

Smith & Nephew Sustainability Report, 2001

Building a sustainable business through performance, innovation and trust

What do we mean by sustainable development?

“Meeting the needs of the present without compromising the ability of future generations to meet their own needs.”

Brundtland Commission, 1987

Overview

This is Smith & Nephew's first sustainability report. It gives an overview of how we are facing up to the challenges of sustainable development in our business. The scope of the report covers the operations of Smith & Nephew's four Global Business Units: orthopaedics, endoscopy, wound management and rehabilitation (go to [business divisions](#) for more information on our GBU's). Material contained in the report covers the period up to 31 December 2000.

Our ambition is for Smith & Nephew to continue as a strong, growing and independent business long into the future. We operate in a world where there is increasing awareness of the need to prevent environmental harm, preserve natural resources and reduce divisions between rich and poor. In these conditions, we believe that businesses can contribute to long-term sustainability by demonstrating:

- **Environmental responsibility** – minimising impacts on the environment and using natural resources prudently
- **Social responsibility** – developing and providing cost-effective products and treatments for healthcare providers and patients.
- **Economic responsibility** – providing clear economic benefits to shareholders, employees, suppliers and society.

The report broadly follows the Global Reporting Initiative (GRI) guidelines for sustainability reporting. GRI is an international multi-stakeholder effort to create a common framework for voluntary reporting of the economic, environmental and social impact of an organisation. For more information go to www.globalreporting.org

Chief Executive's Statement – Achieving sustainable growth

Smith & Nephew is a world leader in developing and manufacturing advanced medical devices. We operate in 35 countries and achieved 2000 sales of £1,135m in 2000.

Our strategy is to be first choice for patients, customers, investors and employees. We believe we will achieve this by setting and meeting ambitious performance targets, by constant innovation in products and services, and by earning the trust of everyone we deal with. So in all our business activities, Performance, Innovation and Trust have become our watchwords.

Our performance is underpinned by a unique range of education and training programmes designed specifically for healthcare professionals, and a world class highly skilled sales force. Our products, by their very nature, confer societal and economic benefit. Our aim as a business is to maximise these benefits through the application of innovative, cost-effective solutions to improve treatments and reduce healthcare costs.

Business operates under ever closer scrutiny by governments and the general public. This reflects society's rising expectations of the business world in general. Today it is accepted that companies have a far wider responsibility to the community, the environment and the quality of life enjoyed by society at large. As a leader in our markets, we believe we should also be a leader in setting and meeting standards of sustainable development. Not just because we are proud of our business conduct; but because our ability to sustain future growth will depend largely on the extent to which we are trusted and supported by all our stakeholders. We can only do this by showing that we conduct our business responsibly.

Our operations have relatively low negative impacts on the environment. However, we believe we should not be complacent and we are tackling the key issues. Our efforts to minimise our environmental impacts have been recognised in the UK by Business in the Environment's Index of Corporate Environmental Engagement in which we have consistently outperformed our industry sector. And we are committed to continually improving our performance – not just in terms of our environmental impact, but in terms of our social and economic impact as well.

We are currently developing the measurement and data collection systems across the Group that will enable us to produce future publications that fully meet the emerging conventions for 'sustainability reporting'. This, our first sustainability report, aims to give an open and fair account of how we are addressing our environmental, social and economic responsibilities. We would welcome your feedback on the report and how we can improve our sustainability reporting. Please send your comments to us via the web link.

Christopher O'Donnell
Chief Executive

February 2001

Profile of Smith & Nephew

Smith & Nephew plc is a publicly owned global company that develops and markets advanced medical devices. A leader in its marketplace, it is headquartered in London, UK and operates in 35 countries. For the year ended 31 December 2000 it had sales of over £1,135m. Since 1998, it has undertaken a major strategic reorganisation to transform into a higher growth, technology-led medical devices business, focused on the sectors of orthopaedics, endoscopy, advanced wound management and rehabilitation.

Smith & Nephew applies innovative, cost effective solutions to provide real benefit to healthcare professionals and their patients through improving treatments and reducing healthcare costs. This is underpinned by a unique range of education and training programmes designed specifically for healthcare professionals and a world-class, highly skilled sales force.

Founded in England in 1856, the Group has over 1,000 product ranges marketed in over 90 countries. Its products are supported by extensive clinical evidence, and the company has a substantial research and development programme through its Group Research Centre and Global Business Units.

Vision and Values

Smith & Nephew aims to be the first choice in its healthcare markets – first choice for patients, customers, investors and employees. We earn our reputation every day by the collective efforts of all members of the Smith & Nephew team world-wide. We want to be known as a company that:

- takes pride in performing well and has clear performance targets;
- continually seeks out better ways of doing things – developing innovative products, services and solutions for our customers;
- represents the highest standards of trust and integrity.

Our values of Performance, Innovation and Trust shape everything that we do as a business and form the basis of our relationships with all our stakeholders. Our values also underpin our approach to sustainable development where we are moving progressively towards setting rigorous performance targets, particularly with regard to managing our environmental impact. Innovation is also key for Smith & Nephew. We place great emphasis on new product, technique and service development which provide quantifiable social and economic benefits – for example, by getting patients back on their feet more quickly following surgery, or by reducing the time it takes to perform procedures, like a hip replacement, so that healthcare providers can perform more operations more cost effectively.

Policies & Organisation

Smith & Nephew has introduced a series of policies and organisational changes that support its commitment to sustainable development

Environmental Policy

Smith & Nephew is committed to the protection of the environment by using renewable resources wherever possible and developing manufacturing processes and products such that any adverse effects on the environment are reduced to a practical minimum.

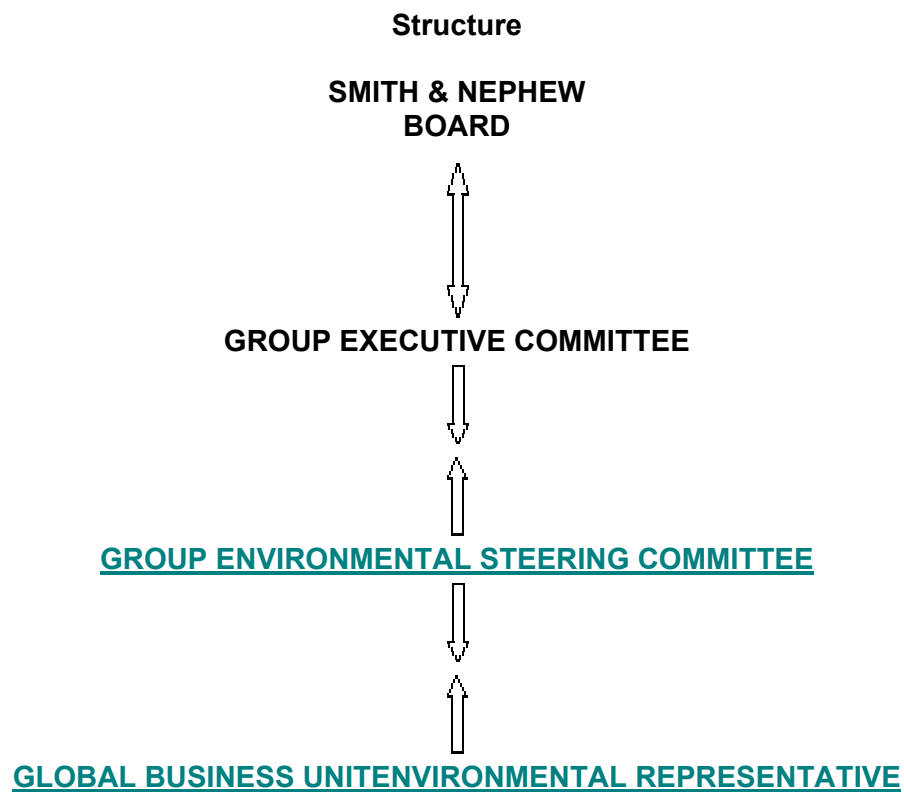
It is the policy of Smith & Nephew:

- To include environmental issues in all planning and decision making throughout the group;
- To develop for each operation a continuous improvement programme to reduce the environmental impact of our products and services, which will include suppliers to Smith & Nephew;
- To develop for each operating unit within Smith & Nephew its own procedures and regular audits to ensure implementation;
- To pay special regard to environmental issues of the communities in which its operations are located;
- To encourage involvement in and understanding of environmental issues particularly related to the healthcare industry;
- To promote employee participation in voluntary environmental projects, such as recycling and waste reduction;
- To provide regular environmental performance reports on the group's operations to the Board;

This framework policy is reviewed on a regular basis. The next review is planned for the end of 2001. There are also specific environmental policies within the Global Business Unit manufacturing sites which cover energy and waste.

Environmental Organisation and Management

The structure of Smith & Nephew's environmental organisation ensures that the environmental issues and concerns related to each of our Global Business Units (GBUs) of Orthopaedics, Endoscopy, Advanced Wound Management and Rehabilitation are addressed, and environmental targets are set and progress monitored.



The objective of the above structure and approach is to:

- Ensure an agreed environmental programme is in place within each GBU and its associated manufacturing sites.
- Ensure regular reports on this programme, individual site environmental performance and important environmental issues/concerns are raised and actioned with both the GBU President and his Senior Management Executive, plus the Group Environmental Steering Committee.
- Identify and adopt good practice in environmental matters across the Group and ensure that all sites are in compliance and have communicated their performance to all staff and appropriate outside organisations.

The Group Environmental Steering Committee

The Group Environmental Steering Committee, consisting of the Global Business Unit (GBU) Environmental Representatives and Regional Co-ordinators, is headed by the Group Director of Technology and the Director of Group Environmental Affairs.

Its objectives are:

- To reduce the risk and costs to the Group of any impending legislation, regulation, environmental concerns etc.
- To maintain the drive for cost savings
- To increase environmental awareness and activities throughout the Group.
- To maintain and where necessary improve the environmental performance of our processes
- To understand and promote the environmental aspects of our products
- To introduce environmental considerations into our New Product Development Programmes
- To promote sustainable development within Smith & Nephew.

Global Business Unit Environmental Representatives

Role and Objectives:

- To provide a Environmental Action Programme each year for each of our Global Business Units (GBUs) for approval by the GBU Presidents and their management teams
- To implement the GBU Environmental Action Programme at each manufacturing site or GBU function as appropriate
- To monitor environmental performance at each manufacturing site or, if appropriate, GBU function covering, for example, energy savings, waste reduction and improvements on the control of emissions and discharges
- To act as conduit for raising awareness at the most senior level within the GBU concerning environmental issues which may impact the GBU
- To work with the Director of Group Environmental Affairs to ensure any GBU response to environmental issues or concerns is compatible with the Smith & Nephew Group's approach, and also to help define the Smith & Nephew Group position
- To report to the GBU President and Executive Committee and the Group Environmental Committee on GBU environmental performance, progress within the Environmental Action Programme and specific environmental issues facing the GBU
- To contribute to and attend the twice-yearly Group Environmental Steering Committee meetings. The Group Environmental Steering Committee reviews the overall environmental performance of the group, together with the environmental issues that could impact the group's operations and defines an appropriate response to these
- Exchange of environmental good practice with other GBUs.

Social Responsibility

Smith & Nephew has a social responsibility to employees, shareholders, customers and suppliers. Our commitment to each of these is outlined below (also see Health & Safety).

Customers

Smith & Nephew is committed to delivering products and services that are cost-effective and that provide significant benefits to both physicians and patients.

All our products comply or surpass current legislative and regulatory requirements concerning packaging, labelling and user instructions. It is our policy to anticipate future standards requirements in these areas so that the health and safety of customers and the general public is enhanced.

Shareholders

Smith & Nephew is committed to providing shareholder value, together with growth and security of investment.

The group will continue to communicate current operating conditions and plans for delivering shareholder value including, in addition to its published report and accounts, updates and revisions as conditions warrant, in order that shareholders can make informed decisions regarding the investment opportunities provided by Smith & Nephew.

The Community

Smith & Nephew has a strong obligation to contribute to the communities in which we operate. The Group:

- is committed to meeting our obligations to government under the law and to accepting and discharging its duties to the community
- encourages and supports employees at all levels who undertake community work
- is a member of the UK Business in the Community, whose principles of corporate community involvement we are committed to adopting across the whole group wherever practical.

Employees

The Group's employment policies are based on equality of opportunity regardless of colour, creed, race, national origin, sex, age, marital status, mental or physical disability unrelated to the ability of the person to perform the essential functions of the job. Smith & Nephew is committed to the provision of continuous training and development, open communications and rewards that are appropriate to local markets.

Smith & Nephew is a founding member of Opportunity 2000 in the UK.

Suppliers

Smith & Nephew believes that working in partnership with suppliers for mutual benefit is the best way to meet our goals. To this end we foster open and ethical relationships with suppliers and pay them in accordance with their agreed terms and conditions. Smith & Nephew expects suppliers to share our social and environmental standards and increasingly requires them to demonstrate their commitment to doing so.

Health and Safety

Good health & safety standards and practice go hand in hand with excellent business results. High health and safety standards are essential to ensure that everyone who works for Smith & Nephew and any other people affected by our work, are protected from harm. Moreover, good health and safety practices contribute to business performance by protecting and developing human and physical resources and by reducing costs. The risks can be controlled if everyone – at all levels in Smith & Nephew and in its Global Business Units (GBUs) – values and contributes to the timely introduction of, and adherence to, health and safety procedures that are relevant, workable and effective. We believe that this is achieved through:

- taking effective action to minimise risk at all levels in the organisation, based on a common understanding of risk and a plan to control this through good management;
- ensuring that all employees are aware of their duty of care to themselves and to others to work safely, and are provided with appropriate training, supervision and management support;
- providing safe working environments and safe plant and equipment in all our facilities;
- providing health and safety advice and resources to maintain and improve health and safety standards consistent with the needs of each business.

It is the responsibility of each GBU and operating company to ensure that their operations achieve the standards required in accordance with Smith & Nephew's Health & Safety policy and guidelines – and to report progress and performance annually as part of our internal control measures.

Health and Safety Policy

Each GBU and operating company will develop, communicate and implement its own Health and Safety policy to bring into effect the requirements of this policy and will ensure the adoption of appropriate Health and Safety systems and plans with the same determination as adopted to ensure the achievement of other key business objectives.

The Group requires that the head of every GBU and operating company ensures that all appropriate steps are taken to:

- (a) provide and maintain for employees, contractors and visitors a safe and healthy working environment;
- (b) develop a policy, organisation and systems for planning and implementation, measurement, internal auditing and review of health and safety performance, including appropriate risk assessments and controls;
- (c) prepare an annual health and safety plan – and annually review and report on performance, based on data from monitoring activities and, where appropriate, from independent external audits of the Health & Safety system;
- (d) ensure that the necessary resources (including financial) are available to enable the policy to be communicated to all concerned, brought into effect and maintained;
- (e) provide employees with safety information, instruction and training relevant to their work activity and access to competent advice;
- (f) ensure that there is an adequate level of supervision at the work place and that effective consultation takes place on health and safety matters;

- (g) protect the general public who may be affected by our operations;
- (h) at all times ensure compliance with all relevant laws, rules and regulations, including where these impose additional, higher, stricter or more onerous standards than contained in this Policy, and ensure appropriate liaison with all applicable Health & Safety regulators;
- (i) ensure that appropriate “Disaster Recovery” and “business continuity” contingency plans are in place in the event of a major incident and that any serious accidents or incidents involving actual or potential personal injury are immediately reported to the Company Secretary;
- (j) revise their Health and Safety policy as often as necessary and, formally, at least every 3 years.

The Group expects every employee to recognise the important part they have to play, and to work with line management in identifying and controlling risks. All employees must comply with all health and safety requirements and regulations and do everything they can to prevent injury to themselves and others.

Pre-Clinical Testing

Smith & Nephew is required by law to test the safety and efficacy of its new medical device products to ensure that they are safe for patients.

To this end Smith & Nephew has supported external groups dedicated to identifying alternative methods of testing. We support the Fund for the Replacement of Animals in Medical Experiments (FRAME) and work with FRAME representatives on British, European and International Standards Committees committed to improving standards of Animal Welfare and avoiding unnecessary animal testing in the evaluation of medical devices. We have been, and continue to be, members of the In Vitro Toxicology Society (IVTS) since it began in 1985. IVTS is dedicated to developing, using and gaining regulatory acceptance, wherever possible, for non-animal methods in safety evaluation of a broad range of medical product areas. In addition, we have made substantial progress over the past 10 years within our own laboratories in, for example, simulations of skin and wound behaviour and cell culture methods for the safety screening of materials. Smith & Nephew has, for many years, adopted a strong ethical policy on the use of animals in its research and development work. Wherever possible we use in our products known safe ingredients that require no further testing. In the development of new medical products the group uses, wherever possible, non-animal methods of evaluation.

In all developed countries new medical products are controlled by Government regulations that, in certain instances, require animal testing to be conducted as part of the product approval process. When totally new products are being developed to treat serious medical problems (from major burns and chronic wounds to arthritic joints) it is clearly necessary to ensure they are both safe and effective for human use. Sometimes it is possible to gain an assurance of safety from non-animal evaluation methods only, but there are still some critical situations where no model other than an animal model can adequately provide the quality of evidence needed to comply with statutory requirements and the evidence required by doctors prior to using a new surgical technique or product on their patients.

Economic Policy

Internal Controls and Risk Management

The Smith & Nephew Board is responsible for the maintenance of the Group's system of internal control and for reviewing its effectiveness. It has established an ongoing process of identifying, evaluating and managing key risks by a system of functional reports to the Board, the review of internal financial controls by the Audit Committee, augmented by quarterly business reviews and an annual risk assessment to be completed by the head of each Global Business Unit (GBU) and reviewed by the Chief Executive and Finance Director.

These procedures, which have been in place throughout the year, are designed to identify and manage those risks that could adversely affect the achievement of the Group's objectives. Whilst they do not provide absolute assurance against material misstatement or loss, the Board, following a review of the systems described, are of the opinion that for each, internal controls are in place within the Group.

Financial and Accounting Records Policy

The Group's system of internal financial controls are designed to give assurance that proper procedures exist for the maintenance of adequate accounting records, safeguarding the assets of the Group and for preventing and detecting fraud and other irregularities.

Smith & Nephew operates an internal audit function which monitors the adequacy of internal financial controls and systems and compliance with Group standards.

We aim to report our business performance and activities fully and accurately to investors – believing that open and honest communication is essential if we want them to understand our aims and have confidence in our strategies for achieving them. In addition to the interim and annual reports, we give regular briefings to analysts, investors and financial journalists. We also use our website to keep information accessible and regularly updated.

Dealing in Securities

Smith & Nephew's Code of Dealing in Securities imposes restrictions upon directors and employees of the Group which comply with those that are imposed by law. Its purpose is to ensure that directors, senior employees and persons connected with them do not abuse, and do not place themselves under suspicion of abusing, price sensitive information that they may have or be thought to have, especially in periods leading up to the announcement of results.

Performance

Smith & Nephew's key focus areas for our sustainability efforts are:

- **Environmental**
The impact of our activities on the environment – particularly regarding the use of energy, water, waste, emissions and discharges.
- **Social**
Maintaining high standards of health and safety for employees, giving employees the opportunity to let us know how they feel about working for Smith & Nephew – and acting on what they tell us, investing in the communities in which we operate and providing opportunities for the continuing professional development of healthcare professionals.
- **Economic**
Our contribution to society through the creation of shareholder value, payment of taxes, capital investment, employment opportunities and procurement, as well as the economic benefits of our products on both healthcare providers/payers and patients.

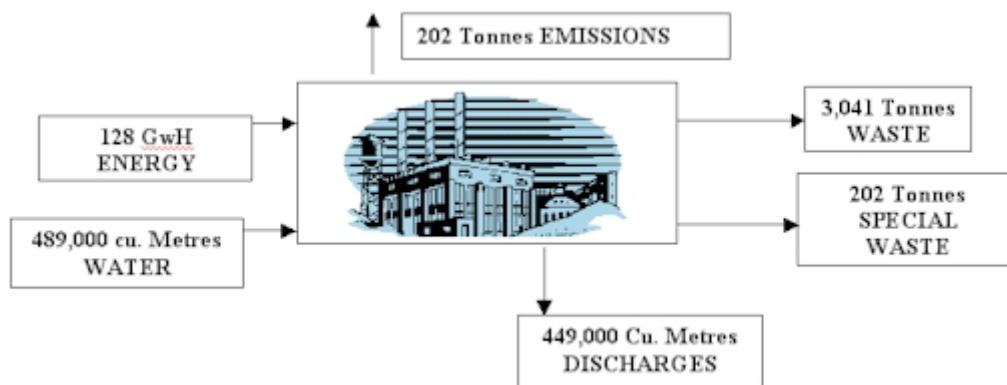
Environmental Performance

Overview

Our approach to environmental issues related to our business is that care for the environment has become part of everyone's job. Environmental Management Systems have been in operation at all our sites since the early 1990s and follow the principles of ISO14001 (International Standard on Environmental Management). Our target is for all major manufacturing sites to gain ISO14001 accreditation. We are pleased that our orthopaedics operation in Memphis gained accreditation in November 2000.

Environmental matters can be very complex and wide ranging. Smith & Nephew's approach has been to focus on the following key areas for all our operations: energy use, water use, waste production, emissions to air and discharges to water.

In 2000 the environmental aspects of our four Global Business Units (GBUs) can be summarised:



Energy, Waste, Emissions and Discharges

Our focus continues to be on Energy Efficiency, Waste Minimisation and better Pollution Control and the introduction of ISO 14001 at our main manufacturing sites. We have measured a number of the key environmental impacts related to manufacturing for a number of years.

	2000	1999	1998	1997
Emissions to Air (Tonnes)	202	459	557	787
Waste (Tonnes)	3,041	2,867	3,294	3,464
Hazardous Waste (Tonnes)	205	167	256	260
Waste Recycled (Tonnes)	705	573	431	512
Total Energy (GwH)	128	135	129	121
Electricity (GwH)	69	66	65	65
Water usage (1000 Cu.metres)	489	495	474	493
Discharges/ Effluent (1000 Cu. metres)	449	436	416	439

In less than four years we have managed to reduce emissions by two-thirds. The amount of waste we recycle has increased from 12% to 18% in the same period. All the figures in the chart above refer to our four main Global Business Unit manufacturing sites only.

In some instances, particularly for waste, some estimates have had to be made. The emissions to air are mainly solvents.

Even though our business has grown in the last few years we have managed to slightly reduce our energy consumption and our water usage has remained reasonably constant.

Cost Savings

Good environmental management makes business sense in providing bottom line benefits. Reducing the major environmental impacts - energy, water, emissions and waste. This has provided the dual benefit of also generating financial savings. We have attempted to provide some estimates of the financial benefits in better management of energy, waste and pollution control. Projects have been included which have some associated environmental benefits, but are not necessarily the main reason for carrying out the project.

Cost Savings Table (in £'000s per annum)

	2000	1999	1998	1997	1996	1995
Energy	52	296	321	442	547	775
Pollution control	43	37	135	23	62	441
Waste	2527	2,349	1,418	281	100	449
EMS/Site	199	103	-	-	59	-
Total	2821	2,785	1,874	746	768	1,645

These figures concern the operations of the whole of the Smith & Nephew Group, not just our four main GBUs.

Examples of environmental performance by Global Business Units (GBUs) – Energy Efficiency

Wound Management GBU

At our main manufacturing site in Hull, UK, we periodically celebrate an environmental day which focuses particularly on energy. It is a motivational tool, encouraging employees to use good energy management practice both at home and at work.

Orthopaedics GBU

We dispose of approximately 10,000 gallons of waste oil per year. The cost of disposal is approximately \$6,000. We believe that we can recycle all of the waste oil generated at the site in this way for a saving of \$6,000. During 2000 research was completed at our Memphis, Tennessee site into the use of heat producing technologies that utilise waste oil as an energy source. Over the winter months 2000/2001, two units will act as a test programme in space heating utilising our own waste oil for space heating and boiler fuel.

Examples of environmental performance by Global Business Units (GBUs) – Water Efficiency

Wound Management

Over the last two years we have looked closely at our processes to reduce the level of water uptake and effluent output. One very simple example is using cooling loops, whereby water is re-circulated continuously instead of using once through cooling. Over the last five years we have reduced our usage by 10%.

Examples of environmental performance by Global Business Unit (GBU) – Waste Reduction

Endoscopy GBU

In September 2000 our Andover, Boston USA facility initiated a new solid waste disposal and recycling programme that will provide detailed tracking data at a reduced cost. An estimated \$10,000 - \$20,000 annual saving is expected from implementing the new programme.

In our Mansfield, Massachusetts USA facility, significant waste reduction (including hazardous waste) has been achieved in the past two years primarily through the installation of new process equipment. This includes the installation of a state-of-the-art Electropolish system for cleaning hand instruments which eliminates associated wastewater discharges, installation of new laboratory equipment, and re-evaluation and proper classification of hazardous waste streams. An approximate 25% cost savings has been realized with respect to total waste disposal costs for the first half of 2000, as compared with the same time period in 1999.

Orthopaedics GBU

At our Memphis, Tennessee site, fluorescent bulbs and metal halide bulbs containing mercury and light ballast (electrical components containing a small capacitor at the end of fluorescent light fixtures) that contain PCBs (polychlorinated biphenyls) are undergoing replacement. Ballasts made before 1978 probably contain oil with PCBs. Ballasts made after 1978 are usually marked "Non-PCB." Ballasts manufactured after 1978 may contain a PCB replacement called DEHP, a probable human carcinogen. Light bulbs are being replaced with less concentrated and leach resistant mercury bulbs that are exempt from hazardous waste management and ballasts are being replaced with "Non-PCB" ballasts. Although light bulbs are exempt from hazardous waste criteria, they will continue to be recycled because they still contain mercury.

Examples of environmental performance by Global Business Unit (GBU) – Pollution Control (Emissions and Discharges)

Orthopaedics GBU

Two covered waste areas were constructed; one for metal manufacturing waste and one for liquid waste materials. These areas will serve to protect the environment from the waste materials and protect our storm water runoff from pollution from oils and machining fluids contained on the waste materials. An additional evaporator was added to process wastewater from various janitorial cleaning operations as well as enhance our capacity to process machining fluids.

Projects were begun in 2000 to eliminate the use of two vapour degreasers at our Memphis, USA site in order to reduce solvent usage and waste generation. Tests have indicated that both these degreasers can be eliminated with no alternate processing required. This will lead to a significant cost reduction in terms of both operating cost and waste generation.



Covered waste area, Orthopaedics, Memphis, USA

The project to add engineering improvements to the wastewater pH system at our Memphis, USA site was completed in 2000.



*Wastewater Treatment Systems
New In-Ground System Used for
Primary Neutralisation*

These improvements give us additional control over our effluent discharges going to the Publicly Owned Treatment Works (POTW) wastewater treatment facility operated by the City of Memphis. These systems also enable us to neutralise and dispose of caustic and acid cleaners through the POTW instead of shipping them as hazardous waste.

Wound Management GBU

Our new Petrol Recovery Plant at our Hull site has now been operational since November 1998, replacing an older less efficient recovery plant. Emission monitoring is continuous and we comply with the Local Authority's Air Pollution Control Authorisation. This has halved the purchases of virgin material and provided us with a measure of sustainability. Operational since end of June 2000, the Thermal Oxidiser at our Hull, UK, site, (right) has virtually eliminated our emission of acetone - tests measured the output at 2mg/m³.



Wound Management's Petrol Recovery Plant



Thermal Oxidiser at Hull

Examples of environmental performance by Global Business Unit (GBU) – Environmental Management Systems

Since late 1994, we have encouraged all our manufacturing sites to gain the Environmental Excellence Green Leaf Awards which are based on the principles of ISO 14001 and are stepping stones towards accreditation.

In November 2000, our orthopaedics manufacturing site and distribution centre in Memphis gained accreditation to ISO 14001. At the time there were less than 850 companies certified in the US.

We believe we will be recognised in the local and state communities as a company who is concerned with the environment and who practices good stewardship of its process and environmental activities.

Internal Awards and Standards

We believe that minimising the environmental impact of our operations is part of everyone's job. In order to make our staff aware of environmental issues and to introduce specific initiatives within the Global Business Units (GBUs) to reduce our environmental impacts, we have implemented a series of internal Smith & Nephew Environmental Awards - represented by the four-leaf symbol on the right. The leaves identify with four key areas of our focus – Energy, Waste, Pollution Control and Environmental Management Systems.



We have four awards to stimulate and reward employee involvement:

Site Environmental Award

In 1996 we introduced the Smith & Nephew "Environmental Site Appearance" Award to encourage each site to demonstrate a clean and tidy site. In 1999 we changed the Award to the annual Smith & Nephew Site Environmental Award, which has a different theme each year.

The theme was Waste Reduction in 1999, which was won by our site in South Africa for its waste awareness campaign.

The theme in 2000 was Communications, and was won by our Casting & Bandaging manufacturing site in Brierfield, UK, for its work on recycling and community involvement.

Environmental Excellence Awards

Smith & Nephew environmental excellence awards are made for: Energy Saving, Waste Minimisation, Pollution Control and Environmental Management Systems. A certificate is issued for each aspect. To receive a certificate a site must demonstrate good management, significant savings and have a defined Continuous Improvement Plan. If a site achieves all four certificates it receives a Peak of Excellence Award. The first certificate was presented in 1994 and by 1996 most manufacturing sites had achieved Peak of Excellence.

Continuous Improvement Award

The Smith & Nephew Environmental Continuous Improvement Award was initiated in 1996. This assesses each site on its improvement in environmental management, reduction in both costs and impacts and other benefits. Continuous Improvement

Awards were presented in 1996 and 1998. The next one will be based on 2001 performance compared with 1998.

The four areas covered in the assessment are that of:

Management Improvement – We produced an Environmental Review Questionnaire in 1994 which is updated regularly. It provides a measurement of our management of materials, energy, waste, pollution control and site. It covers policy, procedures, measurement, control and compliance, and finally audit and review for each of these environmental aspects:

Cost Reduction – Energy, waste, disposal, materials (solvents & chemicals) and any other financial benefits

Reduced Environmental Impact – Energy consumption, waste levels, material consumption, air emissions and effluent discharges

Environmental Awards – Both Smith & Nephew Environmental Awards and any external Awards

Environmental Millennium Award

The Smith & Nephew Environmental Millennium Award was designed as a special award for the best environmental improvement in 2000. The objective was to tackle a major environmental concern within each Global Business Unit (GBU) and not only to demonstrate a reduction in our environmental impact, but also a financial return and the involvement of as many people as possible.

The main environmental impact on all sites is waste and it was at this area that the majority of projects was aimed concentrating on reducing and eliminating waste. There was a total cost saving of £1,053,000 from all the projects submitted.

The winner of the Smith & Nephew Environmental Millennium Award was the Orthopaedic GBU site in Memphis in the US with their 'Maximise Recycling Programme'.

The approach taken at Orthopaedics was to:

- Encourage office area employees to recycle by providing them information on the GBU's recycling objectives and by providing a method to separate recyclable items in their office areas
- Engage the employees in the manufacturing areas through the Environmental Starpoint Programme – some 25 Teams
- Train janitorial personnel on proper recycling methods
- Reduce the cost of waste disposal and recycling programmes by contract negotiations with the waste contractor
- Publicize our recycling programme to both employees and other interested parties, using the onsite TV network and computer screens.

As a result of this Orthopaedics recycling programme, the return for 2000 was \$825,131.

External Recognition of, and Awards for, Environmental Performance

Business in the Environment Index of Corporate Engagement

Our achievements have been recognised since 1996 by the independent body Business in the Environment which publishes an annual UK Index of Corporate Environmental Engagement. This Index covers companies listed in the UK FTSE 100 as a measurement of their involvement in environmental issues. It applies to global corporations as well as UK based companies and was extended to the top 350 FTSE in 1998. The index covers ten areas:

- Company Environmental Management System
- Board member with specific responsibility
- Corporate policy
- Objectives set
- Targets defined
- Internal audit
- Supplier Programme
- Employee Involvement
- Stewardship
- Communications

Year	Smith & Nephew	Sector Average	All Companies Average
	%	%	%
1996	74.6	63.0	60.0
1997	82.6	61.7	67.6
1998	89.9	64.4	66.0
1999	89.0	71.0	67.0

In 2000 all companies were asked an additional five performance questions and the possible responses to the normal ten questions have been expanded. It is therefore not possible to compare with previous index data and 2000 should be considered a new base line. Our results for 2000 were:

Score	69.8%
Rank in sector	12 out of 23
Overall rank	81 out of 184

Awards

We have won several local awards at our manufacturing centres in Memphis, USA and Hull, UK:

- The Orthopaedic operation in Memphis has received the Tennessee Association of Business Environmental Award for Environmental Excellence
- In 1999 Hull City Council presented our Wound Management manufacturing site in Hull a Special Business Award for addressing environmental issues. Smith & Nephew has now become the sponsor of this Award for 2000 and 2001.

Compliance

Permits/Authorisations

- The Wound Management site at Hull, UK, has Integrated Pollution Control (IPC) authorisation for manufacturing of adhesive and coating process
- Major efforts have also been made at all USA sites to reduce the number of chemicals on site, resulting in Endoscopy, Andover maintaining Small Quantity Generator Status

Incidents

- In 2000 there have been no major incidents.

Prosecutions

There have been no prosecutions/legal action in 2000 and none are pending.

Social Performance

Smith & Nephew's business is focused on developing cost effective products and services that make healthcare more affordable and improve standards and patient comfort. Our business goals are broadly aligned with the interests of society.

Our long term success depends on how we manage our impacts on society including employees, community, supply chain and business partners. It is an important component of what is referred to as the licence to operate.

Measures of social performance are not as well developed as those for environmental performance. At Smith & Nephew we have some measures which are explained in the following sections. Sustainability is a journey of continuous improvement and so over time we will be re-examining and developing our measures of social performance. The Global Reporting Initiative (GRI) gives an indication of the types of social measures available and we will consider these when developing our measures.

The Workplace

Our employment policies emphasise equality of opportunity, continuous training and development, open communications, a safe working environment and rewards appropriate to local markets.

We welcome disabled people and make every effort to retain employees who become disabled.

We operate a systematic management appraisal programme that measures both achievement against objectives and performance across all our values.

All our business units operate employee training and development programmes.

Our success depends above all on creating and developing an employment environment which will encourage all our employees to make their very best contribution to our success as a business.

Employee Relationships

Each and every one of our employees around the world is key to the continued success of Smith & Nephew and, as such, their feedback, whether through formal job appraisal systems or informally through discussion forums on our Group-wide

intranet, is very important to us. Below are some of the ways in which we keep employees informed and seek their views:

- During 2000 we established the Employee Response Centre. This is our Group-wide intranet-based medium through which employees are able to address questions to the Chief Executive, other directors and senior managers.
- Connexion, the Group's employee magazine, is printed in English, French, German, Spanish and Japanese. It is distributed to every Smith & Nephew location around the world four times a year.
- In addition, individual Global Business Units distribute their own employee magazine and a number of countries around the world supplement these publications with their own local newsletters.

Employee Involvement

During 2000 we carried out a Global Opinion Survey among all employees, the purpose of which was to assess how staff feel about working for Smith & Nephew, determine what we, as a business, do well and identify what together we must try to improve. The survey provided an opportunity to test the effectiveness of Performance, Innovation and Trust as the declared company values.

The results give us an excellent base on which to measure our future progress.

To what extent do you agree or disagree with the following statements?				
	Strongly Disagree %	Disagree %	Agree %	Strongly Agree %
I get a lot of satisfaction from my job	4	20	60	14
I have a good understanding of how my job can contribute to improving our business performance	2	10	63	23
The people in my work group are enthusiastic about improving the way we work	6	24	55	13
My manager/supervisor encourages me to learn and take on new opportunities	9	23	48	18
I have confidence in my senior management as leaders	9	27	51	9
Training/education is available for me at my workplace	9	22	53	14
I believe we have a good reputation within the local community	2	10	63	20
Smith & Nephew is a company that understands what its customers really want	3	17	61	14
I believe that Smith & Nephew now recruits the right people to make the company successful	11	31	46	7
I am proud to work for Smith & Nephew	4	12	56	25

	Very Negative %	Fairly Negative %	Fairly Positive %	Very Positive %
Overall, how positive or negative do you feel about working at Smith & Nephew?	4	13	50	31

Of our 10,000 employees, 80% chose to take part in the survey. Overall employees have a strong satisfaction from working for Smith & Nephew and are engaged with our values of Performance, Innovation and Trust.

World-wide Philanthropic Contributions

Smith & Nephew earns the trust of those around us not only by being good corporate citizens but by being seen to make a practical contribution to society.

Our primary channel for corporate donations is the [Smith & Nephew Foundation](#). With its roots in a family trust created in 1939, the Foundation was established in its present form in 1974. The Foundation offers awards to individuals in the medical and nursing professions who wish to undertake postgraduate research with the objective of improving clinical practice in medicine, surgery, nursing and midwifery. In 2000 we donated £400,000 to the Foundation.

Smith & Nephew is a member of the Percent Club, an important UK initiative whose members [undertake to give at least 1% of UK profits to charitable causes.

The Group's recent direct donations to charitable and community activities:

	2000	1999
Total (000s)	925	938

Customer Relationships

Smith & Nephew is committed to delivering innovative products, services and techniques that are cost-effective and provide significant benefits to both physicians and patients. To help us to achieve this goal, each of Smith & Nephew's Global Business Units (GBUs) works closely with their customers and key clinical opinion formers to gain a greater appreciation of their clinical needs. This allows us to be both more responsive to their current requirements and better able to anticipate and shape the future direction of clinical practice.

Our relationship with our customers is key to Smith & Nephew's success. Our sales forces play a vital role in this regard, and in the last two years we have substantially increased sales force numbers in each of our GBUs. This extends the contact with our customers and the level and quality of service we offer. As part of this programme, we are introducing specialised sales forces in certain areas to drive our service quality to higher levels where this can be of benefit.

Education is an integral part of the service we offer our customers on our existing product range but Smith & Nephew pioneers new products and techniques (often in conjunction with leading physicians and scientists) and these need to be introduced to the medical community. An example of this is the InVentures BioSkills Lab at our endoscopy facility in Mansfield, Massachusetts. This is accelerating the progress of knee and shoulder surgery by enabling surgeons who have an idea of a new technique to develop the concept in our state-of-the-art facility. We can then commercialise both the technique and the necessary instrumentation. Last year, 115 surgeons from around the world participated in this programme.

Community Relationships

We have programmes to support communities around all our manufacturing sites. The following are some examples.

Hull, UK

At our Wound Management Global Business Unit in Hull, we focus on education. For example, Smith & Nephew's Wound Management Division has supported the award-winning Children's University in the City of Hull since it was set up in 1996 through Business in the Community.

The 'University' provides 'out of school' learning opportunities for primary school pupils between 7 and 11 years of age. Its purpose is to improve young people's motivation, build on their self-esteem and help them become more effective learners. Above all it aims to raise attainment level in literacy.

Employees from Smith & Nephew have the opportunity of training as mentors to work with the children, giving them the opportunity of learning new, transferable skills, increasing motivation and exposing them to a different environment and culture.

Currently there are twenty four primary schools in Hull being supported by the Children's University.

Memphis, USA

Our Orthopaedics Global Business Unit in Memphis contributed \$300,000 to health and human services, educational and cultural causes during the year with at least another \$300,000 being raised by employees directly. An estimated 75% of 1400 employees at the Orthopaedics Global Business Unit took part in some form of community service work in 2000. Examples include:

- We donated some 200 new and/or obsolete orthopaedic implants through our own Project Apollo or through international relief groups (Brother-to-Brother, Mercy Ships) who serve healthcare needs in developing countries. Smith & Nephew's Project Apollo programme is designed to support surgeons who donate their time to perform surgery all over the world. In addition to providing the implants, we also offer healthcare information, medical and technical consulting, person-to-person support through employee volunteerism, award programmes recognising charitable and humanitarian activities, and medical textbooks for students in underdeveloped areas.
- We also take part annually in raising funds for the United Way of the Mid-South (of America). In our 2000/2001 campaign, 65% of our employees joined in the effort by pledging more than \$230,000 through the payroll giving plan. Smith & Nephew consistently ranks in the top ten companies in the Mid-south of America based on the level of both employee and corporate donations. Several of our executives sit on the United Way allocations committee, which administers some \$18m in funds each year that go to support over 100 community agencies. Over 350,000 people in the Mid-south of America are helped by our gifts to the United Way.

York, UK

Our Group Research Centre (GRC) in York, UK, works closely with a cross section of local primary, secondary and further education providers to promote science and science activities. Volunteers from GRC are allocated to a school on a long-term basis and plan and lead lessons or projects directly related to National Curriculum requirements. The picture (left, above) shows two children from Lord Deramore School visiting GRC. We held a Future Week competition for the school, asking children to come up with ideas about what the world would be like in 2010. The children's work, which included models, drawing and pieces of writing, was displayed at GRC. A key aim of our programme is to improve awareness, interest and enthusiasm for science in children and adolescents, and demonstrate the relevance of what is learned in school to the world of work.



Children at Deramore School

Planning, communication and presentation skills are enhanced through working in the schools and volunteers are also given the opportunity to gain accreditation for their work.

GRC is also involved in National Science Week, a UK initiative to promote science awareness - exhibiting in York City Centre to around 3,500 visitors from schools and the general public annually. Other activities to promote science awareness include student work placements, careers talks and school and local community visits to GRC.

Germantown, USA

Our Rehabilitation Global Business Unit in Germantown, Milwaukee, USA, has a three year commitment worth \$30,000 to the American Occupational Therapy Foundation (AOTF) for their CORE Project (Centre for Outcomes, Research and Education). This commitment was recognised with the award in January 2001 of the AOTF Certificate of Achievement. The aim of CORE is to conduct research to validate the Occupational Therapy practice so it continues to receive the recognition and reimbursement required for the profession to advance and grow.

The GBU has also provided funding of \$30,000 to the American Hand Therapy Foundation for research and education purposes.

Largo, USA

Our Wound Management headquarters in the US introduced an innovative community programme in 1998. There have been two versions of this.

The first was a project that captured life stories from the elderly in local nursing homes. Artists from the area were commissioned and they teamed up with disadvantaged children to listen to the stories and illustrate them. This linking of young people with the elderly to produce something of lasting value and interest has given both groups a sense of worth and pride.

The second programme involved essays from high school juniors in the St Petersburg/Tampa area. They were asked to describe an event that had great impact on their lives from a healthcare perspective. This identified healthcare professionals who had had a major influence on their health. The winning stories were picked by a team of judges and the healthcare providers recognised were captured by a photographic artist and an exhibit was developed.

The exhibition from the second programme is displayed in the Dali Museum in St Petersburg. Following the successful local showing of the pictures from the first programme, they will be once again presented in Boston at this year's American Burn Association Meeting.

Economic Performance

Overview

Smith & Nephew's business policies aim to achieve long term growth and success, bringing continued economic benefit to shareholders, employees and suppliers.

Our sustainability depends ultimately on our ability to provide a satisfactory return for investors. In 2000 we generated a total return of 43% for our shareholders

In 2000 we virtually completed a major reshaping of the business of the Group. This involved the disposal of the Consumer business and the creation of BSN Medical, a 50/50 joint venture with Beiersdorf which will include our casting, bandaging and traditional woundcare business. BSN Medical starts operations in April 2001. We also acquired the Collagenase enzymatic wound product from BASF and agreed to acquire in April 2001 Beiersdorf's advanced woundcare business.

We have adopted a more efficient capital and cash generative structure involving a share consolidation (each shareholder received 9 new shares for 11 old) and the return of £416 million to shareholders (37.14p for each share). We also announced a revised dividend policy to support the company's strategic growth aims. Smith & Nephew has reduced its annual dividend payments and expects to principally reward shareholders by increasing the value of their shareholding. The result of this is to leave more cash in the business for future investment in acquisitions and growth.

For more information on how Smith & Nephew has transformed into a focused, high technology medical devices business, and how this has had an impact on our economic performance, take a look at our on-line **2000 Annual Report**.

Our commercial success enabled us to provide jobs for 10,000 employees in 35 countries world-wide, and for many more people through our suppliers.

For more details on our financial performance, please visit our [Investors](#) section

Economic Performance

Financial Highlights

	2000	1999	1998	1997
Turnover (£m)	1134.7	1,119.9	1,053.4	1,048.1
Profit before tax (£m)	261.4	182.1	134.5	152.4
Adjusted earnings per ordinary share (p)	11.61	10.72	9.58	11.00

Shareholder Relationships

Smith & Nephew is listed on the London Stock Exchange and on the New York Stock Exchange. As of 31 December 2000 there were 27,769 shareholders on the register, 7% of shares were held by individuals and 93% by institutions and companies.

Smith & Nephew keeps its shareholders informed of its activities in the following ways:

- The [Investors](#) section of our website offers information and services to shareholders, including low-cost share dealing, and an ADR purchase/sale

plan for ADR investors resident in the US (via the Bank of New York's Global BuyDIRECT plan – <http://www.bony.com/>). The section also invites shareholders' comments and questions.

- Smith & Nephew holds an Annual General Meeting (AGM) every year in London, open to all shareholders. The next AGM will be held on Wednesday, 4th April 2001 at 9:30am at the Royal Society of Medicine, 1 Wimpole Street, London W1G 0AE.
- Smith & Nephew's Annual Report provides a valuable source of in-depth information on the strategy, performance and activities of the company
- Smith & Nephew will continue to communicate current operating conditions and plans for delivering shareholder value including, in addition to its published report and accounts, updates and revisions as conditions warrant, in order that shareholders can make informed decisions regarding the investment opportunities provided by the company.

E-commerce

To compete effectively in today's business world we need to be an innovative user of e-business techniques. We recognise that e-business is not only a cost-effective way to do business but can also minimise the use of resources:

- We have been using Electronic Data Interchange (EDI) in parts of the business for many years.
- We are currently working with key customers, mainly in the US and UK, to develop flexible e-business links that can be tailored to meet their individual needs.
- During 2000 we expanded the e-commerce services we provide to customers by joining the Global Healthcare Exchange, a web-based purchasing system for healthcare providers
- We provide detailed product and educational information on our websites and sponsor a number of external sites in conjunction with professional organisations, providing healthcare information for professionals and patients.
 - We are working with [Medscape](#) in the US, the leading medical information website aimed at healthcare professionals to provide a range of specialist information on the Medscape site, aimed at 8,000 orthopaedic surgeon subscribers.
 - [Knee1.com](#), a S&N-sponsored site providing guidance for people in the US with knee problems, was launched in 1999. It is already receiving over 10,000 visits a week. We have recently launched [shoulder1.com](#) and [veins1.com](#) for people with shoulder and varicose vein problems.
 - The launch in the US during 2000 of eFast, an innovative, added-value service and financing support, has given healthcare purchasers better access to Smith & Nephew endoscopy capital equipment, such as visualisation products than ever before.
 - [Dyonics1.com](#)– makes available pre-owned endoscopy equipment on the web; a new outlet for used equipment.
 - [Wounds1.com](#), launched in January 2001 by our Wound Management Global Business Unit, is an educational website dedicated to help patients and caregivers get important information on woundcare. The

site is a first in the industry and will enable users to access topics including news features, real life recovery stories, information on burns, skin care and wound technology.

Customers need product information they can trust, particularly as we introduce more sophisticated products and techniques. We are using the internet to provide constantly updated information in unprecedented detail – including appropriate regulatory and product availability information, in the appropriate language, for the country specified by the user.

Product and Service Innovation

To continue growing we must generate a steady flow of cost-effective and competitive new products and services. During 2000 we invested 5% of our total sales in R&D in our four core treatment areas (orthopaedics, endoscopy, wound management and rehabilitation) – well above the industry average – and have earned a reputation for innovative new product development.

We do not pursue innovation for its own sake. Development projects must result in products that provide social and economic improvements, compared with existing alternatives, in terms of patient comfort, cost-effectiveness and speed of recovery.

Orthopaedics

TriGen

The TriGen Fracture Management System is designed to benefit both the patient and surgeon, by combining the highest quality instrumentation with simplicity in design. In the development of TriGen, a complete review of the instrumentation required for fracture management of the lower leg resulted in reduction of instrument trays from five to one. Fewer trays means quicker set-up for surgery, and a quicker procedure as the surgical team acquaints themselves with the instruments and anticipates the surgeon's next move.



The TriGen System further improves patient outcomes by allowing placement through smaller minimally invasive “keyhole” incisions. Reduced blood loss and reduced operation room time are designed to support faster patient recovery and positive clinical outcomes. Ultimately, TriGen promotes efficiency in the operating room, reduced cost to the hospital, and positive outcomes for the patient.

Oxidised Zirconium

Oxidised Zirconium is a new, next generation technological development in the area of orthopaedic implants and devices that significantly addresses the critical issue of debris produced by implants as a result of friction between the articulating surfaces of the implant.

Smith & Nephew Orthopaedics' researchers have invented and patented a method for creating a ceramic surface with dramatically improved hardness and smoothness that can be formed into the shape of the human knee. Compared to cobalt-chrome, Oxidised Zirconium in knee wear simulation testing reduced the rate of polyethylene wear by 85 percent.

Oxidised Zirconium's resistance to wear make it a realistic option for younger, more active candidates, as it will potentially last longer than the traditional knee implant. Currently most candidates for knee replacement surgery are 65 and older.

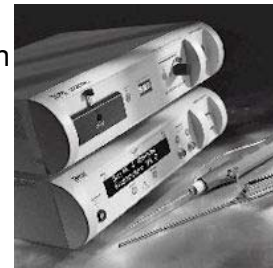
Approved by the Federal Drug Administration (FDA) in the US and patented by Smith & Nephew for orthopaedic use, Oxidised Zirconium is a highly biocompatible material and contains only minute traces of nickel, thereby reducing the problem of nickel allergy from which many people suffer.

Endoscopy

The strategic aim of Smith & Nephew's Endoscopy Global Business Unit is to be the choice of surgeons world-wide for surgical techniques that reduce trauma and pain to the patient, reduce cost to the healthcare system and provide better outcomes for surgeons.

TriVex

Smith & Nephew's TriVex system, launched during 2000, is a revolutionary new minimally invasive procedure for varicose vein removal. Clinical data suggests that use of the TriVex System may result in shorter procedural time and enhanced cosmetic results. An estimated 25 per cent of women and 15 per cent of men world-wide suffer from varicose veins. Some 100,000 varicose vein procedures are carried out each year in the UK alone. Traditional methods of varicose vein removal have often meant that the pain associated with the procedure was not worth the cure. TriVex offers patients a minimally invasive procedure that will enable them to walk out of hospital with fewer scars and associated trauma.



Trivex

Developed with US surgeon Gregory Spitz, MD, one of the key features of the TriVex system is its ability to light the area beneath the skin. For the first time, the vein is clearly visible, allowing the surgeon to quickly and accurately remove it using a powered resector and then visually confirm its complete extraction.

HandPort

Launched in 1999, Smith & Nephew's Handport system, developed in co-operation with the University of Massachusetts, US, allows hand-assisted laparoscopic surgery whereby surgeons are able to introduce their hand within the abdominal cavity to carry out surgical procedures. To use the HandPort system, a sleeve is introduced into the abdomen through a small incision. The sleeve is then inflated to create an opening that is large enough to introduce a hand.



Smith & Nephew's HandPort system

The benefits of the HandPort system over traditional open surgical techniques are that it may reduce the number of incisions necessary to conduct HALS procedures resulting in less trauma to the patient and saving valuable operating room time.

Wound Management

In our Wound Management GBU the emphasis during 2000 has been to examine the Health Economics aspects of our products and treatments. This has resulted in:

The appointment of health economist Professor John Posnett of York University, UK to develop and implement a coherent health economics strategy throughout the wound management Global Business Unit.

The development of a model to provide a Health Economics “filter” for proposed new products;

Health Economics

As the body of knowledge around wound care grows, and as the selection of wound management products becomes more important, Smith & Nephew leads the way in ensuring that clinicians have the most up-to-date and relevant information upon which to make clinically effective decisions.

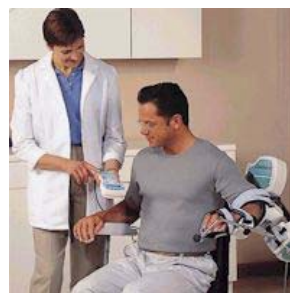
Smith & Nephew enjoys a unique relationship with clinicians in wound management and we are leaders in wound management education. During 2000 our Wound Management Global Business Unit made significant investment in understanding customer needs through in-depth market research and liaison with key opinion formers, and in promoting studies in health economics; these demonstrate the true cost savings that can be achieved by the use of products and techniques that may superficially appear more expensive than traditional methods.

Cost-effectiveness in patient care can be defined as achieving a clinically effective health outcome for the least total cost. Cost effectiveness in wound management is a subset of this – the desired health outcome being a healed wound in the shortest possible time. The key cost drivers in wound management are frequency of dressing changes, time taken per dressing change and clinical effectiveness. The impact of wound management products on any or all these cost drivers influences the total cost of patient care significantly more than their purchase price.

Ensuring that Smith & Nephew’s products are cost-effective and providing evidence of cost-effectiveness to regulators and customers is an important aspect of the work of our Wound Management Global Business Unit, reflected in 2000 with the appointment of health economist Prof. John Posnett. We have been developing models to understand the main determinants of costs and outcomes in each of the main wound types. This information will enable us to develop a ‘critical value matrix’ which can be used to estimate the value of potential new product developments to customers. Our aim is to ensure that our research and development effort is focused on those areas which are likely to have the greatest impact on patient care – reducing costs of treatment and improving outcomes for patients.

Rehabilitation

Smith & Nephew's Global Business Unit specialises in some key areas of rehabilitation including orthopaedic recovery. We produce a range of continuous passive motion (CPM) devices which are used after injury and surgery to mechanically move the joints and muscles of the leg to facilitate a faster recovery. This technology has now been applied for the shoulder. The post-operative shoulder market presents an important opportunity for the



The Kinetec Centura Shoulder CPM device

Rehabilitation Global Business Unit, especially because many of today's shoulder procedures are performed in younger patients. These patients are extremely motivated and look to return to their normal, fully functional lives as quickly as possible.

The Kinetec Centura Shoulder CPM device offers the orthopaedic surgeon a state-of-the-art, anatomically correct, multi-planed, passive range-of-motion device that ensures precise range-of-motion in a controlled environment. This passive motion restores motion to joints, helping prevent joint stiffness, soft tissue contractures and muscle wastage.

This device was designed with features that have been requested by medical professionals experienced in the field. A colour-coded set-up system provides quick and comfortable anatomical patient set-up. In addition, the programmable hand control allows pre-programming of six different protocols. The unit is easy to change for right and left shoulders and it breaks down for convenient transportation.

Looking Ahead

Sustainability is a process of continual improvement in environmental, social and economic performance. Smith & Nephew is a global business and sustainability is a global issue. We have identified key improvement areas for Smith & Nephew Group and across our Global Business Units (orthopaedics, endoscopy, wound management and rehabilitation). In 2001 we shall identify the type of measurements we wish to apply to these improvements with the objective of setting performance targets in 2002.

Environmental

Environmental Management

The environmental management systems at our sites follow the principles of the international standard ISO 14001. We intend to gain ISO 14001 accreditation for all our major sites.

Smith & Nephew's new, more product-orientated organisational structure now makes it easier to focus on the environmental improvement of individual products, the way we manufacture them and to compare and improve individual processes.

Performance Measurement

As part of our efforts to improve environmental performance we are seeking quantifiable measures of progress. We are therefore seeking to establish more detailed and rigorous routine measurement of all our impacts. As well as continuing to measure energy use, water use, waste, emissions and discharges, we are also devising ways to assess progress in terms of environmental impact of new products and process development, supply chain improvement and product evaluation.

Resource Management

Improved resource utilisation will reduce our environmental impact. Therefore we are:

- Examining the efficient use of key materials used;

- Introducing a programme seeking to reduce or substituting the use of potentially harmful materials
- Initiating supplier assessments and encouraging partnerships with strategically important suppliers;
- Introducing further waste prevention and minimisation programmes.

New Products

Reducing the environmental impacts of new products is just as important as reducing the impacts of existing ones. We are amending Research and Development procedures to take account of the environmental impacts of proposed new products or processes. We will also be seeking to:

- Assess the environmental impacts of new products at various stages of development;
- Use minimum amounts of materials in new products;
- Improve the recovery of the raw materials at the end of a product's life;
- Provide information to consumers on the environmental aspects of design, manufacture use and final disposal.

Social

The very nature of Smith & Nephew's business is one of a net benefit to society. However, we recognise that we are not as advanced in measurement of our social impacts as we are with environmental ones. We do not believe we have poor performance in this area, but we accept the need to create, measure and ensure programmes are in place to support them.

Sustainability is a journey of improvement and so we will be examining our social impacts, identifying the key ones and developing measures for improvement. The Global Reporting Initiative gives an indication of the types of social measures available and we will consider these when examining our issues.

In addition to identifying and managing key social issues we recognise that some issues that may not be revealed as key to our business are nevertheless important and that Smith & Nephew Group should have positions on these issues.

Economic

We want investors to be able to trust us to set and meet critical performance indicators. As part of our new strategy we have set explicit targets against which our performance can be measured objectively:

- For the three years to the end of 2001 these have been to improve underlying margins by 1% per year and achieve high single digit annual growth in underlying earnings per share.
- For the three years starting 2002 we have increased our underlying earnings per share growth target to that of achieving mid-teen annual growth

We will achieve these targets by maintaining the right business focus and by driving through the performance improvement programmes that are now part of our normal behaviour.