Table of Contents

Group income statement

	Notes	Year ended 31 December 2015 $ million	Year ended 31 December 2014 $ million	Year ended 31 December 2013 $ million
Revenue	2	4,634	4,617	4,351
Cost of goods sold		(1,143)	(1,162)	(1,100)
Gross profit		3,491	3,455	3,251
Selling, general and administrative expenses	3	(2,641)	(2,471)	(2,210)
Research and development expenses	3	(222)	(235)	(231)
Operating profit	2 & 3	628	749	810
Interest income	4	11	13	14
Interest expense	4	(49)	(35)	(10)
Other finance costs	4	(15)	(11)	(11)
Share of results of associates	11	(16)	(2)	(1)
Profit before taxation		559	714	802
Taxation	5	(149)	(213)	(246)
Attributable profit for the year[1]		410	501	556
Earnings per ordinary share[1]	6			
Basic		45.9¢	56.1¢	61.7¢
Diluted		45.6¢	55.7¢	61.4¢

Group statement of comprehensive income

	Notes	Year ended 31 December 2015 $ million	Year ended 31 December 2014 $ million	Year ended 31 December 2013 $ million
Attributable profit for the year[1]		410	501	556
Other comprehensive income:				
Items that will not be reclassified to income statement				
Re-measurement of net retirement benefit obligations	18	(8)	(94)	12
Taxation on other comprehensive income	5	10	19	(16)
Total items that will not be reclassified to income statement		2	(75)	(4)
Items that may be reclassified subsequently to income statement				
Cash flow hedges – interest rate derivatives				
– losses arising in the year		–	(5)	–
Cash flow hedges – forward foreign exchange contracts				
– gains/(losses) arising in the year		34	31	8
– gains transferred to inventories for the year		(50)	(14)	(3)
Exchange differences on translation of foreign operations		(176)	(196)	(6)
Total items that may be reclassified subsequently to income statement		(192)	(184)	(1)
Other comprehensive (expense)/income for the year, net of taxation		(190)	(259)	(5)
Total comprehensive income for the year[1]		220	242	551

1 Attributable to equity holders of the Company and wholly derived from continuing operations.

THE NOTES ON PAGES 119 TO 166 ARE AN INTEGRAL PART OF THESE ACCOUNTS.

Commentary on the Group income statement and Group statement of comprehensive income

Revenue

Group revenue increased by $17m, 0% on a reported basis, from $4,617m in 2014 to $4,634m in 2015.

The underlying increase is 4%, after adjusting for the 4% impact of acquisitions and the 8% attributable to the unfavourable impact of currency movements.

Established Markets had an underlying growth of 3% and Emerging Markets had an underlying growth of 11%, both of which contributed to the Group increase of 4%.

Cost of goods sold

Cost of goods sold decreased by $19m, 2% on a reported basis, from $1,162m in 2014 to $1,143m in 2015. The movement is primarily due to the strengthening of the US Dollar which more than offsets the increase in volume from acquisitions and underlying trading.

During 2015, no restructuring and rationalisation expenses (2014 – $12m) and acquisition related costs (2014 – $23m) were charged to cost of goods sold.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by $170m (7% on a reported basis) from $2,471m in 2014 to $2,641m in 2015. The underlying movement is 7% after adjusting for net impact of 7% from acquisitions and unfavourable currency movements of 7%.

In 2015, administrative expenses included amortisation of software and other intangible assets of $66m (2014 – $62m), $65m of restructuring and rationalisation expenses (2014 – $49m), an amount of $204m relating to amortisation and impairment of acquired intangibles (2014 – $129m), $12m of acquisition related costs (2014 – $95m) and $203m relating to anticipated and settled metal-on-metal hip claims and additional expenses primarily relating to the RENASYS distribution hold in the US. These expenses were offset by a net gain of $33m relating to a patent litigation and past service and curtailment gains of $19m (2014 – $46m) arising on US and UK post-retirement benefits.

Research and development expenses

Research and development expenditure as a percentage of revenue remained broadly consistent at 4.8% in 2015 (2014 – 5.1%). Actual expenditure was $222m in 2015 compared to $235m in 2014. The Group continues to invest in innovative technologies and products to differentiate it from competitors.

Operating profit

Operating profit decreased by $121m from $749m in 2014 to $628m in 2015.

This movement was primarily driven by the benefits of the Group Optimisation programme and synergies from the ArthroCare acquisition in 2014, offset by the costs relating to anticipated and settled metal-on-metal hip claims.

Interest income/(expense)

Net interest expense increased by $16m from a net $22m expense in 2014 to a net $38m expense in 2015. This movement is primarily due to an increase in interest expense due to the financing of the ArthroCare acquisition in 2014.

Other finance costs

Other finance costs in 2015 increased by $4m and principally relates to costs associated with the Group’s retirement benefit schemes.

Taxation

The taxation charge decreased by $64m to $149m from $213m in 2014.

After adjusting for specific transactions that management considers affect the Group’s short-term profitability (restructuring and rationalisation expenses, amortisation of acquisition intangibles, acquisition related costs and legal and other items) the tax rate on trading profit was 26.8% (2014 – 27.7%).

THE FINANCIAL COMMENTARY ON THIS PAGE FORMS PART OF THE BUSINESS REVIEW AND IS UNAUDITED.
SEE PAGES 181 TO 182 FOR COMMENTARY ON THE 2014 FINANCIAL YEAR.

Group balance sheet

	Notes	At 31 December 2015 $ million	At 31 December 2014 $ million
Assets			
Non-current assets			
Property, plant and equipment	7	932	891
Goodwill	8	2,012	2,027
Intangible assets	9	1,502	1,747
Investments	10	13	5
Investments in associates	11	115	112
Retirement benefit asset	18	13	7
Deferred tax assets	5	105	77
		4,692	4,866
Current assets			
Inventories	12	1,217	1,181
Trade and other receivables	13	1,138	1,166
Cash at bank	15	120	93
		2,475	2,440
Total assets		7,167	7,306
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	19	183	184
Share premium		590	574
Capital redemption reserve		12	11
Treasury shares	19	(294)	(315)
Other reserves		(256)	(64)
Retained earnings		3,731	3,650
Total equity		3,966	4,040
Non-current liabilities			
Long-term borrowings	15	1,434	1,666
Retirement benefit obligations	18	184	233
Other payables	14	29	44
Provisions	17	133	63
Deferred tax liabilities	5	77	98
		1,857	2,104
Current liabilities			
Bank overdrafts and loans	15	46	39
Trade and other payables	14	842	838
Provisions	17	193	67
Current tax payable		263	218
		1,344	1,162
Total liabilities		3,201	3,266
Total equity and liabilities		7,167	7,306

The accounts were approved by the Board and authorised for issue on 24 February 2016 and are signed on its behalf by:

Roberto Quarta
Chairman

Olivier Bohuon
Chief Executive Officer

Julie Brown
Chief Financial Officer

> THE NOTES ON PAGES 119 TO 166 ARE AN INTEGRAL PART OF THESE ACCOUNTS.

Commentary on the Group balance sheet

Non-current assets

Non-current assets decreased by $174m to $4,692m in 2015 from $4,866m in 2014. This is principally attributable to the following:

- Property, plant and equipment increased by $41m from $891m in 2014 to $932m in 2015. There were $303m of additions together with $6m acquired with the Colombia and Russia acquisitions which were offset by $11m of assets disposed. Depreciation of $226m was charged during 2015 and there were unfavourable currency movements of $31m.
- Goodwill decreased by $15m from $2,027m in 2014 to $2,012 in 2015. This movement relates to additions of $10m from the acquisition in Colombia and $24m from the acquisition in Russia. This was offset by unfavourable currency movements of $49m which decreased the overall goodwill balance.
- Intangible assets decreased by $245m from $1,747m in 2014 to $1,502 in 2015. There were additions of $55m in 2015 relating to intellectual property, distribution rights and software acquired together with $19m acquired with the Colombia and Russia acquisitions. Amortisation and impairment during 2015 was $270m and there were unfavourable currency movements of $45m.
- Investments in associates increased to $115m from $112m in 2014. The increase was attributable to a capital contribution to Bioventus of $25m and other investment gains of $2m, offset by an investment loss in Bioventus of $18m and a reclassification of an associate to investments of $6m due to a change in shareholding.
- Deferred tax assets increased by $28m in the year from $77m in 2014 to $105m in 2015. The net deferred tax position has changed from a liability of $21m in 2014 to an asset of $28m in 2015. The net movement of $49m is mainly due to the creation of the metal-on-metal hip claim provision and amortisation of certain acquired intangibles, offset by a reduction in retirement benefit obligations.

Current assets

Current assets increased by $35m to $2,475m from $2,440m in 2014. The movement relates to the following:

- Inventories rose by $36m to $1,217m in 2015 from $1,181 in 2014. This movement is driven by inventory acquired with the Colombia and Russia acquisitions and a general increase across the Emerging Markets. This was offset by unfavourable currency movements of $63m.
- The level of trade and other receivables decreased by $28m to $1,138m in 2015 from $1,166m in 2014. The movement primarily relates to the $17m increase in the bad debt provision as well as unfavourable currency movements.
- Cash at bank has increased by $27m from $93m in 2014 to $120m in 2015. Refer to the Group cash flow statement and related commentary on pages 116 and 117 for further detail.

Non-current liabilities

Non-current liabilities decreased by $247m from $2,104m in 2014 to $1,857m in 2015. This movement principally relates to:

- Long-term borrowing decreased from $1,666m in 2014 to $1,434m in 2015 principally due to repayments of bank debt.
- The retirement benefit obligation decreased from $233m in 2014 to $184m in 2015 due to past cost adjustments arising from plan amendments in the UK and US, increases in discount rates and supplementary cash contributions.
- Deferred tax liabilities decreased by $21m from $98m in 2014 to $77m in 2015. Refer to commentary within non-current assets for explanation of the net deferred tax position movement.
- The impact of the above was partly offset by an increase in non-current provisions, primarily relating to the estimated costs to resolve all future known and anticipated metal-on-metal hip claims.

Current liabilities

Current liabilities increased by $182m from $1,162m in 2014 and $1,344m in 2015. This movement is attributable to:

- Bank overdrafts and loans increased by $7m from $39m in 2014 to $46m in 2015.
- Provisions increased by $126m from $67m in 2014 to $193m in 2015 primarily due to an increase in legal provision for known and anticipated metal-on-metal hip claims.
- Current tax payables increased by $45m from $218m in 2014 to $263m, mainly attributable to differences in the timing of cash tax payments year-on-year.

Total equity

Total equity decreased by $74m from $4,040m in 2014 to $3,966m in 2015. The principal movements were:

	Total equity $ million
1 January 2015	4,040
Attributable profit	410
Currency translation losses	(176)
Hedging reserves	(16)
Actuarial losses on retirement benefit obligations	(8)
Dividends paid during the year	(272)
Purchase of own shares	(77)
Taxation on other comprehensive income and equity items	15
Net share-based transactions	50
31 December 2015	3,966

THE FINANCIAL COMMENTARY ON THIS PAGE FORMS PART OF THE BUSINESS REVIEW AND IS UNAUDITED.
SEE PAGES 181 TO 182 FOR COMMENTARY ON THE 2014 FINANCIAL YEAR.

Table of Contents

Group cash flow statement

	Notes	Year ended 31 December 2015 $ million	Year ended 31 December 2014 $ million	Year ended 31 December 2013 $ million
Cash flows from operating activities				
Profit before taxation		559	714	802
Net interest expense/(income)	4	38	22	(4)
Depreciation, amortisation and impairment		493	427	361
Loss on disposal of property, plant and equipment and software		15	11	23
Distribution from trade investments		3	1	–
Share-based payments expense (equity settled)	23	29	32	28
Share of results of associates	11	16	2	1
Dividends received from associates	11	–	–	1
Profit on disposal of manufacturing facility	21	–	(9)	–
Net movement in post-retirement benefit obligations		(57)	(81)	(27)
Increase in inventories		(83)	(168)	(99)
Increase in trade and other receivables		(26)	(76)	(70)
Increase in trade and other payables and provisions		216	86	122
Cash generated from operations[1]		1,203	961	1,138
Interest received		8	3	4
Interest paid		(44)	(36)	(10)
Income taxes paid		(137)	(245)	(265)
Net cash inflow from operating activities		1,030	683	867
Cash flows from investing activities				
Acquisitions, net of cash acquired	21	(44)	(1,572)	(74)
Capital expenditure	2	(358)	(375)	(340)
Investment in associate	11	(25)	(2)	–
Purchase of investments	10	(2)	(4)	–
Proceeds from associate loan redemption		–	188	–
Proceeds on disposal of manufacturing facility	21	–	20	–
Cash received on disposal of associate		–	–	7
Net cash used in investing activities		(429)	(1,745)	(407)
Cash flows from financing activities				
Proceeds from issue of ordinary share capital		16	40	48
Purchase of own shares		(77)	(75)	(231)
Proceeds from borrowings due within one year	20	42	30	12
Settlement of borrowings due within one year	20	(26)	(52)	(6)
Proceeds from borrowings due after one year	20	831	3,390	695
Settlement of borrowings due after one year	20	(1,062)	(2,068)	(779)
Proceeds from own shares		5	4	3
Settlement of currency swaps	20	(15)	(11)	(1)
Equity dividends paid	19	(272)	(250)	(239)
Net cash (used in)/from financing activities		(558)	1,008	(498)
Net increase/(decrease) in cash and cash equivalents		43	(54)	(38)
Cash and cash equivalents at beginning of year	20	65	126	167
Exchange adjustments	20	(6)	(7)	(3)
Cash and cash equivalents at end of year[2]		102	65	126

1 Includes $52m (2014 – $60m, 2013 – $54m) of outgoings on restructuring and rationalisation expenses, $36m (2014 – $112m, 2013 – $25m) of acquisition-related costs and $3m (2014 – $23m, 2013 – $nil) of legal and other costs.
2 Cash and cash equivalents is net of bank overdrafts of $18m (2014 – $28m).

> THE NOTES ON PAGES 119 TO 166 ARE AN INTEGRAL PART OF THESE ACCOUNTS.

Table of Contents

Commentary on the Group cash flow statement

The main elements of the Group's cash flow and movements in net debt can be summarised as follows:

Net cash inflow from operating activities

Cash generated from operations in 2015 of $1,203m (2014 – $961m, 2013 – $1,138m) is after paying out $36m (2014 – $112m, 2013 – $25m) of acquisition-related costs, $52m (2014 – $60m, 2013 – $54m) of restructuring and rationalisation expenses and $3m (2014 – $23m, 2013 – $nil) relating to legal and other costs.

Capital expenditure

The Group's ongoing capital expenditure and working capital requirements were financed through cash flow generated by business operations and, where necessary, through short-term committed and uncommitted bank facilities. In 2015, capital expenditure on tangible and intangible fixed assets represented approximately 8% of continuing Group revenue (2014 – 8%, 2013 – 8%).

In 2015, capital expenditure amounted to $358m (2014 – $375m, 2013 – $340m). The principal areas of investment were the placement of orthopaedic instruments with customers, patents and licences, plant and equipment and information technology.

At 31 December 2015, $24m (2014 – $34m, 2013 – $41m) of capital expenditure had been contracted but not provided for which will be funded from cash inflows.

Acquisitions and disposals

During the year ended 31 December 2015, the Group acquired businesses in Colombia and Russia for consideration, net of cash acquired, of $44m. In November 2015, the Group invested $25m in its associate, Bioventus.

During 2014, the Group received repayment of the $160m loan note to Bioventus and $28m of accrued interest. Proceeds of $20m were received on the disposal of the Group's manufacturing plant in Gilberdyke, UK.

Dividends

The 2014 final dividend of 18.6 US cents per ordinary share totalling $166m was paid on 6 May 2015. The 2015 interim dividend of 11.8 US cents per ordinary share totalling $106m was paid on 27 October 2015.

Share buy-backs

During the year ended 31 December 2015, the Group purchased a total of 4.4m (2014 – 4.6m) ordinary shares at a cost of $77m (2014 – $75m).

Liquidity and capital resources

The Group's policy is to ensure that it has sufficient funding and facilities in place to meet foreseeable borrowing requirements.

At 31 December 2015, the Group held $102m (2014 – $65m, 2013 – $126m) in cash net of bank overdrafts. The Group had committed facilities available of $2,425m at 31 December 2015 of which $1,425m was drawn. Smith & Nephew intends to repay the amounts due within one year by using available cash and drawing down on the longer-term facilities. In addition, Smith & Nephew has finance lease commitments of $10m.

During the year ended 31 December 2014, the Group refinanced its principal banking facilities. The Group signed a new five-year committed $1bn multi-currency revolving credit facility with a maturity date of March 2019. This maturity date has since been extended to March 2020. In April 2015, the Group signed a new three-year, $300m bilateral term loan with one of its relationship banks. The new term loan has a maturity date of April 2018. The proceeds of this new loan were used to repay the remaining outstanding amount on the committed term loan used to fund the acquisition of ArthroCare.

The principal variations in the Group's borrowing requirements result from the timing of dividend payments, acquisitions and disposals of businesses, timing of capital expenditure and working capital fluctuations. Smith & Nephew believes that its capital expenditure needs and its working capital funding for 2016, as well as its other known or expected commitments or liabilities, can be met from its existing resources and facilities. The Group's net debt decreased from $1,613m at the beginning of 2015 to $1,361m at the end of 2015, representing an overall decrease of $252m.

The Group's planned future contributions are considered adequate to cover the current underfunded position in the Group's defined benefit plans.

THE FINANCIAL COMMENTARY ON THIS PAGE FORMS PART OF THE BUSINESS REVIEW AND IS UNAUDITED. SEE PAGES 181 TO 182 FOR COMMENTARY ON THE 2014 FINANCIAL YEAR.

Table of Contents

Group statement of changes in equity

	Share capital $ million	Share premium $ million	Capital redemption reserve $ million	Treasury shares[2] $ million	Other reserves[3] $ million	Retained earnings $ million	Total equity $ million
At 31 December 2012	193	488	–	(735)	121	3,817	3,884
Attributable profit for the year[1]	–	–	–	–	–	556	556
Other comprehensive income	–	–	–	–	(1)	(4)	(5)
Equity dividends declared and paid	–	–	–	–	–	(239)	(239)
Share-based payments recognised	–	–	–	–	–	28	28
Taxation on share-based payments	–	–	–	–	–	3	3
Purchase of own shares	–	–	–	(231)	–	–	(231)
Cost of shares transferred to beneficiaries	–	–	–	21	–	(18)	3
Cancellation of treasury shares	(10)	–	10	623	–	(623)	–
Issue of ordinary share capital[4]	1	47	–	–	–	–	48
At 31 December 2013	184	535	10	(322)	120	3,520	4,047
Attributable profit for the year[1]	–	–	–	–	–	501	501
Other comprehensive expense	–	–	–	–	(184)	(75)	(259)
Equity dividends declared and paid	–	–	–	–	–	(250)	(250)
Share-based payments recognised	–	–	–	–	–	32	32
Purchase of own shares	–	–	–	(75)	–	–	(75)
Cost of shares transferred to beneficiaries	–	–	–	25	–	(21)	4
Cancellation of treasury shares	(1)	–	1	57	–	(57)	–
Issue of ordinary share capital[4]	1	39	–	–	–	–	40
At 31 December 2014	184	574	11	(315)	(64)	3,650	4,040
Attributable profit for the year[1]	–	–	–	–	–	410	410
Other comprehensive income/(expense)	–	–	–	–	(192)	2	(190)
Equity dividends declared and paid	–	–	–	–	–	(272)	(272)
Share-based payments recognised	–	–	–	–	–	29	29
Taxation on share-based payments	–	–	–	–	–	5	5
Purchase of own shares	–	–	–	(77)	–	–	(77)
Cost of shares transferred to beneficiaries	–	–	–	38	–	(33)	5
Cancellation of treasury shares	(1)	–	1	60	–	(60)	–
Issue of ordinary share capital[4]	–	16	–	–	–	–	16
At 31 December 2015	183	590	12	(294)	(256)	3,731	3,966

1 Attributable to equity holders of the Company and wholly derived from continuing operations.
2 Refer to Note 19.2 for further information.
3 Other reserves comprises gains and losses on cash flow hedges, foreign exchange differences on translation of foreign operations and the difference arising as a result of translating share capital and share premium at the rate ruling on the date of redenomination instead of the rate at the balance sheet date. The cumulative translation loss within other reserves at 31 December 2015 of $254m (2014 – $78m loss, 2013 – $118m gain).
4 Issue of ordinary share capital as a result of options being exercised.

THE NOTES ON PAGES 119 TO 166 ARE AN INTEGRAL PART OF THESE ACCOUNTS.

Table of Contents

NOTES TO THE GROUP ACCOUNTS

1 Basis of preparation

Smith & Nephew plc (the 'Company') is a public limited company incorporated in England and Wales. In these accounts, the 'Group' means the Company and all its subsidiaries. The principal activities of the Group are to develop, manufacture, market and sell medical devices and services.

As required by the European Union's IAS Regulation and the Companies Act 2006, the Group has prepared its accounts in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') effective as at 31 December 2015. The Group has also prepared its accounts in accordance with IFRS as issued by the International Accounting Standards Board ('IASB') effective as at 31 December 2015. IFRS as adopted by the EU differs in certain respects from IFRS as issued by the IASB. However, the differences have no impact for the periods presented.

The preparation of accounts in conformity with IFRS requires management to use estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. The accounting policies requiring management to use significant estimates and assumptions are: inventories, impairment, taxation, liability provisions, business combinations and disclosures in segmental reporting. These are discussed under Critical accounting policies on page 111. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The Directors continue to adopt the going concern basis for accounting in preparing the annual financial statements. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

As described in Note 15, the Group meets its funding requirements through a mixture of shareholders' funds, bank borrowings and private placement notes. At 31 December 2015, the Group had committed borrowing facilities of $2.4bn and total liquidity of $1.1bn, including net cash and cash equivalents of $102m and undrawn committed borrowing facilities of $1bn. The earliest expiry date of the Group's committed borrowing facilities is in respect of a $300m bilateral term loan facility due to expire in April 2018.

The Group's forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Group has sufficient financial resources. The Directors have reasonable expectation that the Company and the Group are well placed to manage their business risks and to continue in operational existence for a period of at least three years from the date of the approval of the financial statements. Accordingly, the Directors continue to adopt the going concern basis (in accordance with the guidance 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' issued by the FRC) in preparing the consolidated financial statements.

There have been no new accounting pronouncements impacting the Group in 2015.

A number of new standards, amendments to standards and interpretations are effective for the Group's annual periods beginning on or after 1 January 2016, and have not been applied in preparing these consolidated accounts. With the exception of the new leasing standard IFRS 16 *Leases*, which was issued on 13 January 2016 and will become effective from 1 January 2019, for which the extent of the impact is still being determined, none of these are expected to have a significant effect on the consolidated accounts of the Group.

1.1 Consolidation

The Group accounts include the accounts of Smith & Nephew plc and its subsidiaries for the periods during which they were members of the Group.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated in the Group accounts from the date that the Group obtains control, and continue to be consolidated until the date that such control ceases. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated on consolidation. All subsidiaries have year ends which are co-terminus with the Groups, with the exception of jurisdictions whereby a different year end is required by local legislation.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related components of equity. Any resulting gain or loss is recognised in profit or loss. Any retained interest in the former subsidiary is measured at fair value.

1.2 Foreign currencies

Functional and presentation currency

The Group accounts are presented in US Dollars, which is the Company's functional currency.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group companies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency as at the exchange rate at the reporting date. Non-monetary items are not retranslated.

Foreign operations

Balance sheet items of foreign operations, including goodwill and fair value adjustments arising on acquisition are translated into US Dollars on consolidation at the exchange rates at the reporting date. Income statement items and the cash flows of foreign operations are translated at average rates as an approximation to actual transaction rates, with actual transaction rates used for large one off transactions.

Foreign currency differences are recognised in Other comprehensive income and accumulated in 'Other reserves' within equity. These include: exchange differences on the translation at closing rates of exchange of non-US Dollar opening net assets; the differences arising between the translation of profits into US Dollars at actual (or average, as an approximation) and closing exchange rates; to the extent that the hedging relationship is effective, the difference on translation of foreign currency borrowings or swaps that are used to finance or hedge the Group's net investments in foreign operations; and the movement in the fair value of forward foreign exchange contracts used to hedge forecast foreign exchange cash flows.

The exchange rates used for the translation of currencies into US Dollars that have the most significant impact on the Group results were:

	2015	2014	2013
Average rates			
Sterling	1.53	1.65	1.56
Euro	1.11	1.33	1.33
Swiss Franc	1.04	1.09	1.08
Renminbi	0.16	0.16	0.16
Year end rates			
Sterling	1.48	1.56	1.66
Euro	1.09	1.21	1.38
Swiss Franc	1.00	1.01	1.12
Renminbi	0.15	0.16	0.17

2 Business segment information

The Group has historically reported two operating segments, Advanced Surgical Devices (‘ASD’) and Advanced Wound Management (‘AWM’). On 1 January 2015, the Group completed its transition to a new commercial organisational structure as part of the Group Optimisation programme. The resultant effect of these restructuring activities is that the Group is now engaged in a single business activity, being the development, manufacture and sales of medical technology products and services.

Development, manufacturing, supply chain and central functions are managed globally for the Group as a whole. Sales are managed through six geographical selling regions, with each having a president who is responsible for the commercial review of that region. The Commercial Operations team (‘CommOps’), comprises geographical presidents and certain heads of function and is chaired by the Chief Executive Officer (‘CEO’). CommOps is the body through which the CEO uses the authority delegated to him by the Board of Directors to manage the operations and performance of the Group. All significant operating decisions regarding the allocation and prioritisation of the Group’s resources and assessment of the Group’s performance are made by CommOps, and whilst the members have individual responsibility for the implementation of decisions within their respective areas, it is at the CommOps level that these decisions are made. Accordingly, CommOps is considered to be the Group’s Chief Operating Decision Maker (‘CODM’) as defined by IFRS 8 Operating Segments.

In making decisions about the prioritisation and allocation of the Group’s resources, CommOps review financial information on an integrated basis for the Group as a whole and determines the best allocation of resources to Group-wide projects. This information is prepared substantially on the same basis as the Group’s IFRS financial statements aside from the adjustments described in Note 2.2. In assessing performance, CommOps also consider financial information presented on a geographical selling region and product franchise basis for revenue. Financial information for corporate and functional costs is presented on a Group-wide basis.

The types of products and services offered by the Group’s global business segment are as follows:

- Sports Medicine Joint Repair, which offers surgeons a broad array of instruments, technologies and implants necessary to perform minimally invasive surgery of the joints;
- Arthroscopy Enabling Technologies, which offers healthcare providers a variety of technologies such as fluid management equipment for surgical access, high definition cameras, digital image capture, scopes, light sources and monitors to assist with visualisation inside the joints, radio frequency wands, electromechanical and mechanical blades, and hand instruments for removing damaged tissue;
- Trauma & Extremities, consisting of internal and external devices used in the stabilisation of severe fractures and deformity correction procedures;
- Other Surgical Businesses, which includes gynaecological instrumentation as well as various products and technologies to assist in surgical treatment of the ear, nose and throat;
- Knee Implants, which offers an innovative range of products for specialised knee replacement procedures;
- Hip Implants, which offers a range of specialist products for reconstruction of the hip joint;
- Advanced Wound Care, which includes products for the treatment of acute and chronic wounds, including leg, diabetic and pressure ulcers, burns and post-operative wounds;
- Advanced Wound Devices, which consists of traditional and single-use Negative Pressure Wound Therapy and hydrosurgery systems; and
- Advanced Wound Bioactives, which includes biologics and other bioactive technologies that provide unique approaches to debridement and dermal repair/regeneration.

The segment information is prepared in conformity with the accounting policies of the Group and the accounting standard IFRS 8 Operating Segments.

The segment profit measure reported to CommOps for the purposes of resource allocation and assessment is trading profit before interest, and related income tax expense and excludes the effects of non-recurring income and expenditure from one-off items as discussed in Note 2.2 below. Group financing (including interest receivable and payable) is managed on a net basis outside of the business segment.

The results and other information as required of the single segment are shown below. Segment information from the prior year has been restated to conform to the one global segment view, in order to provide more meaningful comparison.

Table of Contents

2.1 Revenue by business segment and geography

ACCOUNTING POLICY

Revenue comprises sales of products and services to third parties at amounts invoiced net of trade discounts and rebates, excluding taxes on revenue. Revenue from the sale of products is recognised upon transfer to the customer of the significant risks and rewards of ownership. This is generally when goods are delivered to customers. There is no significant revenue associated with the provision of discrete services. Sales of inventory located at customer premises and available for customers' immediate use are recognised when notification is received that the product has been implanted or used. Appropriate provisions for returns, trade discounts and rebates are deducted from revenue. Rebates comprise retrospective volume discounts granted to certain customers on attainment of certain levels of purchases from the Group. These are accrued over the course of the arrangement based on estimates of the level of business expected and adjusted at the end of the arrangement to reflect actual volumes.

Segment revenue reconciles to statutory revenues and other income from continuing operations as follows:

	2015 $ million	2014 $ million	2013 $ million
Reportable segment revenue			
Revenue from external customers	4,634	4,617	4,351

The table below shows sales revenue by product type from continuing operations:

	2015 $ million	2014 $ million	2013 $ million
Sales revenue by product from continuing operations			
Sports Medicine Joint Repair	606	576	496
Arthroscopic Enabling Technologies	573	542	441
Trauma & Extremities	497	506	486
Other Surgical Businesses	205	147	74
Knee Implants	883	873	865
Hip Implants	604	654	653
Advanced Wound Care	755	805	843
Advanced Wound Bioactives	344	322	280
Advanced Wound Devices	167	192	213
Consolidated sales revenue from continuing operations	4,634	4,617	4,351

In presenting information on the basis of geographical segments, segment revenue is based on location of Smith & Nephew businesses:

	2015 $ million	2014 $ million	2013 $ million
Geographical segment revenue			
United Kingdom	301	299	293
United States of America	2,217	2,012	1,862
Other	2,116	2,306	2,196
Consolidated sales revenue from continuing operations	4,634	4,617	4,351

Major customers

No single customer generates revenue greater than 10% of the consolidated entity's total revenues.

2 Business segment information *continued*

2.2 Trading and operating profit by business segment

Trading profit is a trend measure which presents the long-term profitability of the Group excluding the impact of specific transactions that management considers affects the Group’s short-term profitability. The Group presents this measure to assist investors in their understanding of trends. The Group has identified the following items, where material, as those to be excluded from operating profit when arriving at trading profit: acquisition and disposal-related items including amortisation of acquisition intangibles and impairments; significant restructuring events; gains and losses arising from legal disputes; and significant uninsured losses. Further detail is provided in Notes 3.3, 3.4 and 3.5. Operating profit reconciles to trading profit as follows:

	2015 $ million	2014 $ million	2013 $ million
Trading profit of the business segment	1,099	1,055	987
Acquisition-related costs	(12)	(118)	(31)
Restructuring and rationalisation expenses	(65)	(61)	(58)
Amortisation of acquisition intangibles and impairments	(204)	(129)	(88)
Legal and other	(190)	2	–
Operating profit of the business segment	628	749	810
Net interest expense/(revenue)	(38)	(22)	4
Other finance costs	(15)	(11)	(11)
Share of results of associates	(16)	(2)	(1)
Taxation	(149)	(213)	(246)
Attributable profit for the year of the business segment	410	501	556

2.3 Assets and liabilities by business segment and geography

	2015 $ million	2014 $ million	2013 $ million
Reconciliation of assets of the business segment to the consolidated group			
Assets of the business segment	6,929	7,129	5,532
Unallocated corporate assets:			
– Deferred tax assets	105	77	145
– Retirement benefit assets	13	7	5
– Cash at bank	120	93	137
Total assets of the consolidated group	7,167	7,306	5,819

Segment assets are based on the location of the assets:

	2015 $ million	2014 $ million	2013 $ million
United Kingdom	366	379	255
United States of America	2,982	3,104	2,086
Other	1,226	1,299	1,072
Non-current assets by geographical location[1]	4,574	4,782	3,413

1 Non-current assets excludes retirement benefit assets and deferred tax assets.