

 **2005 Summary Financial Statement:** Pam's back on stage again. Dr. Abate is using state-of-the-art techniques to treat his patients. Paul is meeting his targets. Good news from **smith&nephew**.



Our highlights

	2005 £m	2004 £m
Revenue	1,407	1,249
Trading profit	290	250
Profit before taxation	240	167
Basic earnings per share	19.9p	14.8p
Adjusted basic earnings per share*	23.8p	20.8p
Dividends per share	5.6p	5.1p

Revenue



Revenue
£1,407m

Trading margins

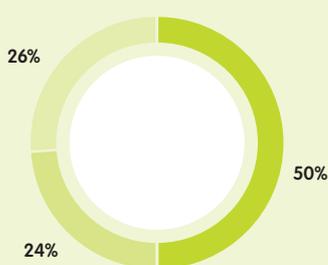


Trading margins
20.6%

Earnings per share*

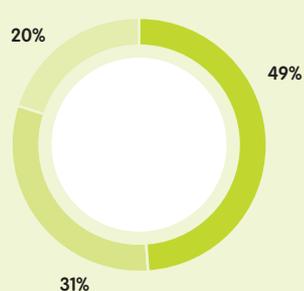


Earnings per share*
23.8 Pence



Product markets
Group revenue

- £698m Orthopaedics
- £334m Endoscopy
- £375m Advanced Wound Management



Geographic markets
Group revenue

- £694m United States
- £441m Europe
- £272m Africa, Asia, Australasia and other America

* Adjusted basic earnings per share ("EPSA") is stated before restructuring and rationalisation costs, the macrot textured claim and related tax relief, amortisation of acquisition intangibles and a fair value gain.

A calculation of EPSA is provided in Note 4 in the Summary Financial Statement.

Our business strategy is good
for everyone involved:

Our patients,

customers



We turn insights and
innovations into products
and services that can
change people's lives

Pam Laws
Knee patient
page 6



We provide equipment and
processes that improve clinical
results and help reduce costs
Dr. Joseph Abate
Orthopaedic surgeon
page 9

and colleagues

We are a fast-growing international
business where people really can
make a difference

Paul Kowalski Wound Management
Territory Business Manager
page 10

In this review:

- 2 Our business going forward 3 Our year: A review from our Chairman and Chief Executive
- 6 Our company: Orthopaedics 8 Our company: Endoscopy
- 10 Our company: Advanced Wound Management 12 Our Board
- 13 Summary remuneration report 14 Auditors' statement
- 15 Summary financial statements and Notes 20 Shareholder information

Our business going forward:

Finding new and better ways to heal the human body in four high growth areas: Orthopaedic Reconstruction, Orthopaedic Trauma, Endoscopy and Advanced Wound Management



Our year: A review from our Chairman and Chief Executive

Dudley Eustace Chairman and
Sir Christopher O'Donnell Chief Executive

In 2005 we saw the benefits of a clear strategy, a strong and properly incentivised team, and robust market sectors with plenty of potential for growth. The business performed well and is in a strong position for further short and long-term growth.

Underlying revenue growth for the full year was 11%. After 2% of positive translational currency, full year reported revenue growth increased by 13% to £1,407m. Underlying revenue growth by business for the year was: Orthopaedics 16%, Endoscopy 8% and Advanced Wound Management 4%.

Trading profit for the year was £290m, a 16% increase, with trading margins 0.6% ahead of a year ago at 20.6% and interest income less finance costs was £2m positive. Taxation thereon amounted to £86m, an effective tax rate of 29½%. The share of the after tax results of the BSN joint venture was £17m, resulting in attributable profit of £223m before restructuring and rationalisation costs and related tax relief, amortisation of acquisition intangibles and a fair value gain.

In December we agreed to dispose of our 50% investment in BSN medical, our joint venture with Beiersdorf AG, to Montagu Private Equity. The transaction was completed on 23 February 2006 and our share of the proceeds was \$560m in cash and the gain on disposal, to be recognised in 2006, was \$315m.

We announced we would exit from our DERMAGRAFT® Tissue Engineered Dermal Substitute and related products business following the receipt of a non-approvable letter from the FDA in relation to the marketing of the DERMAGRAFT product in the US for the treatment of venous leg ulcers. Manufacturing has now ceased and we have taken a restructuring charge of £39m for the closure costs of this product line. Additionally we have commenced a 20 month programme to rationalise the US manufacturing facilities of Endoscopy, incurring a further charge of £8m.

Attributable profit after restructuring and rationalisation costs and related tax relief, the amortisation of acquisition intangibles and a fair value gain was £187m.

This is the first year our results have been reported under International Financial Reporting Standards ("IFRS").

Comparative figures have been restated and reconciliations from UK GAAP are provided on our website.

EPSA and cash flow Adjusted earnings per share ("EPSA") was 23.8p (119p per ADS) for the full year, an increase of 14% on last year. Reported earnings per share was 19.9p (99.5p per ADS). Operating cash flow, defined as cash generated from operations less capital expenditure, was £94m. This is a trading profit to cash conversion ratio of 60%, before £49m of special contributions to improve the funding of our UK and US defined benefit pension schemes, £26m of settlement payments to patients in respect of macrot textured revisions, which are not being reimbursed by insurers, and £4m of restructuring and rationalisation expenditure. It compares with a 58% conversion ratio a year ago.

Dollar reporting An extraordinary general meeting of shareholders in December 2005 approved the redenomination of the share capital of the company into US dollars. The capital base of the Group is now aligned with its effective functional currency and its trading results and state of affairs will be reported in US dollars from the beginning of 2006. Dividends will in future be declared in US dollars. However, dividend payments to UK residents will continue to be made in sterling. The Group's shares will continue to be listed on the London Stock Exchange, priced in sterling, and on the NYSE in American Depositary Shares (ADS), priced in dollars.

A restatement of this year's and last year's quarterly results and Balance Sheets, as if they had been consolidated in US dollars at the exchange rates then prevailing, is provided on our website. The full year revenues and EPSA per ADS under dollar reporting would have been as follows:

	Full Year
Revenue	\$2,552m +11%
EPSA per ADS	\$2.15 +12%

Dividend This is the first occasion when a dividend is being declared in US dollars and follows the redenomination of the share capital of the company into US dollars. Instead of recommending a final dividend for 2005 the directors have declared a second interim. This enables the company to meet the hedging requirements of IFRS in respect of the sterling amount of the dividends payable to UK residents. The second interim dividend has been declared in the amount of 6.1 cents per share (30.5 cents per ADS) and will be paid on 12 May 2006 to shareholders on the

register at the close of business on 21 April 2006. For UK resident shareholders, and those other shareholders who elect to receive their dividends in sterling, the sterling payable amount will be 3.5 pence per share. Together with the interim dividend of 2.1 pence this makes a total of 5.6 pence for the year 2005, a 10% increase.

Operating review In the business reviews that follow the revenue growth percentages are in underlying terms, that is they exclude the effects of currency translation and the acquisition of MMT. Underlying revenue growth provides a consistent year-on-year measurement of business performance. Revenue, trading and operating profit by business segment is set out in Note 2 of the Summary Financial Statement.

Orthopaedics Orthopaedics revenues grew by 16% to £698m in the year with growth of 19% in the US. Outside the US revenue growth was 12%.

Knee revenue growth, which increased by 15%, was slightly slower in the year reflecting lower market growth and some competitive pressure ahead of new product launches in 2006.

Hip revenue grew by 13% in the year benefiting from the BHR[®] product, the OXINIUM[®] premium load bearing material and minimal incision procedures. The FDA Advisory Panel review in September of the BHR product recommended conditional approval to the FDA for its use in the US and we expect to bring this important hip resurfacing product to the market in 2006.

Trauma launched its PERI-LOC[®] Locking Compression Plating System for the leg in March and the PERI-LOC[®] targeter device for minimal incision surgery later in the year. Our investment in the specialist trauma sales force in the US in 2004, together with the launch of the PERI-LOC product has increased our revenue growth in the US to 21%, considerably above the market and this approach is being rolled out globally. Worldwide trauma revenue growth was 14%.

Clinical Therapies, comprising the EXOGEN[®] Bone Healing System and SUPARTZ[®] Joint Fluid Therapy products, revenues grew 38% in the year, benefiting from previous sales force investment and focus on clinics outside hospitals.

Smith & Nephew's Orthopaedics business has grown strongly in the last five years, with performance consistently ahead of its markets. To develop this business further Orthopaedics from 2006 is being divided into two separate global business units; Orthopaedic Reconstruction with revenues of £457m and Orthopaedic Trauma (including Clinical Therapies) with revenues of £241m. Scott Flora and Mark Augusti have each been promoted from Senior Vice President and General Manager to President respectively of these two new global business units.

Endoscopy Endoscopy achieved revenue growth for the year of 8% driven by knee and shoulder repair as the procedure based sales force continued to benefit from a strong flow of new products. Visualisation and digital operating room revenues continue to build and revenues from blades also made a positive impact.

We settled our patent dispute with ArthroCare enabling us to revert to offering a full range of arthroscopic radiofrequency products. These together with our new camera, pump and hip arthroscopy products, provide added drivers to future growth.

Advanced Wound Management Advanced Wound Management revenue growth was 4% for the year. Within the US revenues declined 2% being heavily impacted by US distributors reorganising their logistics and reducing their inventory holding levels and by planned lower revenues of intermediate products to industrial customers. Revenue growth outside the US was 6%, a solid performance despite healthcare spending pressures in Europe emerging in the second half.

The structure of our global sales force has continued to develop during the year with an increased focus on clear market segments. Revenues from our ALLEVYN[®] Hydrocellular and ACTICOAT[®] Antimicrobial Dressings have grown 13% and 25% respectively, with the ACTICOAT product line benefiting from the launch of ACTICOAT Moisture Control dressing in the US in April. This product received European approval after the year end.

Jim Dick, President of Advanced Wound Management, has decided to retire in 2006. Joe Woody, Vice President and General Manager of the Clinical Therapies Division of Orthopaedics, has been appointed as his successor.

Board Dudley Eustace has been our Chairman since January 2000 and, as already announced, will be retiring at the AGM in April. Dudley has made a substantial contribution to Smith & Nephew, particularly in guiding it through its restructuring phase. John Buchanan, Deputy Chairman, has been appointed as Chairman of the Board with effect from the AGM in April 2006.

Peter Hooley has been Finance Director since April 1991 and has decided to retire in 2006. Peter has played a major role in making Smith & Nephew what it is today, as well as establishing its strong present financial position. Adrian Hennah, Chief Financial Officer of Invensys plc has been appointed to the Board as Finance Director with effect from June 2006.

The Board has also appointed David Illingworth as Chief Operating Officer from mid February 2006 reporting to Chris O'Donnell, Chief Executive. David will take operational responsibility for Smith & Nephew's four business units; Orthopaedic Reconstruction, Orthopaedic Trauma, Endoscopy and Advanced Wound Management.

We would like to thank all Smith & Nephew employees for their contributions to the growth of our company in 2005 and for their commitment to our continued success.

Outlook The fundamentals for each of our businesses are strong and we view the future positively, with product launches and sales force investment underpinning revenue growth in 2006 and beyond.

Revenue growth, combined with margin enhancement of around 1½% from ongoing cost and efficiency savings and from exiting the DERMAGRAFT® product line, is expected to deliver high-teens growth in trading profit for 2006.

Dudley Eustace

Chairman

“Our businesses concentrate on high growth global markets in advanced medical devices. We have excellent management who work to demanding financial goals to deliver sustained shareholder value.”



Sir Christopher O'Donnell
Chief Executive

“Through solid revenue growth and improved margins, we have again achieved mid-teens earnings growth. We start 2006 with growing markets and the best new product programme we have ever had.”





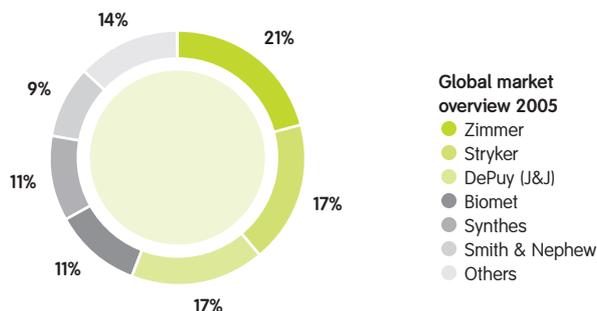
Pam Laws Knee patient
A jazz singer from Tallahassee, Florida, Pam thought her career was over. Severe cartilage damage made standing and walking very painful and awkward. Now she's back on stage wowing her audiences thanks to a double knee replacement using OXINIUM® technology.



“It’s a huge relief. I have my life back and no more pain. Heaven!”

Our company: Orthopaedics

Market value **£7.7 billion**
Market growth 11%



What we do We provide joint replacement systems for knees, hips and shoulders; trauma products to help repair broken bones; and a range of devices to promote quick healing and help alleviate joint pain. Our customers include patients, surgeons and healthcare providers such as hospitals, insurers and government organisations.

We work closely with researchers, surgeons and other companies to develop new products and services, and improve existing products, surgical techniques, and instrumentation. Through innovation we have reduced the invasiveness and time of procedures and created more effective and durable materials. Our number one objective is to improve the quality of life for more patients, while helping to increase efficiency in healthcare systems.

How we performed In 2005 we were the fastest growing orthopaedic business in the world – for the sixth consecutive year. Revenue growth enabled us to make several strategic investments. For example, we've enhanced the specialised training and technical support services we provide to customers. This included the launch of our unique MOBILAB® Mobile Training Centre. These services help us to differentiate our business, understand and address each customer's needs, and – most important – help surgeons achieve even better results for patients.

Worldwide we increased our sales team's coverage by 21%. We strengthened our presence in Japan – the second largest orthopaedic market – by recruiting more experienced managers and acquiring the assets of distributor Leading Medical. We also enhanced our organisation in Europe so we may more effectively service surgeons and patients in these important markets.

Innovation and quality are vital to success. In 2005 we introduced the PERI-LOC® Locking Compression Plating System for bone fractures of the leg. It helps reduce operating time and the invasiveness of the procedure.

In reconstruction we introduced the LEGION® Revision Knee System. This offers reduced operating times and greater durability, and is the only system available to patients sensitive to conventional metal implants. The LEGION system uses our unique OXINIUM® technology, a longer-wearing and highly robust material that also enables surgeons to treat younger and more active patients. During the year we took further steps towards gaining FDA approval to market our proprietary BIRMINGHAM HIP® Resurfacing System (BHR®) technology in the US. The BHR system is already the leading hip resurfacing product outside the US.

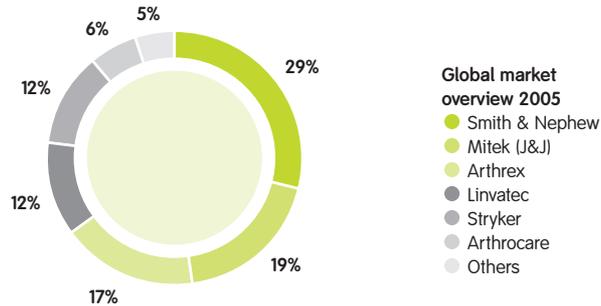
Where we're going The long-term dynamics in our market are clear:

- The number of potential patients over the age of 55 will double by 2020 due to demographic change.
- Obesity is both adding to and bringing forward the demand for joint replacements.
- Many more people under 55 are now willing and able to pay for operations to rectify injuries sustained from an active life, including sports injuries.
- New technologies are making procedures more attractive, more affordable, and more available.
- Globally, healthcare systems need products and services able to produce economic benefits.

These market dynamics benefit us as we have the scale, technical expertise, product portfolio, and sales organisation required to secure market share gains from delivering superior products and service to our customers.

Of course, we face strong competition. We must continue to innovate successfully to commercialise new technologies, to organise our sales network effectively, and to make astute acquisitions. Looking ahead, however, we see excellent prospects for superior revenue growth, along with the opportunity to help many thousands of people enjoy a better quality of life.

Market value (arthroscopy) £860 million
Market growth +8%



Our company: Endoscopy

What we do We are the global market leader in arthroscopy – minimally invasive surgery to treat and repair cartilage, tendons and ligaments in articulating joints such as the knee, shoulder and hip. We are also pioneering minimally invasive techniques in disc-related lower back pain and other endoscopic procedures.

Most of the procedures we support can be performed in day surgery centres. They involve incisions the size of a straw tip and specially designed instruments, resulting in less trauma for the patient's body. This leads to quicker recovery times and a marked improvement in function and quality of life.

Our full line of arthroscopy devices and procedures includes fluid management for surgical access; scopes, cameras and light sources for visualisation; radiofrequency wands, blades and hand instruments for resecting (removing) damaged soft tissue; and joint fixation systems and bioabsorbable materials to repair damaged tissue.

We also design, install and support Digital Operating Rooms (DORs). These custom-designed surgical suites use digital video and information management technologies to improve efficiency, cost-effectiveness and most importantly, patient care. The DOR helps the medical team concentrate on the patient, rather than the equipment.

In all these areas, we support our strategy with financing solutions, global fellowship support initiatives, partnerships with professional associations, surgeon advisory boards and education programmes.

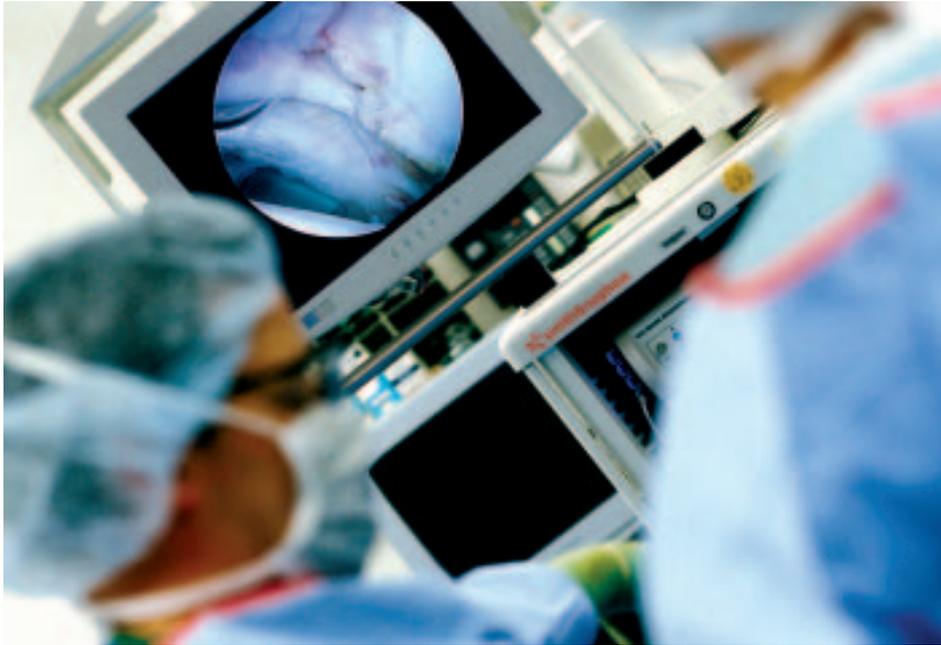
How we performed In 2005 our increasingly strong line of arthroscopic repair products led growth with a 21% improvement in revenues, blade revenues improved again and we continued to build equity with our customers for our DOR product, doubling the number sold in the year. This will lead to additional demand from the procedures performed in these DORs.

Applied innovation is at the heart of our approach and sets us apart from the competition. In 2005, we launched the GLIDER® Articular Cartilage Probe, a minimally invasive device that uses radiofrequency energy for treating articular cartilage disease. The challenge was to find a way to smooth diseased tissue, while preserving the surrounding healthy tissue. Our team worked with Dr. James H. Lubowitz of the Taos Orthopaedic Institute to study the factors involved. Their work won the Richard C. O'Connor Award – the most prestigious given by the Arthroscopy Association of North America.

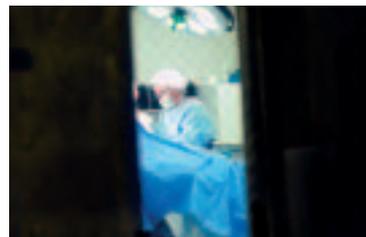
Where we are going As market leader we will continue to innovate delivering new techniques, devices and services that are beyond the capabilities of our competitors. Take our work with the hip – the largest joint in the body and one that is difficult to access. Millions of people live with hip pain and we're applying techniques and tools we perfected working with knee, shoulder and small joints to develop and commercialise new ways to treat and repair hip injuries.

We will continue to demonstrate the value of innovations such as the IDET® Procedure to treat chronic lower back pain. We will also work to convert more open shoulder procedures to arthroscopic procedures; to market our expanding DOR services in more geographical regions; and to sell more blades, tubing and other core products to DOR customers.

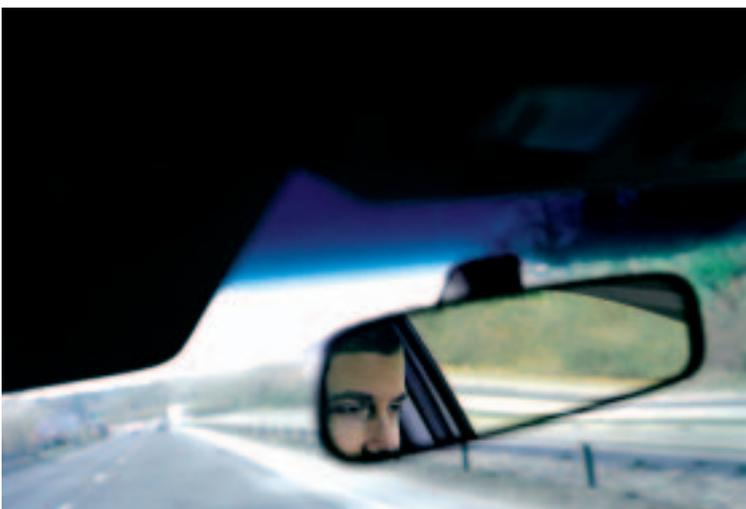
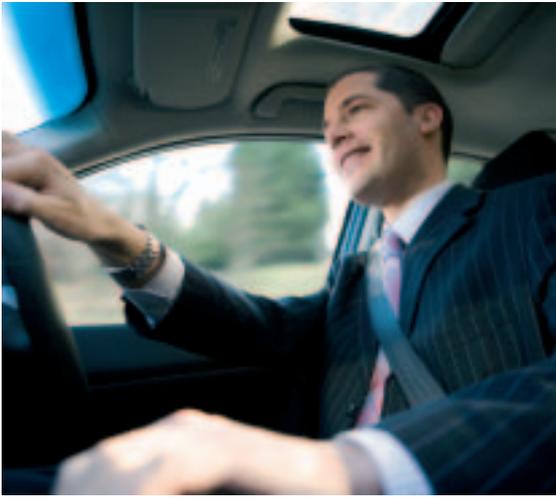
So, the outlook is very promising. A growing population of older and more active people, together with increasing expectations and demand for treatment is placing financial pressure on healthcare providers. This is an opportunity for us to deliver products and services that not only help more people to remain active later in life, but also deliver cost effective solutions to healthcare providers. We will use our leadership position and unrivalled ability to innovate and commercialise endoscopic technologies – together with our scale and excellent customer relationships – to help surgeons deliver even better clinical solutions for patients.



Dr. Joseph Abate
Orthopaedic surgeon
The treatment Dr. Abate received after damaging his knee playing football in high school inspired him to help others recover from injury. Now living in Vermont, he uses state-of-the-art surgical techniques and devices to repair injuries to his patients.



“Products have changed so much. The latest visualisation technologies are just incredibly helpful.”

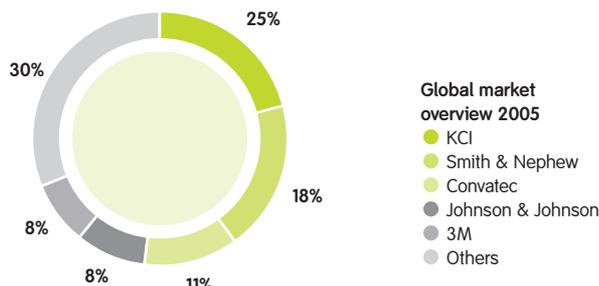


Paul Kowalski Wound Management
Territory Business Manager
Paul's job involves everything from demonstrating new products to training medical staff. Using his technical expertise and experience, he provides customers with the skills and resources they need to deliver excellent and affordable patient care.

“It’s incredibly satisfying when I see a patient getting better much faster thanks to one of our innovations.”

Our company: Advanced Wound Management

Market size **£2.2 billion**
Market growth **+10%**



What we do We provide a range of products that help doctors and nurses treat difficult-to-heal wounds, such as pressure sores, venous leg ulcers, burns and complex surgical wounds. Our products and services support a three-step clinical approach that covers the assessment of the wound to decide on the best treatment; the preparation of the wound; and stimulation to promote full and fast healing.

We treat the largest number of wounds in our sector in the world. Our strength comes from our ability to transform new technologies into affordable, high quality products that reduce the cost of treatment and improve the healing process. We are unique in providing a full portfolio of products to our customers. Our main competitors tend to have a narrower focus on one type of product. We support our range with comprehensive learning and education programmes for medical staff and patients, and every year train more than 150,000 healthcare professionals.

How we performed We have continued to prioritise our innovative ALLEVYN[®] hydrocellular and ACTICOAT[®] antimicrobial dressing ranges. Our ALLEVYN product is the biggest selling wound care dressing in its market sector. It can be left in place for much longer than traditional dressings such as gauze and tape, saving nursing time and effort. ACTICOAT dressings use Nanocrystalline Silver[†] to protect wounds from bacteria – including so-called ‘superbugs’ such as MRSA and VRE – which can delay or complicate the healing process.

In 2005 we enhanced the ALLEVYN range through the launch of a highly absorbent version and in May we secured FDA clearance for sale for our newest absorbent antimicrobial barrier dressing, ACTICOAT Moisture Control. Revenue of the ALLEVYN range grew by 13% and revenues from ACTICOAT products grew by 25% in 2005.

Our Japanese business grew strongly, helped by the launch of our iodine based products in that market. Our VERSAJET[®] Hydrosurgery System, which removes dead tissue from in and around wounds, performed well in its first full year.

Where we're going The rate of growth in the advanced wound management market is expected to increase with the ageing population. We are also seeing increasing patient concern around ‘superbugs’ and their resistance to antibiotics. This is generating increased demand for treatments that combat such infections.

The potential rewards for success in this market are considerable. The market challenge that we address every day is to demonstrate that our products and our approach to customer service can generate better results for patients and greater value for the healthcare system.

We do this by concentrating on the most effective products and profitable markets in the sector. This approach enables us to invest more in developing our chosen products, to commercialise the right innovations to enter new markets and to provide even better support to our customers. Delivering quality and total economic value for customers and their patients will help us to differentiate our products at a time when many competitors are seeking to compete on price.

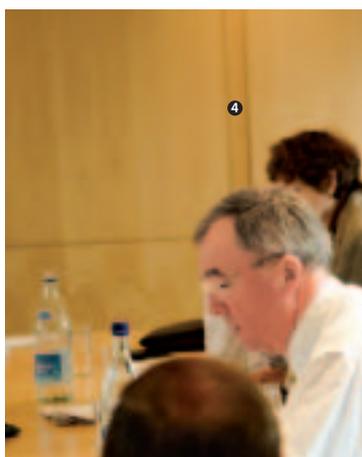
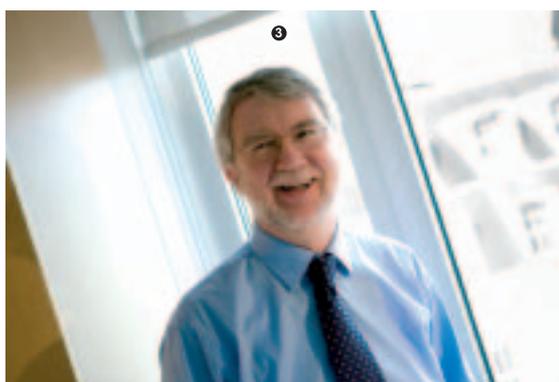
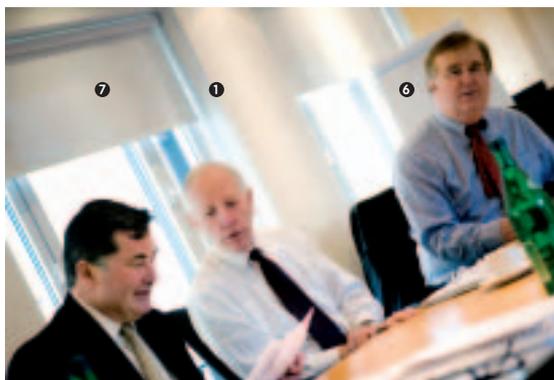
[†] a patented technology of NUCRYST Pharmaceuticals Corp

Our Board

① **Dudley G. Eustace** ^{••} Chairman (69) was appointed Deputy Chairman in 1999 and non-executive Chairman in January 2000 and is Chairman of the Nominations Committee. He is non-executive Chairman of Aegon NV and non-executive director of Hagemeyer NV and Royal KPN NV.

② **John Buchanan** ^{••} (62) was appointed non-executive Deputy Chairman in 2005. He is a non-executive director of AstraZeneca PLC, BHP Billiton Plc and Vodafone Group Plc. Previously he was Group Chief Financial Officer of BP p.l.c. He was a member of the United Kingdom Accounting Standards Board and a non-executive director of Boots Group PLC.

③ **Sir Christopher O'Donnell** [•] Chief Executive (59) joined the Group in 1988 as managing director of the medical division and was appointed a director of Smith & Nephew in 1992. He was appointed Chief Executive in 1997. He is a non-executive director of BOC Group plc. Previously he held senior positions with UK and US companies in the medical engineering and devices industry.



④ **Peter Hooley** Finance Director (59) joined the Group and was appointed Finance Director in 1991. He is a non-executive director of Cobham plc. Previously he held senior financial positions with Matthew Hall plc and BICC plc.

⑤ **Dr. Pamela J. Kirby** ^{•••} (52) was appointed a director in March 2002. She is non-executive Chairman of Scynexis Inc and a non-executive director of Informa plc, Oscient Pharmaceuticals Corporation and Curalogic A/S.

⑥ **Warren D. Knowlton** ^{•••} (59) was appointed a director in November 2000 and he is Chairman of the Audit Committee. He is Group Chief Executive of Morgan Crucible plc.

⑦ **Brian Larcombe** ^{••} (52) was appointed a director in March 2002. He is Senior Independent Director of Partygaming plc and a non-executive director of F&C Asset Management plc. Previously he was Chief Executive Officer of 3i Group plc.

⑧ **Richard De Schutter** ^{•••} (65) was appointed a director in January 2001. He is non-executive Chairman of Incyte Corporation and a non-executive director of Varian Inc., MedPointe Pharmaceuticals, Ecolab Inc and Navicure Inc.

⑨ **Dr. Rolf W. H. Stomberg** ^{••••} (65) was appointed a director in 1998 and he is the Senior Independent Director and Chairman of the Remuneration Committee. He is Chairman of Management Consulting Group plc and Lanxess AG and a non-executive director of Reed Elsevier plc, Hoyer GmbH, TNT N.V., Deutsche BP AG and Biesterfeld AG.



David Illingworth Chief Operating Officer (52) joined the Group in May 2002 as President of Orthopaedics and was appointed to the Board in February 2006.

Kenneth Kemp is Honorary Life President

- Non-executive director
- Member of the Nominations Committee
- Member of the Audit Committee
- Member of the Remuneration Committee

Summary remuneration report

Remuneration policy The remuneration policy for 2005 and future years, as approved by the Remuneration Committee, is designed to ensure that remuneration is sufficiently competitive to attract, retain and motivate executive directors and GEC members of a calibre that meets the Group's needs to achieve its business objectives. Remuneration includes base pay, incentives and benefits which are targeted at median competitive levels for acceptable performance. Incentives consist of a performance related bonus, a performance share plan, share options and a co-investment plan designed to motivate and reward for outperformance. Individual remuneration levels are based on measurable

performance against fair and open objectives and there are no automatic pay adjustments unless required by law or local protocol. Executive directors are required to accumulate a personal share holding equivalent to 100% of basic salary within five years. Major changes to the remuneration policy are discussed with the principal shareholders.

Performance graph As a component company of the FTSE-100 the Company's Total Shareholder Return (TSR) performance compared to that of the TSR of the FTSE-100 index is shown on page 20.

Directors' emoluments and share interests

	Total emoluments (i)		Share interests	
	2005 £'000	2004 £'000	31 Dec 2005 Shares	1 Jan 2005 Shares
Chairman:				
Dudley G Eustace	251	191	66,109	51,064
Executive directors:				
Sir Christopher O'Donnell	934	954	197,012	178,061
Peter Hooley	596	589	227,340	219,861
Non-executive directors:				
John Buchanan (appointed 3 Feb 2005)	90	–	20,000	–
Dr Rolf W H Stomberg	53	45	13,092	13,014
Warren D Knowlton	53	40	27,001	27,001
Richard De Schutter	45	35	250,000	250,000
Dr Pamela J Kirby	45	35	8,500	3,500
Brian Larcombe	45	35	5,000	5,000

(i) inclusive of salaries and fees, benefits, annual bonus and pension entitlements.

(ii) In February 2006 Dudley Eustace purchased a further 210 shares and John Buchanan 40,000 shares. In January 2006 Sir Christopher O'Donnell acquired 50,000 deferred shares which are not listed on any Stock Exchange and have extremely limited rights attached to them.

Directors' incentives

Share options

	1 Jan 2005	Granted	Exercised	31 Dec 2005	Profit on exercise (£)
Sir Christopher O'Donnell	422,193	273,843	(3,192)	692,844	6,767
Peter Hooley	529,758	175,502	(295,114)	410,146	1,485,673

Long term incentive plan

	1 Jan 2005	Awards	Vested	31 Dec 2005
Sir Christopher O'Donnell	373,628	121,950	120,879	374,699
Peter Hooley	209,938	64,726	70,818	203,846

Under the Co-investment Plan and subject to the growth in EPSA over a three year period, Sir Christopher O'Donnell would be eligible for up to 92,678 shares and Peter Hooley 49,188 shares.

Further details may be found in the Remuneration Report in the Annual Report at www.smith-nephew.com/investors. Alternatively, a printed copy is available on request from the Company Secretary.

Auditors' statement

Independent auditors' statement to the members of Smith & Nephew plc

We have examined the Group's Summary Financial Statement for the year ended 31 December 2005 which comprises the Group income statement, Group balance sheet, abridged Group cash flow and Notes.

This report is made solely to the members of the Company, as a body, pursuant to Section 251 of the Companies Act 1985. To the fullest extent required by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and the auditors

The directors are responsible for preparing the report to shareholders and Summary Financial Statement in accordance with applicable law.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the full annual accounts, directors' report and remuneration report, and its compliance with the relevant requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Summary Financial Statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement.

Basis of opinion We conducted our examination in accordance with Bulletin 1999/6 'The auditors' statement on the Summary Financial Statement' issued by the Auditing Practices Board for use in the United Kingdom.

Opinion In our opinion the Summary Financial Statement is consistent with the full annual accounts, directors' report and remuneration report of Smith & Nephew plc for the year ended 31 December 2005 and complies with the applicable requirements of Section 251 of the Companies Act 1985, and regulations made thereunder.

Ernst & Young LLP

Registered auditor
London, 2 March 2006

This Summary Financial Statement is a summary of information in the Group's full annual accounts and was approved by the Board on 2 March 2006 and signed on its behalf by Dudley Eustace, Sir Christopher O'Donnell and Peter Hooley. It does not contain sufficient information to allow a full understanding of the results of the Group and state of affairs of the Company or of the Group. A review of the business is included in the directors' report. The report of the auditors on the full accounts for the year ended 31 December 2005 was unqualified and did not contain a statement made under either Section 237(2) of the Companies Act 1985 (accounting records or returns inadequate or accounts not agreeing with records or returns) or Section 237(3) (failure to obtain necessary information and explanations).

For further information the full accounts and the auditors' report on those accounts should be consulted. Shareholders have the right to demand, free of charge, a copy of the Group's full Annual Report, which may be obtained from the Company's registrars.

Summary financial statement

Group income statement

for the year ended 31 December

	Notes	2005 £ million	2004 ^{A B} £ million	2003 ^{A B} £ million
Revenue	2	1,407	1,249	1,179
Cost of goods sold		(361)	(335)	(345)
Selling, general and administrative expenses		(689)	(598)	(547)
Research and development expenses		(67)	(66)	(67)
Trading profit	2	290	250	220
Restructuring and rationalisation expenses		(47)	–	–
Acquisition related expenses		–	–	(22)
Macrotextured claim		–	(80)	–
Amortisation of acquisition intangibles		(6)	(5)	–
Operating profit	2	237	165	198
Interest receivable		15	17	11
Interest payable		(10)	(13)	(16)
Other finance costs		(3)	(2)	(4)
Fair value of hedge of anticipated sale proceeds of joint venture		1	–	–
Profit before taxation		240	167	189
Taxation		(70)	(45)	(56)
Profit from continuing operations		170	122	133
Discontinued operations:				
Share of results of the joint venture		17	16	13
Share of results of associated undertaking		–	–	3
Net profit on disposal of associated undertaking		–	–	23
Profit from discontinued operations		17	16	39
Attributable profit	4	187	138	172
Earnings per Ordinary Share				
Including discontinued operations:				
Basic		19.9p	14.8p	18.5p
Diluted		19.8p	14.6p	18.4p
Excluding discontinued operations:				
Basic		18.1p	13.1p	14.3p
Diluted		18.0p	12.9p	14.2p
Discontinued operations:				
Basic		1.8p	1.7p	4.2p
Diluted		1.8p	1.7p	4.2p

^A As restated for the effect of the transition to International Financial Reporting Standards ('IFRS') – see Note 1.

^B Before adjustment for the effects of IAS 32 and 39 – see Note 1.

Summary financial statement continued

Group balance sheet

at 31 December

	2005 £ million	2004 ^{A B} £ million	2003 ^{A B} £ million
Property, plant and equipment	343	290	266
Intangible assets	392	375	287
Investment in joint venture	–	121	121
Investments	6	5	5
Non-current receivables	–	2	2
Non-current asset derivatives	–	24	21
Deferred tax assets	76	67	43
Non-current assets	817	884	745
Inventories	355	285	231
Trade and other receivables	361	298	268
Current asset derivatives	6	22	32
Cash and bank	88	33	26
Current assets	810	638	557
Held for sale – investment in joint venture	127	–	–
Total assets	1,754	1,522	1,302
Called up equity share capital	115	115	114
Reserves	750	591	498
Own shares	(2)	(4)	(2)
Equity	863	702	610
Long-term borrowings	123	153	109
Retirement benefit obligation	111	147	141
Other payables due after one year	9	14	4
Provisions – due after one year	28	32	–
Non-current liability derivatives	–	2	5
Deferred tax liabilities	31	40	38
Non-current liabilities	302	388	297
Bank overdrafts and loans due within one year	132	32	97
Trade and other payables	263	231	204
Provisions – due within one year	53	50	20
Current liability derivatives	17	13	5
Current tax payable	124	106	69
Current liabilities	589	432	395
Total liabilities	891	820	692
Total equity and liabilities	1,754	1,522	1,302

^A As restated for the effect of the transition to IFRS – see Note 1.

^B Before adjustment for the effects of IAS 32 and 39 – see Note 1.

Summary financial statement continued

Abridged Group cash flow for the year ended 31 December

	2005 £ million	2004 ^A £ million	2003 ^A £ million
Operating profit	237	165	198
Depreciation, amortisation and impairment	101	73	62
Share based payment expense	7	6	6
Movement in working capital and provisions	(141)	(16)	(50)
Cash generated from operations	204	228	216
Net interest received/(paid)	5	4	(5)
Income taxes paid	(62)	(38)	(52)
Net cash inflow from operating activities	147	194	159
Acquisitions	(14)	(37)	(4)
Cash acquired with acquisitions	–	2	–
Disposal of associated undertaking	–	–	52
Dividends received from the joint venture	14	14	7
Capital expenditure	(110)	(101)	(72)
Net cash used in investing activities	(110)	(122)	(17)
Cash flow before financing activities	37	72	142
Proceeds from issue of ordinary share capital	11	8	9
Own shares purchased	–	(4)	(1)
Cash movements in borrowings	19	(61)	(101)
Settlement of currency swaps	(2)	40	–
Equity dividends paid	(50)	(47)	(45)
Net cash used in financing activities	(22)	(64)	(138)
Net increase in cash and cash equivalents	15	8	4
Cash and cash equivalents at beginning of year	23	14	10
Exchange adjustments	–	1	–
Cash and cash equivalents at end of year	38	23	14
Net debt at 31 December			
Cash and bank	88	33	26
Long-term borrowings	(123)	(153)	(109)
Bank overdrafts and loans due within one year	(132)	(32)	(97)
Net currency swap (liabilities)/assets	(11)	31	43
	(178)	(121)	(137)
Opening net debt	(121)	(137)	(288)
Cash flow before financing activities	37	72	142
Loan Notes issued on acquisition	–	(50)	–
Proceeds from issue of ordinary share capital	11	8	9
Own shares purchased	–	(4)	(1)
Equity dividends paid	(50)	(47)	(45)
Exchange adjustments	(55)	37	46
Closing net debt	(178)	(121)	(137)
Gearing	20.6%	17.2%	22.5%

^A As restated for the effect of the transition to IFRS.

Notes

- 1 Smith & Nephew plc has previously prepared its primary financial statements under UK generally accepted accounting principles ('UK GAAP'). From 2005 the Group is required to prepare its consolidated financial statements in accordance with IFRS as adopted by the European Union ('EU'). For the purposes of this document the term IFRS includes International Accounting Standards ('IAS'). As permitted under IFRS 1 the Group has elected not to restate comparative information for the Financial Instrument Standards IAS 32 and IAS 39.

A description of how the Group's reported performance and financial position are affected by this change, including reconciliations from UK GAAP to IFRS for prior year results and the revised summary of significant accounting policies under IFRS, is published under Report and Results in the Investors section of the corporate website at www.smith-nephew.com/investors/reports_results.html. If required, printed copies are available from the Company Secretary.

- 2 Segmental performance to 31 December 2005 was as follows:

Revenue by business segment

	2005 £ million	2004 £ million	2003 £ million
Orthopaedics	698	589	525
Endoscopy	334	305	300
Advanced Wound Management	375	355	354
	1,407	1,249	1,179

Trading profit by business segment

	2005 £ million	2004 £ million	2003 £ million
Orthopaedics	167	138	119
Endoscopy	70	61	60
Advanced Wound Management	53	51	41
	290	250	220

Operating profit by business segment

	2005 £ million	2004 £ million	2003 £ million
Orthopaedics	162	54	102
Endoscopy	61	60	55
Advanced Wound Management	14	51	41
	237	165	198

Revenue by geographic market

	2005 £ million	2004 £ million	2003 £ million
United States	694	609	595
Europe ^c	441	410	370
Africa, Asia, Australasia and other America	272	230	214
	1,407	1,249	1,179

^c Includes United Kingdom 12 months revenue of £131 million (2004 – £123 million, 2003 – £99 million).

Notes continued

3 Selected financial ratios:

	2005	2004	2003
Trading profit to Revenue	20.6%	20.0%	18.7%
Research and development expenses to Revenue	4.8%	5.3%	5.7%
Capital expenditure (excluding goodwill) to Revenue	7.9%	8.2%	6.2%
Trading profit to average equity plus net debt less investment in joint venture	35.9%	37.7%	37.4%

4 Adjusted attributable profit and adjusted earnings per ordinary share are calculated as follows:

	2005 £ million	2004 £ million	2003 £ million
Attributable profit	187	138	172
Adjustments:			
Restructuring and rationalisation expenses	47	–	–
Acquisition related expenses	–	–	22
Restructuring and acquisition related expenses within the joint venture	–	–	3
Macrotextured claim	–	80	–
Amortisation of acquisition intangibles	6	5	–
Fair value of hedge of anticipated sale proceeds of joint venture	(1)	–	–
Net profit on disposal of associated undertaking	–	–	(23)
Taxation on excluded items	(16)	(28)	(5)
Adjusted attributable profit	223	195	169
Basic weighted average number of shares (million)	938	935	930
Diluted weighted average number of shares (million)	943	942	936
Adjusted basic earnings per share	23.8p	20.8p	18.2p
Adjusted diluted earnings per share	23.6p	20.7p	18.1p

5 The 2005 interim dividend of £20 million (2.1 pence per ordinary share, 2004 – 1.9 pence per ordinary share, 2003 – 1.85 pence per ordinary share) was paid on 11 November 2005. A second interim dividend of 6.1 US cents per ordinary share has been declared by the Board (2004 – final dividend of 3.2 pence per ordinary share, 2003 – final dividend of 3.1 pence per ordinary share). UK shareholders will receive 3.5 pence per ordinary share. This is payable on 12 May 2006 to shareholders whose names appear on the register at the close of business on 21 April 2006. Shareholders may participate in the dividend re-investment plan.

Shareholder information

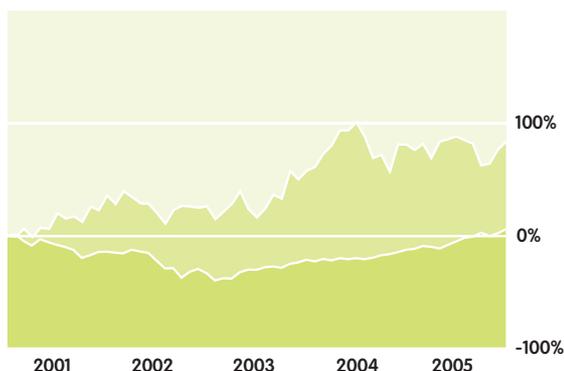
Second interim dividend The ordinary shares will trade ex-dividend on both the London and New York Stock Exchanges from 19 April 2006 and the record date will be 21 April 2006 in respect of a second interim dividend for the year ended 31 December 2005 of 6.1 cents per share (30.5 cents per ADR) to be paid on 12 May 2006. For UK resident shareholders and those shareholders who elect to receive their dividend in sterling, the sterling amount payable will be 3.5 pence per share. Shareholders may elect to receive their dividends in either US dollars or pounds sterling. Please contact Lloyds TSB Registrars for a form of election which must be received before the date of declaration to be valid for that dividend.

Ordinary shares Shareholders who wish their dividends to be paid directly to a bank or building society and who have not already completed a BACS mandate should contact the Company's registrars. The Company has a dividend re-investment plan that offers shareholders the opportunity to invest their cash dividends in further Smith & Nephew shares, which are purchased in the market at competitive dealing costs. Application forms for re-investing dividends are available from Lloyds TSB Registrars who administer the plan on behalf of the Company.

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

Smith & Nephew share price The Company's share price is available on the Smith & Nephew website www.smith-nephew.com and at www.londonstockexchange.com, where it is updated at regular intervals throughout the day. It is also quoted daily in UK national newspapers, as well as on Ceefax and Teletext.

Total Shareholder Return



● Smith & Nephew +84%
● FTSE-100 +6%

Shareholder Enquiries For information about the AGM, shareholdings, dividends and changes to personal details all shareholders should contact Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DS. Telephone +44 (0) 870 600 3996.

American depositary receipts (ADRs) In the US, the Company's ordinary shares are traded in the form of American Depositary Shares, evidenced by ADRs, and trade on the NYSE under the symbol SNN. Each American Depositary Share represents five ordinary shares. The Bank of New York is the authorised depositary bank for the Company's ADR programme. A Global BuyDIRECT plan is available for US residents, enabling investment directly in ADRs with reduced brokerage commissions and service costs. For further information on Global BuyDIRECT contact: The Bank of New York on +1-888-BNY-ADS (toll-free) or visit www.adrbny.com.

Smith & Nephew ADR price The Company's ADR price is available on the Smith & Nephew website www.smith-nephew.com, can be obtained from the official New York Stock Exchange website www.nyse.com and is quoted daily in the Wall Street Journal.

ADR Enquiries All enquiries regarding ADR holder accounts and payment of dividends should be addressed to The Bank of New York, Investor Services, P.O. Box 11258, Church Street Station, New York, NY 10286-1258, USA.

Financial calendar

Quarter One results and AGM	27 April 2006
Payment of 2005 second interim dividend	12 May 2006
Half year results announced	27 July 2006*
Quarter Three results announced	2 November 2006
Payment of 2006 first interim dividend	10 November 2006
Full year results announced	February 2007*
Annual Report posted	March 2007
Annual General Meeting	May 2007

*Dividend declaration date

Annual General Meeting The Company's 69th Annual General Meeting is to be held on 27 April 2006 at 2.00 pm at The Institution of Mechanical Engineers, One Birdcage Walk, London SW1H 9JJ. Notice of the meeting is enclosed with an accompanying letter from the Chairman.

Registered office Smith & Nephew plc, 15 Adam Street, London WC2N 6LA, United Kingdom. Registered in England No. 324357.

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