



2008 Interim Results

Sustainable profitable growth



Forward looking statements

This presentation contains certain "forward-looking statements" within the meaning of the US Private Securities Litigation Reform Act of 1995. In particular, statements regarding expected revenue growth and trading margins discussed under "Outlook" are forward-looking statements as are discussions of our product pipeline. These statements, as well as the phrases "aim", "plan", "intend", "anticipate", "well-placed", "believe", "estimate", "expect", "target", "consider" and similar expressions, are generally intended to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors (including, but not limited to, the outcome of litigation, claims and regulatory approvals) that could cause the actual results, performance or achievements of Smith & Nephew, or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Please refer to the documents that Smith & Nephew has filed with the U.S. Securities and Exchange Commission under the U.S. Securities Exchange Act of 1934, as amended, including Smith & Nephew's most recent annual report on Form 20F, for a discussion of certain of these factors.

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David Illingworth
Chief Executive

Q2 highlights

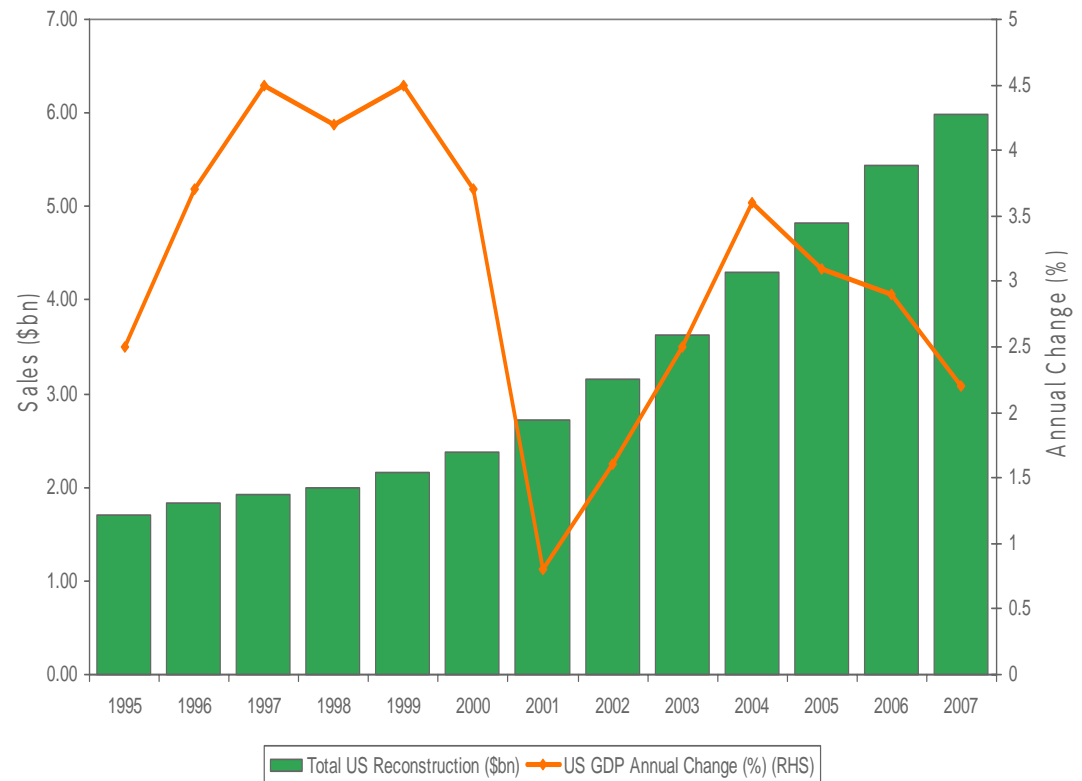
- Reported revenues up by 23% to \$1 billion
- Reconstruction growth driven by strong contributions from both hips and knees
- Trauma changes in the US deliver increased revenues
- Endoscopy returns to double digit growth
- Advanced Wound Management exceeds market growth in advanced woundcare and NPWT continues to gain traction globally
- EPSA increased by 13% to 14.0¢
- Dividend 4.96¢ per share (24.8¢ per ADS), up 10%

Plus update

- No change to \$100m lost revenue guidance
- Notice of claim given to vendors
- Plus Reconstruction and Trauma market position stabilised
- Management focused on the business
- Cross selling proving beneficial
- Combined research and development
- Cost synergies going well

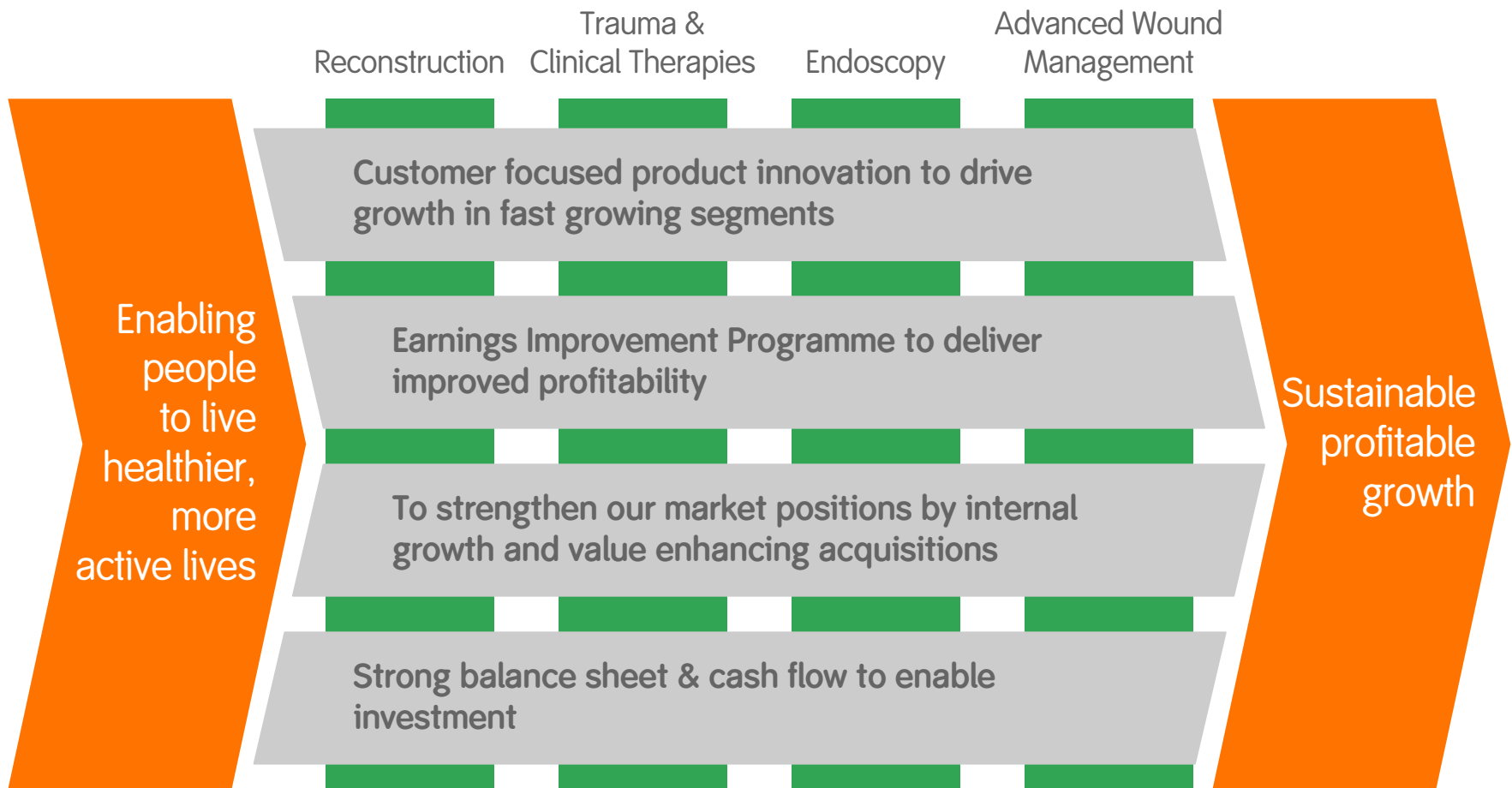
Growth in US reconstruction through economic cycles, 1995 - 2007

- Demographics continue to drive procedures
- Pricing pressure in some markets
 - Innovation is rewarded
- Cost inflation pressures manageable

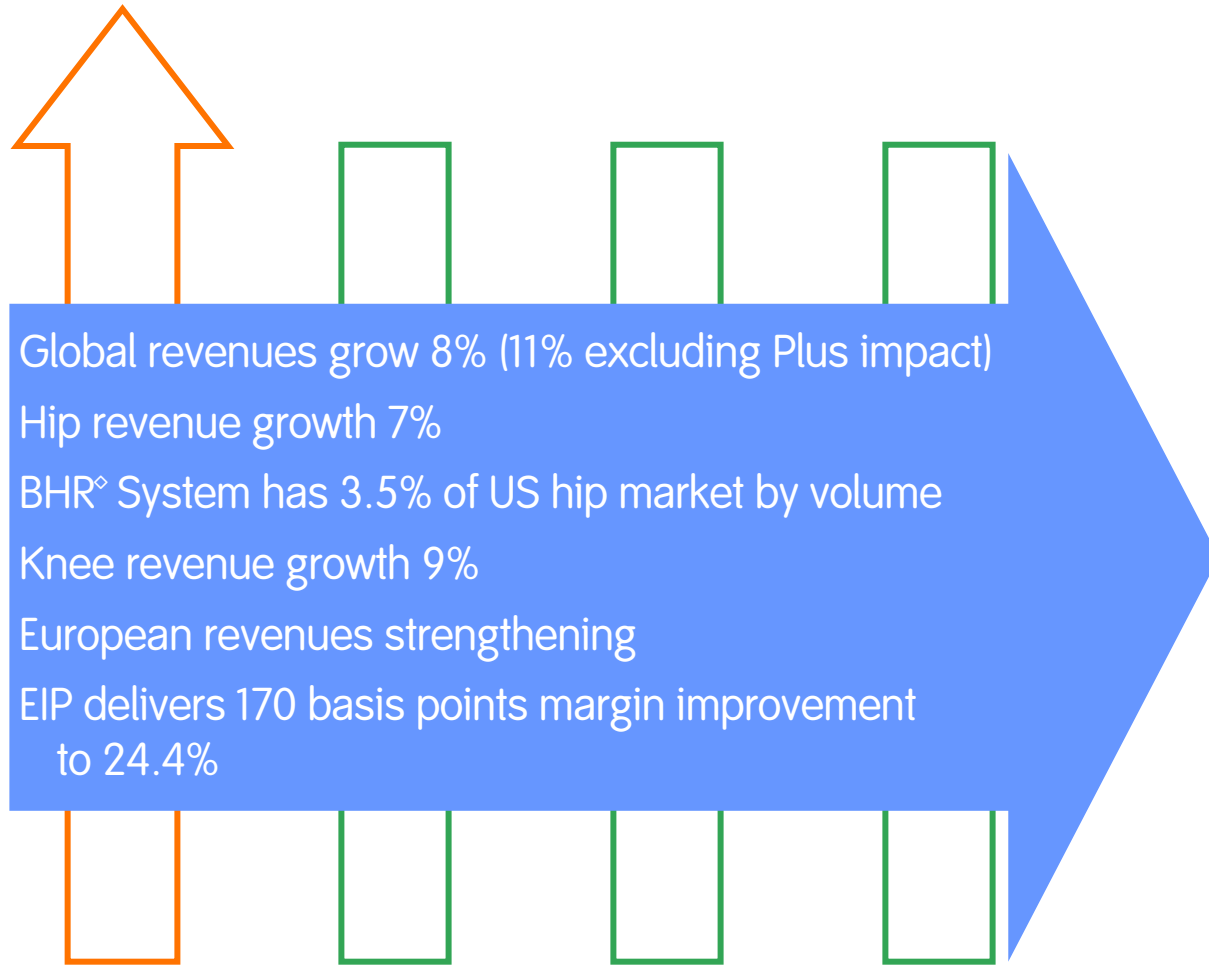


Sources: MarketLink, US Bureau of Economic Analysis

Business strategy for growth



Q2 Reconstruction - performance & activities



Reconstruction

- Brand awareness campaign launched in US for BHR[®]
- OXINIUM[®] Oxidised Zirconium approved in Japan and C1 reimbursement
- JOURNEY[®] Bi-cruciate Knee System & LEGION[®] Revision System perform well in knees
- Over 10,000 BHR Systems have now been implanted in the US

Above market revenue growth

Reconstruction – H2 growth drivers

- Demographics drive demand
- Plus integration
 - Cross selling synergies drive revenues
- Building brand awareness
 - <http://youtube.com/watch?v=wPHNemSb5IE>
- New products
 - OXINIUM[◇] Oxidised Zirconium in Japan
 - 2mm size increments for BHR[◇]
 - JOURNEY[◇] Knee sets and training

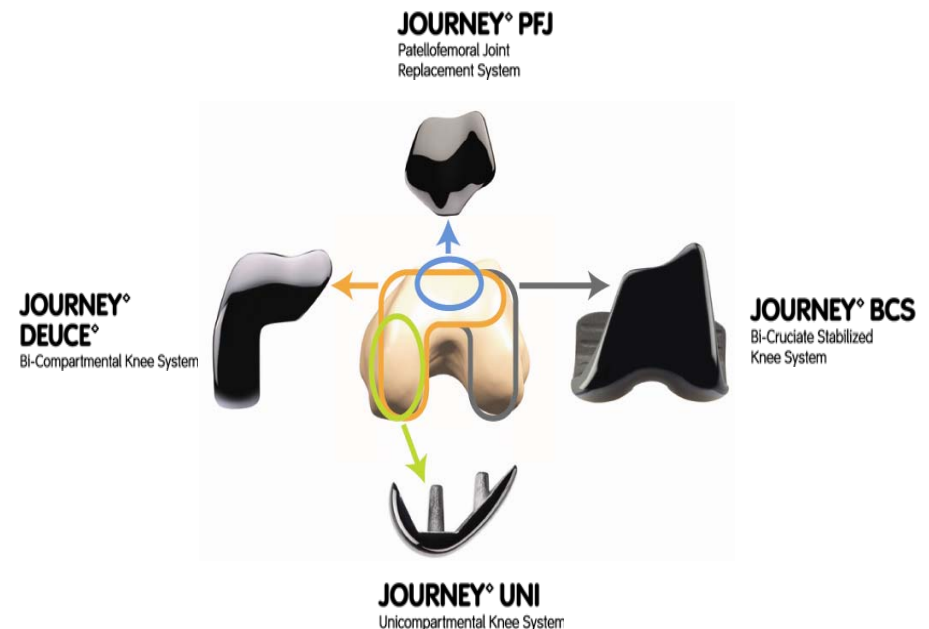


JOURNEY[◇] UNI
Unicompartmental Knee System

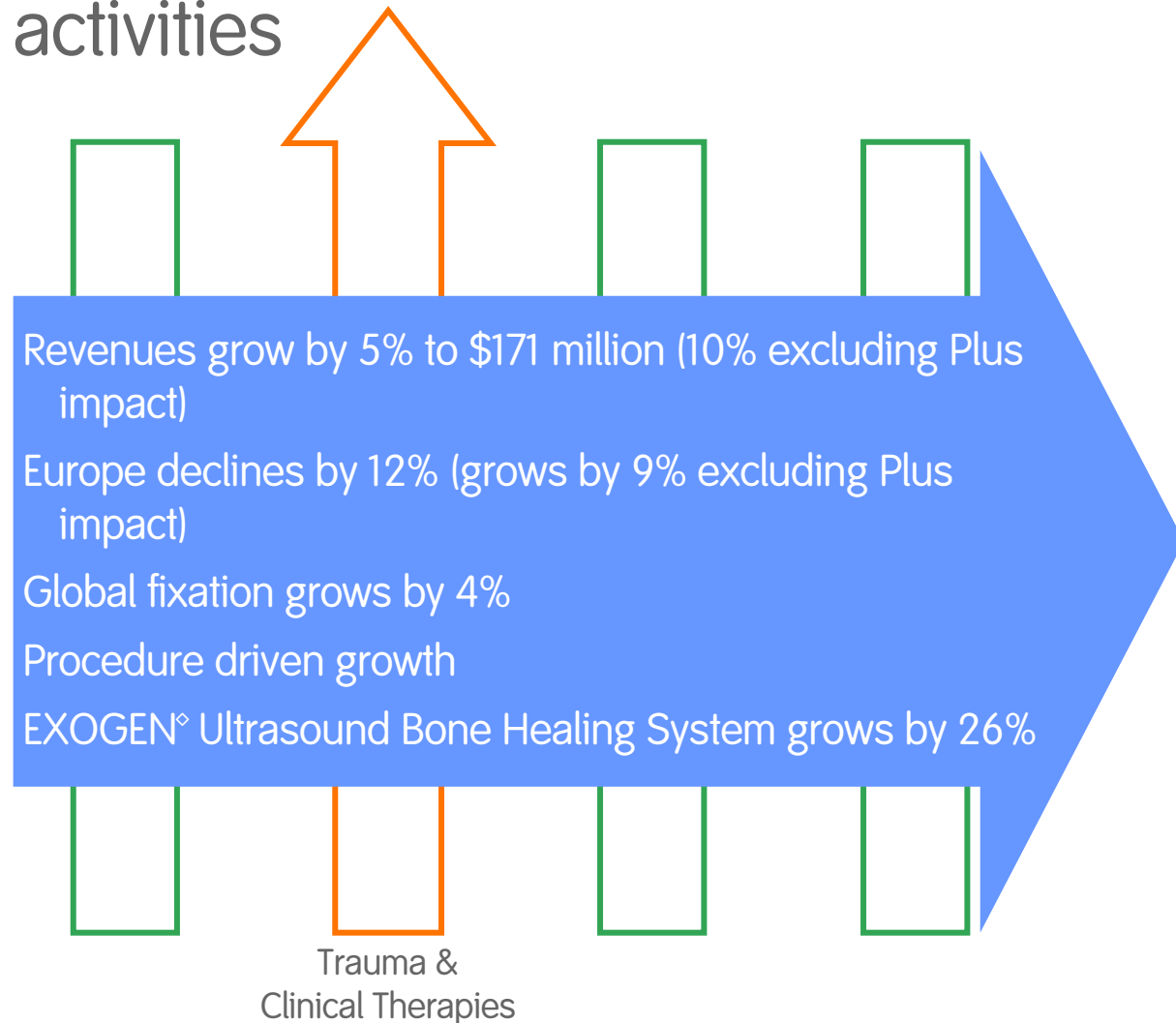
JOURNEY[◇]

Active Knee Solutions

- Designed by 32 surgeons
 - Started 2001
 - Clinical trials 2004
 - First product launched 2005
- Higher level of function & activity for the patient
- Efficient, ergonomic instrument sets
- High technology offering for hospitals



Q2 Trauma and Clinical Therapies - performance & activities



- 10% more sales reps added in US in the year to date
- Key opinion leader training at multiple sites in Europe
- Recon/Trauma rep performance improves
- 10% more surgeons trained in H108 over H107
- Exit growth rate stronger than Q1

Encouraging outcome to Q2

Trauma & Clinical Therapies – H2 growth drivers

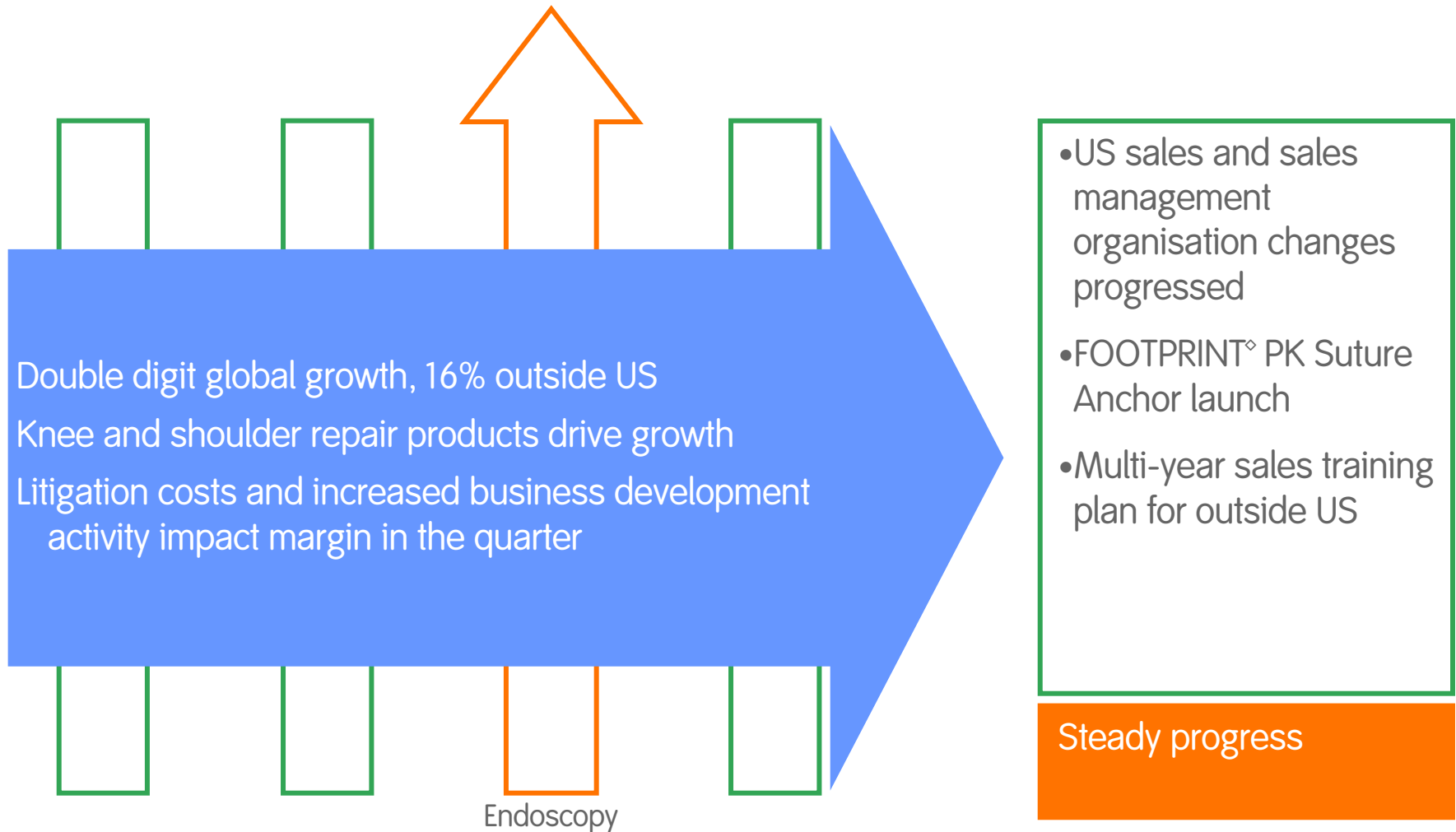
- Procedure volume driven growth
- US sales traction as sales force management reporting aligned
- Investment in full line rep training
- Targeted sales programme initiatives
- Additional 500+ instrument sets deployed
- Plus synergies grow revenues



JET-X[®]
Quick Fit Clamps

Leader in innovative point of care service for fracture repair, healing and clinical therapies

Q2 Endoscopy – performance and activities



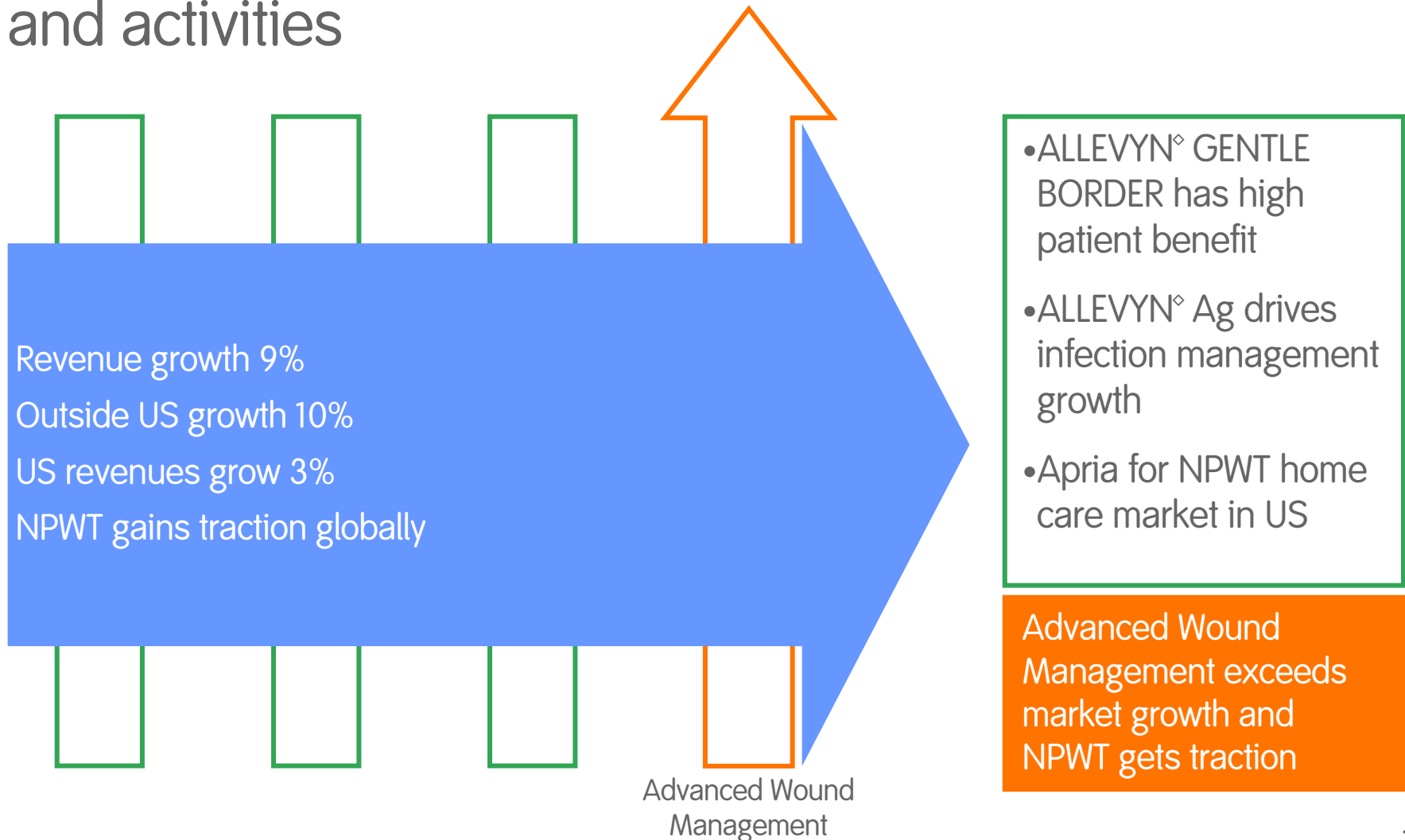
Endoscopy - H2 growth drivers

- Global leader in arthroscopy/sports medicine
- Strong growth in underpenetrated outside US market
- Continued investment in
 - innovation in fast growing repair segment
 - training and education
- Product launches
 - Shoulder launches in US
 - FOOTPRINT[®] PK Suture Anchor
 - BONECUTTER[®] ELECTROBLADE[®] Resector
- US sales force changes expand distribution channels



FOOTPRINT[®] PK
Suture Anchor

Q2 Advanced Wound Management – performance and activities



Advanced Wound Management – H2 growth drivers

- Recent product launches
 - ALLEVYN[◇] GENTLE BORDER
 - ALLEVYN[◇] Ag
- US and European revenue momentum
- NPWT distribution channels established
 - Acute/long term care/home
 - Launched in all major markets
 - Billing 500 accounts
 - 50 new sales reps

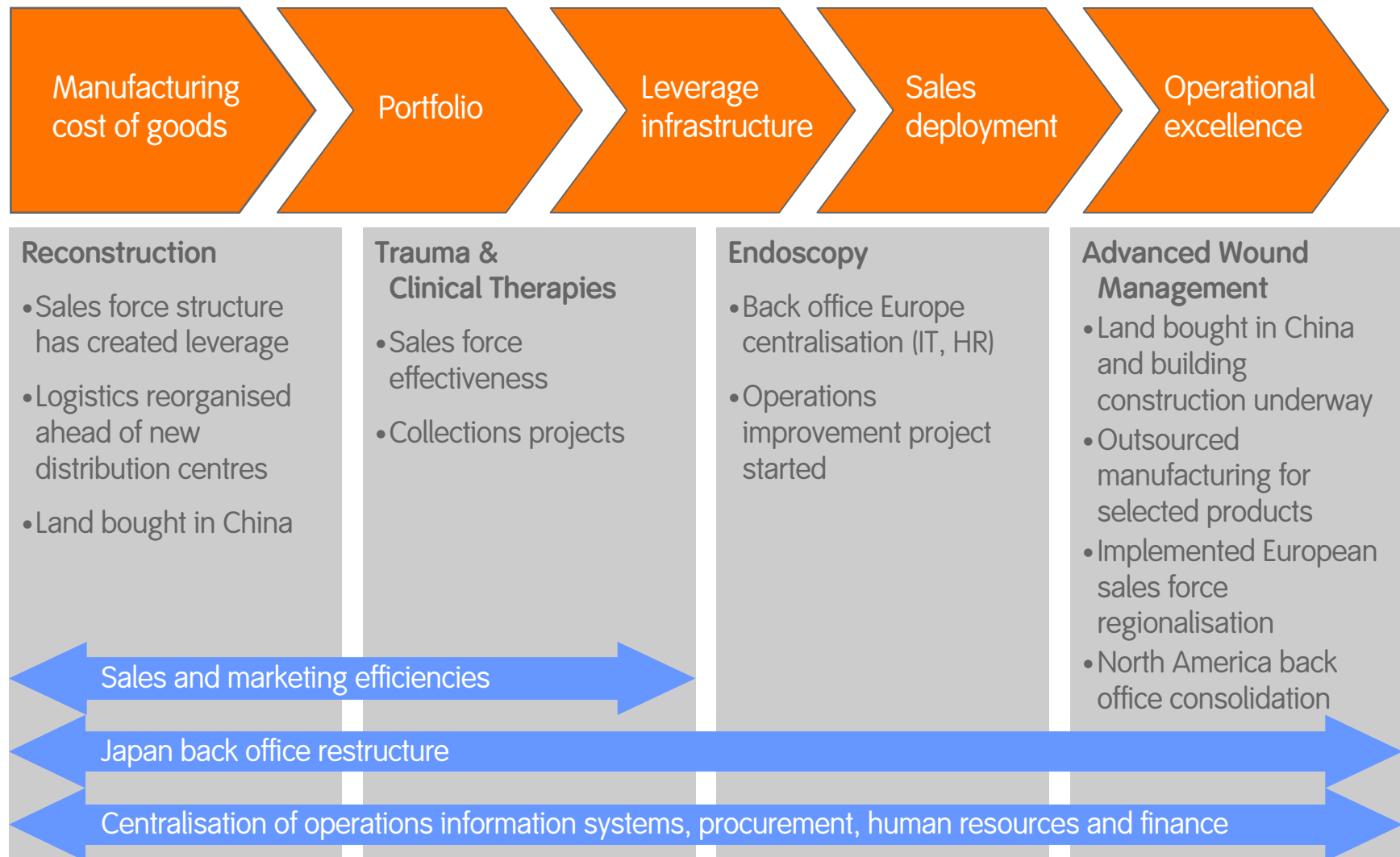


EZCARE[◇]
Negative Pressure
Wound Therapy

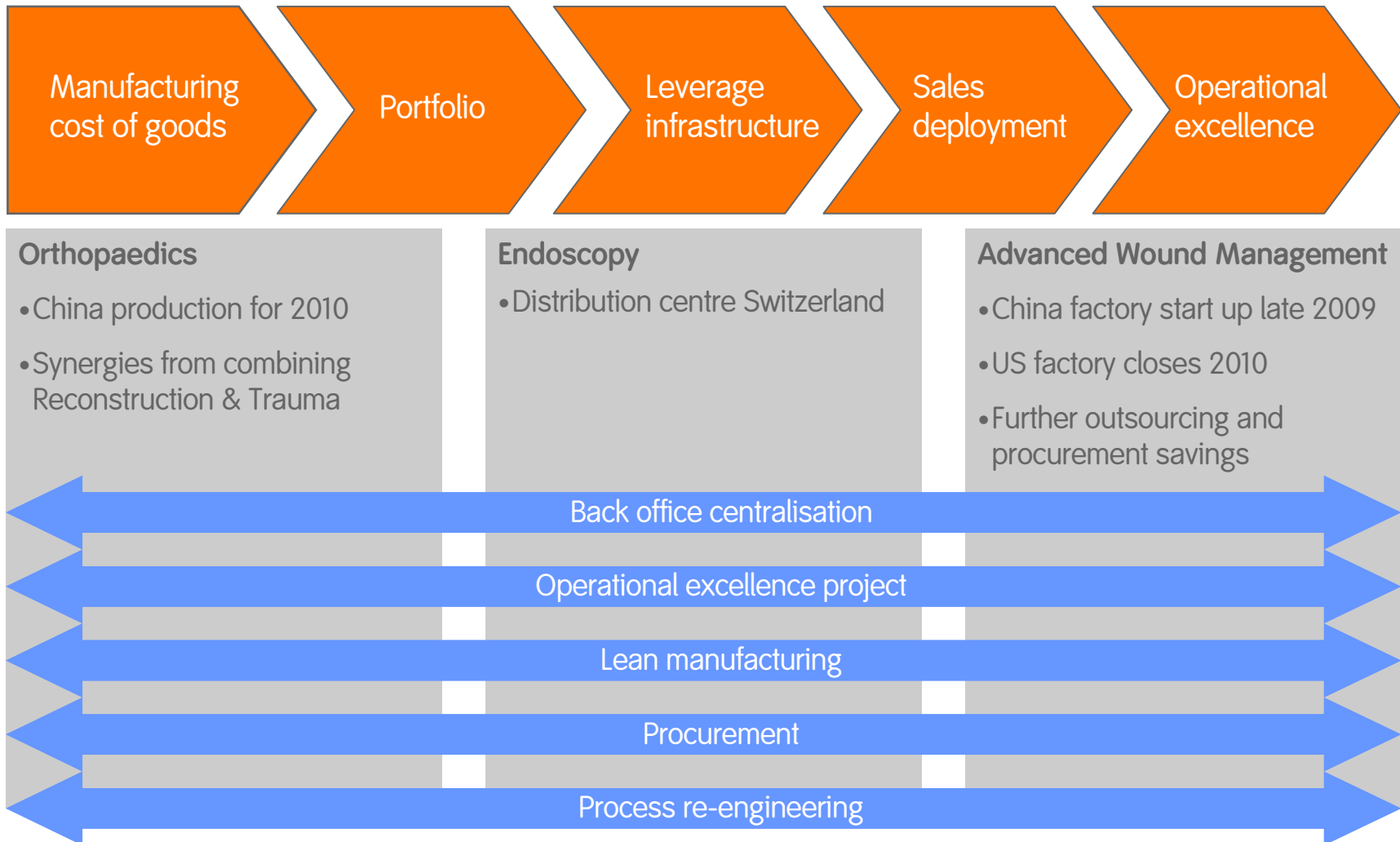


ALLEVYN[◇] GENTLE BORDER
Silicone Gel Adhesive
Hydrocellular Dressing

EIP achievements



EIP in process





Adrian Hennah
Chief Financial Officer

Income statement Q2 2008

	<i>Second Quarter</i>		<i>% Growth</i>		<i>Half Year</i>	
	<i>2007</i>	<i>2008</i>	<i>Reported</i>	<i>Underlying</i>	<i>2007</i>	<i>2008</i>
	<i>\$m</i>	<i>\$m</i>			<i>\$m</i>	<i>\$m</i>
Revenue	813	1,000	23%	8%	1,557	1,911
Trading profit	167	198	19%	8%	315	380
Restructuring and acquisition costs	(5)	(17)			(22)	(32)
Inventory revaluation*	(10)	-			(10)	(15)
Amortisation of acquisition intangibles*	(4)	(7)			(8)	(17)
Operating profit*	148	174			275	316
Net interest income/(cost)	(3)	(17)			(1)	(33)
Other finance income/(cost)	2	(1)			4	(1)
Share of results of associates	-	1			-	1
Profit before taxation*	147	157			278	283
Trading margin %	20.5	19.8	-70bps	+5bps	20.2	19.9

*2007 restated for finalisation of Plus acquisition accounting

Income statement Q2 2008

	<i>Second Quarter</i>			<i>Half Year</i>	
	<i>2007</i>	<i>2008</i>		<i>2007</i>	<i>2008</i>
	<i>\$m</i>	<i>\$m</i>		<i>\$m</i>	<i>\$m</i>
Profit before taxation*	147	157		278	283
Taxation*	(44)	(54)	Tax Rate 31%**	(84)	(97)
Attributable profit	<u>103</u>	<u>103</u>		<u>194</u>	<u>186</u>
Add back:					
Amortisation of acquisition intangibles*	4	7		8	17
Restructuring & acquisition costs	5	17		22	32
Inventory revaluation*	10	-		10	15
Tax on excluded items*	(6)	(2)		(12)	(11)
Adjusted attributable profit	<u>116</u>	<u>125</u>		<u>222</u>	<u>239</u>
Adjusted earnings per share ("EPSA")	12.4¢	14.0¢	EPSA Growth 13%	23.6¢	26.8¢

*2007 restated for finalisation of Plus acquisition accounting

** Excluding restructuring and rationalisation costs, acquisition related costs and amortisation of acquisition intangibles

Revenue growth by business segment Q2 2008

Quarter 2 *	Actual %	Currency %	Acquisitions %	Underlying %	Underlying Excluding Sales Practice Changes ** %
Reconstruction	36	(8)	(20)	8	11
Trauma and Clinical Therapies	14	(3)	(6)	5	10
Endoscopy	15	(5)	-	10	10
Advanced Wound Management	18	(9)	-	9	9
Group	23	(7)	(8)	8	10

* Q2 2008 comprises 64 trading days (2007 – 63 trading days)

** Adjust for the impact of Plus sales lost due to unacceptable sales practices in parts of Europe

Underlying revenue growth by geography & business segment Q2 2008

<i>Quarter 2</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>
Reconstruction	172	9	155	3	69	16	396	8
Trauma and Clinical Therapies	110	6	34	(12)	27	29	171	5
Endoscopy	93	4	71	15	41	18	205	10
Advanced Wound Management	39	3	128	9	61	10	228	9
	414	6	388	6	198	16	1,000	8

Profitability by business segment Q2 2008

----- Q2 -----

	<i>Revenue \$m</i>	<i>Trading Profit \$m</i>	<i>Margin %</i>	<i>Underlying Change bps</i>	<i>H1 Margin %</i>
2008					
Reconstruction	396	96	24.4	170	24.8
Trauma and Clinical Therapies	171	30	17.4	(200)	18.5
Endoscopy	205	40	19.3	70	20.0
Advanced Wound Management	228	32	14.1	(190)	11.8
Total	<u>1,000</u>	<u>198</u>	<u>19.8</u>	<u>5</u>	<u>19.9</u>
2007					
Reconstruction	291	73	24.8		25.0
Trauma and Clinical Therapies	150	30	19.8		18.5
Endoscopy	178	32	18.5		18.4
Advanced Wound Management	194	32	16.3		15.9
Total	<u>813</u>	<u>167</u>	<u>20.5</u>		<u>20.2</u>

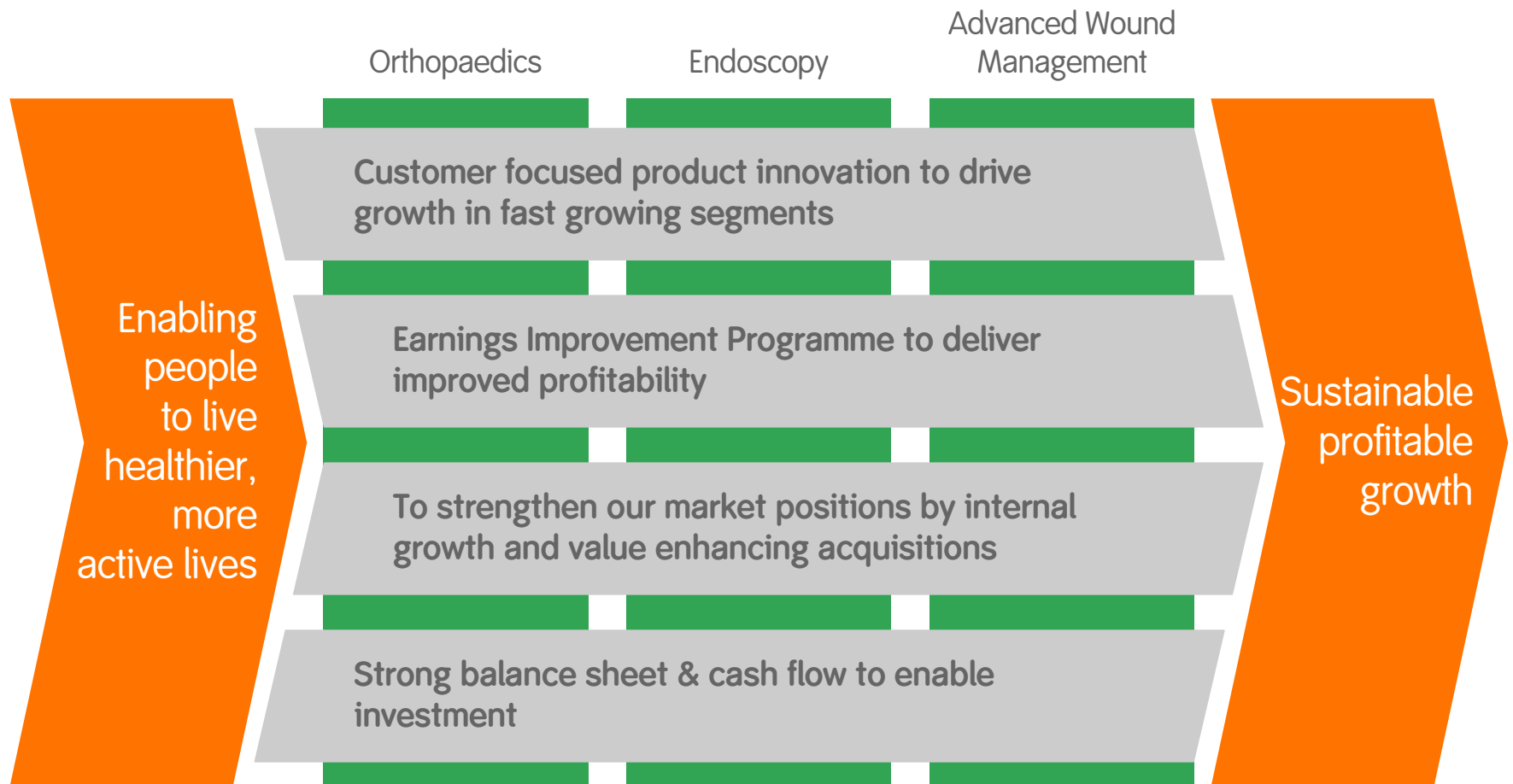
2008 outlook confirmed

- Revenue growth
 - Ortho (Recon and Trauma) – no change
 - Endoscopy – no change
 - Advanced Wound Management – no change
- Margin expansion on track. Temporary impact from Plus sales practice changes – no change
- Plus sales practice changes to reduce revenues by c.\$100m in a full year, close to this level in 2008 – no change



David Illingworth
Chief Executive

Business strategy for growth



 We are **smith&nephew**

Appendices

Quarterly revenues

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

	2007					2008		
	Q1	Q2	Q3	Q4	Full Year	Q1	Q2	
	Growth* %	Growth* %	Growth* %	Growth* %	Growth* %	Growth* %	Revenue \$m	Growth* %
Orthopaedic Reconstruction								
Knees	12%	7%	5%	10%	9%	1%	201	9%
Hips	23%	29%	20%	14%	21%	4%	183	7%
Orthopaedic Trauma								
Fixation	13%	10%	9%	7%	10%	2%	106	4%
Clinical therapies	33%	25%	15%	11%	20%	(2)%	66	6%
Endoscopy								
Arthroscopy	10%	12%	11%	7%	10%	7%	165	10%
Visualisation & DOR	20%	9%	2%	6%	9%	(5)%	38	12%
Advanced Wound Management								
ALLEVYN®	10%	8%	17%	14%	13%	9%	73	21%
ACTICOAT®	1%	10%	11%	5%	7%	(2)%	15	(2)%
Smith & Nephew	12%	12%	10%	8%	10%	2%	1000	8%

* All revenue growths are on an underlying basis as previously reported, excluding the effects of acquisitions and currency translation

Free cash flow Q2 2008

	<i>Second Quarter</i>		<i>H1</i>	
	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Trading profit	167	198	315	380
Share based payment	6	5	13	10
Depreciation and amortisation	47	56	88	108
Capital expenditure	(67)	(73)	(105)	(134)
Separate out working capital movements as:				
– Movement in inventory	(26)	(36)	(43)	(81)
– Other movements in working capital and provisions	9	4	(21)	(10)
Trading cash flow	136	154	247	273
Restructuring, rationalisation & acquisition costs	(19)	(18)	(34)	(43)
Macrot textured claim payments	(3)	(3)	(9)	(6)
Operating cash flow	114	133	204	224
Interest received/(paid)	(3)	(15)	(1)	(31)
Taxation paid	(79)	(63)	(111)	(96)
Free cash flow	32	55	92	97

New products 2008

Q1	Q2	Q3	Q4
			PiGALILEO [®] Mini System
	VERILAST [®] Technology		PERI-LOC [®] Titanium-VDR
R3 [®] Acetabular Cup System	Patient Matched Program (Phase II - Extended Evaluation)	JOURNEY [®] Unicompartmental knee	InterTAN CHS
CAPTION [®] Disposable Platelet Concentrator	JET-X [®] Bar Quick Clamps	BHR [®] 2mm Incremental Heads for US	PERI-LOC [®] Screws & Trays
PERI-LOC [®] VLP (International release)	HD Small Joint Scopes	PERI-LOC [®] PFP	ELITE [®] Hip Instrument System
New TWINFIX [®] anchor designs	New Hip Access System	ELECTROBLADE BONECUTTER [®] 5.5	Biceps Tenodesis Delivery System
New scopes/couplers	Double-Row System for RC repair	New TRUREPAIR [®] products	New Small Joint Handpiece and shaver blades
ALLEVYN [®] GENTLE range (Europe)	New resorbable interference screw line for ACL/PCL repair	New Small Joint anchors	New NPWT range extension
ALLEVYN [®] Ag Silver Dressing (Europe)	ALLEVYN [®] GENTLE range (US)	ALLEVYN [®] new variants to sacrum & heel dressings	ACTICOAT [®] range extensions

Exchange rates

	<u>Q2/07</u>	<u>FY/07</u>	<u>Q2/08</u>
€ : \$			
Period end	1.35	1.46	1.58
Average	1.35	1.37	1.56
£:\$			
Period end	2.01	1.99	1.99
Average	1.99	2.00	1.97

Percentage of Revenue by Geographic Market:	Q2 %	H1 %
United States	41	42
United Kingdom	9	9
Other Europe	30	30
Other	20	19
	<u>100</u>	<u>100</u>

Analysis of restructuring and acquisition costs

	P&L Charge		Cash spend	
	Q2	Total to date	Q2	Total to date
	\$m	\$m	\$m	\$m
EIP				
– cash costs*	6	55	8	52
– asset w/offs	-	4	n/a	n/a
Plus Integration				
– cash costs**	9	61	10	45
– asset w/offs	1	7	n/a	n/a

* Target \$125m over three years

** Target \$60-80m

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

	Second Quarter		H1	
	2007	2008	2007	2008
	\$m	\$m	\$m	\$m
Free cash flow	32	55	92	97
Add back: capital expenditure	67	73	105	134
Net cash inflow from operating activities (IAS 7)	<u>99</u>	<u>128</u>	<u>197</u>	<u>231</u>

Business days per quarter

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Full Year</u>
2007	64	63	63	61	251
2008	62	64	63	63	252
2009	61	63	63	65	252