



2009 First Quarter Results



Enabling people to live healthier, more active lives

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.

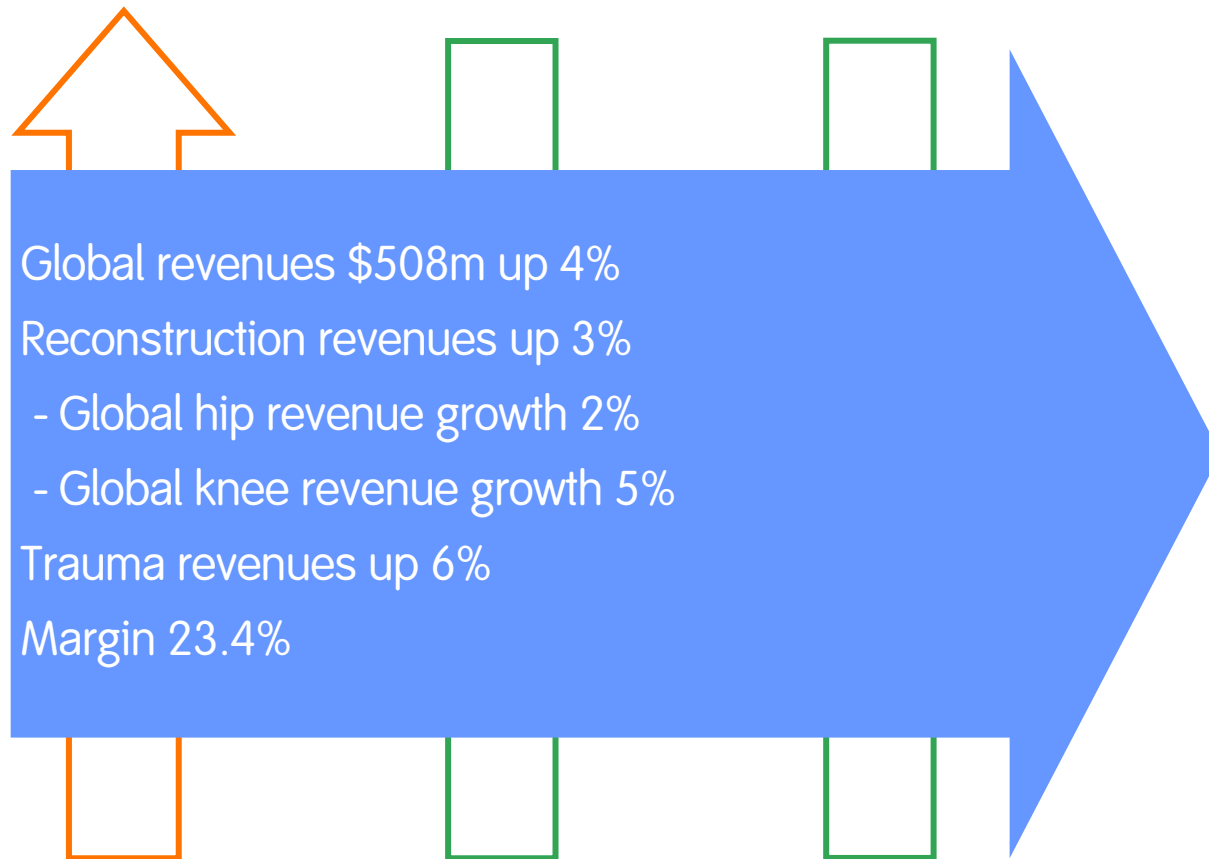
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David Illingworth
Chief Executive

Key business achievements in Q1 – good performance in slower markets

- Revenue \$865m, 4% growth for the quarter
- Trading profit - \$183m up 12%
 - Trading margin 21.2% of revenues up 120 basis points
- EPSA increased to 13.1¢
- Orthopaedics – revenues grew 4% in slower markets
- Endoscopy - arthroscopy up 3%, overall revenues flat, impacted by capital products
- Advanced Wound Management – revenues up 9% across geographies and products
- Margin improvement from cost control and EIP
- Deferred Prosecution Agreement completed

Orthopaedics – Q1 2009



Q1 Achievements

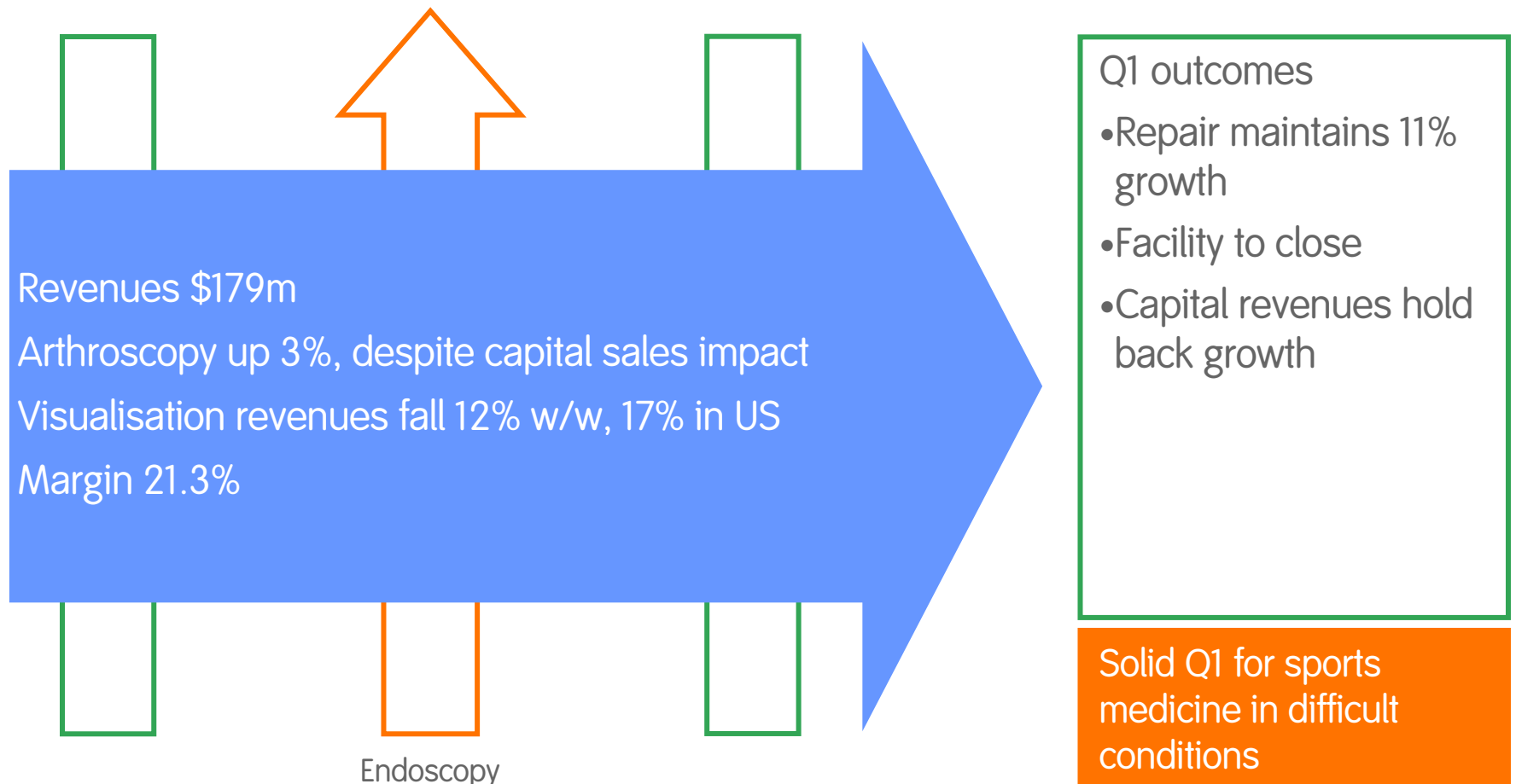
- Plus litigation settled
- Deferred Prosecution Agreement ended
- R3[◇] Acetabular System launch at AAOS
- OXINIUM[◇] Oxidised Zirconium in Japan

Solid performance

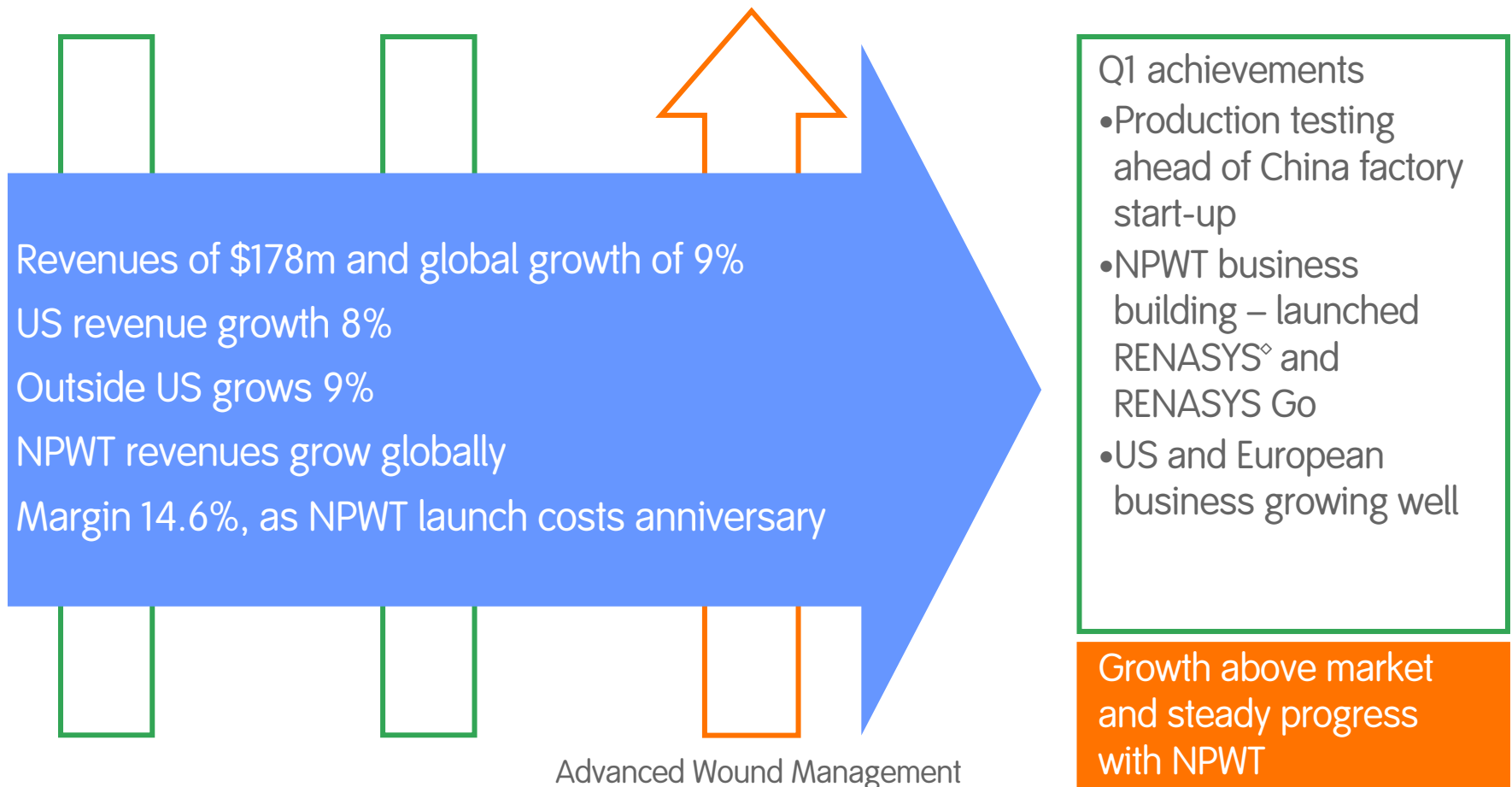
Orthopaedics

sustainable profitable growth

Endoscopy - Q1 2009



Advanced Wound Management – Q1 2009



Adrian Hennah
Chief Financial Officer

Income statement Q1 2009

| | <i>First Quarter</i> | | <i>% Growth</i> | |
|---|----------------------|-------------|-----------------|-------------------|
| | <i>2008</i> | <i>2009</i> | <i>Reported</i> | <i>Underlying</i> |
| | <i>\$m</i> | <i>\$m</i> | | |
| Revenue | 911 | 865 | (5)% | 4% |
| Trading profit | 182 | 183 | 1% | 12% |
| Restructuring and acquisition costs | (15) | (16) | | |
| Inventory revaluation | (15) | - | | |
| Amortisation of acquisition intangibles | (10) | (8) | | |
| Operating profit | 142 | 159 | | |
| Net interest cost | (16) | (10) | | |
| Other finance costs | - | (3) | | |
| Profit before taxation | 126 | 146 | | |
| Trading margin % | 20.0% | 21.2% | | |

Income statement Q1 2009

| | <i>First Quarter</i> | | |
|---|----------------------|-------------|------------------|
| | <i>2008</i> | <i>2009</i> | |
| | <i>\$m</i> | <i>\$m</i> | |
| Profit before taxation | 126 | 146 | |
| Taxation | (43) | (48) | Tax Rate** 31.8% |
| Attributable profit | 83 | 98 | |
| Add back: | | | |
| Amortisation of acquisition intangibles | 10 | 8 | |
| Restructuring & acquisition costs | 15 | 16 | |
| Inventory revaluation | 15 | - | |
| Tax on excluded items | (9) | (6) | |
| Adjusted attributable profit | 114 | 116 | |
| Adjusted earnings per share ("EPSA") | 12.8¢ | 13.1¢ | EPSA Growth 2% |

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

Revenue growth by business segment Q1 2009

| Quarter 1* | Actual % | Currency % | Underlying % |
|---------------------------|-------------|---------------|-----------------|
| Orthopaedics | (4) | 8 | 4 |
| Endoscopy | (8) | 8 | - |
| Advanced Wound Management | (6) | 15 | 9 |
| Group | <u>(5)</u> | <u>9</u> | <u>4</u> |

* Q1 2009 comprises 61 trading days (2008 – 62 trading days)

Underlying revenue growth by geography & business segment Q1 2009

| <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> |
|---------------------------|-------------------|---------------------|-----------------------|---------------------|--------------------|---------------------|----------------------|---------------------|
| Orthopaedics | 273 | 3 | 147 | (2) | 88 | 16 | 508 | 4 |
| Endoscopy | 83 | (4) | 58 | 2 | 38 | 8 | 179 | - |
| Advanced Wound Management | 35 | 8 | 95 | 6 | 48 | 15 | 178 | 9 |
| Group | 391 | 2 | 300 | 1 | 174 | 14 | 865 | 4 |

Profitability by business segment Q1 2009

| 2009 | <i>Revenue \$m</i> | <i>Trading Profit \$m</i> | <i>Margin %</i> |
|---------------------------|------------------------|-------------------------------|---------------------|
| Orthopaedics | 508 | 119 | 23.4 |
| Endoscopy | 179 | 38 | 21.3 |
| Advanced Wound Management | 178 | 26 | 14.6 |
| Total | <u>865</u> | <u>183</u> | <u>21.2</u> |
| | | | |
| 2008 | | | |
| Orthopaedics | 528 | 125 | 23.7 |
| Endoscopy | 194 | 40 | 20.6 |
| Advanced Wound Management | 189 | 17 | 9.0 |
| Total | <u>911</u> | <u>182</u> | <u>20.0</u> |

Free cash flow Q1 2009

| | <i>First Quarter</i> | |
|--|----------------------|-------------|
| | <i>2008</i> | <i>2009</i> |
| | <i>\$m</i> | <i>\$m</i> |
| Trading profit | 182 | 183 |
| Share based payment | 5 | 4 |
| Depreciation and amortisation | 62 | 56 |
| Inventory step-up utilisation | 15 | - |
| Capital expenditure | (61) | (42) |
| Movements in working capital and provisions | (84) | (73) |
| Trading cash flow | <u>119</u> | <u>128</u> |
| Restructuring, rationalisation & acquisition costs | (25) | (11) |
| Macrot textured claim | (3) | (1) |
| Operating cash flow | <u>91</u> | <u>116</u> |
| Net interest paid | (16) | (10) |
| Taxation paid | (33) | (53) |
| Free cash flow | <u>42</u> | <u>53</u> |
| Closing Net Debt | (1,456) | (1,104) |

2009 outlook

- Revenue growth
 - Market growth rates subject to macro-economic uncertainty
 - Relative to market:
 - * Ortho – approaching market growth
 - * Endo - continue to grow slightly below the market
 - * AWM - excluding NPWT, at or slightly above served market
- Focused on end 2010 margin of 24.5%. Risks from macro-economy.
- Tax rate 31.8%, Interest cost 3-4%
- Q2 one fewer day, AWM distributor consolidation effect

David Illingworth
Chief Executive

Summary

- Resilient revenue growth
 - Orthopaedics – solid performance
 - Endoscopy – good performance in tough conditions
 - Advanced Wound Management – good growth in all markets
- Margin improvement continues
- Well positioned for ongoing growth



JOURNEY[°]
Active Knee Solutions



PERI-LOC[°]
Peri-articular Locked Plating System



R3[°]
Acetabular Cup System



RENASYS[°] GO
Negative Pressure Wound Therapy



OSTEORAPTOR[°]
Anchor

Questions?

 We are **smith&nephew**

Appendices

Quarterly revenues

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

| | 2008 | | | | | | 2009 | |
|----------------------------------|--------------|--------------|--------------|--------------|----------------|--------------|----------------|--------------|
| | Q1 | Q2 | Q3 | Q4 | Full Year | | Q1 | |
| | Growth* % | Growth* % | Growth* % | Growth* % | Revenue \$m | Growth* % | Revenue \$m | Growth* % |
| Orthopaedics | | | | | | | | |
| Reconstruction | | | | | | | | |
| Knees | 1% | 9% | 10% | 9% | 759 | 7% | 184 | 5% |
| Hips | 4% | 7% | 3% | 5% | 688 | 5% | 164 | 2% |
| Trauma | 2% | 4% | 5% | 6% | 421 | 4% | 100 | 6% |
| Clinical therapies | (2)% | 6% | 10% | 0% | 245 | 4% | 50 | 2% |
| Endoscopy | | | | | | | | |
| Arthroscopy | 7% | 10% | 8% | 10% | 643 | 9% | 146 | 3% |
| Visualisation | (5)% | 12% | 9% | 7% | 150 | 6% | 27 | (12)% |
| Advanced Wound Management | | | | | | | | |
| Exudate Management | 6% | 15% | 6% | 2% | 254 | 7% | 55 | 9% |
| Infection Management | (1)% | 9% | 13% | 13% | 107 | 9% | 25 | 31% |
| Smith & Nephew | 2% | 8% | 7% | 7% | 3,801 | 6% | 865 | 4% |

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

Exchange rates

| €:\$ | <u>Q1/08</u> | <u>FY/08</u> | <u>Q1/09</u> |
|------------|--------------|--------------|--------------|
| Period end | 1.58 | 1.39 | 1.33 |
| Average | 1.50 | 1.46 | 1.30 |
| £:\$ | | | |
| Period end | 1.99 | 1.44 | 1.43 |
| Average | 1.98 | 1.84 | 1.43 |

| Percentage of Revenue by Geographic Market: | Q1 % |
|---|---------|
| United States | 45 |
| United Kingdom | 7 |
| Other Europe | 28 |
| Other | 20 |

Analysis of restructuring and acquisition costs

| | P&L Charge | | Cash spend | |
|------------------|------------|----------------------|------------|----------------------|
| | Q1 \$m | Total to date \$m | Q1 \$m | Total to date \$m |
| EIP | | | | |
| – cash costs* | 7 | 75 | 4 | 64 |
| – asset w/offers | 4 | 15 | n/a | n/a |
| Plus Integration | | | | |
| – cash costs** | 4 | 88 | 7 | 77 |
| – asset w/offers | - | 13 | n/a | n/a |

* Target \$125m over three years

** Target \$60-80m, plus \$15m costs of investigating and resolving issues with the vendors

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

| | First Quarter | |
|---|---------------|-----------|
| | 2008 | 2009 |
| | \$m | \$m |
| Free cash flow | 42 | 53 |
| Add back: capital expenditure | 61 | 42 |
| Net cash inflow from operating activities (IAS 7) | <u>103</u> | <u>95</u> |

Business days per quarter

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

New products 2009

| Q1 | Q2 | Q3 | Q4 |
|-----------------------------|--|-----------------------------------|------------------------------|
| R3° Metal (US) | LEGION° Primary Porous | PROMOS° Total Shoulder System Cap | |
| PERI-LOC° Screws & Trays | BHR° Mid Head Resection (OUS) | R3° Ceramic (US) | |
| INTERTAN° CHS | TRIGEN° Semi-extended Tibia Nail Insertion Instruments | VLP Foot Locked Plating System | |
| XL Hip Scopes | BICEPTOR° Tenodesis System | Drill Wire System | |
| New DYONICS° Powersource | Small Joint MDU & Blades | Small Cannulated Screws | |
| RENASYS° Go | RENASYS° EZ Negative Pressure Wound Therapy | DYONICS° RF System | R3° Constrained Liners |
| ALLEVYN° GENTLE BORDER Heel | RENASYS° consumables | 500 XL Lightsource | Antimicrobial Film Dressings |
| ACTICOAT° FLEX | Silver versions of ALLEVYN° GENTLE range | Surgical Post-Op Dressings | Chitosan Dressing |