



# 2009 Half Year Results



Strong profit performance in challenging markets

# Forward looking statements

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

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David Illingworth  
Chief Executive

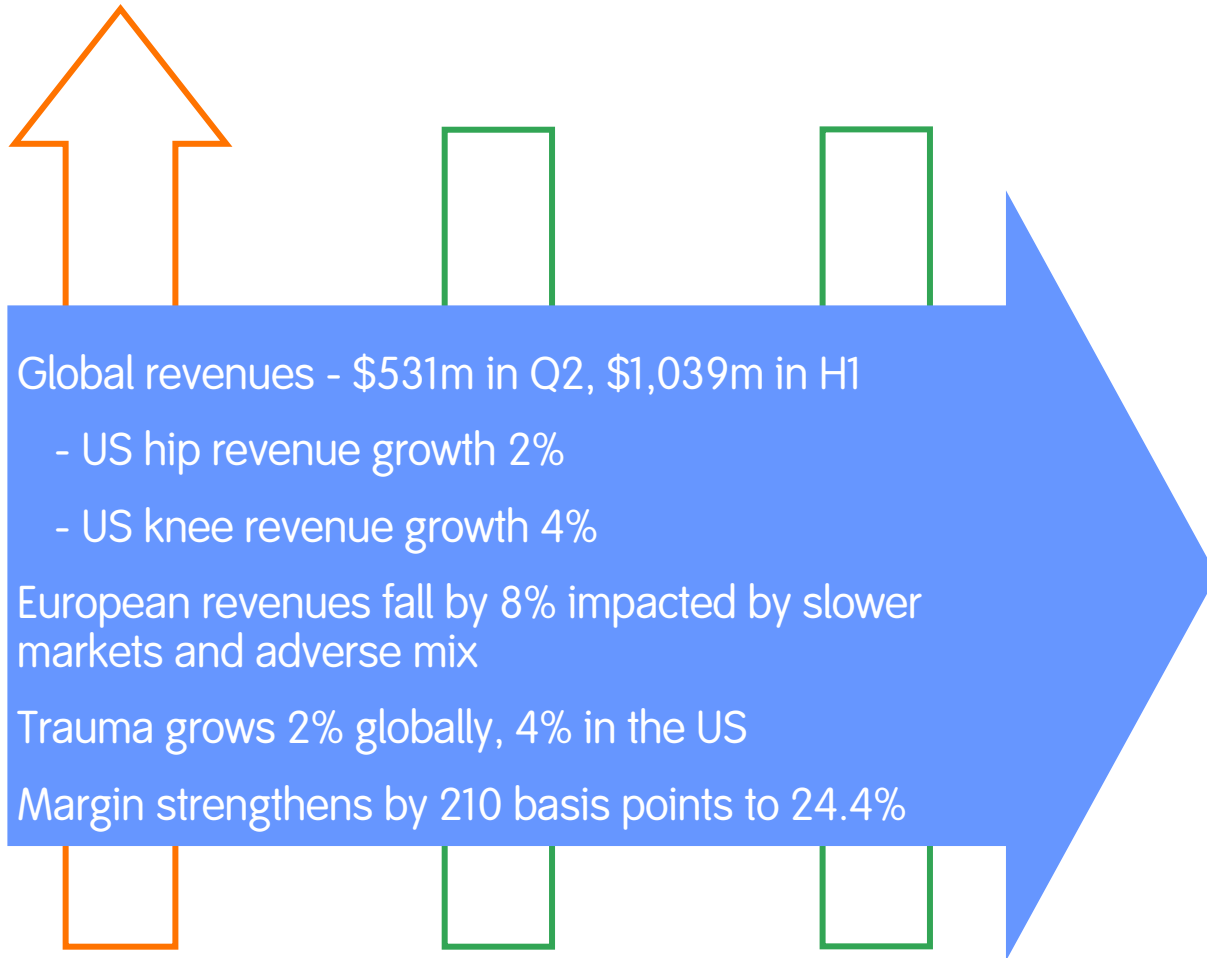
## Q2 highlights - good progress in challenging markets

- Reported Q2 revenues - \$926m
- Trading margin 22.9% up 310 basis points
- Orthopaedics impacted by deferred procedures
- Endoscopy - strong growth in repair off-set by weaker capital equipment markets
- Advanced Wound Management – good sales and profit performance
  - NPWT IP gains strengthen market position
- EPSA increased by 10% to 15.4¢
- Interim dividend 5.46¢ per share (27.3¢ per ADS), up 10%

# Market conditions

- Orthopaedics
  - Evidence of elective procedure deferrals
  - Long term, demographic driven demand unchanged
- Endoscopy
  - Capital revenues impacted heavily by economic conditions
  - Procedural slowdown for elective procedures
- Advanced Wound Management
  - Continued growth
  - Case for NPWT continues to be compelling

# Q2 2009 - Orthopaedics



Orthopaedics



Steady progress – tougher markets

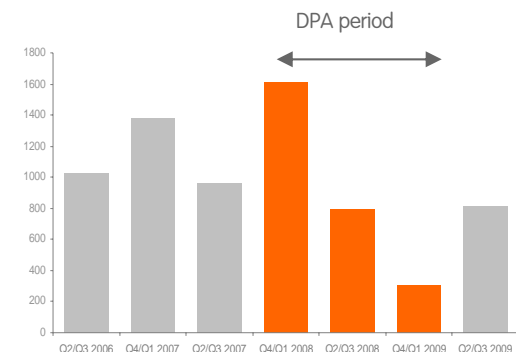
# Orthopaedics - H2 growth drivers

- Surgeon training returning to more normal levels
- Investment in instrument sets for recon and trauma
- Strong product portfolio
  - R3<sup>◇</sup> acetabular cup
  - LEGION<sup>◇</sup> knee
  - INTERTAN<sup>◇</sup>
- Continued development of Trauma business
- Clinical Therapies channel ready for new product introductions

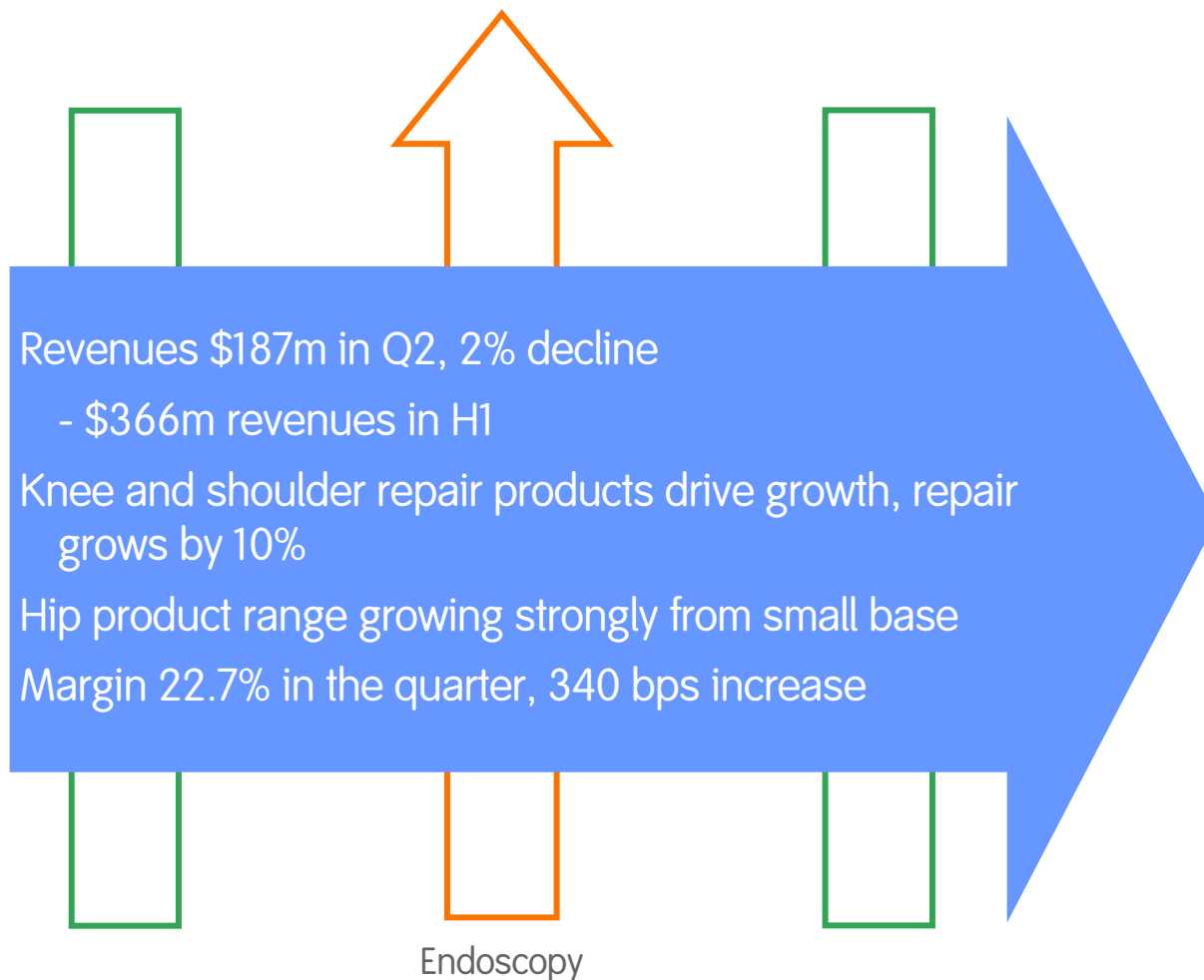
Surgeon training in the US

**KLEOS**  
medical education from smith&nephew

KLEOS USA, total surgeons trained per 6 month period



# Q2 2009 - Endoscopy



- BICEPTOR<sup>®</sup> Tenodesis system launch
  - Biceps tendon is repaired in 1 in 8 rotator cuff procedures
- Multi-year sales training plan in progress outside US
- Increased product development focus in resection

Strong growth in repair offset by capital market conditions

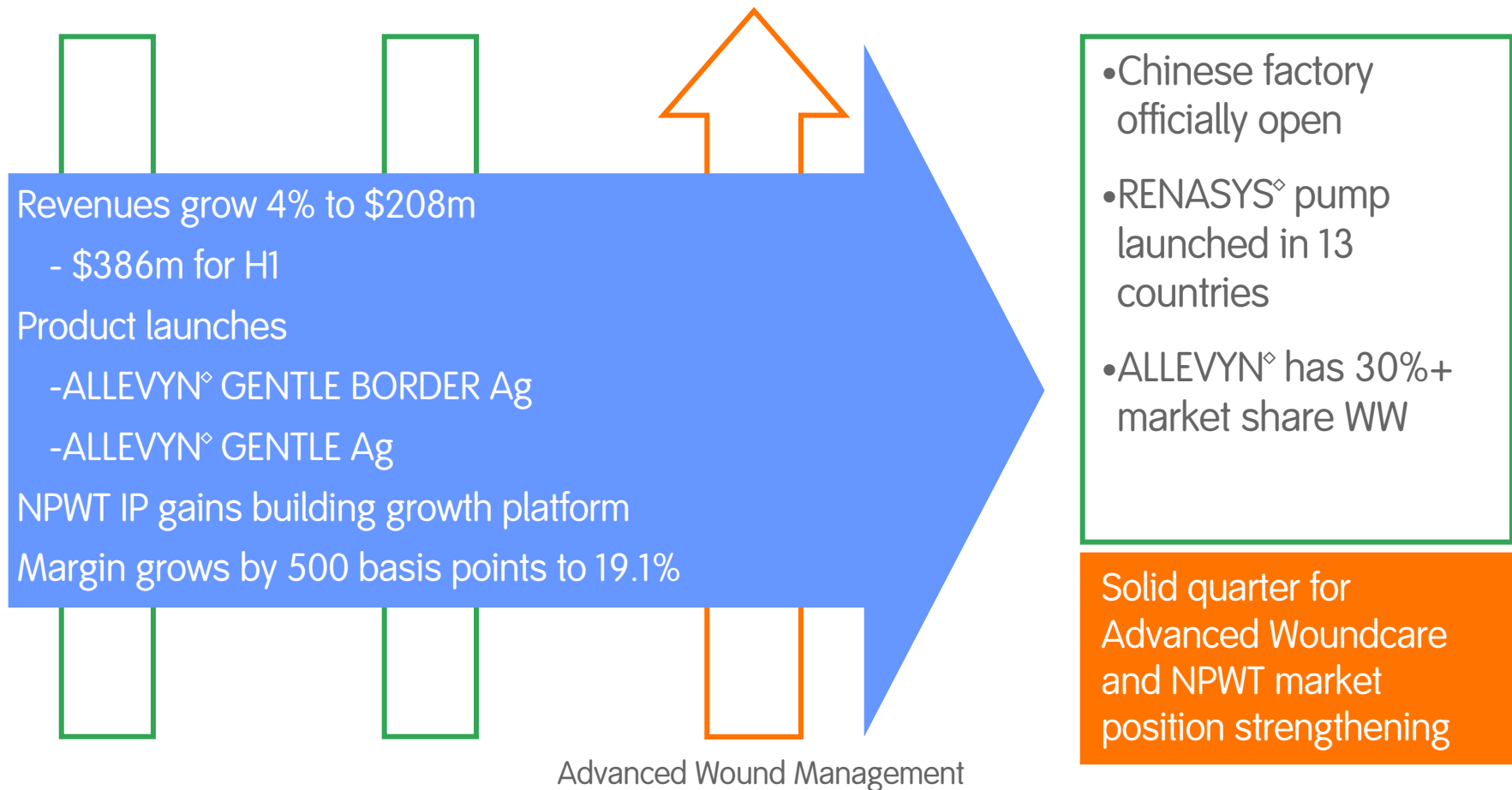
# Endoscopy - H2 growth drivers

- Global leader in arthroscopy/sports medicine
- Expanding product portfolio
  - BICEPTOR<sup>◇</sup> Tenodesis System for biceps
  - BIOSURE<sup>◇</sup> Interference Screw
  - New RF resection products in H2
  - Blades for small joint and shoulders launched
- US sales force changes strengthen platform
- Management of capital product business for profitability



BICEPTOR<sup>◇</sup> Tenodesis System

# Q2 2009 - Advanced Wound Management



## Advanced Wound Management – H2 growth drivers

- Build on recent product launches
  - ALLEVYN<sup>®</sup> GENTLE BORDER Ag
  - ALLEVYN<sup>®</sup> GENTLE Ag
- US and European revenue momentum
- NPWT distribution channels established
  - IP position strengthening
  - Expanding product range
  - Billing over 1000 accounts



ALLEVYN<sup>®</sup> Ag GENTLE BORDER



Adrian Hennah  
Chief Financial Officer

# Income statement Q2 2009

	<i>Second Quarter</i>		<i>Growth</i>		<i>Half Year</i>	
	<i>2008</i>	<i>2009</i>	<i>Reported</i>	<i>Underlying</i>	<i>2008</i>	<i>2009</i>
	<i>\$m</i>	<i>\$m</i>			<i>\$m</i>	<i>\$m</i>
Revenue	1,000	926	(7)%	0%	1,911	1,791
Trading profit	198	212	7%	17%	380	395
Restructuring and acquisition costs	(17)	(15)			(32)	(31)
Inventory revaluation	-	-			(15)	-
Amortisation of acquisition intangibles	(7)	(8)			(17)	(16)
Operating profit	174	189			316	348
Net interest cost	(17)	(11)			(33)	(21)
Other finance costs	(1)	(3)			(1)	(6)
Share of results of associates	1	1			1	1
Profit before taxation	157	176			283	322
Trading margin %	19.8%	22.9%	+310bps		19.9%	22.0%

# Income statement Q2 2009

	<i>Second Quarter</i>			<i>Half Year</i>	
	<i>2008</i> <i>\$m</i>	<i>2009</i> <i>\$m</i>		<i>2008</i> <i>\$m</i>	<i>2009</i> <i>\$m</i>
Profit before taxation	157	176		283	322
Taxation	(54)	(58)	Tax Rate* 31.8%	(97)	(106)
Attributable profit	103	118		186	216
Add back:					
Amortisation of acquisition intangibles	7	8		17	16
Restructuring & acquisition costs	17	15		32	31
Inventory revaluation	-	-		15	-
Tax on excluded items	(2)	(5)		(11)	(11)
Adjusted attributable profit	125	136		239	252
Adjusted earnings per share ("EPSA")	14.0¢	15.4¢	EPSA Growth 10%	26.8¢	28.5¢

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

## Revenue growth by business segment Q2 2009

Quarter 2*	Actual %	Currency %	Underlying %
Orthopaedics	(6)	6	-
Endoscopy	(9)	7	(2)
Advanced Wound Management	(9)	13	4
Group	<u>(7)</u>	<u>7</u>	<u>-</u>

\* Q2 2009 comprises 63 trading days (2008 – 64 trading days)

## Underlying revenue growth by geography & business segment Q2 2009

<i>Quarter 2</i>	<i>US \$m</i>	<i>Growth %</i>	<i>Europe \$m</i>	<i>Growth %</i>	<i>ROW \$m</i>	<i>Growth %</i>	<i>Total \$m</i>	<i>Growth %</i>
Orthopaedics	290	2	149	(8)	92	7	531	-
Endoscopy	83	(10)	62	4	42	7	187	(2)
Advanced Wound Management	39	-	111	3	58	8	208	4
Group	412	(1)	322	(3)	192	7	926	-

# Profitability by business segment Q2 2009

2009	<i>Second Quarter</i>			<i>Half Year</i>
	<i>Revenue \$m</i>	<i>Trading Profit \$m</i>	<i>Margin %</i>	<i>Margin %</i>
Orthopaedics	531	129	24.4	23.9
Endoscopy	187	43	22.7	22.0
Advanced Wound Management	208	40	19.1	17.0
Total	<u>926</u>	<u>212</u>	<u>22.9</u>	<u>22.0</u>
<b>2008</b>				
Orthopaedics	567	126	22.3	22.9
Endoscopy	205	40	19.3	20.0
Advanced Wound Management	228	32	14.1	11.8
Total	<u>1,000</u>	<u>198</u>	<u>19.8</u>	<u>19.9</u>

## Free cash flow Q2 2009

	<i>Second Quarter</i>		<i>Half Year</i>	
	<i>2008</i>	<i>2009</i>	<i>2008</i>	<i>2009</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Trading profit	198	212	380	395
Share based payment	5	6	10	10
Depreciation and amortisation	56	62	108	118
Capital expenditure	(73)	(89)	(134)	(131)
Movements in working capital and provisions	(32)	(56)	(91)	(129)
Trading cash flow	<u>154</u>	<u>135</u>	<u>273</u>	<u>263</u>
Restructuring, rationalisation & acquisition costs	(18)	(17)	(43)	(28)
Macrot textured claim	(3)	(1)	(6)	(2)
Operating cash flow	<u>133</u>	<u>117</u>	<u>224</u>	<u>233</u>
Net interest paid	(15)	(12)	(31)	(22)
Taxation paid	(63)	(94)	(96)	(147)
Free cash flow	<u><u>55</u></u>	<u><u>11</u></u>	<u><u>97</u></u>	<u><u>64</u></u>
Closing Net Debt			(1,505)	(1,205)

## 2009 outlook

- Revenue growth
  - Market growth rates subject to macroeconomic uncertainty
  - Relative to market: guidance unchanged except for the increased impact of market weakness in Ortho on higher specification products
- Continued material scope for margin improvement
- Tax rate 31.8%, Interest cost 3-4%



David Illingworth  
Chief Executive

# Conclusion



## Orthopaedics

- High specification products disproportionately impacted by the economy. Recovery will bring substantial upside
- Traditional products continue to do very well

## Endoscopy

- Repair performing well
- New product launches

## Advanced Wound Management

- US focus
- NPWT opportunity

Profitability programmes are driving margins and investment capability

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		Q2	
	Growth* %	Growth* %	Growth* %	Growth* %	Revenue \$m	Growth* %	Revenue \$m	Growth* %	Revenue \$m	Growth* %
<b>Orthopaedics</b>										
Reconstruction										
Knees	1%	9%	10%	9%	759	7%	184	5%	189	1%
Hips	4%	7%	3%	5%	688	5%	164	2%	168	(1)%
Trauma	2%	4%	5%	6%	421	4%	100	6%	102	2%
Clinical therapies	(2)%	6%	10%	0%	245	4%	50	2%	61	(4)%
<b>Endoscopy</b>										
Arthroscopy	7%	10%	8%	10%	643	9%	146	3%	154	4%
Visualisation	(5)%	12%	9%	7%	150	6%	27	(12)%	28	(26)%
<b>Advanced Wound Management</b>										
Exudate Management	6%	15%	6%	2%	254	7%	55	9%	63	3%
Infection Management	(1)%	9%	13%	13%	107	9%	25	31%	28	13%
<b>Smith &amp; Nephew</b>	2%	8%	7%	7%	3,801	6%	865	4%	926	0%

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

## Exchange rates

\$:€	<u>Q2/08</u>	<u>FY/08</u>	<u>Q1/09</u>	<u>Q2/09</u>
Period end	1.58	1.39	1.33	1.41
Average	1.56	1.46	1.30	1.36
\$:£				
Period end	1.99	1.44	1.43	1.65
Average	1.97	1.84	1.43	1.54

Percentage of Revenue by Geographic Market:	Q2 %
United States	45
United Kingdom	7
Other Europe	27
Other	21

# Analysis of restructuring and acquisition costs

	P&L Charge		Cash Spend	
	Q2 \$m	Total to date \$m	Q2 \$m	Total to date \$m
EIP				
– cash costs*	8	82	11	75
– asset w/offers	6	21	n/a	n/a
Plus Integration				
– cash costs**	-	90	6	83
– asset w/offers	1	14	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

	Second Quarter		Half Year	
	2008	2009	2008	2009
	\$m	\$m	\$m	\$m
Free cash flow	55	11	97	64
Add back: capital expenditure	<u>73</u>	<u>89</u>	<u>134</u>	<u>131</u>
Net cash inflow from operating activities (IAS 7)	<u><u>128</u></u>	<u><u>100</u></u>	<u><u>231</u></u>	<u><u>195</u></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)	BIRMINGHAM° Mid Head Resection (OUS)	R3° Ceramic (US)	
PERI-LOC° Screws & Trays	LEGION° Primary Porous	PROMOS° Total Shoulder System Cap	
INTERTAN° CHS	TRIGEN° Semi-extended Tibia Nail Insertion Instruments	VLP Foot Locked Plating System	
XL Hip Scopes	BICEPTOR° Tenodesis System	Drill Wire System	R3° Constrained Liners
New DYONICS° Powersource	Small Joint Blades	Small Cannulated Screws	Small Joint MDU
RENASYS° Go	RENASYS° EZ Negative Pressure Wound Therapy	DYONICS° RF System	ACTICOAT° Site and Large Post Op dressings
ALLEVYN° GENTLE BORDER Heel	RENASYS° consumables	500 XL Lightsource	ACTICOAT° FLEX Ribbon
ACTICOAT° FLEX	Silver versions of ALLEVYN° GENTLE range	ALLEVYN° Community Dressing	Surgical Post-Op Dressings