

# Life Unlimited

Sustainability Report 2019

**Smith+Nephew**





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## Our purpose

# Life Unlimited captures the essence of our purpose to improve the health issues that hinder people from living their lives to the fullest.

### Our purpose

Life Unlimited. Smith+Nephew exists to restore people's bodies and their self-belief.

### Our culture pillars

Our culture pillars guide our behaviours and build a winning spirit.

**Care** – A culture of empathy and understanding for each other, our customers and patients.

**Collaboration** – A culture of teamwork based on mutual trust and respect.

**Courage** – A culture of continuous learning, innovation and accountability.

### Our strategic imperatives

Five strategic imperatives form our value creation plan for the medium term.

- 1 Achieve the full potential of our portfolio
- 2 Transform the business through enabling technologies
- 3 Expand in high-growth segments
- 4 Strengthen talent and capabilities
- 5 Become the best owner



A message from our Chief Executive Officer

## A spotlight on sustainability

**Since joining Smith+Nephew as CEO in November 2019, I have been impressed by the Company's increasing spotlight on sustainability.**

Our sustainability strategy is integrated with our Group business strategy, our purpose of Life Unlimited, our culture pillars, and our strategic imperatives, to ensure that sustainability guides what we do.

We are very proud that this is our 19th annual sustainability report. The report outlines our new sustainability strategy and provides an update on our 2020 targets, against which we have made good progress. It also introduces our new strategy focused on delivering our purpose of Life Unlimited. Our commitment goes beyond just environmental concerns and patient safety, to also include meaningfully addressing the health issues that hinder people from living their lives to the fullest. We are accelerating our sustainability programme and setting more ambitious goals with hard metrics to measure our success and ensuring accountability across the whole business.

We have created a Sustainability Council comprising members of our Executive Committee to provide further visibility to the Board through regular updates to our Compliance & Culture Committee. Our Sustainability Council was established to set and ensure delivery of our sustainability strategy, so that sustainability truly becomes part of the fabric of Smith+Nephew.

We continue to apply our culture pillars of Care, Collaboration and Courage and strive to deliver sustained competitive advantage through focusing holistically on people, planet and products.

**Roland Diggelmann**  
Chief Executive Officer

**“Our commitment goes beyond just environmental concerns and patient safety, to also include meaningfully addressing the health issues that hinder people from living their lives to the fullest.”**

**Roland Diggelmann**  
Chief Executive Officer



At a glance

# We are a leading portfolio medical technology company

**17,500+**  
employees supporting customers in over

**100**  
countries, supporting healthcare professionals for more than

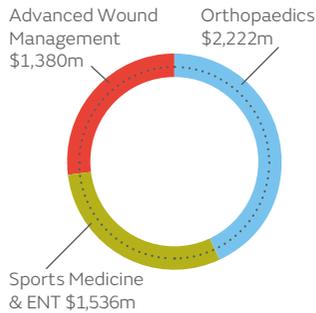
**160**  
years

## Group revenue

**\$5,138m**

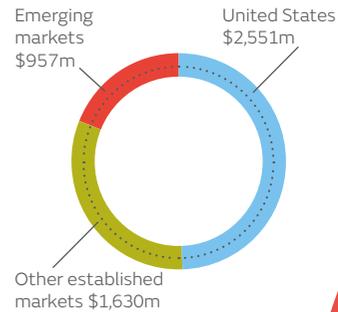
## Revenue by franchise

We operate through three global franchises.



## Revenue by geography

We serve customers in established and emerging markets.



## We serve our customers through the global franchises

### Orthopaedics

Orthopaedics includes an innovative range of Hip and Knee Implants used to replace diseased, damaged or worn joints, robotics-assisted enabling technologies that empower surgeons, and Trauma products used to stabilise severe fractures and correct bone deformities.



### Sports Medicine & ENT

Our Sports Medicine & ENT (Ear, Nose and Throat) businesses offer advanced products and instruments used to repair or remove soft tissue. They operate in growing markets where unmet clinical needs provide opportunities for procedural and technological innovation.



### Advanced Wound Management

Our Advanced Wound Management portfolio provides a comprehensive set of products to meet broad and complex clinical needs, to help healthcare professionals get CLOSER TO ZERO human and economic consequences of wounds.



### Innovation

Smith+Nephew delivers innovation that aims to improve quality of life. New products and business models empower healthcare professionals with options to improve patient outcomes. We develop technology through our global R&D programme, and additionally acquire exciting products where we can add value through technical or commercial acumen.

### Manufacturing & quality

Smith+Nephew takes great pride in its manufacturing expertise and maintains focus on delivering products that are safe and effective for patients.

**19%**  
more invested in R&D in 2019

Our business model

# Value creation is driven by our purpose, culture pillars and strategic imperatives

## Our resources

### Our people & culture

Attracting, developing and retaining the best employees is important. We strive to build a purpose-driven culture based on strong and authentic values.

### Ethics & compliance

Committed to doing business the right way, compliance is embedded in the way we work.

### Sales & marketing

Supporting customers through highly specialised sales teams with in-depth technical product knowledge that surgeons and nurses value greatly.

### Manufacturing & quality

Operating global manufacturing efficiently and to high standards to ensure quality and competitiveness.

### Medical education

Supporting the safe and effective use of our products through medical education.

### Research & development

Innovation is part of our culture and we are increasing the amount we invest in new products.

### Sustainability

We focus on three aspects of sustainability; economic prosperity, social responsibility and environmental stewardship.



For more information, [click here for our 2019 Annual Report](#)

## >> Creating value through

### Purpose-driven culture

Having a clear purpose gives employees a sense of belief and determination. This supports a strong culture which improves performance across the business both in terms of financial and non-financial value.

### Strong product portfolio

We have market-leading technology across our broad range of products. We deploy our capital to drive continued innovation from our R&D programmes and invest in product and technology acquisitions which improve outcomes and widen access to life-changing care.

# Life Unlimited

### Strategic imperatives

Our five strategic imperatives are fundamental to how we focus the resources of the business to maximise commercial impact in our markets. They form the basis of our value creation plan for the medium term.

### Customer centricity

Serving our customers is at the heart of our business model. We have a global franchise model led by management who are specialists in their areas. This keeps us close to our customers, ensuring we can anticipate and meet their needs.

## >> Value delivered in 2019

Revenue	Operating profit	Trading profit <sup>1</sup>	Efficiency savings
\$5,138m	\$815m	\$1,169m	\$80m
Dividend	Jobs	Practitioner training instances	Philanthropic donations
\$318m	17,637	110,000+	\$13m

### Shareholders

In 2019 we were pleased to deliver a 4% increase in dividend, in line with our progressive policy. Shareholders also benefited from a 28.3% increase in share price over the year.

### Patients

Our products are used in more than 100 countries to improve the quality of life of patients. We strive to widen access to such technology, with 19% of revenue now coming from the Emerging Markets.

### Customers

We continue to bring new, innovative products to customers, and support these with clinical evidence, as well as delivering professional development training to healthcare professionals around the world.

### Employees

In 2019 we improved our employee engagement and promoted diversity and inclusion.

### Communities

We aim to work in a sustainable, ethical and responsible manner, supporting local charities, and reducing our environmental footprint.

<sup>1</sup> This non-IFRS financial measure is explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 200-204 of our 2019 Annual Report.

A message from our Chair

## Elevating our sustainability agenda across the business

**Welcome to our 2019 Sustainability Report. Since our previous report, we have increased the visibility of sustainability for the Board.**

We have updated our strategy to align with our purpose of Life Unlimited, included sustainability in the remit of our Board Compliance & Culture Committee, and created our Sustainability Council. This greater emphasis on sustainability is critical to achieving our strategic imperatives, which aim to deliver long-term shareholder value not only through profits, but also by engaging our employees and positively impacting society in the communities in which we operate.

We have taken a broad view of sustainability in the medical devices industry looking beyond product safety, quality and efficacy to the entire product life cycle. The Board fully supports this approach. Our new sustainability strategy incorporates not only the manufacturing, distribution, and use of our products, but also labour standards throughout the supply chain, a focus on raw materials, packaging materials and design, and end-of-life disposal of both packaging and products.

We are identifying and characterising the sustainable attributes of our products and services as we believe this differentiates us from our competitors. We were one of the first in our industry to produce a sustainability report, we continue to be listed on the Dow Jones Sustainability Index (DJSI) and FTSE4Good, and we strive to deliver Life Unlimited through sustainable leadership in our industry.

Smith+Nephew has a history dating back more than 160 years, and we want our legacy to extend to the next 160 years and beyond, continuing to create long-term shareholder value. In 2020, I am excited to see how much we can achieve with our new sustainability strategy and I look forward to updating you on our progress in next year's report.



**Roberto Quarta**  
Chair

**“We strive to deliver Life Unlimited through sustainable leadership in our industry.”**

**Roberto Quarta**  
Chair





Why sustainability is important

# A look at our world

People today are living longer. But we don't just want to live for longer, we want quality of life – to live life to the full. To put Smith+Nephew's purpose, Life Unlimited, into practice, we need to be mindful of what's happening in our world.

Three key trends are particularly significant in shaping our ability to deliver Life Unlimited.

## 1 Affordability of healthcare

Governments, insurers and individuals need healthcare to be affordable to ensure people continue to have opportunities in life. Technology is developing rapidly, but not everybody can be treated with all these solutions given resource constraints. Healthcare companies need to take note and respond accordingly.

## 2 Rising concern about healthcare inequality

Non-governmental organisations (NGOs) and the media are increasingly reporting on healthcare solutions that are available in the developed world, but not in developing countries. We anticipate growing calls for multinationals to take action to level the playing field, improving access to healthcare for everyone.

## 3 The use of chemicals and materials within healthcare solutions

Some customers are expressing growing concern about certain chemicals and materials that are used in healthcare devices. No longer satisfied that something is safe or sustainable because it is government-approved, they are asking more questions about the processes used to manufacture and deploy healthcare solutions. Medical device companies are under pressure to find alternative materials and technologies that provide the same outcomes.

## Smith+Nephew's response

Through our franchise structure, we work together to quickly take advantage of new technologies that we have both developed and acquired. For example, following a total knee arthroplasty, our single use negative pressure wound therapy device may be used post-operatively to enable better outcomes.



# Access to healthcare

For us, sustainability means that patients have access to the healthcare solutions that are necessary to provide improved outcomes and allow them to achieve their goals in life.

We want people to be able to benefit from the best cost-effective solutions to meet their needs, no matter where they live in the world.

In developed markets, Smith+Nephew is supporting the improvement of efficiency and effectiveness of healthcare systems, making it easier for surgeries to be performed in a more streamlined and integrated environment. This means that procedures can be carried out more quickly and accurately, so throughput and efficiency are higher. Our innovations also mean that patient outcomes are improving, with shorter rehabilitation times.

In developing markets, there are large populations who don't have access to healthcare. We are bringing our innovations to patients who otherwise would have no access to technology. For example, our collaboration with 'Operation Walk' has brought healthcare solutions to underserved populations in Latin America.

We price our solutions competitively in the markets in which we sell, and run an active product donation programme.

Smith+Nephew is uniquely placed to be able to improve access to healthcare because of our end-to-end model, including involvement in both surgical devices and wound care.

## Improving access to medical technologies + TEAMFund

In November 2019, we announced that we have invested in the inaugural fund of TEAMFund ('Transforming Equity and Access for MedTech'). The fund's purpose is to invest in medical technology companies that give patients living in low-resource settings improved access to affordable, appropriate, and sustainable medical technologies. Supporting TEAMFund's venture helps get medical technologies to some of the world's most economically challenged populations. The investment strongly aligns with our purpose, Life Unlimited, to remove physical and mental barriers to living life to the full. TEAMFund's initial geographic focus is India and Sub-Saharan Africa. TEAMFund expects to invest in between eight and ten portfolio companies.



TEAMFund has made investments in ophthalmology, diagnostics and cardiovascular companies

Our sustainability strategy

## Our aspirational goals and targets

**Back in 2016, we launched our sustainability strategy, setting out our aspirational goals and targets for 2020. This year, we report on our progress and renew our commitment to sustainability, with the introduction of our new strategy.**

### Our sustainability vision and mission

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

Our sustainability strategy aims to achieve this vision. It outlines the steps we take with a view to leading our industry in developing and using 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; and
- Implement the most sustainable product options.

### Where purpose and sustainability meet

Our sustainability strategy reflects our three culture pillars of Care, Collaboration and Courage. We care about contributing to positive change – it is about caring for customers, patients and each other. We need to collaborate with partners and work together to achieve our sustainability targets. This will happen if we display courage in our decision making and actions.



Smith+Nephew has been and remains committed to working in a sustainable, ethical and responsible manner everywhere we do business. We are proud of our achievements over many years, including our recurring inclusion in leading indices, such as FTSE4Good, ISS and the Dow Jones Sustainability Index.

**“Sustainability is part of who we are at Smith+Nephew. It is an integral part of Life Unlimited, and informs the decisions we take. Our success as a business depends on it.”**

**Elga Lohler**

Chief Human Resources Officer,  
Chair of the Sustainability Council



## Our sustainability strategy

## Looking back: our progress

We have made strong progress against our 2020 sustainability targets, which related to the United Nation's Sustainable Development Goals (SDGs) that are most relevant to our business.

We report below our progress against these targets, which were originally scheduled to close at the end of 2020. Our new sustainability strategy reflects our updated business strategy with enhanced targets to further advance our sustainability goals, as described on [page 13](#). We will continue to measure and report on key sustainability metrics.

Our material issues	Our 10 long-term aspirational goals	Our 2020 targets	Progress since 2016 baseline	Status	Most relevant SDGs	Specific SDG target*
<b>Care (putting people first)</b>						
<b>Prevent illness and injury</b> Ensure the health, safety and wellbeing of all Smith+Nephew's employees and contractors	Zero work-related injuries and illnesses across the value chain	– 10% reduction in Total Injury Rate (TIR) from 2016 baseline	– A reduction of 6% since 2016 (in 2016 the TIR was 0.52, in 2019 the TIR was 0.49)	AT RISK		8.8
<b>Operate ethically</b> Enhance trust and promote equal opportunity	Ethical Business Practices: All activities are conducted in compliance with applicable International Labor 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. Assessment to applicable ILO conventions completed for internal operations. Engagement with upstream suppliers and downstream distributors and agents under way	ON TRACK		8.7 8.8
<b>Ensure product and service quality</b> Improve efficiency, enhance trust and reliability	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. The root cause investigation and mitigation protocols are in place and operational	ON TRACK		3.8
<b>Engage communities</b> Promote trust and extend access to care. Enhance our potential pool of talented employees	Robust social responsibility programmes which 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 but requires updating to align with the Group business strategy and the new sustainability strategy	ON TRACK		10.2
<b>Enterprise risk management</b> Comprehensively assess and mitigate risks across the entirety of Smith+Nephew, to ensure sustained profitability	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	– Enterprise risk management processes and supporting manual redeveloped – Senior business risk champions appointed and trained in risk management – Risk registers refreshed and mitigating actions regularly monitored and updated – Principal risks aligned to new organisation structure and strategic imperatives	ON TRACK		

>> \*See [page 45](#) for data references

## Looking back: our progress

Our material issues	Our 10 long-term aspirational goals	Our 2020 targets	Progress since 2016 baseline	Status	Most relevant SDGs	Specific SDG target*
<b>Collaboration and Courage (delivering products with a reduced footprint)</b>						
<b>Use water responsibly</b> Enhance availability of water for alternative uses, reduce conflict and reduce environmental impact	Water: Total water impacts of our products and solutions are balanced with local human and ecosystem needs	<ul style="list-style-type: none"> <li>Water footprint (1) available for products accounting for 75% of revenue and (2) considerations embedded in new product development process</li> <li>Total potable water consumption at S+N sites no higher than 2016 actual</li> </ul>	<ul style="list-style-type: none"> <li>Products accounting for 75% of revenue identified. Water footprint tools identified</li> <li>Life Cycle Assessment (LCA) not completed</li> <li>Water reduction of 5% since 2016</li> </ul>	ON TRACK		6.4
<b>Reduce waste</b> Improve resource efficiency and reduce environmental impact	Waste: All materials are either shipped as part of product or returned for beneficial use	<ul style="list-style-type: none"> <li>Total material efficiency estimated for products accounting for 75% of revenue</li> <li>80% or more of waste generated reused, recycled or recovered</li> </ul>	<ul style="list-style-type: none"> <li>Products accounting for 75% of revenue identified. Material efficiency tools identified</li> <li>LCA not completed</li> <li>We currently reuse, recycle or recover energy from 76% of our total waste, up from 74% in 2016</li> </ul>	ON TRACK		12.2 12.4 12.5
<b>Reduce carbon emissions</b> Improve resource efficiency and reduce conflict, while enhancing biodiversity and mitigating climate change	Carbon: 80% absolute reduction in total life cycle greenhouse gas emissions by 2050	<ul style="list-style-type: none"> <li>Estimate total life cycle greenhouse gas emissions of products accounting for 75% of revenue</li> <li>Total Scope 1 &amp; 2 greenhouse gas emissions reduced by 10% from 2016 actual</li> </ul>	<ul style="list-style-type: none"> <li>Products accounting for 75% of revenue identified. Total life cycle greenhouse gas emissions tools identified</li> <li>LCA not completed</li> <li>Greenhouse gas emissions reduction of 16% since 2016</li> </ul>	ON TRACK		
<b>Develop products with sustainable attributes</b> Increase access to care, improve our environmental impact and reduce costs	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	<ul style="list-style-type: none"> <li>Sustainability attributes described for products accounting for 75% of revenue</li> <li>Robust emphasis on sustainability attributes of new products/services in place</li> </ul>	<ul style="list-style-type: none"> <li>Products accounting for 75% of revenue identified. Product/service sustainability attributes agreed</li> <li>NPD sustainability focus planning under way</li> </ul>	ON TRACK	  	3.8 10.2 12.2 12.4 12.5
<b>Consistent focus</b> Ensure that all aspects of the business remain aligned to the sustainability imperative and move us steadily towards the achievement of our targets	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"> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>LCA outputs not available</li> </ul>	AT RISK		

» \*See page 45 for data references



# Looking forward: our new sustainability strategy

We believe that our new sustainability strategy is more responsive to the challenges facing society in the areas where we can make a meaningful difference. It is also more deeply embedded into our Group business strategy, ensuring that sustainability is fully connected to our business success.

To realise the goals in our strategy, we must work towards achieving our medium-term sustainability targets. Delivery against these will be key to the continued success of our Company.

In 2019, we established our Sustainability Council to set and ensure delivery of our sustainability strategy, so that sustainability becomes embedded throughout Smith+Nephew. Delivering this is critical to achieving our strategic business imperatives, which deliver long-term shareholder value not only through profits, but also by engaging our employees and positively impacting society in the communities in which we operate.

We have created a Sustainability Council comprising members of our Executive Committee and it maintains visibility to the Board through regular updates to our Compliance & Culture Committee. The Council drives sustainability and the new sustainability strategy ties directly to our purpose, culture pillars, and strategic imperatives. The Sustainability Council is made up of executives from Human Resources, Global Operations, Quality and Regulatory Affairs, Research & Development, Commercial and Procurement. This diversity of thought, experience and knowledge of our company vision, strategic imperatives, culture, product portfolio and innovation makes this an excellent team to drive sustainability.

We will apply our culture pillars to deliver sustained competitive advantage through a focus on people, planet and products. We are committed to deliver this strategy through a set of targets with accountability across the business.

## Sustained competitive advantage =

### People + Planet + Products

Creating a lasting positive impact on our communities

Having the most positive impact in the MedTech sector

Innovating sustainably



# Enhanced sustainability targets

## People

### Creating a lasting positive impact on our communities

#### Targets

- Between 2020 and 2030, contribute **1 million** volunteer hours to the communities in which we live and work
- Between 2020 and 2030, donate **\$125 million** in cash and products to underserved communities.

#### Additional Actions

- Revise social responsibility strategy and implement globally, including guidance to all locations on philanthropy and volunteering
- Continue to measure and report on all current health and safety metrics (i.e. incident rates)
- Implement targeted training and performance elements in Commercial areas
- Continue to share best practices across operations sites
- Continue and extend robust HSE audit programme
- Become fully compliant with identified applicable international labour standards within Smith+Nephew.

## + Planet

### Having the most positive impact in the MedTech sector

#### Targets

- Achieve an 80% absolute reduction in total life cycle greenhouse gas emissions by 2050 beginning by implementing **100% renewable electricity** (e.g. solar or wind) plans at our facilities in Memphis (US) and Malaysia by 2022 and at all of our strategic manufacturing facilities by 2025
- Achieve **zero waste to landfill** at our facilities in Memphis (US) and Malaysia by 2025 and at all of our strategic manufacturing facilities by 2030.

#### Additional Actions

- Develop and implement a greenhouse gases (GHG) reduction programme
- Determine local human and ecosystem water needs at each significant location
- Develop and implement a water reduction programme targeted to high risk locations
- Develop and implement a waste reduction programme
- All current metrics (i.e. water usage, recycling percentages, etc.) will continue to be measured and reported.

## + Products

### Innovating sustainably

#### Targets

- By 2022, include sustainability review in New Product Development phase reviews for **all** new products and product acquisitions
- By 2025, incorporate **at least 30%** post-consumer recycled content into all packaging materials
- By 2025, complete supply chain assessment of **all** suppliers and subsequent tier levels to assure compliance with our sustainability requirements.

#### Additional Actions

- Apply identified international labour standards to our downstream partners using current compliance scheme
- Extend current compliance scheme relative to identified international labour standard to upstream vendors
- Identify and catalogue the sustainability attributes in existing products and services
- Identify attributes of value to customers, investors and regulators and embed them into R&D/NPD targets and processes
- Develop and implement a programme to communicate and embed product and service sustainability attributes into Medical Education, Market Development, Sales Training, R&D/NPD and product launch, Evidence generation, and Manufacturing processes
- Implement processes to ensure current and ongoing compliance with the customer and regulatory requirements (i.e. chemicals of concern, Modern Slavery, conflict minerals, Waste Electrical and Electronic Equipment Regulations (WEEE), Restriction of Hazardous Substances Directive (RoHS), Registration, Evaluation, Authorisation and Restriction of Chemicals Regulations (REACH), Safe Drinking Water and Toxic Enforcement Act of 1986 (California Proposition 65/Prop65), etc.).



# Putting people first

**People come first at Smith+Nephew – our patients, employees, healthcare professionals, partners and shareholders.**

## Why is this important?

This principle is the essence of Life Unlimited. Putting people first will help us achieve our vision of a world in which healthcare professionals and patients can access solutions to help restore health, wherever they may be.

While our employees, partners and contractors work to help improve other people’s health and wellbeing, we take steps to protect theirs, by ensuring a healthy and safe working environment.

For example, we have also strengthened our wellness programmes for employees, with a focus on enabling healthy lifestyle choices.

We engage meaningfully with the communities where we operate through our site leadership teams and local camaraderie councils. In addition, we encourage our people to volunteer in local communities, offering paid volunteering time and matching employee charitable donations.

We believe that these initiatives will be the foundation for our future business success, and ability to have an ever greater impact on people’s lives.



**“Putting people first is the essence of not only our Company, but also our purpose. It is what drives our business decisions and, we believe, our business success.”**

**Elga Lohler**  
Chief Human Resources Officer,  
Chair of the Sustainability Council

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# Empowering our employees

## Why is this important?

Smith+Nephew's success comes from our employees. It is through their hard work and dedication that we are able to improve patients' lives every day across the world. We want to be an employer of choice, and to attract and retain talented employees. To achieve this, we are empowering our leaders and managers, building a sustainable talent pipeline, and operating more effectively and inclusively.

## How it links to our goals

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



## Key areas of focus

### A culture of Care, Collaboration and Courage

Smith+Nephew has a proud history of more than 160 years of improving health around the world. While we have grown significantly from our beginnings as a small family pharmacy in Hull, England, our caring spirit has remained the same.

Our culture of Care, Collaboration and Courage defines who we are as a Company and as employees, and creates an environment that sets us up for collective success. A strong and consistent culture engages and motivates employees, creates a community where they understand our strategy and purpose, and makes them feel valued for their contributions to it. It also drives behaviours that help us realise our business ambitions.

2019 was the first year that we used the Gallup Global Engagement Survey to measure how well our employees are engaged,

and to determine where we need to focus and improve the employee experience. This decision to prioritise and measure engagement, rather than satisfaction, was driven by our new culture pillars.

More than 14,300 – or 84% – of our employees gave feedback about the current state of engagement at Smith+Nephew. Our scores were highest where we have focused our efforts: sense of purpose, pride, and commitment to quality work, with more to do in the areas of recognition and development. Every manager received a results report for his or her team, and worked with them to set action plans for improvement.

The Gallup results are reviewed by the Compliance & Culture Committee of the Board, who monitor how the culture pillars are being embedded, and consider the Gallup Survey as an additional method for employees to provide feedback on what is working well and where improvements are required.

## Caring for our customers

Congratulations to Puri Diaz (Sales Representative, Spain) for being the first colleague to be recognised as part of our culture pillars campaign. Puri worked hard to develop a unique manual tracking system to manage use of RENASYS<sup>®</sup> negative pressure wound therapy devices at a large hospital. Puri also provided bags to store and move the devices, ensuring they were well looked after. Thank you Puri for demonstrating Care toward our customers and patients.





## Empowering our employees

### Winning Behaviours

We launched Winning Behaviours in early 2019 to underpin our new purpose and culture pillars. They define the winning mindset we want to drive at Smith+Nephew and the behaviours we expect to deliver our strategic imperatives.

We now have one set of expectations for how all Smith+Nephew employees should behave, tailored to different levels – Individual Contributor, People Leader and Senior Leader.

Winning Behaviours have been embedded into all of our talent and HR processes, from how we recruit and manage performance, to how we develop our employees. We measure success by the integration of Winning Behaviours into all our talent and people processes. This includes our recruitment process, performance management processes, leadership development programmes, 360° feedback, talent review process and development planning.

### Leadership development

We have defined the leadership expectation for every employee via our Winning Behaviours, which is supported via individual 70/20/10 development plans. Every employee also has access to MyLearning, our online

**“Our new Winning Behaviours and leadership strategy will ensure Smith+Nephew is a leader in our industry.”**

**Nikki West**  
Senior Vice President,  
Global Talent



learning platform, which offers self-paced micro-learning (e-learning modules, videos and leadership summaries) on a range of topics. Our corporate leadership development approach has been evolving to accommodate individual learning styles. Our digital training resources and Continuous Leadership Journeys (CLJs) enable employees to tailor their training and learn at their own pace. The CLJs topics were different for each month in 2019 and have included effective communication, influencing and skills of persuasion, relationship management and how to develop a strong customer focus.

We have also redefined our leadership programme strategy, targeting our different employee and manager populations with dedicated learning, tailored to their level and needs. All our learning solutions are now designed around Winning Behaviours to enable our purpose and culture pillars. Our two successful leadership programmes, Leadership Edge and Pioneer, are available for people managers. Frontier is a front line supervisor programme, specifically designed for supervisors at our manufacturing sites. We also encourage our front line manufacturing operators to propose improvements to their work environment to promote efficiency.

## Courage in action + supporting mental health

Employee groups across our UK sites including our Inclusion & Diversity Committee are collectively driving a new initiative to create a work environment that supports mental health, and to break down the stigmas that are attached to the subject. Launched in 2019, the programme offers mental health first aid training to volunteer employees.

Chris Defraime, our UK HSE Director, explains: “We have had 87 volunteers to date who come from each of our key UK locations. We selected the one-day Mental Health England (accredited) course. Our goal is to have people in place who can recognise the symptoms of people struggling with mental health, initiate a conversation and signpost the individual towards the resources we have available to us, such as the Employee Assistance Programme.”



## Empowering our employees

## Collaboration in action + enhancing the culture of teamwork

Another one of our culture pillars is Collaboration. In 2019, we recognised Philip Langton, a Senior Microbiology Analyst in Hull (UK), for enhancing our culture of teamwork, based on mutual trust and respect. Philip spotted an opportunity to bring our Quality Assurance and Research & Development departments together to conduct in-house testing. Thank you Philip for improving our expertise, saving money and promoting collaborative teamwork.

### Valuing difference

**We are committed to employment practices based on equal opportunities, regardless of colour, creed, race, national origin, sex, age, marital status, sexual orientation, or disability. A person's ability to perform essential functions of a job is the only relevant criteria.**

Inclusion and diversity is a key part of our strategy and how we do business. It embodies our purpose, culture, Winning Behaviours and strategic imperatives. It is reflective not just of what we want to achieve, but also how we want to achieve it, and how we want to operate day-to-day.

We work to build awareness and manager-capability to improve the diversity of our recruitment pipeline. We have invested in this across our organisation. We have delivered Inclusion training to our top 100 leaders and a group of our top talent, as well as training our Talent Acquisition and HR teams involved in recruiting. Groups such as the Society of Women in Engineering at Smith+Nephew drive greater inclusion by supporting, enabling and celebrating the diversity of our people.

Elevate is our women's leadership development programme. It is digital and interactive, providing continuous momentum for professional development for our female employees. Up to 200 people participate each month and the programme is generating very positive feedback. It is helping to build engagement and retention of our female pipeline, as well as accelerating women's professional and career development. It is also preparing them for more senior roles within our organisation. In fact, 45% of participants achieved a promotion or new role during the year.

One course attendee commented: "Elevate has allowed me to think about my career and approach from a different perspective. Most impactful have been topics which remind me to consciously consider how I approach a situation or opportunity."

### Talent management

Investing in our talent and developing employees is fundamental to Smith+Nephew's long-term success. Our culture is personified by the people in our organisation and the same holds true for the new talent we hire. We have aligned our interview guides to our winning behaviours, reinforcing our culture pillars of Care, Collaboration and Courage.

We want to ensure that we select talent with a strong fit, and that the team actively communicates the importance of our culture pillars throughout the entire talent acquisition process.

In 2019, we invited 2,600 candidates to complete remote, video interviews to drive more efficiency in the screening process for our hiring managers across the US, EMEA and APAC, and to provide a more consistent candidate experience. This has led to faster hiring decisions, with 30% of interviewees choosing to participate via a mobile device.

### Future focus

In 2020, we will continue to build on our initiatives to reinforce the culture of Care, Collaboration and Courage, which we know will be key to our future success. Our approach will continue to be holistic and ensure everything we do is integrated and aligned with our people and business processes. For example, we will redesign some key HR policies and further simplify key processes to underpin our culture pillars. We will also increase our focus on manager development to support line leaders and their teams, to embed our winning culture.

Empowering our employees (case studies)

## US interns putting our culture pillars into action

**Care** – This summer, as part of our global intern programme, we hosted interns across our US sites including Andover, Austin, Mansfield and Memphis. Alongside their work experience, they readily immersed themselves in the community spirit at Smith+Nephew. Alison Keefe, our Graduate Recruitment Programme Manager, was with 57 employees and interns who took part in a 5k run sponsored by our Minuteman Office Park in Andover. The run benefited the Boys and Girls of Greater Lawrence and raised \$5,700.

Sophia Poirier, a Regulatory Affairs Intern, said: “We met other people who we don’t normally work with and everyone was welcoming. They made an effort to include us in their conversations and it was fun to connect with co-workers.”



Charity 5k run in Andover (US)

**Collaboration** – Our interns have also benefited from a weekly lunchtime lecture series. Based in Andover, interns from other sites tune in via Skype. Senior leaders take the time to speak about their role and background, and answer questions ranging from how to achieve a healthy work-life balance to the challenges facing our organisation. Speakers so far have included Will Danzinger, our Senior Vice President Operations, Al Torabi, Vice President Quality, and Melissa Guerdan, Chief Quality and Regulatory Affairs Officer.

**Courage** – Our global intern programme is a great way for Smith+Nephew to attract new talent to prepare them for jobs in their chosen fields, since it offers real insight into the workings of a global medical device company. Taylor Barbagallo, Marketing Intern, explains: “My perspective on what marketing entails has changed. Now I realise just how much work goes into creating one brochure, or one post on a social media channel.”

## International Women’s Day 2019

International Women’s Day (IWD) is 108 years old, with the first IWD gathering taking place back in 1911, supported by over a million people in Austria, Denmark, Germany and Switzerland. Today, it is a global event, celebrating the social, economic, cultural and political achievements of women.

In May 2019, teams across many of our sites organised events and activities that supported our efforts to create an inclusive workplace where every individual can fulfil their potential and be proud ambassadors for Smith+Nephew, our customers and their patients.



International Women’s Day in China

Our team in China, for example, held a women’s forum, led by three inspirational leaders – Ginger Lu, Vice President APAC Compliance and Greater China Legal; Jennifer Sun, Greater China Commercial Excellence Director; and Jerry Li, Greater China IT Senior Director. The event was broadcast online to all employees, including home-based employees, with 122 attendees across different locations.

“The forum was such a success and it was really interesting to hear from our leaders. Ginger shared her opinions on the challenges of being a woman in the workplace, and invited all female employees to be a part of our WISE club, which stands for ‘Women in Search of Excellence.’”

Lisa Gong

Senior Medical Education Manager

Empowering our employees (case studies)

# Developing STEM leaders of the future in the UK

We want to raise the level of scientific and technological understanding, and work on a number of initiatives to achieve this. In the UK, for example, Science, Technology, Engineering and Mathematics (STEM) Ambassadors at our Hull and Watford sites speak at local schools and colleges about their careers. They offer their time and enthusiasm to help bring STEM subjects to life by giving presentations, mentoring and career talks.

We are a founding partner at Ron Dearing University Technical College, Hull, which provides students with a unique, employer-led education. We provide opportunities for their students, like Hannah Crossley and Sam Graham, both aged 18, who have begun their careers as Apprentice Manufacturing Technicians at Smith+Nephew.

**“Hannah and Sam are evidence that the unique partnership between employers and educators at Ron Dearing UTC really does give students the edge in terms of their employability and specialist skills.”**

**Gary Carr**  
Production Manager,  
Advanced Wound Management,  
Hull (UK)



“Ron Dearing UTC has prepared me really well for this,” explains Hannah, who achieved a Distinction in Engineering. “By working for Smith+Nephew, I can join a team which will make a huge difference in the world because of the products they make. To have the opportunity to be part of that is breathtaking.”

Sam, who achieved two Merits in Engineering and a further Merit in Digital Technology, said the approach to learning at the college had pushed him to aim high. “I know I have made the right decision to go down the apprenticeship route. I’m so excited and it’s a privilege to work for a big company such as Smith+Nephew.”

Sam and Hannah, two apprentices from Ron Dearing University Technical College, Hull



# Injury-free workplace

## Why is this important?

Every day, we must ensure that the safety of our employees and those who work with us is given the highest priority. This is the case in all of our offices and manufacturing sites around the world, and also when we visit customers. A healthy and safe working environment is fundamental to the way we work at Smith+Nephew.

## How it links to our goals

Our injury-free workplace activities will help us achieve our goal of having ‘zero work-related injuries and illnesses across the value chain’.

## Smith+Nephew’s approach

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

## Key areas of focus

We continue to focus our safety efforts on our manufacturing operations, reducing risk from the use of machinery and through lean initiatives. Our field sales operations have seen increased focus globally, ensuring measures are in place to protect employees who are working in country offices and warehouses, travelling on company business, as well as those who need to work in the operating theatre during surgery. We are working diligently to address these risks through the implementation of policies and education.

## Our performance

In 2019, we continued to develop the culture of shared responsibility for employee health and safety. We did this by extending behaviour-based safety programmes, improving the reach of safety training, the breadth of our on-site safety audits and by identifying and investigating all incidents and their associated root causes.

As a result of this wider focus, we have seen an increase in the number of injuries reported by people working for us, including those arising from driving on company business and receiving cuts while handling or assembling products. This has been reflected in increased incident rates reported across the Company in 2019. Our total incident rate did improve when compared to 2016, but we did not maintain the 10% improvement. There were no fatalities during 2019. This wider focus is providing us with an opportunity to more accurately address the root causes of these issues bringing us a step closer to realising our injury reduction goals.

## Safety and occupational health

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.

### Total recordable incident rate, TIR

2019	0.49
2018	0.45
2017	0.35
2016	0.52

### Lost time incident frequency rate, LTIFR

2019	0.28
2018	0.19
2017	0.11
2016	0.23

Injury-free workplace (case studies)

# Costa Rica: Raising safety awareness through 'CAMPEON'

Our team in Costa Rica wanted to develop a strong safety culture, embedded in the organisation. They analysed the root causes of workplace injuries and discovered that 84% of incidents were related to unsafe behaviours. In response, they created a Behaviour Based Safety (BBS) programme. Rather than waiting for an accident, the Health, Safety and Environment (HSE) department is switching its focus to preventative action by reinforcing positive and safe behaviours.

Our people are encouraged to follow the 'CAMPEON' safety behaviours: Corrijo, Actuo, Mejoro, Prevengo, Evito y Observo para No tener accidentes (I Behave, I Do, I Improve, I Prevent, I Choose and I Observe to Not have accidents). The team raises awareness of CAMPEON through the BBS mascot, Sam the Chameleon.

People who demonstrate safe behaviours are rewarded and publicly recognised with a CAMPEON badge.

**6x**  
increase of near misses and improvement ideas raised

Anyone who reports five safe behaviours wins the CAMPEON challenge, in which winners receive a CAMPEON sustainably-sourced t-shirt and participate in the monthly prize raffles.

As a result of this programme, in the past year our site in Costa Rica raised over 2,400 near misses and improvement ideas, an increase of nearly six times over the previous year. The programme is ongoing, involves everyone from our senior leaders to new recruits, and is part of our culture of continuous improvement.



The Costa Rica team with Sam the Chameleon

# Improving Occupational Health

We have relaunched our UK Occupational Health services to provide better, risk-based services to staff exposed to hazards in the workplace. This includes an effective referral process to get support to employees, managers and HR when they need it, and assessments conducted for staff experiencing health issues affecting their performance at work.

As well as ensuring legal compliance and risk management, this has led to reducing downtime following the removal of 'blanket' requirements and 'inferred liability' (providing health surveillance for non-existent risk), and improved case management services. By treating issues early, which either prevents absence or gets people back into work sooner, we have reduced costs by over £30,000.

**£30,000**  
reduction in costs by getting people back into work sooner, with improved case management services

Injury-free workplace (case studies)

## Stretching exercises and 'e-bike training' to reduce injuries

Our team in Suzhou (China) introduced stretching exercises to help combat musculoskeletal injuries. In 2019, 650 Clean Room employees participated in these exercises twice during each shift, and a further 160 office employees participated in daily stretches. Additionally, we have delivered e-bike safety awareness training to all employees and 339 employees received an e-bike safety helmet.

**339**  
employees  
received an e-bike  
safety helmet

A commuter in Suzhou (China) on their e-bike



## Safety and wellbeing initiatives

### Just some of our other safety and wellbeing initiatives

- Employees in Beijing (China) were asked to attach a leaf to a 'Safety Tree' to raise safety awareness;
- Our 'Mommy Cottage' in Suzhou (China) supports working mums to continue breastfeeding their baby;
- All our UK sites have introduced a new 'Mindful' menu to our restaurants to promote healthy eating; and
- 250 colleagues joined in our 'Wellness Challenge' in Costa Rica to improve their eating habits.

### Future focus

We are extending our Sustainability Management System standards and procedures, and our established Health, Safety and Environment (HSE) audit programme to a larger number of commercial sites. We are also increasing our focus on audit, training and safety awareness at our commercial locations, including our employees who are working in sales.

Having a safe work environment means that we not only look for immediate and obvious risks, but are also aware of the risk to our employees' health and wellness. We strive to identify injuries and illness before they become life-altering, and we are working to continuously improve our processes so that the impacts to the body are minimised and eliminated where possible. We also recognise that a healthy person is a happier person. Promoting wellness by offering mental health support, healthy eating options and competitions, flu vaccinations, assistance with stopping smoking, and blood pressure checks are just a few ways in which we will continue to assist employees in monitoring their health.



# Responsible global citizen

## Why is this important?

Today's world faces many challenges and everyone needs to play their part to help tackle them. More and more people want to work for purposeful companies that act in a responsible way. At Smith+Nephew, we are proud that 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

Our responsible global citizen activities will help us achieve our goal of having 'robust social responsibility programmes which contribute to the attraction and retention of top talent'.



PICO® 7Y Single Use Negative Pressure Wound Therapy

## Smith+Nephew's approach

Our wider 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 programme is designed to encourage charitable contributions; we match our employees' eligible 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 programme allows every employee up to eight hours of paid volunteer time per year.

**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.

**“Our people work hard to bring healthcare solutions to patients every single day. However, as responsible citizens, we want to go even further, helping communities to access healthcare and enhancing lives all around the globe.”**

**Simon Fraser**

President, Advanced Wound Management and Member of the Sustainability Council



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 team 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.

We apply strict criteria to ensure that we support only charities and other non-profit organisations adhering to appropriate ethical standards.



# Responsible global citizen

## Key areas of focus

### Health & human services

As a leading medical device company, we give preference to health 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

Education is essential for economic and social development, increasing people's ability to access high quality healthcare solutions. We fully support educational programmes, particularly those focused on Science, Technology, Engineering and Mathematics (STEM).

### Environmental stewardship

We encourage participation in programmes that protect and provide wider access to local natural resources and those that promote sustainable initiatives.

# 67%

Annual increase in cash and product donations

## Our performance

During 2019, our philanthropic activities totalled \$13.41m. This consisted of \$13.30m in cash and product donations (67% increase over the \$7.98m from 2018), and \$108,000 from matching employee gifts to qualified charities.

This reflects the initial success of our social responsibility strategy, which aims to build employee enthusiasm for charitable giving and demonstrate a connection between charitable endeavours and our success as a company.

In addition, in 2019 we provided \$7.13m in educational grants and sponsorships across the world. These aimed to support and improve the skills of surgeons in the application of our products and technologies, thereby expanding access to world-class healthcare solutions.

# \$7.13m

of educational grants and sponsorships across the world

## Future focus

In 2020, we will revise our social responsibility strategy to ensure continued alignment with our new sustainability strategy, and will adjust our programmes as appropriate.



Responsible global citizen (case studies)

## Volunteering in local communities

### ‘Wings for Life’

In 2019, colleagues from our site in Baar (Switzerland) supported the ‘Wings for Life’ charity running event. The motto was ‘we run for those who can’t’ and the team raised €1,158 for research into spinal cord injuries. We salute our eight brave runners who together covered almost 100km for this important cause, despite the cold and wet weather.

### Year-round support for Barnardo’s

We are proud to be a charity partner of child protection charity, Barnardo’s in Australia. In August, 20 of our Sydney staff ran, jogged and walked their way from the Sydney Central Business District to Bondi Beach as part of the world’s largest fun run – City2Surf – raising over AUS\$1,900 for the charity. We followed this up during the winter, with an Australia-wide collection as part of Barnardo’s Winter Warmers appeal. Thanks to our generous staff and their huge outpouring of support, this resulted in 30 boxes of warm clothes, food, toiletries, vouchers and treats sent to three different Barnardo’s centres.

### Cycling from the UK to France to combat liver disease

A team of 34 employees completed the Croxley, UK to Paris three-day bike ride, raising over £15,000 for Primary Sclerosing Cholangitis (PSC) support. The route took them through the UK South Downs and Northern France, ending 235 miles later with the team riding through the cobbled Parisian streets to the finish at the base of the Eiffel Tower.

### Orange Spots sighted in Costa Rica

During the summer of 2019, a group of our employees in Costa Rica volunteered to collect waste at one of the most contaminated beaches in the country. We called the project ‘an orange spot arrived at Guacalillo beach’ because the orange spot represents our crew of Smith+Nephew volunteers sporting orange tops. They spent the day using their ingenuity, initiative, strength and team work to fill a truck with waste, weighing approximately 1,000kg.



Responsible global citizen (case studies)

## The first ever Smith+Nephew Sustainability Challenge

Smith+Nephew Young Professionals (SNYP) launched the first ever Smith+Nephew Sustainability Challenge in 2019. Teams all over the world developed and implemented projects that have changed the way our sites operate and have helped us towards our sustainability goals.

With direction from local HSE managers, each site was assigned a sustainability topic, ranging from waste management to carbon emissions and community engagement. The result was 40 Challenge entries representing five countries, 15 winning teams and three 'Most Innovative Project' awards. Our sustainability leadership team thoroughly reviewed all projects and selected the winners from each site.

A team in Hull (UK), for example, organised a clean-up at the nearby Withernsea beach. They improved community engagement by collaborating with the local community and council.

A team in Oklahoma City (US) nicknamed 'the cabbage patch kids', created a vegetable garden made from reclaimed materials and providing a community gathering space. There, employees are encouraged to participate by collecting coffee grounds to use as fertilizer.

And a team at our Orthopaedics manufacturing site in Tuttlingen (Germany) is testing saving emissions by transporting less cutting fluid and oil, consuming less fluid and water, and reducing the bacterial load for the site by using filtration techniques and new machinery.

SNYP aims to continue the Sustainability Challenge and build on this year's success, moving our entire organisation towards greater sustainability.

"Seeing so many people from different countries, cultures and backgrounds working together to find sustainable solutions for our sites was inspiring," says Camila de Conto, Manufacturing Engineer, Curaçao, whose idea it was for the Challenge. "I hope we will keep innovating together and reducing our carbon footprint for many more challenges to come."

## Plastic surgery in South Africa

A hospital in South Africa requested a donation from Smith+Nephew of our PICO<sup>o</sup> Single Use Negative Pressure Wound Therapy system (sNPWT) in order to reduce the risk of wound healing complications and help improve post-surgical outcomes for their patients. Our team was happy to assist as part of our approach to supporting healthcare professionals in improving the lives of patients, enabling better outcomes through the pioneering design of our products, and securing wider access to our technologies.

Inkosi Albert Luthuli Central Hospital is a public/private partnership situated in Durban, with a large catchment population. As a tertiary institution, the hospital provides specialised care, including plastic surgery. The multi-disciplinary surgical team at the hospital wanted to operate on 20 patients suffering from macromastia (abnormally large breasts). This causes extreme neck and back pain, chronic breast pain, and in most cases, difficulty performing daily functions and a poor quality of life.

"Improving the quality of patients' lives is what we do every day at Smith+Nephew," explains Sabashini Naicker, Senior Director, Advanced Wound Management. "Our team helps to provide advanced wound care solutions to patients suffering from burns, and chronic and traumatic wounds. We were extremely pleased when Albert Luthuli approached us to assist, giving Smith+Nephew the opportunity to demonstrate the health and economic benefits that PICO can offer. Reducing healing time, dressing changes and complications such as wound infection helps patients as well as the healthcare provider."



The team at the hospital in Durban, South Africa

# Launching new products in 2019

## Advanced Wound Management

### LEAF<sup>®</sup> Patient Monitoring System

The current standard of care for pressure injury prevention is to reposition all patients at risk of pressure injuries on a regular basis. However, given the busy nature of hospitals, it's often difficult to keep track of which patients need to be turned. Compliance with turning protocols is typically suboptimal and as a result, pressure injury rates remain high.

Our LEAF System has been clinically proven to increase frequency and quality of turning in an acute setting, which has been demonstrated to reduce hospital-acquired pressure injuries, a common and costly hospital complication.<sup>1</sup> It involves a small, wireless patient sensor that attaches to the patient's upper chest, continuously monitors all patient movement, and helps caregivers know when a patient needs to be repositioned to prevent pressure injury. LEAF continuously monitors patient position for the purposes of co-ordinating and optimising patient turning protocols. It was first launched in 2014 and is FDA cleared for use in the United States.

In 2018, a large randomised controlled trial (RCT) was published on the LEAF technology.<sup>2</sup> The study demonstrated that it reduces pressure injury rates by 73% relative to the standard of care.

LEAF demonstrates our three culture pillars:

**Care** – We care deeply about preventing pressure injuries.

**Collaboration** – Our product was developed in collaboration with engineers, nurses and physicians.

**Courage** – Patient turning protocols have been co-ordinated in the same way for the past 150+ years. We have to be courageous to improve this fundamental nursing practice. By infusing technology into this traditional practice, we are introducing a cultural change that we believe will improve patient outcomes and supports our purpose of Life Unlimited.

A life without pressure injuries is a Life Unlimited – we are deeply committed to helping caregivers prevent pressure injuries.



## Reducing the human and economic burden of wounds

Smith+Nephew's extensive Advanced Wound Management portfolio is designed to meet broad and complex clinical needs, helping healthcare professionals get 'CLOSER TO ZERO' human and economic consequences of wounds.



LEAF<sup>®</sup> Patient Monitoring System



## Launching new products in 2019

### Sports Medicine & ENT

Smith+Nephew's Sports Medicine & ENT franchise operates in growing markets where unmet clinical needs provide opportunities for procedural and technological innovation.



## Innovative technology for minimally invasive surgery

There are currently more than 1.2 million meniscal tears treated surgically in the US each year with only 15–20% of the cases receiving a meniscal repair, rather than removal.<sup>3</sup> With products like NOVOSTITCH<sup>®</sup> PRO and FAST-FIX 360<sup>®</sup>, we see the opportunity to double this proportion in the medium term.



NOVOSTITCH PRO Meniscal Repair System

### Orthopaedics

Smith+Nephew's Orthopaedics franchise includes an innovative range of Hip and Knee Implants used to replace diseased, damaged or worn joints, robotics-assisted enabling technologies that empower surgeons, and Trauma products used to stabilise fractures and correct bone deformities.

- 1 AHRQ National Scorecard on Hospital-Acquired Conditions (June 2018) and Effect of a wearable patient sensor on care delivery for preventing pressure injuries in acutely ill adults: A pragmatic randomized clinical trial (LS-HAPI study), International Journal of Nursing Studies (December 2018).
- 2 Effect of a wearable patient sensor on care delivery for preventing pressure injuries in acutely ill adults: A pragmatic randomized clinical trial (LS-HAPI study), International Journal of Nursing Studies (December 2018).
- 3 Ref. 2018 SmartTRAK US Meniscal Repair Fixation market report.

## Enhancing quality of life

In 2019, we announced the launch of OR30<sup>®</sup>, our new Advanced Dual Mobility system incorporating our proprietary VERILAST<sup>®</sup> technology. The diversity of our portfolio exemplifies our commitment to providing surgeons with implant and instrumentation options that meet the specific demands of their patients and preferred surgical approach.



OR30 Dual Mobility System

# Safe use of our products

## Why is this important?

Manufacturing and supplying safe and effective products is at the heart of our business.

Our strategic imperative to 'Become the best owner' includes our commitment to uphold the highest standards of quality and compliance. We endeavour to effectively and efficiently deliver products that provide safe and effective solutions to our customers and patients.

## How it links to our goals

Our people, processes and technology are structured to support progress toward the aspirational goal of having 'zero product-related and service-related patient injuries'.

## Smith+Nephew's approach

Product safety is at the heart of our business. Regulatory authorities across the world enforce a complex series of laws and regulations that govern the design, development, approval, manufacture, labelling, marketing and sale of healthcare products. Our internal processes and procedures are established to ensure product safety and efficacy across the full life cycle of our products and services. We actively encourage reporting of any observation indicating a potential concern with product performance. We listen to feedback – from customers, patients, sales representatives, employees and regulatory authorities.

## Key areas of focus

Our global Quality and Regulatory Affairs function supports the full product life cycle management of Smith+Nephew's global product portfolio from design and development through manufacturing and post-market surveillance. This function establishes appropriate processes and procedures to facilitate compliance to applicable global laws and regulations.

The team is currently leading a major Group-wide programme to prepare for implementation of the European Union (EU) Medical Devices Regulation (MDR), which came into force in May 2017, with a three-year

**"At Smith+Nephew, we believe product quality is a critical priority, ultimately allowing healthcare providers to improve the lives of their patients. We have made great progress executing our Global Quality strategy in 2019. The important work of the Sustainability Council enhances our focus on quality across the full product life cycle, by establishing aspirational goals for our employees across multiple functions."**

**Melissa Guerdan**

Chief Quality and Regulatory Affairs Officer and Member of the Sustainability Council



transition period until the date of application in May 2020. The regulation includes new requirements for the manufacture, supply and sale of all CE marked products sold in Europe and requires the re-registration of medical devices with CE marking, regardless of where the devices are manufactured.

## Our performance

Throughout 2019, our Quality and Regulatory Affairs function continued to focus on improving overall Company compliance while supporting our growth objectives by delivering multiple new product approvals as well as registering hundreds of existing products in new markets. The function also improved key quality metrics through implementation of improved processes and management oversight.

## Future focus

In 2020, we will continue to improve key metrics associated with our external and internal quality measures. We are simplifying our processes and implementing supporting technologies in our journey of continuous improvement. We take pride in our work, and take seriously our commitment to provide safe and effective products for patients.



# Products with a reduced footprint

## Why is this important?

Along with our customers and stakeholders, we are continuing to show interest in the environmental footprint of our products and services. We have focused on our internal environmental footprint for a number of years, improving our performance in the areas of waste recycling, water and GHG emissions.

Our revised strategy 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.

We are also working to deliver products and services with improved overall environmental impact.

We are taking steps to better understand the extended footprints of our top products. This is important to ensure that we focus our resources where they will produce the most positive impact.

We are mindful that impacts can be complex and inter-related. So throughout our business, we take a holistic approach to sustainable decision-making, ensuring that all impacts are taken into account.

**“2019 has seen a marked increase in the number of people becoming aware of the need to protect our planet. We are playing our part by managing resources efficiently, saving energy, cutting emissions, and our use of water and plastic.”**

**Mark Gladwell**

President, Operations and Global Business Services and Member of the Sustainability Council



The ANTHEM® Total Knee System provides a simplified surgical technique that allows knee surgeons to benefit from the anatomical fit provided by ANTHEM

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# Product development

**We have made progress in 2019 incorporating sustainability initiatives into our new product development processes.**

## Why is this important?

We want to develop products with sustainable attributes, increase access to care, improve our environmental impact and reduce costs.

## How it links to our goals

Our product development programme will help us achieve our goal of having ‘products and services that are aligned to market economic, social and environmental expectations and anticipate future market conditions’.

The innovation teams have taken improved manufacturing capabilities as key goals. We continue to extend the application of methods such as Six Sigma and lean manufacturing to enable process flexibility early in the development cycle. Lean manufacturing tools have specifically been used to target reductions in several waste streams; namely overproduction, inventory, transportation and scrap. While tools like these were originally utilised to improve efficiency and reduce cost, they have also been beneficial for us to achieve our sustainable goals in design and production.

As we continue to expand our sustainability efforts for future new product development, we are implementing sustainability reviews for all new innovation programmes.

**“I’m excited to be a member of our new Sustainability Council. Our new sustainability strategy addresses all areas of our business. Incorporating sustainability into our Innovation processes ensures that we address customer needs by optimising the environmental footprint of our products and packaging, and improving the patient experience through sustainable product attributes.”**

**Vasant Padmanabhan**  
President, Research and Development and Member of the Sustainability Council



This will allow us to set clear objectives at the initiation of programmes and provide the required governance to insure the teams are successful in meeting those objectives. In addition, we will continue to increase post-consumer recycled content in packaging materials and we have several ongoing enterprise-wide projects to transition product support materials such as Instructions For Use (IFU) and marketing collateral from paper-based content to electronic on-demand product information.

# Minimising waste

## Why is this important?

We are seeing more and more customers demanding medical devices that are produced – and perform – in an environmentally-friendly way. Waste is an opportunity to improve resource efficiency and costs.

## How it links to our goals

Our waste activities will help us achieve our goal that ‘all materials are either shipped as part of product or returned for beneficial use’.

## Smith+Nephew’s approach

Our aim is to minimise all of our waste streams at all our sites around the world, especially at our manufacturing locations, achieving best practices in waste management. We place specific emphasis on the waste we generate in-house and downstream, throughout the life cycle of our products – from the raw materials we purchase, the waste generated in our manufacturing facilities, and ultimately the final destination of the materials we use.

Wherever possible, our employees help to spread the message about waste reduction and encourage waste elimination and recycling.

## Key areas of focus

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

- We encourage 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 nearly 9,000 tonnes of materials each year, including some waste sent for energy recovery – now representing 76% 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 already nearing this goal where opportunities for recycling exist;
- Some of our waste streams are incinerated at waste facilities – these facilities reuse the heat generated to supply energy in place of burning fossil fuels; 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.

## Our performance

While the Company experienced growth, both through the existing business and acquisitions, the effect did not have a material impact on our environmental footprint; our total waste generated was slightly more than in the previous year. We continue to identify and implement source reduction, reuse and recycling opportunities and ways to divert waste away from landfill. In 2019, we recycled 76% of our total waste, including waste diverted to energy recovery, towards our target of 80% by 2020.

### Landfill waste (t)

2019	1,996
2018	1,940
2017	2,196
2016	2,281

1,996 **-12%**

### Total waste (t)

2019	11,837
2018	11,034
2017	10,496
2016	10,122

11,837 **+17%**

### % waste to recycling incl. waste to energy

2019	76%
2018	79%
2017	77%
2016	74%

76%

# Minimising waste

## Solving the conundrum

Our Orthopaedics manufacturing location in Memphis (US) is one of the largest generators of solid waste across Smith+Nephew. As a result, this location has a particular responsibility to mitigate its environmental impact. With increasing production demands, overall waste reduction has not been feasible, so the site decided to divert waste away from landfill and focus on recycling. The HSE team in Memphis has adopted the goal of recycling or reusing more of its waste. We communicate waste progress to all production groups to raise awareness of the impacts of waste generation, as well as the benefits of reusing, recycling and converting waste to energy initiatives. As a result, in 2019, the sites in Memphis recycled, or sent for incineration and energy recovery, 52% of their total waste with an aim to improve over the coming year.

## Exceeding expectations in Costa Rica

We are delighted that our team in Costa Rica achieved its target of sending only 1% of its waste to landfill.

**1%**

Exceeding expectations in Costa Rica sending only 1% of its waste to landfill



The new PICO 7 sNPWT packaging which saved 600,000 plastic trays from being sent to landfill

## The importance of packaging

The most critical requirement for packaging in healthcare applications is patient safety and ensuring product integrity. In addition to safety and economic considerations, we are also taking steps to improve the design of our packaging and ensure accurate tracking of packaging waste, to improve recovery and recycling rates.

Our focus is on waste reduction and packaging rationalisation. We invest in technology to shorten the supply chain with on-site packaging conversion, promote projects to digitise paper (electronic Instructions For Use (eIFU) and production paperwork), and support testing for new distribution routes that require less fossil fuels for shipping packages. Smith+Nephew offices also continue to reduce unnecessary packaging and to discuss waste reduction issues with suppliers.

One key project redefined packaging for our flagship product (PICO) and its IFU format. This alone saved 600,000 plastic trays from being sent to landfill. Changes to pallet configuration also improved space usage in transit and storage.

**“Our improvements to packaging take Courage to challenge current manufacturing models. It takes Collaboration to find the most sustainable solutions, and it takes Care to develop and train employees so that they have the capability to find and analyse the best alternatives.”**

**Laurie Jordan**

Senior Director, Global Packaging Technology



Going forwards, we will introduce a number of measures to improve the environmental footprint of our packaging. For example, we are working on a strategic collaboration with one of our suppliers to use materials that are easier to recycle (mono-materials). We are also exploring biodegradable plastic packaging alternatives in all packaging levels.

## Future focus

A key challenge of 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 to both our products and their packaging through our New Product Development and Operations processes. These attributes include decreasing energy use and packaging waste for customers, reduced material handling risk, and the use of robotics to cut procedural complexity. They remain a priority going forward.

# A focus on water

## Why is this important?

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. At Smith+Nephew, we challenge ourselves to save water at all of our locations.

## How it links to our goals

Our activities to reduce and conserve water will help us achieve our goal that ‘total water impacts of our products and solutions are balanced with local human and ecosystem needs’.

## Smith+Nephew’s approach

We take a holistic approach to water consumption, aiming to cut the amount of water used when we manufacture and distribute our products. We strive to optimise water use 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.

## Focus on water

We apply the following criteria:

- Quantify the water use at each location, prioritising sites by quantity used;
- Question whether the water use was necessary, eliminating unnecessary use;
- Optimise remaining water use; and
- Balance waste with incoming clean water (cradle to cradle approach).

## Our performance

Water is necessary to ensure that our products are safe for consumer use, and we continue to see the positive impacts of our 2018 water-saving initiatives. Whilst there was a significant leak at one facility in Memphis (US), resulting in a loss of approximately 24,000m<sup>3</sup> of water, we have used this as an opportunity to identify leak detection deficiencies and improve our overall leak detection and response programmes.

We also saw an increase in water usage at our facility in Costa Rica (approximately 14,000m<sup>3</sup>). The cause of this was three-fold. First, an energy saving initiative to utilise HVAC cooling towers which, while successfully reducing energy use, led to an increase in water consumption. Second, there was an increase in manufacturing operations on site, raising the demand for chilled water for the condensate system. Third, there were approximately 25% more employees on site in 2019 compared to 2018, leading to an increase in demand for water in our dining room and bathrooms.

Elsewhere, preparation for production at our site in Fort Worth (US), has also resulted in a large increase in water consumption of approximately 16,000m<sup>3</sup>.

## Future focus

Our Orthopaedics manufacturing sites in Memphis (US), are the largest consumers of water across Smith+Nephew globally. As a result, we have a particular responsibility to mitigate our environmental impact at this location, ensuring we consume natural resources responsibly as part of our manufacturing processes. Learnings from our successes to date have been compiled and opportunities for water use reduction are being evaluated at several locations – these include converting chiller units to air-cooled systems and elimination of cooling towers.

Next steps are to identify areas where our operations impact water stressed areas, and focus our efforts on water reduction programmes accordingly.

### Water (1,000m<sup>3</sup>)

2019	650
2018	538
2017	614
2016	683

650 **-5%**

# Reducing emissions

## Why is this important?

Every day, we read about the devastating effects of climate change around the world. From droughts to floods and other unusual weather events, climate change is already impacting people's lives – and no country is immune. To tackle this global challenge, everyone, including businesses, needs to take action to use energy responsibly and reduce emissions.

## How it links to our goals

Our activities to reduce emissions will help us achieve our goal to achieve an '80% absolute reduction in total life cycle greenhouse gas emissions by 2050'.

## Smith+Nephew's approach

We understand the urgent need for a low-carbon economy, and are constantly open to learning new ideas and bringing about change. Our approach to cutting emissions is twofold – tackling energy efficiency and sourcing lower-carbon energy. To achieve both of these, we invest in technological solutions, like low energy LED lighting systems and solar power. These can help us use energy resources more efficiently. We also want every employee and partner to take responsibility for minimising their energy use. We make efforts to motivate staff to actively care about the environment, giving them guidance and information to help them make a real difference.

## Key areas of focus

We have been measuring greenhouse gas emissions throughout our value chain to ensure that we apply resources most effectively, in our quest to reduce our total CO<sub>2</sub>e emissions footprint. We have also implemented, or benefited from, numerous energy efficiency and low-carbon energy measures.

## 77,212

metric tonnes  
of CO<sub>2</sub>e

These include:

- LED lighting installations in offices and manufacturing areas;
- 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;
- Conducting compressed air leak assessments and remediating leaks;
- Building energy management systems (BEMS), control of equipment for maximum efficiency and the use of time zones and setbacks;
- Analysis of usage data to identify anomalies and opportunities; and
- Replacing old inefficient equipment with highly efficient equipment, such as compressors, chillers, pumps and motors.

## 16%

reduction in CO<sub>2</sub>e  
since 2016

## Our performance

In 2019, the location-based carbon footprint of business operations was 77,212 metric tonnes of CO<sub>2</sub>e, a 16% reduction since 2016. Some of this reduction was achieved as a result of lower grid factors being published for some countries or regions. This exceeds our 2020 goal of a 10% reduction.

## Reducing emissions

### CO<sub>2</sub>e reporting methodology, materiality and scope

We report the carbon footprint of our Scope 1 and 2 greenhouse gas (GHG) emissions in tonnes of CO<sub>2</sub> equivalent from our business operations for the calendar year ended 31 December 2019. Our focus is on the areas of largest environmental impact including manufacturing sites, warehouses, R&D sites and offices. Smaller locations representing less than 2% of our overall emissions are not included. Acquisitions completed before 1 January 2019 are included in the data, with more recent ones being excluded and this is in line with our established policy for integration of acquired assets.

Our GHG emissions reporting represents our core business operations and facilities which fall within the scope of our consolidated financial statements. Primary data from energy suppliers has been used wherever possible.

### 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 current market-based factors were not available, we have used ‘Residual Mix’ data for the EU locations from RE-DISS Phase 2 (Reliable Disclosures System for Europe) and IEA data for all other countries, except the remaining US locations where the eGRID factors were applied. Additionally, some market-based data was no longer current and so we reverted to IEA data for location-based emissions, for example in China for 2019 and this has resulted in a further annual reduction in reported emissions.

### Our Scope 2 emissions

Scope 2 emissions CO<sub>2</sub>e (t)

	Location-based	Market-based
2016	82,415	–
2017	76,107	67,685
2018	67,886	66,475
<b>2019</b>	<b>67,324</b>	<b>57,152</b>

>> See page 45 for data references

### Accreditations

ISO 14001 is the international standard that specifies requirements for an effective environmental management system (EMS).

Smith+Nephew holds this certification at five key manufacturing locations (Suzhou and Beijing in China, Hull in the UK, Memphis in the US) and most recently in 2019, Costa Rica.

Compliance with this standard promotes awareness of environmental performance and impacts across all levels of the organisation, identifies savings opportunities for the business, helps us meet our sustainability goals, improves regulatory compliance and ensures that our environmental legal responsibilities are managed on a day-to-day basis.

ISO 45001 is replacing the Occupational Health & Safety (OH&S) management system OHSAS 18001. ISO 45001 is the international standard focused on identifying and controlling workplace risks and it also requires organisations to consider how suppliers and contractors are managing their risks. The system will help thousands of organisations to provide a safe and healthy workplace for their workers and other people, prevent deaths, work-related injury and ill-health, and to continually improve their OH&S performance.

In 2019, our sites in Costa Rica and Beijing (China) became the first two manufacturing facilities to gain both the ISO 14001 and ISO 45001 certifications.

### Future focus

Our employees are increasingly mindful of greenhouse gas impacts when carrying out projects and are taking more and more ownership of reducing GHG emissions. Instead of a centralised programme from the top down, enlightened middle-level managers are taking personal responsibility for factoring in GHG emissions. This is illustrated by the Smith+Nephew Young Professionals (SNYP) Challenge (see page 26), which has led to projects aimed at GHG reduction. This is really a key development and we are excited to encourage it moving forward.



Celebrating ISO 14001 and ISO 45001 in Beijing



## Reducing emissions (case studies)

# Investing in energy efficiency

### Major energy saving investment in Switzerland

Our main production facility in Aarau is currently being air conditioned by decentralised devices and ventilated by a centralised system. This setup results in high maintenance and operating costs, which are not energy efficient. The majority of the operating units need to be replaced.

Our team's proposal, with work under way, is to connect the main building to a district cooling system (DCS), which cools through the use of chilled water. This will be distributed from a central source by a semi-public company. The implementation of ventilation control reflecting hours of occupancy will result in a large, one-off cost for technical installations. However, it will also lead to a substantial decrease in energy use and maintenance costs over time.

**“District cooling offers significant advantages in cost, environmental protection, comfort, and operational efficiency over other cooling technologies. It makes sense in areas of high cooling density such as an industrial building.”**

**Ramona Wawrzynek**

Senior Director, Manufacturing,  
Aarau (Switzerland)



### UK efficiency measures lighting the way at Smith+Nephew

Our UK team has undertaken significant work to reduce our impact on the environment, with improved systems and energy efficient methods, processes and equipment. We carried out an extensive programme of LED lighting replacement across Hull, Godmanchester and Warwick, improving the standard of lighting, working environments and reducing energy consumption.

Systems have been optimised using the Building Energy Management Systems (BEMS) to cut back, and in some cases switch off, heating, ventilation, air conditioning (HVAC) systems and chilled water during no or low occupancy periods. Heating systems are switched off during summer months and the BEMS has been extended to include switching off kitchen fans at Croxley Park outside of cooking times.

### Energy efficiency in Costa Rica

During 2019, our site in Costa Rica has taken many steps to reduce its energy consumption. We've successfully completed the move to new LED lighting by replacing an additional 330 lamps across the site. Other initiatives include HVAC Set Back for controlled and not controlled production areas, compressed air leaks repair and compressed Air Dryer Set Back. It is estimated that these combined savings will total more than 200,000kWh per 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.**

## Why is this important?

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 essential to maintaining direction and pace.

This is particularly necessary in three areas: general management, risk management and integrity.

Clear lines of authority and accountability regarding target setting and achievement are important. There must be a rational, informed, and empowered process by which organisational leadership identifies, evaluates and addresses sustainability risks and opportunities. And there must be strong arrangements to ensure the universal application of fair and open business practices. Consistent progress towards the goal of sustainable operation can only be made when all three are present.

### What’s in this section?

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# Corporate governance

## The Board

The Board is responsible to shareholders for approving the strategy of our Group, overseeing performance, evaluating and monitoring the management of risks. Oversight of our sustainability strategy is one of the Matters Reserved to the Board. The Board reviews the Sustainability Framework on a regular basis and annually approves the Sustainability Report prior to publication.

## The Compliance & Culture Committee

The Board delegates some of its work to Board Committees comprised entirely of Independent Non-Executive Directors. The Compliance & Culture Committee is chaired by Marc Owen. The Compliance & Culture Committee reviews and monitors ethics and compliance, quality and regulatory matters across the Group and during 2019, the Committee's remit was expanded to include oversight of culture, sustainability, and stakeholder relationships.

## The Chief Executive Officer

The Board delegates the day-to-day running of the Company to the Chief Executive Officer, Roland Diggelmann, who is supported and advised by the Executive Committee which meets regularly and makes decisions collectively. It recommends and implements strategy, recommends budget and three-year plan to the Board for approval, ensures liaison between commercial and corporate functions, receives regular reports from sub-committees, reviews major investments, divestment and capital expenditure proposals and approves business development projects.

## The Sustainability Council

During 2019, the Executive Committee established a new Sustainability Council to develop and implement our sustainability strategy. This aligns with our business strategy and will create long-term shareholder value. It is also tied to our purpose, culture pillars, and strategic imperatives.

The Council is intentionally sponsored at an executive level to guarantee visibility to the Board through regular updates to our Compliance & Culture Committee.

Chaired by our Chief Human Resources Officer, Elga Lohler, the Council considers issues such as social responsibility, corporate governance, environmental stewardship, labour and workplace conditions, supply chain impacts, community involvement, and philanthropy. The Council's members represent a cross section of our business, bringing diverse thinking and experience to the team.



Further details of the Company's governance framework may be found in the Annual Report on pages 62-63.

The screenshot displays the 'Corporate governance framework' section, which includes a table detailing the Board's composition and the responsibilities of various committees. The table is organized into columns for different committees and their respective areas of focus, such as Risk, Sustainability, and Compliance.

# Our approach to risk management

## Like all businesses, we face a number of risks and uncertainties.

Successful management of existing and emerging risks is critical to the achievement of our strategic objectives and to the long-term success of our business. Risk management is therefore an integral component of the Company's corporate governance.

As in previous years, our Enterprise Risk Management process is based on a holistic approach to risk management. Our belief is that the strategic and operational benefits of managing risk are achieved when Enterprise Risk Management is aligned with the strategic and operational goals of the organisation, and our process and governance structure achieves this.

The Board cascades our risk appetite throughout our organisation via the Executive Committee, risk owner community and our management group. A formal 'bottom up' exercise ensures that risks are escalated back through the process to our Board and form our Principal Risks as appropriate.

Providing guidance and rigour across this process is our Executive Committee and the Group Risk Team.

At the third line of defence is our Internal Audit Function, providing an annual opinion on the effectiveness of our Risk Management process to the Executive Committee, chaired by the Chief Executive Officer, and then to the Board and its Committees.

This process has led us to identify the Principal Risks in the table to the right. Each Principal Risk is linked into our Strategic Priorities, and their management is overseen by our Board or one of its committees. This work includes defining the level of tolerance for each risk and reviewing management reports into the risk.

Principal risk	Oversight
Business continuity and business change	Board
Supply	Board
Cybersecurity	Audit Committee
Quality and regulatory	Compliance & Culture Committee
New product innovation, design & development including intellectual property	Board
Talent management	Board
Pricing and reimbursement	Board
Mergers and acquisitions	Board
Legal and compliance	Compliance & Culture Committee
Commercial execution	Board
Political and economic	Board
Finance	Audit Committee

## Our approach to risk management

### The impact of climate change

One of the United Nations' Sustainable Development Goals (SDGs), is to 'take urgent action to combat climate change and its impacts'.

It is widely recognised that continued emission of greenhouse gases (GHG) will cause further warming of the planet and this warming could lead to damaging social and economic consequences. During 2019, we have continued to consider, and mitigate against, the potential impact of climate change on our business operations.

Our physical assets and supply chain are vulnerable to weather and climate change (e.g. sea level rise, increased frequency and severity of extreme weather events, stress on water resources). In our orthopaedics business, mineral-based raw materials are dependent upon energy-intensive processes (smelting). Patient populations are vulnerable to a potential rise in infectious disease propagation. Governments and corporations alike are under increasing pressure to mitigate the expected effects of climate change, potentially resulting in infrastructure projects which would require large capital outlays, further increasing the pressure on healthcare payments.

For several years we have rigorously measured our GHG emissions using internationally recognised standards. We have also set and consistently achieved our GHG reduction targets. Going forward, we have taken a science-based goal aligned with the recommendations of the Intergovernmental Panel on Climate Change to reduce total life cycle GHG emissions by 80% by 2050. Climate change risk is a component of our re-invigorated business resilience and crisis management programme and we have taken several measures to reduce vulnerability to climate change-exacerbated incidents, such as the improvement of flood defences in Hull (UK).

Our refreshed sustainability strategy takes full account of the risks and opportunities presented by climate change, focusing investment on de-carbonising our operations and those of our suppliers and customers. Our sustainability strategy is owned by the Sustainability Council, comprised of members of the Smith+Nephew Executive Committee, which ensures that the strategy adequately addresses climate impacts. We understand how important it is to balance environmental initiatives with business activities, and strive to reduce emissions through new technology development, renewable energy use and other measures.

TCFD theme	Our focus areas
Governance	Consider short, medium and long-term climate-related issues
Strategy	Ensure that the new sustainability strategy addresses the risks and opportunities of climate change
Risk management	Full consideration given to climate-based impacts on business continuity and recovery
Metrics & targets	Commitment to implement 100% renewable electricity at our strategic manufacturing sites by 2025

### Future focus

We will enhance how we adhere to the principles set out by the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD structured its recommendations around four areas that represent core elements of how organisations operate: governance, strategy, risk management, and metrics and targets. These overarching themes will guide our assessment of climate-related risks and opportunities.

# Acting with integrity

## Why is this important?

At Smith+Nephew we are committed to integrity, honesty and professionalism. These principles are reflected in our culture pillars: Care, Collaboration and Courage. These culture pillars guide the behaviour of everyone at Smith+Nephew.

We believe that it's a privilege to provide products and services for patients and healthcare professionals. And we believe that it's up to everyone who works for us – or on our behalf – to share that responsibility by upholding our reputation for integrity and ethical conduct, because the sustainability of our business depends on doing things the right way.

## We believe that trust is the most important driver for long-term business success.

Bribery and corruption in the healthcare sector is a cause for concern for governments across the world. When healthcare professionals' clinical decision making is improperly influenced, impacts can be seen on healthcare budgets and patient access to quality healthcare. More and more countries are enacting anti-bribery legislation, and our industry remains an area of focus for investigation and enforcement action.

Our business requires interactions with Government Officials and Healthcare Professionals (HCPs) to enable us to deliver new products and services to benefit patients, and to ensure the safe and effective use of our products. We must engage with Government Officials to obtain the necessary licences to manufacture, sell and distribute our products. In addition, our partnerships with HCP customers are essential to support the design, development and testing of new products, and to support peer-to-peer training in the appropriate use of our products. All these interactions need to be carefully managed to ensure they are done in the right way, and to avoid even the perception of impropriety in our relationships with these key partners.

**“We continue to embed our culture of compliance through collaboration across the Group and simplified compliance processes designed to make it easier for our employees and third parties to understand our expectations and do the right thing.”**

**Catheryn O'Rourke**

Chief Legal and Compliance Officer



We earn people's trust by working in an ethical way, and complying with strict standards. Our Code of Conduct and Business Principles (Code) define our values as a Company. We revised the structure of this document in 2019 to reflect our new brand, strategy and culture pillars of Care, Collaboration and Courage. Our Code is supported by global policies that specifically define behaviours, ensuring that our actions strengthen our reputation, and that we follow relevant anti-bribery and anti-corruption laws.

## Ethics oversight

In 2019, we restructured our Compliance organisation to establish a global team with responsibility for managing all Compliance operational and oversight activities, including training, investigations, monitoring, data analytics and validation. By centralising these activities within a single group, led by an experienced senior leader, we have improved our visibility of developing trends across the business. This enables us to focus our efforts on understanding the root cause of an issue and developing corrective and preventive actions to drive required change. This group is also responsible for measuring and reporting on the effectiveness of our Compliance programme and key improvement initiatives.

## Acting with integrity

Our Board maintains oversight through our Compliance & Culture Committee and leadership through our Group Ethics and Compliance Committee. The latter is made up of our Chief Executive Officer and business and corporate function heads. Our compliance programme is led by our Chief Legal & Compliance Officer, and supported by a global Office of Ethics and Compliance. Accountability is also crucial and our top leaders certify to our CEO every year that required policies in their businesses have been implemented. Managers and employees complete an annual compliance certification, and we support compliance through communication tools like articles on our Company intranet, in our regular communications, and during face-to-face training.

### Increasing understanding of compliance

Training on our Code of Conduct is issued to all new hires when they join Smith+Nephew, and refresher training is given to all employees on an annual basis. With the introduction of our new Code of Conduct in 2019, we introduced a new training module that gives employees a guided tour through the new Code. The new module reinforces our culture pillars and provides a series of real-life scenarios to reinforce key requirements of the Code.

The global Compliance team collaborates closely with our Medical Education team, who are key in managing our HCP interactions. In 2019, we developed and launched an extensive, mandatory, online training programme for Medical Education. This provides detailed guidance on risks and appropriate management of all their interactions with HCPs. We have also extended our Compliance Ambassador programme with 53 new Ambassadors, taking our global total to 153 across 24 countries, with India, Malaysia, Thailand, Poland and Puerto Rico joining the programme in 2019.

We conduct regular reviews to monitor compliance with our Code, policies and procedures, and to identify opportunities for improvement. We group these activities under our Compliance Verification Programme (CVP), which includes Compliance Validation Assignments (CVA) of our internal business units and functions, centralised and local monitoring, reviews of higher risk third parties, and data analytics to identify potential compliance risks. In addition to risk-based reviews of direct markets and third parties, we have introduced reviews of global processes.

Our Regional Compliance Officers also conduct on-site assessments of third parties. These assessments provide opportunities for the Compliance team to help third parties understand our expectations and give the Regional Compliance teams an insight into the operations of key partners.

As appropriate, Corrective and Preventive Actions (CAPAs) are created to address findings arising from any Compliance oversight activities, including investigations and CVAs. CAPAs are tracked to closure and metrics reported to the Board Compliance & Culture Committee. During 2019, we introduced monitoring checks for CAPA quality. With the creation of the global team responsible for managing all Compliance operational and oversight activities, we are focusing on identifying common trends in findings and conducting root cause analysis to enhance the scope and effectiveness of our CAPAs. Plans are in place to develop more role-based training aimed at helping our global teams understand how to apply Compliance in their daily lives.

We are making significant enhancements to our use of data analytics and business intelligence to provide early warning of potential violations and to improve our ability to identify emerging trends.

### Sourcing minerals responsibly

We are committed to sourcing minerals only from responsible suppliers. In May 2019, we reported our status on conflict minerals in accordance with the 2010 US Dodd Frank Act and US Securities and Exchange Commission rules. In 2018, we were one of few in our industry group to confirm our conflict-free status. We will continue to monitor developments and be prepared to respond appropriately. Full details are available at [www.smith-nephew.com/sustainability/policies](http://www.smith-nephew.com/sustainability/policies).

### Against modern slavery

We 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.



Read more online at [www.smith-nephew.com/sustainability/policies](http://www.smith-nephew.com/sustainability/policies)

# Working with responsible third parties

## Third party compliance

As a global company in more than 100 countries, Smith+Nephew relies on a worldwide network of third party suppliers who enable us to manufacture and sell our products. We work with third party vendors, distributors and agents to uphold our vision to deliver Life Unlimited.

Our new sustainability strategy incorporates a focus on people, planet and products. While our third party suppliers contribute to all of these focus areas, we expect vendors who share our vision to be integral partners in our new products, current requirements and ongoing services. We conduct risk-based due diligence and training to ensure vendors are aware of and comply with the standards we expect of them. Additionally, we have established a Supplier Relationship Management team who in co-ordination with our quality and regulatory organisation are dedicated to managing supplier alignment with corporate social responsibility and environmental standards.

**“Our new sustainability strategy incorporates a focus on people, planet and products and we expect vendors who share our vision to be integral partners in our new products, current requirements and ongoing services.”**

**Brandy Maranian**  
Senior Vice President,  
Supply Chain and  
Global Procurement



In 2019, we updated our Global Third Party Seller Management procedure to reflect the revisions to our Code of Conduct. Additionally, we transitioned management of US Third Party Seller due diligence activities to our Global Business Support team based in Costa Rica allowing for streamlined practices globally. In order to simplify processes and minimise errors, we also integrated a high-risk supplier compliance assessment for our direct vendors into our procurement system.

Smith+Nephew’s third party suppliers enable us to deliver the best products and services to our customers. We strive to ensure the supply chain we manage adheres to these standards. To this end, we are targeting by 2025 completing a supply chain assessment of all suppliers and subsequent tier levels to assure compliance with our sustainability requirements.



# Data and references

## Pages 10 and 11 – 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 fresh water 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 minimise their adverse impacts on human health and the environment.
- 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

## We report our emissions in two 'scopes'.

**Scope 1 figures include:** Direct sources of emissions mainly comprise the fuels we use on-site, such as gas and heating oil and fugitive emissions arising mainly from the losses of refrigerant gases.

**Scope 2 figures include:** Indirect sources of emissions such as purchased electricity and steam we use at our sites.

Location-based emissions are calculated in compliance with the World Resources Institute (WRI)/World Business Council for Sustainable Development (WBCSD) GHG Protocol Corporate Accounting and Reporting Standard and have been calculated using carbon

conversion factors published by the Department for Business, Energy and Industrial Strategy (BEIS) and the Department for Environment, Food and Rural Affairs (DEFRA) for 2019. We have applied the emission factors most relevant to the source data, including DEFRA 2018 (for UK locations), International Energy Agency (IEA) 2017 (for overseas locations) and for the US we have used the US Environmental Protection Agency (US EPA) 'Emissions and Generation Resource Integrated Database' (eGRID) for the regions in which we operate. All other emission factors for gas, oil, steam and fugitive emissions are taken from DEFRA 2019.

Waste	2016	2017	2018	2019
Non-hazardous waste (tonnes)	2,281	2,196	1,940	<b>1,996</b>
Hazardous waste (tonnes)	327	259	335	<b>857</b>
Waste recycled for energy recovery (tonnes)	2,152	2,406	2,481	<b>2,521</b>
Waste recycled (tonnes)	5,362	5,635	6,278	<b>6,463</b>
<b>Total waste (tonnes)</b>	<b>10,122</b>	<b>10,496</b>	<b>11,034</b>	<b>11,837</b>
Energy, emissions and water				
<b>Total energy (GWh)</b>	207	209	209	<b>213</b>
<b>Emissions to air (tonnes CO<sub>2</sub>e)</b>				
Combustion of fuel and operation of facilities (process and fugitive)	9,822	9,451	9,956	<b>9,888</b>
Purchased electricity (location-based) and steam	82,415	76,107	67,886	<b>67,324</b>
Total (location-based)	92,237	85,558	77,842	<b>77,212</b>
Purchased electricity (market-based) and steam	–	67,685	66,475	<b>57,152</b>
<b>Water usage (1,000m<sup>3</sup>)</b>	683	614	538	<b>650</b>

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

## 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.

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