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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the Smith & Nephew second quarter interim results conference call. For your information, this conference is being recorded. Before we begin, we would like to read out the safe harbor statement.

Unidentified Company Speaker

This presentation contains certain forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. In particular, statements regarding planned growth in out business and in our operating margin discussed on our outlook are forward-looking statements, as are discussions of our product line. 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 and regulatory approval 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

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All forward-looking statements in this presentation are based on information available to Smith & Nephew as of the date hereof. All written or oral forward-looking statements attributable to Smith & Nephew or any person acting on behalf of Smith & Nephew are expressly qualified in their entirety by the foregoing. Smith & Nephew does not undertake any obligation to update or revise any forward-looking statement contained herein to reflect any change in Smith & Nephew's expectation with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Operator

I would now like to hand the call over to the live conference, hosted by Mr. David Illingworth, Chief Executive, Smith & Nephew.

David Illingworth - *Smith & Nephew - Chief Executive*

Well, hello. Let me, before we get started, just have you note the page with the forward-looking statements in your documents. We will be talking about some forward-looking things in the presentation today.

Good afternoon to those of you in Europe, and good morning to those of you in the United States. Welcome to my first result meeting as CEO. It's my pleasure to welcome you all. I think we have a good program for you today. I know we have some good results to report. I will cover the business highlights, followed by Adrian, who will talk you through the numbers. Then, we have Joe Woody to talk to you about our Advanced Wound Management business and share with you some of the excitement and enthusiasm we all have about this part of the business.

Joe Woody, President of the Advanced Wound Management business, has been with Smith & Nephew since 2003. Joe built a very strong base for growth as the leader of our Clinical Therapy business where he was President. It had minimal revenues when he started. It had no dedicated sales reps when he started. And when he left and joined the Advanced Wound Management business, it had $125 million in revenue and several hundred dedicated sales reps. He has been in the business and the position that he's in right now for 18 months.

After Joe's presentation, I will come back to share some additional thoughts on the business going forward and also my vision for Smith & Nephew.

We have delivered very good performance this quarter. Revenues are up 12%. In a bit more detail, revenues by business unit are -- the Reconstructive business, driven by BHR, had a great quarter. Hips in the U.S. grew a phenomenal 50% and took 2 points of shares in the U.S. Recon market. 50% in a global hip market growing in single digits, an outstanding performance. Trauma and Clinical Therapies grew by 15%, and this business is now number one globally in the bone stimulation market. Endoscopy was very strong outside the U.S., which is a focus area for us as it underpenetrated relative to the U.S. market. Overall GBU revenues continue to grow in double-digits with 11% growth in the second quarter and Advanced Wound Management had U.S. growth of 11% where we focused a lot of attention and is the clear driver to our overall GBU growth of 6%.

We are very pleased with the measurable progress we're making in our first year of the earnings improvement program. We are actually changing our structure to support this initiative and have made three recent appointments with group-wide responsibility in the areas of operational effectiveness, information services and procurement. Margins were stronger this quarter as predicted. The Reconstructive business improved its margin by 80 basis points, Trauma and Clinical Therapies by 160, Endoscopy by 130 and Wound leading the field by over 300 basis points improvement; on average, 130 basis points higher than the same quarter last year. Our EPSA as a result grew by 19% and our two-year share buyback program, which is making our balance sheet more effective, is on track.

We have had an active quarter with the completion of two acquisitions -- Plus Orthopedics and BlueSky. Plus gives us reconstruction, critical mass in Europe and brings innovative products in the pipeline to our organization. Plus completed in early June. BlueSky is a big deal for us strategically. We have stated that we want all our businesses focused on attractive markets and geographies and negative pressure is clearly one of those opportunities which BlueSky allows us to enter. [Bill] will talk in more detail about this later.

In addition, we launched two significant products this quarter. JOURNEY [Deuce] is but one of the many products meeting the needs of the active informed patient. Our highly innovative and proprietary bi-compartmental knee was launched this quarter and is doing very well. The high-definition camera is leading-edge technology for endoscopy and has had a great reception and is performing very well both in the field and in generating revenues for us. This makes the surgeon's view of the surgical field much like watching high-definition television at home.

We are very pleased to have appointed Joe DeVivo as President for the Reconstructive business. Joe started his career with U.S. Surgical and was most recently Chief Executive of RITA Medical. Now I'm going to hand you over to Adrian who will take you through some of the numbers.

Adrian Hennah - *Smith & Nephew - CFO*

Thank you. Thank you, Dave, and good morning ladies and gentlemen. If you can turn firstly to slide 8 where you can see that revenue in the quarter was $813 million. This represents an underlying growth after adjusting for changes in exchange rates and with the acquisition of Plus and BlueSky of 12% on a comparable period last year. Trading profit in the quarter was $167 million. This represents a growth of 22% after adjusting to constant exchange rates, and again, for the Plus and BlueSky acquisition. The trading margin of 20.5% was 1.3% above the comparable period last year. The increase was 1.8% before the impact of the Plus and BlueSky acquisitions, which are both as we previously signaled margin dilutive in the early phases.

Included in the appendix to your pack an analysis for the Plus and BlueSky sales and trading profit included in these results in order that you can see clearly the underlying Smith & Nephew performance.

[And we note] from the numbers in the announcement that cost of goods sold increased by 0.8 percentage points as a percentage of sales compared to quarter 2 last year with a 1.6 percentage point fall in SG&A. The split between these numbers has, however, been impacted by the minor restatements we did last year. The half-year numbers give a clearer guidance of movement with a 0.3% improvement in cost of goods and a 0.4% improvement in SG&A.

R&D spend across businesses feel slightly as a percent of sales from 4.4% to 3.9% in quarter 2. As noted last quarter, we do not see this as a trend. Indeed, we expect an increase over coming years of around 5% of sales. It provided a cost of $9 million in the quarter in respect of our earnings improvement program and we spent $13 million in cash.

Net interest expense in the quarter was $3 million. This item was clearly impacted by the timing of the acquisition of the completion of the Plus acquisition and the share buyback program.

Moving into slide 9 and moving further down to the income statement, we now expect a tax charge before exceptionals amortization for the full year of about 30%, a reduction from the 31% we signaled at quarter 1. In applying this rate for the first half, we have therefore a rate of 29% in the quarter. In quarter 2 last year, the Company also had a tax rate of 29%. Adjusted earnings or adjusted attributable profit for quarter 2 was $116 million, 18% growth on quarter 2 last year. Adjusted earnings per share grew slightly faster at 19%, affecting the impact of our share buyback program.

We've put the usual analysis of free cash flow [in] an appendix to your pack. On this, you will note that trading cash in the quarter at 81% of trading profit was a significant improvement on last year and sustains (inaudible) in quarter 1.

Turning to the next slide, slide 10, this shows the usual analysis of revenue and trading profit by business segment, except that, as I've shown separately, the impact of the Plus and BlueSky acquisitions on the quarter's numbers. [There's other (inaudible) comments] on this slide specifically as the subsequent slide but more deeply at each segment. We have also put the usual analyses of underlying revenue growth by business segment and both geographic segments in the appendix to your pack.

Turning then to slide 11 and the first of the segmental slides, Reconstruction. We estimate that the total reconstruction market [grew] up about 9% in the quarter. Constant exchange rate growth in our Reconstruction business, excluding Plus, was 15% on a comparable period last year, the same rate as in quarter 1. Smith & Nephew growth in the USA reached 20%, driven by volume and mix gains. Pricing in our Reconstruction business in the USA was essentially flat. Growth in hips in the USA reached 50%, driven by BHR sales. Sales of knees in the USA grew by 3%. It was somewhat lower than expected, especially given the quality of our (technical difficulty) products. The slower than expected growth in knees in the USA is principally due to the increased sales force focus on BHR sales. We will be increasing our focus on knees, but expect that knees sales growth will be somewhat lower than potential until we get into 2008.

(inaudible) growth outside the USA, excluding Plus, was 10%, with hips at 7% and knees at 13%. Pricing overall outside the U.S. was slightly negative. And the Reconstruction business margin, excluding the impact of the Plus acquisition, were up by [9.8]%. This is a clear improvement on the broadly flat (inaudible) in quarter 1. The EIP program is progressing (inaudible). The integration of the Plus activities is on track. The integration of the field forces as well advanced and solid progress is being made in the development and manufacturing areas.

We do as signaled expect a nearer-term sales (inaudible) synergies as a few overlapping customer and distributor relationships are resolved. We're on track for the expected cost and sales synergies overall. New products, which we define as those launched in the market 36 months, now account for 20% of sales, affecting the contribution of our recent launches.

Turning to the next slide, slide 12, and the Trauma and Clinical Therapies segment, we estimate that the fixation market grew at about 11% in quarter 2. Smith & Nephew sales in fixation grew at 10%. This is lower than the 13% in quarter 1. We signaled then that the rapid return to the market growth rate from a lower level in 2006 was probably too rapid to be [wholly for sale]. We continue, however, to expect to achieve a growth rate close to the market for the full year. Our Clinical Therapies sales grew at 25%. This was again a signal that lower (technical difficulty) 33% in quarter 1. The 25% (inaudible) still includes 10 percentage points from the inclusion of sales arising from in-license of DUROLANE. This year-on-year effect will fall out during quarter three. We continue to be very pleased with the progress of DUROLANE.

In the USA, Smith & Nephew Fixation sales grew by 11% in Q2, down from 15% in quarter 1. Sales of Clinical Therapies grew at 15% in the USA, down from 23% in quarter 1 due do a tougher comparison and from pricing headwinds at (inaudible). Smith & Nephew's Fixation sales outside the USA grew at 8%. Smith & Nephew Clinical Therapies sales outside the USA [more than] doubled, but from a relatively small base. [Core] margins were up to 20.5% excluding the impact of Plus from 18.9% last year. The IP is on track in this business (inaudible).

Turning to slide 13 and the Endoscopy segment, we have reviewed our methodology for estimating market growth rate in this area. We distinguish the arthroscopy and the DOR/Visualization segment for this purpose. We now believe that the arthroscopy market grew at about 14% in quarter 1, an upward revision of about (technical difficulty) percent compared with our former methodology. (technical difficulty) net (inaudible) arthroscopy sales grew by 12% in this quarter, quarter 2. Our repair sales growth was 19% and resection sales growth was in mid single digits. DOR and Visualization sales grew at 9% in quarter 2, again a signal this is down from the 20% growth rate in quarter 1 which benefited from some large individual contracts. In the United States, total sales grew at 7%; outside the USA, sales grew at 16%, strong performances from a wide range of countries.

Endoscopy margins at 18% were up almost 16.7% in quarter 2 last year. This reflects in particular the execution of the manufacturing rationalization in the USA which was started last year.

Turning to the last segment, the Wound segment, we estimate that the growth in the wound market, including the topical negative pressure segment, is about 10% and growth in the market excluding [TMP] is about 6%. S&N Wound sales grew at 6% in quarter 2, an increase on the reported growth rate in the last few quarters, but broadly equal to the recent growth rate adjusting for the effect in the exit and tissue engineering (technical difficulty) fluctuation in (inaudible) inventory levels. We estimate that the market in the USA, excluding negative pressure, is growing at high-single digits. S&N sales growth in the U.S. was 11% in quarter 2 before the inclusion of BlueSky, 15% including BlueSky sales.

Our Wound business now has larger sales in the USA than in any other single country, though this still accounts for less than one-quarter of total wound sales. We estimate that the market outside the USA, again excluding [TNP], is growing in mid-single digits. S&N's sales grew at 5%. The EIP is progressing well in Wound too. Wound was the first (technical difficulty) to begin to implement the EIP projects and the positive impact on margins is again clear. Wound margins, excluding the impact of the BlueSky acquisition, improved by 3.4%, as [well] as a 3.3% improvement in quarter 1 and a 2.4% improvement in quarter 4 last year. The signal that the 3.3% increase in quarter 1 did increase from one-off benefits and there is also some small one-off benefit to margin in Wound in quarter 2.

Our plans in the negative pressure market are progressing well. We completed the acquisition on the 11th of May and we have sales of $1 million and an operating loss of $[1] million, including these Q2 numbers.

Turning to the next slide, slide 15, and we've got here an analysis of the Plus revenue over the last year. These are not numbers consolidated in our numbers, they're for your information, Plus in the past. We've included this data so you can more evenly build your own forward-looking models. From this analysis, you can see that Plus revenue grew by an underlying 16% in 2006, well above the growth in the European recon marketplace which accounted for close to 90% of Plus sales. You'll also see that Plus sales grew by 19% in quarter 1 (technical difficulty) and by 9% in quarter 2. You can also see from this data that Plus had materially lower sales in quarter 3 last year than in the rest of the year, and we can see this pattern in data from earlier years too.

This seasonality reflects the European orientation of the Plus sales and the concentrated summer vacation period in Europe. We'd expect (technical difficulty) vacations too to be repeated this year. We've included in the appendices an analysis of Plus sales and profit by segment, again, in order that you can prepare your models on the Company. We do not plan to include this level of detail going forward.

As indicated at the time of the acquisition, and indeed as you can see from the data in the appendices, the Plus margins are much than the S&N Orthopedic margins, and the acquisition is therefore margin-dilutive in its initial phases. The seasonally lower Q3 sales also have, as you would expect, a strong impact on quarterly margins. The integration of Plus is on track. We continue to expect revenue synergies of about $45 million per annum in the third full year and cost synergies of at least $40 million per annum in the same time frame. We continue to expect cash costs if about 1.25 to 2 times the cost synergies and we do not yet (inaudible) finalize the estimate of non-cash costs.

Turning to slide 16 and a quick update on our share buyback program, we said in February that based on our assumption that we'll use about $2 billion on our acquisitions over two years, the plan to buy back up to 1.5 billion worth of our shares over the same period. This remains our plan and we will of course continue to keep the level of the buyback program under review as our acquisitions program proceeds. As of the 31st of July, we had bought back a total of 31 million shares for an outlay of about $384 million. This means that with almost exactly one quarter of the two years of the program elapsed, we've bought back almost exactly one quarter of the 1.5 [billion] total.

Turning finally in this financial section to slide 17 and the outlook for the rest of the year, our view of the Company's overall outlook has not changed from the position we set out in February, with the exception of a small improvement in the expected tax rate and the completion of the Plus and BlueSky acquisitions. To recap on that guidance, in the Recon area, we see current global market growth of about 9% per annum. We expect to sustain the sales growth benefit from our strong recent product launch program. Based on these launches, we continue to expect our revenue growth, including Plus, to exceed market growth in 2007. With regard to Plus, we expect to see the impacts of the anticipated sales [dis-synergies] quite clearly in the integration. We expect the growth rate of Plus sales in the second half to be lower than in the first half and quite possibly lower than market growth.

Within Clinical Therapies, which accounts for about one-third of sales within the Trauma and Clinical Therapies business, we see further good growth, though at a significantly lower rate than achieved in the first half as a 10 percentage point benefit (inaudible) within DUROLANE falls out in Q3.

In Fixation, we see current global market growth of about 11%. We continue to expect to remain close to market growth for 2007 as a whole. In the Endo area, arthroscopy revenue grew at 11% in half 1. We believe that this is slightly below market growth. We expect to continue slightly below the market through 2007. The Visualization and DOR within endoscopy is much more lumpy. As already mentioned, we saw strong growth in quarter 1 and a more modest level in quarter 2. We expect growth rate to continue to be volatile quarter by quarter.

In the Wound area, excluding negative pressure, you can see a current rate for our served market of about 6%. We continue to expect to go broadly in line with this market for the full year. We expect good growth in the negative pressure market, but this is of course from a low base and will have limited impact on total Wound sales this year. We expect a full launch of the BlueSky product range in early 2008.

We're on track for our earnings improvement target of an increase in trading margins of an average of at least 1% per annum to the end of 2010 before the impact of acquisitions. We expect the Plus and BlueSky acquisitions to dilute group margins by about 1% in the full-year. We see slightly higher dilution in quarter 3. As already noted, Plus has typically had a seasonally week quarter 3. And we also expect material investments in our negative pressure wound offering before the sales begin to grow materially.

In regard to the interest charge, we are following a number of currencies in order to match our underlying cash generation on assets. For modeling purposes, in order to estimate our future net interest expense, we suggest that you apply a rate slightly above the LIBOR rate -- excuse me, the dollar LIBOR rate -- for an estimate of our net -- your estimate of our net debt.

We expect [that of course as the] EPSA growth in (technical difficulty) '[07] for the full year will be reduced by the increase in the tax charge from its low level in 2006. With the expected full-year tax charge at 30%, the 200 basis points increase from a 28% tax rate last year would reduce full-year EPSA growth by about 3%. EPSA growth in quarter 4 will be particularly impacted as the tax rate in quarter 4 '06 was 24%.

We continue to expect the impact of the Plus acquisition to be broadly neutral on EPSA in 2007, and on the BlueSky acquisition to be about 1% dilutive.

And with that rather technical update on the outlook, I'll hand over to Joe to talk more about the significant changes taking place in our Wound business.

Joe Woody - *Smith & Nephew - President, Advanced Wound Management*

Thanks, Adrian. Again, my name is Joe Woody, and I'm the President of the Advanced Wound Care business. It's a real pleasure for me to be with you to share a few things at my team has been working on. Today, I want to convey to you that the Advanced Wound Management business is turning the corner and aiming to take market leadership and improved profitability.

My presentation covers our view of the market and our strategic thrusts, how we are reshipping our portfolio of products and continuing to focus on the U.S. market. I also want to demonstrate our contribution that we're making for the group's earning improvement program.

Most of you are aware of our market position, however I want to show you two slides summarizing our view of the market. Our Advanced Wound Management business is already the global leader in treating serious wounds. We treat more wounds with our technology than any other company in the world and our mission is to make it even better, grow it faster and make it even more profitable. Our primary markets are in the United States and Europe. Japan and Australia are also additionally large markets for us in the rest of the world. This allows for innovative products to reach all of our customers. It's Smith & Nephew expertise and understanding of science behind wound healing that gives as a unique competitive advantage in terms of transitioning that knowledge to our customers.

The market itself is attractive at $4 billion and is driven by the rising chronic wounds and the need for better clinical and economic solutions. As the chart above shows, the pan-epidemic rise in diabetes and obesity coupled with the world (technical difficulty) and aging population reached an increasing number of difficult to treat and complex wounds. We estimate over 50 million people suffer from chronic and acute wounds. These are serious wounds impacting the patients who suffer, the families, the caregivers and the health care networks that support these patients. There is also a proliferation of bacteria-resistant organisms, such as MRSA, or MRSA, which is giving rise to demand for improvement (inaudible) management techniques. Because of this, health care providers require better clinical outcomes.

Smith & Nephew is addressing this large market opportunity by focusing on what we see as attractive segments, and there are four. [Infection] management requires an optimum environment for wounds to heal. In this segment, we offer ALLEVYN, a global leading foam. We offer customers efficacious infection management dressings with our advanced ACTICOAT and IODOSORB ranges.

In surgical debridement, our leading product is Versa Jet, the hydrosurgical tool that is replacing the scalpel in debriding wounds in a number of leading institutions across the world. And now, we've entered the negative pressure wound therapy market as a result of our acquisition of BlueSky. Smith & Nephew is now the only advanced (technical difficulty) management company providing the entire spectrum of solutions that help improve the lives of patients suffering from serious wounds.

So we compete in this market around three strategic thrusts. First, we continue to reshape our product and technology portfolio to focus on the highly attractive growth segment. We are strategically positioning for growth where future compound annual growth and profitable segments are 15% or greater. Second, we will build on the demonstrated momentum in the U.S. market by introducing new products and investing in our field sales organization, and of course launching negative pressure wound therapy.

Third, we have and will continue to structure or business to deliver top-line revenue growth and cost improvements.

I now want to highlight in more detail each strategic thrust. Focusing on the fastest-growing segments. To focus on the fastest-growing segments, we restructured our business into strategic business units -- one for advanced wound care and one for negative pressure wound therapy. We revitalized our product development pipeline and have reduced the time period from product inception to global launch, resulting in the launch of 18 new products and line extensions in the first half. Additional launches are planned for the second half.

Our team is also filling a number of gaps in our portfolio. One example is our recent agreement with [Covalon] Technologies which has given us access to the collagen denatured dressings market. Another example is the biosynthetic dressing [Biograin], which is proving a success in the burn sector. The acquisition of BlueSky medical negative pressure wound therapy business in May is important because it enables us to enter the single largest and fastest-growing segment of the advanced wound management market. This acquisition will uniquely position [us] to provide a full spectrum of products that are clinically effective and cost-efficient for our customers, giving us the ability to further advance not only the negative pressure wound therapy market, but also build significant synergies with our wound therapies and debridement franchises.

In terms of the BlueSky acquisition, I can tell you that the integration is on schedule. We're moving the BlueSky medical call staff facility to the U.S. headquarters in Largo, Florida.

It's worthwhile, though, to spend a bit more time on the H1 launches. This slide shows in more detail some of the 18 launches in H1 targeted at attractive segments. In Exudate management, we have inputs from two important launches in our ALLEVYN range -- the shaped and sealed version of the standard range and the reduced maceration version of the adhesive ALLEVYN variant, both of which significantly improve the management of exudate and wounds. In infection management, we introduced a dressing combining the best of our pad, film and endocrystalline silver technology, the ACTICOAT Antimicrobial Post Operative Dressing. We also launched our first low-cost silver product, ALGISITE AG, a conformable (technical difficulty) within an antimicrobial effect.

VERSAJET Exact is a new hydrosurgical debridement tool that provides plastic, burn and trauma surgeons with a more precise cutting edge. And of course, our first product sales in negative pressure wound therapy were realized from VISTA, a pump, canister and disposable system that is portable for patients and effective for clinicians.

Another strategic thrust is the U.S. focus. Our business is building tremendous momentum in the U.S., improving the double-digit underlying growth in the last few quarters. The sales and marketing (technical difficulty) and strong positive reaction to new and improved ALLEVYN has resulted in ALLEVYN growth of 22% in Q2. ACTICOAT as well grew in that market at 22%, while VERSAJET and IODOSORB improved in market position. This recent performance, coupled with the acquisition of BlueSky Medical, establishes us as the number-two player in the U.S.

These gains were driven as well by increases in sales productivity. The U.S. has a targeted accounts program that in some cases is reaching growth at account level of 46%. We're confident in the underlying fundamentals driving our U.S. business and (technical difficulty) negative pressure wound therapy, we're the only advanced wound care management company that can provide the full spectrum of products and solutions for treating wounds to help health care providers reduce their overall cost in treating wounds.

Now I want to talk to you about a key component of the third strategic thrust, which is to restructure for top-line growth and cost reductions the earnings improvement programs.

Within Advanced Wound Management, the business achieved significant gains in addressing costs. To date, we have achieved a 3% margin improvement and we anticipate additional improvement too. Manufacturing cost reductions will be achieve through streamlined automation and outsourcing, manufacturing to vendors with lower cost basis. For instance, we outsourced Exu-Dry, our low adherent dressing for badly burned patients from U.S. to China and secured annualized cost savings of $1.5 billion. We also reorganized many parts of our business throughout the first half of the year with around 100 positions eliminated. In Europe, we have restructured a number of our sales organizations. One example is Germany where we increased our productivity by reaching our sales effort from hospitals to the community sector. We remain focused on reducing operating expenses where possible and improving margins through the earnings improvement process.

In closing, our market shows tremendous promise. We are uniquely positioned by our offering. The U.S. business is anticipated to lead the way growth, growing above the market rate and we will continue to build on our internal product development pipeline while opportunistically acquiring and licensing leading technology to assure we're in the attractive segment that leads the market. Our outlook is supported by a number of new products that we plan to introduce in [H2], including BIOSTEP and two new variants of ALLEVYN. This is fortified by our entry into the negative pressure wound therapy market as we prepare for a major launch in both the U.S. and Europe in Q1 of 2008. We will continue to add sustainable value to Smith & Nephew for the foreseeable future.

I thank you and I will now hand you back to David Illingworth.

David Illingworth - *Smith & Nephew - Chief Executive*

Thank you, Joe. I hope Joe's presentation has given you a little clearer view of not only the excellent prospects, but why we're excited about this business. We're lucky to have Joe leading this business, quite frankly. I have known him for awhile. He is a man that knows the importance of making commitments, and more importantly, he is a man that understands the need for meeting the commitments that he makes. So, we have a lot of opportunity and a lot of potential to realize there. So, keep it going.

I have said for some time now that the Advanced Wound Management business has real upside potential, and I would now like to comment on a few of the other businesses since Joe has given you an update on the wound care business, and then give you my vision for Smith & Nephew.

Based on the results reported this quarter, we believe that the reconstructive market -- I will start with reconstruction -- continues to show sequential improvement coming off a relatively slow 2006. We clearly know that the demand for joint replacement is strong and is augmented by market expansion as technology advances open the market to the younger, more active patients. We have estimated the market growth in single digits and believe that this pace will continue. In Smith & Nephew's reconstructive division, we have a particular focus on this younger, active patient where we have a track record of success. The products and technologies like OXINIUM, the uni-compartmental knees, and more recently, the BIRMINGHAM HIP. In fact, when it comes to the broader continuum of active patients, we think we own this space.

BHR still is a significant opportunity for us. Keep in mind that we are still rolling the product out in the U.S. and we're still developing the market. This sector is clearly expanding the market and has room to continue to do so. We have the hip resurfacing gold standard in the BIRMINGHAM HIP. This is not a new product. It's new to the U.S., but it's not new globally. Globally, we have an excess of 65% market share of the hip resurfacing market. We also have 10 years of clinical history. We also have over 50,000 hips implanted to back it up. So when I'm asked about the question and about the impact of competition in the U.S. for this market, my answer has always been pretty much the same. We've been leading this market for 10 years and we don't expect that leadership position to change.

We are going to continue to fuel our growth in this segment, in the reconstructive segment, by focusing on this active space, with the launch of proprietary -- the new proprietary JOURNEY DEUCE bi-compartment knee system. It's a truly revolutionary knee that is bone-sparing. It's also significantly less invasive and it's unlike anything on the market today. We're also very pleased with the performance of and the opportunities available to us via the Plus position.

The plus acquisition makes Smith & Nephew the number four reconstructive player globally and doubles our footprint in Europe. In fact, our market share position in Europe is now number three. The Plus integration is underway and we have recently announced the operating structure of our organization, which will surely account for customer needs, while at the same time eliminating obvious overlaps. We're going to be merging the product portfolios over time but clearly have cross-selling opportunities to take advantage of, including the complementary product line brought to us by Plus, such as the (technical difficulty), the Zweymuller hip system, etc.

Plus also accelerates our manufacturing capabilities in China. We already have expertise in Asia, but this takes our knowledge maybe 18 months ahead of where we were and provides a good springboard to take advantage of our operational vision there.

Turning to Trauma and Clinical Therapies, Trauma has an innovative product range to build on going forward. The PERI-LOC system is gaining real respect in the marketplace and is performing well and to our expectations. TRIGEN and INTERTAN nails have benefited from additional geographic markets as we (technical difficulty) more territories, and the Clinical Therapies business continues to see excellent growth via the EXOGEN 4000 and the new DUROLANE product.

The trauma and clinical market in general continue to remain robust with growth in the low teens we see this trend continuing over the next few quarters at least. Our sales force in trauma has had an in-depth review as we reported earlier in the year. We're confident we now have it right and the performance bears this out.

I would like to point out for a second here that Smith & Nephew is the number one market share player in bone stimulation. Now four or five years ago, I am not sure anyone in this room would have thought that possible, especially not without a major acquisition. Well, our team, led by Mark Augusti, of course Joe takes some credit for this as well, but our team currently led by Mark Augusti, led by Mark Augusti, the president of the division, has created a unique and very focused selling channel and he has married that to a world-class product backed by science and economic studies and we have taken EXOGEN to the market leading position in a very short period of time. We should also point out that Mark's team is also at (technical difficulty) tied for the number two market share position in joint fluid therapy, which again, is a testament to great products and a great space with a great strategy and exceptional execution.

In terms of earnings improvement, our EIP work in Trauma and Clinical Therapies is ongoing and it's on track.

Turning now to Endoscopy, we are the number one global player in the arthroscopy and sports medicine market, and we believe that we're gaining share. As a reminder, our repair business grew 19% in this quarter. We brought in Mike Frazzette as President roughly a year [ago to] run this division, and I would like to congratulate Mike and his team as they have really put the momentum back into this truly active segment where we have seen a return to growth in double digits. One of the things that Mike has done is recognize that outside the United States is an underpenetrated space relative to the United States, and as such, is a great opportunity given our global business footprint. As Adrian pointed out earlier, we are seeing greater than 15% growth outside of the United States, and I'm very pleased with this performance.

We are going to continue to innovate in this space as we focus on the active patient and our high-definition camera launch is a recent example. It helps surgeons become much more accurate and effective and effective as the clarity of the picture is vastly improved.

Now [onto] the active patient. We talk, I talk a lot about active patients in our orthopedic businesses, and this being a key -- we believe a key to our success. I would like to share with you what I think this means to me and what I think it means to us at Smith & Nephew. Recent history for patients in this space is to start patients on simple pain management regimes, such as (technical difficulty) or insets until such time as a patient was old enough for total joint replacement. Today, we have an emerging segment of the population who will not wait. More importantly, they're researching their options and assisting on advances in the technology and procedures to rapidly return them to their chosen lifestyle. In other words, active is not a young or an old phenomenon, but rather a lifestyle choice, and this is clearly expanding the market. Active patients are often the types of people who have private or supplemental insurance, but equally so, are willing to pay out-of-pocket as we have learned from recent news in areas like medical (technical difficulty). These potential patients and their payers demand economic return on these procedures as it represents a different type of spending from the past where the money went to pain management, disability and the like, to now where the money goes to an advanced procedure that helps them return to an active lifestyle. The economics would not work without innovation. It would not work without longer lasting materials. It would not work without accelerated healing. It would not work without a greater range of motion. It would not work without bone-sparing procedures. These are all necessary requirements to truly address this market opportunity, and this is the area that we're focused on.

Smith & Nephew has a history of innovation which positions us well in this unique space. This includes BHR, it includes OXINIUM, it includes EXOGEN, PERI-LOC, FASTFIX -- all part of our drive to continue to own this market as we do today, and we're augmenting it with additions like JOURNEY DEUCE and DUROLANE and the list goes on. You will hear me talk more about this in the future as I'm excited about the potential of this expanding segment and Smith & Nephew's position in it.

So the next steps. A lot of people have asked me about my strategy, my personal strategy for the business now that I'm the chief executive. Well, let me tell you, the strategy that we've been executing on for the past several years is working, and I think it's a good one. The elements that I'm going to particularly focus on personally are first to use our industry-leading product development cycle to create innovative products. These are the things that are going to continue to drive our growth. Secondly, to make sure we operate and all our businesses operate in fast-growing segments. We identify them, and then we put a plan to really win in them, and that will continue the momentum that we've currently established. Third, we're going to continue to make acquisitions that fit our strategy and bring value to the group. And last, but certainly not least, we're going to use our earnings improvement work to enhance margins and drive profitable growth.

I was lucky enough to be at a function for Sir Christopher O'Donnell the other night. It was a retirement function for Chris, and I was asked by an analyst -- actually, I was asked by an analyst in this room -- what excited me about Smith & Nephew's prospects going forward, started talking about it. We are really fortunate to be in a very, very good business. We operate in markets with a very strong demographic tailwind. We have the most innovative products in this industry. We have demonstrated our ability to consistently bring new and exciting technology to the marketplace. We outpace most of the markets we participate in, and Plus greatly strengthens our reconstructive position.

There's clear upside from our earnings improvement program that we're going after and we're committed to get, and the acquisitions and the share buyback are adding real value. As you have heard today, we have an excellent, highly motivated management team.

I would like to thank you all for being here and I will now open it up to Q&A. I would like to remind you of our usual guidelines around this process. First, each person should have the discipline to limit themselves to just two questions in order to give as many as people as possible the opportunity to ask questions. I'm going to take two questioners from the floor and then two questioners on the conference call. Can I have questions from the floor, please?

QUESTIONS AND ANSWERS

Yi-Dan Wang - *Deutsche Bank - Analyst*

Two questions. The first one is -- can you comment on how you expect the momentum of BHR to change with Corin and Stryker entering the U.S. market? And I suppose give us an indication of how or what percentage of the customers that you have using BHR now are Stryker surgeons? And the second question is with regard to your U.S. Trauma business. That business has -- you've invested a lot of money (technical difficulty) sales force support for that this business, but the performance of that business doesn't seem to be as significant as one of your competitors who has also made a similar amount of investment. If you could comment on that, what Smith & Nephew could do better.

David Illingworth - *Smith & Nephew - Chief Executive*

You already broke the rules. That was three. Let me take to the BHR momentum first, and then I will comment on -- the first one was actually a multiple-part question. I don't really know what [percentage] of our customers are Stryker customers, if that's what you're referring to, and I most certainly wouldn't communicate it if I did, because I would not want them to know how many customers we penetrated of theirs. But I think, look, the BHR momentum, I think the BHR success speaks for itself. Everybody was predicting a fairly slow uptake in the U.S. because of some of the long historical legacy issues with some of the very early first-generation products. We have gone about this in a very responsible fashion. We have behaved ourselves, we have controlled our activities so that we train our physicians in the way that was going to give us the best results, and it has exceeded our expectations. I would hope that the continue momentum continues, Yi-Dan.

Now, as far as having other people in the marketplace, we're far from getting the penetration in hip resurfacing in the U.S. that we're seeing in the other developed markets outside the U.S. where this product has been used for a decade with great results. So I think that, if anything, having a responsible player like a Stryker distribute a Corin product in the U.S. will only help to help to expand it somewhat. Clearly, there's going to be -- long-term, there's going to be more than one competitor in this marketplace. And so I think it will continue to expand and I think there is a lot of room for us to continue to grow in this area.

We are thrilled. Let me just take this opportunity to make another comment on behalf of the Company and the team. We're just thrilled with the success so far, and being able to pick up a couple of market share points in what you would describe as a very sticky market, and probably not -- companies would not be able to do that. But we did it, and we would like to continue it.

As far as Trauma, I think what you're referring to is one of our competitors' results in the United States. We're still trying to digest that a little bit. They're doing a good job, they've rolled out some new products and they're a worthy competitor. We are happy with the Trauma growth that we have. We think we're outpacing the market in general on a global scale, and that's typically how we measure ourselves. But it will certainly been a watch out for us, because I think our competition is doing a fine job.

Yes, Peter, right up here.

Peter Cartwright - *Evolution Securities - Analyst*

Peter Cartwright, Evolution Securities. Others focus on the younger and the active patients, and when I look at Plus, I can see the critical mass arguments and the position in Europe, but the products to me do seem a bit more oriented to the older patient, the hinged knees and [gliding]. So is that going to drag you down once you get the one-off benefits or --?

David Illingworth - *Smith & Nephew - Chief Executive*

Well, I certainly hope not, Peter. Look, we are not solely focusing on the active patient segment. We're focusing on the entire continuum of care in orthopedics. The interesting thing about Smith & Nephew that we don't talk a lot about in my opinion, that if you look at the continuum of care from the very early interventions, joint fluid therapy, we are there. You move onto the sports medicine segments, the arthroscopy segments, we're there. We're not only there with a product, we're there as the market leader. We're now the market leader in bone stimulation, we're number two in the world in joint fluid therapy. This is a plan to get to these places. You move down continuum of care to the early interventions and you look at products like OXINIUM, you look at products like the JOURNEY DEUCE that we just introduced, which is truly bone-sparing knee procedure, the BIRMINGHAM HIP resurfacing product. Up until now, we are the only player in the U.S. market with that hip resurfacing. We are focused not only on that active patient segment, but the whole continuum. And when you get out towards the less active patients and the older patients, clearly, there is a need to have a full and complete product line. We have the primary stems that are more commoditized. We have the revision products. We now have a hinged knee, and we clearly need those products in our armamentarium.

Well, I think we will take a couple from the web cast, from the call?

Operator

[Derek Holtz], Bear Stearns.

Derek Holtz - *Bear Stearns - Analyst*

I just wanted to understand the strategy with the visualization, the digital OR business; given the significant competitors in this space, how you position yourselves with your equipment and how hospital spending you expect to trend throughout the rest of the year.

David Illingworth - *Smith & Nephew - Chief Executive*

Well, we've just launched a product in visualization that we're quite proud of. It's the first true high-definition camera system in arthroscopy. It is -- there is only -- I think it has only been launched one month, is that correct, one period? Yes, one period. But we are well ahead of our expectations with that product. So we are off to a roaring start. It truly is the first high-definition visualization system in the marketplace. It gives the surgeons a much clearer view. So we continue to try to innovate in the space of digital OR and [patients]. Do we have some good competitors? Sure we do, but we have good competitors in just about every space we compete in. As far as how we see that marketplace in terms of spend in the future throughout the rest of the year, it's always unfounded somewhat. It's a bit lump, as Adrian would call it. It's hard to predict because these are large capital outlays and we continue to -- we expect it to continue to do so as well.

Derek Holtz - *Bear Stearns - Analyst*

Okay, great. And then just on R&D spend, it looks like it was a little bit light in the quarter, maybe the lightest we've seen in about a year-and-a-half or so. Now that you guys have what appears to be a pretty (technical difficulty) platform, can we expect that number to stay within that 4% range over the next year or so, and how do you think about that? Thanks a lot.

David Illingworth - *Smith & Nephew - Chief Executive*

Thank you for the question. Actually, we reported last quarter that we would be actually be increasing our R&D spend a little bit going forward. We want to keep the heat on. We know that we need to have continued innovation in order to lead this market space. We're making the progress and we want to keep it going. We also think that we're going to have to start spending different types of dollars in different types of ways to go after the biologics segment and the opportunities that are available to us over the next (technical difficulty) there. So I think what you will see is a slight uptick in research spending in our business.

A couple more questions from the floor here? David?

David Adlington - *Cazenove - Analyst*

Hi, David Adlington from Cazenove. Biomet has indicated that from their point of view, the DOJ investigation appears to be moving forward, some (inaudible) towards potential for firstly some sort of (indiscernible), and secondly, a change in the way they do business. I just wondered how you saw that issue and the potential impact of how you do business and any timing of any resolution.

David Illingworth - *Smith & Nephew - Chief Executive*

Well I guess I'm getting the opportunity to answer all the questions today. Hopefully somebody will have some financials to ask Adrian (MULTIPLE SPEAKERS).

I will make a couple of comments on the DOJ investigation. The first is kind of a general comment, which is -- we continue to cooperate with the DOJ and the investigation, and we really don't have anything to report. In terms of how we actually do business, and I really cannot comment on the Biomet disclosure that they made, but I believe that the disclosure was more associated with a filing that they were making to close that transaction versus an announcement, general announcement. We have put a lot of effort into how we do business. We go out of our way to make sure that we have compliance programs in place in our business that are going to follow the applicable laws in all of the countries that we participate in, and we continue to try to refine those things. If and when we get other directives from the Department of Justice, then clearly, we will report on that, but that is where we are currently.

Unidentified Audience Member

I don't want to be picky, but I guess knee growth in the U.S. was only 3% and you had a good array of products [when you] launched those last 12 months. Can you talk about that in the way that you're incentivizing the sales force in the U.S. and how that might change? And then a question for Joe really on ALLEVYN. I guess you've had some new product launches or -- over the last couple of quarters. What can we think about in terms of growth for ALLEVYN? It's a major product for wound management. Could it ever get back up to the 10, 12% range that we saw a few years ago, or should we would think about this as kind of being, just running along with 7, 8%? What can you do with that brand to sort of, A, keep it going and perhaps even reinvigorate it?

David Illingworth - *Smith & Nephew - Chief Executive*

I will take the first part of it, Joe, and then you answer the second part. First of all, I don't think you are picky at all. If I was sitting in your chair, I would be asking the same question. In fact, sitting in my chair, I'm asking the same question of my team. We have had an opportunity in BHR to have sort of a once-in-a-lifetime launch of a product where we knew it was a great product, had great clinical history and we just knew it brought real benefit to the patients and the health care system that were using it. So we put a heck of a lot of effort into making sure that that launch went well, and I think we get very high marks on that launch from the folks that we've talked to.

As part of -- your direct question was -- how are we incentivizing the sales force on BHR, and what impact is that having on the knees? We are actually incentivizing our salespeople in the U.S. to a greater degree to make sure that we have a successful launch in BHR. What that has done is it has motivated them to spend a lot of time making sure that they did that well. We don't like the growth rates that we have in our knee products right now, but they are not totally unexpected. We knew that we would be treading water a little bit on our knee products, given the fact that we had so much focus. There's only so many hours in a day for these reps to go out and try to be in an operating theater. And if they are in an operating theater on a hip replacement, then they're not in an operating theater on a knee case. And if they are balancing it, they have made the choice that we have actually motivated them to do.

Now what we're doing about, because I'm not totally pleased with it, we have started a few months back in trying to figure out how to [balance] that effort, and we think the time is now. We have program in place. Will you see it next quarter? I'm not sure, but I think the effects of the programs and the rebalancing of the programs, toward the end of the year, you will see these products which are really exciting products, whether it be JOURNEY Knee or JOURNEY DEUCE, I think you will see the revenues coming through on that.

Joe Woody - *Smith & Nephew - President, Advanced Wound Management*

I will handle the ALLEVYN. In terms of ALLEVYN, I think there's a lot of potential. We're the global leaders, so we grow from a larger base. (technical difficulty) keep in mind, in the wound care business, when you introduce a product, there's a bit of a (technical difficulty) burn because you have to go out and create the demand. It then usually tracks through about six months to 12 months out. It's an attractive segment and I think competitors have shown that they have been able to grow in unique segments and have had the type of growth that we're going to anticipate in the future. So I think there's a lot of potential.

David Illingworth - *Smith & Nephew - Chief Executive*

Do we go back to the -- we'll take one more from the floor.

Unidentified Audience Member

Thanks very much. Question for Joe on Wound Management firstly. (inaudible) discussions (inaudible) various (inaudible) management in the past would suggest quite a lot of your portfolio is not really very advanced at all. Indeed, it's (inaudible) went out whatever that business was called that you sold last year, [DSN]. What's your comment on that? How are looking to change that going forward? You seem to be bringing more advanced products in. How do you see the split today and how do you see it moving on?

Joe Woody - *Smith & Nephew - President, Advanced Wound Management*

While we are focused in the attractive segment (technical difficulty) that portion of the business that you speak about does provide a lot of cash (technical difficulty) for the business, but it's also a very important part of the overall portfolio and spectrum of products and the way we service the customer that makes us unique. So we are actually encouraged by it going forward.

David Illingworth - *Smith & Nephew - Chief Executive*

I think that's the first part of it. As far as what types of advanced products you're going to (technical difficulty) on moving forward and segments, do you want to make a quick comment?

Joe Woody - *Smith & Nephew - President, Advanced Wound Management*

Sure, absolutely. What we're going to be focused on is exudate management. We're now entering collagen, so you can expect more products in that range. Infection management, and infection management encompasses more than just silver. So we would have for example an iodine-based product. I think VERSAJET represents another example of a product, a device that's debriding for surgeons around wound care. And now, in entering negative pressure wound therapy, it's just a very broad, fast-growing field, a $1.2 billion market segment. It's going to mean that a lot of synergy (technical difficulty) created on technology there. So that's what will be focusing on.

Unidentified Audience Member

I will just follow-up on the earlier question about the knees. To what extent do you see you might have lost the opportunity to launch some of these new products successfully? (indiscernible) might be perceived as unsuccessful launch as you may struggle to almost relaunch them as you refocus the sales force more on knees in the U.S. Is that a fair concern to have?

David Illingworth - *Smith & Nephew - Chief Executive*

Well, it might be a fair concern, but it's not a concern that I have currently. I think the team's doing a real nice job on some of these new product launches. The JOURNEY DEUCE is doing well. We are -- it's only in the (technical difficulty) months of its launch and we're meeting expectations we have. We've put a lot of effort and focus on it. And, quite frankly, we have -- new product launches is a way of life for us in the orthopedic business if we are going to stay recognized as an innovative player in this, space. So, no, the answer is no, I'm not overly concerned by it.

We will take some questions from the web cast, please.

Operator

Ed Ridley-Day, Lehman Brothers.

Ed Ridley-Day - *Lehman Brothers - Analyst*

Thank you. Firstly, I had a couple of questions on BlueSky for Joe. Could you talk a little bit about the ex-U.S. market and (technical difficulty) as far as I understand, most of those sales are still very much based in America's [reimbursement environment] (technical difficulty) ex-U.S. Also, on wounds, could you give an idea of VERSAJET sales and growth? And I apologize, a very quick third question. What (inaudible) do you see as the trauma market growth at the moment?

David Illingworth - *Smith & Nephew - Chief Executive*

The only thing to note there is we typically don't give (technical difficulty) individual product lines, but I think you can talk about the marketplace on BlueSky and the reimbursement.

Joe Woody - *Smith & Nephew - President, Advanced Wound Management*

Just in general terms, the negative pressure in the wound therapy market for us outside of the U.S. is a strong potential because our base of business is so strong in Europe in terms of the customers and in terms of the key opinion leaders. And the reimbursement is differentiated like the health care systems are from the U.S. But we are going to be flexible with our offerings in those marketplaces. In terms of VERSAJET's pickup on Dave's comment, without specifically talking about it, VERSAJET is growing quite significantly, albeit from a small base. But the real potential for VERSAJET is now that it's utilized or some form of debriding in at least 50 to 60% of the procedures prior to negative pressure wound therapy. So there's this potential (technical difficulty) that product alongside of this as well.

Ed Ridley-Day - *Lehman Brothers - Analyst*

Thank you.

Adrian Hennah - *Smith & Nephew - CFO*

Total market growth was the third question. We see roughly, it's 11% globally, (inaudible) 15% in the U.S. (inaudible) fixation, 11% globally and around 15% in the U.S. and 10% outside the U.S. And we certainly do see Stryker as the fastest-growing player in that market at the moment.

Ed Ridley-Day - *Lehman Brothers - Analyst*

Thank you very much.

David Illingworth - *Smith & Nephew - Chief Executive*

Okay. So we considered Michael's non-question a -- we have Michael on the line? Okay.

Michael Jungling - *Merrill Lynch - Analyst*

Great, good morning and good afternoon to you all. I had two quick questions. First on reconstructive, what are the limitations of not being able to show greater margin expansion on a like-for-like basis of 0.8 percentage points when you 15% underlying sales growth? And secondly on BlueSky, how will the outstanding legal issue with [KCI] in the United States affect the level of financial investment that you're willing to make in 2008 to the drive growth of VISTA?

David Illingworth - *Smith & Nephew - Chief Executive*

You want to take the margin mix? (MULTIPLE SPEAKERS) either one of us can do it.

Adrian Hennah - *Smith & Nephew - CFO*

Obviously we've talked about this issue on several occasions, Michael, about the nature of the drop-through that comes from incremental sales and what (inaudible) of margin improvement comes from the IP. I think we've consistently taken a slightly different position from you, Michael, on the level of drop-through that comes from incremental sales. And also, I wanted to pay particular focus on the mix of products and we have signaled previously that margins on the hip products in total are not quite as large as margins on the knee products. So we do have that slight headwind with the mix in recon. But beyond that, we've always said we feel in this industry it will be necessary to fight for every point of margin. A lot of costs are variable. And so we see ourselves as on track with the recon margin progress in this (inaudible).

Michael Jungling - *Merrill Lynch - Analyst*

The reason I'm asking is there's companies which are growing perhaps at half the rate you are and they've got margin improvements which are similar to you, and hence, the question about the differential or the leverage that we may be able to achieve through operating (technical difficulty) sales?

Adrian Hennah - *Smith & Nephew - CFO*

I think, again, as we said before, we'll have to see where other companies' margins end up as we look over the four years of our EIP program. Clearly, if there are other sources of margin improvement at other companies (inaudible) we're absolutely open to looking for them. But as at the moment, we feel pretty comfortable we're on track.

David Illingworth - *Smith & Nephew - Chief Executive*

I think -- to add one more comment to that, Michael, (technical difficulty) talked about in the past. As we overperform in the area of hip resurfacing, we do have a little bit of a negative drag on our margins in that business because we currently have sourced that product from a third party and our margins aren't quite what we would like them to be or what they are in some of the other products that we are selling. So I think that is a little bit of a drag and I think it's temporary.

As far as the comment on the litigation and BlueSky, I'm not sure I completely got your question, but let me just make a couple of comments about it in general. As you know, when Smith & Nephew acquired BlueSky, BlueSky had been successful in its defense of litigation brought against it by KCI. It resulted in a court ruling of noninfringement of a KCI patent of the negative pressure unit that was brought to market by BlueSky. Although this decision is subject to an appeal, we're confident that the current ruling will be upheld.

I think once we acquired BlueSky, KCI stated further proceedings, started further proceedings against BlueSky Medical and Smith & Nephew alleging patent infringement on a newly-issued U.S. patent that is a family member of the earlier patents used in the first litigation. Smith & Nephew is aggressively fighting this second litigation, is confident that a ruling of noninfringement and invalidity of the patent in question will be found. So we remain very consciously optimistic about our position in this matter.

Michael Jungling - *Merrill Lynch - Analyst*

But just to follow up, so the outstanding appeal with KCI will not impact the level of capital efforts you're willing to throw at the U.S. market (MULTIPLE SPEAKERS)?

David Illingworth - *Smith & Nephew - Chief Executive*

No.

Michael Jungling - *Merrill Lynch - Analyst*

Great, thank you.

Charles Weston - *Nomura Code - Analyst*

Charles Weston from Nomura Code. Two questions if I can. First of all on the bone stimulation market, you're now number one there, I think probably helped by Biomet's negative 50% revenue growth over the last quarter. I was wondering if you could talk a bit about the dynamics in that industry and what might have caused the changing market shares.

Secondly, on BlueSky, it's a bit of a different selling proposition, negative wound pressure, and currently BlueSky's product is sold through distributors. I was wondering how that might change over a couple of years, particularly in view of the relaunch, or the new worldwide launch in 2008.

David Illingworth - *Smith & Nephew - Chief Executive*

I will take the first part of that, although Joe could probably take both parts of it. He was the president of the Clinical Therapies business in the beginning.

There's two ways to look at our success in Clinical Therapies. One is that, we perform really well, or our competitors perform really poorly. I would like to think that the reason our competitors performed poorly is because we performed well. We did some very special things in this marketplace. We took some risk. We took a business that -- a model associated it that wasn't right. We had these products going through our Reconstructive and Trauma sales forces. These were sales reps that were calling on docs and surgeons in their operating theater, and where these products were supposed to be sold were in the doctors' offices. We brought in Joe Woody to be president of that business and said, build a business model that's unique and differentiate it. And also, let's go out and let's prove the science behind these products because this bone stimulation was a little bit of a black box, black art, nobody knew why it really worked. They just knew it worked. But nobody had proved the operating mechanism as why this science actually worked.

So we put a brand new business model in place, we went out and we proved the science, we did the scientific work in order to prove the mechanism of action. We had a great product, we had wonderful execution. And as I've said almost every time that I have had the opportunity to get up in front of you folks is that we've been taking chunks of share from the competition. And I think that's why you have seen the performance of some of the competitors over the last two, three, four years. And I just think it's magnificent. It's a great success story. So I'm very proud of what the team has done.

And I think the same exact thing in joint fluid therapy. Again, joint fluid therapy is administered in the orthopedic surgeon's office. The sales reps who are calling on these joint surgeons or trauma surgeons are calling on them in the operating theater, not where this procedure is being done. We didn't do anything that was rocket science, we just did things that were the right things to do for the customers. And it's working, and I'm very, very proud of what the team has done. You may want to handle the other piece.

Joe Woody - *Smith & Nephew - President, Advanced Wound Management*

Thanks, Dave. Actually, I think that we can draw some similarities to EXOGEN. One of the things that we have done in the advanced wound care business, we've put our best people (technical difficulty) and we're going to build clinical evidence, we're going to use the science of wound healing to build evidence and enhance our product. We also have clinical specialists throughout the world that are very highly regarded for training in institutions. These are our customers that we see every day and we're going to utilize the partners in the form of durable medical equipment providers, in some cases in the U.S. and other larger national partners. Then outside of the U.S., the markets are very differentiated, and in some cases we may be direct. But at any given time, what you have to remember is we have 800 salespeople throughout the world and the plan that we're building for launch is going to mean (technical difficulty) there will be thousands of people touching customers every day with products.

David Illingworth - *Smith & Nephew - Chief Executive*

Any more questions on this side? We'll take a couple -- are there more questions on the phone? Okay.

Operator

Mark Mullikin, Piper Jaffray.

Mark Mullikin - *iper Jaffray - Analyst*

I just wanted to talk a little bit more about the negative pressure therapy opportunity and how you're going to go about marketing the product. With your competitor having a very significant rental business and having multiple settings in which the therapy is used, are there particular settings on which you're going to focus? And, will you pursue a rental model as well, or will you stick with sales?

David Illingworth - *Smith & Nephew - Chief Executive*

Let me take that instead of Joe. I think that's not something that we're willing to get into a lot of detail about at this point in time. Clearly, we have a plan. We're going to roll out and launch the product, global launch in early 2008. We're working up the details of how that launch is going to be carried out. And I just think it's a little bit early for us to be talking about those details.

Mark Mullikin - *iper Jaffray - Analyst*

I guess just as a follow-up then, can you calibrate at all how much of the marketing you would hope to capture over time or what some of the obstacles penetrating the market might be?

David Illingworth - *Smith & Nephew - Chief Executive*

We (technical difficulty) in this market to not capture share. So I would hope that maybe you could help us with the modeling a little bit. We treat, on a global basis, 21% of the tough to heal wounds. Our competitor in the negative pressure wound treatment market treats 1% of the hard to heal wounds on a global basis. We think that we have the ability and the relationships to go out and make a difference in this space, not only in market presence, but also in the way that we develop the technology over time. So we're excited about (technical difficulty) I think it remains to be seen. We will get through the launch first and then see where we are.

Mark Mullikin - *iper Jaffray - Analyst*

Okay, thank you.

Operator

Michael Matson, Wachovia.

Michael Matson - *Wachovia - Analyst*

I guess I will start with the biologics area that you talk a lot about being interested in from an acquisition standpoint and I guess internally as well. What do you really mean when you say the term biologic? Because it means different things to different people. And then, secondly, does this include stem cells? Because we did come across some market research that said that there were some internal programs involving stem cells.

David Illingworth - *Smith & Nephew - Chief Executive*

We have a core competence in the area of biologics and biology. We are in the business of tissue repair. We have a long history of being in this business. We have a fairly well respected and well renowned scientific group in York at our group research center that focuses mainly on the biologic part of the businesses that we participate in. Fundamentally, we think, as many do in this space, that over a period of time -- what time is very debatable -- but over a period of time, maybe decades, that this business -- that the businesses that we are in will be fundamentally transformed by advances in the area of biologics. So we are going to continue to look at that. We're going to continue to try to figure out what the phasing is, what the areas we should be working on are. We are working in many different areas, including doing some work in stem cell [research] and other areas. And we will continue to fund those initiatives so that hopefully we can be at the leading edge of this curve when the transformation comes.

Michael Matson - *Wachovia - Analyst*

My second question, I'm going to come back to BlueSky again. I guess, are there plans to develop clinical data around BlueSky products? Is there any clinical data out there currently? Because I know KCI has a lot of data on their product that they're going to have to probably use to defend it in the market.

Joe Woody - *Smith & Nephew - President, Advanced Wound Management*

Just in very simple terms, we plan to build our own clinical data. Our products today are used in and around this procedure and we have a lot of understanding of the science. So we're definitely going to build that. I think Dave kind of laid that out in the story around EXOGEN. So we're going to do that as part of our plan.

David Illingworth - *Smith & Nephew - Chief Executive*

I think it's a basic part of our model and most of the product segments and technology segments that we enter into is to base it on real-time.

Michael Matson - *Wachovia - Analyst*

That is my two questions. Thanks a lot.

David Illingworth - *Smith & Nephew - Chief Executive*

Thank you. Is that it? Okay. (MULTIPLE SPEAKERS) My first time. Well, thank you very much for your time and the great questions and we look forward to doing this against soon. Thank you very much.