



Financial Results
Q1 2007



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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Chris O'Donnell
Chief Executive

Strategy for Continued Value Growth

- **Market focus**
 - Innovation to provide clinical benefits and value for healthcare systems
 - Focus on active informed patients
- **Earnings improvement**
 - Aim for above market revenue growth
 - Continue to invest in R&D/innovation
 - Margin enhancement through EIP
- **Balance sheet**
 - Maintain flexibility for acquisitions with investment grade rating
 - Up to \$1.5 billion share buyback over two years
- **Value enhancing acquisitions**
 - Unique/additive technologies
 - Improved channels to market

Acquisitions update

- Plus Orthopedics
 - expected to complete mid-year
 - reconstruction to global market #4
- DUROLANE[®] licence agreement and OBI integration
- Covalon worldwide distribution agreement in Advanced Wound Management

Q1 Strong start to 2007

- Group revenue growth of 12%
- Excellent growth in all businesses
 - Orthopaedic Reconstruction +15%
 - Orthopaedic Trauma & Clinical Therapies +19%
 - Endoscopy +12%
 - Advanced Wound Management +4% (ex tissue engineering)
- Share buy-back programme started
- Earnings Improvement Programme already underway

Note: All revenue increases in this presentation are underlying increases, that is after adjusting for the effects of currency translation and the impact of acquisitions



Adrian Hennah

Finance Director

Income statement 2007

	Q1 2006 \$m Restated	Q1 2007 \$m	Q1 Percentage growth	
			Actual	CER
Revenue	643	744	16%	12%
Trading profit	124	148	19%	14%
Restructuring costs	-	(17)		
Amortisation of acquisition intangibles	(2)	(4)		
Operating profit	122	127		
Net interest income	3	2		
Other finance income	1	2		
Fair value of hedge of anticipated sales proceeds of J.V.	(3)	-		
Profit before taxation	123	131		
Trading margin	19.3%	19.9%		

Income statement 2007

	2006 \$m Restated	Q1 2007 \$m	Percentage growth Actual
Profit before taxation	123	131	
Taxation	(38)	(40)	
Profit from continuing operations	85	91	
Gain on sale of BSN	332	-	
Attributable profit	417	91	
Add back:			
Amortisation of acquisition intangibles	2	4	
Restructuring costs	-	17	
BSN Disposal	(332)	-	
BSN hedging mark to market	3	-	
Tax on excluded items	(1)	(6)	
Adjusted attributable profit	89	106	19%
Adjusted EPS ("EPSA")	9.5¢	11.2¢	
EPS	44.3¢	9.7¢	

Revenue growth by business segment 2007

Quarter 1	Actual	Currency	Acq Effect	CER
	%	%	%	%
Reconstruction	19	(4)		15
Trauma and Clinical Therapies	21	(2)		19
Endoscopy	16	(3)	(1)	12
Advanced Wound Management	8	(6)		2
Group	<u>16</u>	<u>(4)</u>	<u>-</u>	<u>12</u>

CER revenue growth by geography & business segment 2007

<i>Quarter 1</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	150	20	68	8	44	11	262	15
Trauma and Clinical Therapies	96	18	21	21	19	20	136	19
Endoscopy	89	6	57	15	31	28	177	12
Advanced Wound Management	34	10	94	2	41	(2)	169	2
	369	15	240	8	135	11	744	12

Profitability by business segment 2007

	----- Q1 -----		
	<i>Revenue \$m</i>	<i>Trading Profit \$m</i>	<i>Margin %</i>
2007			
Reconstruction	262	66	25.2
Trauma and Clinical Therapies	136	23	16.9
Endoscopy	177	33	18.6
Advanced Wound Management	169	26	15.4
	<u>744</u>	<u>148</u>	<u>19.9</u>
2006			
Reconstruction	221	56	25.3
Trauma and Clinical Therapies	112	19	17.0
Endoscopy	153	30	19.6
Advanced Wound Management	157	19	12.1
	<u>643</u>	<u>124</u>	<u>19.3</u>

Free cash flow 2007

	<i>Quarter 1</i>	
	<i>Restated</i>	
	2006	2007
	\$m	\$m
Profit before taxation	123	131
Less: Net interest receivable	(3)	(2)
Depreciation and amortisation	36	45
Share based payment expense	4	7
Movement in working capital	(55)	(32)
Capital expenditure	(58)	(38)
Cash generated from operations after capital expenditure	47	111
Restructuring spend	(8)	(5)
Macrotextured spend	(8)	(6)
Biomet bid related costs	-	(10)
Interest received	3	2
Taxation paid	(27)	(32)
Free cash flow	7	60

Share Buy Back

- 6.4m shares bought back in Q1
- Programme on track

2007 Outlook

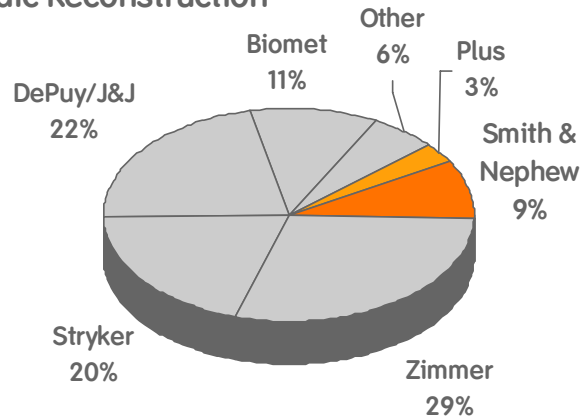
- Revenue growth
 - Reconstruction – exceeds market growth
 - Trauma – Clinical Therapies lower than Q1; fixation close to market growth
 - Endoscopy – arthroscopy steady, visualisation & DOR volatile
 - Advanced Wound Management – broadly in line with served market
- Margin expansion
- Tax rate 31% or thereabouts



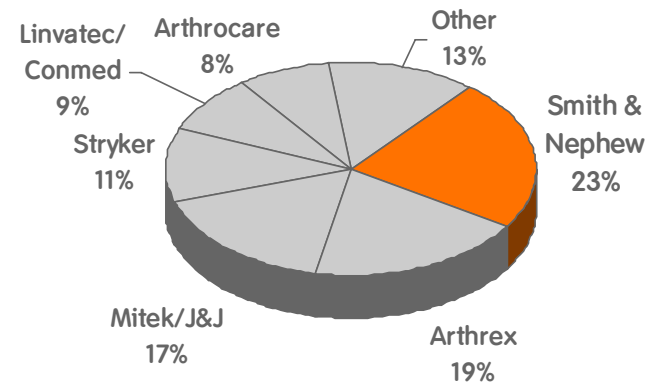
David Illingworth
Chief Operating Officer

Strong market segment positions

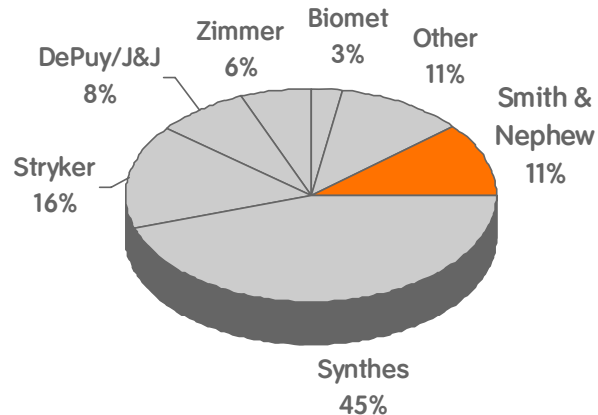
Orthopaedic Reconstruction*



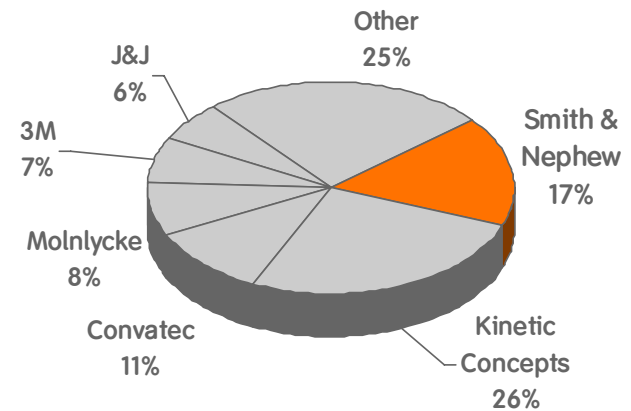
Endoscopy (arthroscopy)



Orthopaedic Trauma & Clinical Therapies (fixation)



Advanced Wound Management



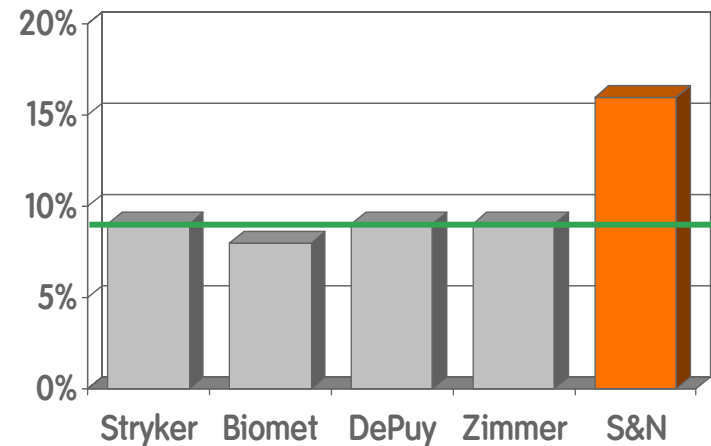
* Excludes the effect of acquiring Plus Orthopedics

Reconstruction – Q1 2007

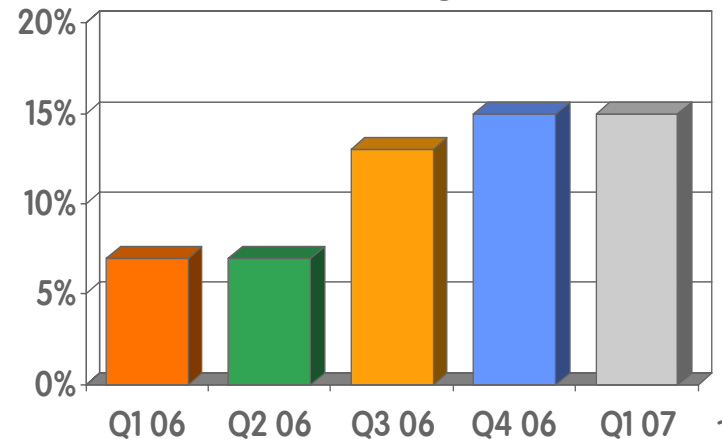
	<i>FY 06</i>	<i>Q1 07</i>
US	9%	20%
Outside US	12%	9%
Global	10%	15%
Knees	12%	12%
Hips	10%	23%

- Market recovery in US continues, with improvement in some European countries
- New product launches contribute to revenue growth
- Knee growth maintained; hip growth outstanding
- BHR[®] well ahead of expectations in the US – total US hips up 40%
- New products 21% of revenue YTD

Q1 07 revenue growth



Smith & Nephew revenue growth by quarter



Plus Orthopedics

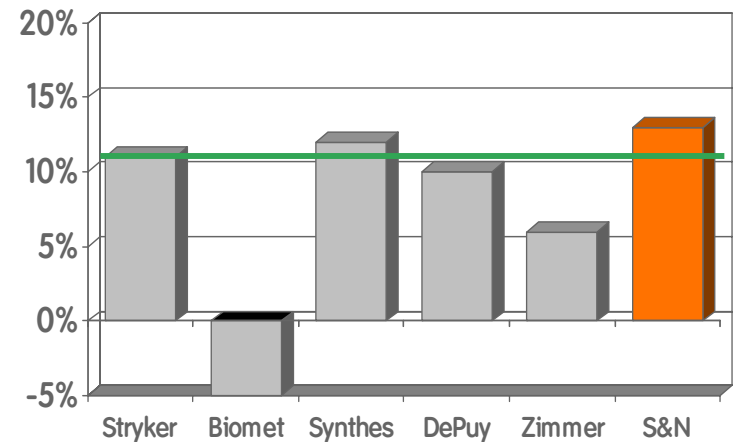
- Strategic rationale
 - Move from #5 to #4 globally
 - Doubles European business
 - Highly complementary products
- Financials
 - Purchase price \$889m
 - 2006 revenue \$300m, 1Q revenue on track
 - Earnings accretive in 2008
 - Expected closing summer 2007
- Integration
 - Integration planning commenced
 - Full time integration leader based in Switzerland
 - Value capture teams chartered
 - Synergy targets confirmed and assigned to workstreams

Trauma & Clinical Therapies – Q1 2007

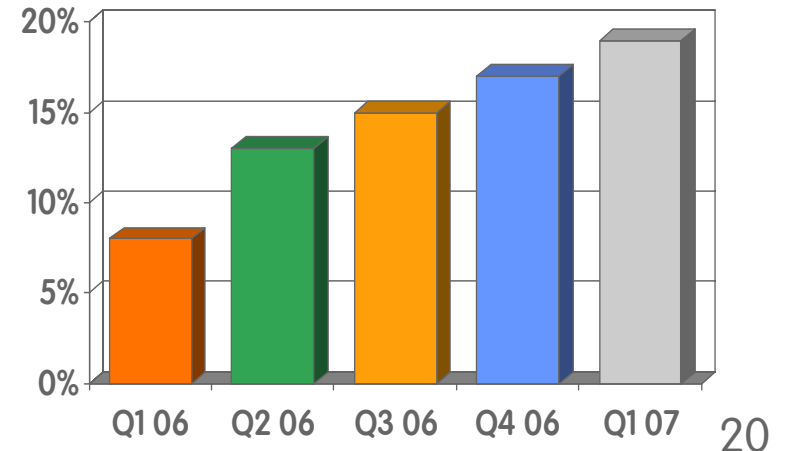
	<i>FY 06</i>	<i>Q1 07</i>
US	13%	18%
Outside US	15%	21%
Global	13%	19%
Fixation	9%	13%
Clinical Therapies	23%	33%

- Sales force effectiveness management driving performance
- New plating & nail products lead to growth
- Improved performance of external fixation
- Clinical Therapies accelerate growth from increased EXOGEN[®] revenues and DUROLANE[®] introduction
- New products as percentage of revenue YTD were 33% for fixation and 61% for Clinical Therapies

Q1 07 revenue growth - fixation



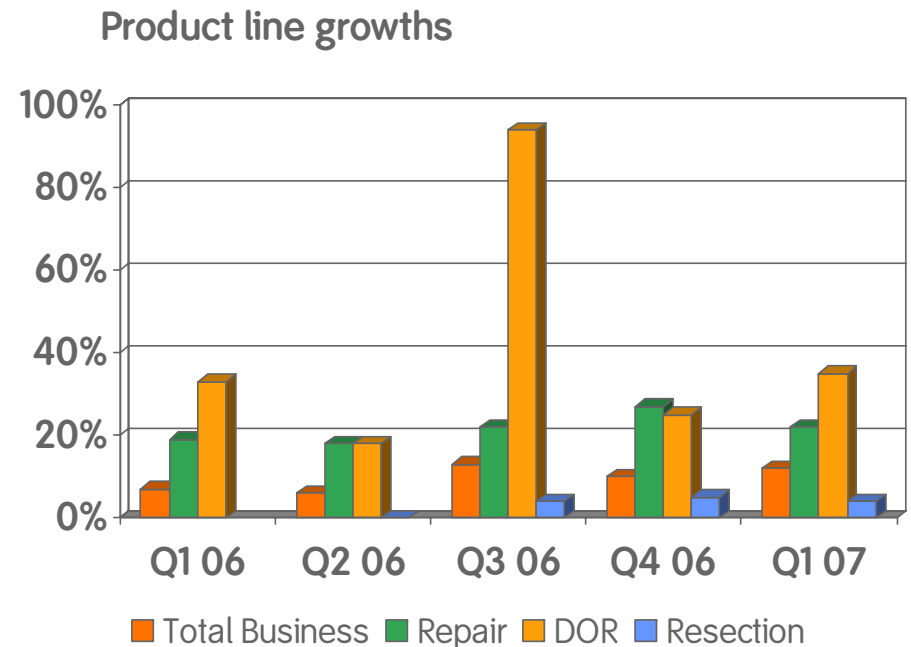
Smith & Nephew revenue growth by quarter



Endoscopy – Q1 2007

	<i>FY 06</i>	<i>Q1 07</i>
US	7%	6%
Outside US	11%	19%
Global	9%	12%
Repair	21%	22%
DOR	38%	35%

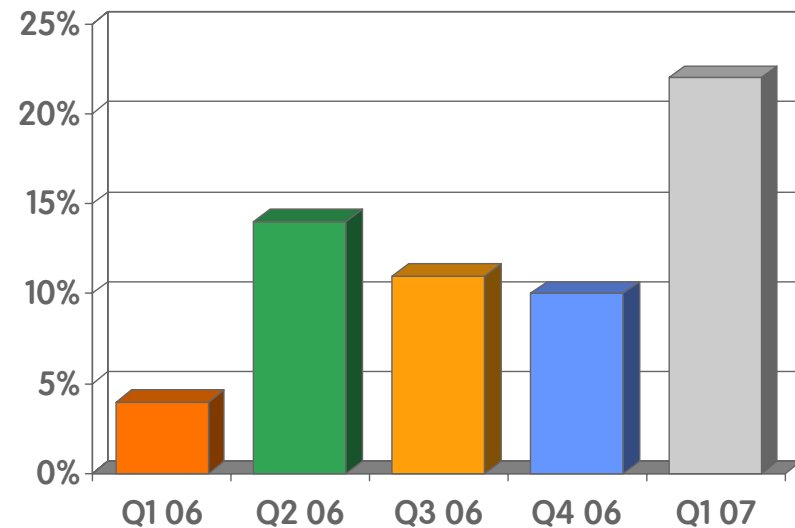
- Return to double-digit growth
- Very strong quarter outside US – improved growth in UK, Japan and Australia
- Consistently strong growth for Repair
 - now equals Resection
- Solid resection growth continues
- Visualisation & DOR delivers a strong quarter
- New products 27% of revenue YTD



Advanced Wound Management strategy

- Rework the portfolio
- Focus on costs
- Focus on the US

US growth rates by quarter
Ex tissue engineering

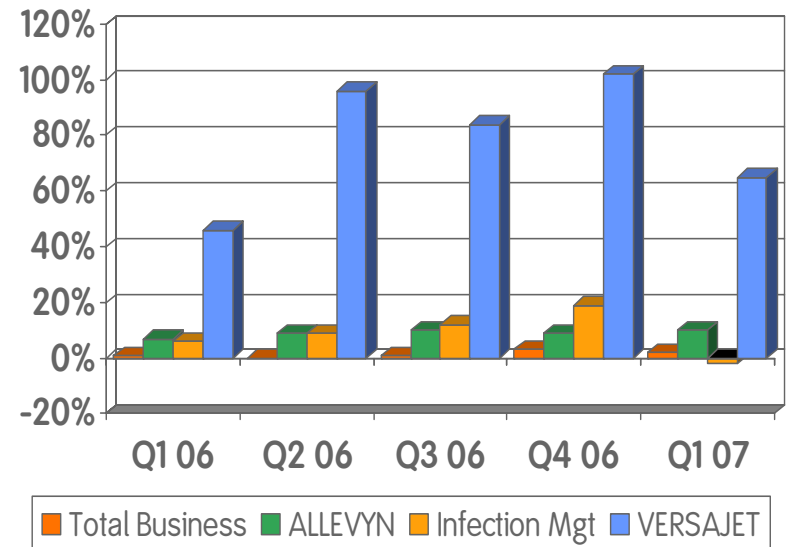


Advanced Wound Management – Q1 2007

	<i>FY 06</i>	<i>Q1 07</i>
US ex tissue engineering	11%	22%
US incl. tissue engineering	(3)%	10%
Outside US	3%	0%
Global	1%	2%
Global ex tissue engineering	7%	4%
ALLEVYN [◇]	9%	10%

- Revenues improve strongly in the US
- VERSAJET[◇] delivers outstanding progress
- ALLEVYN[◇] maintains consistent growth
- Healthcare spending constraints continue to affect growth OUS
- Infection management has a difficult quarter
- New products 12% of revenue YTD

Product line growths



David Illingworth and Adrian Hennah

Earnings Improvement Programme

Objectives and strategy for programme

Objectives

- Identify and assess true peer group gaps
- Enhance overall competitiveness of Smith & Nephew
- Liberate resources for reinvestment in high priority growth areas
- Enhance performance of company over 1 – 4 years
- Establish culture of long term continuous improvement

Approach

- Broad company wide diagnostic
- Select priority opportunities
- Owned and led by the four business divisions

Where we are now

- 19 total workstreams
 - 12 active
 - 7 in advanced planning
- Both operating efficiencies and effectiveness being addressed
- Leveraging overhead and support functions across businesses
 - IT
 - Procurement
 - HR
- Establishing a “profitable growth culture” through change management
- Confident we can deliver an average of at least 1% margin expansion per year for the next 4 years

Wide range of activities



Wide range of activities



Continuous product cost reduction:

- Increased use of Asia partners in Malaysia / China
- Invest in expanded footprint in China
- Leverage PLUS China operation

Wide range of activities



- Centralise IT
- Group wide purchasing initiatives
- Leverage HR
- Others

Wide range of activities

Sales Structure and Deployment:

- Channel growth at a slower pace
- Optimise structure, deployment and efficiency



Earnings Improvement Programme principal financial effects

- Group trading margin increase averaging at least 1% p.a. to end 2010
 - Net of an increase in R&D spend from 4.3% of sales in 2006 to c. 5% of sales in 2009
 - Includes both EIP and other improvements (except Plus)
 - Assumes no change in current pricing environment
 - Starting 2007
- Annual margin benefits exceeding \$100m in 2009 and \$150m in 2010
- Cash restructuring costs of c. \$125m over three years
 - Some incremental capex will also be required, slightly increasing the usual run-rate of around 8% of sales
- Non-cash costs (asset write-offs) will also be incurred
 - C.\$75m
 - Excludes Plus

Earnings Improvement Programme principal financial effects

- Costs expected to be incurred broadly evenly over three years
 - but provisioning will be more uneven
- Not providing a break-down of targets by GBU, but
 - Around half improvement in Ortho
 - Much of the remainder in Wound
 - Modest improvement in Endo

Summary

- Excellent first quarter results
- New products driving sustainable growth
- Ambitious but realistic EIP
- Outlook for year unchanged

Questions?

 We are **smith&nephew**

Appendices

Exchange rates

€ : \$

	<u>Q1/05</u>	<u>12/05</u>	<u>Q1/06</u>	<u>12/06</u>	<u>Q1/07</u>
Period end	1.30	1.18	1.21	1.32	1.33
Average	1.31	1.24	1.20	1.27	1.32

£ : \$

	<u>Q1/05</u>	<u>12/05</u>	<u>Q1/06</u>	<u>12/06</u>	<u>Q1/07</u>
Period end	1.89	1.72	1.73	1.96	1.96
Average	1.90	1.81	1.75	1.86	1.96

Comparison of old and new methods to get to quoted tax rate

	Restated Q1, 2006		Q1, 2007
	Old	New	New
Profit before tax	123	123	131
Add back:			
Fair value of hedge of BSN proceeds	3	3	-
Earnings Improvement Programme - restructuring costs	-	-	17
Amortisation of acquisition intangibles	2	-	-
Profit before tax used as basis of tax rate	<u>128</u>	<u>126</u>	<u>148</u>
Taxation in P&L	(38)	(38)	(40)
Taxation on excluded items	1	1	6
Taxation on profit used as basis of tax charge	<u>(39)</u>	<u>(39)</u>	<u>(46)</u>
Effective Tax rate	30.5%	31.0%	31.0%

Quarterly revenues

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

	2006										2007	
	Q1		Q2		Q3		Q4		FY		Q1	
	Revenue \$m	Growth %	Revenue \$m	Growth %	Revenue \$m	Growth %	Revenue \$m	Growth %	Revenue \$m	Growth %	Revenue \$m	Growth %
Orthopaedic Reconstruction												
Knees	124	9%	130	10%	121	15%	134	12%	508	12%	143	12%
Hips	88	5%	90	2%	91	11%	109	19%	378	10%	112	23%
Orthopaedic Trauma												
Fixation	78	7%	83	9%	84	12%	91	9%	336	9%	90	13%
Clinical therapies	34	11%	44	22%	45	19%	56	33%	178	22%	46	33%
Endoscopy												
Repair	51	19%	52	18%	54	22%	63	27%	220	21%	64	22%
Visualisation & DOR	27	1%	30	3%	33	20%	37	(2)%	127	5%	33	20%
Resection	61	3%	61	0%	57	4%	66	6%	245	3%	66	4%
Advanced Wound Management												
ALLEVYN®	43	7%	50	9%	50	10%	55	9%	198	9%	51	10%
ACTICOAT®	12	20%	14	12%	13	1%	15	5%	54	9%	13	1%
DERMAGRAFT® and related	3	(33)%	1	(85)%	-	96%	0	(100)%	4	(90)%	-	(89)%
Smith & Nephew	643	6.0%	686	6.0%	679	10.0%	771	11.0%	2,779	8.0%	744	12.0%

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

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

	<i>First Quarter</i>	
	<i>2006</i>	<i>2007</i>
	<i>Restated</i>	
	<i>\$m</i>	<i>\$m</i>
Free cash flow	7	60
Add back: capital expenditure	58	38
Net cash inflow from operating activities (IAS 7)	<u>65</u>	<u>98</u>

New products 2007

Q1	Q2	Q3	Q4
TRIGEN [®] META Nail (international release)	Large Cannulated Screws	LEGION [®] CoCr (OUS)	REFLECTION [®] 3 (OUS) Universal shell with interchangeable poly, metal, ceramic liners
Anatomic ACL instrument set for the knee	CAPTION [®] Disposable Platelet Concentrator (Limited Release)	JOURNEY [®] DEUCE [®] Bi-compartmental bi-cruciate retaining knee replacement	JOURNEY [®] CoCr
Expanded CALAXO [®] Osteoconductive screw sizes	Lateral Hip Positioning System	TRIGEN [®] TAN/FAN Instrument Upgrades	JET-X [®] upgrades
ALLEVYN [®] Shaped and sealed – US	ENDOBUTTON [®] Direct for Anatomic ACL fixation	BIORAPTOR 2.3 OC suture anchor for the shoulder	PERI-LOC [®] VLP
IV3000 [®] with strips and labels	BIORAPTOR [®] 2.3 OC suture anchor for the hip	KINSA [®] Suture Anchor for Rotator Cuff repair	ALLEVYN [®] major new variant
	HD Video Platform	KINSA [®] OC Suture anchor for Instability repair in the shoulder	
	ACTICOAT [®] two new variants	ALLEVYN [®] major new variant	