



2008 Preliminary Results

Sustainable profitable growth



Forward looking statements

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

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John Buchanan
Chairman

Introduction

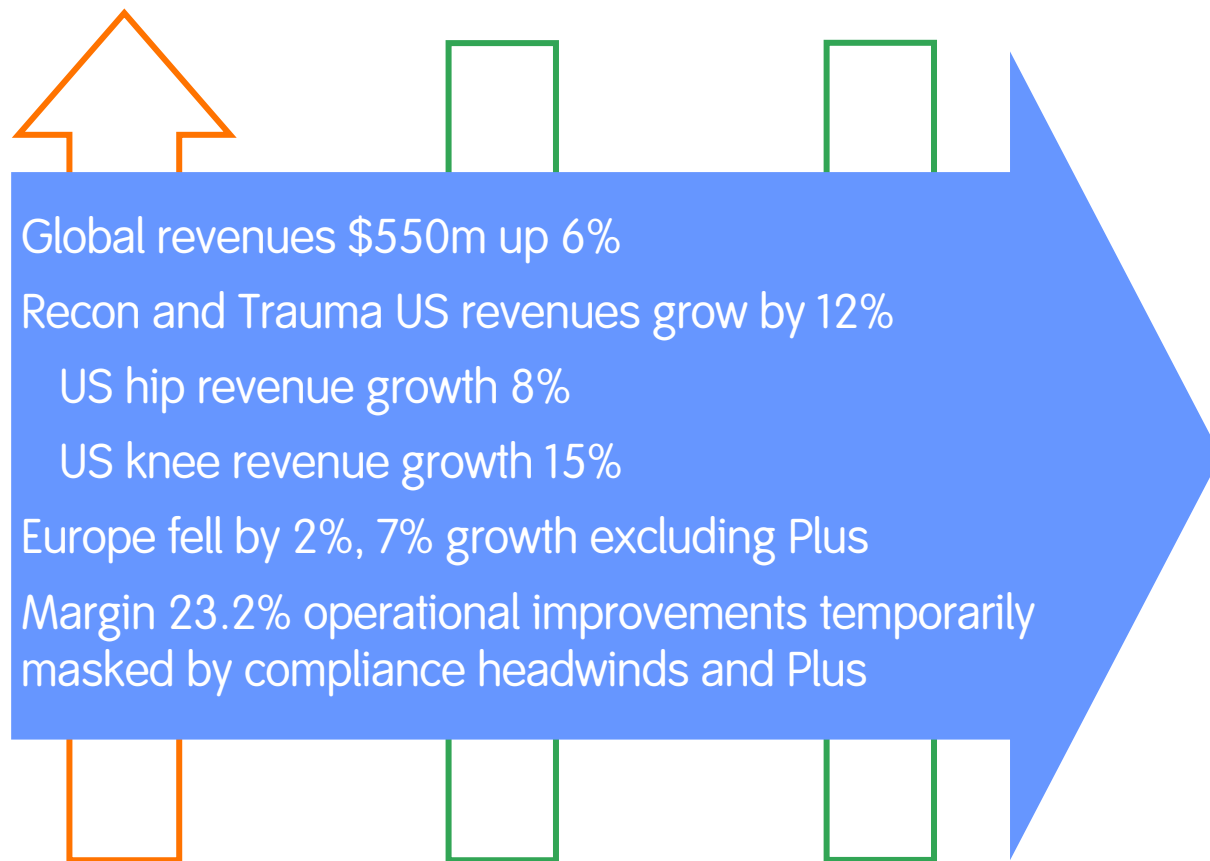
- 2008 – a challenging year with a good outcome
- Management team worked well to overcome challenges
- Financial strategy - conserve our resources
- Good markets for tough times
- Board's strategy and market view unchanged
- Final dividend 8.1¢ up 10%

David Illingworth
Chief Executive

Key business achievements in 2008

- Revenue \$3,801m, 6% growth for the year
 - \$960m, 7% growth for the quarter
- EPSA grew by 7% to 55.6¢
- Orthopaedics
 - US sales force management re-structured
 - Settlement with Plus vendors in early 2009
 - Trauma sales force management changes benefit revenues
- Endoscopy sales force actions strengthen US revenues
- Wound growing above market rates – best performance in 5 years
- Biologics capability merged into one business unit
- EIP - delivering and re-energising – One Company Programme

Orthopaedics – Q4 2008



- 2008 Achievements
- Hip and knee growth balanced
 - Trauma sales force management re-aligned
 - Plus litigation settled in early 2009
 - Compliance infrastructure investment

Sound performance

Orthopaedics

sustainable profitable growth

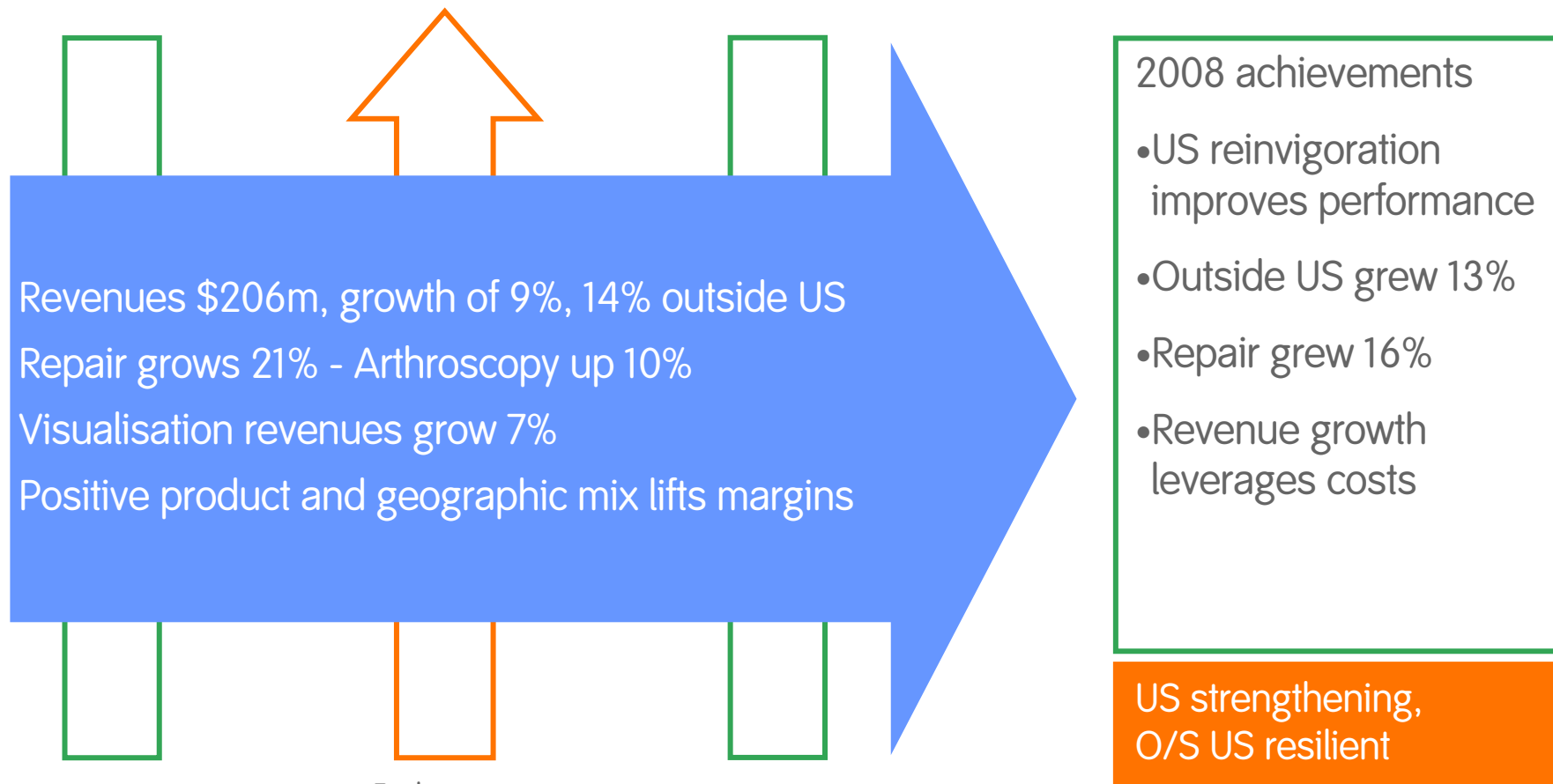
Orthopaedics - 2009 business drivers

- Resilient underlying demand across Orthopaedics
- Continued penetration recent product launches R3 Acetabular Cups, JOURNEY[◇] Bi-Cruciate Stabilized Knee System and JOURNEY[◇] DEUCE[◇] Bi-compartmental Knee System
- Realisation of Plus potential in Europe
- Trauma product bag and sales management changes drive growth
- EIP focus enhances margins



R3 Acetabular Cup range

Endoscopy - Q4 2008



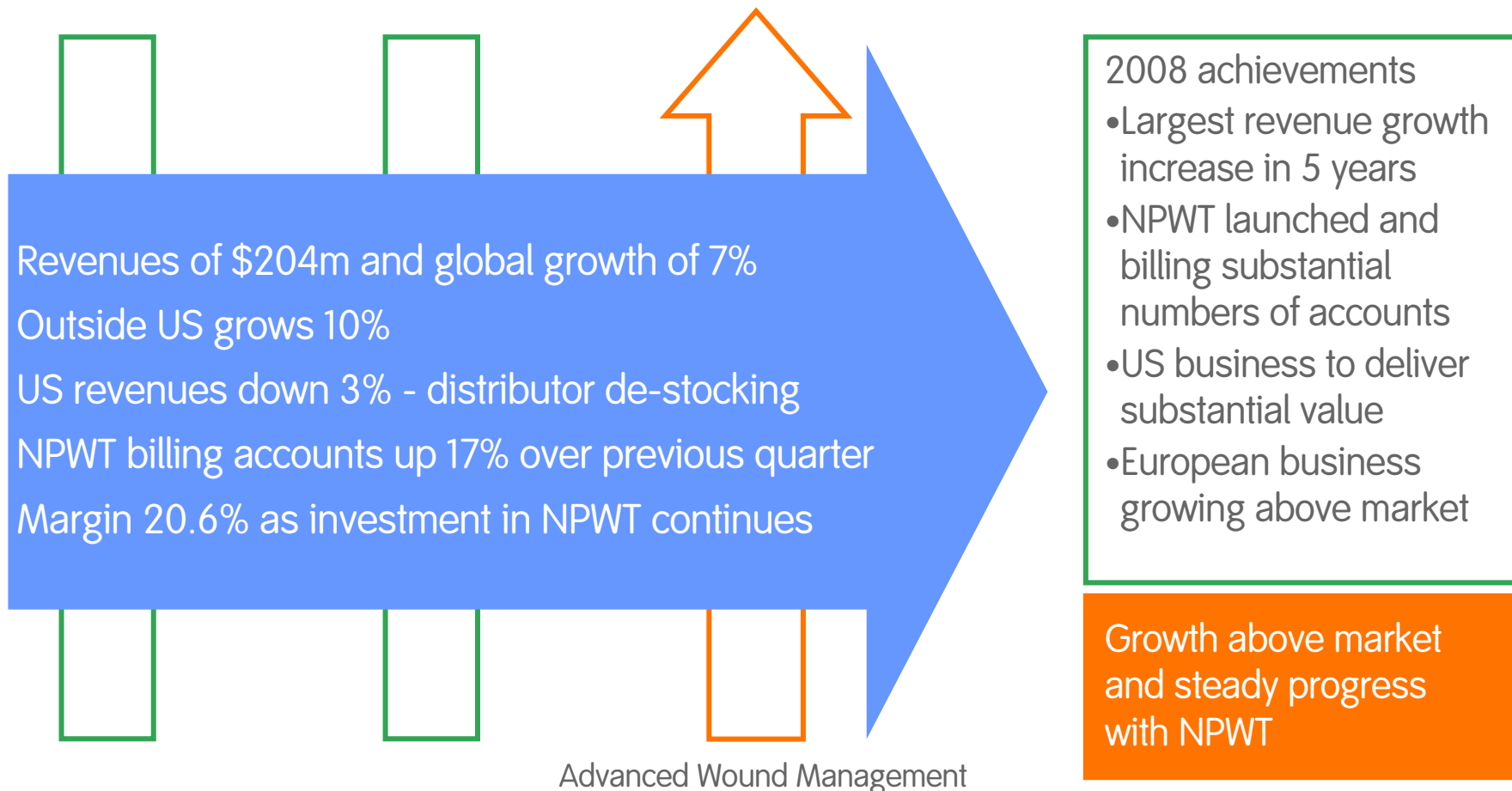
Endoscopy - 2009 business drivers

- Improved US growth from US sales force changes in 2008
 - Improved alignment and motivation
- Continuing success outside the US
- New products underpin resection
- Elective procedures and capital business most susceptible to weaker economy
- Innovation enhances growth in repair



DYONICS[®] 5.5mm BONECUTTER ELECTROBLADE
Resector

Advanced Wound Management – Q4 2008



Advanced Wound Management - 2009 business drivers

- US execution key focus
- Continued European success
- Manufacturing in China on stream late 2009
 - Margin improvement in 2010
- NPWT
 - Expanding revenue stream from pump rentals



ACTICOAT® FLEX
Antimicrobial Barrier
dressing

Advanced Wound Management China Factory



January 2009

Business outlook

- General economic outlook uncertain
 - Long term demand for our products intact
 - Innovation and customer focus are being rewarded
 - Our business is resilient
- Orthopaedics
 - Maintain market growth in Reconstruction
 - Drive for sustainable above market growth in Trauma
- Endoscopy - increase US revenue growth
- Advanced Wound Management
 - Deliver improved revenue growth in US
 - Continue building market presence for NPWT
- Improve our margins towards our 2010 target

Adrian Hennah
Chief Financial Officer

Income statement Q4 2008

	Fourth Quarter		% Growth		Full Year	
	2007 \$m	2008 \$m	Reported	Underlying	2007 \$m	2008 \$m
Revenue	967	960	-1%	7%	3,369	3,801
Trading profit	222	222	0%	8%	706	776
Legal settlement	-	-			(30)	-
Restructuring and acquisition costs	(41)	(22)			(89)	(80)
Inventory revaluation*	(20)	-			(64)	(15)
Amortisation of acquisition intangibles*	(11)	(21)			(30)	(51)
Operating profit*	150	179			493	630
Net interest cost	(16)	(17)			(30)	(66)
Other finance income/(cost)	3	-			6	(1)
Share of results of associates	-	-			-	1
Profit before taxation*	137	162			469	564
Trading margin %	23.1%	23.2%			21.0%	20.4%

*2007 restated for finalisation of Plus acquisition accounting

Income statement Q4 2008

	<i>Fourth Quarter</i>		<i>Full Year</i>	
	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Profit before taxation*	137	162	469	564
Taxation*	(43)	(45)	(153)	(187)
Attributable profit	<u>94</u>	<u>117</u>	<u>316</u>	<u>377</u>
Add back:				
Amortisation of acquisition intangibles*	11	21	30	51
Restructuring & acquisition costs	41	22	89	80
Legal settlement	-	-	30	-
Inventory revaluation*	20	-	64	15
Tax on excluded items*	(16)	(13)	(49)	(30)
Adjusted attributable profit	<u>150</u>	<u>147</u>	<u>480</u>	<u>493</u>
Adjusted earnings per share ("EPSA")	<u>16.6¢</u>	<u>16.6¢</u>	<u>52.0¢</u>	<u>55.6¢</u>

*2007 restated for finalisation of Plus acquisition accounting

Revenue growth by business segment Q4 2008

Quarter 4 *	Actual %	Currency %	Acquisitions %	Underlying %
Orthopaedics	-	6	-	6
Endoscopy	2	7	-	9
Advanced Wound Management	(6)	13	-	7
Group	(1)	8	-	7
Full Year				
Orthopaedics	16	(2)	(9)	5
Endoscopy	9	(1)	-	8
Advanced Wound Management	8	(1)	-	7
Group	13	(2)	(5)	6

* Q4 2008 comprises 63 trading days (2007 – 61 trading days)

** Adjusting for the impact of Plus sales lost in parts of Europe

Underlying revenue growth by geography & business segment Q4 2008

<i>Quarter 4</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	304	10	162	(2)	84	11	550	6
Endoscopy	101	5	66	12	39	16	206	9
AWM	44	(3)	103	9	57	11	204	7
Group	<u>449</u>	<u>8</u>	<u>331</u>	<u>4</u>	<u>180</u>	<u>12</u>	<u>960</u>	<u>7</u>

Full Year

Orthopaedics	1,127	8	677	(3)	354	14	2,158	5
Endoscopy	372	3	262	11	166	15	800	8
AWM	158	(1)	459	8	226	10	843	7
Group	<u>1,657</u>	<u>6</u>	<u>1,398</u>	<u>3</u>	<u>746</u>	<u>13</u>	<u>3,801</u>	<u>6</u>

Profitability by business segment Q4 2008

	----- Q4 -----			
2008	<i>Revenue \$m</i>	<i>Trading Profit \$m</i>	<i>Margin %</i>	<i>Full Year Margin %</i>
Orthopaedics	550	127	23.2	22.3
Endoscopy	206	53	25.6	20.7
Advanced Wound Management	204	42	20.6	15.3
Total	<u>960</u>	<u>222</u>	<u>23.2</u>	<u>20.4</u>
2007				
Orthopaedics	550	130	23.8	22.8
Endoscopy	201	48	24.1	20.1
Advanced Wound Management	216	44	20.3	17.4
Total	<u>967</u>	<u>222</u>	<u>23.1</u>	<u>21.0</u>

Free cash flow Q4 2008

	<i>Fourth Quarter</i>		<i>Full Year</i>	
	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Trading profit	222	222	706	776
Share based payment	4	7	23	24
Depreciation and amortisation	63	72	207	236
Capital expenditure	(55)	(91)	(194)	(289)
Movements in working capital and provisions	(34)	(51)	(140)	(135)
Trading cash flow	200	159	602	612
Restructuring, rationalisation & acquisition costs	(26)	(15)	(72)	(76)
Legal settlement	-	-	(30)	-
Macrot textured claim	(7)	(1)	(1)	(10)
Operating cash flow	167	143	499	526
Net interest paid	(16)	(17)	(30)	(63)
Taxation paid	(57)	(44)	(225)	(186)
Free cash flow	94	82	244	277
Closing Net Debt	(1,310)	(1,332)	(1,310)	(1,332)

2009 outlook

- Revenue growth
 - Market growth rates subject to macro-economic uncertainty
 - Ortho – around market growth, year-on-year impact of Plus issues small
 - Endoscopy – continue to grow slightly below the market
 - Advanced Wound Management – excluding NPWT, at or slightly above served market
- Focused on end 2010 margin of 24.5%. 2009 margin impact from NPWT investment, compliance costs, Plus issues.
- Tax rate 31-32%
- Interest cost c.4%
- Amortisation of acquisition intangibles c.\$40m

David Illingworth
Chief Executive Officer

Summary

- 2008 - a good year
- 2009 - a year of opportunity
 - Markets trends unchanged
 - Product ranges excellent
 - Management and business structures in place
 - Great people to execute our plans
 - EIP provides right mindset for tough times

Questions?

 We are **smith&nephew**

Appendices

Quarterly revenues

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

	2007					2008				
	Q1	Q2	Q3	Q4	Full Year	Q1	Q2	Q3	Q4	
	Growth*	Growth*	Growth*	Growth*	Growth*	Growth*	Growth*	Growth*	Revenue	Growth*
	%	%	%	%	%	%	%	%	\$m	%
Orthopaedics										
Reconstruction										
Knees	12%	7%	5%	10%	9%	1%	9%	10%	190	9%
Hips	23%	29%	20%	14%	21%	4%	7%	3%	173	5%
Trauma	13%	10%	9%	7%	10%	2%	4%	5%	107	6%
Clinical therapies	33%	25%	15%	11%	20%	(2)%	6%	10%	67	0%
Endoscopy										
Arthroscopy	10%	12%	11%	7%	10%	7%	10%	8%	163	10%
Visualisation	20%	9%	2%	6%	9%	(5)%	12%	9%	42	7%
Advanced Wound Management										
Exudate Management	11%	8%	17%	14%	12%	6%	15%	6%	59	2%
Infection Management	8%	17%	6%	3%	9%	(1)%	9%	13%	28	13%
Smith & Nephew	12%	12%	10%	8%	10%	2%	8%	7%	960	7%

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

Exchange rates

€:\$	<u>Q4/07</u>	<u>FY/07</u>	<u>Q1/08</u>	<u>Q2/08</u>	<u>Q3/08</u>	<u>Q4/08</u>	<u>FY/08</u>
Period end	1.46	1.46	1.58	1.58	1.46	1.39	1.39
Average	1.45	1.37	1.50	1.56	1.51	1.32	1.46
£:\$							
Period end	1.99	1.99	1.99	1.99	1.84	1.44	1.44
Average	2.05	2.00	1.98	1.97	1.89	1.58	1.84

Percentage of Revenue by Geographic Market:	Q4 %	FY %
United States	47	44
United Kingdom	8	8
Other Europe	26	28
Other	19	20

Analysis of restructuring and acquisition costs

	P&L Charge		Cash spend	
	Q4	Total to date	Q4	Total to date
	\$m	\$m	\$m	\$m
EIP				
– cash costs*	4	68	2	60
– asset w/offers	4	11	n/a	n/a
Plus Integration				
– cash costs**	13	84	13	70
– 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

	Fourth Quarter		Full Year	
	2007	2008	2007	2008
	\$m	\$m	\$m	\$m
Free cash flow	94	82	244	277
Add back: capital expenditure	55	91	194	289
Net cash inflow from operating activities (IAS 7)	<u>149</u>	<u>173</u>	<u>438</u>	<u>566</u>

Business days per quarter

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