



Sustainability is better business

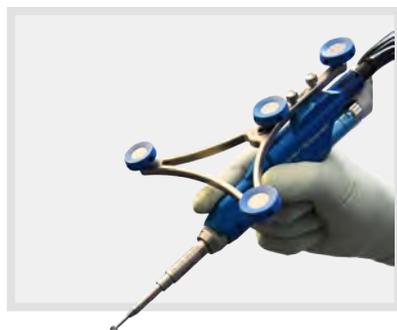
SUSTAINABILITY REPORT 2017



Supporting healthcare
professionals for over 150 years



CONTENTS



INTRODUCTION AND SUSTAINABILITY STRATEGY

2

A WORD WITH OUR CEO

3

ONE GLOBAL BUSINESS

4

HOW WE CREATE VALUE

6

A MESSAGE FROM
OUR CHAIRMAN

7

OUR STRATEGY

8

MAKING GOOD PROGRESS
AGAINST OUR GOALS

9

OUR INSIGHTS

11

EMBEDDING SUSTAINABILITY
IN OUR PRODUCTS

11

IMPROVING ACCESS TO
HEALTHCARE SOLUTIONS

13

OUR PROGRESS PUTTING PEOPLE FIRST

15

EMPOWERING OUR TALENTED
EMPLOYEES

16

MAINTAINING AN INJURY-FREE
WORKPLACE

18

SUPPORTING THE SAFE AND
EFFECTIVE USE OF OUR PRODUCTS
AND SERVICES

19

BEING A RESPONSIBLE
GLOBAL CITIZEN

20

SOME OF OUR INITIATIVES PUTTING
PEOPLE FIRST...

22

OUR PROGRESS DELIVERING PRODUCTS WITH A REDUCED FOOTPRINT

25

DELIVERING PRODUCTS
WITH A REDUCED FOOTPRINT

26

HOW WE CUT WASTE

27

HOW WE REDUCE AND
CONSERVE WATER

28

HOW WE REDUCE EMISSIONS

29

SOME OF OUR INITIATIVES TO
LOWER OUR ENVIRONMENTAL
IMPACT...

31

HOW WE MANAGE SUSTAINABILITY

32

GOVERNANCE

33

OUR APPROACH TO RISK
MANAGEMENT

34

BUILDING TRUST

35

WORKING WITH RESPONSIBLE
THIRD PARTIES

37

PERFORMANCE DATA

38

REFERENCES

39

ASSURANCE

40

HOW TO USE THIS INTERACTIVE PDF

Select the navigation tabs at the top of each page to jump to the start of that section.

Select from the contents list here or highlighted text throughout the report, to jump to that page or web link.

Additional buttons:

- Go to main contents page
- Go to previous page
- Go to next page
- Go to previous view
- Search document

Front cover: Employees from Smith & Nephew's Expert Connect Centre, Watford, UK – Natalia Zielinska (middle) Bioskills Laboratory Manager, Alejandra Alvarez Pineda and Michael Mead, Bioskills Laboratory Specialists



MORE SUSTAINABLE EVERY DAY, EVERYWHERE WE DO BUSINESS

Every day we strive to work ethically and earn trust wherever we do business. We work hard to develop smarter, more efficient and more effective technology to help healthcare professionals improve the lives of their patients. Every day we work on innovations to reduce the emissions and waste from our products.

We hear more from our stakeholders about their interest in sustainability, and we share their concern. There is no space between our business strategy and our sustainability strategy – they are one and the same. We know that our long-term business success depends on delivering our 2020 sustainability targets.

To continue achieving success in the future, we need to further embed sustainability into our products and services, improving access to our healthcare solutions.

In short, sustainability is better business – sustainability is our every day.



A WORD WITH OUR CHIEF EXECUTIVE OFFICER

It has been one year since Smith & Nephew launched the new sustainability strategy, including long-term aspirational goals and a series of targets for 2020.

HOW HAS THIS BEEN RECEIVED?

The renewed strategy has already made its mark and is making us a better business in the eyes of our customers and employees. If we achieve these goals in the next three years, we will play a significant part in tackling some great challenges facing our business and society in general. At the same time, we will also accelerate all the other work we do, by addressing climate change, supporting human rights, and raising the bar for our entire industry.

WHAT DRIVES YOU TO TAKE A HOLISTIC VIEW OF SUSTAINABILITY RATHER THAN INVESTING PROFIT INTO ENVIRONMENTAL AND SOCIAL CAUSES?

We believe that our business' long-term economic viability is connected to our social and environmental impacts. We can drive economic, social and environmental benefits better together than we can by focusing on any one individually. For example, developing solutions which improve patient outcomes, improve access to healthcare, reduce environmental impacts and drive the business and sustainability forward. This holistic focus helps us to drive wider access to, improved outcomes from and increased profitability of our products and services in a way that builds loyalty to the brand. In turn, this enables us to do more to advance in all three areas, as stakeholders better understand that what we are achieving is directly aligned with their needs and desires.

ARE WE ON TRACK TO MEET THESE TARGETS?

We are confident that we will achieve our 2020 targets. In 2017, we measured baseline performance and focused on developing our delivery plans to achieve our sustainability targets. Where programmes had already begun, we evaluated their pace and scope to speed up progress.

We know that our stakeholders' priorities include improving our environmental impact, the wellbeing of our employees and local communities, and preventing waste, so we have made these our priorities. By working towards these goals, with a renewed focus, I am determined to lead Smith & Nephew to even greater sustainability, playing a leading role in our sector.

WHY IS PLAYING A LEADING ROLE IN THE SECTOR IMPORTANT TO SMITH & NEPHEW?

The most successful organisations understand the needs of the market and efficiently meet those needs. Through their actions, our stakeholders are showing us that they place a premium on products and services that address economic, social and environmental sustainability throughout the value chain. We win by understanding and addressing these end-to-end impacts more thoroughly and more efficiently than our competitors.

WHAT CONTRIBUTIONS HAVE BEEN MADE IN 2017 TO THE NEW SOCIAL RESPONSIBILITY STRATEGY?

Our new social responsibility strategy (described on page 20 of this report) aligns our employee volunteering, philanthropic, and wellness programmes to our Group Business Strategy. It meets our stakeholders' social responsibility expectations in a way that drives the business forward and results in better engagement. We are all in this together – customers, employees and investors – ensuring we have a positive impact on society.

Olivier Bohuon
Chief Executive Officer





ONE GLOBAL BUSINESS

Smith & Nephew is a global medical technology business that has been supporting healthcare professionals to improve patients' lives since 1856. We do this by taking a pioneering approach to the design of our advanced medical products and services, by securing wider access to our diverse technologies for more customers globally, and by enabling better outcomes for patients and healthcare systems.

WITH MORE THAN 15,000 EMPLOYEES

OUR VALUES AND HOW WE ACT

Our values shape everything that we do as a business and form the basis of our relationships with all our stakeholders.



Performance

Performance means being responsive to the needs of our customers and their patients, setting ourselves clear goals and standards and achieving them.



Innovation

Innovation means being energetic, creative and passionate about everything we do, anticipating customers' needs and overcoming barriers and developing opportunities.



Trust

Trust is something we understand that we have to earn and we strive to operate with integrity and take an ethical approach to business.

AN INTEGRATED BUSINESS

UNITED STATES (US)

The United States is the Group's largest market representing 48% of our global revenue. Due to its commercial importance to the Group, its revenue is reported separately. The United States is also home to a number of our manufacturing facilities.

2017 revenue

\$2,306M

0% Reported +2% Underlying¹

OTHER ESTABLISHED MARKETS

Other Established Markets comprise commercial operations in Europe, Australia, Japan, Canada and New Zealand. We have manufacturing facilities in the UK, Germany and Switzerland.

2017 revenue

\$1,678M

0% Reported 0% Underlying¹

EMERGING MARKETS

Emerging Markets include our commercial businesses in China, Asia, India, Russia, Middle East, Africa and Latin America.

These generated 16% of Group revenue in 2017. We have manufacturing facilities in China, Costa Rica, India, Russia and Curaçao.

2017 revenue

\$781M

+13% Reported +12% Underlying¹



* Commercial Excellence including Global Marketing, R&D, Manufacturing & Supply Chain, Central Support

¹ These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 178-181 of our 2017 Annual Report.



ONE GLOBAL BUSINESS CONTINUED

SELLING NINE PRODUCT FRANCHISES

- KNEE IMPLANTS
- HIP IMPLANTS
- TRAUMA & EXTREMITIES
- SPORTS MEDICINE JOINT REPAIR
- ARTHROSCOPIC ENABLING TECHNOLOGIES
- OTHER SURGICAL BUSINESSES
- ADVANCED WOUND CARE
- ADVANCED WOUND BIOACTIVES
- ADVANCED WOUND DEVICES

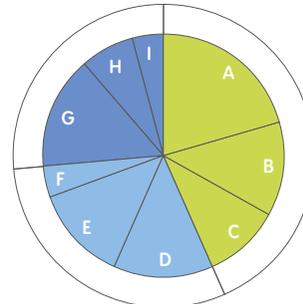


SUPPORTING HEALTHCARE PROFESSIONALS IN MORE THAN 100 COUNTRIES



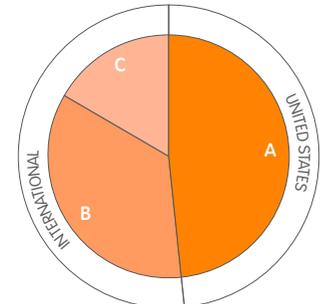
Revenue by products

A	KNEE IMPLANTS	\$984m
B	HIP IMPLANTS	\$599m
C	TRAUMA & EXTREMITIES	\$495m
D	SPORTS MEDICINE JOINT REPAIR	\$627m
E	ARTHROSCOPIC ENABLING TECHNOLOGIES	\$615m
F	OTHER SURGICAL BUSINESSES	\$189m
G	ADVANCED WOUND CARE	\$720m
H	ADVANCED WOUND BIOACTIVES	\$342m
I	ADVANCED WOUND DEVICES	\$194m



Revenue by geography

A	UNITED STATES	\$2,306m
B	OTHER ESTABLISHED MARKETS	\$1,678m
C	EMERGING MARKETS	\$781m





HOW WE CREATE VALUE

THE RESOURCES WE NEED

OUR PEOPLE

Engaging, developing and retaining our more than 15,000 employees is important to us and we work hard to be a great place to work as well as a responsible corporate citizen.

RESEARCH & DEVELOPMENT

Innovation is part of our culture and we invest 5% of our revenue to develop new products that will help improve patients' lives.

MANUFACTURING & QUALITY

We operate our global manufacturing efficiently, and at the highest possible standards, to ensure product quality at competitive pricing.

ETHICS & COMPLIANCE

We are committed to doing business the right way and apply strict business principles to the way we deal with our customers and partners.

SALES & MARKETING

We support our customers in over 100 countries. Our commercial teams are highly specialised with an in-depth knowledge across the full range of product franchises.

TRAINING & EDUCATION

Every year, thousands of healthcare professionals attend our training courses around the world. Education is fundamental to how we support our customers.

A FOCUS ON PERFORMANCE

OUR VALUE PROPOSITION

Our mission is to support healthcare professionals by providing advanced medical devices that they use in their daily efforts to improve the lives of their patients.

PIONEERING APPROACH

We take a pioneering approach to the design of our products and services. Smith & Nephew has a long history of innovation, dating back to our foundations in the 19th century, and today we support customers to manage and prevent disease states, and enable swifter recovery for their patients.

ENSURING WIDER ACCESS

We strive to secure wider access to our advanced technologies for more customers globally. In the emerging markets we have built an entrepreneurial business resourced to reach and support an ever greater number of customers in delivering affordable healthcare.

ENABLING BETTER OUTCOMES

We seek to enable better outcomes for patients and healthcare systems, providing high quality products and appropriate training to improve clinical outcomes, enabling healthcare professionals to treat more patients and improving the economic outcome for payers.

CREATING PRODUCTS

We have leadership positions in Orthopaedic Reconstruction and Trauma, Advanced Wound Management and Sports Medicine:

- Knee Implants
- Hip Implants
- Trauma & Extremities
- Sports Medicine Joint Repair
- Arthroscopic Enabling Technologies
- Other Surgical Businesses
- Advanced Wound Care
- Advanced Wound Bioactives
- Advanced Wound Devices



FOR OUR CUSTOMERS

We service our customers through our dedicated and highly trained global sales force and selected third party sellers:

- Surgeons
- Nurses
- Nurse specialists
- Physicians, GPs
- Healthcare systems
- Procurement groups
- Payers, administrators
- Retail, consumers, patients

THE OUTPUT OF WHAT WE DO

FINANCIAL PERFORMANCE
Targeting higher revenue growth and a better trading profit margin.
\$4,765m
Revenue

\$934m **\$1,048m¹**
Operating Profit Trading Profit

CAPITAL ALLOCATION FRAMEWORK
Prioritising the use of cash and ensuring an appropriate capital structure.

\$269m
Dividend

IMPROVED QUALITY OF PATIENT LIVES
Providing our advanced medical devices in more than 100 countries.
100+ countries

TRAINING AND EDUCATION
Supporting HCPs and ensuring the safe and effective use of our products.
45,000+ surgeon training instances

GREAT PLACE TO WORK
Supporting and encouraging employees to live our values.
15,000+ employees

A SUSTAINABLE BUSINESS
Working in a sustainable, ethical and responsible manner everywhere we operate.
160+ years of proud history

¹ These non-IFRS Financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 178-181 of our 2017 Annual Report.



A MESSAGE FROM OUR CHAIRMAN

Smith & Nephew is committed to creating long-term sustainable value for everyone connected to our business, including the communities in over 100 countries we proudly serve.

Our sustainable business practices not only help to improve the lives of individuals, they also strengthen our reputation and the trust that people place in our products every day.

WHAT DOES THIS MEAN?

We believe it's no longer enough for companies to focus on their direct environmental footprint, as well as their philanthropic efforts. We must also think about the indirect impacts our products have on the environment. We must consider the effects we have on communities, and the opportunities we create in society. Tackling environmental challenges and providing affordable and accessible healthcare remains critical and is a key part of our sustainable business operations.

OUR BUSINESS THRIVES AND GROWS BEST WHEN OUR LOCAL COMMUNITIES ALSO THRIVE AND GROW

We have established business priorities that are linked to the UN Sustainable Development Goals (SDGs), which aim to bring about improvements in society. Our priorities include:

- Further improvement in employee health and safety
- A further reduction in our use of water
- Introduction of low- and no-carbon energy technologies at several of our locations
- Stronger alignment of our social responsibility programme to our core business strategy
- Improvements to the robustness of our enterprise risk management approach.

We remain firmly focused on delivering our 2020 sustainability targets. We would welcome your feedback and suggestions as we continue in our relentless pursuit to create value and deliver even better sustainable business practices.

Roberto Quarta
Chairman

WELCOMING YOUR FEEDBACK

We remain firmly focused on delivering our 2020 sustainability targets. We welcome your feedback and suggestions as we continue in our relentless pursuit to create value and deliver even better sustainable business practices.

[Contact us](#)





OUR STRATEGY TAKING SUSTAINABILITY TO THE CORE OF OUR BUSINESS

Last year, we began a new journey to a more sustainable business. We launched our refreshed Group Sustainability Strategy, which both drives and is driven by our Group Business Strategy. This ensures that the three main aspects of sustainability – economic prosperity, social responsibility and environmental stewardship – are tackled together.

Our 2020 sustainability targets define the first steps in our journey to achieving our sustainability goals. Delivery against these targets is key to long-term improvement and embedding a sustainability mindset across our business.

SUSTAINABILITY VISION AND MISSION

We envision a world in which healthcare professionals have access to the solutions they need to help patients restore their health, engage in society, enhance the environment and improve their wellbeing.

Our sustainability strategy aims to achieve this vision. It outlines the steps we'll take with a view to leading our industry in the development and use of products and services that:

- Satisfy unmet health needs and promote greater access to treatment;
- Offer easier, better, faster and more effective treatment, enabling productive engagement in society;
- Prioritise materials that are re-used, re-manufactured, or recycled;
- Are manufactured using raw materials sourced from an environmentally and socially sound supply chain;
- Use natural resources efficiently;
- Are manufactured by processes that are not hazardous to people or the environment;
- Implement the most sustainable product options.

OUR 10 LONG-TERM ASPIRATIONAL GOALS

Putting people first

- 1 Zero work-related injuries and illnesses across the value chain
- 5 Ethical Business Practices: All activities are conducted in compliance with applicable International Labour Organisation (ILO) conventions, involve no environmental degradation, and are free from corruption
- 6 Zero product-related and service related patient injuries
- 7 Robust social responsibility programmes which contribute to the attraction and retention of top talent
- 9 Strategic risks and opportunities are understood and business activities are aligned to risk appetite

Delivering products with a reduced footprint

- 2 Water: Total water impacts of our products and solutions are balanced with local human and ecosystem needs
- 3 Waste: All materials are either shipped as part of product or returned for beneficial use
- 4 Carbon: 80% absolute reduction in total life cycle greenhouse gas emissions by 2050
- 8 Products and services are aligned to market economic, social and environmental expectations and anticipate future market conditions:
 - All products have identified and clearly-described sustainability attributes
 - R&D and New Product Development (NPD) processes deliver environmental-, social-, and healthcare economically-advantaged innovations
- 10 Environmental, social, and economic impacts of (1) potential acquisitions, (2) technologies to be extended to Emerging Markets, (3) innovative business models, (4) cost of quality reduction initiatives, and (5) manufacturing siting, functional optimisation and site utilisation alternatives are fully understood and appropriately balanced.

WE ARE PROUD THAT FOR OVER 15 YEARS,
WE HAVE BEEN INCLUDED IN LEADING INDICES



FTSE4Good

MEMBER OF

**Dow Jones
Sustainability Indices**

In Collaboration with RobecoSAM



MAKING GOOD PROGRESS AGAINST OUR GOALS

Our material issues	Our 10 long-term aspirational goals	Our 2020 targets	Progress since 2016 baseline	Status	Most relevant SDGs	Specific SDG target ¹
PUTTING PEOPLE FIRST						
Prevent illness and injury Ensure the health, safety and wellbeing of all Smith & Nephew's employees and contractors	1 Zero work-related injuries and illnesses across the value chain	– 10% reduction in Total Incident Rate (TIR) from 2016 actual	– In 2016 the TIR = 0.52, in 2017 TIR = 0.35 (33% lower).	ON TRACK		8.8
Operate ethically Enhance trust and promote equal opportunity	5 Ethical Business Practices: All activities are conducted in compliance with applicable International Labour Organization (ILO) conventions, involve no environmental degradation, and are free from corruption	– Labour practices throughout the supply chain associated with products accounting for 75% of revenue compliant with applicable ILO conventions	– Products accounting for 75% of revenue identified. Gap assessment to applicable ILO conventions completed for internal operations. Engagement with upstream suppliers and downstream distributors and agents ramping up.	ON TRACK		8.7 8.8
Ensure product and service quality Improve efficiency, enhance trust and reliability	6 Zero product-related and service-related patient injuries	– Robust system in place to detect, record, investigate and eliminate root cause of product-related and service-related patient injuries	– Systems are in place to detect, record and investigate patient injury incidents. Patterns in the data are being used to craft models which will allow identification of at-risk attributes.	ON TRACK		3.8
Engage communities Promote trust and extend access to care. Enhance our potential pool of talented employees	7 Robust social responsibility programmes that contribute to the attraction and retention of top talent	– Social responsibility strategy which aligns philanthropy, employee volunteering and wellness to the business strategy in place	– Social responsibility strategy in place. Alignment of current initiatives to the strategy under way.	ON TRACK		10.2
Enterprise risk management Comprehensively assess and control risks across the entirety of Smith & Nephew, to ensure sustained profitability	9 Strategic risks and opportunities are understood and business activities are aligned to risk appetite	– Enterprise risk management arrangements are embedded in the routine business decision-making process	– Risk register reinvigorated. Deep dive programme instituted with focus on both assurance that all relevant risks have been identified and effectiveness of mitigating actions is accurately assessed. – Actions to further embed into the business decision-making process are planned for 2018.	ON TRACK		



MAKING GOOD PROGRESS AGAINST OUR GOALS CONTINUED

Our material issues	Our 10 long-term aspirational goals	Our 2020 targets	Progress since 2016 baseline	Status	Most relevant SDGs	Specific SDG target ¹
DELIVERING PRODUCTS WITH A REDUCED FOOTPRINT						
Use water responsibly Enhance availability of water for alternative uses, reduce conflict and reduce environmental impact	2 Water: Total water impacts of our products and solutions are balanced with local human and ecosystem needs	<ul style="list-style-type: none"> Water footprint (1) available for products accounting for 75% of revenue and (2) considerations embedded in New Product Development (NPD) process Total potable water consumption at S&N sites no higher than 2016 actual 	<ul style="list-style-type: none"> Products accounting for 75% of revenue identified. Water footprint tools identified. Work plan under development, will be approved and commenced in 2018. Water reduction of 10%. 	ON TRACK		6.4
Reduce waste Improve resource efficiency and reduce environmental impact	3 Waste: All materials are either shipped as part of product or returned for beneficial use	<ul style="list-style-type: none"> Total material efficiency estimated for products accounting for 75% of revenue 80% or more of waste generated reused, recycled or recovered 	<ul style="list-style-type: none"> Products accounting for 75% of revenue identified. Material efficiency tools identified. Work plan under development, will be approved and commenced in 2018. We currently reuse, recycle or recover energy from 77% of our total waste, up from 74% in 2016. 	ON TRACK		12.2 12.4 12.5
Reduce carbon emissions Improve resource efficiency and reduce conflict, while enhancing biodiversity and mitigating climate change	4 Carbon: 80% absolute reduction in total life cycle greenhouse gas emissions by 2050	<ul style="list-style-type: none"> Estimate total life cycle greenhouse gas emissions of products accounting for 75% of revenue Total Scope 1 & 2 greenhouse gas emissions reduced by 10% from 2016 actual 	<ul style="list-style-type: none"> Products accounting for 75% of revenue identified. Total lifecycle greenhouse gas emissions tools identified. Work plan under development, will be approved and commenced in 2018. In 2017 the reduction is 7%. 	ON TRACK		
Develop products with sustainable attributes Increase access to care, improve our environmental impact and reduce costs	8 Products and services are aligned to market economic, social and environmental expectations and anticipate future market conditions: <ul style="list-style-type: none"> All products have identified and clearly-described sustainability attributes R&D and NPD processes deliver environmental-, social-, and healthcare economically-advantaged innovations 	<ul style="list-style-type: none"> Sustainability attributes described for products accounting for 75% of revenue Robust emphasis on sustainability attributes of new products/services in place 	<ul style="list-style-type: none"> Products accounting for 75% of revenue identified. Product/service sustainability attributes agreed. NPD sustainability focus planning under way. 	ON TRACK	 	3.8 10.2 12.2 12.4 12.5
Consistent focus Ensure that all aspects of the business remain aligned to the sustainability imperative and move us steadily towards the achievement of our targets	10 Environmental, social, and economic impacts of (1) potential acquisitions, (2) technologies to be extended to Emerging Markets, (3) innovative business models, (4) cost-of-quality reduction initiatives, and (5) manufacturing siting, functional optimisation and site utilisation alternatives are fully understood and appropriately balanced	<ul style="list-style-type: none"> Formal programmes in place to measure/ assess the economic, social and environmental impacts of (1) potential acquisitions, (2) technologies to be extended to Emerging Markets, (3) innovative business models, (4) cost-of-quality reduction initiatives, and (5) manufacturing siting, functional optimisation and site utilisation alternatives 	<ul style="list-style-type: none"> Launched our Enterprise Risk Management Policy and Manual. Trained our risk champions in risk identification and mitigation. Introduced a product focused approach to risk management. Conducted a number of 'deep dives' into several key risks. Tools and standards to address new technologies are being developed to support our NPD work above. 	ON TRACK		



The UN Sustainable Development Goals have encouraged everyone – governments, NGOs, businesses and not-for-profit organisations – to take a hard look at what we can all do to tackle the huge challenges that the world faces.

We know that this is important to our customers too.

So as well as looking at the sustainability impact of our business operations, we want our products to help our customers work more sustainably.

Delivering products with less of an environmental impact, as well as products that help our customers to lower their impact, also helps us achieve our own Company Goal #8, that 'products and services are aligned to market economic, social and environmental expectations and anticipate future market conditions'.



EMBEDDING SUSTAINABILITY IN OUR PRODUCTS

LESS WASTE, SAFER SURGERY

We have numerous examples of how we do this, and you can read about several of them in this report. For example, published studies and our experience show that 60% or more of surgical instruments brought into surgery may repeatedly go unused^{1,2}. However, they must still be cleaned. The simple act of cleaning unused instruments costs millions of US dollars³⁻⁷, wastes hospital staff time, and has an unnecessary environmental cost.

Our S2 PROCEDURE PERFORMANCE streamlines instrument trays and improves competence⁸, reducing the rate of surgical error, and improving patient safety. It lowers costs – a hospital performing 10,000 procedures a year could save an estimated \$800,000². Moreover, it cuts environmental impacts by decreasing detergent use, energy, water and waste from unnecessary instrument cleaning.

Our S2 PROCEDURE PERFORMANCE is just one example of many of our products that are helping customers achieve their triple objective, to get patients better, at lower cost, and at lower cost to the planet. We are now looking to embed these objectives across all our products and services.

THE FUTURE IS SUSTAINABLE

When developing new products, we start by engaging our customers, identifying what they need, and the product and service attributes that they are looking for. We then embed these attributes into our New Product Development processes. We receive feedback from our customers on the new products and their sustainability performance, and feed opportunities for improvement back into the NPD process.

Similarly, for existing products, we engage with customers to assess sustainability improvements that can be made, and feed these back to our manufacturing teams. This approach is ongoing.

CHALLENGES CAN BE OVERCOME

Our journey has not always been easy. There have been challenges to overcome, such as the perception in the marketplace that better performance is associated with higher total cost. Through engaging with our teams, we have managed to shift mindsets. Today, we see sustainability improvements to our products as a way to meet customer expectations and fulfil their needs. It also gives us a competitive advantage, so ultimately, it is good for business.



“Going forward, we will continue on our journey to embed sustainability in our products, ensuring our products are made using raw materials sourced from an environmentally and socially sound supply chain. By doing this, our products can not only help improve people’s health, but also the health of the planet.”



Vasant Padmanabhan
President, Research & Development

“We are hearing from more of our customers about their need to lower the environmental impacts of the products they use. They want to work with companies that can help them on their sustainability journey, so it’s more important than ever that we communicate the value of our products effectively. Today, customers want to improve patient outcomes, save money and do this in a way that’s better for the environment.”



Brad Cannon
Chief Marketing Officer



Many people worldwide simply can't afford, and aren't exposed to, the technologies we offer. Advanced healthcare products and services are generally only affordable in developed economies, benefiting people who can pay for healthcare. More than one half of the world's population lacks access to essential health services¹.

We are committed to increasing the proportions of people in the world who can access modern healthcare solutions.



IMPROVING ACCESS TO HEALTHCARE SOLUTIONS

Only highly skilled healthcare professionals like orthopaedic and other specialist surgeons are trained to use cutting-edge technologies. These specialisations may not even exist as jobs in certain parts of the world. In the UK, for example, a specialist might perform knee replacement surgery two or three times a day, whereas in the developing world, this might be carried out by a general surgeon once a fortnight, or once a month.

We want to help level the playing field, improving access to healthcare solutions for people in the emerging markets. So we are developing innovative technologies that can be used by more generalist surgeons, and providing training for general surgeons to improve their surgery and rehabilitation skills. Ultimately, this will help improve patient outcomes.

40%

of all countries have less than one physician per 1,000 people¹.

50%

of the world's population lacks access to essential health services².

GUIDING SURGEONS, PROVIDING SURGICAL SOLUTIONS

One example of how our products and services are improving access to healthcare solutions is NAVIO[®] Robotics-Assisted Surgery. This cutting-edge technology helps surgeons perform knee replacement surgery, using hand held robotics to prepare the site for implantation. The NAVIO robotics-assisted system is image-free and maps the patient's anatomy intra-operatively to create a 3D model of the patient's knee, allowing the surgeon to accurately plan the procedure specific to each patient. Then a robotics-assisted burr is used to execute the surgeon approved plan and control bone removal for implant placement. The result is a system designed to aid surgeons in component positioning, ligament balancing and bone preparation – key factors that can drive implant survivorship^{3,4}.

The NAVIO system provides a cost effective⁵ approach to building a cutting-edge surgical practice, designed to deliver outcomes predictable to the plan. The image-free technology eliminates the requirement to obtain a pre-operative CT scan, simplifying the surgical process and reducing the mean dose of associated radiation exposure⁶. The NAVIO system is portable, with an easily movable, small footprint cart, designed for use in the surgery center or hospital, providing flexibility to surgeons and staff, so they can focus on patient care.

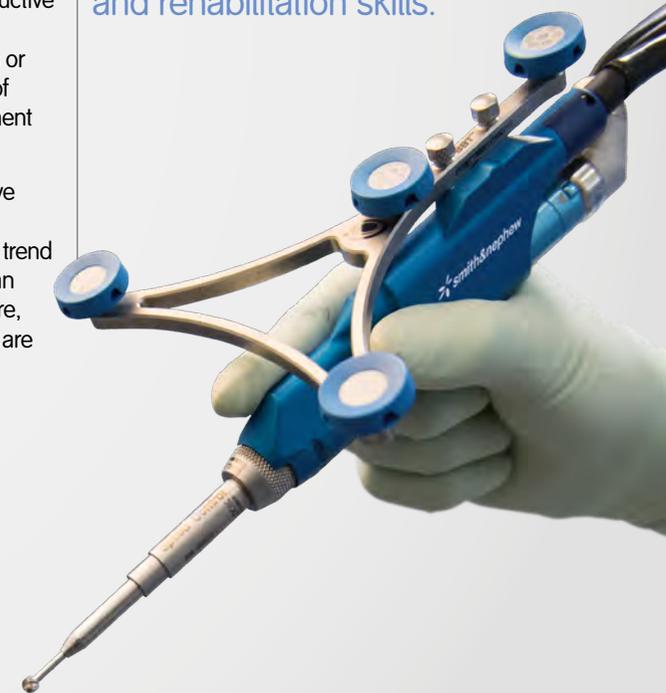
NAVIO is currently available in the US, Europe, Australia, India, South Africa, Hong Kong, Singapore and Turkey, with continued global expansion planned in 2018.

THE FUTURE – INNOVATIVE AND ACCESSIBLE HEALTHCARE

We are excited about the future, and are developing other products and services with similar potential to improve access to healthcare. For example, through our acquisition of Rotation Medical we are developing surgical solutions that incorporate breakthroughs in technology and technique that balance biomechanics and biology to enhance the body's natural healing response. Our bioinductive implant helps tendons heal by inducing growth of new tendon-like tissue, offering the potential to prevent tear progression and reduce the incidence of re-tears. This arthroscopically deployed bioinductive implant can be used along the rotator cuff tear treatment continuum – by itself for partial tears or in conjunction with our conventional portfolio of anchors and suturing technologies to supplement repairs of more complex tears.

We have already begun to see technology move towards more effective bioregenerative repair (re-growing connective tissue) and expect this trend to continue and accelerate. The future will mean even more affordable and accessible healthcare, improving patient outcomes, which is what we are all about.

We want to help level the playing field, improving access to healthcare solutions for people in the emerging markets. So we are developing innovative technologies that can be used by more generalist surgeons, and providing training for general surgeons to improve their surgery and rehabilitation skills.





OUR PROGRESS

PUTTING PEOPLE FIRST

People come first at Smith & Nephew, whether it's our own employees, our partners, or the healthcare professionals whom we support to improve the lives of their patients.

This principle will help us to achieve our sustainability vision of a world in which healthcare professionals can access solutions to help restore their patients' health, so that they can go on to contribute to society, protect the environment and improve their wellbeing.

We ensure a healthy and safe working environment for our employees, partners and contractors. We engage meaningfully with the communities where we operate through our site leadership teams and local camaraderie councils. And we encourage our people to volunteer in local communities, and offer paid volunteering time, as well as matching employee charitable donations. While our employees work to help others improve their health and wellbeing, we take steps to protect theirs. We have strengthened our wellness programmes with a focus on enabling healthy lifestyle choices.

WHAT'S IN THIS SECTION?		PAGE
EMPOWERING OUR TALENTED EMPLOYEES	LINKED TO GOAL 7	16
MAINTAINING AN INJURY-FREE WORKPLACE	LINKED TO GOAL 1	18
SUPPORTING THE SAFE AND EFFECTIVE USE OF OUR PRODUCTS AND SERVICES	LINKED TO GOAL 6	19
BEING A RESPONSIBLE GLOBAL CITIZEN	LINKED TO GOAL 7	20
SOME OF OUR INITIATIVES PUTTING PEOPLE FIRST...		22

"Improving lives is at the heart of Smith & Nephew's mission. As corporate citizens we are committed not only to supporting healthcare professionals in improving patients' lives, but also to supporting efforts to improving the health, safety and wellbeing of our employees and the communities where we live and work."



Elga Lohler
Chief Human Resources Officer



EMPOWERING OUR TALENTED EMPLOYEES

Investment in our people is an investment in our future. This philosophy and approach to managing talent supports our objective to be recognised as a Great Place to Work. It empowers our leaders and managers to make better decisions about people, build a sustainable talent pipeline, and operate more effectively and inclusively.

OUR APPROACH

Our talent management strategy is designed to support our business' success, by creating an environment where employees have the opportunity to develop, learn and grow. Through a rigorous talent review and development process, we identify key talent, and ensure they have robust career development plans and the support they need to thrive. This results in clear, actionable plans for projects, assignments and opportunities for our top talent, strengthens our current leadership, and creates a strong pool of leaders for the future.

FUTURE FOCUS

A further seven countries are working towards recognition as a Great Place to Work (including the UAE, Mexico, Poland, Ireland and Austria). By 2019, our goal is to achieve this in 12 countries, including in the US and UK.

KEY AREAS OF FOCUS

Talent development

We have evolved our performance management process to make sure that all our employees set objectives that align with our business goals.

To accommodate individual learning styles, we are continuing to build our digital training resources and invest in our Continuous Leadership Journeys. These enable employees to learn at their own pace.

To develop our managers and leaders, we have introduced two new global programmes, which aim to help them effectively inspire, motivate and lead their teams. Our Leadership Edge and Pioneer programmes both include a face-to-face workshop, where participants can learn and develop their skills. They also involve a series of online and digital activities to reinforce and share good practices. These programmes have now been rolled out to all our sites around the world.

We also continued our successful CEO Forum programme. This provides top talent with the opportunity to work closely with our executive team to resolve key challenges within our business. In addition, commercial leaders aspiring to be managing directors in the future participated in a specific development programme. They gained an understanding of what's involved in the role, and an opportunity to focus on strengthening their skills to become the leader they want to be.

Our performance

24

employees participated in the successful CEO Forum programme

10

employees joined our Managing Director programme

115

employees took part in our Pioneer leadership programme for new managers

55

employees participated in our Leadership Edge programme for new leaders

HOW IT LINKS TO OUR GOALS

GOAL 7

Empowering our talented employees will help us achieve our Goal #7 of having 'robust social responsibility programmes which contribute to the attraction and retention of top talent.'



Our Managing Director programme develops our future business leaders



EMPOWERING OUR TALENTED EMPLOYEES CONTINUED

Valuing Difference

At Smith & Nephew we value difference. What does this mean in practice? It means that every day we strive to create a workplace that celebrates and embraces the different backgrounds, cultures and experiences of our people. We strive to actively build an environment where every individual can fulfil their potential and be proud ambassadors for the Company, our customers and their patients.

Our Valuing Difference programme is sponsored by Olivier Bohuon, our Chief Executive Officer. A steering committee, consisting of our Chief Human Resources Officer and Presidents of the regions, sets the strategy. They also monitor execution, and hold our leaders accountable for their roles and responsibilities. Local councils within Smith & Nephew translate this strategy to meet local needs, identify local targets and implement plans.

We continue to focus on developing women in our business. In 2017, 26% of our senior managers were women (this includes Directors, Senior Directors, Vice Presidents and Executive Officers and includes all statutory directors and Directors of our subsidiary companies.)

We also value employees' experience and reward long service. Our global Long Service Award programme provides consistency in how we reward employees' loyalty and commitment to our Company. We issue and publicise long service awards which are accompanied by issuance of 'Going the Extra Mile' points which can be used by the recipient to purchase merchandise of interest from a catalogue.

**We are Smith & Nephew
We are one diverse team**

Our performance

41%
female employees

26%
senior managers are female

92
nationalities

83
primary languages

"Valuing Difference continues to be an area of focus in the US. In 2017, we formed partnerships with local chambers of commerce in the towns where we reside. These relationships have fostered not only a sense of community between Smith & Nephew and our communities, but also introductions to numerous talented individuals that will allow us to continue our journey on valuing differences."

Steve Kane,
Head of Human Resources for the US,
Global Marketing and Global R&D

Great Place to Work 2017

Being recognised as a Great Place to Work is one of our Company objectives. We want to create a workplace where our employees are proud and excited to come to work every day, because they are making a difference for customers and patients.

To earn recognition as a great place to work, employees in each country must complete the Great Place to Work Institute's Trust Index survey and we must complete a cultural audit. This evaluates performance in the following areas: Credibility, Respect, Fairness, Pride and Camaraderie. We measure this engagement through a biennial Global Employee Survey using the Great Place to Work Trust Index.

In 2017, 88% of our global employees participated in this survey, providing meaningful results that have driven actions for improvement. We track our progress against these actions using regular pulse surveys.

In addition, we have implemented a culture dashboard, which is based on our values (Perform, Innovate and Earn Trust), and includes key metrics like employee retention. The dashboard provides a clear framework for our senior leaders to track progress and identify areas for additional focus, action or reinforcement.

Our performance

Since we initiated the Trust Index survey six years ago, we are proud to have received recognition as a Great Place to Work in nine countries, and raised our overall score by 5%. Five new S&N locations received recognition from the Great Place to Work Institute in 2017: Finland, Switzerland, Brazil, Hong Kong and Greater China.

+5
locations received recognition from the Great
Place to Work Institute in 2017



Smith & Nephew, Greater China achieved recognition as a Great Place to Work in 2017.



MAINTAINING AN INJURY-FREE WORKPLACE

Every day, the safety of our employees and those who work with us is given the highest priority at our sites around the world, and when we visit customers. A healthy and safe working environment is fundamental to the way we work.

OUR APPROACH

We have achieved improvements in workplace safety by continually applying our holistic and integrated sustainability management system, our active health and safety programme, a number of behaviour-based safety campaigns, and through robust incident reporting and investigation systems across the Group.

KEY AREAS OF FOCUS

One area where we are focusing our safety efforts is in our manufacturing operations, reducing risk from the use of machinery. A second area is in our field sales operations, ensuring measures are in place to protect employees who drive, as well as those who need to work in the operating theatre during live surgery.

FUTURE FOCUS

Our aim is to continue to broaden and deepen the culture of shared responsibility for employee health and safety. We will do this by extending behaviour-based safety programmes, improving the reach of safety training, and by identifying and investigating all incidents and their associated root causes.

HOW IT LINKS TO OUR GOALS

GOAL 1

We believe that this unrelenting focus on safety in the workplace will help us achieve our Goal #1 of zero work-related injuries and illnesses across the value chain.

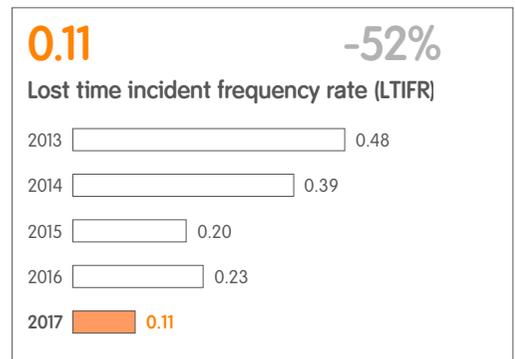
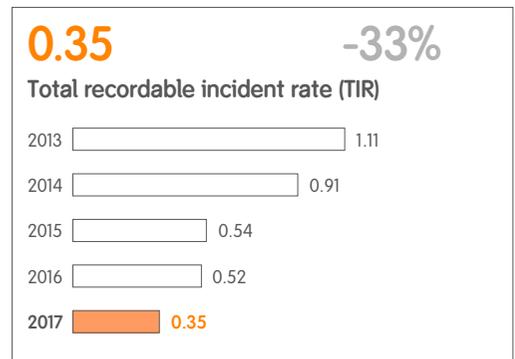
Our performance

In 2017, our employee total incident frequency rate (TIR), or recordable incident rate, reduced by 33% to 0.35, from 0.52. We are proud that this means we are in the top quartile of safety performance in our sector¹.

We have also seen a decrease in injury severity (as measured by lost time incident frequency rate (LTIFR)) of 52% to 0.11, from 0.23. In fact, since we started implementing our holistic, integrated employee health and safety approach back in 2013, incident frequency (TIR) has fallen 68% (1.11 → 0.35) and injury severity (LTIFR) has fallen 77% (0.48 → 0.11). In 2017, we are also pleased to report that there were no contractor fatalities during the reporting period.

While we are reassured by these successes, we are not complacent. We were devastated by the tragic death of one of our employees in a motor vehicle accident in the US early in 2017. As a result, we have reinvigorated our car fleet safety programme in the US.

Our headline safety performance includes all employees and supervised contractors, and excludes unsupervised contractors. We adopt the industry standard US 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.





SUPPORTING THE SAFE AND EFFECTIVE USE OF OUR PRODUCTS AND SERVICES

We are committed to helping healthcare providers improve the lives of their patients, delivering quality products and services and ensuring that our products are used safely and effectively.

OUR APPROACH

Any communication we receive that suggests a potential problem relating to one of our products, or patient injury, is captured and evaluated by our complaint handling and post-market surveillance processes. We listen to all feedback, whether it's from a customer, patient, sales representative, employee, or regulatory authority. All sources of communication are screened regularly, including literature, social media and direct reports.

KEY AREAS OF FOCUS

To minimise the potential for patient injury, we focus on providing quality products and services as well as ongoing skills training. Any complaints relating to our products are subject to a robust and transparent global process to detect, record, investigate, and execute any required corrective or preventive actions. This addresses root causes of any product or service-related injury, and can be triggered through a single complaint or through our post-market surveillance trending reviews. Senior leadership have clear visibility of these processes to ensure appropriate actions are taken.

FUTURE FOCUS

In 2018, we will upgrade to a new, state-of-the-art complaint management software system, placing us at the forefront of the industry to help assist us in the achievement of our target.

OUR PERFORMANCE

Significant improvements in our complaint handling performance metrics were made in 2017. This was due to process innovation, with turnaround times for complaint resolution and escalations becoming shorter.

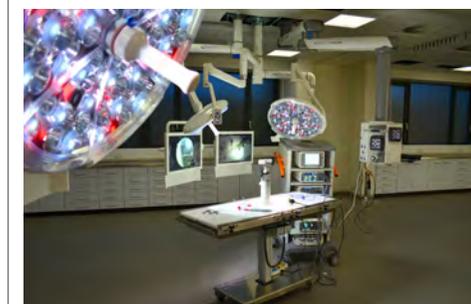
DEDICATED TRAINING

In a state-of-the-art learning environment

Smith & Nephew is dedicated to helping healthcare professionals (HCPs) improve the lives of their patients. We are proud to support the development of surgeons and nurses by providing skills training and education on our products and techniques.

In February this year, we inaugurated our state-of-the-art 'Expert Connect Centre' (ECC) in the UK. This new centre for HCP training is a modern learning environment with the latest audio-visual capabilities and a 14-station bio-skills laboratory for use by HCPs from around the globe. Working under expert guidance, attendees learn new techniques and refine skills, to promote the safe and effective use of our products.

In 2017, almost 2,000 HCPs from the UK and across the globe, including Canada, Japan and China received training at the ECC. A further 40,000 surgeons trained at our other training centres in the US and China as well as many courses hosted at third party centres around the world.



HOW IT LINKS TO OUR GOALS

GOAL 6

Eliminating injury arising from the use of our products and services helps us achieve our Goal #6, zero product-related and service-related patient injuries.



BEING A RESPONSIBLE GLOBAL CITIZEN

Today's world faces so many challenges that everyone needs to play their part to help tackle them. Increasingly, people want to work for companies that do something meaningful and act in a responsible way. At Smith & Nephew our products and services enable our people to make a difference to improve health and quality of life around the world.

HOW IT LINKS TO OUR GOALS

GOAL 7

Our responsible initiatives, such as our philanthropy, employee volunteering and disaster relief efforts, help us achieve our Goal #7 – robust social responsibility programmes which contribute to the attraction and retention of top talent.

SMITH & NEPHEW'S APPROACH

In 2017, we introduced a social responsibility strategy as the first step to reaching Goal #7 from our sustainability strategy. Our social responsibility strategy engages employees around our philanthropic activities. These include:

- **Product donations:** We provide grants and donations to charitable or not-for-profit organisations, medical institutions, accredited educational programme vendors, medical foundations or professional societies as governed by our Global Policy and Procedure on Grants and Donations.
- **Matching gifts:** Our Matching Gifts programme is designed to encourage charitable contributions to registered charities and tax-exempt, not-for-profit organisations. We match our employees' eligible charitable donations up to \$500 per employee on an annual basis.
- **Employee volunteering:** We encourage our people to volunteer as a way to build teamwork and develop them further, as well as to give back to our local communities. Our Volunteer Time Off (VTO) programme allows every full-time employee up to eight hours of paid VTO per year to volunteer at a charity or not-for-profit organisation.
- **Wellness activities:** Our wellness programme is designed to empower our employees to actively participate in their overall health, and promote healthy behaviours in the communities in which we live and work. We also encourage employees to contribute to a positive working environment by celebrating successes. We organise social events to help create a sense of belonging and camaraderie, and make Smith & Nephew a fun and rewarding place to work.

AND WHY IT MATTERS TO OUR CUSTOMERS

More and more customers are interested in our social and environmental performance and our improvement plans for these areas. We are engaged in discussions with a variety of customers regarding labour practices, CO₂ emissions, material efficiency (waste generation), water use, and the chemicals used in our products. Clear knowledge of current practices and impacts, as well as transparency regarding improvement plans, are key to achieving and maintaining trust.

FUTURE FOCUS

In 2018, we will continue to align our active philanthropic programmes to our social responsibility strategy.

HOW DO WE CHOOSE WHICH CHARITIES TO SUPPORT?

We believe that selecting charitable and not-for-profit organisations and activities is best accomplished at the local level, guided by our social responsibility strategy. Each location's Site Leadership Council and/or Camaraderie Council designs, constructs, and operates a local programme that best engages their employees and meets local needs. We let people know about our progress, reinforcing that Smith & Nephew is a great place to work.



BEING A RESPONSIBLE GLOBAL CITIZEN CONTINUED

KEY AREAS OF FOCUS

Health & human services: We have been supporting healthcare professionals to help improve people's lives for over 160 years. As a leading medical device company, we naturally give preference to healthcare and human services-related programmes. Our contributions are used to increase access globally to healthcare and human services, in places where they will benefit those in greatest need.

Education: Innovation is one of our core values, and we recognise the role education plays in developing innovative products. Education is also essential for economic and social development, increasing people's ability to access high quality healthcare solutions. We believe adults and children striving to learn should have equal access to education opportunities, and fully support educational programmes, particularly those focused on science, technology, engineering, and mathematics (STEM).

Environmental stewardship: We are committed to reducing our environmental impacts and contributing to the environments in which we live and work. We encourage participation in programmes that protect and provide wider access to local natural resources and those that promote sustainable initiatives.

Our performance

During 2017, our philanthropic activities totalled \$4.53m, of which \$4.41m consisted of cash and product donations (a 34% increase from 2016) and \$118,000 arose from the matching of employee gifts to qualified charities (more than triple that in 2016). These results reflect the initial impacts of our social responsibility strategy, which builds employee enthusiasm for charitable giving and works by making more obvious the connection between these charitable endeavours and our success as a company.

In addition, we provided \$12.5m in educational grants and sponsorships in 2017 (a 17% increase from 2016), aimed at supporting and improving the skills of surgeons in the application of our products and technologies, thereby expanding access to world-class healthcare solutions.

\$4.41m

cash and product donations

\$118,000

employee gift-matching

\$4.53m

total philanthropic activities



Olivier Bohuon
Chief Executive Officer

"This year saw natural disasters affecting many parts of the world – from deadly flooding in India, to the earthquake in Mexico, to fires in Portugal and the US, and hurricanes impacting the US and the Caribbean. Smith & Nephew employees around the world devoted their time and made donations of money and supplies to provide assistance. In Puerto Rico, our employees went above and beyond, taking time from the personal devastation they suffered to make sure that customers received the products they desperately needed to perform surgeries. In Portugal, our colleagues responded to the deadliest forest fire in the country's history, fulfilling an urgent order for JELONET® and ALLEVYN® under difficult conditions.

This is supporting healthcare professionals at its finest. Above and beyond the life-changing products we make, the ever-improving service we give our customers, and the value we deliver to our shareholders, it is the kind of company we are that makes me most proud of Smith & Nephew – and I am most honoured to be a part of it."

SUPPORTING YOUNG PEOPLE

At the Ron Dearing University Technical College, Hull

The Hull, UK site has committed to support the Ron Dearing University Technical College (UTC). Opened in September, Ron Dearing UTC is one of over 50 UTCs in the UK for 14-19 year old students that combines academic learning with technical and practical hands-on learning to prepare them for a career in STEM.

David Stephenson, Smith & Nephew Senior Engineering Projects Manager, said: "As a major employer in the city it is important to us to support young people preparing for a technical career by working alongside these talented students from an early age. The medical device industry offers many exciting career opportunities and we hope that, through this relationship, graduates will come to understand what Smith & Nephew has to offer when making important choices about their future."





SOME OF OUR INITIATIVES PUTTING PEOPLE FIRST...

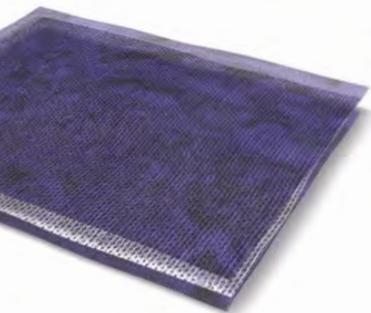
PRIORITISING HEALTH

Fighting infection

Antimicrobial resistance (AMR) is an ever-increasing global concern, with infection being one of the most frequent complications of, and a contributor to, non-healing wounds. The clinical, economic and patient-related consequences place major burdens on healthcare systems.

Smith & Nephew is supporting the fight against AMR as sponsors of an initiative by the European Wound Management Association (EWMA) and the British Society of Antimicrobial Chemotherapy (BSAC). This aims to raise awareness of appropriate use of antimicrobials across wound care.

We are also helping to tackle AMR through our ACTICOAT® products. There is increasing evidence that antiseptics like nanocrystalline silver minimise transmission of antibiotic resistant organisms as part of institutional infection control procedures¹ and help manage local infections through appropriate early use and stewardship, in conjunction with local procedures²⁻⁵. This may mean less need for antibiotics^{2,4,5} and less progression to more systemic infections³ when intervening early, promoting better patient outcomes.



MEALS AROUND THE WORLD

The Asia Pacific/Emerging Markets Headquarters and MENA offices in Dubai, UAE have a diverse team comprising 32 nationalities. To celebrate this diversity and drive inclusion, the Regional Valuing Difference team has embarked on a 'Meal around the World' initiative, inviting everyone to enjoy an authentic meal from a given country. Participants work with country colleagues to discover fun facts about their country; there are questions and answers for an interactive quiz; and a video showcasing local sights and culture, including music by local artists.

58

employees attended Health Awareness Day in Germany

472

UK employees took advantage of free access to a mini health check

32

nationalities represented in our Dubai, UAE offices

EMPLOYEE WELLBEING

Your health is important too!

FREE HEALTH CHECKS

In June, the SiSu health station visited our UK sites, giving employees free access to a mini health check. The 3G connected self-serve machine provides users with instant results related to their blood pressure, heart rate, height, weight and Body Mass Index (BMI), body fat and heart age. Of the 472 UK employees who took advantage of the opportunity, 129 were advised to see their GP for further consultation. By flagging potential health issues, we are enabling our employees to make lifestyle changes that will keep them healthy.

HEALTHCARE AT WORK

Our employees in Tuttlingen, Germany, focus on healthcare at work every day. But do they focus on their own health? In 2017, we organised a Health Awareness Day for 58 employees, conveying the message that 'your health is important to Smith & Nephew'. We arranged for a local health insurance company to provide information and health checks on issues as varied as smoking cessation, stress testing, blood pressure measurement and flu vaccinations.





SOME OF OUR INITIATIVES PUTTING PEOPLE FIRST... CONTINUED

PRIORITISING SAFETY

Safety first

In many cases, early intervention can significantly reduce the risk of repetitive strain injury. To promote safety and ensure that employees are receiving proper medical care, enhanced emphasis has been placed on the importance of immediate reporting of all injuries and illnesses. Where the injury or illness is work-related, this allows us to act quickly to prevent it from happening to others. The Company also provides transitional light duty for employees on a temporary basis, enabling continued wage earning for the employee, while the Company retains experienced and trained employees in the workforce.

Introducing Safety Awards

In 2017, we began a safety recognition programme, which includes awarding sites using a tiered approach. Our site in Beijing, China received a Platinum award for working over 1.5 million hours without a recordable incident.



COMMITTED TO SAFETY

Joining The Royal Society for the Prevention of Accidents.

The Royal Society for the Prevention of Accidents (RoSPA) is the UK's leading voice in health and safety. Its members are dedicated to reducing accidents in the workplace, on the road, at home, and near or on water in leisure pursuits through safety education. In 2017, our UK operations joined RoSPA, demonstrating our ongoing commitment to safety in the workplace.



Improving forklift truck safety with warning lights

On average, 24% of workplace transport injuries involve a forklift truck. At our manufacturing site in Hull, UK we have been proactively working to reduce the number of accidents in the workplace by fitting visual warning devices to our forklift trucks. These safety devices have been specifically developed to enhance site safety and increase pedestrian awareness of the presence of moving hazards.

HELPING PEOPLE IN NEED

Disaster relief efforts

Hurricane Maria caused widespread damage across Puerto Rico, leaving locals with no electricity, no telecommunication access, and damaged homes and property. A number of local Smith & Nephew employees were among those impacted by the wide-spread damage. In support of their colleagues, sites across the US rallied to donate supplies to relief agencies. As a company, we sent 85 generators, gas cans, extension cords, 15 pallets of water, and 160 cases each of canned chicken, sausages, and tuna.

Supporting at-risk children

In November, our Houston, Texas, US team volunteered at the Parks Youth Ranch. This provides a safe and supportive environment for abused and neglected children. Our volunteers painted the administrative areas and a hall, and updated the facility's entrance to make it even more welcoming.

Providing clothing for homeless people

In May and October, colleagues from our Andover, Massachusetts, US site volunteered at the Wish Project. This charity supports the homeless, and reduces waste by recycling and reusing clothing and furniture. Our team helped to sort through donations of clothing, and fill clothing bins.



EMPLOYEE FUNDRAISING

Fundraising in Norway

Danish initiative 'Team Rynkeby God Morgen' combines sports and fundraising for the Children's Cancer Foundation. In 2018, over 50 teams and 2,500 riders from Europe and the US will participate in various events. Team Norway, which includes two Smith & Nephew employees, aims to raise NOK10 million between September 2017 and July 2018 by riding 1,500km.

Supporting meals for the local community

Annamrita: Midday Meal is a strategic programme run by the Government of India, through which 1.2 million meals are served every day in select schools, through 20 kitchens across the country. The aim of the not-for-profit, charitable trust is to liberate children from the vicious cycle of malnourishment and illiteracy. For three years now, Smith & Nephew India has supported the programme, hosting a meal of khichdi – a rice dish – prepared by the NGO, in return for which each employee makes a generous donation and we match funding. In 2017, we raised enough to sponsor meals for 75 children.





SOME OF OUR INITIATIVES PUTTING PEOPLE FIRST... CONTINUED

WHEEL ESTATE MEMPHIS

Safe play area for children

We are proud to partner with the local communities in which our employees live and work. For over 50 years, we have actively participated in community development activities in Memphis, Tennessee, US. Recently, a license agreement was finalised with Wheel Estate, a mobile home establishment neighbouring our Memphis premises. This grants residents access to a formerly vacant lot that has been converted into a safe place for their children to play. At a formal ribbon-cutting ceremony, Smith & Nephew treated its neighbours to grilled hot dogs and drinks, while the children played soccer until dusk on their new field.



SUPPORTING LOCAL COMMUNITIES

Hull 2017 – UK City of Culture

From the community that founded our global Company over 160 years ago, to a 2017 UK City of Culture, we value our close links with the community of Hull. As a Major Partner of Hull 2017, our employees at this UK site have been participating in a year of cultural activity through volunteering, ticketing opportunities and on-site events. Initiatives included Culture Clubs in areas such as photography, art, language and walking, all run by volunteers within the Company.

Keen to build on the spirit of being UK, City of Culture, not only for 2017 but beyond, Smith & Nephew also launched a city-wide charity initiative, More Together. Bringing together companies large and small from Hull and the surrounding region in a three-event challenge, the initiative consisted of three sponsored events; walking the Yorkshire Three Peaks, taking part in 'Total Warrior', a challenging obstacle race, and a Humber Bridge Family Fun Walk. Collectively more than 1,000 employees from eighteen Hull companies supported the More Together initiative and it went on to raise almost £75,000 for local charities.

The city of Hull holds a special place in the history of Smith & Nephew. Supporting Hull UK City of Culture 2017 was a significant opportunity to reinforce its close links with the community that founded the global company over 160 years ago, to contribute to a lasting legacy that has raised the profile of the region, and to engage its employees during a year of exciting and meaningful events.



Smith & Nephew Germany raises hundreds for Hamburg charity

30 employees from Smith & Nephew Germany took part in the 'B2Run Hamburg', a 6km race held every year in 17 cities and involving over 9,500 companies. Our team gave itself two challenges: to raise money for a local charity, and to run faster than James Fischer, Managing Director of our German operations! In total, the team raised over €500 for the Hamburg charity 'Hinz&Kunzt', a street magazine supporting the homeless.

Croxley Park volunteers clean up a local canal

In the Autumn, a team from our Croxley Park, UK site helped clean up the Grand Union Canal. They devoted hours to painting a lock, bridge, bollards and picking up litter, making the environment nicer for local residents.

Mansfield Food Pantry

Members of our Young Professionals Group in Mansfield, Massachusetts, US spent time helping out at their local food pantry. Happy to help in any way, they sorted the cans, stocked the shelves, and even mowed the lawn!

COLOMBIA BICYCLES

Making the journey to school easier

Still today, there are children in Colombia who must walk an hour each way to school, for lack of transportation. At a recent sales meeting, Smith & Nephew Colombia took part in The Bicycle Challenge, building four full bicycles from scratch in just 32 minutes. The finished bicycles were immediately given to Zulma (11) Juan David (12), Juan Esteban (10), and Erick (9), and will help them make the long journey to school and back every day.





DELIVERING PRODUCTS WITH A REDUCED FOOTPRINT

Our stakeholders are interested in the environmental footprint of our products and services, encouraging us to reduce impacts wherever possible.

While we have long been focused on improving our internal environmental footprint, and continue to improve our performance in the areas of greenhouse gas emissions, water use and material efficiency, our revised strategy also extends upstream to our suppliers and downstream to our customers. This means that we want to work with partners who are making efforts to reduce their environmental impact, and we want to deliver products and services with improved overall environmental impact.

We are making efforts to more completely understand the extended footprints of our top products. This is an important step to ensure that we focus our resources where they will produce the most positive impact.

We recognise that impacts can often be inter-related, as well as extremely complex. For example, reducing water footprint may involve an increase in greenhouse gas emissions. Our holistic approach to sustainable decision-making throughout our business ensures that all impacts are taken into account.

WHAT'S IN THIS SECTION?		PAGE
DELIVERING PRODUCTS WITH A REDUCED FOOTPRINT	LINKED TO GOAL 8	26
HOW WE CUT WASTE	LINKED TO GOAL 3	27
HOW WE REDUCE AND CONSERVE WATER	LINKED TO GOAL 2	28
HOW WE REDUCE EMISSIONS	LINKED TO GOAL 4	29
SOME OF OUR INITIATIVES TO LOWER OUR ENVIRONMENTAL IMPACT...		31

"We are committed to reducing the environmental impact of our business – from the design of new products, sourcing of raw materials, and the manufacture and distribution processes through to their eventual disposal. We recognise that many of our impacts lie beyond our direct control, so collaborating with our suppliers, customers, end-users and other stakeholders will be critical to deliver products with a lower environmental footprint."



Maurice Bechard
Vice President, Sustainability,
Health, Safety and Environment



DELIVERING PRODUCTS WITH A REDUCED FOOTPRINT

Playing our part to reduce emissions and help tackle climate change is the right thing to do, and it's also good for our business.

Greenhouse gas emissions are a high priority for our customers, and they want to buy products from companies that will help them to reduce their impact. By developing products with reduced emissions, we are helping our customers to meet their targets.

HOW IT LINKS TO OUR GOALS

GOAL 8

Delivering products with reduced emissions also helps us achieve our Goal #8, that 'products and services are aligned to market economic, social and environmental expectations and anticipate future market conditions'.

SMITH & NEPHEW'S APPROACH

We deliver products and services with improved environmental and social profiles in the following way:

- We identify desired product and service attributes, embedding these in the New Product Development (NPD) processes;
- We engage with customers to identify key areas of performance, highlighting current products and services which address these areas to our Sales teams; and
- We feed opportunities for improvement back into the NPD process.

This approach creates a virtuous loop – where customer-relevant product sustainability performance increases steadily alongside customer awareness of the relevant benefits.

KEY AREAS OF FOCUS

To be a fully sustainable company, we must understand the total environmental impacts (both positive and negative) of manufacturing our products. We have committed to measuring the total life cycle greenhouse gas emissions (CO₂e), water footprint (water) and material efficiency (waste) for products accounting for 75% of revenue by 2020. We have identified products accounting for 75% of current revenue, as well as products and services likely to enter that category in the next few years. We are now evaluating the benefits of using several commercially available tools (a mix of data acquisition and footprint estimation tools) for the products and services identified.

FUTURE FOCUS

In 2018, we will select, implement and begin using the required tools. The results of this will enable us to identify sustainable product attributes, and include them in the product development process in 2019-2020.

MANAGING INFECTION

Faster wound healing with the MolecuLight i:X

In 2017, we entered into a distribution relationship for MolecuLight i:X, an innovative product in the Infection Management area. Targeted application of the best therapy at the optimal time maximises patient outcomes while minimising resource consumption^{1,2,3}. This technology allows healthcare professionals to accurately measure wound surface area as well as assess the presence of potentially harmful bacteria^{4,5}. Armed with this information, better informed decisions can then be taken regarding wound treatment^{1,2,3,6-11}. This may result in faster, more complete wound healing¹ as well as reduced use of antibacterial medications^{2,3,11} (reducing environmental impact and slowing the development of drug-resistant microbes).





HOW WE CUT WASTE

Not only do we want to offer excellent medical devices, we also want to produce our products in an environmentally-friendly way.

By taking steps to reduce waste, we can:

- Meet customer demand for 'greener' products from an environmentally-conscious business;
- Save money on raw materials and waste disposal costs;
- Conserve natural resources and energy;
- Avoid adding to the environmental burden caused by waste;
- Boost employee morale by providing opportunities to work together on an environmental project;
- Reduce the risk of future liability associated with the disposal of waste.

HOW IT LINKS TO OUR GOALS

GOAL 3

Cutting waste helps us to meet our Goal #3, that 'all materials are either shipped as part of product or returned for beneficial use'.

SMITH & NEPHEW'S APPROACH

Economically, we recognise that all waste is an opportunity to improve resource efficiency. So our aim is to examine and minimise all of our waste streams, especially at our manufacturing locations. At all our sites around the world, we strive to achieve best practices in waste management. This is an intrinsic part of our operations and culture.

While the Group experienced growth, both through the existing business and acquisitions in 2017, the effect did not have a material impact on our environmental footprint. In fact, total waste generated was only slightly more than in 2016. We continue to identify and implement source reduction, reuse and recycling opportunities and ways to divert waste away from landfill. In 2017, we recycled 77% of our waste, including waste diverted to energy recovery, and are well on our way to achieving our target of 80% by 2020.

KEY AREAS OF FOCUS

We focus on a number of areas to minimise our waste. Here are just some examples:

- We drive recycling at all of our manufacturing, distribution and office locations – this includes paper, cardboard, plastic, glass bottles, metals, chemicals and much more;
- At our **warehouses**, where possible we minimise unnecessary packaging for shipping;
- We collect, sort and **recycle over 8,000 tonnes** of materials each year, including some waste sent for energy recovery – heading towards 80% of all our waste produced;

- We work **with our waste contractors** to identify and introduce more recycling opportunities – this helps us recycle where it was previously impractical to do so, supporting our long-term ambition to send no waste to landfill;
- Some sites are nearing **zero waste to landfill** – a fantastic achievement;
- Some of our waste streams, including some expired materials and liquid hazardous waste for secondary fuels, that cannot easily be recycled are incinerated at waste facilities – these facilities **reuse the heat generated** to supply energy to other users in place of burning fossil fuels such as oil and gas; and
- We are constantly talking to our suppliers and manufacturers about ways to reduce waste by **redesigning transit packaging** – and we continue to encourage them to increase their recycling efforts using some of the lessons we have learnt.

FUTURE FOCUS

A key challenge to waste reduction is that the majority of our products and services' environmental footprint is locked in during the design phase. This makes it difficult to make significant headway during the product's life. We are addressing this by applying agreed product sustainability attributes through our R&D and NPD processes and this will be a key area of focus going forward.

Our performance





HOW WE REDUCE AND CONSERVE WATER

At Smith & Nephew, we challenge ourselves to save water at all of our locations. People and businesses are using up our planet's fresh water faster than it can be replenished. The availability of fresh water in the areas where we operate varies; in some areas, water is more abundant, while other areas suffer from water scarcity.

SMITH & NEPHEW'S APPROACH

We take a holistic water footprint approach.

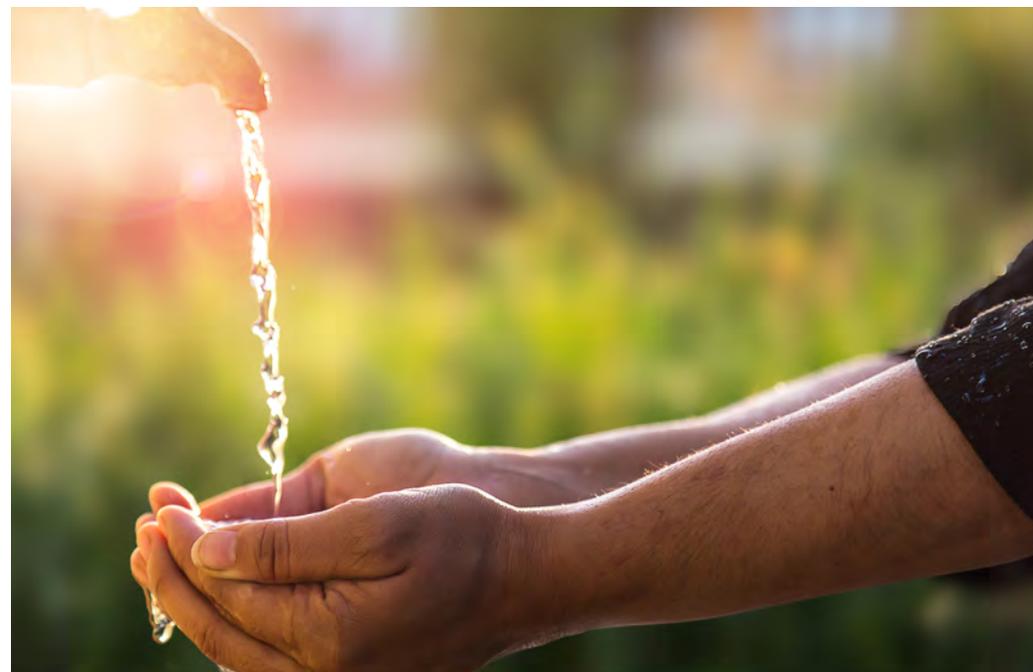
This means we aim to reduce our consumption of water in the manufacture and distribution of our products. We aim to optimise the use of water during upstream manufacture and distribution of raw materials and components. We also aim to ensure that our new and modified products minimise our customers' water consumption when they use our products.

KEY AREAS OF FOCUS

Further progress was made in 2017 to reduce our water consumption. We made particularly good progress at our Memphis, US manufacturing site. There, we replaced additional water-cooled air compressor units with air-cooled radiator units. This investment has reduced water consumption and significantly contributed to our 10% decrease in annual water use.

FUTURE FOCUS

Learnings from our successes to date have been compiled and opportunities for water use reduction are being evaluated at several locations.

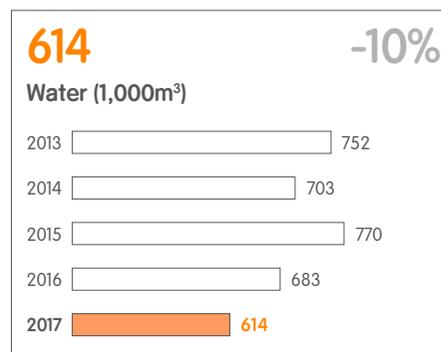


HOW IT LINKS TO OUR GOALS

GOAL 2

Taking steps to reduce and conserve water will help us meet our Goal #2, that the 'total water impacts of our products and solutions are balanced with local human and ecosystem needs'.

Our performance





HOW WE REDUCE EMISSIONS

The effects of climate change across the world are evident. From droughts to floods and other unusual weather events, climate change already impacts people's lives. We all need to take action to use energy responsibly, helping to tackle this global challenge.

Most people try their best to save on energy bills at home, whether using energy efficient light bulbs, putting in loft insulation or simply remembering to turn off lights and heating when they aren't being used. At Smith & Nephew we encourage these same attitudes in the workplace to help reduce our emissions.

SMITH & NEPHEW'S APPROACH

Our primary approach is to tackle energy efficiency. Secondly, we source lower-carbon energy. To achieve both of these, we find and invest in technological solutions, such as low energy lighting systems and solar energy. These can help us use energy resources more efficiently.

We also make efforts to motivate staff to actively care about the environment, giving them guidance and information to help them make a real difference. Perhaps most importantly, we understand the urgent need for a low-carbon economy, and are constantly open to change.

KEY AREAS OF FOCUS

We have been measuring greenhouse gas emissions up and down our value chain to ensure that we apply resources most effectively, reducing our total CO₂e emissions footprint. We have also implemented, or benefited from, numerous energy efficiency and low-carbon energy measures. These include:

- LED lighting installations;
- Solar panels in India and China;
- Combined Heat and Power (CHP) (natural gas fired) units in Germany;
- Variable frequency drives on motors, e.g. climate control, heating and lighting automation system occupancy settings ;
- Temperature/humidity modifications and air exchange for clean rooms;
- Occupancy sensors in offices and common spaces to control lighting, and on vending machines to control operation;
- Timers on hot water heater recirculating systems;
- Improved insulation for steam pipes;
- Conducting compressed air leak assessments and remediating leaks;
- Coal-fired electricity generators being converted to natural gas-fired at a Memphis, US utility company;
- On-site wind turbines investigated at Hull, UK and Oklahoma City, US; and
- 'Remember to switch it off when not in use!' site behaviour change campaigns.

NOTE ON SOURCES OF DATA AND CALCULATION METHODOLOGIES

Data is consolidated from a number of sources across our business and is analysed centrally. We use a variety of methodologies to gather our emissions data and measure each part of our operational carbon footprint, including natural gas, purchased electricity data, steam and refrigerant gas losses.

Under the WRI/WBCSD GHG Protocol, we report our emissions in two 'scopes'.

Scope 1 figures include: Direct sources of emissions such as the fuel we use for manufacturing and fugitive emissions. This is mainly gas and heating oil.

Scope 2 figures include: Indirect sources of emissions such as purchased electricity and steam we use at our sites. We report against this on both a location-based and a market-based approach for the first time in 2017.

HOW IT LINKS TO OUR GOALS

GOAL 4

Reducing emissions in our operations means we are playing our part. This will help us achieve our Goal #4, an '80% absolute reduction in total life cycle greenhouse gas emissions by 2050'.



HOW WE REDUCE EMISSIONS CONTINUED

EMISSIONS PERFORMANCE

As a result of these efforts, over the past year our energy use was up slightly by 1% arising from increased manufacturing activity, with a 7% decrease in carbon dioxide equivalent (CO₂e) emissions.

We report the carbon footprint of our Scope 1 and 2 greenhouse gas (GHG) emissions in tonnes of CO₂ equivalent from our business operations. This covers the calendar year ended 31 December 2017.

Our GHG emissions are calculated in accordance with the WRI/WBCSD Greenhouse Gas (GHG) Protocol Corporate Standard. We disclose the Scope 1 and 2 emissions which make up our core business operations (this includes our manufacturing, larger sales offices and distribution centres). As required, we also disclose our GHG emissions within Smith & Nephew's Annual Report and Accounts.

In 2017, the location-based carbon footprint of business operations was 85,558 metric tonnes of CO₂e, a 7% reduction compared to 2016. While some of the reduction achieved in 2017 (estimated at 5%) was due to lower grid factors being published for some countries or regions, this represents good progress towards our 2020 goal of a 10% reduction in our CO₂e emissions.

OUR DUAL REPORTING INITIATIVE

Following the rapid growth of mechanisms that allow consumers to choose a low-carbon grid delivered energy supply, the GHG Protocol Corporate Standard has published an amendment to Scope 2 emissions reporting.

Companies are now encouraged to produce a dual report, disclosing:

- a Scope 2 emissions figure according to a location-based method; and
- a second according to a market-based method.

The emission factors for the market-based method must meet the GHG Protocol's new Scope 2 Quality Criteria. Therefore, to reflect best practice, this year we have published our Group emissions using both the traditional location-based method (based on national or regional grid averages) and the newer market-based method to more accurately reflect the energy that certain sites are purchasing. Our dual reporting approach has been approved by our independent assurance consultants, DNV GL.

LOCATION-BASED CARBON EMISSIONS

Emissions are calculated in compliance with the WRI/WBCSD GHG Protocol Corporate Accounting and Reporting Standard and have been calculated using carbon conversion factors published by BEIS/DEFRA for 2017. We have applied the emission factors most relevant to the source data, including DEFRA 2017 (for UK locations), IEA 2015 (for overseas locations) and for the US we have used the US EPA 'Emissions & Generation Resource Integrated Database' (eGrid) for the regions in which we operate.

All emission factors for gas, oil, steam and fugitive emissions are taken from DEFRA 2017.

MARKET-BASED CARBON EMISSIONS

Where available, we have applied the market-based emission factors available for some manufacturing locations. These are in accordance with the 'GHG Protocol Scope 2 Guidance, an amendment to the Corporate Standard'.

Where market-based factors were not obtained, we have used 'Residual Mix' data for the EU locations (from RE DISS Phase 2) and IEA data for all other countries except the remaining US locations where the eGrid factors were applied.

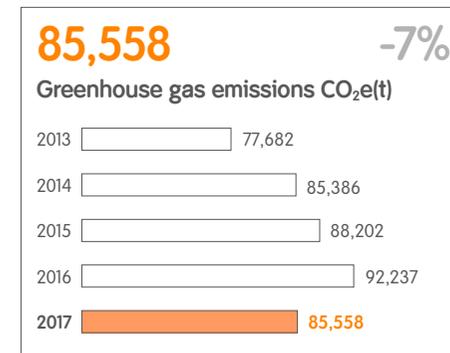
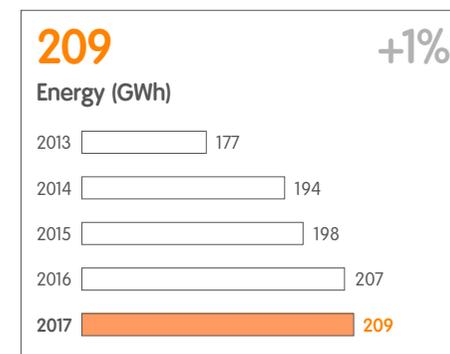
	Scope 2 location-based emissions CO ₂ e(t)	Scope 2 market-based emissions CO ₂ e(t)
2016	82,415	-
2017	76,107	67,685

The market-based approach gives a more accurate picture of the emissions for which we are responsible.

FUTURE FOCUS

In 2018, we will focus on further improving efficiency, using less electricity and gas, and negotiating a more favourable purchase plan. We will also convert more of our energy to renewables (solar, wind, hydropower and geothermal).

Our performance





SOME OF OUR INITIATIVES TO LOWER OUR ENVIRONMENTAL IMPACT...

UK WASTE AWARENESS

An ongoing awareness scheme for all UK employees is helping to spread the message about waste reduction and encouraging recycling. High impact posters and recycling stations have been provided to help employees separate waste and understand the fate of our waste streams. In 2017, our UK sites recycled over 2,100 tonnes of waste, representing 85% of total waste generated in the UK.

REDUCING WASTE IN CURAÇAO

A new project by the employees of Smith & Nephew Curaçao, called The Sustainability Team, is already having an impact. Recycling services are not widely available on the beautiful Caribbean island, and 95% of local waste ends up in a landfill site. Aiming to contribute to reducing waste, The Sustainability Team has formed a partnership with a local recycling company, set up standards for environmental practices, and taken measures including installing an on-site recycling collection station. With continued leadership in promoting waste reduction and recycling practices, the team hopes to create more economic, social and environmental benefits for Curaçao.



IMPROVING EFFICIENCY WITH COMBINED HEAT AND POWER

Almost two-thirds of energy used to generate electricity is wasted through heat discharge. In addition, energy is wasted when electricity is distributed to end users. CHP is low-carbon, on-site electricity generation that captures the heat that would have been lost, and uses it to heat or cool a space. CHP can achieve efficiencies of more than 80%.

In early 2018, we plan to install the CHP control cabinet, which will optimise the operating hours of the equipment installed at our Tuttlingen, Germany manufacturing facility. In parallel, we will then be able to operate our absorption chiller unit which allows centralised cooling for all the equipment. This is one of the major drivers of energy consumption on the shop floor. Once finished, we expect to see a steady decrease in overall energy use, with optimised gas use.

RENASYS' TOUCH CUTS WASTE

Negative Pressure Wound Therapy (NPWT) has been shown to be effective in the management of chronic and surgical wounds¹ and ², with NPWT devices continuously evolving since their first inception. RENASYS TOUCH is the latest advancement in NPWT device evolution. To assess its clinical efficacy, functionality and device performance in the management of acute, sub-acute and chronic wounds, a prospective, randomised, open-label, multi-centre study was carried out at Kingsbury Hospital and Tiervlei Trial Centre, Cape Town, South Africa.

RENASYS TOUCH was found to be functional and easy-to-use through a combination of therapy settings available on the device. New features of the device, such as the graphical user interface were easily understood and managed. Features such as the adjustable compression rate allowed for patient-specific changes to therapy. The resulting faster wound healing, means less wound dressing waste and better patient outcomes.



CLEANING UP WITH SOLAR

Investing in energy solutions

In line with our aspirations to reduce carbon emissions, we are actively investing in more efficient energy solutions.

A roof-top solar panel system at our Devrukh site in India is set to produce enough clean energy to power the site for 25 years, while reducing carbon emissions by up to 44% per year.

We have also installed 24 sets of solar water heater units on the roof of one of our buildings in Suzhou, China, to produce around 12 tonnes of 55°C hot water every day for the site's hot water system, saving 291 tonnes of steam every year.





HOW WE MANAGE SUSTAINABILITY

The true value of an organisation cannot be reflected simply in its financial reports. True value to society rests in the organisation's long-term impact on quality of life.

Sustainability is embedded in the fabric of Smith & Nephew. As an organisation committed to realising our full potential we must optimise the economic, social and environmental impacts of our activities. Robust overall governance is required to maintain direction and pace to achieve such a long-term goal. This is particularly necessary in three areas: general management, risk management and integrity. There must be clear lines of authority and accountability regarding target setting and achievement. There must be a rational, informed, and empowered process by which organisational leadership identifies, evaluates and addresses sustainability risks and opportunities in the commercial environment. And there must be strong arrangements to assure the universal application of fair and open business practices. Consistent progress toward the goal of sustainable operation can only be made when all three are present.

WHAT'S IN THIS SECTION?	PAGE
GOVERNANCE	33
OUR APPROACH TO RISK MANAGEMENT	LINKED TO GOAL 9 34
BUILDING TRUST	LINKED TO GOAL 5 35
WORKING WITH RESPONSIBLE THIRD PARTIES	LINKED TO GOAL 5 37
ABSOLUTE DATA FOR ENVIRONMENTAL PERFORMANCE	38
REFERENCES	39
ASSURANCE	40

"Achievement of sustainable operation requires a solid base constructed from deeply held organisational values which are pervasively and relentlessly applied to every aspect of operation. Values must be put into action in such a way that every employee, contractor, vendor and third party representative understands the consequences (both positive and negative) of their actions as well as how they execute them – and that these consequences will occur quickly and certainly, with significant impact. Smith & Nephew builds positive impacts into its governance systems where possible, seeking to establish a virtuous loop wherein activities which move us toward the full realisation of our values inspire additional actions in a similar direction. In this way we ensure a unified focus and an ever-accelerating pace."



Maurice Bechard
Vice President, Sustainability,
Health, Safety and Environment



GOVERNANCE

CORPORATE GOVERNANCE FRAMEWORK

The Board is responsible to shareholders for approving the strategy of the Group, for overseeing the performance of the Group and evaluating and monitoring the management of risk. Each member of the Board has access collectively and individually to the Company Secretary and is also entitled to obtain independent professional advice at the Company's expense, should they decide it is necessary in order to fulfil their responsibilities as Directors. The Board delegates certain matters, as follows, to Board Committees, consisting of members of the Board:



The Board delegates the day-to-day running of the business to Olivier Bohuon, Chief Executive Officer, who is assisted in his role by the Executive Committee comprising the Executive Officers who are shown in the 2017 Annual Report and certain other senior executives. The governance framework below outlines the Executive Committee arrangements.





OUR APPROACH TO RISK MANAGEMENT

As with most businesses, we face numerous risks and uncertainties. Our Risk Management Policy and Enterprise Risk Management Manual ensure that our Risk Community can identify, review and report risks at every level of our business.

At the very top of our structure is our Board, which determines our risk appetite and monitors the application of our risk framework. It does this through strategy, and practically through the outputs of regular risk 'deep dives' by the business and Group Risk Team. The Board communicates our risk appetite through our Risk Committee, Risk Owner Community and our Group management. A formal 'bottom up' process ensures that risks are escalated back through the process to our Board and Principal Risks as appropriate.

Providing rigour and independence across this process is our Executive Committee and Group Risk Team. A third line of defence is our Internal Audit Function, which annually assesses the effectiveness of our Risk Management Process to our Group Risk Committee, which is chaired by our Chief Executive Officer, and then to the Board and its committees.

Through this process, we have defined the following Principal Risks, each of which is linked into our Strategic Priorities. The management of each Principal Risk is overseen by the Board or one of its committees. This work includes defining the level of tolerance for each risk and reviewing 'deep dives' into the risk. These deep dives examine underlying risks and the effectiveness of our mitigating actions to address those risks.

PRINCIPAL RISK	OVERSIGHT
LEGAL AND COMPLIANCE	Ethics & Compliance Committee
NEW PRODUCT INNOVATION, DESIGN AND DEVELOPMENT, INCLUDING INTELLECTUAL PROPERTY	Board
QUALITY AND REGULATORY	Ethics & Compliance Committee
PRICING AND REIMBURSEMENT	Board
BUSINESS CONTINUITY AND BUSINESS CHANGE	Board
MERGERS AND ACQUISITIONS	Board
TALENT MANAGEMENT	Board
CYBER RISK	Audit Committee
COMMERCIAL EXECUTION	Board



BUILDING TRUST

Trust is so important for business success that it comprises one of our three corporate values – performance, innovation and trust.

“The Compliance Ambassador programme has offered me and my colleagues a greater understanding of policies and procedures. It has created a platform to communicate our learnings throughout the organisation. The result is more open dialogue and awareness of compliance related topics”

Compliance Ambassador

HOW IT LINKS TO OUR GOALS

GOAL 5

Meeting this expectation at all our sites, will ensure we achieve our Goal #5, that ‘all activities are conducted in compliance with applicable ILO conventions, involve no environmental degradation, and are free from corruption’.

WHY IS THIS IMPORTANT?

More and more people are not only interested in what products they buy, but also how those products are made, and how the company that makes them acts as a business. People increasingly want to work with companies that are responsible and behave ethically. When it comes to healthcare, patients as well as healthcare providers want medical equipment that they can trust.

SMITH & NEPHEW'S APPROACH

We earn trust by performing and innovating in an ethical and compliant manner. Our approach is to uphold robust standards, supported by a strong culture. Our values are defined in our Code of Conduct and Business Principles (Code). This is supported by global policies that specifically define behaviours to ensure that we follow relevant anti-bribery and corruption laws, and take actions that protect our reputation in the industry

KEY AREAS OF FOCUS

We take measures to ensure that our Code and Standards are not just words on a page, but actually define our corporate culture. We do this in the following ways:

Assessing business practices

In 2017, we conducted a comprehensive review of the new guidelines issued by the U.S. Department of Justice on compliance programme effectiveness, as well as from the International Organization for Standardization (ISO) on anti-bribery management systems. We believe our compliance programme aligns with these new guidelines. We also conducted culture assessment workshops in five countries, in which we reviewed local risks and developed action plans to mitigate against them and strengthen our ethical business culture.

Ethics oversight

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

Accountability is essential to ensure compliance. Every year, our sales and marketing leaders certify to our Chief Executive Officer that required policies in their businesses have been implemented. Managers and employees also complete an annual compliance certification. We support this ownership using various communication tools, like articles on compliance on our Group intranet, in our regular communications, and during face-to-face training.

Trust but verify

We know that people can sometimes make mistakes, which is why we have multiple ways to verify that they are adhering to our rules and principles—and we take appropriate action when failures occur.

We assess compliance controls and use analytics to identify any unusual patterns in data. In 2017 alone, we completed 21 compliance audits of our business units. We have reinforced the importance of addressing the root cause of an issue when we develop actions to address failures. This includes training our regional compliance officers on preventative actions and managers on analysing root causes of repeated failures.

Expanding our Compliance Ambassador programme

Our Compliance Ambassador programme further helps to embed ethical values and compliance standards in the business. Respected sales managers are nominated to become Compliance Ambassadors and act as mentors to their peers and teams, providing practical solutions to compliance challenges based on real-life experience. In 2017, we extended our Compliance Ambassador programme into a further 15 countries.

75

Compliance Ambassadors in 18 countries



BUILDING TRUST (CONTINUED)

Education and awareness

All employees receive training on our Code of Conduct when they start working for the Company, and this training is reinforced each year. In addition, in 2017 all employees completed training on the Code.

Those working in Commercial or Professional Education roles also received training on interacting ethically with healthcare professionals. In conjunction with the training, participants were asked to sign an additional pledge that they will follow our rules. For manufacturing staff, we integrated compliance content into their annual Quality training. We also provided role-based, compliance training to key roles such as financial professionals.

For managers, we developed training with our new Ethical Leadership model. This includes four pillars: Advise, Lead, Observe, and Coach/Report. We re-organised manager resources on our intranet to align to these pillars, and we communicate with our managers regularly to raise awareness of compliance risks and rules.

“I feel very glad and proud to guide employees on compliance issues. I understand the importance of being ethical, and I disseminate this important concept to all employees. I think part of Smith & Nephew’s success is due to its ethics.”

Compliance Ambassador

Encouraging employees to speak up

We want all our employees to feel comfortable speaking up if they see any examples of non-compliance, without fear for their jobs. That is why we include a non-retaliation policy in our Code, and our Investigation Guidance ensures we have a fair and consistent approach to managing investigations. These are essential in creating a strong compliance culture. In 2017, we benchmarked our whistle-blower programme against industry metrics. This confirmed that our reporting rates are within industry benchmark ranges.

FUTURE FOCUS

In 2018, we will follow-up on our assessments on the new US and international standards. We will also continue to evaluate new ways to provide compliance education that is effective and user-friendly, including: creating tools easily accessible from mobile phones and additional manager and role-based resources. We will also continue to enhance our compliance verification processes with the power of data analytics.





WORKING WITH RESPONSIBLE THIRD PARTIES

We want to make sure we only work with partners – including suppliers, distributors, agents, vendors and other service providers – who work ethically. Working with partners who share our approach to business supports sustainability, and reduces reputational risks to our business.

SMITH & NEPHEW'S APPROACH

We have a strong vetting process before we engage with any business partner. For distributors and agents who we accept, we impose certain obligations to comply with applicable laws, our Code of Conduct and our Policies and we ensure their compliance through monitoring and audit. For vendors, suppliers and service providers, we assess risks and determine next steps, such as due diligence, training, or including compliance standards in the contract. In 2017, we integrated some of these controls into our new purchasing system.

HOW IT LINKS TO OUR GOALS

GOAL 5

Operating ethically is critical, to ensure we meet our Goal #5, that 'all activities are conducted in compliance with applicable International Labour Organization (ILO) conventions, involve no environmental degradation, and are free from corruption'.

Assessing compliance of third parties

We regularly conduct audits of our partners' compliance controls, and assess their commitment to compliance not only with laws, but also our Code of Conduct. We then jointly develop an action plan to address any areas of concern noted during the review. In 2017, we conducted 10 third party audits and 59 assessments.

Providing compliance support to our partners

Our Chief Compliance Officer issues communications to our partners, highlighting common mistakes to help them address any compliance issues in their businesses. We post compliance resources for partners on our external website. And our trained Relationship Managers drive compliance with our anti-bribery and corruption rules¹. In 2017, we assessed which types of partners may need additional anti-bribery and corruption compliance training, and plan to provide this training in the coming year.

Helping suppliers reduce their environmental impacts

A significant portion of the social and environmental impacts of our products and services occurs either upstream in the supply chain or downstream as they are being used. We take a life cycle approach to optimising these impacts, and in order to do this we need to understand and quantify what these are.

To help, we engage with our upstream vendors, and in 2017 we introduced a comprehensive supplier information management tool. This helps to address major areas of social and environmental impact by giving us a more complete picture of the vendor's impacts and compliance programmes. We are currently rolling this out through our supply chain and

will set minimum standards of performance in 2018 and beyond.

Sourcing minerals responsibly

We are committed to sourcing minerals only from responsible suppliers. For example, in May 2017 we reported our status on conflict minerals in accordance with the 2010 US Dodd Frank Act and US Securities and Exchange Commission rules. We will continue to monitor developments and be prepared to respond appropriately. Full details are available at www.smith-nephew.com/sustainability/policies

Against modern slavery

We will only work with suppliers who share our opposition to modern slavery. In compliance with the UK Modern Slavery Act 2015, we have published our statement on this issue online. This is available at www.smith-nephew.com/sustainability/policies

FUTURE FOCUS

In 2018, we will determine acceptable social and environmental performance levels in our supplier base and implement programmes to ensure rapid achievement. We also plan to implement an updated training programme on modern slavery, which will be mandatory for all procurement employees.

EARNING TRUST

By protecting privacy

Smith & Nephew is aware of the myriad dangers associated with data privacy breaches. We are also aware that some of the new products we are developing capture personal information in ways we have not done before. That is why we are strengthening our efforts to protect the privacy of our patients, our employees and our customers.

These efforts align to the General Data Protection Regulation (GDPR), which will become effective in 2018. Our Global Data Protection Policy ensures we process data lawfully, transparently and fairly, in accordance with internationally agreed principles and country regulations.

New employees complete data privacy awareness training. In line with the GDPR, we have also undertaken Privacy Impact Assessments on selected major computer systems and have, or will, take any needed actions based upon them.

428

third parties subject to due diligence

69

third party audits or assessments

100%

distributors or agents subject to due diligence



ABSOLUTE DATA FOR ENVIRONMENTAL PERFORMANCE

	2013	2014	2015	2016	2017
Waste					
Non-hazardous waste (tonnes)	2,662	2,168	2,089	2,281	2,196
Hazardous waste (tonnes)	426	491	209	327	259
Waste recycled for energy recovery (tonnes)	431	2,706	1,946	2,152	2,406
Waste recycled (tonnes)	4,783	4,003	4,891	5,362	5,635
Total waste (tonnes)	8,301	9,368	9,137	10,122	10,496
Energy					
Total energy (GWh)	177	194	198	207	209
Emissions					
Emissions to air (tonnes CO ₂ e)					
Combustion of fuel and operation of facilities (process and fugitive)	10,123	11,208	11,011	9,822	9,451
Purchased electricity (location-based) and steam	67,559	74,178	77,191	82,415	76,107
Total (location-based)	77,682	85,386	88,202	92,237	85,558
Purchased electricity (market-based) and steam	–	–	–	–	67,685
Water					
Water usage (1,000m ³)	752	703	770	683	614

All emissions have been calculated using the most up-to-date emission factors available for each location according to the GHG Protocol Guidance.



REFERENCES

PAGES 9 AND 10 MAKING GOOD PROGRESS AGAINST OUR GOALS

Specific SDG targets

- 3.8 Achieve universal health coverage, including financial risk protection, access to quality essential healthcare services and access to safe, effective, quality and affordable essential medicines and vaccines for all.
- 6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.
- 8.7 Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms.
- 8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.
- 10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.
- 12.2 By 2030, achieve the sustainable management and efficient use of natural resources.
- 12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment.
- 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

PAGE 12 EMBEDDING SUSTAINABILITY IN OUR PRODUCTS

Less waste, safer surgery

- 1 Farrokh R. Farrokh, M. G. (2013). Application of Lean Methodology for Journal for Healthcare Quality, 1–10.
- 2 Estimate based on Smith & Nephew Data on File. Assumes \$0.77 cost to clean per instrument and applying S2 PROCEDURE PERFORMANCE Technology to the top 20% of preference cards that cover 70–80% of procedures.
- 3 Guckian Fisher M. Safety, service delivery and teamwork: A new solution with Syncera. J Periop Practice: Procurement Guide. 2017;05(06):11–15.
- 4 Robinson GB. North Tyneside General Hospital Operating Department. 2009. Available at: https://www.northumbria.ac.uk/static/5007/hces/ngtheatre_polo.pdf (Accessed April 2017).
- 5 Department of Health, GS1 UK. Application package: Surgical instrument traceability, version 6 Published 2011. Available at: https://www.gs1uk.org/~media/documents/marketing-documents/surgical_instrument_traceability_guidelines.pdf (Accessed November 2016).
- 6 Young WC. Operating theatre time, where does it all go? A prospective observational study. BMJ 2014;349:g7182.
- 7 Heart of England NHS Foundation Trust. FOI 4172 Sterilisation of Surgical Instruments. Published 30 November 2015. Available at: <http://www.heartofengland.nhs.uk/foi-4172-sterilisation-of-surgical-instruments> (Accessed November 2016).
- 8 Hensell MG, Pins J. Virtual BackTable. Reducing Cost of On-boarding. Presented at the AORN Surgical Conference and Expo 2015. Based on one pilot study. Results may vary.

PAGE 13 IMPROVING ACCESS TO HEALTHCARE SOLUTIONS

- 1 <http://www.worldbank.org/en/news/press-release/2017/12/13/world-bank-who-half-world-lacks-access-to-essential-health-services-100-million-still-pushed-into-extreme-poverty-because-of-health-expenses>

PAGE 14 IMPROVING ACCESS TO HEALTHCARE SOLUTIONS

- 1 <https://sustainabledevelopment.un.org/sdg3>
- 2 <http://www.worldbank.org/en/news/press-release/2017/12/13/world-bank-who-half-world-lacks-access-to-essential-health-services-100-million-still-pushed-into-extreme-poverty-because-of-health-expenses>
- 3 Sharkey, P., et al. "Why Are Total Knee Arthroplasties Failing Today?" Clinical Orthopaedics and Related Research. 2002 Nov;404:7-13.
- 4 Siddique, N., Ahmad, Z. "Revision of Unicodylar to Total Knee Arthroplasty: A Systematic Review" The Open Orthopaedics Journal 2012;6; (Suppl 2: M2) 268-275.
- 5 Sg2 Healthcare Intelligence. Technology Guide: Orthopedic Surgical Robotics. 2014.
- 6 Ponzio DY, Lonner JH, Preoperative Mapping in Unicompartmental Knee Arthroplasty Using Computed Tomography Scans Is Associated with Radiation Exposure a.... J Arthroplasty (2014). <http://dx.doi.org/10.1016/j.arth.2014.10.039>

PAGE 18 MAINTAINING AN INJURY-FREE WORKPLACE

Our performance

- 1 Top quartile safety performance is as reported in the US Department of Labor, Bureau of Labor Statistics for Injuries, Illnesses and Fatalities in the Industry Classification of Medical equipment and supplies manufacturing.

PAGE 22 SOME OF OUR INITIATIVES PUTTING PEOPLE FIRST...

Prioritising health

- 1 Strohal, R. et al. Nanocrystalline silver dressings as an efficient anti-MRSA barrier: a new solution to an increasing problem. J. Hosp. Infect. 60, 226–30 (2005).
- 2 Huang, Y. et al. A randomized comparative trial between Acticoat and SD-Ag in the treatment of residual burn wounds, including safety analysis. Burns 33, 161–6 (2007);
- 3 Newton, H. Reducing MRSA bacteraemias associated with wounds. Wounds UK 6, 56–65 (2010);
- 4 Strand, O., San Migue, L., Rowan, S. & Sahlqvist, A. Retrospective comparison of two years in a paediatric burns unit, with and without acticoat as a standard dressing. Ann. Burns Fire Disasters (2010);
- 5 Fong, J., Wood, F. & Fowler, B. A silver coated dressing reduces the incidence of early burn wound cellulitis and associated costs of inpatient treatment: comparative patient care audits. Burns 31, 562–7 (2005).

PAGE 26 SOME OF OUR INITIATIVES TO LOWER OUR ENVIRONMENTAL IMPACT...

Faster wound healing with the MolecuLight i:X

- 1 DaCosta RS et al. Point-of-care autofluorescence imaging for real-time sampling and treatment guidance of bioburden in chronic wounds: first-in-human results. PLoS One. 2015 Mar 19;10(3);
- 2 Blumenthal E et al. The use of the MolecuLight i:X in Managing Burns: a pilot study. J Burn Care Res. 2017 Apr 21. doi: 10.1097/BCR.0000000000000565. (Epub ahead of print);
- 3 MolecuLight Inc. Case Study 0014b Use of the MolecuLight i:X Helped Avoid Costs (£3500) of a Possible Failed Graft Procedure, 2017;
- 4 Rennie MY et al. Point-of-care fluorescence imaging predicts the presence of pathogenic bacteria in wounds: a clinical study. J Wound Care. 2017 Aug 2;26(8):452-460. doi: 10.12968/jowc.2017.26.8.452;
- 5 MolecuLight Inc. Case Study 0051 Track Wound Size and Bacterial Presence with the MolecuLight i:X. 2016;
- 6 Hoefloek J et al. Pilot clinical evaluation of surgical site infections with a novel handheld fluorescence imaging device. Proceedings of the Annual Military Health System Research Symposium (MHSRS); 2014 Aug 18- 21; Fort Lauderdale, FL.;
- 7 Ottolino-Perry K et al. Improved detection of wound bacteria using fluorescence image guided wound sampling in diabetic foot ulcers. Int Wound J. 2017 Feb 28. doi: 10.1111/iwj.12717;
- 8 Raizman R. Fluorescence imaging positively predicts bacterial presence and guides wound cleaning and patient education in a series of pilonidal sinus patients. Proceedings of the Annual Wounds UK Conference; 2016 Nov 14-16; Harrogate, UK;
- 9 Raizman R. Point-of-care fluorescence imaging device guides care and patient education in obese patients with surgical site infections. Presented at: CAWC 2016. Proceedings of the Annual Canadian Association of Wound Care Conference (CAWC); 2016 Nov 3-6, Niagara Falls, ON;
- 10 Wu YC et al. Handheld fluorescence imaging device detects subclinical wound infection in an asymptomatic patient with chronic diabetic foot ulcer: a case report. Int Wound J. 2016 Aug;13(4):449-53;
- 11 Hill R et al. Real-time bacterial fluorescence imaging guides antimicrobial stewardship in patients with diverse wounds. Proceedings of the Annual Symposium on Advanced Wound Care (SAWC); 2017, San Diego, CA.

The MolecuLight i:X® Imaging Device is approved by Health Canada (Medical License #95784) and has CE marking (Certificate #G1160292355002) for sale in Canada and the European Union. The MolecuLight i:X® Imaging Device is not available in the US.

PAGE 31 SOME OF OUR INITIATIVES TO LOWER OUR ENVIRONMENTAL IMPACT...

RENASYS® TOUCH cuts waste

- 1 Vig et al. 2011. Evidence-based recommendations for the use of negative pressure wound therapy in chronic wounds: steps towards an international consensus. J. Tissue. Viability 20:S1-S18.
- 2 Krug et al. 2011. Evidence-based recommendations for the use of negative pressure wound therapy in traumatic wounds and reconstructive surgery: steps towards an international consensus. Injury 42:S1-S12.

PAGE 37 WORKING WITH RESPONSIBLE THIRD PARTIES

Providing compliance support to our partners

- 1 With the exception of the US.



ASSURANCE

Smith & Nephew has chosen DNV GL as our independent assurance providers. The summary assurance statement is provided below. We will also continue to provide updates on our website and in subsequent Sustainability Reports.

INDEPENDENT ASSURANCE STATEMENT

Smith & Nephew commissioned DNV GL to undertake independent assurance of this Sustainability Report 2017. The assurance scope covered the review of key data and claims associated with Smith & Nephew's 10 long-term aspirational goals for the year ended 31 December 2017. DNV GL's full assurance statement detailing their scope of work, findings and conclusions can be found online here:

[Independent Assurance Statement](#)



DNV GL Business Assurance is a global provider of certification, verification, assessment and training services, helping customers to build sustainable business performance.

www.dnvgl.co.uk/BetterAssurance

You can find out more about our sustainability practices online:
www.smith-nephew.com/sustainability

PRODUCT NAMES

The product names referred to in this document are identified by use of capital letters and the ° symbol (on the first occurrence) and are trademarks owned by or licensed to members of the Group.

CONTACT US

We would welcome your feedback on this Sustainability Report.

Vice President, Sustainability, Health, Safety and Environment,
Smith & Nephew plc,
15 Adam Street,
London, WC2N 6LA, UK
Email: sustainability@smith-nephew.com