meeting.

2023

Annual General Meeting	26 April
First quarter Trading Report	26 April
Payment of 2022 final dividend	17 May
Half-year results announced	3 August ¹
Third quarter Trading Report	2 November
Payment of 2023 interim dividend	October/November

2024

Full year results announced	February ¹
Annual Report available	February/March
Annual General Meeting	April

¹ Dividend declaration dates.

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