

EXCHANGE CONTROLS

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 United Kingdom 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 re-investment plan, which are not sent to shareholders with recorded addresses in Canada.

TAXATION

The comments below are of a general and summary nature and are based on the Company's understanding of certain aspects of current UK and US federal law and practice relevant to the ADSs and Ordinary Shares not in ADS form. The comments address certain US and UK tax consequences to a person who is the beneficial owner of ADSs or Ordinary Shares and who, for US federal income tax purposes, is a US citizen or resident, a corporation or partnership created or organized in or under the laws of the United States, or an estate or trust treated as a United States person under Section 7701(a)(30) of the US Internal Revenue Code (a "US Holder"). The comments set out below do not purport to address all material tax consequences of the ownership of ADSs or Ordinary Shares and in particular do not deal with the position of shareholders who directly or indirectly own 10% or more of the issued Ordinary Shares. Special rules apply to persons operating clearance and/or depository services and those whose holding of ADSs or Ordinary Shares is effectively connected with or pertains to either (i) a permanent establishment in the United Kingdom through which the US Holder carries on a business in the United Kingdom, or (ii) a fixed base from which the US Holder performs independent personal services in the United Kingdom. Special rules also apply to certain investors such as tax-exempt entities, insurance companies, broker-dealers, traders in securities that elect to mark to market, US Holders holding ADSs or Ordinary Shares as part of a hedging or conversion transaction or whose functional currency is other than the US dollar and investors liable for alternative minimum tax. In addition, the comments below do not relate to 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 the Company's understanding of current US and UK law and practice and advice received from the Company's UK and US tax advisors. US Holders are recommended to consult their own tax advisors as to the particular consequences to them of the ownership of ADSs or Ordinary Shares.

For the purpose of the US/UK Double Taxation Treaty and US domestic tax law US Holders of ADSs will be treated as beneficial holders of the Ordinary Shares represented by the ADSs.

Taxation Of Dividends In The United Kingdom

Smith & Nephew is not obliged to pay UK advance corporation tax ("ACT") on dividends paid on or after April 6, 1999. An individual UK shareholder is treated as receiving taxable income equal to the dividend plus a tax credit of one-ninth of the cash dividend received. This tax credit may be set against the individual's overall UK income tax liability, but in general the tax credit will not be repaid. Under the provisions of the US/UK Double Taxation Treaty, while a UK individual is entitled to a tax credit in respect of dividends paid by a UK company, a US Holder will be entitled to a repayment from the UK Inland Revenue of the tax credit less an amount not exceeding 15% of the aggregate of the cash dividend and the tax credit. As 15% of the aggregate of the cash dividend and the tax credit would exceed the tax credit due, no repayment of the tax credit will be available from the UK Inland Revenue for dividends paid on or after April 6, 1999.

Taxation Of Dividends In The United States

Dividends will be treated as ordinary income to a US Holder when the dividend is received to the extent paid out of earnings and profits as determined for US federal income tax purposes. Dividends will not be eligible for the dividends-received deduction generally allowed to US corporations in respect of dividends received from other US corporations. The amount of the dividend included in taxable income is the US dollar value of the dividend, converted using the exchange rate on the date of receipt. Distributions in excess of earnings and profits, as determined for US federal income tax purposes, are generally treated as a return of capital (and a reduction of tax

basis for US federal income tax purposes) to the extent of the US Holder's investment in the ADSs and Ordinary Shares and thereafter realized as a capital gain. Conversion by a US Holder of sterling received as a distribution from Smith & Nephew into US dollars may result in ordinary income to the US Holder to the extent attributable to fluctuations in foreign currency exchange rates between the date of receipt and the date of conversion.

A US Holder may elect to be treated as receiving the UK tax credit in respect of dividends paid by a UK company without affirmatively making a claim to the United Kingdom by so indicating on Line 5 of Form 8833 (Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b)) and filing the completed Form 8833 with the US Holder's income tax return for the relevant year. A US Holder making this election will be treated as having received an additional dividend equal to the gross amount of the tax credit (unreduced by amounts withheld), and as having paid the withholding tax due. Thus, the investor must include in income the gross payment deemed received, and may claim a foreign tax credit for the withholding tax treated as paid to the United Kingdom (which tax will be considered due and paid only to the extent of the tax credit).

For US foreign tax credit limitation purposes, dividends generally will be "passive income" from sources outside the United States. Any exchange gain or loss arising from sterling receipts in respect of dividends paid by Smith & Nephew will generally be treated as ordinary income or loss which is US source income for foreign tax credit limitation purposes.

Taxation of Capital Gains

US Holders, who are not resident or ordinarily resident for tax purposes in the United Kingdom, will not generally be liable for UK capital gains tax on any capital gain realized upon the sale or other disposition of ADSs and Ordinary Shares unless held in connection with a trade carried on in the United Kingdom through a branch or agency. Furthermore, UK resident individuals who acquire ADSs or Ordinary Shares before becoming temporarily non-UK resident, may remain subject to UK taxation of capital gains on gains realized while non-resident.

For US tax purposes, gains realized upon the sale or disposition of ADSs and Ordinary Shares by US Holders generally will be capital gains and will be long-term capital gains if the ADSs or Ordinary Shares were held for more than one year. For non-corporate US Holders, net long-term capital gain is subject to a maximum rate of 20%. Gains realised on sale generally will not be regarded as foreign source income for federal income tax purposes.

Inheritance and Estate Taxes

The UK Inland Revenue imposes inheritance tax on capital transfers which occur on death, and in the seven years preceding death. The UK Inland Revenue 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 United States and is not a UK national or domiciled in the United Kingdom will not be subject to UK inheritance tax in respect of ADSs and Ordinary Shares. A UK national who is domiciled in the United States 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 United Kingdom will be entitled to a credit for UK inheritance tax charged in respect of ADSs and Ordinary Shares in computing the liability to 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 United Kingdom.

US Backup Withholding Tax

A US Holder may be subject to US backup withholding tax at the rate of 30% (which rate is scheduled to be reduced periodically through 2006) on dividends paid within the United States in respect of ADSs and Ordinary Shares or on the payment of the proceeds from the sale of ADSs or Ordinary Shares, unless the shareholder is a corporation or other exempt recipient, or provides a US taxpayer identification number. US backup withholding tax may also apply if there has been a notification from the Internal Revenue Service of a failure to report all interest or dividends. US information reporting and backup withholding generally will not apply to a payment made outside the United States through an office outside the United States of a non-US broker.

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

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 will generally be subject to UK stamp duty at the rate of $\frac{1}{2}\%$ of the consideration given for the transfer with the duty rounded up to the nearest £5 if necessary.

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 $\frac{1}{2}\%$ (rounded up to the nearest penny). If an instrument of transfer of the Ordinary Shares is subsequently executed the instrument of transfer will generally be subject to stamp duty. The charge of SDRT will be cancelled, and any SDRT already paid will be refunded, if within 6 years of the agreement an instrument of transfer is produced to the United Kingdom Inland Revenue 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 $\frac{1}{2}\%$, and this will apply whether or not the transfer is effected in the United Kingdom and whether or not the parties to it are resident or situated in the United Kingdom.

A charge of stamp duty or SDRT at the rates of $1\frac{1}{2}\%$ 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) 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 SDRT will arise on any agreement to transfer an ADS or beneficial interest in an ADS.

No liability for stamp duty 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 United Kingdom, and provided further that any instrument of transfer or written agreement to transfer is not executed in the United Kingdom and the transfer does not relate to any matter or thing done or to be done in the United Kingdom (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.

US/UK Double Taxation Treaty

On March 31, 2003, the United States and the United Kingdom ratified a new income tax treaty to replace the currently effective US/UK Double Taxation Treaty. Among other things, the new income tax treaty eliminates the tax credit available to US Holders described above under "Taxation of Dividends in the United Kingdom" and "Taxation of Dividends in the United States". The new income tax treaty generally becomes effective with respect to withholding taxes on May 1, 2003, UK corporation tax on April 1, 2003, UK income and capital gains tax on April 6, 2003, UK corporation tax on April 1, 2003, UK income and capital gains tax on April 6, 2003 and US income tax on January 1, 2004. Taxpayers may elect to have the old treaty apply for a twelve-month period from which the new treaty would otherwise apply. In addition, the US/UK Double Taxation Convention on Estate and Gift Tax is currently subject to re-negotiation.

DOCUMENTS ON DISPLAY

It is possible to read and copy documents referred to in this Annual Report on Form 20-F that have been filed with the SEC 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 web site at <http://www.sec.gov> that contains reports and other information regarding registrants that file electronically with the SEC. This Form 20-F report and some of the other information submitted by the Company to the SEC may be accessed through this website.