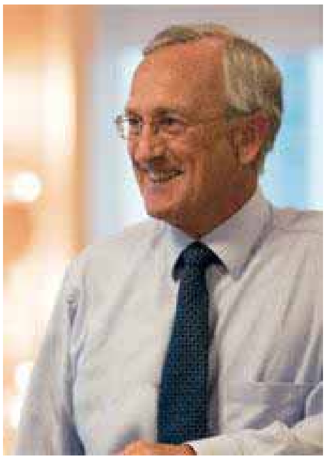
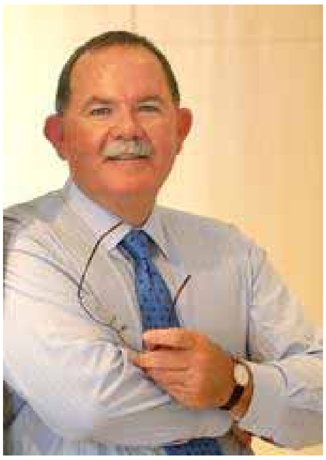
smith&nephew

2007 Financial Results

Review from our Chairman and Chief Executive



John Buchanan
Chairman



David J. Illingworth
Chief Executive

Market conditions in Smith & Nephew's chosen areas of expertise remain favourable with strong demand for innovative products illustrating that advances in technology in the field of medical devices are valued by clinicians and healthcare providers around the world.

The Company had a very successful year in Reconstruction with the BIRMINGHAM HIP° Resurfacing System ("BHR°") in the US, following its launch there in 2006, and saw Smith & Nephew's US knee business recover in the fourth quarter. Reconstruction continues to deliver above market growth as it has done for 5 consecutive years. Advanced Wound Management returned to growth after several difficult years and did so while the business was being restructured. Endoscopy earned double digit revenue growth for the first time in five years benefiting from investment in its business outside the US. In Trauma the Company now has a good product range and the sales force to deliver continued growth.

Two significant acquisitions were made during the year. In May Plus Orthopedics Holding AG ("Plus") a private Swiss orthopaedic company, was acquired for CHF 1,091 million ($889 million) in cash, including assumed debt. After this acquisition Smith & Nephew ranks fourth in the global orthopaedic reconstruction market. During the second quarter the acquisition of BlueSky was announced, a negative pressure wound therapy business. BlueSky provides a very valuable entry into this $1.4 billion fast growing segment of the woundcare market. The worldwide launch of the product range began in the first quarter of 2008.

The Earnings Improvement Programme ("EIP") was launched in the first quarter of 2007 and by the end of the year had improved the trading margin, before the two acquisitions made in the year, by over one per cent. Good progress was made in the operational management of the company. Functions have been centralised within and across the four businesses in areas such as IT and procurement and substantial changes have been made in manufacturing and sales force management.

Smith & Nephew's long term strategy is to concentrate on high growth segments in the four businesses, with emphasis on meeting the needs of customers and acquiring businesses which fit within this strategy. The Company's innovative products which enable good outcomes for patients, medical professionals and healthcare providers alike are expected to generate continued growth in 2008 and beyond.

Review from our Chairman and Chief Executive
Full Year Results and Dividend

The Company grew Group revenues in the year to $3,369 million (a 21% increase in reported revenues) with particularly strong growth in Reconstruction. Reconstruction revenues were $1,240 million for the year, benefiting from hip resurfacing in the US and a recovery in US knee revenues in the fourth quarter.

Reported trading profit for the year was up 24% to $706 million with a 21.0% trading margin, 50 basis points higher than 2006 as the benefits of the EIP become clear. The EIP has good momentum going into 2008.

Net interest and finance charges were $24 million as the gearing of the balance sheet takes effect. The tax charge of $202 million reflects the effective rate for the year of 29.6% on profit before restructuring costs, acquisition related costs, the legal settlement and amortisation of acquisition intangibles. Adjusted attributable profit of $480 million is before the costs of restructuring, acquisition related costs, the legal settlement and amortisation of acquisition intangibles and taxation thereon. Attributable profit was $316 million.

Adjusted earnings per ordinary share ("EPSA")1 rose by 15% to 52.0¢ (260.0¢ per American Depositary Share, ("ADS")). Reported basic earnings per share were 34.2¢ (171.0¢ per ADS).

Trading cash flow2 was $602 million compared with $342 million a year ago. This is a trading profit to cash conversion ratio of 85% compared with 60% a year ago reflecting stronger working capital management and a reduction in the working capital and capital expenditure requirements of the US launches of JOURNEY° Bi Cruciate Stabilised Knee System, LEGION° Revision Knee System and BHR.

Share buy-back programme

Under the two year share buy-back programme of up to $1.5 billion announced last year the Company had bought back a total of 52 million shares at a cost of $640 million by the end of the year. The board has reviewed this programme in the light of current market conditions and opportunities. In order to preserve flexibility the Board currently expects to complete the programme over three years.

Dividend

The second interim dividend has been declared in the amount of 7.38¢ per share, a 10% increase in line with current dividend policy, and will be paid on 9 May 2008 to shareholders on the Register of Members at the close of business on 18 April 2008. The Sterling equivalent per ordinary share will be set on 18 April 2008. Shareholders may elect to receive their dividend in either Sterling or US Dollars and the last day for election will be 16 April 2008. Together with the first interim dividend of 4.51¢ per share (22.55¢ per ADS) this makes a total declared dividend of 11.89¢ per share (59.45¢ per ADS) for the year 2007, up 10%. Shareholders may participate in the Company's dividend reinvestment plan.

1. Adjusted earnings per ordinary share ("EPSA") growth is as reported, not underlying, and is stated before restructuring and rationalisation costs, acquisition costs, the legal settlement with the US Department of Justice, ("the legal settlement"), amortisation of acquisition intangibles and taxation thereon, and in 2006 the gain on the disposal of the joint venture and the related fair value adjustment. A calculation of EPSA is provided in Note 2 to the Summary Financial Statement.

2. Trading cash flow is cash generated from operations less capital expenditure but before the Macrotextured settlements, acquisition related costs, the legal settlement and restructuring costs.

Review from our Chairman and Chief Executive
Business Reviews

In the business reviews that follow the revenue growth percentages are in underlying terms – they exclude the effects of currency translation and the effects of acquisitions. Underlying revenue growth provides a consistent year on year measurement of business performance. Revenue, trading profit and operating profit by business segment is set out in Note 3 and Note 4 of the Summary Financial Statement.

Orthopaedic Reconstruction

Revenues grew by 13% to a total of $1,240 million, making this the 5th consecutive year of above market growth which in 2007 grew by an estimated 9%. The active informed patient segment is the focus of this business and the segment in which the Company continues to have a clear competitive advantage.

Reconstruction revenues in the US at $618 million grew by 18% benefiting from continued BHR° procedure adoption. Outside the US Reconstruction revenues grew by 7%. Trading margin for the year was 23.8%, 160 basis points lower than in 2006.

Hip revenue growth remained strong at 21% worldwide. In the US hip revenues grew by 37% as BHR enjoyed a continuing high level of acceptance and benefited towards the end of the year from the publication of the Australian registry data which showed that the BHR has superior survival rates to all other hip resurfacing products.

Worldwide knee revenue growth was 9%, with knee growth in the US of 7% affected by the focus of the sales force on BHR but towards the end of the year an improved balance in the sales force's focus drove some recovery in knee revenues. JOURNEY° Bi Cruciate Stabilised Knee System and JOURNEY DEUCE° Bi Compartmental Knee System revenues both grew well. Outside the US knee revenues grew 11%.

In September 2007 an industry wide settlement was agreed with the US Department of Justice. As part of the settlement a Monitor was put in place for 18 months. Smith & Nephew Reconstruction continues to work closely and co operatively with him and his team. The business is co operating fully with the Securities and Exchange Commission in their informal investigation into industry wide relationships with surgeons in some European countries.

Orthopaedic Trauma and Clinical Therapies

Trauma and Clinical Therapies revenues grew by 13% to $618 million with growth in the US of 13% and outside the US of 15%. Trading margin for the year was 20.7%, 110 basis points over 2006, as the benefits of the EIP driven reorganisation begin to be realised.

Fixation product revenues grew by 10% worldwide, compared to estimated market growth of 10%, and by 11% in the US, and 7% outside the US. Revenues from TRIGEN° INTERTAN° Nails and the PERI LOC° Locked Plating System, including the new VLP ranges, drove growth. The Company is determined to improve this level of growth to above the market and is focused on measures to improve the quality of service to customers, especially in the US.

Clinical Therapies revenue growth was 20% with a strong contribution from the EXOGEN 4000+° Ultrasound Bone Healing System which grew revenues well above the market growth rate. The joint fluid therapies market continued to be impacted by reimbursement pricing pressure causing a slowing of revenue growth in this market segment.

Review from our Chairman and Chief Executive

Endoscopy

Endoscopy revenues grew to $732 million, an increase of 10%. This is the first year of double digit revenue growth in Endoscopy for five years. This growth has been fuelled by investment outside the US in the sales force and marketing, and by the increasing focus on arthroscopy. Revenues grew by 15% outside the US and 4% in the US. Smith & Nephew continue to see very good opportunities in the markets in Europe and Asia. Trading margin for the year was 20.1%, 110 basis points over 2006.

Arthroscopy revenues grew by 10%, with strong growth in all segments, behind our current estimate of market growth. Repair revenues at 16% continue to outpace resection growth where revenues grew by mid single digits.

Digital Operating Room ("DOR") and Visualisation revenues grew by 9%. The new HD camera, launched earlier in the year, has been well received in the market.

Advanced Wound Management

In 2007 a series of management actions have been taken to restructure Advanced Wound Management. These actions include the announcement of the move to China of a significant proportion of manufacturing, the renegotiation of supply contracts and the elimination of layers of management. Momentum is now building in this business and Smith & Nephew continues to see substantial potential.

Revenues grew by 5% to $779 million. US revenue growth was 9%. Outside the US revenues grew by 4% against a background of tighter European healthcare budgets. Trading margin for the year was 17.5%, 120 basis points over last year as management actions taken as part of the EIP realise benefits.

Revenues in the exudate management segment grew well above the market at 13% benefiting from a strong performance from the ALLEVYN° dressings range and the launch of ALLEVYN Ag Absorbent Silver Barrier Dressing in September 2007. Infection management grew more slowly as a result of lower US demand. The surgical segment continued to grow strongly, from a small base, driven by the VERSAJET° Hydrosurgery System and achieved over 45% growth.

Review from our Chairman and Chief Executive
Outlook

The revenue outlook for 2008 for both the individual businesses and for the business as a whole continues to be positive. Underlying demographic trends are creating strong demand and our innovative products and customer focused approach to the market enables the Company to meet this demand.

In addition the EIP is progressing well and Smith & Nephew continues to expect to achieve, on average, at least a 1% improvement in trading margin per annum, before the impact of acquisitions and any change in pricing environment, between the start of the programme and the end of 2010.

There are several factors driving the Company's confidence in continued growth, including the growth in demand for current products, continued emphasis on new products, acquisition gains and the good momentum from the EIP. Smith & Nephew faces 2008 and beyond with confidence.

Summary Financial Statement

The Companies Act 2006 (the 'Act') permits companies to make their Annual Report available on the internet as the default option, as opposed to mailing printed copies of the document to shareholders. At the last Annual General Meeting Smith & Nephew plc's shareholders passed a resolution that enables the Company to take advantage of this option. As a result of the AGM resolution, the impact on the environment of distributing the Annual Report will be significantly reduced.

The Act also allows companies to provide a Summary Financial Statement as an alternative to the full Annual Report. In order to provide the majority of users with the accounts in a simpler, shorter format, the Group is now producing an internet only version of the SFS which can be seen on the following pages.

The content included in the 2007 Financial Results is based on the preliminary announcement.

Summary Financial Statement
Auditors' Statement

Independent auditors' statement to the members of Smith & Nephew plc.

We have examined the Group's Summary Financial Statement for the year ended 31 December 2007 which comprises the Group income statement, condensed Group statement of recognised income and expense, Group balance sheet, condensed Group cash flow statement and the related notes 1 to 15.

This report is made solely to the Company's members as a body in accordance with Section 251 of the Companies Act 1985. To the fullest extent required by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Summary Financial Statement in accordance with applicable law.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the full annual accounts, directors' report and directors' remuneration report, and its compliance with the relevant requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Summary Financial Statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement.

Basis of opinion

We conducted our examination in accordance with Bulletin 1999/6 'The auditors' statement on the Summary Financial Statement' issued by the Auditing Practices Board. Our report on the Company's full annual accounts describes the basis of our audit opinions on those accounts and the directors' remuneration report.

Opinion

In our opinion the Summary Financial Statement is consistent with the full annual accounts, the directors' report and directors' remuneration report of Smith & Nephew plc for the year ended 31 December 2007 and complies with the applicable requirements of Section 251 of the Companies Act 1985, and regulations made thereunder.

Ernst & Young LLP
Registered auditor
London, 18 March 2008

Summary Financial Statement

Auditors' Statement

Important Note

This Summary Financial Statement is a summary of information in the Group's full annual accounts and was approved by the Board on 18 March 2008 and signed on its behalf by John Buchanan, David J. Illingworth and Adrian Hennah. It does not contain sufficient information to allow a full understanding of the results of the Group and state of affairs of the Company or of the Group. The report of the auditors on the full accounts for the year ended 31 December 2007 was unqualified and did not contain a statement made under either Section 237(2) of the Companies Act 1985 (accounting records or returns inadequate or accounts not agreeing with records or returns) or Section 237(3) (failure to obtain necessary information and explanations).

For further information the full accounts and the auditors' report on those accounts should be consulted. Shareholders have the right to demand, free of charge, a copy of the Group's full Annual Report, which may be obtained from the Company's registrars.

The maintenance and integrity of the Smith & Nephew plc web site is the responsibility of the directors?the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Annual Report and Summary Financial Statement since they were initially presented on the web site.

Summary Financial Statement
Group Income Statement

Group Income Statement for the year ended 31 December 2007 [(A)]

	Notes	2007 $million	2006 $million
Revenue	3	3,369	2,779
Cost of goods sold		(994)	(769)
Gross profit		2,375	2,010
Selling, general and administrative expenses		(1,740)	(1,353)
Research and development expenses		(142)	(120)
Operating profit	4	493	537
Interest receivable		10	19
Interest payable		(40)	(9)
Other finance income		6	3
Profit before taxation		469	550
Taxation	11	(153)	(156)
Profit from continuing operations		316	394
Discontinued operations: Net profit on disposal of the joint venture	12	–	351
Attributable profit for the year [(B)]		316	745
Earnings per ordinary share [(B)]			
Including discontinued operations:			
Basic		34.2¢	79.2¢
Diluted		34.1¢	78.9¢
Continuing operations:			
Basic		34.2¢	41.9¢
Diluted		34.1¢	41.7¢
Discontinued operations:			
Basic		–	37.3¢
Diluted		–	37.2¢

A. The presentation of the Group income statement has been changed – see Note 1.
B. Attributable to the equity holders of the Parent Company.

Summary Financial Statement
Group Income Statement

Condensed Group Statement of Recognised Income & Expense for the year ended 31 December 2007

	2007	2006
Exchange differences on translation	94	59
Exchange on borrowings classified as net investment hedges	(47)	–
Cumulative translation adjustment on disposal of the joint venture	–	(14)
Losses on cash flow hedges	(14)	(4)
Actuarial (losses)/gains on retirement benefit obligations	(22)	30
Taxation on items taken directly to or transferred from equity	8	(11)
Net income recognised directly in equity	19	60
Attributable profit for the year	316	745
Total recognised income and expense for the year [(B)]	335	805

Summary Financial Statement
Group Balance Sheet

Group Balance Sheet as at 31 December 2007

	Notes	2007 $million	2006 $million
Assets			
Non current assets			
Property, plant and equipment		743	635
Goodwill		1,198	640
Intangible assets		449	191
Investments		9	10
Investments in associates		11	–
Deferred tax assets		135	110
		2,545	1,586
Current assets			
Inventories		837	619
Trade and other receivables		898	680
Cash and bank		170	346
		1,905	1,645
Total assets		4,450	3,231
Equity and Liabilities			
Equity attributable to equity holders of the parent			
Called up equity share capital		190	189
Share premium account		356	329
Treasury shares	14	(637)	(1)
Accumulated profits and other reserves		1,907	1,657
Total equity		1,816	2,174
Non current liabilities			
Long term borrowings		36	15
Retirement benefit obligation		184	154
Other payables due after one year		47	3
Provisions due after one year		33	34
Deferred tax liabilities		63	35
		363	241

Summary Financial Statement

Group Balance Sheet

Group Balance Sheet as at 31 December 2007

	Notes	2007 $million	2006 $million
Current liabilities			
Bank overdrafts and loans due within one year		1,442	119
Trade and other payables due within one year		545	421
Provisions due within one year		80	49
Current tax payable		204	227
		2,271	816
Total liabilities		2,634	1,057
Total equity and liabilities		4,450	3,231

Summary Financial Statement
Condensed Group Cash Flow Statement

Condensed Group Cash Flow Statement for the year ended 31 December 2007

	2007 $million	2006 $million
Net cash inflow from operating activities		
Profit before taxation	469	550
Add net interest payable/(Less net interest receivable)	30	(10)
Depreciation, amortisation and impairment	237	169
Share based payment expense	23	14
Utilisation of Plus inventory stepped up on acquisition	64	–
Movement in working capital and provisions	(130)	(217)
Cash generated from operations [C]	693	506
Net interest (paid)/received	(30)	10
Income taxes paid	(225)	(144)
Net cash inflow from operating activities	438	372
Cash flows from investing activities		
Acquisitions [D]	(781)	(83)
Disposal of the joint venture	–	537
Capital expenditure	(194)	(222)
Net cash (used in)/provided by investing activities [E]	(975)	232
Cash flows from financing activities		
Proceeds from issue of ordinary share capital	28	16
Treasury shares purchased	(640)	–
Cash movements in borrowings	1,078	(293)
Settlement of currency swaps	(14)	(10)
Equity dividends paid	(105)	(96)
Net cash provided by/(used in) financing activities	347	(383)
Net (decrease)/increase in cash and cash equivalents	(190)	221
Cash and cash equivalents at beginning of year	291	65
Exchange adjustments	8	5
Cash and cash equivalents at end of year [F]	109	291

Summary Financial Statement

Condensed Group Cash Flow Statement

C. After $23 million (2006 – $33 million) unreimbursed by insurers relating to macrotextured knee revisions offset by a receipt of $22 million (2006 – nil) from a successful legal settlement, $33 million (2006 – $4 million) of acquisition related costs, $39 million (2006 – $21 million) of outgoings on restructuring, rationalisation expenses and acquisition costs and a legal settlement of $30 million (2006 – nil).

D. Net of $18 million of cash and overdrafts acquired with Plus in 2007 (2006 – $2 million cash acquired with acquisitions).

E. Discontinued operations accounted for nil (2006 – $537 million) of net cash flow from investing activities.

F. Cash and cash equivalents at the end of the period are net of overdrafts of $61 million (2006 – $55 million).

Summary Financial Statement
Notes

1. In the current year, the Group has altered the presentation of its income statement to present items by function as permitted by IAS 1. The presentation of prior years has been amended to conform to the current year presentation.

2. Adjusted earnings per ordinary share ("EPSA") is a trend measure which presents the long term profitability of the Group excluding the impact of specific transactions that management considers as affect the Group's short term profitability. The Group presents this measure to assist investors in their understanding of trends. Adjusted attributable profit is the numerator used for this measure.

   EPSA has been calculated by dividing adjusted attributable profit by the weighted (basic) average number of ordinary shares in issue of 923 million (2006 – 941 million). The diluted weighted average number of ordinary shares in issue is 928 million (2006 – 944 million).

	Notes	2007 $million	2006 $million
Attributable profit for the year		316	745
Acquisition related costs	7	111	20
Restructuring and rationalisation expenses	5	42	–
Legal settlement	9	30	–
Amortisation of acquisition intangibles		30	14
Loss on hedge of the sale proceeds of the joint venture		–	3
Net profit on disposal of the joint venture	12	–	(351)
Taxation on excluded items	11	(49)	(6)
Adjusted attributable profit		480	425
Adjusted basic earnings per ordinary share		52.0¢	45.2¢
Adjusted diluted earnings per ordinary share		51.7¢	45.0¢

Summary Financial Statement
Notes

3. Revenue by segment for the year to 31 December 2007 was as follows:

	2007 $million	2006 $million	Underlying growth in revenue %
Revenue by business segment			
Reconstruction	1,240	919	13
Trauma and Clinical Therapies	618	514	13
Endoscopy			
Advanced Wound Management			
	3,369	2,779	10
Revenue by geographic market			
United States	1,550	1,365	
Europe[G]	1,177	867	
Africa, Asia, Australasia & Other America	642	547	
	3,369	2,779	

G. Includes United Kingdom revenue of $309 million (2006 – $255 million).

Responsibility for the Group's spinal products was transferred from the Endoscopy business to the Trauma and Clinical Therapies business with effect from 1 January 2007. Spinal products are now reported within the Trauma and Clinical Therapies segment and comparative periods have been amended to conform to current year presentation.

Underlying revenue growth is calculated by eliminating the effects of translational currency and acquisitions. Reported growth in revenue by business segment reconciles to underlying growth in 2007 as follows:

	Reported growth in revenue %	Constant currency exchange effect %	Acquisitions effect %	Underlying growth in revenue %
Reconstruction	35	(4)	(18)	13
Trauma and Clinical Therapies	20	(2)	(5)	13
Endoscopy	13	(3)	–	10
Advanced Wound Management	12	(6)	(1)	5
Total revenue	21	(4)	(7)	10

Summary Financial Statement
Notes

4. Trading profit is a trend measure which presents the long term profitability of the Group excluding the impact of specific transactions that management considers as affect the Group's short term profitability. The Group presents this measure to assist investors in their understanding of trends. Operating profit reconciles to trading profit as follows:

	Notes	2007 $million	2006 $million
Operating profit		493	537
Acquisition related costs	7	111	20
Restructuring and rationalisation expenses	5	42	–
Legal settlement	9	30	–
Amortisation of acquisition intangibles		30	14
Trading profit		706	571

Trading and operating profit by business segment for the year to 31 December 2007 were as follows:

	2007 $million	2006 $million
Trading Profit		
Reconstruction	295	233
Trauma and Clinical Therapies	128	101
Endoscopy	147	123
Advanced Wound Management	136	114
	706	571

	2007 $million	2006 $million
Operating Profit		
Reconstruction	131	200
Trauma and Clinical Therapies	112	101
Endoscopy	141	122
Advanced Wound Management	109	114
	493	537

Summary Financial Statement
Notes

5. In 2007, restructuring and rationalisation expenses comprised $45 million relating to the earnings improvement programme less $3 million relating to the write back of prior year's provisions.

6. On 31 May 2007 the Group completed the acquisition of Plus Orthopedics Holding AG ("Plus"), a private Swiss orthopaedic company for a total of CHF 1,091 million ($889 million) in cash, including assumed debt. This is being integrated into the Group's Reconstruction and Trauma and Clinical Therapies business segments. In 2007, from the date of acquisition on 31 May 2007, Plus products contributed $200 million to revenue. The cost of the acquisition has been allocated on a provisional basis to the assets acquired and liabilities assumed on acquisition as follows:

	Pre acquisition carrying amounts $million	Provisional fair value adjustments $million	Fair value to Group $million
Property, plant and equipment	81	(2)	79
Intangible assets	10	232	242
Investments in associates	6	4	10
Deferred taxation assets	19	(19)	–
Inventories	106	66	172
Trade and other receivables	128	–	128
Loans and borrowings	(181)	–	(181)
Deferred taxation liabilities	(4)	(34)	(38)
Retirement benefit obligation	(6)	(16)	(22)
Trade and other payables	(125)	(4)	(129)
Net assets	34	227	261
Equity attributable to minority interests			(4)
Goodwill on acquisition			463
Cost of acquisition			720
Discharged by:			
Cash			726
Cash acquired in Plus			(18)
Costs associated with acquisition			12
Total purchase consideration			720

In 2007 $38 million was paid to acquire certain Plus minority interests and distributors.

Summary Financial Statement
Notes

7. In 2007, "acquisition related costs" comprise $51 million relating to Plus integration, $64 million relating to the utilisation of the Plus inventory stepped up to fair value on acquisition less $4 million of accrual relating to the failed bid to purchase Biomet Inc., in 2006 that was reversed. In 2006, $20 million of adviser's fees were incurred in relation to the failed bid to purchase Biomet Inc.

8. On 10 May 2007, Smith & Nephew acquired BlueSky Medical Group Inc. for an initial payment of $15 million with further milestone payments of up to $95 million related to revenues and other events. The cost is assessed as $50 million, being the present value of probable consideration of $49 million and $1 million of costs associated with the acquisition. Of the $50 million, $26 million has been allocated to intangible assets, $10 million to deferred taxation liabilities and $34 million to goodwill.

9. The legal settlement of $30 million in 2007 relates to the civil settlement agreed with the US Department of Justice following an industry wide investigation.

10. The cumulative number of revisions of the macrotextured knee product was 1,029 on 31 December 2007. This represents 35% of the total implanted. Settlements with patients have been achieved in respect of 977 of these revisions. In 2007, the provision increased by $22 million to reflect an increase in anticipated costs to settle outstanding and future claims, offset in the income statement by a receipt of $22 million from a successful legal settlement. A provision of $41 million remains available to cover the estimated cost of settlements pending and future claims by patients assuming that insurance cover continues to be declined.

11. Taxation of $153 million (2006 – $156 million) for the year is at the full year effective rate of 32.6% (2006 –28.9%). The tax charge was reduced by $49 million in 2007 as a consequence of restructuring and rationalisation expenses, acquisition related costs, the legal settlement and amortisation of acquisition intangibles. The tax charge was reduced by $6 million in 2006 as a consequence of the acquisition related costs.

12. On 23 February 2006 the Group sold its 50% interest in the BSN Medical joint venture for cash consideration of $562 million. The net profit of $351 million on the disposal of the joint venture is after a credit of $14 million for cumulative translation adjustments, $27 million of transaction and associated costs, indemnity provision of $3 million and a release of taxation provisions of $23 million. The Group's discontinued operations earnings per ordinary share for the year in 2006 was basic 37.3¢ and diluted 37.2¢.

13. The 2007 first interim dividend of 4.51 US cents per ordinary share was paid on 9 November 2007. A second interim dividend for 2007 of 7.38 US cents per ordinary share was declared by the Board on 7 February 2008 and will be paid on 9 May 2008 to shareholders on the Register of Members on 18 April 2008.

14. In February 2007, the Group commenced a share buy back programme of up to $1.5 billion over an initial two years. As at 31 December 2007, 51,955,000 ordinary shares had been purchased at a cost of $640 million.

    In February 2008, the Board reviewed the programme in the light of current market conditions and opportunities and in order to preserve flexibility the Board currently expects to complete the programme over a total of three years.

Summary Financial Statement
Notes

15. (Net debt)/net cash as at 31 December 2007 comprises:

	2007 $million	2006 $million
Cash and bank	170	346
Long term borrowings	(36)	(15)
Bank overdrafts and loans due within one year	(1,442)	(119)
Net currency swap liabilities	(2)	(2)
	(1,310)	210

Summary Financial Statement

Summary Remuneration Report

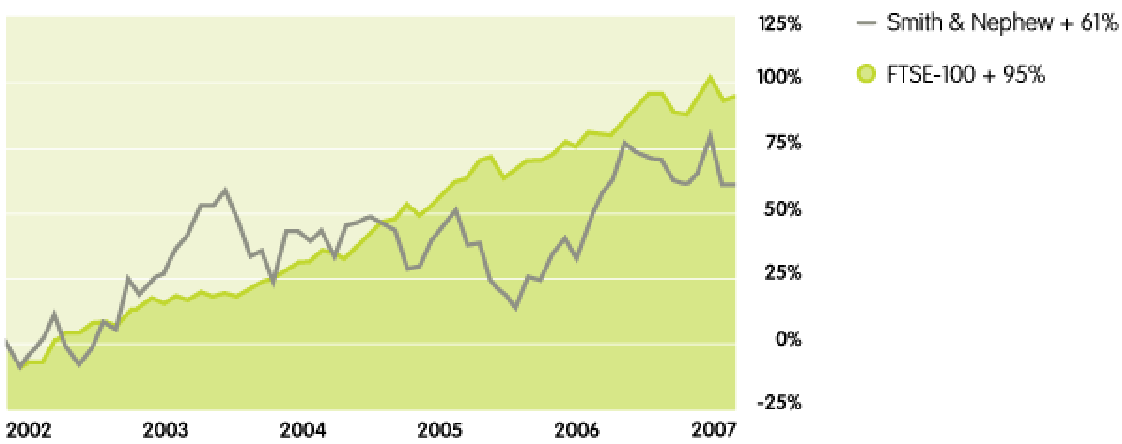
The full Remuneration Report is contained in the 2007 Annual Report at www.smith-nephew.com/investors.

Remuneration policy

The remuneration policy, as approved by the Remuneration Committee, is designed to ensure that remuneration is sufficiently competitive to attract, retain and motivate executive directors and executive officers of a calibre that meets the Group's needs to achieve its business objectives. Remuneration includes base pay and benefits which are targeted at median competitive levels for acceptable performance, and incentive schemes which are designed to motivate and reward for outperformance. Remuneration packages are benchmarked by reference to appropriate UK and US companies and where relevant other local markets. Individual remuneration levels are based on measurable performance against fair and open objectives and there are no automatic pay adjustments unless required by law or local protocol. Major changes to the remuneration policy are discussed with the Group's principal shareholders.

Performance graph

As a component company of the FTSE-100 the Company's Total Shareholder Return (TSR) performance compared to the TSR of the FTSE-100 index is shown below.



Summary Financial Statement
Summary Remuneration Report

Directors' emoluments and share interests

	Total emoluments[(i)]		Ordinary share interests	
	2007 £'000	2006 £'000	31 Dec 2007 Shares	1 Jan 2007 Shares
Chairman:				
John Buchanan (appointed Chairman April 2006)	325	235	121,131	60,351
Executive directors:				
David J Illingworth, CEO (appointed CEO July 2007)	1,311	790	51,045	31,855
Adrian Hennah, CFO (appointed CFO June 2006)	1,063	502	7,834	–
Non-executive directors:				
Dr Rolf W H Stomberg	62	56	13,092	13,092
Warren D Knowlton	68	56	59,501	54,001
Richard De Schutter	60	47	250,000	250,000
Dr Pamela J Kirby	54	47	8,500	8,500
Brian Larcombe	54	47	20,000	5,000
Former directors:				
Sir Christopher O'Donnell (retired July 2007)	974	1,358		

i. Inclusive of salaries and fees, benefits, annual bonus, pension entitlements and salary supplement in lieu of pension contributions.

ii. In January 2006 Sir Christopher O'Donnell acquired 50,000 Deferred Shares which are not listed on any stock exchange and have extremely limited rights. On his retirement in July 2007 these shares were transferred to David J. Illingworth.

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Directors' incentives

Share options

	1 Jan 2007	Granted	Lapsed	Exercised	Profit on Exercise (£)	31 Dec 2007 or on ceasing to be a director
David J Illingworth	364,515	210,504	(110,157)	–	–	464,862
Adrian Hennah	103,686	73,934	–	–	–	177,620
Sir Christopher O'Donnell (retired July 2007)	920,121	160,294	(199,365)	–	–	881,050

Long-term incentive plans

	1 Jan 2007	Awards	Value Awarded £'000	Lapsed	Vested	Value Vested £'000	31 Dec 2007 or on ceasing to be a director
David J Illingworth	238,150	245,696	1,527	(33,700)	(48,355)	280	401,791
Adrian Hennah	161,289	107,740	675	–	–	–	269,029
Sir Christopher O'Donnell (retired July 2007)	369,136	258,397	1,413	(332,114)	(84,815)	326	210,604

Under the Co-investment Plan, subject to the growth in ESPA over a three year period, at 31 December 2007, David J Illingworth would be eligible for up to 57,650 shares, Adrian Hennah would be eligible for up to 27,042 shares and at his date of retirement Sir Christopher O'Donnell would be eligible for up to 70,510 shares.