



Protecting our future

Supporting healthcare professionals for over 150 years

Sustainability report 2014

 **smith&nephew**

We are a global medical technology business and have been supporting healthcare professionals to help improve people's lives for over 150 years.



1 Caring for customers

We strive continuously to innovate and pioneer ways of caring for our customers and improving people's lives.



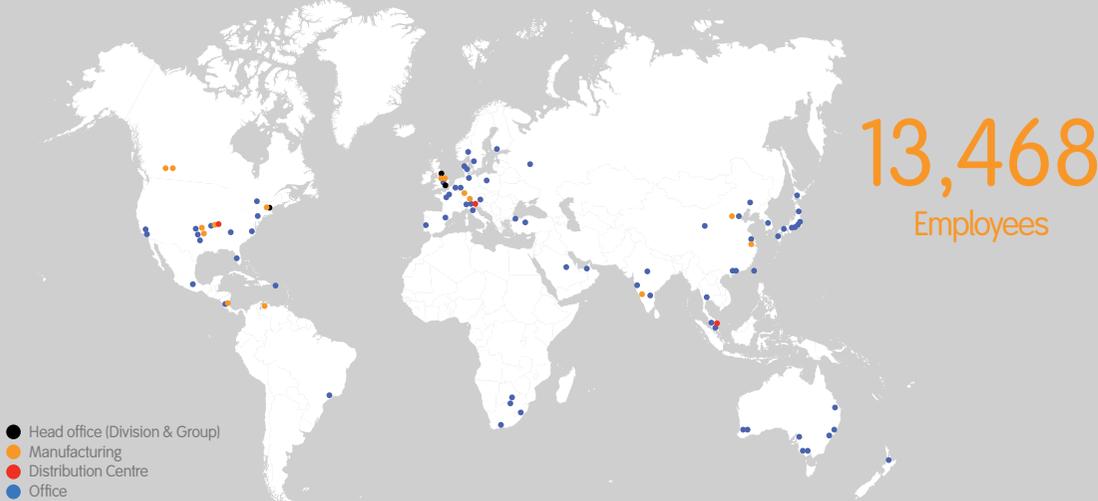
2 Caring for employees

Employees are our most important asset and caring for them is one of our core values.



Smith & Nephew today

Our operations are global, serving customers in more than 100 countries.



3 Caring for the environment

We are committed to continuously reducing our environmental impacts.



4 Caring for society

We care for the society in which we work.



Smith & Nephew today

Our business is about caring for customers and improving people's lives, including those of our employees.



What does sustainability mean to Smith & Nephew?

At Smith & Nephew we are devoted to supporting our customers and improving people's lives. We also care passionately about our people, the society in which we work and the environment in which we operate. We strive to earn trust by being ethical in all our activities, and we expect the same from those who work with us such as our suppliers.

We aspire to be a responsible business that sets an example for others.

What were your sustainability highlights in 2014?

We substantially reduced our injury rate, a reflection of strong leadership, managing risk and embedding a safety culture across the organisation.

We maintained our unwavering commitment to ethical business practices across the organisation including our newly acquired businesses.

In 2011, we set ourselves challenging environmental improvement targets. Since then Smith & Nephew has changed significantly, with a 20% increase in production value and the inclusion of major acquisitions. Although our absolute environmental burden increased, our underlying trend with the exception of total waste was very encouraging.

We were delighted with our ongoing listing in the Dow Jones Sustainability Index and FTSE4Good Index in recognition of our commitment to customers, patients, employees and stakeholders.

What challenges did you encounter in 2014?

We are focused on optimising our manufacturing footprint in line with our strategic goal to simplify our operating model. We transferred some production from Hull to Suzhou, China, which will provide long-term sustainable benefits, whilst announcing investment in the Hull site along with new plans to focus on the development and launch of new products there. We also needed to integrate our newly acquired businesses quickly and effectively to ensure our sustainability practices and standards were adopted. As a result, I am pleased to say that important steps were taken throughout the year to more fully integrate Healthpoint, Sushrut-Adler and ArthroCare. Successfully addressing these companies has given us confidence in our ability to embed sustainable business practices across our expanding Group.

With so many unexpected events occurring around the world, what is Smith & Nephew doing to protect its customers and stakeholders from disruption?

Keeping our commitments to our customers and stakeholders and protecting our employees are absolute priorities for us. During 2014, we began to strengthen our emergency response, crisis management and business continuity plans across Smith & Nephew. We ran several exercises at our most critical manufacturing sites and have plans to continue to develop processes, train managers and test our crisis teams throughout 2015, as we proactively address the full range of potential threats to our business.

How do you balance the need to achieve short-term results with the need for longer-term investments?

We have a responsibility to manage the company in the long-term best interests of shareholders as a whole. In 2011, we set our strategic priorities with a focus on making Smith & Nephew fit and effective for the future. Since then we have been investing in our existing businesses, acquiring higher growth businesses, creating new and disruptive commercial platforms, and driving greater efficiency. This has required investment, sometimes at the cost of short-term gain.

However, we believe that we have built a stronger Smith & Nephew and are now at the point where we can begin to realise the greater benefits for all of our stakeholders.

What does being a 'Great Place to Work' mean for you?

The ability to attract and retain talented employees is essential to achieving our business goals.

This is why we are working to be recognised by the Great Place to Work Institute in the countries where we conduct business. To achieve this we must demonstrate that we have a workplace where employees are proud and excited to come each day, a place where employees are valued for their performance and achievements, and a place that values trust above all else. I was proud when we achieved our first accreditation in 2014.

What are your plans and key priorities for the future?

We enter 2015 as a more efficient business. However, the journey to transform Smith & Nephew continues, and this means we must ensure our sustainability strategy remains fit for purpose. In 2015, we will fully review our needs and set challenging new goals for 2020 aligned with our changing business.

We will keep investing in R&D to deliver sustainable new products, enhance value and extend access to wider segments of society. We will build our mid-tier portfolio in the emerging markets and our new Syncera commercial model for established markets. We also plan to expand our workplace wellness programmes, further strive to reduce injuries in the workplace and increase our efforts to reduce our environmental impact.

Olivier Bohuon
Chief Executive Officer

Smith & Nephew today

Our business model delivers value

Our value creation process

Research & Development

We invest in products that address unmet patient needs, improve outcomes and access and reduce the economic burden on healthcare systems.

We also drive pioneering into our business models, seeking new ways to serve our customers such as value proposition Syncera and the mid-tier portfolio.

Ethics & Compliance

We conduct business ethically everywhere we operate. We rigorously enforce ethics and compliance standards and expect the same from those with whom we do business.

Our Code of Conduct and Business Principles governs how we achieve these objectives.

Manufacturing

We implement Lean Manufacturing throughout our factories and supply chain to improve and sustain higher levels of service, quality, productivity and efficiency.

We are optimising our manufacturing, supply and distribution footprint to reduce our cost of goods.

Medical Education

We are proud to support the professional development of surgeons and nurses by providing medical education and training on our products to help ensure safe and effective treatment for patients.

Every year thousands of customers attend our training centres and courses around the world.

Sales & Marketing

We invest in our sales and marketing teams who ensure our customers have the advanced technologies and supporting services they need to treat their patients.

We support the provision of advanced medical and surgical treatments in over 100 countries.

Cash generated from operations

\$961m

Our Capital Allocation Framework

Reinvest for organic growth

Progressive dividend policy

Acquisitions in line with strategy

Return excess to Shareholders

Maintain a strong balance sheet to ensure solid investment grade credit metrics

Resource utilised

\$7.3bn

Total Assets

\$235m

Investment in R&D

13,468

Employees

15

Manufacturing plants worldwide

\$245m

Corporation tax paid

With a strategy to drive our performance

Our strategic priorities

Established Markets

Build upon existing strong positions, win market share through greater product and commercial innovation and drive efficiencies to liberate resources.

Emerging & International Markets

Deliver thought leadership in the Emerging & International Markets by building strong, direct customer relationships, widening access to our premium products and developing portfolios designed for the mid-tier population.

Innovate for value

Accelerate our rate of innovation by investing more in research & development to support projects that will move clinical and cost boundaries and deliver maximum value.

Simplify and improve our operating model

Pursue maximum efficiency in everything we do, streamline our operations and manufacturing, remove duplication and build strong global functions to support our commercial teams.

Supplement organic growth with acquisitions

Build our platform by acquiring complementary technologies, manufacturing and distribution in the emerging markets and complementary products or businesses in our higher growth segments.

How we manage sustainability

We believe that good governance lies at the heart of a well-run company.

Openness and transparency, accountability and responsibility should run through everything we do from the top of the Group at Board level and throughout the business as a whole. The Corporate Governance section of our Annual Report gives full details of our Corporate Governance Framework and the structures and processes we have in place to ensure that our Group is well governed.

Sustainability governance

- The Board formally approves the sustainability policy and reviews sustainability performance on an annual basis
- The Chief HR Officer, who reports to the Chief Executive Officer, has executive oversight of HSE and Sustainability
- HSE performance is reviewed by the Commercial and Operations Committee at every meeting
- The Chief Executive Officer receives weekly HSE updates from the Chief HR Officer
- The Vice President HSE and Sustainability provides the leadership and cohesion to deliver the sustainability strategy
- HSE and sustainability performance is driven by line management supported by a HSE Leadership Team of senior functional specialists.

Ethics oversight

We have multiple levels of ethics oversight at Smith & Nephew to ensure our managers, employees and business partners act with integrity. These include executive oversight and leadership through our Group Ethics and Compliance Committee, which includes our Chief Executive Officer and business and corporate function heads. We have built a world-class compliance programme supported by a Chief Compliance and Risk Officer, reporting to the Chief Executive Officer, and a global Office of Ethics & Compliance.

Managing Directors complete an annual certification to confirm implementation of required programmes. Managers and employees complete an annual compliance certification and executive management, managers and employees have a compliance performance objective customised to their level in the organisation.

We support this sense of ownership with various communication tools, such as compliance articles on our company intranet, regular communications to Managing Directors, and also reporting line posters and face-to-face training.

A message from our Chairman

I am pleased to report that we made robust progress in 2014 towards our goal of building a long term sustainable business for our stakeholders. Highlights such as building the structure to deliver affordable products that address unmet patient needs in the emerging markets, coupled with the sharp fall in both employee injuries and landfill waste were all very encouraging. Our determination to conduct ourselves ethically wherever we do business continues to be an imperative and was extended comprehensively to our newly acquired businesses in 2014. We also made significant progress improving the resilience of our Group by strengthening our capability to respond to incidents and disasters. The Smith & Nephew Board takes sustainability very seriously and our continued efforts to improve our sustainability credentials have been recognised again by listings on the Dow Jones Sustainability Index and FTSE 4 Good. In 2015 the company will be engaging further with our stakeholders as we plan our sustainability strategy and targets for 2020.



Roberto Quarta
Chairman



Board

Audit Committee

Provides independent assessment of the financial affairs of the Company, reviews financial statements and controls, and the risk management process. Manages use of internal and external auditors.

Remuneration Committee

Determines remuneration policy and packages for Executive Directors and Executive Officers.

Nomination & Governance Committee

Reviews size and composition of the Board, succession planning, diversity and governance matters.

Ethics & Compliance Committee

Reviews and monitors ethics and compliance matters across the Group. Reviews and oversees quality and regulatory matters.

Ad Hoc Committees

Ad hoc committees may be established to review and approve specific matters or projects.

Chief Executive Officer

Supporting the Business

Various committees and groups relating to the running of the business report to the Chief Executive Officer. These groups have a dual role both advising the Chief Executive Officer and also implementing the strategy throughout the business. A number of these committees also report regularly to the Board or one of its Committees.

Commercial & Operations Committee – Committee of the Executive Officers, advising the Chief Executive Officer on commercial and operational matters

Regional Leadership Teams – Implement work of regional presidents

Functional Leadership Teams – Implement work of functional presidents

Disclosure Committee – Approves all announcements (except routine regulatory matters) released to investors and to UKLA, London and New York Stock Exchanges, and SEC

Finance & Banking Committee – Approves banking and treasury matters, corporate structure changes, acquisition details

Group Risk Committee – Reviews risk registers and mitigation plans, reports to Board and Audit Committee

Health, Safety and Environment Leadership Team – Oversees health, safety and environmental matters across the Group

Diversity & Inclusion Council – Implements strategies to promote diversity and inclusion across the Group

Group Benefits Committee – Oversees policies and processes relating to pension and employee benefit plans

Group Ethics & Compliance (including Quality) Committee – Monitors developments in compliance and quality matters, approves enhanced compliance programme, reports to Board Ethics & Compliance Committee

Investment in the Strategic Priorities

Investment in our Strategic Priorities, important for our future success, is governed through a number of committees and groups. These groups report either to the Chief Executive Officer or to one of the Executive Officers and are focused on allocating resources to and overseeing investment in the strategic priorities. Regular reports from these groups are submitted to the Board or one of its Committees.

Research & Development Council – Reviews and evaluates R&D projects, determining the allocation of resources, ensuring alignment with corporate strategy, reports regularly to the Board

Mergers & Acquisitions Council – Oversees corporate development strategy, monitors status of transactions and approves various stages of acquisition prior to presentation to Board

Capital Governance Board – Sets group level targets for capital expenditure priorities and monitors capital expenditure within the parameters set by the Board

IT Governance Board – Oversees the IT strategy and investment allocation throughout the Group, monitors IT systems and cyber security, reports regularly to the Audit Committee

Group Optimisation Committee – Oversees the implementation of the Group Optimisation project, reports regularly to the Board

European Process Optimisation Committee – Oversees the implementation of the European ERP project

Smith & Nephew today

Building trust

Smith & Nephew aims to be honest and fair in all aspects of its operations and expects the same from those with whom it does business.

Ensuring our training remains effective

We incorporate contemporary principles of instructional design in our training modules to help ensure effectiveness. We give employees the ability to choose relevant roles and we use interactive scenarios so employees can apply their knowledge. In our Code of Conduct training, employees can earn 'trust points' and 'achievement badges' if they make the right choices in the scenarios.

Employees can earn additional badges by completing optional scenarios. During the 2014 annual training, well over 50% of employees elected to complete optional scenarios, suggesting they found the course engaging, interesting and relevant.



We believe that ethical and compliant behaviour is driven by three key components: ownership by managers and employees, education that is effective and relevant, and controls for significant compliance risks. Our ethics and compliance programme governs our activities in the conduct of our business and our interactions with healthcare professionals and third parties.

Distributor monitoring and site assessment programmes implemented.

Education and awareness

Employees and third parties who have significant interactions with healthcare professionals or government officials receive training on our Code of Conduct. We assign annual compliance training to employees. In 2014, this was an updated module on our Code. We also provide role-based compliance training to managers, finance professionals and other key roles. Finally, we developed and piloted a face-to-face course for new managers, which supplements the online manager certification training. In 2015, all targeted managers will be required to complete both the online and the face-to-face course. We track the effectiveness of our training with course evaluations and surveys and we take appropriate action based on the feedback we receive.

To continue our commitment to ethical conduct, during 2014 we provided anti-bribery and anti-corruption training to finance professionals and distributor relationship managers to help them understand the risks. We also offered face-to-face and annual training to employees in our manufacturing sites without regular access to computers. Our education is defined by more than just training. Our compliance intranet offers additional resources which employees can use to drive ethical and compliant decisions.

New managers complete online and face-to-face training that teaches them about earning trust, which is a Group value.

Code of Conduct and Business Principles

Our Code of Conduct and Business Principles governs the way we operate. Our Global Policies and Procedures ('GPPs') provide detailed guidance on key risk areas ranging from hiring healthcare professionals as consultants, to information security, to hiring and managing third parties. The tools and resources on our internal website support our Code and policies and help turn our rules into actionable steps that employees can follow.

We continue to audit and monitor adherence to our compliance controls regarding interactions with healthcare professionals and government officials and third parties and take appropriate corrective and preventive action when we find areas that need improvement. We develop our monitoring schedule based on an annual risk assessment that takes into account factors such as a country's Corruption Perception Index ('CPI') score, a market's previous monitoring scores, sales distribution channels and other relevant factors. During our 2014 monitoring year we have tested 22 markets.

In 2014, we developed Additional Compliance Standards to complement our Code of Conduct and to supplement the compliance terms in the Territory Sales Agreement signed by third party distributors and sales agents located outside of the US. These Standards cover key risk areas, such as payments and gifts, sponsorships to training events or conferences, grants, donations and tenders. These standards will be implemented in early 2015.

We also completed a Market Risk Assessment to identify and implement additional controls, as required. We piloted a 'spot check programme' in six direct markets. Under this programme, our Regional Compliance Officers perform quarterly checks on targeted high-risk areas both in their own market and in a peer's market. This programme complements the formal monitoring completed by our Global Compliance Monitoring Team and acts as an early warning system. We plan to implement this globally in 2015.

Working with third party sellers

Smith & Nephew has implemented comprehensive processes to ensure that all of our distributors operate their businesses according to the same business principles as us.

Our Office of Ethics & Compliance subjects new distributors to different levels of screening based on risk criteria and requires the principal to take anti-bribery training and provide a compliance certification. Any red flags must be cleared to move forward. Next, the distributor signs a sales agreement that includes mandatory compliance terms, including an agreement to comply with our Code. Following a signed agreement, the distributor receives a welcome pack from the Chief Compliance Officer, including a toolkit with compliance related resources for the distributor to use to develop or strengthen its own compliance programme. The toolkit is available in 14 languages.

Anti-bribery and corruption training is provided to finance professionals and distributor relationship managers to help them understand potential risks.

In 2014, Smith & Nephew also implemented both a distributor monitoring programme and distributor site assessment programme. Monitoring visits include reviewing a sample of accounting transactions from the books and records of the distributor. In 2014 we had conducted 8 distributor monitoring assignments.

The site assessment programme is conducted by our Regional Compliance Officers. The programme is designed to help Smith & Nephew evaluate the distributor's commitment to compliance with laws and the Smith & Nephew Code of Conduct. Both monitoring and site assessment events can result in an action plan to address particular areas noted during the review. We have completed approximately 100 site assessments.

Conflict Minerals

In response to the requirements of the 2010 Dodd Frank Act, we reported our status in accordance with the rules of the US Securities and Exchange Commission in May 2014. We remain committed to resourcing responsibly and will continue to monitor developments and be prepared to respond appropriately.

Caring for customers

We strive continuously to innovate and pioneer ways of caring for our customers and improving people's lives.

New innovative business models and products developed to address unmet patient needs

Global Quality and Regulatory Affairs function established

Arrangements for emergency response, crisis management and business continuity strengthened

Sustainability considerations applied to supplier selection and retention extended



Caring for customers

2014 in review

Addressing unmet patient needs with more affordable products gathered pace in 2014. We also improved our response to disruptive incidents and strengthened our quality management organisation to provide a more resilient and consistent service to customers.

Innovation to provide more affordable healthcare solutions

Syncera offers hospitals and other healthcare providers a pioneering delivery model for clinically proven primary total hip and knee products using cutting-edge technologies that streamline orthopaedic services at a reasonable price in developed markets. In response to feedback from healthcare providers and patients we designed a solution that optimises the supply chain and reduces costs. Syncera provides greater flexibility for customers through transparent pricing and contracting coupled with the ability to order, monitor, manage and remit payment for knee and hip implants via a series of connected systems.



Syncera
Powered by  smith&nephew

Addressing unmet patient needs

There is a real societal need for affordable healthcare in more than half the world's population. Facilitating access to healthcare in these emerging markets is a key business and sustainability priority for us. Developing innovative and pioneering solutions to meet this need gained considerable traction in 2014 with the emergence of new mid-tier products and the Syncera range of value solutions.

A cohesive new product development process

In 2014 we launched a new global cross-business project to drive the optimisation of our marketing and new product development processes. Fundamentally we aim to connect the needs of our customers more effectively into our core processes and strategic decision making to ensure we develop and launch relevant and exciting new innovations which are sustainable and drive consistently high quality execution. This way we can secure long term sustainable growth and market leadership in key franchises. This project provides the breakthrough opportunity to build sustainability considerations into all future new product developments at the optimum point in the process.

Managing our supply chain

Extending a positive influence to standards across our supply chain is a natural extension of our role as a responsible business. In addition, demand from consumers for more ethical sourcing is both a significant and growing challenge. We have changed our procurement processes to reward those suppliers that operate in a more sustainable and ethical manner.

As reported last year, we instigated the Supplier Information Management (SIM) survey as part of our process of selecting and retaining suppliers. In addition to our Code of Conduct for supplier accountability, we now have a method to measure sustainability considerations for supplier selection. Procurement and New Product Development (NPD) teams now integrate SIM results into supplier selection scoring when awarding new or existing product purchases, and we have now completed this process for 92% of our largest suppliers.

Building business resilience

We are committed to protecting the interests of our customers and stakeholders by continuously improving the resilience of our business. Natural and human made disasters all have huge potential to disrupt our ability to serve customers. In 2014, we commenced a two year programme to strengthen our emergency response, crisis management and business continuity capability. Risks were reassessed and upgraded processes progressively introduced incorporating international good practice and contemporary standards (ISO 22301:2012). We held simulated disaster exercises at several of our major manufacturing sites to accelerate learning and performance. Further developments, training and exercises across our business are planned for 2015.

Responding to Ebola

Our resilience was put to the test in 2014 by the emerging Ebola crisis. With customers in the affected region, employees working with surgeons who could be impacted by potential cases and service centres dealing with potentially contaminated returned wound therapy devices, we needed to deploy robust measures rapidly. A global team was deployed to review the extent of the issue and the risks involved and to develop an effective response taking account of all the emerging advice from organisations such as the World Health Organisation and the US Centers for Disease Control and Prevention. Within 10 days, plans had been developed, deployed and communicated with a 24/7 monitoring process employed to pick up any emerging developments. Throughout the crisis, our customer service continued uninterrupted.

QA reorganises for a stronger Smith & Nephew

In 2014, we announced the creation of a central Global Quality Assurance and Regulatory Affairs ('QARA') function, with the aim of improving compliance and being better positioned to support growth plans. The new global function is focused on improving performance, reducing risk and a vision that includes:

- Simple, standard and consistent processes and systems
- Customer satisfaction and responsiveness in handling complaints
- No self-induced preventable recalls
- Building a great reputation with the US FDA and other regulatory bodies
- Adaptive and controlled response to changing business needs
- Simple, efficient organisation

Our new QA organisation is based upon 4 pillars including quality assurance, regulatory affairs, customer complaints and quality systems and regulatory compliance.

We are confident that the new structure will allow us to achieve our global, long-term vision for Smith & Nephew. The new function allows for a high degree of consistency and will drive good quality outcomes for our customers.

Advocating for regulatory policy changes to support surgeons and patients

We collaborated with the FDA to make changes in agency guidance implementing a 2012 law on custom devices. The law allows device manufacturers to produce a limited number of custom devices each year based on the unique anatomies and characteristics of a small number of patients. Under a very limited set of circumstances, companies are exempt from traditional FDA pre-market pathways when the patient numbers are so small that companies would not be able to conduct a clinical study. The change in the FDA guidance will enable us to meet a significant need of surgeons and their patients by providing the right product for their individual situation in a timely fashion.

Caring for customers

Extending our reach

Serving the mid-tier

Emerging and International Markets are experiencing higher living standards and the demand for wider access to affordable healthcare is increasing.

ELECT \diamond Foam was one of the first mid-tier products developed in 2014, raising the standard available through the following approaches:

- Value Engineering; combination of lean design and manufacturing technologies,
- Design Innovation; modularity through utilisation of predicate technology,
- Intuitive Design; enabling user ease of use



ELECT FOAM dressing offers access to the advantages of foam-based wound care at an affordable price.

Caring for employees

Employees are our most important asset and caring for them is one of our core values.

Annual reduction in Group lost time injury frequency rate

-19%

Wellness programmes extended to all of our employees as part of being a 'Great Place to Work'

Travel safety, security and health programmes extended and reinforced

Focused campaigns on safe driving



Caring for employees

2014 in review

Group employee lost-time injury frequency dropped by 19% to 0.39. This was driven by a sharp focus on managing risk, holding management accountable and engaging employees in behavioural based safety programmes and supported by extended employee wellness arrangements.

Behavioural based safety campaign

The 'Don't drop the ball' campaign is all about raising awareness of safety in the workplace. This initiative started in our Memphis facility and will be 'rolled' out across other divisions in the coming year. Employees sign the ball, thereby pledging to put safety at the forefront of all of their actions. No team wants to be the one who drops the ball!



Safety and occupational health

In our ongoing mission to seek an injury and illness free workplace, we embarked on a number of highly focused and ultimately successful plans in 2014.

In our manufacturing sites, where we reduced the lost time injury frequency by 38%, we carried out a series of safety summits addressing the assessment and management of workplace risk, accountability of employees, supervisors and managers and rolled out an engaging campaign of behavioural-based safety. All of this was supported by the progressive roll out of the policies and procedures developed as part of our Integrated Management System.

We also intensified our interest in the safety and health of our commercial (non manufacturing) employees across the Group, increasing the engagement of management, employee awareness and improved reporting and follow up. This was all underpinned by a strengthened global HSE auditing process.

Maintenance safety procedures (including 'lock out tag out') in our factories and safe driving in the commercial divisions were subject to particular campaigns. Improved arrangements for travel health, safety and security were re-enforced.

Group lost time incident frequency rate (LTIFR)



Contractor safety

Our commitment to HSE not only applies to our employees but also to those contractors we choose to work with. In 2014, in recognition of the significant risks associated with our construction and maintenance activities, we launched a contractors' HSE programme which initially embraced those helping us to expand and improve our facilities in the US. The approach involved strengthening our qualification, procurement, induction, management and communication processes.

Our headline safety performance includes all employees and supervised contractors, it excludes unsupervised contractors.

We adopt the industry standard Occupational Safety and Health Administration (OSHA) system to record incidents of occupational injury and ill-health. Lost-time incidents are defined as those which result in a person not being able to report for work on the day or shift following the incident. Performance is expressed as a rate of the number of incidents per 200,000 hours worked.

Supported by international specialists, this approach has transformed contractor HSE performance and as a result is being rolled out globally.

Empowering employees

In 2014, we simplified many of our internal processes and empowered our employees to make decisions about their work and take responsibility for those decisions. This philosophy allows employees to serve customers to the best of their ability, increases morale and achieves targets.

Diversity and inclusion

We take pride in having a diverse workforce and providing an inclusive workplace for our people. In 2014, we re-energised our diversity and inclusion approach by setting up a Diversity and Inclusion Global Steering Team, sponsored by our Chief Executive Officer. This team is responsible for setting strategy, principles and targets in this area, reviewing performance and communicating progress. The team is a highly visible advocate and champion for diversity and inclusion across the business.

In addition, Local Councils at select sites are responsible for translating corporate direction into 'local' needs and targets, heightening employee awareness and increasing management sensitivity.

Talent management

Our global talent pool is defined as the tiers of employees 2 to 4 levels below the Chief Executive Officer. Our top talent pool is further defined as individuals that fall into three categories which includes performance and potential ratings by managers. The three categories are Talented Professionals, Emerging Stars and High Potential employees. In 2014, our global talent pool (mid-level and higher) comprised 38% women which is on track to achieve our 2015 target of at least 40%.

Great Place to Work

The ability to attract and retain talented employees is essential to achieving our business goals. For Smith & Nephew, being a great place to work means providing a workplace where employees are proud and excited to come each day because they are making a difference for customers and patients. In 2014, Smith & Nephew Spain was designated a 'Great Place to Work' by staff.

Wellness programme

Well-structured employee wellness programmes are proven to have very rapid payback against resources invested in their implementation. Benefits include lower absenteeism, improved staff morale, fewer workplace injuries and increased productivity. In 2014, we extended our wellness programme to build on what we had already established as part of our aspiration to be a 'Great Place to Work' and provide a harm-free workplace. Our initial target was to implement programmes at 60% of our larger facilities but this has been far exceeded as a direct result of employees embracing the initiatives.

Wellness programmes were extended to all our divisions and we saw some great examples of local teams gaining the full benefit of a varied programme at work. Initiatives included wellness newsletters, health screening, provision of fruit in offices, promotion of physical activity, cholesterol testing and general health advice for work and home. We were delighted when our Memphis facility achieved recognition as a 'Healthier Tennessee Workplace' from the Governor's Foundation for Health and Wellness.



Caring for employees

Safety when driving initiative



Safe driving awareness campaign

A targeted campaign focused on safe driving was launched in 2014 to reduce the number of driving related injuries amongst our sales teams. One element was to highlight the danger of sending SMS text messages whilst in the car. Driving whilst on company business remains one of the most hazardous activities for our workforce and a renewed focus has helped to reduce injuries and increase awareness.



4 seconds of texting



and you risk missing out on a lifetime.

Text it later.

 We are smith&nephew

Caring for the environment

We are committed to continuously reducing our environmental impacts.

Annual reduction in waste sent to landfill

-19%

Annual increase in energy consumed

+9%

Annual reduction in water consumption

-7%

Estimated reduction in pages of promotional material

-30 million



Caring for the environment

2014 in review

In 2011, we set ourselves challenging environmental improvement targets. Since then Smith & Nephew has changed significantly, with a 20% increase in production value and the inclusion of major acquisitions. Although our absolute environmental burden increased, our underlying trend with the exception of total waste was very encouraging.

The impact of increased capacity and manufactured volumes

The environmental numbers contained in this report are absolute (not normalised). On a materiality basis our manufacturing locations and distribution warehouses are responsible for approximately 99% of the energy and water consumed and waste generated.

Since 2011 when we set 15% reduction targets for all environmental categories, our manufacturing capacity and volumes have increased substantially as a result of improved efficiencies, capital investments and acquisitions. For example, between 2012 and 2014 this amounted to a 19.6% increase in the cost of production. Whilst we do not regard this as a totally robust basis for normalisation, it is clear that the huge increase in beneficial production has had a significant impact on energy, water and waste numbers.

The energy reduction challenge

Energy consumption increased by 15.3GWh (+9%) to 194GWh against a 2015 target of 151GWh (-15%). This increase was dominated by a 9.9GWh transient consumption whilst commissioning new manufacturing capacity in China whilst continuing to manufacture in the UK (see case study). A further 8.7GWh was added by newly acquired businesses. The resulting net reduction of 3.4GWh reflects the implementation of energy saving projects but does not take into account the impact of the 19.6% increase in cost of production since 2012.

Energy (GWh) – Absolute values

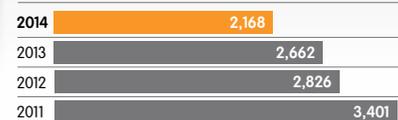


Taking the harm out of waste

Total waste increased to 9,368 tonnes (absolute value) against a 2015 target of 6,129 tonnes (-15%). This rise does not take account of the 19.6% increase in cost of production since 2012, nor the 968 tonnes arising from new acquisitions and the waste from the 2013 Hull, UK flood.

Our main success since 2011 has been taking the harm out of waste by diverting landfill waste to recycling and energy recovery. As a result, landfill waste has been reduced from 3,401 tonnes to 2,168 tonnes since 2011 including a 19% annual reduction of 494 tonnes in 2014.

Landfill waste (t) – Absolute values



Hazardous waste accounted for 5% of our total waste in 2014 and increased as a result of more types of waste being classified under this category. A significant proportion of our hazardous waste is recycled or converted into energy.

We carried out a detailed waste survey in 2014 to help us continue eliminate landfill and hazardous waste. We believe our best opportunity to reduce total waste can be achieved through incorporating sustainability principles into new product development which is being actively pursued in 2015.

Reducing water consumption

In 2014, total water consumption was 703,000m³ (absolute value) against the 2015 target of 571,000m³ (-15%). The underlying consumption of 621,000m³ (-8%) was reflected by an increase of 56,000m³ in China as part of a major energy reduction programme (see case study). A further 26,000m³ increase resulted from new acquisitions.

An annual reduction in water consumption of 49,000m³ (7%) was achieved in 2014. This was the first year water consumption reduced since 2011, due mainly by a significant breakthrough at our Memphis, US facility.

Water (1000m³) – Absolute values



The packaging challenge

We faced unexpected challenges to our plans to reduce the volume of packaging used following an increase in the number of reports of products being damaged in transit as a result of packaging failure. The focus was changed to rectify this issue and ensure robust, resilient and reliable packaging. Some progress was made reducing tertiary packaging destined for airfreight and the new consolidated 'Symphony' new product development process will make it easier to optimise packaging during the early stages of product design.

New waste reduction initiatives in Switzerland

Waste management initiatives and reductions at our facilities in Switzerland had reached a plateau but management teams were determined to make innovative improvements. Throughout 2014, they worked closely with the disposal companies to maximize the recycling opportunities and reduce environmental impacts. This partnership has resulted in most waste being sent for energy recovery rather than landfill.

Supply chain activity

In Europe we have continued to focus on reducing the need for airfreight. We have increased the total volume transported by road by 18% in 2014.

In the US our team at the Global Distribution Centre in Memphis has been migrating shipments to Europe from airfreight to ocean. We plan to work closely with our manufacturing partners globally to migrate more volumes away from air to more sustainable ocean transport in future.

Towards a paperless sales organisation

Sales force effectiveness has been enhanced by making all approved promotional material available to sales representatives and customers from anywhere around the world, at any time. This task is accomplished by migrating all paper-based tools and documents to digital form and ensures accessibility through leading edge technology. These actions enhance efficiency and reduce our carbon footprint. We estimate our savings equate to 30 million sheets of paper by using this print-on-demand model, this equates to over 150 tonnes of paper saved in 2014.



Caring for the environment

Showcase facility in China

In 2014, we completed the second phase of our new facility in Suzhou, built to manufacture some products previously made in Florida, US and Hull, UK and also designed to accommodate future growth requirements. Designed for lean manufacturing, the plant will use 32% less energy/m² of manufacturing space compared to our older facilities. Some of this saving was achieved by using evaporation cooling towers for the dominating clean room cooling requirement. Although this resulted in 56,000m³ of additional water being consumed, the overall environmental impact is lower.

Impacts of the transition

Ensuring continuity of supply to our customers requires an overlap of new plant commissioning with ongoing manufacturing in existing plants. This resulted in an additional 9.9GWh of electricity consumed in 2014 compared to 2011. A further 2.6GWh was averted by additional energy saving projects.

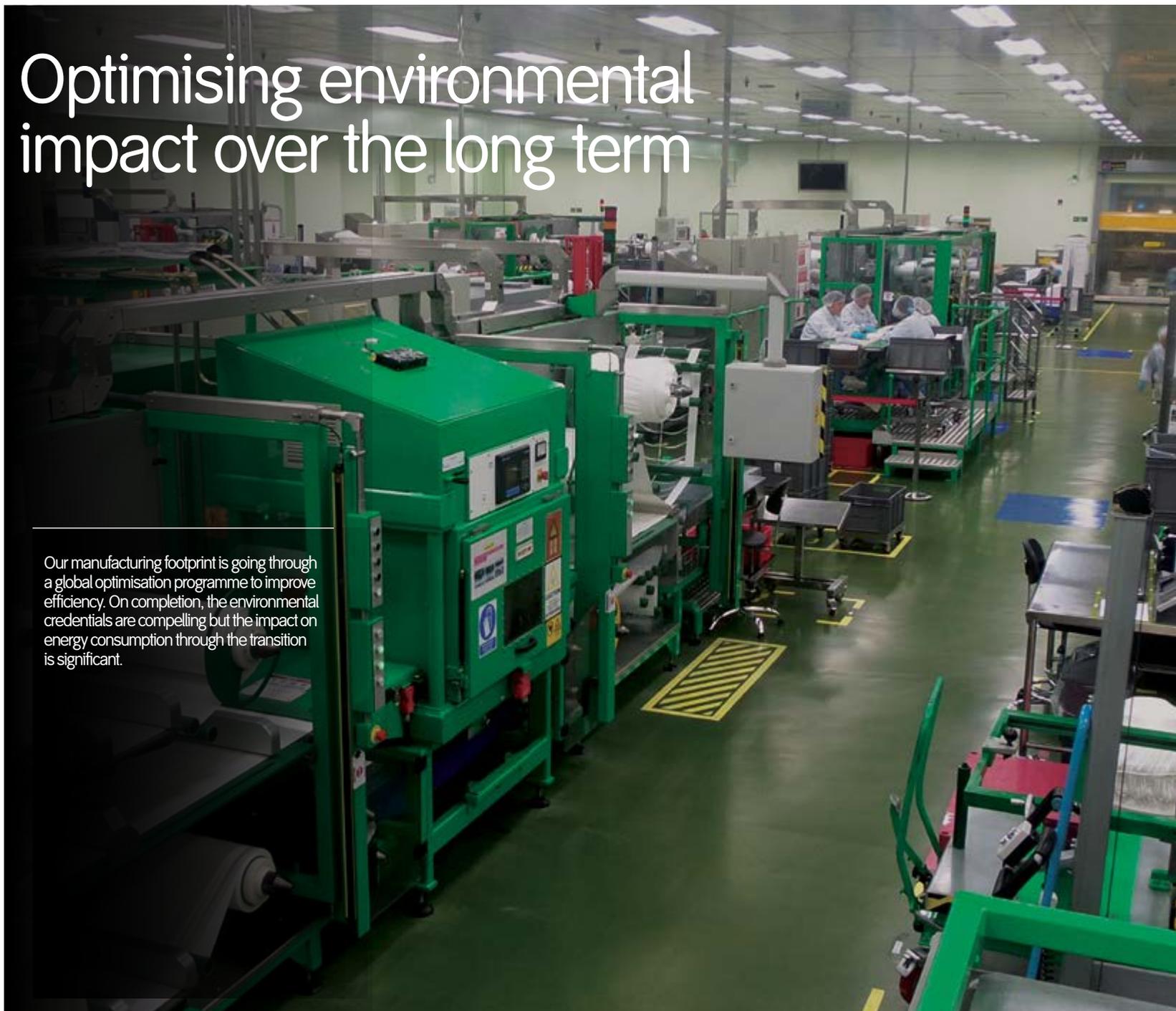
The clean room space, built with future growth in mind, provides optimum space from operating and energy perspectives. However, in the short term, until it is fully utilised means the total energy consumed per unit of output is sub optimum.

Further optimisation moves

Elsewhere we are implementing other strategic moves involving transferring key production capability to manufacture ACTICOAT[®] and polyurethane films to Hull, UK from Canada and Gilberdyke, UK respectively. These projects are also planned to optimise efficiency, quality and environmental performance. Whilst there will also be further transient energy and waste impacts in 2015, the long term position is compelling.

Optimising environmental impact over the long term

Our manufacturing footprint is going through a global optimisation programme to improve efficiency. On completion, the environmental credentials are compelling but the impact on energy consumption through the transition is significant.



Caring for society

We care for the society
in which we work

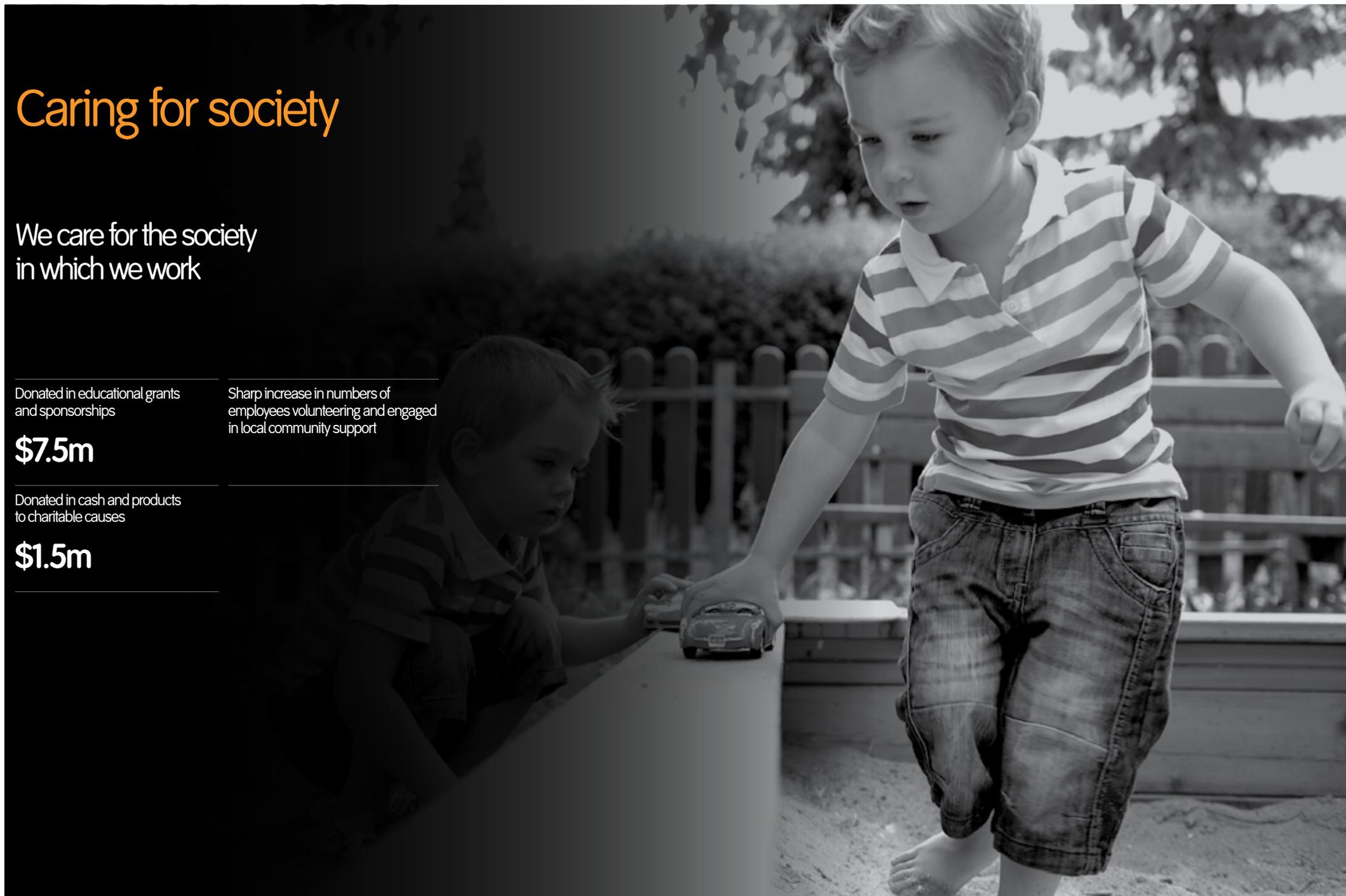
Donated in educational grants
and sponsorships

\$7.5m

Sharp increase in numbers of
employees volunteering and engaged
in local community support

Donated in cash and products
to charitable causes

\$1.5m



Caring for society

2014 in review

We are committed to make a difference in the communities where we work through donations, training and employee involvement. In 2014, we continued to support medical education through grants, fellowships, sponsorships and training and made further product donations as part of global humanitarian aid programmes. More employees volunteered and supported their local communities.

Volunteering in Australia

A Special Olympics day provided sporting opportunities for people with intellectual disabilities. The main aim of this programme was to help build confidence in the participants by trying new sports and activities, with the emphasis on getting them moving and having fun.



Corporate giving

Smith & Nephew contributes to the local community and wider society in many ways. Not only by providing employment but also by recognising the impact we have on the well-being of people who live near to our facilities and responding to the needs of worthwhile causes worldwide.

All of these activities build strong employee morale. We give both money and our employees' time through volunteering as part of these efforts. From time to time we provide grants and donations to non-profit and/or charitable organisations, medical institutions, accredited educational programme vendors, medical foundations or professional societies that are entitled to receive grants and donations under local laws. We do not provide grants or donations to individual healthcare professionals (HCPs).

Under our corporate giving programme, we also provide funding or volunteer time to organisations that do not directly or indirectly involve HCPs or government officials. This type of giving focuses on health and human services, education and the environment. In 2014, we set up a philanthropy steering group to drive our corporate giving strategy going forward.

Charitable donations

Each year we contribute approximately 1% of adjusted pre-tax profits to charitable causes. In 2014, the \$9m total comprised \$1.5m in cash and product donations, with the remainder being educational grants and sponsorships.

Employee volunteering and community engagement grows

Our employee volunteering programme is focussed on providing a positive social impact by supporting worthwhile causes engaged in health, human services, education and the environment whilst also contributing to employee well being.

All employees can take a paid day every year for volunteering, and a record number took up the offer in 2014.

Employee gift matching continues

Our employee gift matching pilot programme continued in the US and the UK. The programme allows employee donations to approved registered charities and non profit organisations to be matched by Smith & Nephew up to a pre agreed limit.

Working with young people in the Humber region

'Enlight' was an external event designed to encourage young people aged from 16 to 24 from the UK's Humber Region to recognise their potential both as individuals and potential employees. Smith & Nephew employees engaged with many young people by means of a SpeedMeet. The SpeedMeet gave the young people a chance to talk directly to local employers about what they look for in an employee and how they recruit for their organisation. It was a very rewarding event for the volunteers, especially as it gave them the opportunity to understand the barriers to employment that young people in the Humber region face.

African school room made possible

Employees in Africa contributed to the building of a new school room in a remote part of Tanzania through a range of volunteering and fundraising activities including a sponsored climb of Mount Kilimanjaro.



Willing Hearts

In our Singapore office, our employees helped the Willing Hearts organisation to prepare, pack and deliver 4,750 lunch boxes to the less privileged and elderly.



Habitat for Humanity

Employees from our Biotherapeutics facility in Fort Worth, Texas contributed to a construction project in their area.



Stop Hunger Now

Fort Worth employees also helped package 10,000 meals for the Stop Hunger Now organisation.



Caring for society

Moving Memphis Forward

Encouraging employee engagement and community support

In 2014, employees in Memphis, US used the newly formed Moving Memphis Forward Committee to encourage employee engagement and community support. This grass roots effort was led by representatives from manufacturing, administration and distribution departments. The team made it easy for employees to become involved with many organisations such as the Arthritis Foundation, Make-A-Wish Mid-South, the Smith & Nephew Scholars mentoring programme, the Church Health Center and the University of Memphis. Employees were also encouraged to take up to eight business hours during the year for volunteer work in the community. This benefit resulted in community clean-ups, student mentoring and volunteering to help non-profit organisations.



Data tables

Performance status against 2015 targets set in 2011

2015 targets	2014 Progress so far (against 2011 baseline)
Deliver a higher return to shareholders than our peer group over the long term	Dividend for 2014 was 29.6 US cents per share, up 8% on 2013. Total distribution to shareholders of \$250m in 2014. See 2014 Annual Report for peer group data.
Incorporate sustainability considerations with 100% of our major supply chain partners (spend >\$1.5m)	Supplier Information Management survey is now integral to the selection and retention of all of the Group's direct suppliers. 92% of major suppliers now covered.
Build sustainability considerations into 100% of new product development	A new product development (NPD) process is being implemented and will allow sustainability considerations to be built into the project management of these NPD projects at an early stage.
Strive for zero injuries	Zero fatalities. OSHA Total Recordable Incident Rate (TIR) has decreased by 22% to 0.91 OSHA Lost Time Incident Frequency Rate (LTIFR) has reduced by 33% to 0.39
Attain a position in top quartile of industry for safety performance	2014 Group TIR = 0.91. This places us in the top quartile of safety performance within our sector, as reported in the most recent US Department of Labor, Bureau of Labor Statistics for Injuries, Illnesses and Fatalities in the industry classification of medical equipment and supplies manufacturing, 2013.
Implement wellness programmes in at least 60% of our major facilities by 2015 (major facilities are those with >100 employees)	This target has been exceeded. This has now been extended so that most of our facilities and employees now have access to a wellness programme.
Target at least 40% global talent pool (mid-level and higher) will be women by 2015	38% of global talent pool (mid-level and higher) are now women.
Contribute more than 1% of adjusted pre-tax profits annually towards corporate citizenship/philanthropy by 2015	\$9m of philanthropy spend in 2014, of which \$1.5m was in cash and product donations and \$7.5m was in educational grants and sponsorships. This represents 0.9% of adjusted pre-tax profits. Volunteering programmes were more active in most regions and employee involvement has increased.
Employees must continue to complete annual assigned compliance training and certify adherence to our Code of Conduct and Business Principles	100% employees trained. We are supplementing online training with face-to-face training.

For detailed commentary on health and safety performance, see page 10 and for environmental data, see page 13.

Our headline safety performance includes all employees and supervised contractors, it excludes unsupervised contractors. We adopt the industry standard Occupational Safety and Health Administration (OSHA) system to record incidents of occupational injury and ill-health. Lost-time incidents are defined as those which result in a person not being able to report for work on the day or shift following the incident. Performance is expressed as a rate of the number of incidents per 200,000 hours worked. All data reported excludes acquisitions made during 2014.

2015 targets	2014 Progress so far (against 2011 baseline)	Underlying 2014 Progress so far (against 2011 baseline)
Reduce our non-renewable energy use by 15%	Energy has increased by 8.6% (15.3 GWh)	Energy has decreased by 2%
Reduce our CO ₂ emissions by 15%	CO ₂ emissions have increased by 9.8% (7,642t)	CO ₂ emissions have decreased by 2%
Reduce water use by 15%	Water usage has increased by 4.7% (31,441m ³)	Water usage decreased by 8%
Reduce packaging materials by 15%	Progress paused, the focus has moved to packaging integrity	
Reduce total waste by 15%	Total waste has increased by 29.9%	Total waste increased by 16.5%
Increase % of total waste recycled by 15%	Including waste sent for energy recovery, increased by 50.7%	Including waste sent for energy recovery, increased by 55.3%

The underlying change takes account of some transient effects including establishing production in China, the new acquisitions of Sushrut-Adler, India and Healthpoint, US and waste arising from the flood in Hull, UK. However, the underlying change does not make allowance for the 19.6% increase in cost of production (between 2012 and 2014) which could have significantly impacted the underlying energy, water and waste data.

Environmental performance (absolute data)

	2011	2012	2013	2014
Non-hazardous waste to landfill (tonnes)	3,401	2,826	2,662	2,168
Hazardous waste (tonnes)	383	447	426	491
Waste recycled for energy recovery (tonnes)	n/a	460	431	2,706
Waste recycled (tonnes)	3,427	4,007	4,783	4,003
Total waste (tonnes)	7,211	7,740	8,301	9,368
Emissions to air (tonnes CO ₂ e)				
Combustion of fuel and operation of facilities (process and fugitive)	10,948	10,976	10,152	11,213
Purchased electricity	67,420	67,169	68,795	74,797
Total emissions (tonnes CO ₂ e)	78,368	78,145	78,947	86,010
Total energy (GWh)	178	179	177	194
Water usage (1000m ³)	672	695	752	703

The emissions to air (tonnes CO₂e) for all previous years have been recalculated using the most up-to-date emissions factors available in 2014.

Summary assurance statement

Smith & Nephew has chosen DNV GL as our independent assurance providers. The assurance statement is provided below and we will provide an update on our progress in the 2015 Sustainability Report.

Smith & Nephew plc ("Smith & Nephew") commissioned DNV GL Business Assurance Services UK Limited to undertake independent assurance of the Sustainability Report 2014 (the "Report") for the year ended 31 December 2014.

For our full assurance statement, please see the Smith & Nephew website.

We performed our work using DNV GL's assurance methodology VeriSustain™, which is based on our professional experience, international assurance best practice and draws on the AA1000 Assurance Standard, International Standard on Assurance Engagements 3000 (ISAE 3000), and the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines.

Our scope included all the information on a sample basis within the report. The report covers all of Smith & Nephew's operations globally and our work, focused upon performance related information and data associated with the 2015 targets. This excluded case studies and the review of financial data taken from the Annual Report and Accounts is not within the scope of our work. We performed our work to obtain the evidence necessary to provide a basis for our opinion and a 'moderate level' of assurance.

We conducted interviews with eleven senior management and operational staff responsible for the relevant sustainability targets and supporting data. Site visits were conducted at Smith & Nephew's London HQ and Hull manufacturing facility.

On the basis of the work undertaken, nothing came to our attention to suggest that the Report does not properly describe Smith & Nephew's adherence to VeriSustain. In terms of reliability of the performance data nothing came to our attention to suggest that these data have not been properly collated from information reported at operational level, nor that the assumptions used were inappropriate.

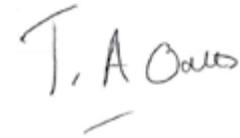
Without affecting our assurance opinion we also provided a series of observations and recommendations.

We recommend that Smith & Nephew continues to develop its approach to its sustainability strategy and reporting and that, in the future, this should be based on a formal materiality process informed by stakeholder feedback. To be effective, this process should take account of the future business strategy and operating model, risks and opportunities, and the impact of its products on society. DNV GL made a similar recommendation last year and we recognise that Smith & Nephew is in the process of developing its strategy and goals for 2020. We have been told that Smith & Nephew expect to engage with a wide range of external stakeholders as part of this process in the future.

For and on behalf of DNV GL Business Assurance Services UK Limited

London, UK

26 March, 2015



Tracy Oates

Principal Consultant and Lead Assurer
UK Sustainability, DNV GL – Business Assurance



Mark Line

Senior Principal Consultant and
Independent Reviewer
UK Sustainability, DNV GL – Business Assurance

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External recognition

We are proud to have maintained our listing on a number of high profile and prestigious socially responsible investor and sustainability indices including the following:



Contact details

Contact us: We welcome your feedback on this
Sustainability Report

Vice President of HSE & Sustainability, Smith & Nephew plc
15 Adam Street, London WC2N 6LA, UK
Email sustainability@smith-nephew.com

Product names

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