Markets, expose the Group to the risk that our employees or agents will engage in prohibited activities.

Regulatory approval

The international medical device industry is highly regulated. Regulatory requirements are a major factor in determining whether substances and materials can be developed into marketable products and the amount of time and expense that should be allotted to such development.

National regulatory authorities administer and enforce a complex series of laws and regulations that govern the design, development, approval, manufacture, labelling, marketing and sale of healthcare products. They also review data supporting the safety and efficacy of such products. Of particular importance is the requirement in many countries that products be authorised or registered prior to manufacture, marketing or sale and that such authorisation or registration be subsequently maintained. The major regulatory agencies for Smith & Nephew’s products include the Food and Drug Administration (FDA) in the US, the Medicines and Healthcare products Regulatory Agency in the UK, the Ministry of Health, Labour and Welfare in Japan, the China Food and Drug Administration and the Australian Therapeutic Goods Administration. At any time, the Group is awaiting a number of regulatory approvals which, if not received, could adversely affect results of operations.

The trend is towards more stringent regulation and higher standards of technical appraisal. Such controls have become increasingly demanding to comply with and management believes that this trend will continue.

Regulatory requirements may also entail inspections for compliance with appropriate standards, including those relating to Quality Management Systems or Good Manufacturing Practices regulations. All manufacturing and other significant facilities within the Group are subject to regular internal and external audit for compliance with national and Group medical device regulation and policies.

Payment for medical devices may be governed by reimbursement tariff agencies in a number of countries. Reimbursement rates may be set in response to perceived economic value of the devices, based on clinical and other data relating to cost, patient outcomes and comparative effectiveness. They may also be affected by overall government budgetary considerations. The Group believes that its emphasis on innovative products and services should contribute to success in this environment.

Failure to comply with these regulatory requirements could have a number of adverse consequences, including withdrawal of approval to sell a product in a country, temporary closure of a manufacturing facility, fines and potential damage to Company reputation.

Failure to make successful acquisitions

A key element of the Group’s strategy for continued growth is to make acquisitions or alliances to complement its existing business. Failure to identify appropriate acquisition targets or failure to conduct adequate due diligence or to integrate them successfully would have an adverse impact on the Group’s competitive position and profitability. This could result from the diversion of management resources towards the acquisition or integration process, challenges of integrating organisations of different geographic, cultural and ethical backgrounds, as well as the prospect of taking on unexpected or unknown liabilities. In addition, the availability of global capital may make financing less attainable or more expensive and could result in the Group failing in its strategic aim of growth by acquisition or alliance.

Relationships with healthcare professionals

The Group seeks to maintain effective and ethical working relationships with physicians and medical personnel who assist in the research and development of new products or improvements to our existing product range or in product training and medical education. If we are unable to maintain these relationships our ability to meet the demands of our customers could be diminished and our revenue and profit could be materially adversely affected.

Reliance on sophisticated information technology

The Group uses a wide variety of information systems, programmes and technology to manage our business. Our systems are vulnerable to a cyber-attack, malicious intrusion, loss of data privacy or any other significant disruption. Our systems have been and will continue to be the target of such threats. We have systems in place to minimise the risk and disruption of these intrusions and to monitor our systems on an ongoing basis for current or potential threats. There can be no assurance that these measures will prove effective in protecting Smith & Nephew from future interruptions and as a result the performance of the Group could be materially adversely affected.

Other risk factors

Smith & Nephew is subject to a number of other risks, which are common to most global medical technology groups and are reviewed as part of the Group’s risk management process.

FACTORS AFFECTING SMITH & NEPHEW’S RESULTS OF OPERATIONS

Government economic, fiscal, monetary and political policies are all factors that materially affect the Group’s operation or investments of shareholders. Other factors include sales trends, currency fluctuations and innovation. Each of these factors is discussed further in the ‘Our Marketplace’ on pages 16 to 17, ‘Financial review’ on pages 39 to 41 and ‘Taxation information for shareholders’ on pages 187 to 188.

OTHER FINANCIAL INFORMATION

SELECTED FINANCIAL DATA

	2016 $ million	2015 $ million	2014 $ million	2013 $ million	2012 $ million
Income statement					
Revenue	4,669	4,634	4,617	4,351	4,137
Cost of goods sold	(1,272)	(1,143)	(1,162)	(1,100)	(1,070)
Gross profit	3,397	3,491	3,455	3,251	3,067
Selling, general and administrative expenses	(2,366)	(2,641)	(2,471)	(2,210)	(2,050)
Research and development expenses	(230)	(222)	(235)	(231)	(171)
Operating profit[1]	801	628	749	810	846
Net interest (payable)/receivable	(46)	(38)	(22)	4	2
Other finance (costs)/income	(16)	(15)	(11)	(11)	(11)
Share of results of associates	(3)	(16)	(2)	(1)	4
Profit on disposal of business and net assets held for sale	326	–	–	–	251
Profit before taxation	1,062	559	714	802	1,092
Taxation	(278)	(149)	(213)	(246)	(371)
Attributable profit for the year	784	410	501	556	721
Earnings per ordinary share					
Basic	88.1¢	45.9¢	56.1¢	61.7¢	80.4¢
Diluted	87.8¢	45.6¢	55.7¢	61.4¢	80.0¢
Adjusted attributable profit					
Attributable profit for the year	784	410	501	556	721
Acquisition related costs	9	25	125	31	11
Restructuring and rationalisation expenses	62	65	61	58	65
Legal and other	(20)	187	(2)	–	–
Amortisation and impairment of acquisition intangibles	178	204	129	88	43
Profit on disposal of business and net assets held for sale	(326)	–	–	–	(251)
Taxation on excluded items	48	(130)	(71)	(40)	82
Adjusted attributable profit	735	761	743	693	671
Adjusted earnings per ordinary share (EPSA)[2]	82.6¢	85.1¢	83.2¢	76.9¢	74.8¢

1 Reconciliation of operating to trading profit is presented below.
2 Adjusted earnings per ordinary share is calculated by dividing adjusted attributable profit by the basic weighted number of shares.

	2016 $ million	2015 $ million	2014 $ million	2013 $ million	2012 $ million
Operating profit	801	628	749	810	846
Acquisition related costs	9	12	118	31	11
Restructuring and rationalisation costs	62	65	61	58	65
Amortisation and impairment of acquisition intangibles	178	204	129	88	43
Legal and other	(30)	190	(2)	–	–
Trading profit	1,020	1,099	1,055	987	965

OTHER FINANCIAL INFORMATION

SELECTED FINANCIAL DATA continued

	2016 $ million	2015 $ million	2014 $ million	2013 $ million	2012 $ million
Group balance sheet					
Non-current assets	4,815	4,692	4,866	3,563	3,498
Current assets	2,529	2,475	2,440	2,256	2,144
Total assets	7,344	7,167	7,306	5,819	5,642
Share capital	180	183	184	184	193
Share premium	600	590	574	535	488
Capital redemption reserve	15	12	11	10	–
Treasury shares	(432)	(294)	(315)	(322)	(735)
Retained earnings and other reserves	3,595	3,475	3,586	3,640	3,938
Total equity	3,958	3,966	4,040	4,047	3,884
Non-current liabilities	2,038	1,857	2,104	699	828
Current liabilities	1,348	1,344	1,162	1,073	930
Total liabilities	3,386	3,201	3,266	1,772	1,758
Total equity and liabilities	7,344	7,167	7,306	5,819	5,642
Group cash flow statement					
Cash generated from operations	1,035	1,203	961	1,138	1,184
Net interest paid	(45)	(36)	(33)	(6)	(4)
Income taxes paid	(141)	(137)	(245)	(265)	(278)
Net cash inflow from operating activities	849	1,030	683	867	902
Capital expenditure (including trade investments and net of disposals of property, plant and equipment)	(394)	(360)	(379)	(340)	(265)
Acquisitions and disposals	(214)	(44)	(1,552)	(67)	(782)
Proceeds on disposal of business (net of tax)	225	–	–	–	103
Investment in associate	–	(25)	(2)	–	(10)
Proceeds from associate loan redemption	–	–	188	–	–
Proceeds from own shares	6	5	4	3	6
Equity dividends paid	(279)	(272)	(250)	(239)	(186)
Issue of ordinary capital and treasury shares purchased	(358)	(61)	(35)	(183)	77
Net cash flow from financing and investing activities	(165)	273	(1,343)	41	(155)
Exchange adjustments	(24)	(21)	(17)	(6)	5
Opening net debt	(1,361)	(1,613)	(253)	(288)	(138)
Closing net debt	(1,550)	(1,361)	(1,613)	(253)	(288)
Selected financial ratios					
Gearing (closing net debt as a percentage of total equity)	39%	34%	40%	6%	7%
Dividends per ordinary share[1]	30.8¢	30.8¢	29.60¢	27.40¢	26.10¢
Research and development costs to revenue	4.9%	4.8%	5.1%	5.3%	4.1%
Capital expenditure (including intangibles but excluding goodwill) to revenue	8.4%	7.7%	8.1%	7.8%	6.4%

1 The Board has proposed a final dividend of 18.5 US cents per share which together with the first interim dividend of 12.3 US cents makes a total for 2016 of 30.8 US cents.

NON-GAAP FINANCIAL INFORMATION – ADJUSTED MEASURES

These Financial Statements include financial measures that are not prepared in accordance with International Financial Reporting Standards (IFRS). These measures, which include trading profit, trading profit margin, trading cash flow, EPSA and underlying growth, exclude the effect of certain cash and non-cash items that Group management believes are not related to the underlying performance of the Group. These non-IFRS financial measures are also used by management to make operating decisions because they facilitate internal comparisons of performance to historical results on both a business segment and a consolidated Group basis.

Non-IFRS financial measures are presented in these Financial Statements as the Group's management believe that they provide investors with a means of evaluating performance of the business segment and the consolidated Group on a consistent basis, similar to the way in which the Group's management evaluates performance, that is not otherwise apparent on an IFRS basis, given that certain non-recurring, infrequent or non-cash items that management does not otherwise believe are indicative of the underlying performance of the consolidated Group may not be excluded when preparing financial measures under IFRS. These non-IFRS measures should not be considered in isolation from, as substitutes for, or superior to financial measures prepared in accordance with IFRS.

Underlying revenue growth

'Underlying growth in revenue' is used to compare the revenue in a given year to the previous year on a like-for-like basis. This is achieved by adjusting for the impact of sales of products acquired in material business combinations or disposed of and for movements in exchange rates. Underlying growth in revenue is not presented in the accounts prepared in accordance with IFRS and is therefore a measure not in accordance with Generally Accepted Accounting Principles (a 'non-GAAP' measure).

Underlying growth in revenue is considered by the Group to be an important measure of performance in terms of local functional currency since it excludes those items considered to be outside the influence of local management. The Group's management uses this non-GAAP measure in its internal financial reporting, budgeting and planning to assess performance on both a business and a consolidated Group basis. Revenue growth at constant currency is important in measuring business performance compared to competitors and compared to the growth of the market itself.

The Group considers that revenue from sales of products acquired in material business combinations results in a step-up in growth in revenue in the year of acquisition that cannot be wholly attributed to local management's efforts with respect to the business in the year of acquisition. Depending on the timing of the acquisition, there will usually be a further step change in the following year. A measure of growth excluding the effects of business combinations also allows senior management to evaluate the performance and relative impact of growth from the existing business and growth from acquisitions. The process of making business acquisitions is directed, approved and funded from the Group corporate centre in line with strategic objectives.

The material limitation of the underlying growth in revenue measure is that it excludes certain factors, described above, which ultimately have a significant impact on total revenues. The Group compensates for this limitation by taking into account relative movements in exchange rates in its investment, strategic planning and resource allocation. In addition, as the evaluation and assessment of business acquisitions is not within the control of local management, performance of acquisitions is monitored centrally until the business is integrated.

The Group's management considers that the non-GAAP measure of underlying growth in revenue and the GAAP measure of growth in revenue are complementary measures, neither of which management uses exclusively.

'Underlying growth in revenue' reconciles to growth in revenue reported, the most directly comparable financial measure calculated in accordance with IFRS by making two adjustments, the 'constant currency exchange effect' and the 'acquisitions and disposals effect', described below.

The 'constant currency exchange effect' is a measure of the increase/decrease in revenue resulting from currency movements on non-US Dollar sales and is measured as the difference between: 1) the increase/decrease in the current year revenue translated into US Dollars at the current year average exchange rate and the prior revenue translated at the prior year rate; and 2) the increase/decrease being measured by translating current and prior year revenues into US Dollars using the prior year closing rate.

The 'acquisitions and disposals effect' is the measure of the impact on revenue from newly acquired material business combinations and recent material business disposals. This is calculated by comparing the current year, constant currency actual revenue (which include acquisitions and exclude disposals from the relevant date of completion) with prior year, constant currency actual revenue, adjusted to include the results of acquisitions and exclude disposals for the commensurate period in the prior year. These sales are separately tracked in the Group's internal reporting systems and are readily identifiable.

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OTHER FINANCIAL INFORMATION

Reported revenue growth, the most directly comparable financial measure calculated in accordance with IFRS, reconciles to underlying growth in revenue as follows:

2016 Consolidated revenue by franchise	Reported growth %	Underlying growth %	Reconciling items Acquisitions/disposals %	Reconciling items Currency impact %
Sports Medicine, Trauma & Other	1	3	(1)	(1)
Sports Medicine Joint Repair	7	8	–	(1)
Arthroscopic Enabling Technologies	–	2	–	(2)
Trauma & Extremities	(4)	(4)	1	(1)
Other Surgical Businesses	5	15	(9)	(1)
Reconstruction	3	2	2	(1)
Knee Implants	6	4	3	(1)
Hip Implants	(1)	(1)	–	–
Advanced Wound Management	(3)	(1)	–	(2)
Advanced Wound Care	(5)	(3)	–	(2)
Advanced Wound Bioactives	(1)	–	–	(1)
Advanced Wound Devices	3	5	–	(2)
Total	1	2	–	(1)

2015 Consolidated revenue	Reported growth %	Underlying growth %	Reconciling items Acquisitions/disposals %	Reconciling items Currency impact %
Total	–	4	4	(8)

Trading profit, trading profit margin and trading cash flow

Trading profit, trading profit margin and trading cash flow are trend measures, which present the long-term profitability of the Group excluding the impact of specific transactions that management considers affect the Group’s short-term profitability and cash flows. The Group has identified the following items, where material, as those to be excluded from operating profit and cash generated from operations when arriving at trading profit and trading cash flow, respectively: acquisition and disposal related items arising in connection with business combinations, including amortisation of acquisition intangible assets, impairments and integration costs; restructuring events; gains and losses resulting from legal disputes; and significant uninsured losses. In addition to these items, gains or losses that materially impact the Group’s profitability or cash flows on a short-term or one-off basis, are excluded from operating profit and cash generated from operations when arriving at trading profit and trading cash flow, respectively.

Adjusted earnings per ordinary share (EPSA)

EPSA is a trend measure, which presents the long-term profitability of the Group excluding the post-tax 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. Adjusted attributable profit is the numerator used for this measure and is determined by adjusting attributable profit for the items that are excluded from operating profit when arriving at trading profit and items that are recognised below operating profit that affect the Group's short-term profitability. The most directly comparable financial measure calculated in accordance with IFRS is earnings per ordinary share (EPS).

	Revenue $ million	Operating profit[1] $ million	Taxation[2] $ million	Attributable profit[3] $ million	Cash generated from operating activities[4] $ million	Earnings per share[5] ¢
2016 Reported	4,669	801	(278)	784	1,035	88.1
Acquisition-related costs and profit on disposal	–	9	120	(197)	24	(22.2)
Restructuring and rationalisation costs	–	62	(14)	48	62	5.4
Amortisation and impairment of acquisition intangibles	–	178	(59)	119	–	13.4
Legal and other	–	(30)	1	(19)	36	(2.1)
Capital expenditure	–	–	–	–	(392)	–
2016 Adjusted	4,669	1,020	(230)	735	765	82.6

Acquisition-related costs and cash flows: For the year to 31 December 2016, these costs relate to the costs associated with the integration of Blue Belt Technologies and other acquisitions. Taxation and attributable profit include the effect of the disposal of the Gynaecology business.

Restructuring and rationalisation costs: For the year to 31 December 2016 these costs primarily relate to the ongoing implementation of the Group Optimisation plan that was announced in May 2014.

Amortisation and impairment of acquisition intangibles: For the year ended 31 December 2016 these charges relate to the amortisation of intangible assets acquired in material business combinations and a total impairment of $48m including $32m relating to Oasis, a product acquired with the Healthpoint acquisition in 2013.

Legal and other: For the year to 31 December 2016, the net credit of $30m primarily relates to a $44m curtailment credit on post-retirement benefits in the UK pension scheme partially offset by legal expenses incurred for patent litigation with Arthrex. Also included is a net $1m credit in respect of insurance recoveries of $24m and legal expenses $23m, relating to the ongoing metal-on-metal hip claims.

	Revenue $ million	Operating profit[1] $ million	Taxation[2] $ million	Attributable profit[3] $ million	Cash generated from operating activities[4] $ million	Earnings per share[5] ¢
2015 Reported	4,634	628	(149)	410	1,203	45.9
Acquisition-related costs	–	12	(9)	16	36	1.8
Restructuring and rationalisation costs	–	65	(18)	47	52	5.3
Amortisation and impairment of acquisition intangibles	–	204	(66)	138	–	15.4
Legal and other	–	190	(37)	150	3	16.7
Capital expenditure	–	–	–	–	(358)	–
2015 Adjusted	4,634	1,099	(279)	761	936	85.1

Acquisition-related costs and cash flows: For the year to 31 December 2015, these costs primarily relate to ongoing ArthroCare integration and deferred consideration for an acquisition made by an associate.

Restructuring and rationalisation costs: For the year to 31 December 2015, these costs primarily relate to the ongoing implementation of the Group Optimisation plan that was announced in May 2014.

Amortisation and impairment of acquisition intangibles: For the year ended 31 December 2015, these charges relate to the amortisation of intangible assets acquired in material business combinations and a total impairment of $51m including $40m relating to Oasis, a product acquired with the Healthpoint acquisition in 2013.

Legal and other: For the year to 31 December 2015, the net charge primarily relates to $203m for known, anticipated and settled metal-on-metal hip claims and associated legal expenses of $21m. This was offset by a net gain of $33m relating to patent litigation with Arthrex and past service and curtailment gains of $19m arising on US and UK post-retirement benefits.

In addition, a total of $18m charge primarily relates to final costs relating to RENASYS distribution hold and redundancies from the decision to cease development of HP802.

1 Represents a reconciliation of operating profit to trading profit.
2 Represents a reconciliation of reported tax to trading tax.
3 Represents a reconciliation of reported attributable profit to adjusted attributable profit.
4 Represents a reconciliation of cash generated from operations to trading cash flow.
5 Represents a reconciliation of basic earnings per ordinary share to adjusted earnings per ordinary share (EPSA).

2015 FINANCIAL HIGHLIGHTS

REVENUE

Group revenue increased by $17m, flat 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%).

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 $1,502m 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 $1,181m 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.

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 gains	(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

CONTRACTUAL OBLIGATIONS

Contractual obligations at 31 December 2016 were as follows:

	Payments due by period			
	Less than one year $ million	One to three years $ million	Three to five years $ million	More than five years $ million
Debt obligations	86	300	135	–
Private placement notes	36	197	330	800
Finance lease obligations	3	6	–	–
Operating lease obligations	48	67	31	41
Retirement benefit obligation	43	–	–	–
Purchase obligations	27	24	10	–
Capital expenditure	64	–	–	–
Other	74	42	34	16
	381	636	540	857

Other contractual obligations represent $36m of foreign exchange contracts and $130m of acquisition consideration. Provisions that do not relate to contractual obligations are not included in the above table.

The agreed contributions for 2017 in respect of the Group's defined benefits plans are: $23m for the UK and $20m for the US Plan. The table above does not include amounts payable in respect of 2016 and beyond as these are subject to future agreement and amounts cannot be reasonably estimated.

There are a number of agreements that take effect, alter or terminate upon a change in control of the Company or the Group following a takeover, such as bank loan agreements and Company share plans. None of these are deemed to be significant in terms of their potential impact on the business of the Group as a whole. In addition, there are service contracts between the Company and its Executive Directors which provide for the automatic payment of a bonus following loss of office or employment occurring because of a successful takeover bid. Further details are set out on page 84.

The Company does not have contracts or other arrangements which individually are essential to the business.

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FINANCIAL CALENDAR

Annual General Meeting	6 April 2017
First quarter trading report	5 May 2017
Payment of 2016 final dividend	10 May 2017
Half year results announced	27 July 2017[1]
Third quarter trading report	3 November 2017
Payment of 2017 interim dividend	November 2017
Full year results announced	February 2018[1]
Annual Report available	February/March 2018
Annual General Meeting	April 2018

1 Dividend declaration dates.

Annual General Meeting

The Company's Annual General Meeting (AGM) will be held on 6 April 2017 at 2:00pm at No. 11 Cavendish Square, London W1G 0AN. Registered shareholders have been sent either a Notice of Annual General Meeting or notification of availability of the Notice of Annual General Meeting.

Corporate headquarters and registered office

The corporate headquarters is in the UK and the registered office address is: Smith & Nephew plc, 15 Adam Street, London W2N 6LA, UK. Registered in England and Wales No. 324357. Tel. +44 (0)20 7401 7646 website: www.smith-nephew.com

ORDINARY SHAREHOLDERS

Registrar

All general enquiries concerning shareholdings, dividends, changes to shareholders' personal details and the AGM should be addressed to:

Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ

Tel: 0370 703 0047
Tel: +44 (0) 117 240 2532 from outside the UK
Website: www.investorcentre.co.uk

* Lines are open from 8:30am to 5:30pm Monday to Friday, excluding public holidays in England and Wales.

Shareholder facilities

Investor Centre

You can now manage your holdings online by registering on Computershare's secure shareholder website Investor Centre. Once registered, Investor Centre makes it easy for you to sign up for electronic communications, update your address details and add a payment instruction. Visit www.investorcentre.co.uk for a fast and convenient way to manage your holdings.

E-communications

We encourage you to elect to receive communications via e-mail as this has significant environmental and cost benefits. If you would like to receive email notifications when your shareholder communications are available online, please submit your email address and SRN by visiting www.investorcentre.co.uk/ecomms

Payment of dividends direct to your bank or building society account

If you wish to avoid the risk of your dividend awards getting lost or mislaid you can arrange to have your cash dividends paid directly to a bank or building society account. This facility is available to UK resident shareholders who receive Sterling dividends. If you do not live in the UK you may be able to register for the Global Payment Service. For more information, please contact Computershare.

Dividend Re-Investment plan (DRIP)

The Company offers shareholders (except those in North America) the opportunity to participate in a DRIP. This enables you to reinvest your cash dividends in further ordinary shares of Smith & Nephew plc. These are purchased in the market at competitive dealing costs. For further details plus an application form to reinvest future dividends, contact Computershare.

Duplicate accounts

If you have more than one account due to inconsistency in account details, you may avoid duplicate mailings by writing to Computershare and requesting an amalgamation of your share accounts.

Keep your personal details up to date

Please remember to tell Computershare if you move house or change bank details or there is any other change in your account information. If you have already registered with Investor Centre, you can update your address online. Alternatively, you will need to complete a Change of Address form and send it to Computershare. You can access a Change of Address form via investor centre by visiting http://www.computershare.com/uk/SNPforms

You can also change your address or update your bank details quickly and easily over the phone, using the contact number above.

INFORMATION FOR SHAREHOLDERS

Individual savings account (ISA)

Shareholders who are UK resident may hold Smith & Nephew plc shares in an ISA, which is administered by the Company's registrar. For information about this service please contact Computershare.

SHAREHOLDER COMMUNICATIONS

We make quarterly financial announcements which are made available through Stock Exchange announcements and on the Group's website (www.smith-nephew.com). Copies of recent Annual Reports, press releases, institutional presentations and audio webcasts are also available on the website.

We send paper copies of the Notice of Annual General Meeting and Annual Report only to those shareholders and ADS holders who have elected to receive shareholder documentation by post. Electronic copies of the Annual Report and Notice of Annual General Meeting are available on the Group's website at www.smith-nephew.com. Both ordinary shareholders and ADS holders can request paper copies of the Annual Report, which the Company provides free of charge. The Company will continue to send to ordinary shareholders by post the Form of Proxy notifying them of the availability of the Annual Report and Notice of Annual General Meeting on the Group's website. If you elect to receive the Annual Report and Notice of Annual General Meeting electronically you are informed by e-mail of the documents' availability on the Group's website. ADS holders receive the Form of Proxy by post, but will not receive a paper copy of the Notice of Annual General Meeting.

INVESTOR COMMUNICATIONS

The Company maintains regular dialogue with individual institutional shareholders, together with results presentations. To ensure that all members of the Board develop an understanding of the views of major investors, the Executive Directors review significant issues raised by investors with the Board. Non-Executive Directors are sent copies of analysts' and brokers' briefings. There is an opportunity for individual shareholders to question the Directors at the Annual General Meeting and the Company regularly responds to letters from shareholders on a range of issues.

UK CAPITAL GAINS TAX

For the purposes of UK capital gains tax, the price of the Company's ordinary shares on 31 March 1982 was 35.04p.

SMITH & NEPHEW SHARE PRICE

The Company's ordinary shares are quoted on the London Stock Exchange under the symbol SN. The Company's share price is available on the Smith & Nephew website www.smith-nephew.com and at www.londonstockexchange.com where the live financial data is updated with a 15-minute delay.

SHAREGIFT

If you hold a small number of shares, which would cost more to sell than they are worth, you may wish to consider donating them to the charity ShareGift (Registered Charity no. 1052686) which specialises in accepting such shares as donations. There are no implications for Capital Gains Tax purposes (no gain or loss) and it may also be possible to obtain income tax relief. The relevant stock transfer form may be obtained from Computershare at the address given on page 181.

Further information about ShareGift is available at www.sharegift.org or by contacting ShareGift at:

ShareGift, PO Box 72253, London SW1P 9LQ

Tel: (+44) (0) 20 7930 3737

UNAUTHORISED BROKERS (BOILER ROOM SCAMS)

You are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free Company reports. These are typically from overseas-based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high-risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme if things go wrong. If you receive any unsolicited investment advice, obtain the correct name of the person and organisation and check that they are properly authorised by the FCA by visiting www.fca.org.uk/register/

If you think you have been approached by an unauthorised firm you should contact the FCA consumer helpline on 0800 111 6768 or e-mail consumer.queries@fca.org.uk

More detailed information can be found on the FCA website at www.fca.org.uk/consumers/protect-yourself/unauthorised-firms.

SOCIAL MEDIA

Smith & Nephew has a presence across a range of social media channels, including Twitter, Facebook and LinkedIn, which are linked below. Information provided by Smith & Nephew through social media channels is not incorporated by reference herein and does not form part of our Annual Report or Form 20-F.

twitter.com/SmithNephewPLC

facebook.com/SmithNephewPlc

linkedin.com/company/smith-&-nephew

AMERICAN DEPOSITARY SHARES (ADSS) AND AMERICAN DEPOSITARY RECEIPTS (ADRS)

In the USA, the Company's ordinary shares are traded in the form of ADSs, evidenced by ADRs, on the New York Stock Exchange under the symbol SNN. Each American Depositary Share represents two ordinary shares. Deutsche Bank is the authorised depositary bank for the Company's ADR programme.

ADS ENQUIRIES

All enquiries regarding ADS holder accounts and payment of dividends should be addressed to:

Deutsche Bank Shareholder Services
American Stock Transfer and Trust Company
Operations Centre 6201 15th Avenue
Brooklyn, New York
NY 11219

Tel: +1 866 249 2593 (toll free)
E-mail: DB@amstock.com
Website: www.adr.db.com

The Deutsche Bank Global Direct Investor Services Program is available for US residents, enabling investment directly in ADSs with reduced brokerage commissions and service costs. For further information on Global Direct contact Deutsche Bank Shareholder Services (as above) or visit www.adr.db.com

The Company provides Deutsche Bank, as depositary, with copies of Annual Reports containing Consolidated Financial Statements and the opinion expressed thereon by its independent auditor. Such financial statements are prepared under IFRS. Deutsche Bank will send these reports to recorded ADS holders who have elected to receive paper copies. The Company also provides to Deutsche Bank all notices of shareholders' meetings and other reports and communications that are made generally available to shareholders of the Company. Deutsche Bank makes such notices, reports and communications available for inspection by recorded holders of ADSs and sends voting instruction forms by post to all recorded holders of ADSs.

SMITH & NEPHEW ADS PRICE

The Company's ADS price can be obtained from the official New York Stock Exchange website at www.nyse.com, the Smith & Nephew website www.smith-nephew.com, and is quoted daily in the Wall Street Journal where the live financial data is updated with a 15-minute delay.

ADS PAYMENT INFORMATION

The Company hereby discloses ADS payment information for the year ended 31 December 2016 in accordance with the Securities and Exchange Commission rules 12.D.3 and 12.D.4 relating to Form 20-F filings by foreign private issuers. The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors, including payment of dividends by the Company by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fee for those services are paid.

Persons depositing or withdrawing shares must pay	For
$5.00 (or less) per 100 ADSs (or portion of 100 ADSs) $0.05 (or less) per ADS	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates Any cash distribution to ADS registered holders, including payment of dividend
$0.05 (or less) per ADS per calendar year Registration or transfer fees	Depositary services Transfer and registration of shares on our share register to or from the name of the depositary or its agent when shares are deposited or withdrawn
Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	As necessary

During 2016, a fee of one US cent per ADS was collected on the 2015 final dividend paid in May and a fee of one US cent per ADS was collected on the 2016 interim dividend paid in October. In the period 1 January 2016 to 17 February 2017, the total program payments made by Deutsche Bank Trust Company Americas were $515,910.

INFORMATION FOR SHAREHOLDERS

DIVIDEND HISTORY

Smith & Nephew has paid dividends on its ordinary shares in every year since 1937. Following the capital restructuring and dividend reduction in 2000, the Group adopted a policy of increasing its dividend cover (the ratio of EPSA, as set out in the 'Selected financial data', to ordinary dividends declared for the year). This was intended to increase the financing capability of the Group for acquisitions and other investments. From 2000 to 2004, the dividend increased in line with inflation and, in 2004, dividend cover stood at 4.1 times. Having achieved this level of dividend cover the Board changed its policy, from that of increasing dividends in line with inflation, to that of increasing dividends for 2005 and after by 10%. Following the redenomination of the Company's share capital into US Dollars, the Board re-affirmed its policy of increasing the dividend by 10% a year in US Dollar terms.

On 2 August 2012, the Board announced its intention to pursue a progressive dividend policy, with the aim of increasing the US Dollar value of ordinary dividends over time broadly based on the Group's underlying growth in earnings, while taking into account capital requirements and cash flows.

At the time of the full year results, the Board reviews the appropriate level of total annual dividend each year. The Board intends that the interim dividend will be set by a formula and will be equivalent to 40% of the total dividend for the previous year. Dividends will continue to be declared in US Dollars with an equivalent amount in Sterling payable to those shareholders whose registered address is in the UK, or who have validly elected to receive Sterling dividends.

An interim dividend in respect of each fiscal year is normally declared in August and paid in November. A final dividend will be recommended by the Board of Directors and paid subject to approval by shareholders at the Company's Annual General Meeting.

Future dividends of Smith & Nephew will be dependent upon: future earnings; the future financial condition of the Group; the Board's dividend policy; and the additional factors that might affect the business of the Group set out in 'Special note regarding forward-looking statements' and 'Risk Factors'.

DIVIDENDS PER SHARE

The table below sets out the dividends per ordinary share in the last five years.

	Years ended 31 December				
	2016	2015	2014	2013	2012
Pence per share:					
Interim	10.080	8.533	7.578	7.211	6.811
Final[1]	14.883	13.496	13.711	11.233	11.778
Total	24.963	22.029	21.289	18.444	18.589
US cents per share:					
Interim	12.300	13.111	12.222	11.556	11.000
Final	18.500	19.000	20.667	18.889	18.000
Total	30.800	32.111	32.889	30.445	29.000

1 Translated at the Bank of England rate on 17 February 2017.

Dividends above include the associated UK tax credit of 10%, but exclude the deduction of withholding taxes, up to and including the interim dividend for 2015. From 6 April 2016, please note that dividends below £5,000 per tax year will be tax free and dividends above £5,000 per tax year will be subject to personal income tax at the rate of 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers. A self-assessment form will therefore be required. This will apply to both cash and DRIP dividends, although dividends paid on shares held within pensions and ISAs will be unaffected, remaining tax free.

Since the second interim dividend for 2005, all dividends have been declared in US cents per ordinary share.

The 2016 final dividend will be payable on 10 May 2017, subject to shareholder approval.

In respect of the proposed final dividend for the year ended 31 December 2016 of 18.5 US cents per ordinary share, the record date will be 31 March 2017 and the payment date will be 10 May 2017. The Sterling equivalent per ordinary share will be set following the record date. Shareholders may elect to receive their dividend in either Sterling or US Dollars and the last day for election will be 21 April 2017. The ordinary shares will trade ex-dividend on both the London and New York Stock Exchanges from 30 March 2017.

The proposed final dividend of 18.5 US cents per ordinary share, which together with the interim dividend of 12.3 US cents, makes a total for 2016 of 30.8 US cents.

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SHARE PRICES

The table below sets out, for the periods indicated, the highest and lowest middle market quotations for the Company's ordinary shares (as derived from the Daily Official List of the UK Listing Authority) and the highest and lowest sales prices of its ADSs (as reported on the New York Stock Exchange composite tape).

	Ordinary shares		ADSs	
	High £	Low £	High US$	Low US$
Year ended 31 December:				
2012	6.93	5.80	56.13	45.13
2013	8.68	6.80	71.85	52.90
2014[1]	11.93	8.57	97.27	29.39
2015	12.12	10.60	37.78	32.48
2016	13.10	10.51	35.06	27.11
Quarters in the year ended 31 December:				
2015:				
1st Quarter	12.00	11.13	36.85	33.44
2nd Quarter	11.95	10.72	35.80	33.68
3rd Quarter	12.03	10.68	37.78	33.24
4th Quarter	12.12	10.60	35.88	32.48
2016:				
1st Quarter	11.79	10.51	34.80	30.55
2nd Quarter	12.67	11.12	34.97	31.43
3rd Quarter	13.10	12.11	35.06	32.37
4th Quarter	12.81	10.67	32.97	27.11
2017:				
1st Quarter (to 17 February 2017)	12.37	10.51	30.78	29.90
Last six months:				
August 2016	13.00	12.24	33.81	32.73
September 2016	12.67	12.11	33.70	32.37
October 2016	12.81	11.83	32.97	29.25
November 2016	11.56	10.67	28.75	27.11
December 2016	12.21	11.06	30.08	28.07
January 2017	12.37	11.70	30.74	29.90
February 2017 (to 17 February 2017)	12.07	10.51	30.78	30.19

1 On 14 October 2014, the ratio of ordinary shares per ADS changed from five ordinary shares per ADS to two ordinary shares per ADS.

SHARE CAPITAL

The principal trading market for the ordinary shares is the London Stock Exchange. The ordinary shares were listed on the New York Stock Exchange on 16 November 1999, trading in the form of ADSs evidenced by ADRs. Each ADS represents two ordinary shares from 14 October 2014, before which time one ADS represented five ordinary shares. The ADS facility is sponsored by Deutsche Bank acting as depositary.

All the ordinary shares, including those held by Directors and Executive Officers, rank pari passu with each other. On 23 January 2006, the ordinary shares of 12 $^{2}/_{9}$p were redenominated as ordinary shares of US 20 cents (following approval by shareholders at the Extraordinary General Meeting in December 2005). The new US Dollar ordinary shares carry the same rights as the previous ordinary shares. The share price continues to be quoted in Sterling. In 2006, the Company issued £50,000 of shares in Sterling in order to comply with English law. These were issued as deferred shares, which are not listed on any stock exchange. They have extremely limited rights and therefore effectively have no value. These shares were allotted to the Chief Executive Officer, although the Board reserves the right to transfer them to another member of the Board should it so wish.

Shareholdings

As at 17 February 2017, to the knowledge of the Group, there were 15,167 registered holders of ordinary shares, of whom 92 had registered addresses in the USA and held a total of 207,127 ordinary shares (0.02% of the total issued). Because certain ordinary shares are registered in the names of nominees, the number of shareholders with registered addresses in the USA is not representative of the number of beneficial owners of ordinary shares resident in the USA.

As at 17 February 2017, 31,428,045 ADSs equivalent to 62,856,090 ordinary shares or approximately 7.2% of the total ordinary shares in issue, were outstanding and were held by 88 registered ADS holders.

SHARE CAPITAL continued

Major shareholders

As far as is known to Smith & Nephew, the Group is not directly or indirectly owned or controlled by another corporation or by any government and the Group has not entered into arrangements, the operation of which may at a subsequent date result in a change in control of the Group.

As at 17 February 2017, no persons are known to Smith & Nephew to have any interest (as defined in the Disclosure and Transparency Rules of the FCA) in 3% or more of the ordinary shares, other than as shown below. The following tables show changes over the last three years in the percentage and numbers of the issued share capital owned by shareholders holding 3% or more of ordinary shares, as notified to the Company under the Disclosure and Transparency Rules:

		As at 31 December		
	17 February 2017 %	2016 %	2015 %	2014 %
BlackRock, Inc.	5.2	5.2	5.2	5.5
Invesco	4.9	4.8	5.7	5.3

		As at 31 December		
	17 February 2017 ’000	2016 ’000	2015 ’000	2014 ’000
BlackRock, Inc.	46,427	46,427	46,427	49,008
Invesco	42,635	42,034	51,539	47,508

The Company is not aware of any person who has a significant direct or indirect holding of securities in the Company, and is not aware of any persons holding securities which may control the Company. There are no securities in issue which have special rights as to the control of the Company.

Purchase of ordinary shares on behalf of the Company

At the AGM, the Company will be seeking a renewal of its current permission from shareholders to purchase up to 10% of its own shares. In order to avoid shareholder dilution, shares allotted to employees through employee share schemes are bought back on a quarterly basis and subsequently cancelled by the Company.

In addition, the Company engaged in a share buy-back as a result of the divestiture of its Gynaecology business to Medtronic plc in August 2016. This buy-back programme ran from August to December 2016.

From 1 January 2016 to 17 February 2017, in the months listed below, the Company has purchased 24,832,000 ordinary shares at a cost of US$381m.

	Total shares purchased ‘000s	Average price paid per share pence	Approximate US$ value of shares purchased under the plan
9-19 February 2016	1,264	1,090.26	$19,956,603
24 May – 3 June 2016	1,570	1,176.15	$27,030,952
2-3 August 2016	425	1,240.85	$7,055,627
8 August – 12 December 2016	19,886	1,176.07	$301,802,068
14-19 December 2016	887	1,177.17	$13,049,081
14-16 February 2017	800	1,196.75	$11,992,307

The shares were purchased in the open market by JP Morgan Cazenove Limited and Merrill Lynch International on behalf of the Company.

Exchange controls and other limitations affecting security holders

There are no UK governmental laws, decrees or regulations that restrict the export or import of capital or that affect the payment of dividends, interest or other payments to non-resident holders of Smith & Nephew's securities, except for certain restrictions imposed from time to time by Her Majesty's Treasury of the United Kingdom pursuant to legislation, such as the United Nations Act 1946 and the Emergency Laws Act 1964, against the government or residents of certain countries.

There are no limitations, either under the laws of the UK or under the Articles of Association of Smith & Nephew, restricting the right of non-UK residents to hold or to exercise voting rights in respect of ordinary shares, except that where any overseas shareholder has not provided to the Company a UK address for the service of notices, the Company is under no obligation to send any notice or other document to an overseas address. It is, however, the current practice of the Company to send every notice or other document to all shareholders regardless of the country recorded in the register of members, with the exception of details of the Company's dividend reinvestment plan, which are not sent to shareholders with recorded addresses in the USA and Canada.

TAXATION INFORMATION FOR SHAREHOLDERS

The comments below are of a general and summary nature and are based on the Group's understanding of certain aspects of current UK and US federal income tax law and practice relevant to the ADSs and ordinary shares not in ADS form. The comments address the material US and UK tax consequences generally applicable to a person who is the beneficial owner of ADSs or ordinary shares and who, for US federal income tax purposes, is a citizen or resident of the USA, a corporation (or other entity taxable as a corporation) created or organised in or under the laws of the USA (or any State therein or the District of Columbia), or an estate or trust the income of which is included in gross income for US federal income tax purposes regardless of its source (each a US Holder). The comments set out below do not purport to address all tax consequences of the ownership of ADSs or ordinary shares that may be material to a particular holder and in particular do not deal with the position of shareholders who directly or indirectly own 10% or more of the Company's issued ordinary shares. This discussion does not apply to (i) persons whose holding of ADSs or ordinary shares is effectively connected with or pertains to either a permanent establishment in the UK through which a US Holder carries on a business in the UK or a fixed base from which a US Holder performs independent personal services in the UK, or (ii) persons whose registered address is inside the UK. This discussion does not apply to certain investors subject to special rules, such as certain financial institutions, tax-exempt entities, insurance companies, broker-dealers and traders in securities that elect to use the mark-to-market method of tax accounting, partnerships or other entities treated as partnerships for US federal income tax purposes, US Holders holding ADSs or ordinary shares as part of a hedging, conversion or other integrated transaction or US Holders whose functional currency for US federal income tax purposes is other than the US Dollar. In addition, the comments below do not address the potential application of the provisions of the United States Internal Revenue Code, known as the Medicare contribution tax, any alternative minimum tax consequences or any US state, local or non-US (other than UK) taxes. The summary deals only with US Holders who hold ADSs or ordinary shares as capital assets. The summary is based on current UK and US law and practice which is subject to change, possibly with retroactive effect. US Holders are recommended to consult their own tax advisers as to the particular tax consequences to them of the ownership of ADSs or ordinary shares. The Company believes, and this discussion assumes, that the Company was not a passive foreign investment company for its taxable year ended 31 December 2016.

This discussion is based in part on representations by the depositary and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with its terms. For purposes of US federal income tax law, US Holders of ADSs will generally be treated as owners of the ordinary shares represented by the ADSs. However, the US Treasury has expressed concerns that parties to whom depositary shares are released before shares are delivered to the depositary (pre-released) may be taking actions that are inconsistent with the claiming of foreign tax credits by owners of depositary shares. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate US Holders. Accordingly, the availability of the reduced tax rate for dividends received by certain non-corporate US Holders of ADSs could be affected by actions that may be taken by parties to whom ADSs are pre-released.

Taxation of dividends in the UK and the USA

The UK does not currently impose a withholding tax on dividends paid by a UK corporation, such as the Company.

Distributions paid by the Company will be treated for US federal income tax purposes as foreign source ordinary dividend income to a US Holder to the extent paid out of the Company's current or accumulated earnings and profits as determined for US federal income tax purposes. Because the Company does not maintain calculations of its earnings and profits under US federal income tax principles, it is expected that distributions generally will be reported to US Holders as dividends. Such dividends will not be eligible for the dividends-received deduction generally allowed to corporate US Holders.

Dividends paid to certain non-corporate US Holders of ordinary shares or ADSs may be subject to US federal income tax at lower rates than those applicable to other types of ordinary income if certain conditions are met. Non-corporate US Holders should consult their own tax advisers to determine whether they are subject to any special rules that limit their ability to be taxed at these favourable rates.

SHARE PRICES continued

Taxation of capital gains

US Holders, who are not resident or ordinarily resident for tax purposes in the UK, will not generally be liable for UK capital gains tax on any capital gain realised upon the sale or other disposition of ADSs or ordinary shares unless the ADSs or ordinary shares are held in connection with a trade carried on in the UK through a permanent establishment (or in the case of individuals, through a branch or agency). Furthermore, UK resident individuals who acquire ADSs or ordinary shares before becoming temporarily non-UK residents may remain subject to UK taxation of capital gains on gains realised while non-resident.

For US federal income tax purposes, gains or losses realised upon a taxable sale or other disposition of ADSs or ordinary shares by US Holders generally will be US source capital gains or losses and will be long-term capital gains or losses if the ADSs or ordinary shares were held for more than one year. The amount of a US Holder's gain or loss will be equal to the difference between the amount realised on the sale or other disposition and such holder's tax basis in the ADSs, or ordinary shares, each determined in US Dollars.

Inheritance and estate taxes

The HM Revenue & Customs imposes inheritance tax on capital transfers which occur on death, and in the seven years preceding death. The HM Revenue & Customs considers that the US/UK Double Taxation Convention on Estate and Gift Tax applies to inheritance tax. Consequently, a US citizen who is domiciled in the USA and is not a UK national or domiciled in the UK will not be subject to UK inheritance tax in respect of ADSs and ordinary shares. A UK national who is domiciled in the USA will be subject to both UK inheritance tax and US federal estate tax but will be entitled to a credit for US federal estate tax charged in respect of ADSs and ordinary shares in computing the liability to UK inheritance tax. Conversely, a US citizen who is domiciled or deemed domiciled in the UK will be entitled to a credit for UK inheritance tax charged in respect of ADSs and ordinary shares in computing the liability for US federal estate tax. Special rules apply where ADSs and ordinary shares are business property of a permanent establishment of an enterprise situated in the UK.

US information reporting and backup withholding

Payments of dividends on, or proceeds from the sale of, ADSs or ordinary shares that are made within the USA or through certain US-related financial intermediaries generally will be subject to US information reporting, and may be subject to backup withholding, unless a US Holder is an exempt recipient or, in the case of backup withholding, provides a correct US taxpayer identification number and certain other conditions are met. US backup withholding may apply if there has been a notification from the US Internal Revenue Service of a failure to report all interest or dividends.

Any backup withholding deducted may be credited against the US Holder's US federal income tax liability, and, where the backup withholding exceeds the actual liability, the US Holder may obtain a refund by timely filing the appropriate refund claim with the US Internal Revenue Service.

Certain US Holders who are individuals or closely-held entities held by individuals may be required to report information relating to securities issued by a non-US person (or foreign accounts through which the securities are held), subject to certain exceptions (including an exception for securities held in accounts maintained by US financial institutions). US Holders should consult their tax advisers regarding their reporting obligations with respect to the ordinary shares or ADSs.

UK stamp duty and stamp duty reserve tax

UK stamp duty is charged on documents and in particular instruments for the transfer of registered ownership of ordinary shares. Transfers of ordinary shares in certificated form will generally be subject to UK stamp duty at the rate of 1/2% of the consideration given for the transfer with the duty rounded up to the nearest £5.

UK stamp duty reserve tax (SDRT) arises when there is an agreement to transfer shares in UK companies 'for consideration in money or money's worth', and so an agreement to transfer ordinary shares for money or other consideration may give rise to a charge to SDRT at the rate of 1/2% (rounded up to the nearest penny). The charge of SDRT will be cancelled, and any SDRT already paid will be refunded, if within six years of the agreement an instrument of transfer is produced to HM Revenue & Customs and the appropriate stamp duty paid.

Transfers of ordinary shares into CREST (an electronic transfer system) are exempt from stamp duty so long as the transferee is a member of CREST who will hold the ordinary shares as a nominee for the transferor and the transfer is in a form that will ensure that the securities become held in uncertificated form within CREST. Paperless transfers of ordinary shares within CREST for consideration in money or money's worth are liable to SDRT rather than stamp duty. SDRT on relevant transactions will be collected by CREST at 1/2%, and this will apply whether or not the transfer is effected in the UK and whether or not the parties to it are resident or situated in the UK.

A charge of stamp duty or SDRT at the rate of 1 1/2% of the consideration (or, in some circumstances, the value of the shares concerned) will arise on a transfer or issue of ordinary shares to the depositary or to certain persons providing a clearance service (or their nominees or agents) for the conversion into ADRs and will generally be payable by the depositary or person providing clearance service. In accordance with the terms of the Deposit Agreement, any tax or duty payable by the depositary on deposits of ordinary shares will be charged by the depositary to the party to whom ADRs are delivered against such deposits.

No liability for stamp duty or SDRT will arise on any transfer of, or agreement to transfer, an ADS or beneficial ownership of an ADS, provided that the ADS and any instrument of transfer or written agreement to transfer remains at all times outside the UK, and provided further that any instrument of transfer or written agreement to transfer is not executed in the UK and the transfer does not relate to any matter or thing done or to be done in the UK (the location of the custodian as a holder of ordinary shares not being relevant in this context). In any other case, any transfer of, or agreement to transfer, an ADS or beneficial ownership of an ADS could, depending on all the circumstances of the transfer, give rise to a charge to stamp duty or SDRT.

ARTICLES OF ASSOCIATION

The following summarises certain material rights of holders of the Company’s ordinary shares under the material provisions of the Company’s Articles of Association and English law. This summary is qualified in its entirety by reference to the Companies Act and the Company’s Articles of Association. In the following description, a ‘shareholder’ is the person registered in the Company’s register of members as the holder of an ordinary share.

The Company is incorporated under the name Smith & Nephew plc and is registered in England and Wales with registered number 324357.

The Company’s ordinary shares may be held in certificated or uncertificated form. No holder of the Company’s shares will be required to make additional contributions of capital in respect of the Company’s shares in the future. In accordance with English law, the Company’s ordinary shares rank equally.

Directors

Under the Company’s Articles of Association, a Director may not vote in respect of any contract, arrangement, transaction or proposal in which he, or any person connected with him, has any material interest other than by virtue of his interests in securities of, or otherwise in or through, the Company. This is subject to certain exceptions relating to proposals (a) indemnifying him in respect of obligations incurred on behalf of the Company, (b) indemnifying a third party in respect of obligations of the Company for which the Director has assumed responsibility under an indemnity or guarantee, (c) relating to an offer of securities in which he will be interested as an underwriter, (d) concerning another body corporate in which the Director is beneficially interested in less than 1% of the issued shares of any class of shares of such a body corporate, (e) relating to an employee benefit in which the Director will share equally with other employees and (f) relating to any insurance that the Company is empowered to purchase for the benefit of Directors of the Company in respect of actions undertaken as Directors (and/or officers) of the Company.

A Director shall not vote or be counted in any quorum present at a meeting in relation to a resolution on which he is not entitled to vote.

The Directors are empowered to exercise all the powers of the Company to borrow money, subject to the limitation that the aggregate amount of all monies borrowed after deducting cash and current asset investments by the Company and its subsidiaries shall not exceed the sum of $6,500,000,000.

Any Director who has been appointed by the Directors since the previous Annual General Meeting of shareholders, either to fill a casual vacancy or as an additional Director holds office only until the conclusion of the next Annual General Meeting and then shall be eligible for re-election by the shareholders. The other Directors retire and are eligible for re-appointment at the third Annual General Meeting after the meeting at which they were last re-appointed. If not re-appointed, a Director retiring at a meeting shall retain office until the meeting appoints someone in his place, or if it does not do so, until the conclusion of the meeting. The Directors are subject to removal with or without cause by the Board or the shareholders. Directors are not required to hold any shares of the Company by way of qualification.

Under the Company’s Articles of Association and English law, a Director may be indemnified out of the assets of the Company against liabilities he may sustain or incur in the execution of his duties.

Rights attaching to ordinary shares

Under English law, dividends are payable on the Company’s ordinary shares only out of profits available for distribution, as determined in accordance with accounting principles generally accepted in the UK and by the Companies Act 2006. Holders of the Company’s ordinary shares are entitled to receive final dividends as may be declared by the Directors and approved by the shareholders in general meeting, rateable according to the amounts paid up on such shares, provided that the dividend cannot exceed the amount recommended by the Directors.

The Company’s Board of Directors may declare such interim dividends as appear to them to be justified by the Company’s financial position. If authorised by an ordinary resolution of the shareholders, the Board may also direct payment of a dividend in whole or in part by the distribution of specific assets (and in particular of paid up shares or debentures of the Company).

Any dividend unclaimed after 12 years from the date the dividend was declared, or became due for payment, will be forfeited and will revert to the Company.

There were no material modifications to the rights of shareholders under the Articles during 2016.

Voting rights of ordinary shares

Voting at any general meeting of shareholders is by a show of hands unless a poll, which is a written vote, is duly demanded and held. On a show of hands, every shareholder who is present in person at a general meeting has one vote regardless of the number of shares held. On a poll, every shareholder who is present in person or by proxy has one vote for each ordinary share held by that shareholder. A poll may be demanded by any of the following:

- the chairman of the meeting;
- at least five shareholders present or by proxy entitled to vote on the resolution;
- any shareholder or shareholders representing in the aggregate not less than one-tenth of the total voting rights of all shareholders entitled to vote on the resolution; or
- any shareholder or shareholders holding shares conferring a right to vote on the resolution on which there have been paid-up sums in aggregate equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

A form of proxy will be treated as giving the proxy the authority to demand a poll, or to join others in demanding one, as above.

The necessary quorum for a general meeting is two shareholders present in person or by proxy carrying the right to vote upon the business to be transacted.

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ARTICLES OF ASSOCIATION continued

Matters are transacted at general meetings of the Company by the processing and passing of resolutions of which there are two kinds; ordinary or special resolutions:

- Ordinary resolutions include resolutions for the re-election of Directors, the approval of financial statements, the declaration of dividends (other than interim dividends), the appointment and re-appointment of auditors or the grant of authority to allot shares. An ordinary resolution requires the affirmative vote of a majority of the votes of those persons voting at the meetings at which there is a quorum.
- Special resolutions include resolutions amending the Company's Articles of Association, dis-applying statutory pre-emption rights or changing the Company's name; modifying the rights of any class of the Company's shares at a meeting of the holders of such class or relating to certain matters concerning the Company's winding up. A special resolution requires the affirmative vote of not less than three-quarters of the votes of the persons voting at the meeting at which there is a quorum.

Annual General Meetings must be convened upon advance written notice of 21 days. Other general meetings must be convened upon advance written notice of at least 14 clear days. The days of delivery or receipt of notice are not included. The notice must specify the nature of the business to be transacted. Meetings are convened by the Board of Directors. Members with 5% of the ordinary share capital of the Company may requisition the Board to convene a meeting.

Variation of rights

If, at any time, the Company's share capital is divided into different classes of shares, the rights attached to any class may be varied, subject to the provisions of the Companies Act, with the consent in writing of holders of three-quarters in nominal value of the issued shares of that class or upon the adoption of a special resolution passed at a separate meeting of the holders of the shares of that class. At every such separate meeting, all the provisions of the articles of association relating to proceedings at a general meeting apply, except that the quorum is to be the number of persons (which must be two or more) who hold or represent by proxy not less than one-third in nominal value of the issued shares of the class and at any such meeting a poll may be demanded in writing by any person or their proxy who hold shares of that class. Where a person is present by proxy or proxies, he is treated as holding only the shares in respect of which the proxies are authorised to exercise voting rights.

Rights in a winding up

Except as the Company's shareholders have agreed or may otherwise agree, upon the Company's winding up, the balance of assets available for distribution:

- after the payment of all creditors including certain preferential creditors, whether statutorily preferred creditors or normal creditors; and
- subject to any special rights attaching to any other class of shares;
- is to be distributed among the holders of ordinary shares according to the amounts paid-up on the shares held by them. This distribution is generally to be made in US Dollars. A liquidator may, however, upon the adoption of any extraordinary resolution of the shareholders and any other sanction required by law, divide among the shareholders the whole or any part of the Company's assets in kind.

Limitations on voting and shareholding

There are no limitations imposed by English law or the Company's Articles of Association on the right of non-residents or foreign persons to hold or vote the Company's ordinary shares or ADSs, other than the limitations that would generally apply to all of the Company's shareholders.

Transfers of shares

The Board may refuse to register the transfer of shares held in certificated form which:

- are not fully paid (provided that it shall not exercise this discretion in such a way as to prevent stock market dealings in the shares of that class from taking place on an open and proper basis);
- are not duly stamped or duly certified or otherwise shown to the satisfaction of the Board to be exempt from stamp duty, lodged at the Transfer Office or at such other place as the Board may appoint and (save in the case of a transfer by a person to whom no certificate was issued in respect of the shares in question) accompanied by the certificate for the shares to which it relates, and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do;
- are in respect of more than one class of shares; or
- are in favour of more than four transferees.

Deferred shares

Following the re-denomination of share capital on 23 January 2006, the ordinary shares' nominal value became 20 US cents each. There were no changes to the rights or obligations of the ordinary shares. In order to comply with the Companies Act 2006, a new class of Sterling shares was created, deferred shares, of which £50,000 were issued and allotted in 2006 as fully paid to the Chief Executive Officer though the Board reserves the right to transfer them to another member of the Board should it so wish. These deferred shares have no voting or dividend rights and on winding up only are entitled to repayment at nominal value only if all ordinary shareholders have received the nominal value of their shares plus an additional $1,000 each.

Amendments

The Company does not have any special rules about amendments to its Articles of Association beyond those imposed by law.

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CROSS REFERENCE TO FORM 20-F

This table provides a cross reference from the information included in this Annual Report to the requirements of Form 20-F.

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GLOSSARY OF TERMS

Unless the context indicates otherwise, the following terms have the meanings shown below:

Term	Meaning
ACL	The anterior cruciate ligament (ACL) is one of the four major ligaments in the human knee.
ADR	In the US, the Company’s ordinary shares are traded in the form of ADSs evidenced by American Depositary Receipts (ADRs).
ADS	In the US, the Company’s ordinary shares are traded in the form of American Depositary Shares (ADSs).
Advanced Surgical Devices	A product group comprising products for orthopaedic replacement and reconstruction, endoscopy devices and trauma devices. Products for orthopaedic replacement include systems for knees, hips, and shoulders. Endoscopy devices comprise of support products for orthopaedic surgery such as computer assisted surgery and minimally invasive surgery techniques using specialised viewing and access devices, surgical instruments and powered equipment. Orthopaedics trauma devices are used in the treatment of bone fractures including rods, pins, screws, plates and external frames.
Advanced Wound Management	A product group comprising products associated with the treatment of skin wounds, ranging from products that provide moist wound healing using breathable films and polymers to products providing active wound healing by biochemical or cellular action.
AGM	Annual General Meeting of the Company.
Arthroscopy	Endoscopy of the joints is termed ‘arthroscopy’, with the principal applications being the knee and shoulder.
ASD	Advanced Surgical Devices.
AWM	Advanced Wound Management.
Basis Point	One hundredth of one percentage point.
Chronic wounds	Chronic wounds are those with long or unknown healing times including leg ulcers, pressure sores and diabetic foot ulcers.
Company	Smith & Nephew plc or, where appropriate, the Company’s Board of Directors, unless the context otherwise requires.
Companies Act	Companies Act 2006, as amended, of England and Wales.
EBITA	Earnings before interest, tax and amortisation.
EBITDA	Earnings before interest, tax, depreciation and amortisation.
Emerging Markets	Emerging Markets include Greater China, India, Brazil and Russia.
EPSA	EPSA is a trend measure, which presents the long-term profitability of the Group excluding the post-tax 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. Adjusted attributable profit is the numerator used for this measure and is determined by adjusting attributable profit for the items that are excluded from operating profit when arriving at trading profit and items that are recognised below operating profit that affect the Group’s short-term profitability.
Endoscopy	Through a small incision, surgeons are able to see inside the body using a monitor and identify and repair defects.
ERP	Enterprise Resource Planning: a software system which integrates internal and external management information, facilitating the flow of information across an organisation.
Established Markets	Established Markets include United States of America, Europe, Australia, New Zealand, Canada and Japan.
Euro or €	References to the common currency used in the majority of the countries of the European Union.
External fixation	The use of wires or pins transfixed through bone to hold a frame to the position of a fracture.
FDA	US Food and Drug Administration.
Financial statements	Refers to the consolidated Group Accounts of Smith & Nephew plc.
FTSE 100	Index of the largest 100 listed companies on the London Stock Exchange by market capitalisation.
GMP	Good manufacturing practice or ‘GMP’ is the guidance that outlines the aspects of production and testing that can impact the quality of a product.
Group or Smith & Nephew	Used for convenience to refer to the Company and its consolidated subsidiaries, unless the context otherwise requires.

GLOSSARY OF TERMS continued

Term	Meaning
Health economics	A branch of economics concerned with issues related to efficiency, effectiveness, value and behaviour in the production and consumption of health and healthcare.
IFRIC	International Financial Reporting Interpretations as adopted by the EU and as issued by the International Accounting Standards Board.
IFRS	International Financial Reporting Standards as adopted by the EU and as issued by the International Accounting Standards Board.
International Markets	International Markets include Middle East, North Africa, Southern Africa, Latin America, ASEAN, South Korea and Eastern Europe.
LSE	London Stock Exchange.
Metal-on-metal hip resurfacing	A less invasive surgical approach to treating arthritis in certain patients whereby only the surfaces of the hip joint are replaced leaving the hip head substantially preserved.
Negative Pressure Wound Therapy	A technology used to treat chronic wounds such as diabetic ulcers, pressure sores and post-operative wounds through the application of sub-atmospheric pressure to an open wound.
NYSE	New York Stock Exchange.
Orthobiologics products	Any product that is primarily intended to act as a scaffold and/or actively stimulates bone growth.
Orthopaedic products	Orthopaedic reconstruction products include joint replacement systems for knees, hips and shoulders and support products such as computer-assisted surgery and minimally invasive surgery techniques. Orthopaedic trauma devices are used in the treatment of bone fractures including rods, pins, screws, plates and external frames. Clinical therapies products include joint fluid therapy for pain reduction of the knee and an ultrasound treatment to accelerate the healing of bone fractures.
OXINIUM	OXINIUM material is an advanced load bearing technology. It is created through a proprietary manufacturing process that enables zirconium to absorb oxygen and transform to a ceramic on the surface, resulting in a material that incorporates the features of ceramic and metal. Management believes that OXINIUM material used in the production of components of knee and hip implants exhibits unique performance characteristics due to its hardness, low-friction and resistance to roughening and abrasion.
Parent Company	Smith & Nephew plc.
Pound Sterling, Sterling, £, pence or p	References to UK currency. 1p is equivalent to one hundredth of £1.
Repair	A product group within ASD comprising specialised devices, fixation systems and bio-absorbable materials to repair joints and associated tissue.
Resection	Products that cut or ablate tissue within ASD comprising mechanical blades, radio frequency wands, electromechanical and hand instruments for resecting tissue.
SEC	US Securities and Exchange Commission.
Trading results	Trading profit, trading profit margin and trading cash flow are trend measures, which present the long-term profitability of the Group excluding the impact of specific transactions that management considers affect the Group’s short-term profitability and cash flows. The Group has identified the following items, where material, as those to be excluded from operating profit and cash generated from operations when arriving at trading profit and trading cash flow, respectively: acquisition and disposal related items arising in connection with business combinations, including amortisation of acquisition intangible assets, impairments and integration costs; restructuring events; gains and losses resulting from legal disputes and significant uninsured losses. In addition to these items, gains or losses that materially impact the Group’s profitability or cash flows on a short-term or one-off basis are excluded from operating profit and cash generated from operations when arriving at trading profit and trading cash flow, respectively.
UK	United Kingdom of Great Britain and Northern Ireland.
UK GAAP	Accounting principles generally accepted in the United Kingdom.
Underlying growth	Growth after adjusting for the effects of currency translation and the inclusion of the comparative impact of acquisitions and exclusion of disposals.
US	United States of America.
US Dollars, $ or cents or ¢	References to US currency. 1 cent is equivalent to one hundredth of US$1.
US GAAP	Accounting principles generally accepted in the United States of America.
Visualisation	Products within ASD comprising digital cameras, light sources, monitors, scopes, image capture, central control and multimedia broadcasting systems for use in endoscopic surgery with visualisation.
Wound bed	An area of healthy dermal and epidermal tissue of a wound.

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ABOUT SMITH & NEPHEW

The Smith & Nephew Group (the Group) is a global medical devices business operating in the markets for advanced surgical devices comprising orthopaedic reconstruction, trauma and sports medicine and advanced wound management, with revenue of approximately $4.7bn in 2016. Smith & Nephew plc (the Company) is the Parent Company of the Group. It is an English public limited company with its shares listed on the premium list of the UK Listing Authority and traded on the London Stock Exchange. Shares are also traded on the New York Stock Exchange in the form of American Depositary Shares (ADSs).

This is the Annual Report of Smith & Nephew plc for the year ended 31 December 2016. It comprises, in a single document, the Annual Report and Accounts of the Company in accordance with UK requirements and the Annual Report on Form 20-F in accordance with the regulations of the United States Securities and Exchange Commission (SEC).

Smith & Nephew operates on a worldwide basis and has distribution channels in over 100 countries. The Group is structured as three geographical selling regions responsible for the commercial view of that region. Research & Development, Manufacturing, Supply Chain and Central functions are managed globally for the Group as a whole.

Smith & Nephew's corporate website, www.smith-nephew.com, gives additional information on the Group, including an electronic version of this Annual Report. Information made available on this website, or other websites mentioned in this Annual Report, are not and should not be regarded as being part of, or incorporated into, this Annual Report.

For the convenience of the reader, a Glossary of technical and financial terms used in this document is included on pages 193 and 194. The product names referred to in this document are identified by use of capital letters and the à symbol (on first occurrence) and are trademarks owned by or licensed to members of the Group.

PRESENTATION

The Group's fiscal year end is 31 December. References to a particular year in this Annual Report are to the fiscal year, unless otherwise indicated. Except as the context otherwise requires, 'Ordinary Share' or 'share' refer to the ordinary shares of Smith & Nephew plc of 20 US cents each.

The Group Accounts of Smith & Nephew in this Annual Report are presented in US Dollars. Solely for the convenience of the reader, certain parts of this Annual Report contain translations of amounts in US Dollars into Sterling at specified rates. These translations should not be construed as representations that the US Dollar amounts actually represent such Sterling amounts or could be converted into Sterling at the rate indicated.

Unless stated otherwise, the translation of US Dollars and cents to Sterling and pence in this Annual Report has been made at the Bank of England exchange rate on the date indicated. On 17 February 2017, the Bank of England rate was US$1.243 per £1.

The results of the Group, as reported in US Dollars, are affected by movements in exchange rates between US Dollars and other currencies. The Group applied the average exchange rates prevailing during the year to translate the results of companies with functional currency other than US Dollars. The currencies which most influenced these translations in the years covered by this report were Sterling, Swiss Franc and the Euro.

The Accounts of the Group in this Annual Report are presented in millions (m) unless otherwise indicated.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Group's reports filed with, or furnished to, the US Securities and Exchange Commission (SEC), including this document and written information released, or oral statements made, to the public in the future by or on behalf of the Group, contain 'forward-looking statements' within the meaning of the US Private Securities Litigation Reform Act of 1995, that may or may not prove accurate. For example, statements regarding expected revenue growth and trading profit margins discussed under 'Outlook', 'Global Outlook' and 'Strategic performance', market trends and our product pipeline are forward-looking statements. Phrases such as 'aim', 'plan', 'intend', 'anticipate', 'well-placed', 'believe', 'estimate', 'expect', 'target', 'consider' and similar expressions are generally intended to identify forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results, to differ materially from what is expressed or implied by the statements.

For Smith & Nephew, these factors include: economic and financial conditions in the markets we serve, especially those affecting health care providers, payers and customers; price levels for established and innovative medical devices; developments in medical technology; regulatory approvals, reimbursement decisions or other government actions; product defects or recalls; litigation relating to patent or other claims; legal compliance risks and related investigative, remedial or enforcement actions; strategic actions, including acquisitions and dispositions and our success in performing due diligence, valuing and integrating acquired businesses; disruption that may result from transactions or other changes we make in our business plans or organisation to adapt to market developments and numerous other matters that affect us or our markets, including those of a political, economic, business, competitive or reputational nature; relationships with healthcare professionals; reliance on information technology. Specific risks faced by the Group are described under 'Risk factors' on pages 169 to 172 of this Annual Report. Any forward-looking statement is based on information available to Smith & Nephew as of the date of the statement. All written or oral forward-looking statements attributable to Smith & Nephew are qualified by this caution. Smith & Nephew does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances or in Smith & Nephew's expectations.

PRODUCT DATA

Product data and product share estimates throughout this report are derived from a variety of sources including publicly available competitors' information, internal management information and independent market research reports.

DOCUMENTS ON DISPLAY

It is possible to read and copy documents referred to in this Annual Report at the Registered Office of the Company. Documents referred to in this Annual Report that have been filed with the Securities and Exchange Commission in the US may be read and copied at the SEC's public reference room located at 450 Fifth Street, NW, Washington DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The SEC also maintains a website at www.sec.gov that contains reports and other information regarding registrants that file electronically with the SEC. This Annual Report and some of the other information submitted by the Group to the SEC may be accessed through the SEC website.

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FSC
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MIX
Paper from responsible sources
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The inks used are renewable, biodegradable and emit fewer Volatile Organic Compounds (VOCs) than mineral- oil inks. They are based on high levels of renewable raw materials such as vegetable oils and naturally occurring resin. The inks do not contain any toxic heavy metals and therefore, do not pose a problem if placed in landfill.

Designed by Radley Yeldar.
Printed by RR Donnelley 472599.

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SIGNATURE

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

Smith & Nephew plc
(Registrant)

By: /s/ Susan Swabey
Susan Swabey
Company Secretary

London, England
March 6, 2017

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EXHIBIT INDEX

Exhibit No.		Description of Document	Incorporated Herein by Reference To	Filed Herewith
1		Articles of Association	Form 20-F for the year ended December 31, 2011 filed on March 1, 2012 (File No. 1-14978)	
2		Smith & Nephew plc is not party to any single instrument relating to long-term debt pursuant to which a total amount of securities exceeding 10% of Smith & Nephew plc's total assets (on a consolidated basis) is authorized to be issued. Smith & Nephew plc hereby agrees to furnish to the SEC, upon its request, a copy of any instrument defining the rights of holders of its long-term debt or the rights of holders of the long-term debt of any of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed with the SEC.		
4	(a) (i)	Material contract: Agreement and Appendices dated 3 February 2014 by and among Smith & Nephew plc, Barclays Bank Plc, The Financial Institutions in Schedule 1, Barclays Bank Plc and J.P. Morgan Chase Bank, N.A. and J.P. Morgan Europe Limited.	Form 20-F for the year ended December 31, 2013 filed on March 6, 2014 (File No.1-14978)	
	(ii)	Material contract: Agreement and Plan Merger dated 2 February 2014 by and among ArthroCare Corporation Smith & Nephew, Inc. and Smith & Nephew plc.	Form 20-F for the year ended December 31, 2013 filed on March 6, 2014 (File No.1-14978)	
	(iii)	Material contract: Agreement and Appendices dated 24 March 2014 by and among Smith & Nephew plc, Barclays Bank Plc; J.P. Morgan Limited; Bank Of America Merrill Lynch International Limited; Bank Of China Limited, London Branch; The Bank Of Tokyo-Mitsubishi Ufj, Ltd.; HSBC Bank Plc; Mizuho Bank, Ltd.; National Australia Bank Limited; The Royal Bank Of Scotland Plc; Societe Generale; Sumitomo Mitsui Banking Corporation; Wells Fargo Bank International and Deutsche Bank Ag, London Branch.	Form 20-F for the year ended December 31, 2014 filed on March 5, 2015 (File No.1-14978)	

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Exhibit No.		Description of Document	Incorporated Herein by Reference To	Filed Herewith
4	(a) (iv)	Material contract: Agreement and Appendices dated 19 November 2014 by and among Smith & Nephew plc and the purchasers listed in Schedule A.	Form 20-F for the year ended December 31, 2014 filed on March 5, 2015 (File No.1-14978)	
4	(c) (i)	Service Agreement of Olivier Bohuon	Form 20-F for the year ended December 31, 2010 filed on March 3, 2011 (File No. 1-14978)	
	(ii)	Retirement provisions for David J Illingworth	Form 20-F for the year ended December 31, 2010 filed on March 3, 2011 (File No. 1-14978)	
	(iii)	Service Agreement of Julie Brown	Form 20-F for the year ended December 31, 2012 filed on February 28, 2013 (File No. 1-14978)	
	(iv)	Side Letter to the Service Agreement of Julie Brown	Form 20-F for the year ended December 31, 2012 filed on February 28, 2013 (File No. 1-14978)	
	(v)	Letter of Appointment of Ian Barlow	Form 20-F for the year ended December 31, 2009 filed on March 26, 2010 (File No. 1-14978)	
	(vi)	Letter of Appointment of The Rt. Hon Baroness Virginia Bottomley	Form 20-F for the year ended December 31, 2012 filed on February 28, 2013 (File No.1-14978)	
	(vii)	Letter of Appointment of Michael Friedman	Form 20-F for the year ended December 31, 2012 filed on February 28, 2013 (File No.1-14978)	
	(viii)	Letter of Appointment of Ajay Piramal	Form 20-F for the year ended December 31, 2011 filed on March 1, 2012 (File No. 1-14978)	
	(ix)	Letter of Re-Appointment of Rolf Stomberg	Form 20-F for the year ended December 31, 2012 filed on February 28, 2013 (File No.1-14978)	
	(x)	Letter of Re-Appointment of Richard De Schutter	Form 20-F for the year ended December 31, 2013 filed on March 6, 2014 (File No.1-14978)	
	(xi)	Letter of Re-Appointment of Pamela Kirby	Form 20-F for the year ended December 31, 2013 filed on March 6, 2014 (File No.1-14978)	

Exhibit No.		Description of Document	Incorporated Herein by Reference To	Filed Herewith
4	C (xii)	Letter of Re-Appointment of Brian Larcombe	Form 20-F for the year ended December 31, 2013 filed on March 6, 2014 (File No.1-14978)	
	(xiii)	Letter of Re-Appointment of Joseph Papa		X
	(xiv)	Letter of Appointment of Roberto Quarta	Form 20-F for the year ended December 31, 2013 filed on March 6, 2014 (File No.1-14978)	
	(xv)	Letter of Appointment of Vinita Bali	Form 20-F for the year ended December 31, 2014 filed on March 5, 2015 (File No.1-14978)	
	(xvi)	Letter of Appointment of Erik Engstrom	Form 20-F for the year ended December 31, 2014 filed on March 5, 2015 (File No.1-14978)	
	(xvii)	Letter of Re-Appointment of Brian Larcombe	Form 20-F for the year ended December 31, 2014 filed on March 5, 2015 (File No.1-14978)	
	(xviii)	Letter of Re-Appointment of The Rt. Hon Baroness Virginia Bottomley DL	Form 20-F for the year ended December 31, 2014 filed on March 5, 2015 (File No.1-14978)	
	(xix)	Letter of Appointment of Robin Freestone	Form 20-F for the year ended December 31, 2015 filed on March 4, 2016 (File No.1-14978)	
	(xx)	Letter of Re-Appointment of Ian Barlow	Form 20-F for the year ended December 31, 2015 filed on March 4, 2016 (File No.1-14978)	
	(xxi)	Letter of Re-Appointment of Michael Friedman	Form 20-F for the year ended December 31, 2015 filed on March 4, 2016 (File No.1-14978)	
	(xxii)	Letter of Re-Appointment of Brian Larcombe		X
	(xxiii)	The Smith & Nephew 2001 UK Approved Share Option Plan	Form 20-F for the year ended December 31, 2004 filed on March 16, 2005 (File No. 1-14978)	
	(xxiv)	The Smith & Nephew 2001 UK Unapproved Share Option Plan	Form 20-F for the year ended December 31, 2004 filed on March 16, 2005 (File No. 1-14978)	

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Exhibit No.	Description of Document	Incorporated Herein by Reference To	Filed Herewith
(xxv)	The Smith & Nephew 2001 US Share Plan	Registration Statement on Form S-8 No. 333-13694 filed on July 9, 2001 (File No. 1-14978)	
(xxvi)	The Smith & Nephew Sharesave Plan (2002)	Form 20-F for the year ended December 31, 2002 filed on April 25, 2003 (File No. 1-14978)	

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Exhibit No.	Description of Document	Incorporated Herein by Reference To	Filed Herewith
(xxvii)	The Smith & Nephew International Sharesave Plan (2002)	Form 20-F for the year ended December 31, 2004 filed on March 16, 2005 (File No. 1-14978)	
(xxviii)	The Smith & Nephew Italian Sharesave Plan (2002)	Form 20-F for the year ended December 31, 2002 filed on April 25, 2003 (File No. 1-14978)	
(xxix)	The Smith & Nephew Dutch Sharesave Plan (2002)	Form 20-F for the year ended December 31, 2002 filed in April 25, 2003 (File No. 1-14978)	
(xxx)	The Smith & Nephew Belgian Sharesave Plan (2002)	Form 20-F for the year ended December 31, 2002 filed on April 25, 2003 (File No. 1-14978)	
(xxxi)	The Smith & Nephew French Sharesave Plan (2002)	Form 20-F for the year ended December 31, 2002 filed on April 25, 2003 (File No. 1-14978)	
(xxxii)	Smith & Nephew Irish Employee Share Option Scheme	Form 20-F for the year ended December 31, 2003 filed on March 26, 2004 (File No. 1-14978)	
(xxxiii)	Smith & Nephew 2004 Executive Share Option Scheme	Registration statement on Form S-8 No. 333-122801 filed on February 14, 2005 (File No. 1-14978)	
(xxxiv)	Smith & Nephew 2004 Performance Share Plan	Registration statement on Form S-8 No. 333-122801 filed on February 14, 2005 (File No. 1-14978)	
(xxxv)	Smith & Nephew 2004 Co-investment Plan	Registration statement on Form S-8 No. 333-122801 filed on February 14, 2005 (File No. 1-14978)	
(xxxvi)	Smith & Nephew U.S. Employee Stock Purchase Plan	Registration statement on Form S-8 No. 333-12052 filed on May 30, 2000 (File No. 1-14978)	
(xxxvii)	Smith & Nephew Long Service Award Scheme	Registration Statement on Form S-8 No. 33-39814 filed on April 5, 1991 (File No. 1-14978)	
(xxxviii)	Smith & Nephew 2004 Performance Share Plan	Registration statement on Form S-8 No. 333-155172 filed on November 7, 2008 (File No. 1-14978)	

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Exhibit No.		Description of Document	Incorporated Herein by Reference To	Filed Herewith
4	C (xxxix)	Smith & Nephew 2001 US Share Plan	Registration statement on Form S-8 No. 333-155173 filed on November 7, 2008 (File No. 1-14978)	
	(xI)	Smith & Nephew plc Deferred Bonus Plan	Registration statement on Form S-8 No. 333-158239 filed on March 27, 2009 (File No. 1-14978)	
	(xli)	Smith & Nephew plc Global Share Plan 2010		X
	(xlii)	Smith & Nephew ShareSave Plan (2012)	Form 20-F for the year ended December 31, 2012 filed on February 28, 2013 (File No.1-14978)	
	(xliii)	Smith & Nephew International ShareSave Plan (2012)	Form 20-F for the year ended December 31, 2012 filed on February 28, 2013 (File No.1-14978)	
	(xliv)	Service Agreement of Graham Baker		X
	(xlv)	Letter of Appointment of Robin Freestone as Audit Committee Chairman		X
	(xlvi)	Letter of Appointment of Ian Barlow as Senior Independent Director		X
	(xlvii)	Letter of Re-Appointment of Roberto Quarta		X
8		Principal Subsidiaries		X
12	(a)	Certification of Olivier Bohuon, filed pursuant to Exchange Act Rule 13a -14(a)		X
	(b)	Certification of Graham Baker filed pursuant to Exchange Act Rule 13a -14(a)		X
13	(a)	Certification of Olivier Bohuon and Graham Baker furnished pursuant to Exchange Act Rule 13a – 14(b)		X
15.1		Consent of KPMG LLP, Independent Registered Public Accounting Firm		X
15.2		Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm		X
15.3		Report of Independent Registered Public Accounting Firm by Ernst & Young LLP in respect of the financial statements as of and for the year ending December 31, 2014		X

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Exhibit No.	Description of Document	Incorporated Herein by Reference To	Filed Herewith
15.4	Ernst & Young LLP's letter to the SEC confirming their agreement with the statements pursuant to the disclosure requirements of Item 16 of the Form 20-F		X