



2006 Q3 Results

Enabling people to live healthier, more active lives



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Chris O'Donnell
Chief Executive

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Introduction

- New products drive stronger growth
- Signs of strengthening US market
 - particularly reconstruction
- Healthcare spending constraints remain a challenge in some European markets
- Systematic review of margin improvement opportunities underway

Business highlights Q3 2006

- Group revenue growth up 10% to \$679m
- Trading profit increased 15% to \$134m
- Good performance across all divisions
- Reconstruction revenue grows strongly at 13%
- Trauma revenue grows at an improved 15%
- Endoscopy achieves increased revenue growth of 13%
- Advanced Wound Management revenue remains on track up 1% and up 5% after adjusting for DERMAGRAFT®

Adrian Hennah
Chief Financial Officer

Income statement Q3 2006

	<i>Third Quarter</i>		<i>Percentage growth</i>		<i>Q3 YTD</i>	
	<i>2005</i>	<i>2006</i>	<i>Actual</i>	<i>CER</i>	<i>2005</i>	<i>2006</i>
	<i>\$m</i>	<i>\$m</i>			<i>\$m</i>	<i>\$m</i>
Revenue	<u>612</u>	<u>679</u>	11%	10%	<u>1,882</u>	<u>2,008</u>
Trading profit	117	134	15%	13%	370	399
Restructuring costs	(44)	0			(44)	0
Amortisation of acquisition intangibles	<u>(2)</u>	<u>(4)</u>			<u>(8)</u>	<u>(8)</u>
Operating profit	71	130			318	391
Net interest income	2	2			7	8
Other finance income	(2)	1			(2)	4
Fair value adjustment	<u>0</u>	<u>0</u>			<u>0</u>	<u>(3)</u>
Profit before taxation	71	133			323	400
Trading margin	19.1%	19.7%			19.7%	19.9%

Income statement Q3 2006

	<i>Third Quarter</i>		<i>Percentage growth</i> <i>Actual</i>	<i>Q3 YTD</i>	
	<i>2005</i>	<i>2006</i>		<i>2005</i>	<i>2006</i>
	<i>\$m</i>	<i>\$m</i>		<i>\$m</i>	<i>\$m</i>
Profit before taxation	71	133		323	400
Taxation	(18)	(40)		(95)	(120)
Profit from continuing operations	53	93		228	280
Discontinued operations	9	0		24	332
Attributable profit	62	93		252	612
Add back:					
Amortisation of acquisition intangibles	2	4		8	8
Restructuring costs	44	0		44	0
Net profit on disposal of JV	0	0		0	(332)
Loss on hedge	0	0		0	3
Tax on excluded items	(17)	0		(17)	(1)
Adjusted attributable profit	91	97	7%	287	290
EPS before amortisation ("EPSA")	9.7 ¢	10.3 ¢	6%	30.6¢	30.8¢
EPS	6.6¢	9.9¢		26.9¢	65.1¢

Revenue growth by business segment 2006

Quarter 3	Actual	Currency	CER
	%	%	%
Orthopaedic Reconstruction	13	0	13
Orthopaedic Trauma	15	0	15
Endoscopy	14	(1)	13
Advanced Wound Management	3	(2)	1
Group	<u>11</u>	<u>(1)</u>	<u>10</u>
Q3 YTD			
Orthopaedic Reconstruction	8	1	9
Orthopaedic Trauma	12	0	12
Endoscopy	8	1	9
Advanced Wound Management	0	1	1
Group	<u>7</u>	<u>0</u>	<u>7</u>

CER revenue growth by geography & business segment 2006

<i>Quarter 3</i>	<i>US \$m</i>	<i>Growth %</i>	<i>Europe \$m</i>	<i>Growth %</i>	<i>ROW \$m</i>	<i>Growth %</i>	<i>Total \$m</i>	<i>Growth %</i>
Orthopaedic Reconstruction	126	14	51	11	42	11	219	13
Orthopaedic Trauma	90	13	19	27	16	9	125	15
Endoscopy	86	14	41	6	34	19	161	13
Advanced Wound Management	35	(2)	93	0	46	6	174	1
	337	12	204	6	138	11	679	10
<i>Q3 YTD</i>								
Orthopaedic Reconstruction	377	7	166	8	125	15	668	9
Orthopaedic Trauma	257	12	51	16	48	7	356	12
Endoscopy	258	8	133	7	87	13	478	9
Advanced Wound Management	99	(3)	274	0	133	5	506	1
	991	8	624	5	393	10	2008	7

Profitability by business segment Q3 2006

	----- Q3 -----			Q3 YTD
	<i>Revenue</i> \$m	<i>Trading Profit</i> \$m	<i>Margin</i> %	<i>Margin</i> %
2006				
Orthopaedic Reconstruction	219	52	23.7	25.4
Orthopaedic Trauma	125	24	19.2	18.8
Endoscopy	161	28	17.4	18.0
Advanced Wound Management	174	30	17.2	15.0
	<u>679</u>	<u>134</u>	<u>19.7</u>	<u>19.9</u>
2005				
Orthopaedic Reconstruction	193	44	22.8	25.2
Orthopaedic Trauma	109	22	20.2	19.7
Endoscopy	141	25	17.7	19.2
Advanced Wound Management	169	26	15.4	13.3
	<u>612</u>	<u>117</u>	<u>19.1</u>	<u>19.7</u>

Free cash flow Q3 2006

	<i>Third Quarter</i>		<i>Q3 YTD</i>	
	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Operating profit	71	130	318	391
Share based payment	4	4	11	13
Depreciation, amortisation and impairment	70	44	142	121
Capital expenditure	(44)	(55)	(153)	(185)
Working capital movements	(35)	(78)	(180)	(195)
Cash generated from operations after capital expenditure	66	45	138	145
Dividends received from joint venture	1	0	12	0
Operating cash flow	67	45	150	145
Interest received	2	2	7	8
Taxation paid	(19)	(33)	(79)	(96)
Free cash flow	50	14	78	57

2006 outlook at Q3

- Reconfirm full year guidance from H1
- At end Q3 rates, no impact of currency translation for full year



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Reconstruction – Q3 2006

	<i>Q3</i>	<i>YTD</i>
US	14%	7%
Outside US	11%	11%
Global	<u>13%</u>	<u>9%</u>
Knees	15%	11%
Hips	11%	6%

- Much improved quarter in US and OUS
- Modest market recovery in US, conditions remain challenging in some European countries
- New product launches contribute to revenue growth
- Outstanding knee growth; hip growth recovery
- BHR launch in US on track
- New products 16% of revenue YTD



EMPERION[®] Modular Hip System
with OXINIUM[®] Femoral Head

Trauma – Q3 2006

	<i>Q3</i>	<i>YTD</i>
US	13%	12%
Outside US	18%	11%
Global	<u>15%</u>	<u>12%</u>
Fixation	12%	10%
Clinical Therapies	20%	18%

- Growth momentum continues
- New product success contributes to growth
- Sustained Clinical Therapies growth
- DUROLANE integration progressing well
- New products 20% of revenue YTD



PERI-LOC[®] Superior Distal Clavicle plate & PERI-LOC[®] Proximal Humerus Locking Plate

Endoscopy – Q3 2006

	<i>Q3</i>	<i>YTD</i>
US	14%	8%
Outside US	12%	9%
Global	<u>13%</u>	<u>9%</u>
Repair	22%	20%
DOR/Visualisation	20%	8%

- Very strong quarter in US led by new products
- Strong growth continues for Repair
- Solid resection growth continues
- Strong order book for DOR delivers outstanding quarter
- Integration of OBI on track
- New products 27% of revenue YTD



Digital Operating Room

Advanced Wound Management – Q3 2006

	<i>Q3</i>	<i>YTD</i>
US ex DERMAGRAFT [◇]	14%	11%
US incl. DERMAGRAFT [◇]	(2)%	(3)%
Outside US	2%	2%
Global	1%	1%
ALLEVYN [◇]	10%	9%
Wound bed prep	12%	11%

- Revenues remain on track
- Healthcare spending constraints continue to affect growth OUS
- ACTICOAT[◇] growth hit by low price silver competitors
- ALLEVYN[◇] growth strengthens with launch of enhanced performance dressings in Europe
- Strong progress of VERSAJET[◇] continues
- New products 10% of revenue YTD



VERSAJET[◇] Hydrosurgery System

Summary

- Encouraged by modest improvement in US market growth in reconstruction
- European market conditions remain challenging
- Reconstruction benefiting from new product successes
- Strengthening performance from Trauma business
- Improved Endoscopy growth fuelled by strong Repair and DOR growth
- Expect positive impact of new products to continue in Q4 and into 2007 and beyond

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Appendix

Reconciliation of free cash flow to IAS 7 net cash flow from operating activities

	<i>Third Quarter</i>		<i>Q3 YTD</i>	
	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Free cash flow	50	14	78	57
Add back: capital expenditure	44	55	153	185
Deduct: dividends received from JV	(1)	0	(12)	0
Net cash inflow from operating activities (IAS 7)	<u>93</u>	<u>69</u>	<u>219</u>	<u>242</u>

Exchange rates

€ : \$

	12/04	06/05	12/05	03/06	06/06	09/06	
Period End	1.359	1.197	1.180	1.211	1.279	1.267	
	H1 05	Q2 05	Q3 05	H1 06	Q2 06	Q3 06	YTD
Average	1.270	1.236	1.258	1.243	1.282	1.279	1.255

£ : \$

	12/04	06/05	12/05	03/06	06/06	09/06	
Period End	1.920	1.771	1.717	1.733	1.848	1.869	
	H1 05	Q2 05	Q3 05	H1 06	Q2 06	Q3 06	YTD
Average	1.864	1.827	1.841	1.807	1.865	1.895	1.836

Quarterly revenues

Smith & Nephew Key Product Line Revenues in \$m at Average Rates Quarterly and Underlying Growth*

	2005										2006					
	Q1		Q2		Q3		Q4		FY		Q1		Q2		Q3	
	Revenue \$m	Growth %	Revenue \$m	Growth %	Revenue \$m	Growth %	Revenue \$m	Growth %	Revenue \$m	Growth %	Revenue \$m	Growth %	Revenue \$m	Growth %	Revenue \$m	Growth %
Orthopaedic Reconstruction																
Knees	116	17%	117	20%	103	13%	118	12%	454	15%	124	9%	130	10%	121	15%
Hips	86	12%	88	16%	80	10%	89	13%	343	13%	88	5%	90	2%	91	11%
Orthopaedic Trauma																
Fixation	75	14%	77	13%	73	15%	82	16%	307	14%	78	7%	83	9%	84	12%
Clinical therapies	27	51%	33	42%	34	35%	37	31%	131	38%	30	12%	40	22%	41	20%
Endoscopy																
Repair	45	21%	44	23%	44	23%	48	20%	181	21%	51	19%	52	18%	54	22%
Visualisation & DOR	27	21%	29	3%	27	2%	37	8%	120	7%	27	1%	30	3%	33	20%
Resection	61	0%	60	2%	55	3%	60	4%	236	2%	61	3%	61	0%	57	4%
Advanced Wound Management																
ALLEVYN®	43	13%	44	14%	46	12%	47	16%	180	13%	43	7%	50	9%	50	10%
ACTICOAT®	11	30%	11	33%	13	25%	14	16%	49	25%	12	20%	14	12%	13	1%
DERMAGRAFT® and related	6	-25%	5	-10%	7	-25%	6	0%	24	-16%	3	-33%	1	-85%	0	-96%
Smith & Nephew	628	11.5%	642	12%	612	10%	670	11%	2,552	11%	643	6%	686	6%	679	10%

* All revenue growths are on an underlying basis, excluding the effects of acquisitions, currency translation and variations in revenue days