Governance

Letter from the Chair

The Board continued to maintain the highest standards of governance during the pandemic working mostly remotely. We look forward to engaging in person soon.

Dear Shareholder

I am pleased to present the governance section of our Annual Report, which includes details about the Board and an explanation of our individual roles and responsibilities. We also summarise the activities of the Board and the Chair of each Board Committee discusses the activities of that Committee during the past year. In addition, we provide insight into our stakeholder engagement.

Executive Team

On 22 February 2022, we announced the appointment of Deepak Nath as Chief Executive Officer with effect from 1 April 2022 and that Roland Diggelmann will be stepping down on 31 March 2022.

Roland has navigated Smith+Nephew through the challenges presented by COVID over the past two years. He has continued to develop the Company's strategy with a focus on driving accelerated growth, through investment in R&D and innovation, and has sought to enhance operational execution across the business. On behalf of our shareholders, the Board thanks him for his service to the Company.

We are delighted to welcome Deepak as Smith+Nephew's incoming Chief Executive Officer. He is joining us at an inflection point for the business and will be able to draw on his wealth of experience leading major transformations in innovation-led businesses and achieving market leadership to deliver on the Company's significant potential for accelerated growth.

Deepak is a highly experienced global healthcare leader with a track record of delivering transformational growth. He joins Smith+Nephew from Siemens Healthineers where most recently he was President of the Diagnostics business. He has also held leadership roles at Abbott Laboratories and Amgen.

Non-Executive team

We also welcomed one new Non-Executive Director to the Board during 2021.

John Ma was appointed to the Board on 17 February 2021. John has an impressive track record in medical device businesses and his contribution provides value as Smith+Nephew continues to develop innovative ways to grow and serve our markets with a focus towards Asia Pacific regions. He is an established healthcare leader and has strong experience of driving market entry and growth within emerging markets. Due to ongoing travel restrictions, John has yet to meet his fellow directors face to face, as he is based in Shanghai. We very much hope that this will be remedied in 2022.

Baroness Virginia Bottomley retired as a Director at the 2021 Annual General Meeting on 14 April 2021, following nine years' service.

Since year end, Jo Hallas has been appointed to the Board on 1 February 2022 as an additional Non-Executive Director. Jo has extensive international management experience in global industrial companies. She is Chief Executive Officer of Tyman plc, and has a track record of driving growth and transformation whilst embedding sustainability and building corporate culture.

Board operations during 2021

After a long period of holding virtual Board meetings, we were delighted that we were able to meet physically for our September 2021 meeting. For our newly appointed overseas directors, this was the first time they were able to meet their fellow Board members in person, although it was still not possible for John Ma to join us in person from Shanghai. Furthermore, we are disappointed that we had to hold our December meetings remotely, following further restrictions due to the Omicron variant. Although, the Board continues to operate effectively via virtual meetings through the use of technology, we all miss the richer conversations and discussions we were able to have when meeting each other physically. Even though all new Board members undertake tailored induction programmes, nothing can replicate the benefit of meeting our people and physically handling our products. We are looking forward to returning to a full programme of physical meetings in 2022.

Changes to the Board in 2021/2022

John Ma was appointed to the Board as Non-Executive Director on 17 February 2021.

Virginia Bottomley retired from the Board as Non-Executive Director on 14 April 2021.

Jo Hallas was appointed to the Board as Non-Executive Director on 1 February 2022.

Roland Diggelmann will leave the Board as Chief Executive Officer on 31 March 2022.

Deepak Nath with join the Board as Chief Executive Officer on 1 April 2022.

» **Please see pages 75–79 for the full biography of each director**

» **Please see pages 80–83 to read more about our Executive team**

33%
of our Board is female

From 1 April 2022
2
Board members will be of Asian ethnicity

Letter from the Chair continued

My retirement as Chair

In December this year, I shall complete nine years' service as Non-Executive Director of Smith+Nephew, having been appointed Chair in April 2014. Robin Freestone, Senior Independent Director, working with other members of the Nomination & Governance Committee, has therefore commenced a search for a new Chair to lead your Company through the next stage of its development and an announcement will be made in due course. Our intention would be that the new Chair will join the Board as an additional Non-Executive Director in time to allow for a few months' transition before I formally retire.

Stakeholders

You will read elsewhere in this report on pages 110–113 how we have enhanced the ways we ensure that we consider the views of our stakeholders in our decision-making process and in particular the continuation of the Board/employee listening sessions led by Marc Owen and the Compliance & Culture Committee. Greater engagement with our stakeholders and our employees in particular is providing the Board with richer context and background for when we make major decisions. Whilst most of these sessions were held remotely throughout 2021, we managed to hold one physical meeting during 2021 with some of our employees at our site in Watford, UK.

Shareholder engagement

Robin Freestone, our Senior Independent Director, Marc Owen, Chair of our Compliance & Culture Committee and I have also met virtually with shareholders. In addition to strategy and performance, shareholders have been interested in the Board's oversight of stakeholder engagement, the impact of climate change, product quality, cybersecurity, governance, business ethics and inclusion and diversity matters. We welcome such conversations which are indicative of the matters that are becoming more important not only to our shareholders but the wider world and our other stakeholders. Further information on these topics can be found in the Sustainability Report.

» Read more on how we engage with our stakeholders on page 110

Annual General Meeting

Our 2021 Annual General Meeting was held as a hybrid meeting with a limited number of UK based directors meeting physically at our UK headquarters in Watford, and other shareholders joining the meeting via the Lumi technology platform. Our 2022 Annual General Meeting will also be a hybrid meeting and we would encourage shareholders either to attend in person or to make use of the technology platform or the telephone link to listen to the proceedings, ask questions and vote.

Further details of how to access this event are included in the Notice of Meeting.

On your behalf, I should like to thank all the Board for their dedication and considered approach during 2021 and in particular the assistance they provided to new Board members. I should also like to thank you, our shareholders, for your patience during another challenging year and we look forward to meeting with you physically again, hopefully in April 2022.

Roberto Quarta
Chair

Statement of Compliance

The Board is committed to the highest standards of corporate governance. We comply with all the provisions and principles of the UK Corporate Governance Code 2018 (2018 Code). The Company's American Depositary Shares and bonds are listed on the New York Stock Exchange (NYSE) and we are therefore subject to the rules of the NYSE as well as to the US securities laws and the rules of the Securities and Exchange Commission (SEC) applicable to foreign private issuers. We comply with the requirements of the NYSE and SEC and have no significant differences to report between the US and UK corporate governance standards.

We explain in this 'Governance' section how we comply with and have applied the 2018 Code during the year. The 2018 Code can be found at www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf. We also explain how we have complied with the Financial Conduct Authority's (FCA) Listing Rules, Disclosure & Transparency Rules (DTRs) throughout the year.

Board leadership and purpose

Board of Directors

Roberto Quarta (72)

Chair

Joined the Board in December 2013 and appointed Chair at the 2014 Annual General Meeting.

Career and experience

Roberto is a graduate and a former Trustee of the College of the Holy Cross, Worcester (MA), US. He started his career at David Gessner Ltd, before moving on to Worcester Controls Corporation and then BTR plc. Between 1985 and 1989 he was Executive VP of Hitchiner Manufacturing Co., Inc. He later returned to BTR plc in 1989 as Divisional Chief Executive, where he was appointed to the main board. From here he moved to BBA Aviation plc, as Chief Executive Officer and then as Chair, until 2007. In 2001, he joined Clayton Dubilier & Rice, LLC (CD&R) as Partner and is currently Chair of CD&R Europe.

He has held several board positions, including Non-Executive Director of Powergen plc, Equant N.V., BAE Systems plc and Foster Wheeler AG. His previous chairmanships include Italtel S.p.A., Rexel SA, IMI plc and SPIE SA. Roberto was a member of the Investment Committee of Fondo Strategico Italiano S.p.A.

Other current appointments

- Chair of WPP plc.
- Partner at Clayton Dubilier & Rice, LLC and Chair of CD&R Europe.

Skills and competencies

Roberto's career in private equity brings valuable experience to Smith+Nephew, particularly when evaluating acquisitions and new business opportunities. He has an in-depth understanding of differing global governance requirements, having served as a director and chair of a number of UK and international companies.

Nationality

American/Italian

Roland Diggelmann (54)

Chief Executive Officer

Appointed in November 2019. Previously Independent Non-Executive Director and Member of the Audit Committee between 1 March 2018 until 21 October 2019. Roland is based in Zug, Switzerland.

Roland Diggelmann served as Chief Executive Officer of the Company throughout 2021 and will be leaving the Company on 31 March 2022.

Career and experience

Roland studied Business Administration at the University of Bern. In 1995, he joined Sulzer Medica AG as Manager, Strategic Planning and progressed into further senior roles over the years until his appointment as Executive Vice President, Sales Europe and Asia Pacific from 2002 to 2004 for Sulzer Medica AG (later known as Centerpulse AG).

Roland joined Zimmer Group in 2004, in the role of Managing Director of Zimmer Japan and then later in 2006 as Senior Vice President, EMEA until 2008. Roland joined Roche Diagnostics in 2008 starting as president of Asia Pacific before assuming the role of Chief Executive Officer of the Diagnostics Division of F. Hoffmann-La Roche Ltd from 2012 until September 2018.

Other current appointments

- Director of Heart Force AG.
- NED of Sonova Holding AG.

Skills and competencies

Having spent his whole career in medical devices, with 12 years at Sulzer and Zimmer, Roland brings an in-depth knowledge of the medical device industry and healthcare environment, which is of great value to Smith+Nephew.

Nationality

Swiss

Deepak Nath (49)

Chief Executive Officer elect

To take up appointment on 1 April 2022.

Career and experience

Deepak holds a BSc and MSc in Mechanical Engineering and a PhD in Theoretical Mechanics from the University of California, Berkeley. In 1998 he joined the Lawrence Livermore National Laboratory as a scientist in the New Technologies Engineering Division/Computational Physics Group. In 2000 he moved to McKinsey & Company, where he progressed to become an Engagement Manager. In 2004 he left to join Amgen rising to Director, R&D Strategic Operations and Finance.

In 2007 Deepak joined Abbott Laboratories Inc. in the Vascular division. He held roles of increasing responsibility in R&D, marketing, commercial and divisional leadership and rose to become President of Abbott Vascular, then one of the company's largest businesses, and an Executive Officer of Abbott Laboratories.

Deepak joins Smith+Nephew from Siemens Healthineers (2018–2022) where most recently he was President of the Diagnostics business segment responsible for $6 billion of revenue and 15,000 employees.

Other current appointments

- None.

Skills and competencies

Deepak has a track record of driving growth at major healthcare companies through delivering a significant improvement in execution and building a strong results-focused culture.

Nationality

American

Committee key

Committee Chair
A Member of the Audit Committee
C Member of the Compliance & Culture Committee
N Member of the Nomination & Governance Committee
R Member of the Remuneration Committee

Anne-Françoise Nesmes (50)

Chief Financial Officer

Appointed in July 2020. Anne-Françoise is based in Watford, UK.

Career and experience

Anne-Françoise holds an MA degree in Management Sciences from Grenoble Ecole de Commerce and an MBA from Henley Management College. She qualified as a Chartered Management Accountant in 1996. Anne-Françoise joined GlaxoSmithKline plc in 1997 where she worked for 16 years, holding multiple senior roles, including Vice President and Finance Controller, Europe (2003–2006), Vice President Forecasting and Planning, US Pharmaceutical (2006–2009) and Senior Vice President Finance, Global Vaccines (2009–2013). She demonstrates a high level of passion towards life science companies where she has spent the majority of her senior career. Anne-Françoise served as Chief Financial Officer for Dechra Pharmaceuticals plc in 2013 where she successfully implemented financial strategies to support the growth of the business. Most recently, she was Chief Financial Officer of Merlin Entertainments Limited (formerly Merlin Entertainments plc).

Other current appointments

– NED and Chair of the Audit Committee at Compass Group plc.

Skills and competencies

Anne-Françoise has worked as a senior finance executive in global FTSE listed companies for many years, which alongside a strong business acumen and deep sector knowledge provides her with the experience required to be part of the Smith+Nephew leadership team. She demonstrates a high competency for delivering operational excellence across different geographic markets and leading large teams who are responsible for significant budgets. She has an impressive background and her ability to translate financial insights into results helps guide Smith+Nephew.

Nationality

British/French

Erik Engstrom (58)

Independent Non-Executive Director

Appointed in January 2015.

Career and experience

Erik is a graduate of the Stockholm School of Economics (BSc) and of the Royal Institute of Technology in Stockholm (MSc). In 1988, he graduated with an MBA from Harvard Business School as a Fulbright Scholar. Erik commenced his career at McKinsey & Company and then worked in publishing, latterly as President and Chief Operating Officer of Random House Inc. and as President and Chief Executive Officer of Bantam Doubleday Dell, North America. In 2001, he moved on to be a partner at General Atlantic Partners, a private equity investment firm. Between 2004 and 2009, he was Chief Executive Officer of Elsevier, the division specialising in scientific and medical information and then from 2009 Chief Executive Officer of RELX Group.

Other current appointments

– Member of Bonnier Group's Board.
– Chief Executive Officer of RELX Group.

Skills and competencies

Erik has successfully reshaped RELX Group's business in terms of portfolio and geographies. He brings a deep understanding of how technology can be used to transform a business and insight into the development of new commercial models that deliver attractive economics. His experience as a Chief Executive Officer of a global company gives him valuable insights as a member of our Audit and Nomination & Governance Committees.

Nationality

Swedish

Robin Freestone (63)

Senior Independent Director

Appointed Non-Executive Director in September 2015 and subsequently appointed Senior Independent Director in April 2019.

Career and experience

Robin graduated with a BA in Economics from The University of Manchester and later qualified and commenced his career as a Chartered Accountant at Deloitte. He has held a number of senior financial positions throughout his career, including at ICI plc, Henkel Ltd and at Amersham plc. Robin was the Deputy Chief Financial Officer and then later the Chief Financial Officer of Pearson plc between 2006 and August 2015. He was previously NED at eChem Ltd, Chair of the 100 Group and Senior Independent Director and Chair of the Audit Committee of Cable & Wireless Communications plc. Robin was also previously Chair of the Audit Committee of MoneySupermarket.com Group plc.

Other current appointments

– NED and Chair of the Audit Committee at Capri Holdings Ltd.
– Chair of the ICAEW Corporate Governance Committee.
– Chair of the Board and Nomination Committee of MoneySupermarket.com Group plc.
– NED and Chair of Audit and Risk Committee at Aston Martin Lagonda Global Holdings plc.

Skills and competencies

Robin has been a well-regarded FTSE 100 Chief Financial Officer who has been heavily involved with transformations, diversification and risk management. His acquisition experience in the healthcare sector brings value to Smith+Nephew as it continues to grow into different markets. He brings financial expertise and insight as a member of the Audit Committee and understands how to attract and retain global talent as a member of the Remuneration Committee. His experience as a Chair brings a strong Senior Independent Director to the Smith+Nephew Board.

Nationality

British

Jo Hallas (52)

Independent Non-Executive Director

Appointed on 1 February 2022.

Career and experience

Jo is a Chartered Engineer with a degree in Engineering from the University of Cambridge. She also holds an MBA from INSEAD.

Jo commenced her career at Procter & Gamble (P&G) and held increasingly senior positions based in Germany, the US, Thailand and the Netherlands. On completing her MBA, she joined Bosch where she held a business unit leadership role in their Power Tools division. In 2009, Jo joined Invensys plc to run their global heating controls business unit including launching its first smart home offer. She then moved to Spectris plc, where she had responsibility for a portfolio of global industrial technology businesses, as well as for the Group's digital strategy. Since 2019, Jo has served as Chief Executive Officer for Tyman plc, the FTSE 250 international supplier of engineered components to the doors and windows industry, where she has made sustainability a core foundation of the group's strategy. Jo was also previously Chair of the Remuneration Committee for Norcros plc.

Other current appointments

– Chief Executive Officer of Tyman plc.

Skills and competencies

Jo has extensive international management experience focused on business transformation through both organic and acquisitive growth in global industrial and consumer sectors.

She brings valuable expertise which will help Smith+Nephew build upon and achieve our strategic ambitions.

Nationality

British

John Ma (59)

Independent Non-Executive Director

Appointed on 17 February 2021.

John was appointed as a Member of the Compliance & Culture Committee on 7 December 2021.

Career and experience

John graduated from Wayne State University with an MSc and a Ph.D. in Materials Science and Engineering. In 1995, John became a Manager of International Operations at the Performed Line Products Company. After five years he joined GE Healthcare and became Vice President and General Manager of their Global Product Company in China. In 2002, John was promoted and became responsible for GE Healthcare's commercial division across central China where he successfully led sales, marketing and customer service teams for their $200m diagnostics medical imaging business. John has also held a number of senior positions as President of Asia Pacific regions at Pentair Inc., Vice President of Express Scripts Inc., and Global Partner of Fosun Group. He initially joined Fosun Pharma to lead their medical device business and in 2014 became President of Fosun Healthcare Holdings. He served as a key member of their healthcare investment committee which went on to establish a global presence across the US, Europe, Israel and China. In 2017, John joined Intuitive Surgical as their Senior Vice President of Strategic Growth Initiatives. He has previously served as a NED for both Haier Electronics Group and Clinical Innovations LLC.

Other current appointments

– Founder, Chair and Chief Executive Officer of Ronovo Surgical.

Skills and competencies

John has an impressive track record in medical device businesses and his contribution provides value as Smith+Nephew continues to develop innovative ways to grow and serve our markets with a focus towards Asia Pacific regions.

He is an established healthcare leader and has strong experience of driving market entry and growth within emerging markets.

Nationality

American

Katarzyna Mazur-Hofsaess (58)

Independent Non-Executive Director

Appointed in November 2020.

Katarzyna was appointed as a member of the Compliance & Culture Committee on 7 April 2021.

Career and experience

Katarzyna qualified as a medical doctor (Ph.D.) from the Medical University of Gdańsk, Poland in 1987 and completed an Executive MBA at the University of Minnesota, US, in 2002. Katarzyna commenced her corporate career in 1998 at Roche as a Business Unit Manager prior to becoming General Manager for Poland of Allergy Therapeutics plc. In 2001, Katarzyna was recruited by Abbott Laboratories where she successfully managed their diabetes care division in Poland. Over the next nine years, her career progressed at Abbott Laboratories to Divisional Vice President for Europe. In 2010, she continued her career at Zimmer as President of their EMEA region. Following her appointment as an executive committee member prior to the Biomet acquisition, Katarzyna supported the operations of the Zimmer Biomet portfolio covering sales, marketing, logistics, and clinical support. Since 2018, Katarzyna has served as Chief Executive Officer for the €2.7 billion EMEA business of Fresenius Medical Care AG & Co. KGaA, the German-listed renal care company.

Other current appointments

– Chief Executive Officer, EMEA, at Fresenius Medical Care AG & Co. KGaA.
– NED at Vifor Fresenius Medical Care Renal Pharma Ltd.

Skills and competencies

Katarzyna demonstrates a true passion for customer focus and maintains an impressive track record in senior leadership within the MedTech industry. She is a qualified medical doctor (Ph.D.) with vast experience in medical devices and orthopaedic sectors. Her Chief Executive Officer experience of a global company and valuable industry knowledge will help drive innovation and ensure the continued development of Smith+Nephew.

Nationality

German/Polish

Board of Directors continued

Rick Medlock (61)

Independent Non-Executive Director

Appointed in April 2020.

Career and experience

Rick graduated from Cambridge University with a BA in Economics. In 1982, he joined Arthur Andersen LLP where he qualified as a Chartered Accountant. Rick has had a highly successful career as a strong commercial Chief Financial Officer in the technology industry, working for a range of international FTSE 100 and NASDAQ listed businesses during periods of high growth. He has held a number of Chief Financial Officer positions throughout his career, including at NDS Group plc, Inmarsat plc and Worldpay Group plc. Rick brings a wealth of experience as a former NED and Audit Committee Chair of several technology driven businesses, such as Sophos Group plc, Edwards Vacuum and Thus plc. Rick was also previously Chair of BluJay Solutions Ltd, Chair of Momondo Group and Chair of the Audit Committee for LoveFilm UK Limited.

Other current appointments

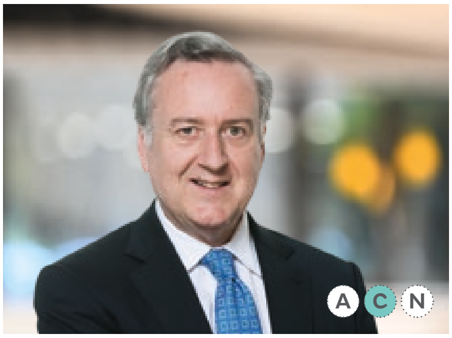
- NED and member of the Audit, Risk and Compliance Committee at Datatec Ltd.
- NED and Chair of the Audit Committee at Deliveroo.

Skills and competencies

Rick has extensive experience and a deep understanding of technology focused R&D businesses. He has driven value and transformation throughout his executive career which will further reinforce the ability of Smith+Nephew to grow and develop into new and existing markets. Rick brings significant financial expertise as a well-regarded former FTSE 100 Chief Financial Officer, NED and Audit Committee Chair.

Nationality

British



Marc Owen (62)

Independent Non-Executive Director

Appointed in October 2017.

Career and experience

Marc graduated from Oxford University with a BA and BCL in Law. In 1984 he was called to the Bar, following four years at Corpus Christi College Cambridge as a fellow and director of studies in law. He decided upon a corporate career and undertook an MBA at Stanford University. Marc commenced his healthcare and technology career at McKinsey & Company where he progressed to senior partner and eventually a founding partner of McKinsey's Business Technology Office. In 2001, Marc joined McKesson Corporation and served as Executive Vice President and member of their Executive Committee. He delivered strategic objectives and led over 40 acquisitions and divestments over a 10-year period. In late 2011 he headed McKesson Speciality Health, which operates over 130 cancer centres across the US and provides market intelligence, supply chain services, patient access to therapy, provider and patient engagement and clinical trial support. In 2014, he was appointed Chair of the European Management Board at Celesio AG. He retired in March 2017 once he had improved operations, set the strategy and recruited his successor.

Other current appointments

- None.

Skills and competencies

Marc is a proven leader with an astute strategic vision, capable of building significant international healthcare businesses. He has strong commercial healthcare expertise, which the Board values deeply and makes him ideally placed to Chair the Compliance & Culture Committee.

Nationality

British

Angie Risley (63)

Independent Non-Executive Director

Appointed in September 2017.

Career and experience

After graduating from Exeter University, Angie joined United Biscuits followed by Pizza Hut (UK) Ltd as Human Resources Director, a joint venture between PepsiCo, Inc. and Whitbread plc. After five years she joined Whitbread plc, becoming an Executive Director responsible for HR and Corporate Social Responsibility in 2004. Between 2007–2013 she was the Group HR Director for Lloyds Banking Group, joining J Sainsbury plc as Group HR Director and a member of their Operating Board in January 2013. Over the years, Angie has been a member of the Low Pay Commission and has held a number of Non-Executive Directorships with Biffa plc, Arriva and Serco Group plc, and now Smith+Nephew. At Serco Group plc she was the Chair of the Remuneration Committee. Previously she has attended Remuneration Committees of Whitbread plc, Lloyds Banking Group, Arriva and now J Sainsbury plc.

Other current appointments

- J Sainsbury plc Group HR Director and member of their Operating Board.

Skills and competencies

Angie is a well-regarded FTSE 100 Human Resources Director, proven Non-Executive Director and Remuneration Committee Chair. She has gained experience in a wide range of sectors, including a regulated environment. This diversity of experience is welcomed by the Board and the Remuneration Committee.

Nationality

British

Bob White (59)

Independent Non-Executive Director

Appointed in May 2020.

Career and experience

Bob graduated from Cleveland State University in 1985 with a BBA in Marketing and later achieved an MBA from Case Western Reserve University. He is a Fellow of the American College of Healthcare Executives.

In 1986, Bob joined IBM Corporation and progressed to become their Healthcare Solutions General Manager in 1995 for EMEA regions. Bob has held a number of senior Vice President positions throughout his career, including at Chemdex Corporation, Accelrys Inc., SourceOne Healthcare Technologies, Inc., GE Healthcare and Covidien as President for Emerging Markets and President for Respiratory and Monitoring Solutions. He then became Senior Vice President and President of Medtronic Asia Pacific, having led the integration of Covidien Asia Pacific when it was acquired by Medtronic plc in 2015. Bob is currently a member of the Medtronic Executive Committee.

Other current appointments

– Executive Vice President and President, Medical Surgical Portfolio at Medtronic plc.

Skills and competencies

Bob is an experienced leader with more than 25 years' worth of industry relevant experience. He is an influential and well-known figure in the medical technology sector and has an impressive track record in delivering growth and fostering innovation. He brings valuable global medical technology insight to the Board, which will prove fundamental in helping to shape and develop the future strategic direction of Smith+Nephew.

Nationality

American

Susan Swabey (60)

Company Secretary

Appointed in May 2009

Career and experience

Susan holds an MA from Corpus Christi College Oxford in Literae Humaniores and is a Fellow of The Chartered Governance Institute.

Susan has over 35 years' experience as a Company Secretary in a wide range of companies including Prudential plc, Amersham plc and RMC Group plc. Her work has covered board support, corporate governance, remuneration, corporate transactions, group risk management, share registration, listing obligations, corporate social responsibility, pensions, insurance and employee and executive share plans. Susan is a frequent speaker on corporate governance and related matters.

Other current appointments

– Chair of the CBI Companies Committee.
– Chair of ShareGift, the share donation charity.

Skills and competencies

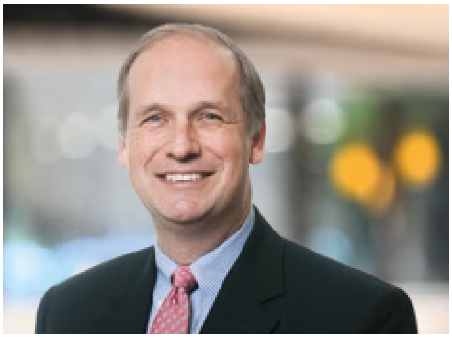
Responsibility for board support and corporate governance, employee and executive share plans and subsidiary governance. Susan is based in Watford, UK.

Nationality

British

Executive team

The Chief Executive Officer is supported in the day-to-day management of the Group by Anne-Françoise Nesmes, Chief Financial Officer, and a strong team of Executives.



Brad Cannon (54)

President Orthopaedics, Sports Medicine & ENT and Americas

Joined Smith+Nephew in 2012 and has since been the President of Smith+Nephew's Europe and Canada business, the Company's Chief Marketing Officer, and now serves as the President of Orthopaedics, Sports Medicine & ENT and Americas business. Brad is based in Andover, US.

Skills and experience

Brad was most recently the Chief Marketing Officer and prior to that the President of Europe and Canada, where he successfully led the commercial business in those regions. He has previously served as the President of Global Orthopaedic Franchises, leading Smith+Nephew's Reconstruction, Endoscopy, Trauma and Extremities businesses. Prior to Smith+Nephew, Brad worked in Medtronic plc's Spine and Biologics division. From 2009, he was responsible for Medtronic plc's Spine International division and held positions heading US sales and global commercial operations. Brad is a graduate of Washington and Lee University, and the Wharton School of Business at the University of Pennsylvania.

Nationality

American

Simon Fraser (54)

President Advanced Wound Management and Global Commercial Operations

Joined Smith+Nephew in January 2019 with commercial leadership responsibility for Advanced Wound Management and Global Commercial Operations. Simon is based in Fort Worth, US.

Skills and experience

Simon brings more than 25 years of experience across medical devices, pharmaceuticals and diagnostics, including wound management. Importantly, he is a purpose-driven and accomplished business leader who has successfully managed large, global commercial organisations with full P&L responsibility while growing business and earning market share.

Prior to joining Smith+Nephew, Simon was Group Vice President of Dentsply Sirona's Dental Implant Global Business Unit. Prior to this Simon was Vice President, US Commercial Infectious Diseases including corporate accounts at Abbott Laboratories. Simon joined Abbott following the acquisition of Alere Inc., where he had three successful years as the President of Latin America. Prior to these roles, Simon had a 15-year career with Johnson & Johnson, where he held increasingly senior commercial roles spanning surgical devices, wound management, implants and pharmaceuticals including both global strategic marketing and P&L responsibilities.

Nationality

American/Canadian

Our Executive Committee

Commercial and Functional leadership teams all report into the Chief Executive Officer

Chief Executive Officer

Commercial

- President Advanced Wound Management and Global Commercial Operations
- President Orthopaedics and Sports Medicine & ENT and Americas
- President APAC Region
- President EMEA Region

Functional

- Chief Business Development & Corporate Affairs Officer
- Chief Compliance Officer
- Chief Financial Officer
- Chief HR Officer
- Group General Counsel
- President Global Operations
- President Research & Development
- Chief Quality & Regulatory Affairs Officer

Peter Coenen (60)

President EMEA Region

Joined Smith+Nephew in September 2020 with responsibility for Europe, the Middle East and Africa (EMEA). Peter is based in Zug, Switzerland.

Skills and experience

Peter is an experienced cross-cultural leader and is adept at delivering results by building successful teams. Most recently, Peter was President of Terumo Interventional Systems, a Japan-based medical device company that is part of the Terumo Corporation. In addition to this role, Peter also acted as Terumo's General Manager of its CEEMEA region (Central and Eastern Europe, the Middle East and Africa). During his seven-year tenure with Terumo, Peter helped drive growth by more than doubling both revenue and profitability. Prior to Terumo, Peter held a number of senior roles in Europe, the Middle East, Africa, Asia and Latin America with Guidant Corporation, Haemonetics Corporation and Boston Scientific Corporation.

Peter has a wealth of operational experience that will help drive business performance and bolster the future success of the EMEA region.

Nationality

German

Myra Eskes (50)

President APAC Region

Joined Smith+Nephew in May 2019 with responsibility for Asia Pacific. Myra is based in Singapore.

Skills and experience

Myra is a strong and highly respected leader with deep cross-cultural experience bringing more than two decades of enterprise-wide experience in finance, manufacturing, operations, sales and marketing. Most recently, Myra was President and Chief Executive Officer of GE Healthcare Southeast Asia, Korea, Australia and New Zealand, reporting directly to the Chief Executive Officer as part of the global management team. In this role, she was responsible for the diagnostic and interventional imaging, patient monitoring, healthcare digital and life sciences businesses.

Prior to this, Myra led the GE Life Sciences business for the Eastern & African growth markets, covering Turkey, the Middle East, Africa and Russia/Commonwealth of Independent States (CIS) countries. There, she drove growth in the region by working with customers who were investing in life sciences technologies and research, including pharmaceutical diagnostics, bioprocessing, services and in-vitro diagnostics. In addition to her diverse operational experience in complex and broad-based businesses around the world, Myra has a proven track record of driving strong revenue growth and increasing profitability. She has created high performing teams to deliver innovative medical devices and life sciences solutions on three continents and has a true passion for customers and improving access to quality healthcare.

Nationality

Dutch

Helen Barraclough (43)

Group General Counsel

Joined Smith+Nephew in July 2013 as Chief Counsel, APAC and Emerging Markets, before her promotion in 2017 to Associate General Counsel, Global Commercial. Helen became Group General Counsel in January 2022 and is responsible for the Group Legal function and also serves as Chief Risk Officer. Helen is based in Watford, UK.

Skills and experience

Helen is a skilled leader with strong global corporate and commercial experience who has helped Smith+Nephew to deliver its strategic objectives and further embed our cultural values. Helen started her career with Allen & Overy LLP and prior to joining Smith+Nephew also held senior legal roles at WPP plc and Nomura International plc.

Helen holds a master's degree in Law from Cambridge University. She is also accredited as a Chartered Governance Professional and admitted as a Solicitor in England and Wales.

Nationality

British

Executive team continued

Paul Connolly (54)

President Global Operations

Joined Smith+Nephew on 11 October 2021 with responsibility for Global Manufacturing and Engineering, Global Supply Chain, Global Procurement, and Global Operational Strategy and Transformation. Paul is based in Andover, US.

Skills and experience

Prior to joining Smith+Nephew, Paul was Vice President of Global Manufacturing Strategy for The Goodyear Tire and Rubber Company where he led footprint and capital planning to drive performance and return on investment. Previously, Paul was based in Brussels, Belgium, leading Operations for Goodyear EMEA. He is a proven customer-centric and people-focused leader who brings more than 30 years of global manufacturing and supply chain experience at multinational companies, including DePuy, Inc., and other Johnson & Johnson family companies. Paul had a successful 20-year career at Johnson & Johnson in progressively senior roles in engineering, manufacturing, supply chain, global operations and business services. He has a strong track record in delivering operational excellence and transformation programmes.

Paul holds an undergraduate degree in Engineering and a master's degree in Manufacturing Management, both from the University of Ulster, and a Diploma in Management Studies from Henley Management College.

Nationality

American/Irish

Phil Cowdy (54)

Chief Business Development & Corporate Affairs Officer

Joined Smith+Nephew in 2008 as Director of Investor Relations. From 2010 his responsibility expanded as Head of Corporate Affairs, including media, investor relations, global brand and government affairs, together with Strategic Planning. Between 2015 and 2018 he was also responsible for IT. In 2018 he took on additional responsibility for Business Development. Phil serves as the representative of Smith+Nephew on the Board of Bioventus Inc. Phil is based in Watford, UK.

Skills and experience

Prior to joining Smith+Nephew, Phil served as a senior Director at Deutsche Bank AG and predecessor firms for 13 years, providing corporate finance and equity capital markets advice to a variety of UK-based companies. He qualified as a chartered accountant with EY.

Nationality

British

Mizanu Kebede (61)

Chief Quality & Regulatory Affairs Officer

Joined Smith+Nephew on 27 September 2021 with responsibility for Global Quality and Regulatory Affairs, inclusive of the Portfolio Compliance function. Mizanu is based in Georgia, US.

Skills and experience

Mizanu brings more than 20 years of leadership experience in Quality and Regulatory Affairs across multiple sectors in operational, commercial and strategic roles. Prior to Smith+Nephew, Mizanu was the Senior Vice President of Global Quality, Regulatory and Product Safety at Avanos Medical, a spinoff business of the Kimberly-Clark Corporation, which focused on healthcare solutions for chronic care and pain management.

Mizanu has a proven track record of building high performance teams, driving change and creating a competitive advantage through an open and collaborative leadership style. He has held several senior quality and regulatory leadership roles within medical devices, diagnostics and healthcare at multinational companies including Life Technologies Corporation, Johnson & Johnson and STERIS Corporation.

Mizanu holds a master's degree in Microbiology and Immunology.

Nationality

American

Elga Lohler (54)

Chief HR Officer

Joined Smith+Nephew in January 2002 as Director of HR and has since held progressively senior positions in Advanced Wound Management, Operations, Corporate Functions and Group. Elga became Chief Human Resources Officer in December 2015 and leads the Global Human Resources and Internal Communication. Elga is based in Fort Worth, US.

Skills and experience

Elga has more than 25 years' Human Resources experience. Prior to joining Smith+Nephew, Elga held Human Resources roles at Transnet SOC Ltd, Sensormatic (now Tyco International plc) and Advanced Tissue Sciences, Inc., which was acquired by Smith+Nephew in 2002. Through these roles, Elga has developed deep expertise in strategic planning and development, organisational design and effectiveness, acquisitions and integrations, and transformational change in support of business objectives. In her current role, Elga is responsible for driving Smith+Nephew's human capital strategy across the enterprise in support of Smith+Nephew's overall business plan and strategic direction.

Elga holds an undergraduate degree in Psychology and a Master's degree in Organisational Psychology, both from the University of Witwatersrand in South Africa.

Nationality

American/South African

Vasant Padmanabhan (55)

President Research & Development

Joined Smith+Nephew in August 2016 and is responsible for Research and Innovation, New Product Development, Clinical and Medical Affairs, and Clinical Operations. Vasant is based in Andover, US.

Skills and experience

Vasant is a medical technology executive with over 25 years of global R&D leadership experience. He holds a doctorate in Biomedical Engineering and has a proven track record of driving and delivering innovation from concept-to-commercialisation. Prior to Smith+Nephew, Vasant served as the Senior Vice President of Technical Operations at Thoratec Corporation, a leader in mechanical circulatory support solutions for the treatment of heart failure. In this role, he provided leadership to multiple technical functions including global R&D, Programme Management, Quality Affairs, and Operations. Prior to Thoratec Corporation and its successful acquisition by St. Jude Medical, Inc. in 2015, Vasant had an 18-year career at Medtronic plc, starting as a Staff Scientist and, progressing through more senior roles, ultimately becoming Vice President of Connected Care R&D Operations (2008–2012) and Vice President of Product Development for the Implantable Defibrillator Business (2012-2014). Vasant holds an MSc and a Ph.D. in Biomedical Engineering from Rutgers University and an MBA from the University of Minnesota – Carlson School of Management.

Nationality

American

Alison Parkes (50)

Chief Compliance Officer

Joined Smith+Nephew in April 1999 as Technical Information Officer in the AWM UK business and has since held progressively senior positions in Quality, Pharmacovigilance, Risk Management and Compliance. Alison became Chief Compliance Officer in January 2022 and leads the Global Compliance function. Alison is based in Fort Worth, US.

Skills and experience

Alison has more than 13 years' compliance experience. She served as the Compliance Officer for the Global Advanced Wound Management business from April 2010 to August 2013, and as Compliance Officer for APAC and Emerging Markets from August 2013 to December 2018. Prior to moving into her current role, Alison established and led the Global Compliance Programme Effectiveness & Improvement team and has been instrumental in driving continuous improvement in the Compliance Programme.

Alison holds an undergraduate degree in Biochemistry and a PhD in Molecular Biology & Genetics, both from the University of Sheffield.

Nationality

British

Executive team whose tenure ceased:

Mark Gladwell
President Operations & GBS
Served until 20 August 2021.

Melissa Guerdan
Chief Quality & Regulatory Affairs Officer
Served until 10 September 2021.

Skip Kiil
President Orthopaedics
Served until 31 December 2021.

Catheryn O'Rourke
Chief Legal & Compliance Officer
Served until 14 January 2022.

Roles and composition

Whilst we all share collective responsibility for the activities of the Board, some of our roles have been defined in greater detail below.

Chair

- Building a well-balanced Board.
- Chairing Board meetings and setting Board agendas.
- Ensuring effectiveness of the Board and enabling the annual review of effectiveness.
- Encouraging constructive challenge and facilitating effective communication between Board members.
- Promoting effective Board relationships.
- Holding meetings with Non-Executive Directors in the absence of Executive Directors.
- Ensuring one-to-one discussions with each Board Member.
- Ensuring appropriate induction and development programmes.
- Ensuring effective two-way communication and debate with shareholders and stakeholders.
- Promoting high standards of corporate governance.
- Maintaining appropriate balance between stakeholders.

Senior Independent Director

- Chairing meetings in the absence of the Chair.
- Acting as a sounding board for the Chair on Board-related matters.
- Acting as an intermediary for the other Directors where necessary.
- Available to shareholders and stakeholders on matters which cannot otherwise be resolved.
- Leading the annual evaluation into the Board's effectiveness.
- Leading the search for a new Chair, if necessary.

Chief Executive Officer

- Developing and implementing Group strategy.
- Recommending the annual budget and long-term strategic and financial plan.
- Ensuring coherent leadership of the Group.
- Managing the Group's risk profile and establishing effective internal controls.
- Regularly reviewing organisational structure, developing executive team and planning for succession.
- Ensuring the Chair and Board are kept advised and updated regarding key matters.
- Maintaining relationships with shareholders and advising the Board accordingly.
- Setting the tone at the top with regard to culture, compliance and sustainability matters.
- Responsible for Environmental Social and Governance matters.
- Day-to-day running of the business.

Chief Financial Officer

- Supporting the Chief Executive Officer in developing and implementing the Group strategy.
- Leading the global finance function, developing key finance talent and planning for succession.
- Ensuring effective financial reporting, processes and controls are in place.
- Recommending the annual budget and long-term strategic and financial plan.
- Maintaining relationships with shareholders.

Company Secretary

- Providing independent advice to the Board on matters of corporate governance.
- Supporting the Chair and Non-Executive Directors.
- Point of contact for investors on matters of corporate governance.
- Ensuring good governance practices at Board level and throughout the Group.

Non-Financial Reporting Regulations

In accordance with the Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016 information can be found on the following pages of this 2021 Annual Report relating to the environment (pages 48–57 of this report and the 2021 Sustainability Report), social (pages 20–27 of this report and the 2021 Sustainability Report), anti-corruption and anti-bribery matters (pages 27 and 49), employees (pages 20–27) and human rights (page 27).

Corporate governance framework

The Board is responsible to shareholders and stakeholders for approving the strategy of the Group, for overseeing the performance of the Group and evaluating and monitoring the management of risk. Each member of the Board has access, collectively and individually, to the Company Secretary and is also entitled to obtain independent professional advice at the Company's expense, should they decide it is necessary in order to fulfil their responsibilities as Directors.

The Board delegates certain matters, as follows, to Board Committees, consisting of members of the Board:

Our Board

Audit Committee
Provides independent assessment of the financial affairs of the Company, reviews financial statements and controls oversight of the risk management process and key risks. Oversight of sustainability matters.

Manages use of internal and external auditors.

» See page 96

Remuneration Committee
Determines Remuneration Policy and packages for Executive Directors and Executive Officers, having regard to pay across our workforce.

Ensures alignment with our purpose, values and long-term strategy.

» See page 114

Nomination & Governance Committee
Reviews size, skills, experience, knowledge and composition of the Board, succession planning, diversity and governance matters.

» See page 92

Compliance & Culture Committee
Reviews and monitors and has oversight of ethics and compliance, quality and regulatory, culture, sustainability matters and metrics, stakeholder relationships and related legal matters across the Group.

» See page 106

Ad hoc committees
Ad hoc committees may be established to review and approve specific matters or projects.

The Board delegates certain matters, as follows, to Board Committees, consisting of senior executives:

Finance & Banking Committee
Approves banking and treasury matters, guarantees and Group structure changes relating to mergers, acquisitions and disposals.

Disclosures Committee
Approves release of communications to investors and Stock Exchanges. Reviews whether communications are inside information.

The Board delegates the day-to-day running of the business to Roland Diggelmann, Chief Executive Officer, who is assisted in his role by the Executive Committee comprising the executive team shown on pages 80–83. The governance framework below outlines the Executive Committee responsibilities and the structure of sub-committees reporting into the Executive Committee.

Executive Committee

Recommends and implements strategy, recommends budget and three-year plan to the Board for approval, ensures liaison between commercial and corporate functions, receives regular reports from sub-committees, monitors succession planning and talent pipeline below Board level, reviews major investments, divestment and capital expenditure proposals and approves business development projects. During 2021, an additional Committee named the Crisis Management team continued to manage the Company's response to the COVID pandemic.

Monthly Business Review
Executive Committee monthly meetings to review commercial and operating results against budget, review key initiatives and business dashboards aligning to deliver corporate strategy.

Health, Safety & Environment Committee
Oversees health, safety and environmental matters.

Franchise, Functional and Regional Leadership Meetings
Senior management meetings to drive performance across each franchise, function and region.

Investment Committee
Oversees Corporate Development Strategy, monitors status of transactions and approves various stages in the merger, acquisition and disposal process.

Global Benefits Committee
Oversees all policies and processes relating to pensions and employee benefit plans.

Quarterly Business Review
Wider group of senior commercial and financial leaders review quarterly commercial and operating results against budget, identifying gaps and agreeing remedial actions.

Group Ethics & Compliance Committee
Reviews compliance matters and country business unit or function compliance reports.

Inclusion, Diversity & Equity Council
Implements strategies to promote diversity and inclusion.

New Product Development Committee
Defines portfolio allocation principles, reviewing and challenging current shape of portfolio, identifying gaps and opportunities and re-prioritising segments and geographies.

Sustainability Council
Develop and implement our sustainability strategy.

Responsibilities of the Board

The Schedule of Matters Reserved to the Board describes the role and responsibilities of the Board more fully and can be found on our website at www.smith-nephew.com.

Strategy

- Approving the Group strategy including major changes to corporate and management structure.
- Approving acquisitions, mergers, disposals, capital transactions in excess of $50 million.
- Setting priorities for capital investment across the Group.
- Approving annual budget, financial plan, three-year business plan.
- Approving major borrowings and finance and banking arrangements.
- Approving changes to the size and structure of the Board and the appointment and removal of Directors and the Company Secretary.
- Approving Group policies relating to sustainability, health and safety, Code of Conduct and Code of Share Dealing and other matters.
- Approving the appointment and removal of key professional advisers.

February
- Reviewed three-year strategic plan.
- Reviewed and approved Budget.
- Reviewed APEX restructuring plan, the new restructuring plan and the manufacturing plan.
- Noted upcoming Board membership changes.

Early April
- Reviewed and approved three-year strategic plan.
- Noted retirement of Baroness Bottomley later that day.

July
- Received Corporate Development update.
- Approved Codes of Share Dealing.
- Reviewed new restructuring plan.

September
- Discussed strategic review.

October
- Discussed organisational changes.
- Received business update from Chief Executive Officer.
- Approved acquisition contract amendment.

November
- Noted organisational changes.

December
- Reviewed revised corporate strategy.
- Reviewed Budget and three-year strategic plan.
- Approved Capital Allocation Framework.

Performance

- Reviewing performance against strategy, budgets and financial and business plans.
- Overseeing Group operations and maintaining a sound system of internal control.
- Determining the dividend policy and dividend recommendations.
- Approving the appointment and removal of the External Auditor on the recommendation of the Audit Committee.
- Approving significant changes to accounting policies or practices.
- Overseeing succession planning at Board and Executive Officer level.
- Approving the use of the Company's shares in relation to employee and executive share incentive plans on the recommendation of the Remuneration Committee.

February
- Considered COVID impact on the Company's business.
- Reviewed financial performance.
- Considered payment of final dividend.
- Received update on financing, liquidity and debt capacity.

Early April
- Reviewed financial performance.
- Received update on Advanced Wound Management.
- Reviewed post-acquisition performance.
- Noted upcoming Executive Committee membership changes.

Late April
- Reviewed financial performance.
- Received update on Executive Committee membership succession plans.

July
- Approved and declared payment of interim dividend.
- Received updates on Orthopaedics franchise.
- Reviewed financial performance.
- Received update on Executive Committee membership succession plans.
- Received update on financing, liquidity and insurance.
- Reviewed and approved accounting treatment of restructuring costs.

September
- Reviewed financial performance.
- Discussed impact of supply chain challenges on performance.
- Noted Executive Committee membership changes.

Performance continued

October
- Discussed impact of supply chain challenges on performance.
- Noted Executive Committee membership changes.

November
- Reviewed financial business performance.

December
- Reviewed financial business performance.
- Received updates on APAC & China, Global Operations, Quality & Regulatory Function, Reconstruction & Robotics and Trauma & Extremities.
- Discussed impact of supply chain challenges on performance.
- Received corporate development updates.
- Preliminarily discussed final dividend.
- Noted Executive Committee membership changes.

Shareholder communications

- Approving preliminary announcement of annual results, the publication of the Annual Report, the half yearly report, the quarterly Trading Reports, the release of price-sensitive announcements and any listing particulars, circulars or prospectuses.
- Maintaining relationships and continued engagement with shareholders.

February
- Approved Preliminary Announcement 2020.
- Approved the Annual Report for 2020.
- Approved Notice of the 2021 Annual General Meeting.

Early April
- Received update on the 2021 Annual General Meeting to be held as a hybrid meeting later that day.

Late April
- Approved Q1 2021 Trading Report.

July
- Approved H1 2021 Results Announcement and Trading Report.

November
- Approved Q3 2021 Trading Report.

December
- Approved 'Strategy for Growth' announcement.

Risk

- Overseeing the Group's risk management programme.
- Regularly reviewing the risk register.
- Overseeing risk management processes (see pages 58–69 for further details).

February
- Received Annual Risk Management update.

July
- Reviewed the Enterprise Risk Management Report.

Stakeholders

- Overseeing and maintaining relationships with stakeholders including shareholders, employees, customers, suppliers, regulators and governments.
- Oversight of sustainability matters and approving the Sustainability Report.

February
- Approved Sustainability Report 2020.
- Approved Modern Slavery Statement 2020.

March
- Considered COVID impact upon employees and customers.

July
- Received APEX restructuring update.
- Considered COVID impact on the Company's employees, customers and suppliers.
- Received Investor activity update.

September
- Received supply chain update.
- Reviewed progress against sustainability policy and approved commitment to net zero target.

October
- Received supply chain update.

November
- Received supply chain update.

December
- Reviewed investor perspectives.

Other matters

February
- Authorised potential Conflicts of Interest Register.
- Noted NED salaries and fees.
- Received Legal update.

Early April
- Received Legal update.
- Noted routine reports.

July
- Approved renewal of corporate insurance brokers.
- Received Legal update.
- Noted routine reports.

September
- Received Legal update.
- Discussed findings from the 2021 External Board Effectiveness Review undertaken by Tracy Long.

November
- Approved amendment to the Finance & Banking Committee Terms of Reference.

December
- Noted routine reports.

Responsibilities of the Board continued

Board and Committee attendance

		Board	Committee			
			Audit	Remuneration	Nomination & Governance	Compliance & Culture
Total meetings		8	8	7	3	4
	Appointed					
Roberto Quarta	December 2013	8/8	–	7/7	3/3	–
Virginia Bottomley[1]	April 2012	2/2	–	3/3	1/1	2/2
Roland Diggelmann	March 2018	8/8	–	–	–	–
Erik Engstrom	January 2015	8/8	8/8	–	3/3	–
Robin Freestone[2]	September 2015	7/8	8/8	7/7	2/3	–
John Ma[3]	17 February 2021	7/8				1/1
Katarzyna Mazur-Hofsaess[4]	November 2020	8/8	–	–	–	3/3
Rick Medlock	April 2020	8/8	8/8	–	–	–
Anne-Françoise Nesmes	July 2020	8/8	–	–	–	–
Marc Owen[5]	October 2017	8/8	8/8	–	2/3	4/4
Angie Risley	September 2017	8/8	–	7/7	–	4/4
Bob White	May 2020	8/8	–	7/7	–	4/4

1 Virginia Bottomley retired from the Board at the AGM 14 April 2021 after 9 years of service.
2 Due to prior commitments, Robin Freestone was not in attendance at the October Board meeting, or the September Nominations & Governance Committee meeting, both of which were convened at short notice. However, on both occasions he gave his comments to the Chair before the meeting.
3 John Ma joined the Board on 17 February 2021 and the Compliance & Culture Committee on 7 December 2021. Due to a prior commitment, John Ma was not in attendance at the October Board meeting, which was convened at short notice. However, he gave his comments to the Chair before the meeting.
4 Katarzyna Mazur- Hofsaess joined the Compliance & Culture Committee on 7 April 2021.
5 Marc Owen was not in attendance at the September Nominations & Governance Committee meeting due to a prior commitment. However, he gave his comments to the Chair before the meeting.

In advance of the Board and Committee meetings, the Chair met with the Non-Executive Directors in the absence of Executive Directors. In addition, the Chair held one-to-one discussions with each Board Member throughout the year.

Independence of Directors

We require our Non-Executive Directors to remain independent from management so that they are able to exercise independent oversight and effectively challenge management. We therefore continually assess the independence of each of our Non-Executive Directors. The Executive Directors have determined that all our Non-Executive Directors are independent in accordance with both UK and US requirements. None of our Non-Executive Directors or their immediate families has ever had a material relationship with the Group. None of them receives additional remuneration apart from Directors' fees, nor do they participate in the Group's share plans or pension schemes. None of them serve as directors of any companies or affiliates in which any other Director is a director. The Board considers all external directorships prior to appointment, reviewing any potential conflict of interests and time commitment for both Executive Directors and Non-Executive Directors.

Management of conflicts of interest

None of our Directors or their connected persons, has any family relationship with any other Director or Officer, nor has a material interest in any contract to which the Company or any of its subsidiaries are, or were, a party during the year or up to 11 February 2022.

Each Director has a duty under the Companies Act 2006 to avoid a situation in which they have or may have a direct or indirect interest that conflicts or might conflict with the interests of the Company. This duty is in addition to the existing duty owed to the Company to disclose to the Board any interest in a transaction or arrangement under consideration by the Company.

If any Director becomes aware of any situation which might give rise to a conflict of interest, they must, and do, inform the rest of the Board immediately and the Board is then permitted under the Company's Articles of Association to authorise such conflict. This information is then recorded in the Company's Register of Conflicts, together with the date on which authorisation was given. In addition, each Director certifies on an annual basis that the information contained in the Register of Conflicts is correct.

When the Board decides whether or not to authorise a conflict, only the Directors who have no interest in the matter are permitted to participate in the discussion and a conflict is only authorised if the Board believes that it would not have an impact on the Board's ability to promote the success of the Company in the long term. Additionally, the Board may determine that certain limits or conditions must be imposed when giving authorisation. No actual conflicts have been identified, which have required approval by the Board. However, the situations that could potentially give rise to a conflict of interest have been identified and duly authorised by the Board and are reviewed at least on an annual basis.

Outside directorships

We encourage our Executive Directors to serve as Non-Executive Directors of external companies. We believe that the work they do as Non-Executive Directors of other companies has benefits for their executive roles with the Company, giving them a fresh insight into the role of a Non-Executive Director. During 2021, Roland Diggelmann was also a Non-Executive Director of Accelerate Diagnostics, Inc. listed on the NASDAQ. He retired from that appointment on 7 May 2021 and was appointed to Sonova Holdings AG on 15 June 2021, listed on the SIX Swiss Stock Exchange.

Anne-Françoise Nesmes is also a Non-Executive Director of Compass Group plc listed on the London Stock Exchange.

Re-appointment of directors

In accordance with the Code, all Directors offer themselves to shareholders for re-election annually, except those who are retiring immediately after the Annual General Meeting. Each Director may be removed at any time by the Board or the shareholders.

Director indemnity arrangements

Each Director is covered by appropriate directors' and officers' liability insurance and there are also Deeds of Indemnity in place between the Company and each Director. These Deeds of Indemnity mean that the Company indemnifies Directors in respect of any proceedings brought by third parties against them personally in their capacity as Directors of the Company. The Company would also fund ongoing costs in defending a legal action as they are incurred rather than after judgement has been given. In the event of an unsuccessful defence in an action against them, individual Directors would be liable to repay the Company for any damages and to repay defence costs to the extent funded by the Company.

Purchase of ordinary shares

Prior to May 2020, in order to avoid shareholder dilution, shares allotted to employees through employee share schemes were bought back on a quarterly basis and subsequently cancelled as stated in Note 19.2 to the Group accounts on page 196. The share buy-back programme was suspended in 2020 in light of the COVID pandemic.

On 16 December 2021, we announced a commitment to return surplus capital to shareholders through a regular annual share buy-back; expected to be in the range of \$250–\$300 million in 2022.

Board effectiveness review

The Board effectiveness review in 2021 was externally facilitated by Dr Tracy Long of Boardroom Review. Dr Long interviewed each member of the Board, the Company Secretary and the Chief Human Resources Officer, reviewed minutes, Board papers and other Board documents, and attended and observed the Board and Committee meetings held remotely in July 2021.

She then prepared a report summarising her findings, which she presented to the Board for discussion in September at our strategy meeting.

She observed that the Board has many strengths. In particular, there is: a diversity of perspectives; strong global medical devices knowledge on the Board; effective finance, risk and governance controls; and an environment where corporate culture is openly discussed.

She did, however, identify a number of areas for improvement, noting that the inability to meet physically due to COVID restrictions in the past two years had impacted the ability of the Board to resolve issues as effectively as we could have done, had we been able to meet physically. In particular, she observed that the slower than expected recovery had led to an increased focus on short-term operational and supply chain issues and less on strategic and portfolio matters. She also noted that on some matters, the Board lacked a shared view and this impacted decision making. We discussed her observations, recognising the challenges she identified. We also discussed succession planning at both Board and Executive level, recognising that Roberto Quarta would complete 9 years' service in December 2022, followed shortly by Robin Freestone and Erik Engstrom in 2023 and 2024. As a result of Dr Long's observations, the Board has agreed the following actions for the next 12 months:

Recommendation 1	Recommendation 2	Recommendation 3
Focus on enhancing communication between the Board and management team between meetings, to develop a shared purpose.	Commence the search for a new Chair to replace Roberto Quarta, who will complete nine years' service at the end of 2022.	Ensure that Executive succession planning is discussed more frequently by the Board.

The areas for attention identified in the 2020 review, which was internally facilitated by Robin Freestone, the Senior Independent Director and supported by the Company Secretary have been addressed as follows:

Actions identified	Action taken
It would be useful to have external speakers presenting on industry and market competitiveness to augment the internal perspective provided by management.	The Board received a presentation on sustainability reporting and compliance with TCFD reporting requirements from KPMG. Our brokers, JP Morgan and Bank of America, briefed the Board ahead of the capital markets day in December.
Further improvements could be made to the measures in place to ensure that the views of stakeholders are considered at the time of every Board decision, by ensuring that presenters to the Board specifically address the potential impact of Board proposals on stakeholders.	Each Board paper where a decision is required includes a section specifically addressing the potential impact on stakeholders of that decision.
Arrangements should be made to facilitate informal Board interaction with each other and the executive team within a virtual environment to supplement formal Board discussions.	During the year, the Board took the opportunity to meet members of the management team, both as part of the Board/employee listening programme and also with the aim of meeting the next generation of leaders.

The reviews in 2022 and 2023 will be facilitated internally and led by the Senior Independent Director, supported by the Company Secretary. The 2024 review will be facilitated externally.

Board development

Timeline 2021

Board development

June
- Virtual meeting with our Robotics R&D team.
- Opportunity for Board to meet a group of senior leaders and to hear about their current projects.

September
- Strategy Review including presentations from each of the franchises and regions.
- Half-day visit to UK headquarters in Watford to meet with sales representatives, view new products and experience the impact of Workplace Unlimited.

October
- Interactive session on climate change and new reporting requirements relating to climate change led by our auditors, KPMG for members of the Audit and Compliance & Culture Committees.

December
- Received business updates from Chief Executive Officer and the Executive team.

Board development programme

Our Board development programme is directed to the specific needs and interests of our Directors. We focus the development sessions on facilitating a greater awareness and understanding of our business and stakeholders rather than formal training in what it is to be a Director. We value our visits to the different Smith+Nephew sites around the world, where we meet with the local managers of our businesses and see the daily operations in action. The opportunities for such visits have been limited in 2021 due to travel restrictions and social distancing measures. We look forward to resuming these site visits as soon as we are able.

We have, however, continued to provide our Directors with both virtual and physical opportunities to understand the business better as follows:

- At our Board meeting in June, our Chief R&D Officer, Vasant Padmanabhan and his R&D team presented on the latest developments in our Robotics strategy following the recent launch of the CORI platform.
- At our Board meeting in September, the Board spent half a day on-site at our UK headquarters in Watford. They toured our Expert Connect Centre and met with some of our senior UK sales representatives, handling and gaining an understanding of some of our newest products, and learning about current go-to-market challenges. They also met with other employees based on-site in our corporate and customer services functions and experienced our Workplace Unlimited programme.
- Members of our Compliance & Culture Committee have held a number of Board/employee listening sessions both physically and virtually, where they have talked with employees and heard from them their views on what it means to work for Smith+Nephew. These sessions are discussed in more detail on pages 20 and 107.

The Chair regularly reviews the development needs of individual Directors and the Board as a whole.

Induction for new Directors

During 2021, we concluded the induction programmes for Katarzyna Mazur-Hofsaess and John Ma. These programmes were tailored to their individual skills and experiences, and their roles on the Board. These induction programmes included:

- One-to-one meetings with senior executives to understand the roles played by our senior employees and specifically how we do things at Smith+Nephew.
- Meetings with our external advisers for example Slaughter and May, our corporate lawyers, KPMG LLP, our auditor and Deloitte LLP, our Remuneration Committee adviser to explain the legal and regulatory background to their role on our Board and how these matters are approached at Smith+Nephew.

These programmes were delivered virtually due to travel and meeting restrictions. Once travel and meeting restrictions are lifted, our new Directors look forward to continuing their induction programmes with site visits, meeting customers and employees, and getting more familiar with our products.

Nomination & Governance Committee report

"We have a diverse Board: 33% of the Board are female and from 1 April 2022 two Board members will be of Asian ethnicity."

Membership

	Member from	Meetings attended
Roberto Quarta (Chair)	April 2014	**3/3**
Virginia Bottomley[1]	April 2014	**1/1**
Erik Engstrom	April 2019	**3/3**
Robin Freestone[2]	April 2019	**2/3**
Marc Owen[3]	March 2020	**2/3**

1 Virginia Bottomley retired from the Board and the Committee at the Annual General Meeting on 14 April 2021, after 9 years of service.

2 Robin Freestone was not in attendance at the September Nominations & Governance Committee meeting, which was convened at short notice, due to a prior commitment. However, he gave his comments to the Chair before the meeting.

3 Marc Owen was not in attendance at the September Nominations & Governance Committee meeting due to a prior commitment. However, he gave his comments to the Chair before the meeting.

Dear Shareholder,

I am pleased to present this review of the activities of the Nomination & Governance Committee during 2021.

The Terms of Reference for the Nomination & Governance Committee describe the role and responsibilities of the Nomination & Governance Committee more fully and can be found on our website.

In 2021, we held three meetings. In addition to members of the Committee, the Company Secretary and Chief Executive Officer also attended all or some of the meetings.

Since the year end, we have also discussed the future structure of the Board and its committees and completed our year-end governance processes.

Executive Team

During 2021, the Nomination & Governance Committee reviewed the future leadership of the Company. Whilst we appreciated that Roland Diggelmann had navigated the Company through the challenges presented by COVID, we also recognised that Smith+Nephew is at an inflection point as we move into a new stage of growth and that a new style of leadership was required to take the Company forward. Assisted by the search firm Russell Reynolds, we commenced the search for a new Chief Executive Officer and are delighted that Deepak Nath will be joining us in that capacity on 1 April 2022. Deepak brings a wealth of healthcare experience and a track record of delivering transformational growth, whilst overseeing major product launches. We thank Roland for his service to the Company and look forward to welcoming Deepak as your new Chief Executive Officer shortly.

Executive Succession Planning

During 2021, the Board and the Nomination & Governance Committee have monitored the changes to the organisational structure and approved changes to key leadership roles. Individual Directors have acted as a sounding board for the executive team when considering succession plans in key areas. During the year, the Board discussed succession plans for executives below Board level on a number of occasions. These plans included consideration of diversity in the executive pipeline. Pages 80–83 gives details of the members of the Executive Committee, 38% of whom are female, one is of African heritage and one is of Asian ethnicity. The Committee will continue to monitor diversity in the executive pipeline.

Diversity

We aim for our Board to have a wide range of backgrounds, skills and experiences. We also value a diversity of outlook, approach and style in our Board members. We believe that a balanced Board is stronger and better equipped to consider matters from a broader perspective, understanding the views of our stakeholders as well as our shareholders and therefore come to decisions that have considered a wider range of issues and perspectives than would be the case in a more homogenous Board.

We believe the Board's composition gives us the necessary balance of diversity, skills, experience, independence and knowledge to ensure we continue to run the business effectively and deliver sustainable growth. In order to ensure that our Board remains diverse, we analyse the skills and experiences we require against the skills and experiences on our Board using the matrix on page 94. We review this matrix regularly to ensure that it is refreshed to meet the changing needs of the Company.

Diversity is not simply a matter of gender, ethnicity, social or other measurable characteristics. Diversity of outlook and approach is harder to measure than gender or ethnicity but is equally important. A Board needs a range of skills from technical adherence to governance or regulatory matters to understanding the business in which we operate and the needs of our stakeholders. It needs some members with a long corporate memory and others who bring new insights from other fields.

To perform effectively, the Board needs to be both supportive and challenging. When selecting new directors for the Board, we look for members with suitable professional backgrounds, who fit in and provide new perspectives.

We will continue to appoint our Directors on merit, valuing the unique contribution that they will bring to the Board, regardless of gender, ethnicity or any other diversity measure.

Non-Executive Directors

The Committee has reviewed the composition of the Board and its committees to ensure that it continues to evolve to align with the new Strategic Pillars and with the developing external regulatory environment.

Prior to the retirement of Vinita Bali at the end of 2020, we recognised the importance of increasing ethnic diversity on the Board. At the same time, we were looking to appoint an additional Board member with medical devices experience, specifically in the Asia-Pacific region. We were therefore delighted to announce the appointment of John Ma on 17 February 2021 as an additional Non-Executive Director. John is an established leader within the MedTech industry with a deep knowledge of the Asia-Pacific region and of surgical robotics, both significant areas of opportunity for Smith+Nephew.

After nine years' service, Baroness Virginia Bottomley retired from the Board at the Annual General Meeting in 2021.

We recognised that with her retirement, the gender balance on the Board needed to be addressed and commenced a search for an additional female director, with UK-listed company experience. On 25 January 2022, we announced the appointment of Jo Hallas. Jo is a chartered engineer with extensive international management experience, focused on business transformation through both organic and acquisitive growth in global industrial and consumer sectors. She has a track record of driving growth and transformation whilst embedding sustainability and building corporate culture.

Russell Reynolds, an external search firm, advised the Committee on this appointment ensuring that we were presented with a diverse set of candidates to consider.

Future composition of the Board

In recent years, we have strengthened the Board's medical devices knowledge through the successive appointments of Bob White, Katarzyna Mazur-Hofsaess and John Ma. Each of these new appointments has brought detailed knowledge of the challenging markets in which we operate in respectively in the US, EMEA and APAC and especially China. Throughout 2021, the Board has benefited immensely from the detailed knowledge they have brought, which has helped us when supporting and challenging management. For example, the rest of the Board looked to them for guidance when considering and approving the recent change to bring the Orthopaedics and Sports Medicine franchises under the single leadership of Brad Cannon. We have also benefited from John Ma's advice relating to the China volume-based procurement programme.

Nomination & Governance Committee report continued

However, looking forward to the future composition of the Board, we are mindful that I shall be retiring as Chair of Smith+Nephew towards the end of the year. Robin Freestone, our Senior Independent Director, and Erik Engstrom will also be retiring, when their periods of nine years are complete not long afterwards.

We recognise that our combined departure weakens the collective knowledge on the Board of the UK corporate governance and listing regime. Of course, Rick Medlock, our Chair of the Audit Committee, and Angie Risley, our Chair of the Remuneration Committee, both have very strong technical understandings of the UK environment in their respective fields. Nevertheless, we recognise that given the special situation of Smith+Nephew as a UK listed company, with a large part of our business overseas, primarily in the US and China, it is important that the Board's knowledge of the UK environment continues to be strengthened through the appointment of both a Chair and additional Non-Executive Directors who are both internationally experienced and have a solid background in UK corporate governance. The recent appointment of Jo Hallas bringing experience of UK boards of global companies illustrates this.

We believe that the balance on the Board of strong industry knowledge and experience with a solid appreciation of the UK environment will enable the Board to continue to support and challenge effectively in the years to come.

Governance

During the year, the Nomination & Governance Committee also addressed a number of governance matters.

We received updates from the Company Secretary on new developments in corporate governance and reporting in the UK.

We reviewed the independence of our Non-Executive Directors, considered potential conflicts of interest and the diversity of the Board and made recommendations concerning these matters to the Board.

Roberto Quarta
Chair of the Nomination & Governance Committee

Our focus for 2022 will include:

- Continued oversight of succession planning below Board level.
- Search for Chair to replace Roberto Quarta.

Skills and experience matrix from 1 April 2022

	CEO	Financial	International	Healthcare/ Medical Devices	Emerging Markets	UK Governance	Remuneration	Gender[1]	Ethnicity[2]	Other[3]
Roberto Quarta	•		•		•	•	•	M	W	•
Deepak Nath			•	•	•			M	A	•
Anne-Françoise Nesmes		•	•	•	•	•		F	W	•
Erik Engstrom	•		•			•	•	M	W	•
Robin Freestone		•	•	•		•	•	M	W	•
Jo Hallas	•		•			•	•	F	W	•
John Ma	•		•	•	•			M	A	•
Katarzyna Mazur-Hofsaess			•	•				F	W	•
Rick Medlock		•	•			•		M	W	•
Marc Owen	•		•					M	W	•
Angie Risley						•	•	F	W	•
Bob White			•	•				M	W	•

1 **M** signifies male, **F** signifies female.
2 **W** signifies of white ethnicity. **A** signifies of Asian ethnicity.
3 Other signifies experience in a range of other areas including customer focus, investment markets, government affairs, sustainability, digital and business transformation.

Responsibilities of the Nomination & Governance Committee

Board composition

- Reviewing the size and composition of the Board.
- Overseeing Board succession plans.
- Recommending the appointment of Directors.
- Monitoring Board diversity.

February

- Approved appointment of John Ma as Non-Executive Director.
- Approved additional external appointments for Roland Diggelmann as Non-Executive Director of Sonova AG and Robin Freestone as Non-Executive Director of Aston Martin Lagonda Global Holdings plc.
- Approved the annual appointment of Directors serving in excess of six years.
- Reviewed and updated the Committee membership.
- Noted the upcoming retirement of Baroness Bottomley.

September

- Considered succession planning required with regard to ensuring the promotion of diversity of gender, social and ethnic backgrounds on the Board as well as US general commercial experience and strong UK-listed experience.
- Noted intention of Company Secretary to retire at 2022 Annual General Meeting.

December

- Considered appointment of a new Non-Executive Director with regard to ensuring the promotion of diversity of gender on the Board as well as strong UK-listed experience.

Corporate governance

- Overseeing governance aspects of the Board and its Committees.
- Overseeing the review into the effectiveness of the Board.
- Considering and updating the Schedule of Matters Reserved to the Board and the Terms of Reference of the Board Committees.
- Monitoring external corporate governance activities and keeping the Board updated.
- Overseeing the Board Development Programme and the induction process for new Directors.

February

- Reviewed and approved the Schedule of Matters Reserved to the Board and the Terms of Reference of the Board Committees.

Audit Committee report

“During 2021 the Committee focused on sustainability reporting and oversight of our IT control environment.”

Dear Shareholder,
I have now completed my first full year as Chair of the Audit Committee. In September 2021, I met my fellow Audit Committee members physically for the first time since my appointment to the Committee in April 2020.

In addition to discharging its role in accordance with its Terms of Reference, the Committee has met its commitments to provide assurance in respect of various non-routine matters.

During 2021, the Committee has:
– Received an update from the S+N Sustainability team on the new reporting requirements within the Annual Report in relation to TCFD and SASB. The Sustainability Report was also included in the Fair, Balanced and Understandable Review undertaken by the Internal Audit function.
– Continued vigilance over our IT control environment and cybersecurity, which was heightened during the pandemic. The Audit Committee received an update on the implementation of a new automated tool that improves financial corporate performance management. The Committee also received a report on S+N's IT Security maturity plan from the newly appointed Director of IT Governance, Risk & Compliance. This will come back to the Committee in 2022.
– Reviewed and contributed to the response from management on the BEIS consultation on restoring trust in audit and corporate governance.

Membership

	Member from	Meetings attended
Rick Medlock (Chair)[1]	April 2020	**8/8**
Erik Engstrom	January 2015	**8/8**
Robin Freestone[1]	September 2015	**8/8**
Marc Owen	October 2017	**8/8**

1 Designated financial experts under the SEC Regulations or recent and relevant financial experience under the UK Corporate Governance Code. All deemed to be independent Directors.

The APEX project completed during 2021 and the Audit Committee will continue to receive an annual update in 2022 to ensure the project continues to be monitored. The Committee has continued to monitor progress against the manufacturing restructuring plan.

The Committee has been well briefed by the Company Secretary on the impending transition from the FRC to the Audit Regulatory and Governance Authority (ARGA) and recommendations will be considered when implemented.

During 2021, in accordance with the Committee's Terms of Reference, we engaged Grant Thornton UK LLP to conduct a review into the effectiveness of the Internal Audit function. This review was carried out at the end of the year and Grant Thornton presented their findings to the Audit Committee in February 2022. During 2022, the Committee will discuss the extent to which these enhancements should be implemented.

KPMG have now completed their seventh year end audit and continue to provide robust challenge to both management and the Committee. Areas of challenge by KPMG and the Committee are highlighted on page 100.

We have negotiated and will continue to monitor auditor fees. From 1 January 2022, a new senior lead partner, Paul Nichols, will head up our audit, following the rotation of Kamran Walji. We would like to thank KPMG and in particular, Mr Walji, for their work in conducting such a rigorous audit, most of which was done virtually.

Rick Medlock
Chair of the Audit Committee

The Terms of Reference of the Audit Committee describe the role and responsibilities more fully and can be found on our website at www.smith-nephew.com

Our focus for 2022 will include:

- Monitoring ESG reporting, including progress on TCFD, and embedding sustainability into the business, including the decision-making process at the Executive Committee to the Board.
- Continued oversight of risk management process.
- Continuing to monitor the governance and maturity plan for our IT Controls.
- Ensuring that we review and consider all UK governance changes following the establishment of Audit Reporting and Governance Authority (ARGA).
- Reviewing the implementation of recommendations from the external review of the Internal Audit function.

Responsibilities of the Audit Committee

Financial accounting and reporting

- Reviewing significant financial reporting judgements and accounting policies and compliance with accounting standards.
- Ensuring the integrity of the financial statements and their compliance with UK and US statutory requirements.
- Ensuring the Annual Report and Accounts are fair, balanced and understandable and recommending their adoption by the Board.
- Monitoring announcements relating to the Group's financial performance.

Early February
- Reviewed Q4 2020 accounting and reporting matters.
- Report from KPMG on 2020 results, audit and Sarbanes-Oxley (SoX).
- Reviewed draft 2020 Annual Report, including report of the Audit Committee.
- Assessed compliance with UK and US governance requirements.

Late February
- Noted 2020 Annual Report including critical estimates and reporting matters, confirming fair, balanced and understandable, and approved Audit Committee Report contained within.
- Approved draft 2020 full year results announcement.
- Received report from KPMG on 2020 statements – Unqualified Opinion.
- Approved letter of representation for 2020.
- Confirmed Going Concern and Viability Statement.
- Reviewed draft Q4 audited press release and Chief Financial Officer presentation.

Early April
- Debrief of 2020 Annual Report process and reviewed plan and timetable for 2021.
- Reviewed summary of Group Company audits.
- Approved Senior Finance Officers Code of Ethics.

Late April
- Reviewed Q1 2021 accounting and reporting matters. Reviewed and endorsed 2021 Q1 Trading Report, announcement and presentation.
- Noted KPMG's update.
- Noted restructuring principles.

July
- Reviewed and endorsed H1 results, announcement and presentation, including going concern.
- Received report from KPMG on H1 results.
- Noted revised ROIC methodology.

Financial accounting and reporting continued

November
- Reviewed accounting and reporting matters for Q3 2021 Trading Report.
- Reviewed and endorsed Q3 Trading Report and announcement.
- Noted update from KPMG on review of Q3 Trading Report.

December
- Reviewed accounting and reporting matters for 2021.
- Reviewed and approved trading/non-trading policy.
- Reviewed 2021 Annual Report timeline and design work.
- Reviewed KPMG's Audit and Controls update.

Risk management

- On behalf of the Board, reviewing and ensuring oversight of the processes by which risks are managed, through regular functional reports and presentations and reporting any issues arising out of such reviews to the Board.
- Reviewing the process undertaken and deep-dive work required to complete the Viability Statement and recommending its adoption to the Board.
- Reviewing the impact of risk management and internal controls and working closely with the Compliance & Culture Committee.
- Overseeing risk management processes (see pages 58–67 for further details).

Early February
- Received risk management update.
- Review of Principal Risks through endorsement of Viability Statement.

Early April
- Received risk management update, and reviewed heatmaps.

July
- Received risk management update.

December
- Received a risk management update and reviewed principal risks and risk appetite.

Internal audit

- Agreeing Internal Audit plans and reviewing reports of Internal Audit work.
- Monitoring the effectiveness of the Internal Audit function.
- Reviewing the control observations made by the Internal Auditor, the adequacy of management's response to recommendations and the status of any unremediated actions.

Early February
- Noted Internal Audit report.
- Private meeting with the head of Internal Audit.

Late February
- Reviewed effectiveness of Internal Audit including the collation of senior stakeholders' views.
- Noted Internal Audit evaluation for 2020.

Early April
- Received an update on progress and the 2021 Internal Audit Plan.

July
- Reviewed progress on the 2021 Internal Audit Plan.
- Private meetings with the head of Internal Audit.

September
- Received an update on 2021 progress.

December
- Reviewed progress against the Internal Audit Plan and approved 2022 Internal Audit Plan and 2022 Internal Audit Charter.

External auditor

- Overseeing the Board's relationship with the external auditor.
- Monitoring and reviewing the independence and performance of the external auditor and evaluating their effectiveness.
- Making recommendations to the Board for the appointment or re-appointment of the external auditor.
- Monitoring and approving the external auditor's fees.

Early February
- Approved 2020 external audit fees.
- Approved 2020 external non-audit fees.

Late February
- Reviewed effectiveness and independence and concluded their effectiveness.
- Private meeting with external auditors.

Early April
- Noted external audit plan for 2021.
- Noted external auditor fees for 2021.

July
- Approved external auditor engagement letter and audit fees for 2021.
- Approved letter of representation for H1 2021.
- Private meetings with the head of the external auditors.
- Noted external audit plan updates.
- Received report from US audit partner.

September
- Received update on external audit plan
- Noted changes to incumbent Audit Partner from 2022 Annual General Meeting.

Internal controls

- Monitoring the effectiveness of internal controls and compliance with the UK Corporate Governance Code 2018 and the SoX Act, specifically sections 302 and 404.
- Reviewing the operation of the Group's risk mitigation processes and the control environment over financial risk.

Early February
- Reviewed effectiveness of Internal Controls over financial reporting and SoX.

Late February
- Reviewed effectiveness of Internal Controls over financial reporting and SoX.
- Reviewed S302 and S906 certifications.
- Received update on our internal 'Minimal Acceptable Practices' (MAPs).

Early April
- Considered SoX and MAPs Planning for 2021 including S404 scope.

September
- Considered SoX and MAPs progress.

November
- Reviewed effectiveness of Internal Controls over financial reporting and SoX.

December
- Reviewed effectiveness of Internal Controls over financial reporting and SoX.
- Reviewed IT SOX control programme

Fraud and whistle-blowing

- Receiving reports on the processes in place to prevent fraud and to enable whistle-blowing.
- If significant, receive and review reports of potential fraud or whistle-blowing incidents.

Early February
- Reviewed year-end report, including fraud procedures.

Early April
- Noted investigations report.

Other matters

- Oversight of other matters, including sustainability, IT governance, tax, governance and cyber security.

Late February
- Approved Terms of Reference

Early April
- Reviewed Terms of Reference.
- Noted ESG reporting processes including TCFD.
- Received treasury, pensions, insurance and covenant updates.
- Received cybersecurity update including maturity plan.
- Received Project APEX and manufacturing restructuring updates.
- Approved the Company's policy and report on Conflict Minerals for submission to NYSE.

Late April
- Noted IT governance controls.
- Noted Audit Reform update.

July
- Noted update on progress in reducing the level of US receivables.

September
- Received an update on IT governance controls.
- Update on tax matters.
- Received an update on sustainability matters.
- Noted finance talent review.

December
- Received updates on China accounting and controls, cybersecurity, inventory and governance.

Significant matters related to the financial statements

We considered the following key areas of judgement in relation to the 2021 financial statements and at each half year and quarterly trading report, which we discussed in all cases with management and the External Auditor:

Valuation of inventories

A feature of the Orthopaedics franchise (which accounts for approximately 60% of the Group's total inventory and approximately 80% of the total provision for excess and obsolete inventory) is the high level of product inventory required, some of which is located at customer premises and is available for customers' immediate use. Complete sets of products, including large and small sizes, have to be made available in this way. These sizes are used less frequently than standard sizes and towards the end of the product life cycle are inevitably in excess of requirements. Adjustments to carrying value are therefore required to be made to orthopaedic inventory to anticipate this situation. These adjustments are calculated in accordance with a formula based on levels of inventory compared with historical usage. This formula is applied on an individual product line basis and typically is first applied when a product group has been on the market for two years. This method of calculation is considered appropriate based on experience, but it does involve management estimation of customer demand, effectiveness of inventory deployment, length of product lives, phase-out of old products and efficiency of manufacturing planning systems. The ongoing impact of COVID on the provision for excess and obsolete inventory has been assessed, specifically considering the impact of lower sales demand and increased inventory levels.

Our action
At each quarter end, we received reports from, and discussed with, management the level of provisioning and material areas at risk. The provisioning level was 21% at 31 December 2021 (18% as at 31 December 2020). We challenged the basis of the provisions and concluded that the proposed levels were appropriate and have been consistently estimated.

Challenge by KPMG:
During 2021 KPMG challenged management's approach to inventory provisioning considering recovery of demand in 2021 after the impact of COVID in 2020.

Liability provisioning

The recognition of provisions for legal disputes is subject to a significant degree of estimation. Provision is made for loss contingencies when it is considered probable that an adverse outcome will occur and the amount of the loss can be reasonably estimated. In making its estimates, management takes into account the advice of internal and external legal counsel and uses third-party actuarial modelling where appropriate. Provisions are reviewed regularly and amounts updated where necessary to reflect developments in the disputes. The ultimate liability may differ from the amount provided depending on the outcome of court proceedings and settlement negotiations or if investigations bring to light new facts.

Our action
As members of the Board, we receive regular updates from the Chief Legal & Compliance Officer. These updates form the basis for the level of provisioning. The Group carries a provision relating to potential liabilities arising on its portfolio of metal-on-metal hip products of $289 million as of 31 December 2021. We received detailed reports from management on this position, including the actuarial model used to estimate the provision, and challenged the key assumptions, including the number of claimants and projected value of each claim. The provisions for legal matters have decreased by $49 million during the year, primarily due to utilisation of the metal-on-metal provision. We have determined that the proposed levels of provisioning at year end of $320 million included within 'provisions' in Note 17.1 in 2021 (2020: $369 million) were appropriate in the circumstances.

Challenge by KPMG:
KPMG challenged management's assumptions in determining the provisions for metal-on-metal hip claims including the work of management appointed actuaries.

Impairment

In carrying out impairment reviews of goodwill and acquisition intangible assets, a number of significant assumptions have to be made when preparing cash flow projections. These include the future rate of market growth, discount rates, the market demand for the products acquired, the future profitability of acquired businesses or products, levels of reimbursement and success in obtaining regulatory approvals. If actual results should differ or changes in expectations arise, impairment charges may be required, which would adversely impact operating results.

Our action
We reviewed management's reports on the key assumptions with respect to goodwill and acquisition intangible assets – particularly the forecast future cash flows and discount rates used to make these calculations. We challenged the downside sensitivity analyses undertaken. We concluded that the carrying value of these assets is appropriately supported by the cash flow projections. We have also considered the disclosure surrounding these reviews, and concluded that the review and disclosure were appropriate.

Challenge by KPMG:
KPMG challenged management on the impairment conclusions and the basis of the assessment.

Other matters related to the financial statements

As well as the identified significant matters, other matters that the Audit Committee considered during 2021 were:

Going concern

The uncertainty as to the continued impact on the financial performance and cash flows of the Group as a result of the ongoing COVID pandemic has been considered as part of the adoption of the going concern basis in these financial statements. We reviewed three-year projections as part of the Group's Strategic Plan, and also more detailed cash flow scenarios to 1 July 2023 for going concern purposes and concurred with management that the continued adoption of the going concern basis is appropriate.

Taxation

The Group operates in numerous tax jurisdictions around the world and is subject to factors that may affect future tax charges. We annually review policies and approve the principles for management of tax risks. We review quarterly reports from management evaluating the existing tax profile, tax risks and tax provisions. Based on a thorough report from management of tax liabilities and our challenge of the basis of any tax provisions recorded, we concluded that the levels of provisions and disclosures were appropriate.

Post-retirement benefits

The Group has post-retirement defined benefit pension schemes, which require estimation in setting the assumptions. We received a report from management setting out their proposed assumptions for the UK and US schemes and concurred with management that these assumptions were appropriate.

Climate change

The impact of climate change has been considered as part of our review of the impairment testing of goodwill and acquired intangible assets, and the going concern assessment. We have also considered the disclosures on climate change and considered them appropriate.

Since the year end

Since the year end, we have also reviewed the results for the full year 2021, Annual Report and Accounts for 2021, and have concluded that they are fair, balanced and understandable. In coming to this conclusion, we have considered the description of the Group's strategy and key risks, the key elements of the business model, which is set out on pages 12–13, risks and the key performance indicators and their link to the strategy.

External auditor

Independence of external auditor

Following a competitive tender in 2014, KPMG was appointed external auditor of the Company in 2015. We are satisfied that KPMG are fully independent from the Company's management and free from conflicts of interest. Our Auditor Independence Policy, which ensures that this independence is maintained, is available on the Company's website.

We believe that the implementation of this policy helps ensure that auditor objectivity and independence is safeguarded. The policy also governs our approach when we require our external auditor to carry out non-audit services, and all such services are strictly governed by this policy.

The Auditor Independence Policy also governs the policy regarding audit partner rotation with the expectation that the audit partner will rotate at least every five years. Kamran Walji stepped down as audit partner at the conclusion of the 31 December 2021 audit. Paul Nichols has replaced him as senior lead audit partner for the 2022 audit.

The Audit Committee confirms it has complied with the provision of the Competition and Markets Authority (CMA) Order 2014.

Effectiveness of external auditor

We conducted a review into the effectiveness of the external audit as part of the 2021 year-end process, in line with previous years. We sought the views of key members of the finance management team, considered the feedback from this process and shared it with management.

During the year, we also considered the inspection reports from the Audit Oversight Board in the UK and determined that we were satisfied with the audit quality provided by KPMG.

The Audit Committee regularly receives feedback from KPMG, including at each meeting where management present their summary of critical accounting estimates as at each quarter end.

Overall therefore, we concluded that KPMG had carried out their audit for 2021 effectively.

The Audit Committee continues to review the effectiveness of the external auditor, KPMG.

Appointment of external auditor at Annual General Meeting

Resolutions will be put to the Annual General Meeting to be held on 13 April 2022 proposing the re-appointment of KPMG as the Company's auditor and authorising the Board to determine its remuneration, on the recommendation of the Audit Committee in accordance with the CMA Order 2014.

Disclosure of information to the auditor

In accordance with Section 418 of the Companies Act 2006, the Directors serving at the time of approving the Directors' Report confirm that, to the best of their knowledge and belief, there is no relevant audit information of which the auditor, KPMG, is unaware and the Directors also confirm that they have taken reasonable steps to be aware of any relevant audit information and, accordingly, to establish that the auditor is aware of such information.

Audit Committee report continued

Non-audit fees paid to the auditor

Non-audit fees are subject to approval in-line with the Auditor Independence Policy which is reviewed annually and forms part of the Terms of Reference of the Audit Committee.

The Audit Committee recognises the importance of the independence of the external auditor and ensures that the auditor's independence should not be breached. The Audit Committee ensures that the auditor does not receive a fee from the Company or its subsidiaries that would be deemed large enough to impact its independence or be deemed a contingent fee. The total fees for permitted non-audit services shall be no more than 70% of the average of the fees paid in the last three consecutive financial years for the statutory audits of the Company and its subsidiaries.

Any pre-approved aggregate, individual amounts up to $25,000 may be authorised by the Group Treasurer and Senior Vice-President Group Finance respectively and amounts up to $50,000 by the Chief Financial Officer. Any individual amount over $50,000 must be pre-approved by the Chair of the Audit Committee. If unforeseen additional permitted services are required, or any which exceed the amounts approved, again pre-approval by the Chair of the Audit Committee is required.

The following reflects the non-audit fees incurred with KPMG in 2021, which were approved by the Chair of the Audit Committee.

	2021 $ million	2020 $ million
Audit related services	0.1	0.4

The ratio of non-audit fees to audit fees for the year ended 31 December 2021 is 0.01. The ratio of non-audit fees to audit fees for the year ended 31 December 2020 was 0.06.

Full details are shown in Note 3.2 to the Notes to the Group accounts.

Audit fees paid to the auditor

Fees for professional services provided by KPMG, the Group's independent auditor in each of the last two fiscal years, in each of the following categories were:

	2021 $ million	2020 $ million
Audit fees	7.5	7.0
Audit related fees	0.1	0.4
Total	7.6	7.4

Internal audit

The Internal Audit team, which reports functionally to the Audit Committee, carries out risk-based reviews across the Group. These reviews examine the management of risks and controls over financial, operational, commercial, IT and transformation programme activities.

The audit team, led by the Group Head of Internal Audit, consists of appropriately qualified and experienced employees. Third parties may be engaged to support audit work as appropriate.

The Group Head of Internal Audit has direct access to, and has regular meetings with, the Audit Committee Chair and prepares formal reports for Audit Committee meetings on the activities and key findings of the function, together with the status of management's implementation of recommendations. The Audit Committee has unrestricted access to all internal audit reports, should it wish to review them.

During the year, the team completed 31 risk-based audits and reviews across the Group. These included: financial controls effectiveness reviews across the EMEA, APAC, US and LATAM regions; IT and various programme assurance reviews ranging from digital medical devices security to IT controls effectiveness; and an ERP pre-implementation review in Japan. Group-level reviews included enterprise risk management effectiveness, shared services operations, fraud risk management effectiveness and acquisitions integration. Key issues noted during reviews included the need for all controls to operate to the correct frequency. Management has taken swift action to implement Internal Audit's recommendations. The team was able to continue to operate successfully during the ongoing COVID pandemic. Although it was not possible to travel, extensive use was made of data extraction and analysis techniques, supplemented by documentation review and interviews.

The function carries out its work in accordance with the standards and guidelines of the Institute of Internal Auditors. Its performance is annually assessed using a structured questionnaire, allowing non-executive, executive and senior management, plus the external auditor, to comment on key aspects of the function's performance. The Audit Committee, which re-approved the function's charter in December 2021, has satisfied itself that adequate, objective internal audit standards and procedures exist within the Group and that the Internal Audit function is effective.

Risk management programme

Whilst the Board is responsible for ensuring oversight of strategic risks relating to the Company, determining an appropriate level of risk appetite, and monitoring risks through a range of Board and Board Committee processes, the Audit Committee is responsible for ensuring oversight of the processes by which operational risks, relating to the Company and its operations are managed and for reviewing financial risks and the operating effectiveness of the Group's Risk Management process.

During the year, we reviewed our Risk Management processes and progress was discussed at our meetings in February, April, July, and December. We approved the Risk Management programme for 2021 and monitored performance against that programme, specifically reviewing the work undertaken by the risk champions across the Group, identifying the risks which could impact their areas of our business.

The Risk Management programme followed the risk management policy and manual communicated company-wide in 2021. This programme combines a 'bottom-up' approach (whereby risks are identified within business areas by local risk champions working with their leadership teams), with a 'top-down' approach (when the Executive Committee meets as the Risk Committee to consider the risks facing the Group at an enterprise level).

Throughout the year, the Audit Committee maintained oversight of this programme. We reviewed the Principal Risks identified and the heat maps prepared by management showing how these risks were being managed. We considered where the risk profile was changing.

Since the year end, we have reviewed a report from the Group Head of Internal Audit into the effectiveness of the Risk Management programme throughout the year. We considered the Principal Risks, the actions taken by management to review those risks and the Board risk appetite in respect of each risk. We concluded that the Risk Management process during 2021 and up to the date of approval of this Annual Report was effective. Work will continue in 2022 and beyond to continue to enhance the process.

» See pages 58–69 for our Risk Report

Viability Statement

We also reviewed management's work in conducting a robust assessment of those risks which would threaten our business model and the future performance or liquidity of the Company, including its resilience to the threats of viability posed by those risks in severe but plausible scenarios. Management have considered various scenarios in assessing the impact of COVID on future financial performance and cash flows, with the key judgement applied being the speed and sustainability of the return to a normal volume of elective procedures in key markets. This assessment included stress and sensitivity analyses of these risks to enable us to evaluate the impact of a severe but plausible combination of risks. We then considered whether additional financing would be required in such eventualities. Based on this analysis, we recommended to the Board that it could approve and make the Viability Statement on page 68.

Responsibilities of the Audit Committee continued

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the financial review on pages 16–19 and the Principal Risks on pages 58–67.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on page 16–19.

In addition, the Notes to the Group accounts include: the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Group has considerable financial resources and its customers and suppliers are diversified across different geographic areas. As a consequence, the Directors believe that the Group is well placed to manage its business risk successfully despite the ongoing uncertain economic outlook.

The continued uncertainty as to the future impact on the financial performance and cash flows of the Group as a result of the COVID pandemic has been considered as part of the adoption of the going concern basis in these financial statements. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis for accounting in preparing the annual financial statements.

Management also believes that the Group has sufficient working capital for its present requirements.

Evaluation of internal controls

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a–15(f) and 15d–15(f) under the US Securities Exchange Act of 1934.

There is an established system of internal control throughout the Group and our country business units. The main elements of the internal control framework are:

- The management of each country and Group function is responsible for the establishment, maintenance and review of effective financial controls within their business unit or function.
- The Group's IT organisation is responsible for the establishment of effective IT controls within the core financial systems and underlying IT infrastructure.
- The Financial Controls & Compliance Group has responsibility for the review of the effectiveness of controls operating in the countries, functions and IT organisation, either: by performing testing directly; reviewing testing performed in-country; or utilising a qualified third party to perform this management testing on its behalf.
- The Group Finance Manual sets out financial and accounting policies, and is updated regularly. The Group's Minimum Acceptable Practices (MAPs) were updated in 2020 with a new manual. The business is required to self-assess their level of compliance with the MAPs on a regular basis and remediate any gaps.
- MAPs compliance is validated through spot-checks conducted by the Financial Controls & Compliance Group and during both Internal Audit and external audit visits. The technology solution to facilitate the real time monitoring of the operation and testing of controls has been partially implemented in 2021 and this will be completed in 2022.
- There are clearly defined lines of accountability and delegations of authority.
- The Internal Audit function executes a risk-based annual work plan, as approved by the Audit Committee.
- The Audit Committee reviews reports from Internal Audit on their findings on internal financial controls, including compliance with MAPs and from the SVP Group Finance and the heads of the Financial Controls & Compliance, Taxation and Treasury functions.
- The Audit Committee reviews regular reports from the Financial Controls & Compliance Group with regard to compliance with the SoX Act including the scope and results of management's testing and progress regarding any remediation, as well as the aggregated results of MAPs self-assessments performed by the business.
- Business continuity planning, including preventative and contingency measures, back-up capabilities and the purchase of insurance.
- Risk management policies and procedures including segregation of duties, transaction authorisation, monitoring, financial and managerial review and comprehensive reporting and analysis against approved standards and budgets.
- A treasury operating framework and Group treasury team, accountable for all treasury activities, which establishes policies and manages liquidity and financial risks, including foreign exchange, interest rate and counterparty exposures. Treasury policies, risk limits and monitoring procedures are reviewed regularly by the Audit Committee or the Finance & Banking Committee, on behalf of the Board.
- Our published Group tax strategy which details our approach to tax risk management and governance, tax compliance, tax planning, the level of tax risk we are prepared to accept and how we deal with tax authorities, which is reviewed by the Audit Committee on behalf of the Board.
- The Audit Committee reviews the Group whistle-blower procedures to ensure they are effective.
- The Audit Committee continued to receive and review reports on the progress of the Finance Transformation element of the restructuring programme during 2021, and the mitigation of the associated risks.

This system of internal control has been designed to manage rather than eliminate material risks to the achievement of our strategic and business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss. Because of inherent limitation, our internal controls over financial reporting may not prevent or detect all misstatements. In addition, our projections of any evaluation of effectiveness in future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Entities where the Company does not hold a controlling interest have their own processes of internal controls.

We have reviewed the effectiveness of the Company's internal controls over financial reporting. The Company's assessment included documenting, evaluating and testing the design and operating effectiveness of its internal controls over financial reporting. Based on this evaluation, we have satisfied ourselves that we are meeting the required standards and that our internal control over financial reporting is effective both for the year ended 31 December 2021 and up to the date of approval of this Annual Report. No concerns were raised with us in 2021 regarding possible improprieties in matters of financial reporting.

This process complies with the FRC's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' under the UK Corporate Governance Code and additionally contributes to our compliance with the obligations under the SoX Act and other internal assurance activities. There has been no change during the period covered by this Annual Report that has materially affected, or is reasonably likely to materially affect, the Group's internal control over financial reporting.

The Board is responsible overall for reviewing and approving the adequacy and effectiveness of the risk management framework and the system of internal controls over financial, operational (including quality management and ethical compliance) processes operated by the Group. The Board has delegated responsibility for this review to the Audit Committee. The Audit Committee, through its Internal Audit function, reviews the adequacy and effectiveness of internal control procedures and identifies any significant weaknesses and ensures these are remediated within agreed timelines. The latest review covered the financial year to 31 December 2021 and included the period up to the approval of this Annual Report. The main elements of this review are as follows:

– The Chief Executive Officer and the Chief Financial Officer evaluated the effectiveness of the design and operation of the Group's disclosure controls and procedures as at 31 December 2021. Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded on 22 February 2022 that the disclosure controls and procedures were effective as at 31 December 2021.
– Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management assessed the effectiveness of the Group's internal control over financial reporting as at 31 December 2021 in accordance with the requirements in the US under section 404 of the SoX Act. In making that assessment, they used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013). Based on their assessment, management concluded and reported that, as at 31 December 2021, the Group's internal control over financial reporting was effective based on those criteria. Having received the report from management, the Audit Committee reports to the Board on the effectiveness of controls. KPMG, an independent registered public accounting firm, audited the financial statements included in the 2021 Annual Report, containing the disclosure required by this item, issued an attestation report on the Group's internal control over financial reporting as at 31 December 2021.

Code of Ethics for Senior Financial Officers

We have adopted a Code of Ethics for Senior Financial Officers, which applies to the Chief Executive Officer, the Chief Financial Officer, the SVP Group Finance and the Group's senior financial officers. There have been no waivers to any of the Code's provisions nor have there been any substantive amendments to the Code during 2021 or up until 22 February 2022. A copy of the Code of Ethics for Senior Financial Officers can be found on our website.

In addition, every individual in the finance function certifies to the Chief Financial Officer that they have complied with the Finance Code of Conduct.

Evaluation of composition, performance and effectiveness of the Audit Committee

The composition, performance and effectiveness of the Audit Committee was evaluated this year. Its effectiveness is also reviewed in conjunction with the annual Board evaluation, which in 2021 was conducted by Dr Tracy Long of Boardroom Review.

The review by the Audit Committee found the following:

Composition	Whilst the Audit Committee performs effectively, there is no gender diversity. Rotating the membership of the Committee could give a broader range of perspectives and backgrounds.
Performance and Effectiveness	The Audit Committee, led by the new Audit Chair, performed highly, covered a lot of ground and paid appropriate attention to the key risks impacting the Company and the business.

Compliance & Culture Committee report

"The safety and effectiveness of our products is at the heart of our business."

Membership

	Member from	Meetings attended
Marc Owen (Chair)	March 2018	**4/4**
Virginia Bottomley[1]	April 2019	**2/2**
John Ma[2]	7 December 2021	**1/1**
Katarzyna Mazur-Hofsaess[3]	7 April 2021	**3/3**
Angie Risley	April 2020	**4/4**
Bob White	July 2020	**4/4**

1 Virginia Bottomley retired from the Board and the Committee at the Annual General Meeting on 14 April 2021, after nine years' service.
2 John Ma joined the Committee on 7 December 2021.
3 Katarzyna Mazur-Hofsaess joined the Committee on 7 April 2021.

Dear Shareholders,

I am pleased to report on the activities of the Compliance & Culture Committee in 2021. The Terms of Reference for the Compliance & Culture Committee describe the role and responsibilities of this Committee more fully and can be found on our website.

In 2021, we held four meetings. Each meeting was attended by all members of the Committee. The Company Secretary, the Chief Legal & Compliance Officer and the Chief Quality & Regulatory Affairs Officer, Chief HR Officer and President of Global Operations (responsible for sustainability) also attended all or part of the meetings by invitation.

Oversight of quality and regulatory matters

Product safety and effectiveness is at the heart of our business. Regulatory authorities across the world enforce a complex series of laws and regulations that govern the design, development, approval, manufacture, labelling, marketing and sale of healthcare products. During the year, we received summary reports and provided oversight regarding the general quality and regulatory activities of our business. At each meeting, we received a report on quality and regulatory matters from the Chief Quality & Regulatory Affairs Officer.

We reviewed the results of external regulatory inspections and audits conducted by the FDA and other regulatory agencies. We also reviewed results of internal quality audits and key performance metrics associated with critical quality and regulatory compliance processes. We received reports regarding work being undertaken to prepare our manufacturing and design sites for future inspections, and also received updates on the important efforts to ensure compliance with the EU Medical Device Regulation. During the year we also reviewed progress in areas of focus such as vigilance reporting, acquisition integrations, global regulatory agency interactions and improvements to the Global Quality Framework.

Oversight of ethics and compliance

As stated in our Code of Conduct, the sustainability of our business depends on doing things the right way. This year we maintained our oversight of ethics and compliance programme activities within our business and continued to review external factors which could impact the business. The Chief Legal & Compliance Officer provided regular reports demonstrating the effectiveness of the current programme as well as continuous improvement efforts to ensure our ethics and compliance programme activities are evolving alongside our business.

During 2021 we received updates on changes to our Global Policies and the launch of a new interactive tool to improve employee access to information about requirements in our global markets. These changes are aligned with the revised Code of Conduct launched in 2019 and our strategic pillars to simplify our processes and embed our culture within the business.

We are updated on allegations of potentially significant improprieties and the Company's response to such matters, and also receive an annual review of trends in allegations and investigations. During 2021 we received a report on effectiveness testing of the whistle-blowing process, which was conducted by the Compliance team, and we also received the findings of an Internal Audit review of the effectiveness of ethics reporting and investigations. Both reports demonstrated that the organisation has established, mature processes and controls over ethics reporting and investigations.

We received regular updates on findings from compliance verification activities and the adaptation of processes to accommodate restrictions and altered risk profiles resulting from the COVID pandemic. This year we also received an update on the progress of a continuous improvement plan for the Compliance Validation Assignment (CVA) programme and noted significant improvements including reduced report times and increased collaboration and best-practice sharing with other assurance providers.

During 2021 we received an update on our privacy programme, with a specific focus on our digital connected products and services.

Oversight of culture

During 2021, the Company's core purpose of Life Unlimited was further embedded, and with this, the supporting culture pillars of Care, Collaboration and Courage. Our strategic pillars provide alignment across our business and stronger understanding by employees of their role in supporting our collective success.

The Committee was provided with regular updates from the Chief HR Officer throughout 2021 on culture. The specific actions for the year relating to culture, which included: an engagement plan; a focus on the culture pillar of Courage; the continuation of Board/employee listening sessions; a continued focus on inclusion and diversity; and monitoring success through participation in the Gallup engagement survey.

Towards the end of 2020, I held a meeting with UNITY, the race and ethnicity Employee Inclusion Group, in the US and reported back to the Committee in February. Feedback from my meeting included the need to provide better career pathways for minority employees and to include front line employees in future Board/employee listening sessions.

Our 2021 Gallup global employee survey results were shared with the Committee. These results, which allow Smith+Nephew to benchmark against similar companies in our industry, showed an insignificant decrease to the exponential improvement between 2019 and 2020. This was in line with other companies. We were incredibly proud of these results following another challenging year for Smith+Nephew due to the impact of COVID.

For specific issues where employees may not feel comfortable articulating their views, we have a whistle-blowing policy and confidential line, as discussed above.

Listening to the employee voice

Despite ongoing restrictions due to COVID, the Committee continued to listen to the Employee Voice, meeting with groups of employees both virtually and physically. In Q1 2021, Angie Risley, Bob White and I met virtually with the R&D Robotics team and were impressed by their enthusiasm for the work they do. In June, the whole Board had the opportunity to meet virtually with senior leaders across the Company and in September 2021, we held our first physical Board meeting since February 2020. This meeting included a visit to our UK headquarters in Watford, where we visited the Expert Connect Centre and met key members of our UK Sales team who demonstrated our newest technology. We also met employees from our corporate functions of legal, finance, tax and communications and saw how Workplace Unlimited was being implemented on-site.

Sustainability

Sustainability has been a focus for everyone throughout the pandemic and this became an agenda item that is receiving the focus it deserves. We regularly review management's sustainability programme to ensure alignment with our stakeholders' expectations and monitor management's actions taken against our targets.

We received an update on the focus of our customers and investors on sustainability and how Smith+Nephew was responding to those enquiries. We reviewed the reporting requirements around climate change, particularly reporting against the TCFD and SASB frameworks, and approved our revised carbon reduction target. We also approved our modern slavery statement and the conflict minerals filing.

The progress against the 2021 sustainability plan was monitored and the 2022 plan was reviewed and approved. Since the year end, the Committee has approved the 2021 Sustainability Report.

» Read more on pages 48–57

Compliance & Culture Committee report continued

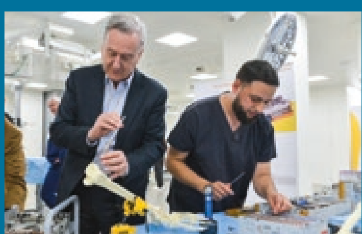
This year was my third report to you as Chair of the Compliance & Culture Committee. Our progress continued to be impacted by COVID and changes in management, but the journey has continued. The Committee is pleased to see Smith+Nephew's commitment to net zero emissions by 2045 and our stakeholder programme. Please see more information about our roadmap on page 53. The Committee and Board looks forward to implementing that stakeholder programme and meeting a wider range of our stakeholders to receive their feedback in 2022. On behalf of the Committee members that have met our employees and listened to their feedback about Smith+Nephew I would like to thank those employees that participated this year. I am sorry that again we didn't always get to meet face to face, but hope to again in the future.

M E Owen

Marc Owen
Chair of the Compliance & Culture Committee

Our focus for 2022 will include:

- Further physical Board/employee listening sessions (pandemic permitting) to enable the Board to further monitor and assess the corporate culture in other jurisdictions, in particular post/through the next stage of the pandemic.
- Monitor the actions taken by management following 2021's Board/employee listening sessions.
- Review further employee feedback gathered through the annual survey and other mechanisms to ensure the Board is aware of employees' views and any actions required by management from that feedback. Recent survey results are discussed on page 21.
- Continued oversight of the Company's sustainability programme, including targets and monitoring its roll-out to the organisation. Monitoring the progress of the Company's commitment to its net zero roadmap by 2045.
- Commencing the programme for the Committee and Board to meet and receive direct feedback from our other stakeholders.
- Ensure stakeholder considerations continue to be embedded into all Board's decisions.



Our Sales Representative showing Marc Owen our new products.

Responsibilities of the Compliance & Culture Committee

Compliance

- Overseeing ethics and compliance programmes, strategies and plans.
- Monitoring ethics and compliance process improvements and enhancements.
- Assessing compliance performance based on monitoring, auditing and internal and external investigations data.
- Reviewing allegations of significant potential compliance issues.
- Receiving reports from the Chief Legal & Compliance Officer.

February
- Approval of the Modern Slavery Statement for the year ended 31 December 2020.
- Received a Legal & Compliance Report update.

April
- Noted conflict mineral report and submission to the SEC.
- Received a Legal & Compliance Report update.

July
- Received a Legal & Compliance Report update, including changes to the Compliance Validation Assignments (CVA) programme.

December
- Received a Legal & Compliance Report including, update on the Global status of new policies and code of conduct refresher trainings.

Sustainability

- Overseeing the sustainability strategy and reviewing targets and metrics.
- Receiving and assessing regular functional reports from the President Operations.

February
- Approved 2020 Sustainability Report prior to Board approval.

April
- Received an update on sustainability reporting requirements, relating to TCFD.

December
- Reviewed materials presented by KPMG on reporting on climate change under the TCFD Framework.
- Approved net zero targets and noted road map to achieve net zero.
- Received an update on sustainability matters and progress.

Culture

- Oversight of our relationship with stakeholders, including the employee voice and sustainability.
- Receiving and assessing regular functional reports and presentations from the Chief Human Resources Officer.

February
- Noted 2021 embedment plan for the strategic imperatives and Board/employee listening sessions.

April
- Received an update on the Company's culture including a progress report on the Gallup Accountability Survey.

July
- Received an update on the Company's culture including a review of the Engagement Survey results and noted the focus for the next steps.
- Received an update on two Board listening sessions.

December
- Received an update on the Company's culture progress.
- Reviewed progress on Inclusion, Diversity & Equity.

Quality and Regulatory Affairs (Q/RA)

- Overseeing the processes by which regulatory and quality risks relating to the Company and its operations are identified and managed.
- Receiving and assessing regular functional reports and presentations from the Chief Quality & Regulatory Affairs Officer.

February
- Reviewed Quality & Regulatory Affairs report noting status of various Quality and Regulatory Affairs metrics and initiatives.

April
- Reviewed Quality & Regulatory Affairs report noting status of various quality and regulatory metrics and initiatives including updates on EU MDR.

July
- Reviewed Quality & Regulatory Affairs report noting status of various quality and regulatory metrics and initiatives.

Quality and Regulatory Affairs (Q/RA) continued

October
- Reviewed the Global Quality & Regulatory Affairs report, including an update on the impact of Brexit and the MHRA framework guidance.

December
- Reviewed the Global Quality & Regulatory Affairs report, including an update on the work of the EU MDR team and impact of Brexit and Swexit.

Other matters

February
- Approved updated Terms of Reference.
- Noted upcoming Non-Executive Director annual compliance training.
- Approved 2020 Compliance & Culture Report contained within 2020 Annual Report.

April
- Noted the upcoming retirement of Baroness Bottomley following conclusion of the Annual General Meeting on 14 April 2021.

December
- Approved appointment of John Ma to the Committee on 7 December 2021.

Section 172 statement

Directors' duties

In accordance with section 172 of the Companies Act 2006 and the UK Corporate Governance Code 2018, the Board considers the potential impact on the Company's key stakeholders and takes their views and interests into account when making decisions. All Board papers requiring a Board decision include a section discussing the potential impact on our key stakeholders and how that decision links into our business model and strategic pillars where appropriate.

The Board also takes the opportunity to engage with our stakeholders, as appropriate. Whilst this has been challenging during 2021 due to the COVID pandemic, virtual arrangements have been made where possible.

Direct engagement with our stakeholders supplements the information provided in formal Board presentations and enriches the context for our decisions.

Employees

» 20 People » 106 Compliance & Culture Committee

Our employees are crucial to the success of the business and many of the key decisions made by the Board have an impact on them. It is important for us to understand the employee perspective and take their views into account. We believe that an engaged workforce is better for business.

Areas of interest
- Talent.
- Engagement with purpose of Life Unlimited and our culture pillars of Care, Collaboration and Courage.
- Innovation.
- Society and the environment.
- Strategy.
- Customers.

How we engage
- The Board discusses results and next steps of annual Gallup survey.
- Updates on culture, people, inclusion and diversity at every Compliance & Culture Committee meeting.
- The Board meets with employees on-site visits, or virtually.
- Board/employee listening sessions.

2021 Highlights
- The Board continued to focus on the impact of the COVID pandemic on employees' safety and wellbeing.
- Members of the Board attended three virtual Board/Employee listening sessions during the year. These sessions focused on our R&D employees in Pittsburgh and high potential employees in our corporate and commercial teams.
- The September Board meeting incorporated a visit to our UK offices in Watford, where the Board met with members of the corporate functions, and the team running our Expert Connect Centre and also our senior UK sales representatives, who demonstrated our new technologies.
- Positive results were maintained in the Gallup survey.
- The Board were updated on the activities of our Employee Interest Groups throughout the year, particularly relating to diversity, mental health and volunteering programmes.

2022 Actions
- Additional Board/employee listening sessions, returning to physical meetings as soon as practicable.
- Continued monitoring of management actions relating to culture, inclusion and diversity, with specific focus on the management response on ethnic diversity.

» See pages 20–27

Our Sales Representative demonstrates some of our new products.

Investors

222 Shareholder information

Our equity investors are the owners of our business and it is important for us to understand their perspectives on capital allocation and how the Company is run.

Areas of interest
- Strategy.
- Performance.
- Dividend.
- Leadership.
- Succession planning.
- Remuneration.

How we engage
- The Chair and Non-Executive Directors are available to meet with investors physically or virtually on request.
- The Board receives reports on meetings taking place between investors and Board members and also reviews significant changes to the share register at each Board meeting.
- Board members receive regular copies of analyst reports.
- The Chief Executive Officer and Chief Financial Officer meet with investors.

2021 Highlights
- Executive Directors held 81 meetings with investors representing 61% of the Company's Share Capital. In December, around 190 investors attended our virtual Meet the Management event.
- Roberto Quarta, Robin Freestone and Marc Owen met with shareholders. Their discussions focused on business and share price performance as well as topics such as ESG, culture, product quality, business ethics, cybersecurity, climate change, governance and Board changes.
- The 2021 Annual General Meeting was live-streamed to enable shareholders to submit questions remotely during the meeting.
- Continued to pay dividends, despite the COVID impact upon our business, following rigorous stress testing.

2022 Actions
- The Board will continue to be available to meet with shareholders. Please contact the Company Secretary, if you have matters you wish to raise with the Non-Executive team.
- The 2022 Annual General Meeting will be held as a hybrid meeting, physically in our auditorium at our headquarters in Watford and live streamed, enabling shareholders to attend, vote and ask questions in person or remotely.

Engaging with our Investors

As a result of investor engagement in 2021, we are now reporting on our progress against SASB

Roberto Quarta, Chair has held eight virtual meetings with our key investors during the course of 2021. In two of these meetings, he was joined by Marc Owen, Chair of our Compliance & Culture Committee, who also met separately with one other investor. Our Senior Independent Director, Robin Freestone, also met one investor in 2021.

The Board has seen a significant increase in interest from our shareholders in sustainability matters and in particular environmental concerns and the impact of climate change on our operations. We have reported against the TCFD framework on pages 54–56 and have undertaken scenario modelling looking at the possible impact of a rise in temperature, a rise in sea levels and extreme weather events on our operations. Although, reporting against the TCFD framework is now mandatory, we know from our interactions with investors, that this is something that you want. These interactions have helped frame our approach to assessing the potential impact of climate change on our business and how we report it. Our investor engagement also showed us that some shareholders were interested in broader sustainability matters and required us to report against the SASB framework.

As a result of this engagement, during 2021 we therefore began to view our operations through a SASB lens and we have reported on our progress against SASB this year.

The second area of investor interest has been on the Company's performance and its impact on the share price. Naturally, this has also been a concern for the Board. We have spent time with management trying to understand the root causes, some of which stem from external factors including the impact of COVID on the level of surgeries undertaken and global shortages of raw materials, whilst others are the result of internal factors, which have their origin in the past. In our interactions with shareholders, we have sought to reassure our investors that the Board is working with management to resolve these issues and to get business performance back on track. The Board is delighted that the Meet the Management Event held on 16 December went some way to responding to investor concerns. The Board is happy to continue to engage with investors throughout this ongoing process.

Shareholder information pages 222–230

Our Enhanced Packaging System helps reduce our impact on the environment.

Customers and suppliers

106 Compliance & Culture Committee

Our business model creates value through customer centricity. The better we understand the needs of our customers, the better we are able to serve them and this helps to grow our business. Working in partnership with our suppliers ensures we have the right resources to support this growth.

Areas of interest
- Acting in partnership together, supporting their needs and responding to their requirements.
- Acting ethically and fairly.
- Ensuring product quality, compliant with regulations.
- Prompt and fair payment.

How we engage
- Updates on product quality, regulatory matters and complaints.
- Updates on ethical and compliance matters and complaints.
- The Board meets with key customers such as surgeons and leading hospital administrators during site visits and virtually.
- The Board receives regular updates on supplier and customer relationships.
- Individual Board members accompany sales representatives visiting customers.

2021 Highlights
- It has not been possible during 2021 due to COVID restrictions for the Board to meet our customers on site visits or to accompany our sales representatives.
- The Board has been kept updated of the supply chain issues affecting the Company and the Orthopaedics franchise in particular, during 2021 and have been actively engaged with management to resolve these issues.
- The Compliance & Culture Committee received regular reports on the transition to EU MDR, effective 26 May 2021.
- In response to customer needs, the cementless knee was launched in 2021.
- Management has reported to the Board on the importance of climate change to our customers and in turn how we engage with our suppliers to ensure they share our view on sustainability matters.

2022 Actions
- Board will meet with surgeons and hospitals when physical meetings are again possible.
- Board members will resume programme of spending time with sales representatives in the field.

✚ Engaging with our customers and suppliers

Understanding how our sales representatives support our customers

As described elsewhere, Smith+Nephew has faced a number of issues during 2021 affecting our supply chain. The Board has been disappointed that our ability to deliver products to our customers has been impacted. We have been working with management throughout to understand the underlying causes for these issues and to develop a roadmap to resolve them and get back on track. Many of these underlying causes stem from the global supply situation affecting many other companies, for example storms in Memphis in the first part of the year, the Suez Canal blockage in March 2021 and general supply issues consequent upon the COVID pandemic. However, we also recognise that we have been impacted more than some of our competitors, because of internal issues that pre-dated the pandemic.

The Board has worked with management and has overseen the work of the team set up to address these issues. We were delighted to welcome Paul Connolly as our new Head of Global Operations in October who presented to the Board at our December meeting.

When the Board visited our Watford site in September, we heard from some of our sales representatives how the supply shortages were affecting their customers and the measures they were putting in place to support our customers.

» **Compliance & Culture Committee page 106**

» **Serving healthcare customer pages 36–41**

"Our sales representatives demonstrated our products and explained how they supported our customers during COVID."

Governments and regulators

35 Quality & Regulatory

We are subject to the laws and regulations of many governments and regulators across the world and understanding their requirements is important for us to ensure not only product safety and compliance with relevant legislation, but also in line with our first strategic imperative to achieve the full potential of our portfolio.

Areas of interest
– Product safety.
– Compliance with local legal and regulatory requirements.
– Competition issues.
– Social and economic concerns.

How we engage
– Management is responsible for ensuring compliance with applicable laws and regulations. Direct engagement between the Board and our regulators is therefore not always appropriate.
– Updates on product quality, regulatory matters and complaints at every meeting of the Compliance & Culture Committee.
– Updates on ethical and compliance matters, and complaints at every meeting of the Compliance & Culture Committee.
– The Chief Executive Officer meets with UK government and regulators.

2021 Highlights
– The Company submitted a response to the UK government consultation on restoring trust in audit and corporate governance.
– The Compliance & Culture Committee received regular reports from Mizanu Kebede, our new Chief Quality & Regulatory Affairs Officer, on the results of FDA inspections at our manufacturing facilities.

2022 Actions
– The Board and the Compliance & Culture Committee will continue to maintain oversight of all matters pertaining to the Company's relationship with governments and regulators across the world.

Further information about our relationship with other stakeholders including the local communities in which we operate and our impact on the environments and the impact of climate change on our business can be found in the Sustainability Report and on pages 48–57. The Compliance & Culture Committee regularly received updates on our sustainability programme and our progress towards the achievement of our 2030 sustainability goals.

The Directors' Report, prepared in accordance with the requirements of the Companies Act 2006 and the UK Listing Authority's Listing Rules comprising pages 1–113 and 222–238, was approved by the Board on 22 February 2022.

Susan M Swabey

Susan Swabey
Company Secretary

The Strategic Report, comprising pages 1–70 was approved by the Board on 22 February 2022.

Roland Diggelmann
Chief Executive

Directors' Remuneration report

"In 2021 we decided to add sustainability targets to our Annual Bonus Plan for 2022 onwards."

Dear Shareholder,

2021 has been another challenging year for Smith+Nephew. You will read elsewhere in this Annual Report about the continued challenges the business is facing and the ongoing impact that the cancellation of elective surgeries, staff shortages and supply chain issues have had on our performance. Despite these challenges, we continue to be so appreciative of the efforts and hard work from our employees and management across the organisation, focusing primarily on the safety of our employees and customers. It has been another tough year for all our stakeholders. A massive thank you to our employees for everything they do.

The focus of the Remuneration Committee during 2021, as always, has been on continuing to ensure that we are able to pay our employees and executives appropriately in a way that both recognises the performance of the Company and also takes into account the competitive positions of global pay arrangements.

Departure of Roland Diggelmann, Chief Executive Officer

As announced on 22 February 2022, Roland and the Board came to a mutual agreement that he would step down as Chief Executive Officer with effect from 31 March 2022.

The Committee considered the treatment to be applied to Roland's remuneration arrangements, in accordance with the Remuneration Policy approved by shareholders on 9 April 2020 and the terms of his employment agreement. Further details are provided on page 128 in the Implementation Report. In summary, the following treatment was applied:

- Salary, benefits including life assurance, and pension contributions will continue to be made in the ordinary course during his employment up to 31 March 2022.
- He will receive payments in lieu of his salary, health and dental benefits, car allowance and pension contributions in respect of the balance of his mutually agreed 12-month notice period up to 28 February 2023 (to reflect the Swiss law requirement that the notice period runs from the end of the month in which notice is served).

Membership

	Member from	Meetings attended
Angie Risley (Chair)	September 2017	**7/7**
Virginia Bottomley[1]	April 2014	**3/3**
Robin Freestone	September 2015	**7/7**
Roberto Quarta	April 2014	**7/7**
Bob White	July 2020	**7/7**

1 Virginia Bottomley retired from the Board and the Committee at the Annual General Meeting on 14 April 2021.

- The payout under the 2021 Annual Bonus Plan has been determined in the normal manner, resulting in an overall outcome of 83% of target resulting in a bonus of CHF1,228,936 (see pages 122–123 for further details). This will be delivered equally in cash and deferred share awards as described on page 123.
- Roland will be eligible to participate in the Annual Bonus Plan for 2022, with his opportunity pro-rated to reflect the period of the year worked and the outcome determined in the usual manner at year-end.
- Roland will be a "good leaver" for the purposes of the Performance Share Programme. As such, his awards will be pro-rated for service and will remain capable of vesting at the end of the three-year performance period, subject to meeting the relevant performance conditions. He will be required to retain any vested shares, net of tax, for a further two-year period after the vesting date. He will not receive a Performance Share Programme award in 2022.
- He will be subject to non-compete and non-solicitation restrictions until 28 February 2023.
- All shares earned during Roland's employment as Chief Executive Officer will be subject to a two-year holding period post cessation of employment.

Appointment of Deepak Nath

As announced on 22 February 2022, Deepak Nath will be appointed Chief Executive Officer with effect from 1 April 2022. Deepak will be based in our Fort Worth offices in the US and will be employed under a US employment agreement in accordance with the Remuneration Policy approved by shareholders on 9 April 2020. He will receive a base salary of $1,475,000 per annum, which, based on exchange rates at the time of agreement, was in line with that received by Roland.

Deepak will participate in the Annual Bonus Plan and Performance Share Programme, in accordance with the Remuneration Policy approved by the shareholders on 9 April 2020. The Company will pay pension contributions in line with average pension rates in the US workforce (currently 7.5% of salary per annum), and he will receive standard benefits, which are not materially different in nature or value relative to Roland.

Deepak will also receive buy-out awards to the value of €7,501,150 ($8,544,560) in respect of outstanding incentives that he will forfeit on leaving his former company. All awards have been provided on a like-for-like basis in terms of the value provided and their performance and/or vesting periods. There has been no acceleration of any awards and the performance-based awards have not been replaced with a non-performance based award. An amount of up to $800,000 will be paid in cash in November 2022 in respect of his forfeited 2022 cash bonus, subject to the Committee's assessment of the targets attached to the cash bonus forfeited at his previous company.

The buyout awards relating to the performance-related awards will continue to be subject to their original performance conditions.

Further details may be found on page 129. Deepak will also be required to build up a holding of Smith+Nephew shares equivalent to three times his base salary.

Increase in salary of Anne-Françoise Nesmes

The Committee reviewed the base salary paid to Anne-Françoise. During 2021, she took on increased responsibility for our Global Business Services function, in addition to her role as Chief Financial Officer. In recognition of this additional responsibility, her base salary will increase by a total of 6.2%, of which 4% is in acknowledgement of her expanded role and 2.2% is in respect of an annual pay increase, which is below the 2.9% increase applying to the wider workforce.

Review of 2021 Performance

In 2021 the Group delivered financial results in line with its full-year guidance despite continued COVID disruption to elective surgeries. Revenue was $5,212 million, up 14.3% on a reported basis and 10.3% on an underlying basis. Operating profit was $593 million, up 101% and the trading profit was $936 million with a trading profit margin of 18.0%, 300 basis points above 2020.

The strong performance of Sports Medicine & ENT and Advanced Wound Management helped offset the near-term challenges in our Orthopaedics franchise. These included supply chain constraints and channel adjustments ahead of the volume-based procurement implementation for hip and knee implants in China. We are stabilising the Smith+Nephew-specific supply chain challenges and worked to mitigate the widely reported global shortages of some raw materials and components. However, we expect supply constraints to remain a headwind in 2022.

We launched our Strategy for Growth, driven by improved productivity and commercial execution, innovation and acquisitions, and announced medium-term revenue and trading profit targets. The recent step-up in investment in R&D enabled us to introduce a number of important new products, including a cementless knee system, expansion of robotics platform, meniscal repair system and sports medicine tower upgrade. We also strengthened our commercial model with Orthopaedics and Sports Medicine & ENT franchises brought under one leadership team to better address higher growth opportunities and announced an updated capital allocation framework maintaining higher investment in innovation to drive growth and our progressive dividend policy, with new regular annual share buy-backs commencing in 2022.

Directors' Remuneration report continued

Annual Bonus Plan

Performance against the financial targets under the Annual Bonus Plan 2021 was therefore close to target for both Revenue and Trading Margin, resulting in a payout of 91% against target in respect of the financial objectives.

The Remuneration Committee reviewed the performance of the Executive Directors against their individual business objectives. We concluded that Roland partially achieved against his individual business objectives both in terms of what he did and how he performed, whilst Anne-Françoise achieved against her individual business objectives in terms of what she did and exceeded in terms of how she performed.

These ratings combined with performance against the financial objectives resulted in a bonus amounting to 83% of target for Roland and 93% of target for Anne-Françoise.

We also considered whether these outcomes fairly represented the performance of the Company and the Executive Directors in 2021. Whilst we acknowledged that the share price had fallen during 2021, we also recognised that the Company had delivered close to its financial targets and there had been no reputational risk issues during the year. We therefore determined that these outcomes were a fair representation of performance and there was no need to apply discretion to these figures.

During 2021, we took the decision to formalise the business objectives within our Annual Bonus Plan to recognise the importance of ESG matters to our business. Going forward, 5% of the Annual Bonus Plan will be dependent on ESG targets.

Performance Share Programme

Similarly, the Remuneration Committee reviewed performance over the past three years against the targets determined in 2019 for the Performance Share Programme and determined that these awards should vest at 0%. This reflects performance against the targets over the three-year performance period since 1 January 2019. Neither Roland nor Anne-Françoise was employed by the Company in an executive role at the time these awards were made in 2019 and therefore neither of them received an award.

In early 2022, the Remuneration Committee considered the performance framework of the Performance Share Plan Awards due to be made in 2022 and were satisfied that the existing measures – indexed TSR, return of invested capital, sales growth and cumulative free cash flow – remain appropriate.

Performance targets

In February 2021, the outlook for the longer term was uncertain so we therefore delayed the approval of the performance conditions for the Performance Share Plan 2021 until April 2021 and these awards were made in May 2021. We shall be adopting the same approach in 2022.

The wider workforce

The Remuneration Committee maintains oversight of the pay arrangements for the wider workforce and is pleased that our employees were not laid off or placed on furlough as a result of the pandemic. During 2021, we have seen increased turnover in staff following the macroeconomic trends across the markets in which we operate. The Committee has been monitoring the impact of this on the workforce and levels of pay across the organisation.

We have reviewed the gender pay ratio and are delighted to note that we continue to make positive progress year-on-year, partly as a result of the new initiatives focusing on inclusion and diversity, described more fully on page 23. The Board and the Remuneration Committee have monitored these issues throughout the year.

Thank you for your continued support.

Angie Risley

Angie Risley
Chair of the Remuneration Committee

Looking forward – Remuneration Committee's focus for 2022

During 2022, the Remuneration Committee intends to:

- Undertake a complete review of our remuneration arrangements ahead of putting the Remuneration Policy Report to shareholder vote in 2023 to ensure it remains fit for purpose in a changing business environment.
- Continue to monitor business performance against the targets under our incentive plans.
- Continue to oversee remuneration arrangements across the Company as a whole, monitoring wider employee pay initiatives and our gender pay performance.

Measures in our variable pay plans	
Performance measures in Annual Bonus Plan for 2022	
Revenue (40%)	Top-line growth is essential for continued progress and long-term value creation.
Trading margin (40%)	Trading margin focuses on profit.
Business objectives (15%)	Individual business objectives linked to the strategic imperatives to ensure alignment across the Company.
ESG objectives (5%)	Doing the right thing with regard to our employees, the environment and other stakeholders ensures a sustainable business for the future.
Performance measures in our Performance Share Programme for 2022	
Revenue growth (25%)	Top-line growth leading to value creation is a key goal for Smith+Nephew over the next three to five years. Winning market share is important to create a competitive advantage for Smith+Nephew in driving growth.
Return on invested capital (25%)	Provides focus on long-term efficiency and profitability. Bottom-line performance provides balance to revenue measure. Important measure for our investors.
Cumulative free cash flow (25%)	Essential to fund investment, pay down debt and take advantage of market opportunities. Important measure for our investors and forms part of management conversations with the market.
TSR performance against an Index (25%)	Total Shareholder Return (TSR) aligns Executive reward to the shareholder experience. An indexed approach avoids an anomalous result which can arise if there is a small number of extreme outliers in the Group.

Compliance statement

We have prepared this Directors' Remuneration Report (the Report) in accordance with The Enterprise and Regulatory Reform Act 2012–2013 (clauses 81–84), sections 420 to 422 of the Companies Act 2006 and The Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations), The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 and The Companies (Miscellaneous Reporting) Regulations 2018. The Report also meets the relevant requirements of the Financial Conduct Authority (FCA) Listing Rules.

Pages 118–135 is the annual report on remuneration (the Implementation Report). The Implementation Report will be put to shareholders for approval as an advisory vote at the Annual General Meeting on 13 April 2022. The Implementation Report explains how the Remuneration Policy was implemented during 2021. The following sections have been audited by KPMG LLP: The Single Figure Tables on Remuneration including related notes (pages 120–128); details of awards made under the Performance Share Programme (pages 124–127); Summary of Scheme Interests during the year (page 127); Payments to former Directors (page 128); Payments made to other past Directors (page 128); Directors interests in ordinary shares (page 130) and Senior Management Remuneration (page 135).

The Directors' Remuneration Policy Report (the Policy Report) was approved by shareholders at the Annual General Meeting on 9 April 2020. This Policy Report can be found on our website within the 2019 Annual Report and describes our Remuneration Policy as it relates to the Directors of the Company. All payments we make in relation to Directors of the Company will be in accordance with this Remuneration Policy. It is intended that the Policy will next be put to shareholders' vote at the Annual General Meeting to be held in 2023.

Remuneration implementation report

The Remuneration Committee presents the Annual Report on Remuneration (the Implementation Report) which will be put to shareholders for an advisory vote at the Annual General Meeting to be held on 13 April 2022. The Terms of Reference of the Remuneration Committee describe our role and responsibilities more fully and can be found on our website: www.smith-nephew.com.

The Remuneration Policy approved by shareholders at the 2020 Annual General Meeting may also be found on our website in the 2019 Annual Report.

Work of the Remuneration Committee in 2021

In 2021, we held 7 meetings and determined 5 further matters by written resolution. Each meeting was attended by all members of the Committee. The Chief Executive Officer and the Chief Human Resources Officer, key members of the finance function and the Company Secretary also attended all or part of some of the meetings, except when their own remuneration was being discussed. We also met with the independent remuneration consultants, Deloitte LLP (Deloitte), the remuneration advisors to the Committee.

Since the year end, we have reviewed the financial results for 2021 against the targets under the short-term and long-term incentive arrangements jointly with the Audit Committee.

We have also determined base salary increases for Executive Directors and Executive Officers with effect from April 2022 and have determined the payouts under the 2021 Annual Bonus Plan and the vesting under the Performance Share Plan 2019.

We have determined remuneration arrangements for Deepak Nath, who will be joining as Chief Executive Officer on 1 April 2022, and termination arrangements for Roland Diggelmann who will cease to Chief Executive Officer on 31 March 2022.

Finally, we approved the wording of the Directors' Remuneration Report.

Independent Remuneration Committee advisors

During the year, the Committee received information and advice from Deloitte. Deloitte is a global firm, which provides many services to the Company, including tax and consultancy services. Deloitte was appointed by the Committee following a full tender process in 2018 to provide remuneration advice to the Committee, independent from management.

During the year, Deloitte provided advice on market trends and remuneration issues in general, attended Committee meetings, assisted in the review of the Directors' Remuneration Report, undertook calculations relating to the TSR performance conditions and advised on annual bonus reviews impacted by COVID.

The fees paid to Deloitte for advice to the Committee during 2021, charged on a time and expense basis, were £68,350 ($94,001). Deloitte complies with the Code of Conduct in relation to Executive Remuneration Consulting in the UK and the Committee is satisfied that their advice is objective and independent.

Responsibilities of the Remuneration Committee

Determination of Remuneration Policy and packages

- Determination of Remuneration Policy for Executive Directors, Executive Officers and senior executives.
- Approval of individual remuneration packages for Executive Directors and Executive Officers, at least annually, and any major changes to individual packages throughout the year.
- Consideration of remuneration policies and practices across the Group in particular relating to CEO Pay Ratio and Gender Pay.
- Approval of appropriate performance measures for short-term and long-term incentive plans for Executive Directors, Executive Officers and senior executives.
- Determination of pay-outs under short-term and long-term incentive plans for Executive Directors, Executive Officers and senior executives.

January

- Approved principles for determining payouts to Executive Directors and Executive Officers under the 2018 Performance Share Plan, the 2020 Annual Bonus Plan and the 2020 Cash Incentive Plan.
- Considered principles for setting the targets for the Annual Bonus Plan 2021.
- Approved principles in respect of Executive Officer Remuneration for 2021.
- Approved grants of compensatory Restricted Share Awards.
- Noted share awards made.

Early February

- Approved quantum of cash payments and awards to Executive Directors and Executive Officers under the 2020 Annual Bonus Plan, 2020 Cash Incentive Plan and 2018 Performance Share Plan.
- Approved grants of Equity Incentive Awards.
- Reviewed and approved remuneration arrangements for Executive Directors and Executive Officers in 2021.
- Noted quantum of 2021 compensatory Restricted Share Awards.
- Approved retention awards for Executive Officers.
- Noted Gender Pay Report and CEO Pay Ratio figures.
- Reviewed Chair of the Board's pay.
- Reviewed and approved Company Secretary's pay.

Determination of Remuneration Policy and packages continued

Late February

- Approved financial targets for 2021 Annual Bonus Plan for Executive Directors, Executive Officers and senior executives.
- Approved 2021 Remuneration Committee Business Plan.

April

- Reviewed and approved financial measures and targets for 2021 Performance Share Plan for Executive Directors and Executive Officers.
- Noted share awards made to Executive Officers, senior executives and other employees.
- Approved retirement arrangements for Executive Officer.

July

- Reviewed the schedule of plans and targets for awards.
- Noted share awards made to senior executives and other employees.
- Reviewed Remuneration Strategy for Executive Directors, Executive Officers and senior executives.

September

- Reviewed Remuneration Strategy for Executive Directors, Executive Officers and senior executives.
- Reviewed schedule of plans and targets.
- Noted share awards made to senior executives and other employees.
- Approved retirement arrangements for Company Secretary.

December

- Reviewed the performance against the targets under the 2021 Annual Bonus Plan, 2019 and 2020 Performance Share Programme.
- Noted principles for determining payouts under the 2019 Performance Share Plan and the 2021 Annual Bonus Plan.
- Reviewed and approved financial and non-financial targets and measures for Executive Officers.
- Reviewed the schedule of plans and targets.
- Noted sign-on share awards and share awards made to senior executives and employees.

Oversight of all Company Share Plans

- Determination of the use of long-term incentive plans and overseeing the use of shares in executive and all employee plans.

Early February

- Monitored adherence to shareholding guidelines for Executive Directors, Executive Officers and senior executives.

July

- Monitored adherence to shareholding guidelines for Executive Directors, Executive Officers and senior executives.
- Monitored dilution limits and the number of shares available for use in respect of discretionary and all-employee share plans.

Reporting and engagement with shareholders on remuneration matters

- Approval of the Directors' Remuneration Report ensuring compliance with related governance provisions.
- Continuation of constructive engagement on remuneration matters with shareholders.

Early February

- Reviewed draft Directors' Remuneration Report.

Late February

- Approved Directors' Remuneration Report.

July

- Reviewed matters arising from Annual General Meeting and proposals for Investor engagement.
- Noted Remuneration Committee dashboard.

Other matters

Early February

- Audit Committee in attendance to answer questions related to audited numbers and provide assurance.
- Approved Terms of Reference.

December

- Received an update on the external market context and data.

Remuneration implementation report continued

Single total figure on remuneration (audited)

The amounts for 2021 have been converted into US$ for ease of comparability using the exchange rates of £ to US$1.3753 and CHF to US$1.0939 (2020: £ to US$1.2824 and CHF to US$1.0654).

	Roland Diggelmann Appointed 1 November 2019		Anne-Françoise Nesmes Appointed 27 July 2020	
	2021	2020	**2021**	2020
Fixed pay				
Base salary	$1,509,582	$1,470,275	$797,674	$324,211
Pension payments	$182,587	$176,433	$95,721	$38,905
Taxable benefits	$65,923	$51,065	$17,005	$6,942
Annual variable pay				
Annual Incentive Plan/Annual Bonus Plan – cash element	$672,167	–	$398,053	–
Annual Incentive Plan/Annual Bonus Plan – equity element	$672,167	–	$398,053	–
Long-term variable pay				
Performance Share Programme	–	–	–	–
Total	$3,102,426	$1,697,773	$1,706,506	$370,058

Base salary	The actual salary receivable for the year.
Pension payments	The value of the salary supplement in lieu of pension or contribution to any pension scheme made by the Company.
Taxable benefits	The gross value of all taxable benefits (or benefits that would be taxable in the UK) received in the year.
Annual Incentive Plan – cash element/Annual Bonus Plan	The value of the cash incentive payable for performance in respect of the relevant financial year.
Annual Incentive Plan – equity element/Annual Bonus Plan	The value of the equity element awarded in respect of performance in the relevant financial year as described on page 122 of this report.
Performance Share Programme	The value of shares vesting that were subject to performance over the three-year period ending on 31 December in the relevant financial year. For awards vesting in early 2022 this is based on an estimated share price of 1271.73p per share, which was the average price of a share over the last quarter of 2021. Neither Mr Diggelmann nor Ms Nesmes held Performance Share Awards granted in 2019.
Total	The sum of the above elements.

All data is presented in our reporting currency of US Dollars (USD). Amounts for Roland Diggelmann have been converted from Swiss Francs and from Sterling for Anne-Françoise Nesmes using average exchange rates. Given currency movements in 2021, this may give the impression of changes that are misleading. Data is presented in local currency in the subsequent sections in the interests of full transparency.

Fixed pay

Base salary

Executive base salaries are usually reviewed in February each year, with any changes to take effect from 1 April. During 2021, we determined that there would be no increase to the base salaries paid to the Executive Directors.

Roland Diggelmann's base salary therefore remained at CHF1,380,000 and Anne-Françoise Nesmes' base salary remained at £580,000 during 2021.

In February 2022, we reviewed the base salaries of the Executive Directors, noting that the average increase to base pay for employees in Switzerland and the United Kingdom was 2% and 2.9% respectively.

In February 2022, we reviewed Anne-Françoise Nesmes' base salary, noting that her role had expanded during the year to include responsibility for the Global Business Services function. After due consideration, we have awarded her a total increase in base salary of 6.2% with effect from 1 April 2022. 4% of this increase is in recognition of her increased responsibilities and 2.2% is in respect of her annual salary review. The general increase to base pay for employees in the UK in 2022 is 2.9%.

As Roland Diggelmann is stepping down as Chief Executive Officer, he will receive no increase in base pay.

As announced on 22 February, Deepak Nath's base pay will be $1,475,000, aligned with Roland Diggelmann's salary at the time of his appointment. Therefore the base pay of our Executive Directors with effect from 1 April 2022 will be:

- Deepak Nath $1,475,000
- Anne-Françoise Nesmes £615,960

Pension payments

Roland Diggelmann participates in the Swiss Profond pension plan. He is employed under a Swiss contract, which is where he is domiciled. During 2021, total Company pension contributions for Roland amounted to CHF166,914, which is equivalent to 12% of his base salary.

Anne-Françoise Nesmes receives a salary supplement of 12% of basic salary to apply towards her retirement savings, in lieu of membership of one of the Company's pension schemes. This is in line with the pension arrangement for the wider UK workforce.

When Deepak Nath joins the Company on 1 April 2022, he will receive pension contributions aligned with the wider US workforce (currently 7.5% of his base salary).

Benefits

In 2021, our Executive Directors, Roland Diggelmann and Anne-Françoise Nesmes received death-in-service cover of seven-times basic salary, of which four-times salary is payable as a lump sum, with the balance used to provide for any spouse and dependent persons. Each Executive Director received health cover for themselves and their families, a car allowance and financial consultancy advice. The same arrangements will apply in 2022. The following table summarises the value of benefits in respect of 2020 and 2021.

	Roland Diggelmann		Anne-Françoise Nesmes	
	2021	2020	**2021**	2020
Health cover	CHF6,893	CHF6,893	£965	£444
Car and fuel allowance	CHF32,400	CHF32,400	£11,400	£4,969
Financial consultancy advice	£16,680	£7,175	–	–

Remuneration implementation report continued

Annual incentives

Annual Bonus Plan 2021

Following the approval of the Remuneration Policy at the 2020 Annual General Meeting, the maximum opportunity under the Annual Bonus Plan for Executive Directors is 215% of base salary, subject to satisfactory performance against the performance measures detailed below. 50% of the award is paid in cash and 50% is deferred into shares which will vest after three years.

The performance measures and weightings which applied to the Annual Bonus Plan 2021 were as follows:

	Weighting	Threshold as a percentage of salary	Target as a percentage of salary	Maximum as a percentage of salary
Revenue	40%	12.8%	43%	86%
Trading margin	40%	12.8%	43%	86%
Business objectives	20%	6.4%	21.5%	43%

The 2021 targets for revenue and trading margin are shown below and were determined in February 2021

	Threshold	Target	Maximum	Actual[1]
Revenue	$4,905m	$5,332m	$5,759m	$5,277m
Trading Margin	16.6%	18%	19.2%	17.8%

1 At constant exchange rates. See page 218.

Financial objectives

The revenue target for 2021 is set by reference to our expectations for growth for the year. Threshold was set at 8 percentage points below target and maximum was set at 8 percentage points above target.

The trading margin target was set by reference to budgeted trading profit margin for the year. Threshold and maximum were set at 85% and 115% of budgeted trading profit margin, divided by threshold and maximum revenue respectively.

This resulted in a payout of 91% of target against the financial objectives.

Accordingly, the following amounts have been earned by Roland Diggelmann and Anne-Françoise Nesmes for 2021 under the Annual Bonus Plan in respect of their financial objectives.

Roland Diggelmann	CHF1,080,586
Anne-Françoise Nesmes	£454,159

As well as considering the monetary outcome of the formulaic calculation of these awards, the Committee considered that this performance fairly represented the overall financial performance during the year.

Business objectives

In determining performance against the business objectives, the Executive Directors have been assessed on the same basis as applies to all employees across the Group using a four-point rating scale reflecting both what has been achieved and how it has been achieved. At the beginning of the year, specific business objectives were determined relating to achievement of the corporate strategy. For 2021, these objectives were Growth, People and Business processes as in 2020. Performance against these business objectives was considered alongside how the Executive Directors performed in respect of our culture pillars of Care, Collaboration and Courage. This includes consideration of performance against sustainability, compliance and quality metrics. Their overall performance has been assessed according to the extent to which the Executive Directors have met the expectations of the Board. The 20% of the Annual Bonus Plan which is attributable to business objectives will be paid out as follows:

Performance	**% of base salary**
Below expectations	Nil
Partially met expectations	6.4%
In-line with expectations	21.5%
Above expectations	43%

When setting business objectives for the upcoming year, the Board looks not only at the expected financial performance for the year, but also at the actions it expects the Executive Directors to carry out in the year to build a solid foundation for financial performance over the longer term. In reviewing performance against these objectives at the end of the year, the Board is mindful that there is not always a necessary correlation between financial performance and the achievement of business objectives. The table below sets out how the Chair and the Board have assessed how Roland Diggelmann and Anne-Françoise Nesmes have performed against the business objectives of Growth, People and Business Processes.

Roland Diggelmann	Anne-Françoise Nesmes
People	
– Achieved against target to continue to embed the culture pillars and purpose to drive engagement, maintaining strong 2020 engagement over the course of a challenging year evidenced by Gallup engagement survey results. – Partially achieved against target to strengthen ExCo effectiveness and build a high-performance team due to ExCo turnover; successors have been hired or promoted from within. – Achieved against target to drive increased inclusion and diversity (gender) delivering improvement to gender balance at senior management level. – Partially achieved against target to develop and retain key talent due to higher attrition.	– Exceeded against target to strengthen finance talent and capabilities in identifying issues, overseeing training and development, improving alignment across functions, sponsoring recognition programme and improving diversity. – Achieved against target to establish key relationships as new Chief Financial Officer by building strong relationships across Board, ExCo, broader senior leadership team, enterprise and with external stakeholders.
Organisation and Process	
– Achieved against target to meet sustainability strategy goals and delivered milestones including roadmap to achieve our carbon reduction target, embedding of sustainability reviews into new product development (NPD) processes, recycling reduction and supply chain assessment. – Achieved against target to continue to protect the organisation from COVID, through successful management by crisis management teams and the launch of flexible working programme. – Did not achieve against target to simplify our organisation and end-to-end processes, as Global Operations transformation targets were not fully met, and the remediation of the internal supply chain issues is still underway. – Achieved against target to uphold the highest standards of quality and compliance with new regulatory and quality strategy deployed successfully.	– Achieved against target to define Group enterprise resource planning and digital strategies for medium to long term, delivering ERP evaluation and workstream to define digital strategy. – Partially achieved against target to drive system improvement by delivering strengthened financial control systems and finance system roadmap. – Achieved against target to drive greater accountability and visibility across organisation delivering key planning deliverables and dashboards across commercial, operational and R&D areas of business.
Customer	
– Partially achieved against new product development targets, with successful launch of major new products including porous knee and continuation of CORI roll-out but missed overall NPD launch target due to supply chain challenges. – Partially achieved against target to deliver ASC strategy with programme subsequently refocused under new commercial structure. – Achieved target to invest in key areas of the business through initiation of new medical education centres in Singapore and Munich. – Achieved against target to continue successful bolt-on acquisitions, acquiring Extremity Orthopaedics business which has been successfully integrated and grown.	– Exceeded against target to continue successful bolt-on acquisitions, supporting Extremity Orthopaedics integration and successfully partnered with corporate development on M&A strategy.
This resulted in a calculated bonus achievement of 50% of target in respect of Roland Diggelmann's business objectives.	This resulted in a calculated bonus achievement of 100% of target in respect of Anne-Françoise Nesmes' business objectives.

Therefore the total amount earned by Executive Directors in 2021 under the Annual Bonus Plan 2021 is:

	Amount earned in respect of financial objectives	Amount earned in respect of business objectives	Total amount earned	Total as percentage of target	Total as percentage of salary
Roland Diggelmann	CHF1,080,586	CHF148,350	CHF1,228,936	83%	89%
Anne-Françoise Nesmes	£454,159	£124,700	£578,859	93%	100%

The Board has reviewed the formulaic calculation of these figures. Whilst we acknowledged that the share price had fallen by 15% during 2021, we also recognised that the Company had delivered close to its financial targets and there had been no reputational risk issues during the year. We therefore determined this fairly represents the performance of the Company and of the Executive Directors during 2021.

50% of the total amount earned will be paid in cash and the remaining 50% will be deferred into shares which will vest after three years.

Remuneration implementation report continued

Annual incentives continued

Annual Bonus Plan 2022

The maximum opportunity under the Annual Bonus Plan for Executive Directors will be 215% of base salary, subject to satisfactory performance against the performance measures detailed below. 50% of the award will be paid in cash and 50% will be deferred into shares which will vest after three years.

The performance measures and weightings which apply to the Annual Bonus Plan 2022 are as follows:

	Weighting	Threshold as a percentage of salary	Target as a percentage of salary	Maximum as a percentage of salary
Revenue	40%	12.8%	43%	86%
Trading margin	40%	12.8%	43%	86%
Business objectives	15%	4.8%	16.125%	32.25%
ESG objectives	5%	1.6%	5.375%	10.75%

For reasons of commercial sensitivity, we are unable to disclose the precise targets for revenue and trading margin for 2022 now, which are both set by reference to our expectations for growth for the year. They will be disclosed retrospectively in the 2022 Annual Report, when performance against those targets are determined.

In determining performance against the business objectives, the Executive Directors will be assessed on the same basis as applies to all employees across the Group using a four-point rating scale reflecting both what has been achieved and how it has been achieved. At the beginning of the year, specific business objectives are determined relating to achievement of the corporate strategy. These objectives will be Growth, People and Business processes as in 2021. Performance against these business objectives will be considered alongside how the Executive Director performed in respect of our culture pillars of Care, Collaboration and Courage. This includes consideration of performance against compliance and quality metrics. Their overall performance will be assessed according to the extent to which the Executive Director has met the expectations of the Board. For 2022 onwards, 15% of the Annual Bonus Plan will be attributable to business objectives.

The remaining 5% of the Annual Bonus Plan will be attributable to Environmental, Social and Governance objectives aligned to the Company's sustainability strategy and the Executive Director's area of responsibility.

The Annual Bonus Plan attributable to business objectives and ESG objectives will be paid out as follows:

Performance	% of base salary
Below expectations	Nil
Partially met expectations	6.4%
In-line with expectations	21.5%
Above expectations	43%

Long-term incentives

Performance Share Programme

Performance Share Programme 2019

Since the end of the year, the Committee has reviewed the vesting of conditional awards made to former Executive Directors in 2019 under the Performance Share Programme. Neither of the existing Executive Directors were employed as Executive Directors when the awards were made in 2019. Vesting of the conditional awards made in 2019 was subject to performance against four equally weighted performance measures – TSR, global revenue growth, cumulative free cash flow and return on invested capital – measured over a three-year period commencing 1 January 2019.

TSR performance 25% of the award was based on the Company's TSR performance relative to two equally weighted peer groups against which the Company's TSR performance was measured as follows:

- A sector-based peer group based on those companies classified as the S&P 1200 Global Healthcare subset comprising medical devices, equipment and supplies companies (official industry classifications of 'Health Care Equipment and Supplies, Life Sciences Tools & Services and Health Care Technology'). The Company's was TSR was -2.4% against a median TSR for the peer group of 88.2%. Therefore there was 0% payout against this element.
- FTSE 100 constituents excluding financial services and commodities companies. This is in response to shareholders who assess our performance not based on sector, but instead based on the index we operate in. The Company's TSR was -2.4% against a median TSR for the peer group of 24.9%. There was therefore a 0% payout against this element.

This part of the award therefore vested at 0% out of the 25% target.

Global revenue growth 25% of the award was based on global revenue growth. The threshold set in 2019 was $15,157 million with a target of $15,577 million. Over the three-year period, the adjusted revenues in global revenue growth were $14,202 million. These adjustments include translational foreign exchange and Board-approved M&A.

This part of the award therefore vested at 0% out of the 25% target.

Cumulative free cash flow performance. 25% of the award was based on cumulative cash flow performance, The target set in 2019 was $2,210 million with maximum at $2,497 million. Over the three-year period, the adjusted cumulative free cash flow was $1,680 million which was below threshold. These adjustments include items such as Board-approved mergers and acquisitions, restructuring programmes and translational foreign exchange.

This part of the award therefore vested at 0% out of the 25% target.

Return on invested capital (ROIC) 25% of the award was based on return on invested capital defined as follows:

$$\frac{\text{Operating profit}^{1}\text{ less adjusted taxes}^{2}}{(\text{Opening net operating assets + closing net operating assets})^{3} \div 2}$$

1 Operating profit is as disclosed in the Group income statement in the Annual Report.
2 Adjusted taxes represents our taxation charge per the Group income statement adjusted for the impact of tax on items not included in operating profit notably interest income and expense, other finance costs and share of results of associates.
3 Net operating assets comprises net assets from the Group balance sheet (total assets less total liabilities) excluding the following items: investments, investments in associates, retirement benefit assets and liabilities, long-term borrowings, bank overdrafts, borrowings and loans, IFRS 16 lease liabilities and right-of-use assets, and cash at bank.

The target set in 2019 was an average over three years of 13.1% with maximum at 14.3%. The adjusted average ROIC measurement for the three years was 9.4% which was below threshold. These adjustments include Board-approved mergers and acquisitions.

This part of the award therefore vested at 0% of the 25% target.

In summary, the Performance Share Programme award made in 2019 vested at 0% of target as follows:

	Threshold	Target	Maximum	Actual	Percentage Vesting
TSR	Median	–	Upper Quartile	Below Median	0%
Global revenue growth	$15,157m	$15,577m	$15,997m	$14,202m	0%
Cumulative free cash flow	$1,923m	$2,210m	$2,497m	$1,680m	0%
Return on invested capital	11.8%	13.1%	14.3%	9.4%	0%

Neither of the existing Executive Directors were employed as Executive Directors when the awards were made in 2019.

As well as considering the monetary outcome of the formulaic calculation of these awards, the Committee considered whether discretion should be applied to override these formulaic outcomes and concluded that the monetary outcomes were aligned with the financial performance of the Company during the performance period and the intention of the Remuneration Policy.

Performance Share Programme 2021

In accordance with the Remuneration Policy approved by shareholders at the Annual General Meeting held on 9 April 2020, performance share awards were granted to the Executive Directors under the Global Share Plan 2020 to a maximum value of 275% of salary (137.5% for target performance) measured over the three financial years commencing 1 January 2021 against four equally weighted performance measures: Indexed TSR, return on invested capital, Global revenue growth and cumulative free cash flow. The performance conditions for these awards were determined in April 2021 and the awards were made in May 2021, as due to the uncertainty caused by the pandemic it was not possible at an earlier stage to determine the impact COVID would have on the business between 2021 and 2023. The maximum payout under each element will only be for significant outperformance. On vesting, sufficient shares will be sold to cover taxation obligations and the Executive Directors will be required to hold the net shares for a further period of two years.

Remuneration implementation report continued

Long-term incentives continued

Performance Share Programme continued

TSR performance 25% of the award is based on the Company's TSR performance measured against two equally weighted peer groups as defined for the awards made in 2019.

TSR performance is relative to the two separate indices as follows:

	Award vesting as % of salary at date of grant	
Relative TSR	Sector Based Peer Group	FTSE 100 Peer Group
Below the index	Nil	Nil
Equalling the index	8.6%	8.6%
8% above the index	34.4%	34.4%

Awards will vest on a straight-line basis between these points. The maximum has been set significantly above target reflecting the maximum opportunity for outperformance.

Global revenue growth 25% of the award is based on global revenue growth against the following targets:

Revenue growth over three-year period commencing 1 January 2021	Award vesting as % of salary
Below threshold	Nil
Threshold (–8% of target)	17.2%
Target – set by reference to our expectations	34.4%
Maximum or above (+8% of target)	68.8%

It is not possible to disclose precise targets for sales growth as this will give commercially sensitive information to our competitors concerning our growth plans and is potentially price-sensitive information. This target, however, will be disclosed in the 2023 Annual Report, when the Committee will discuss performance against the target. The maximum has been set significantly above target reflecting the increased maximum opportunity for outperformance.

Return on invested capital (ROIC) 25% of the award is based on ROIC, as defined below:

$$\frac{\text{Operating profit}^{1}\text{ less adjusted taxes}^{2}}{(\text{Opening net operating assets + closing net operating assets})^{3} \div 2}$$

1 Operating profit is as disclosed in the Group income statement in the Annual Report less amortisation of acquired intangible assets.
2 Adjusted Taxes represents our taxation charge per the Group income statement adjusted for the impact of tax on items not included in Adjusted Operating Profit notably amortisation of acquired intangible assets, interest income and expense, other finance costs and share of results of associates.
3 Net Operating Assets comprises net assets from the Group balance sheet (Total assets less Total liabilities) excluding the following items: accumulated amortisation of acquired intangible assets, Investments, Investments in associates, Retirement benefit assets and liabilities, Long-term borrowings, Bank overdrafts, borrowings and loans, IFRS 16 lease liabilities and right-of-use assets, and Cash at bank.

The targets are:

ROIC (Year 3)	Award vesting as % of salary
Below Threshold 9.8%	Nil
Threshold 9.8% (–2% of target)	17.2%
Target 11.8%	34.4%
Maximum or above 13.8% (+2% of target)	68.8%

Awards will vest on a straight-line basis between these points.

Cumulative free cash flow 25% of the award is based on cumulative cash flow performance defined for the awards made in 2019, with the following targets:

Cumulative free cash flow	Award vesting as % of salary
Below $1,370m	Nil
$1,370m (–20% of target)	17.2%
$1,712m	34.4%
$2,054m or more (+20% of target)	68.8%

The maximum has been set significantly above target reflecting the maximum opportunity for outperformance.

Performance Share Programme 2022

In early 2022, the Remuneration Committee considered the performance framework and determined the targets for the Performance Share Programme awards due to be made in 2022. It was agreed that performance would be measured under the same four equally weighted performance measures which applied in 2021 – indexed TSR, global revenue growth, ROIC and cumulative free cash flow. However, the Committee considers that with COVID continuing to cause significant disruption and uncertainty to our business forecasts, it is impractical at this time to set meaningful and robust performance targets until there is more clarity externally. The risk of setting targets which, with subsequent hindsight, are either unrealistic or insufficiently stretching is material. Therefore, the Committee will delay granting the 2022 Performance Share Awards until May 2022, so that we can have a much clearer understanding of how COVID is likely to impact our business over 2022-2024, This will enable a more rigorous target-setting process to be performed. The targets for ROIC and Cumulative Free Cash Flow will be disclosed at the time the awards are made.

TSR performance 25% of the award will be based on the Company's TSR performance, measured against the same peer groups as the awards made in 2021.

Revenue growth 25% of the award will be based on global revenue growth. It is not possible to disclose precise revenue targets at the time of the grant, as this would give commercially sensitive information to our competitors concerning our growth plans and would be potentially price-sensitive.

ROIC 25% of the award will be based on ROIC as defined for the awards made in 2021.

Cumulative free cash flow 25% of the award will be based on cumulative cash flow as defined for the awards made in 2021.

Details of outstanding awards made under the Performance Share Programme

Details of conditional awards over shares granted to Executive Directors subject to performance conditions are shown below. These awards were granted under the Global Share Plan 2020. The performance conditions and performance periods applying to these awards are detailed below:

	Date granted	Number of ordinary shares under award at maximum	Date of vesting
Roland Diggelmann	21 May 2020	193,072	21 May 2023
	21 May 2021	192,348	21 May 2024
Anne-Françoise Nesmes	21 December 2020	42,726	21 December 2023
	21 May 2021	102,936	21 May 2024

Summary of scheme interests awarded during the financial year (audited)

	Roland Diggelmann		Anne-Françoise Nesmes	
Director	Number of shares	Face value	Number of shares	Face value
Performance Share Programme award at maximum (see pages 125–126)	192,348	£2,980,432.26	102,936	£1,594,993.32
Options under Employee ShareSave plans[1]	109	£1,209.90	1,621	£17,993.10

1 The ShareSave options will mature and become exercisable after a period of three years assuming all required saving contributions are made.

See Policy Table contained within the Annual Report 2020 on pages 128–137 on our website at www.smith-nephew.com for details of how the above plans operate. Following approval of the 2020 Remuneration Policy, no Annual Equity Incentive Programme awards were granted during 2021. The number of shares is calculated using the closing share price on the day before grant, which for the Performance Share Programme award granted on 21 May 2021 was 1,549.5p. The ShareSave options granted on 14 September 2021 were based on a discounted option price of 1,110.0p, calculated as being a 20% discount of the average of the closing share price over the three business days preceding the plan invitation date (19 August 2021).

Remuneration implementation report continued

Single total figure on remuneration

Chair and Non-Executive Directors (audited)

Director	Basic annual fee[1] 2021	Basic annual fee[1] 2020	Committee Chair/ Senior Independent Director fee 2021	Committee Chair/ Senior Independent Director fee 2020	Intercontinental travel fee 2021	Intercontinental travel fee 2020	Total 2021	Total 2020
Roberto Quarta	£428,645	£427,069	–	–	–	–	£428,645	£427,069
Virginia Bottomley[2]	£18,173	£69,500	–	–	–	–	£18,173	£69,500
Erik Engstrom	£69,500	£69,500	–	–	–	–	£69,500	£69,500
Robin Freestone	£69,500	£69,500	£20,000	£20,000	–	–	£89,500	£89,500
John Ma[3]	$113,472	–	–	–	–	–	$113,472	–
Katarzyna Mazur-Hofsaess	£69,500	£10,500	–	–	–	–	£69,500	£10,500
Rick Medlock	£69,500	£52,377	£20,000	£6,667	–	–	£89,500	£59,044
Marc Owen	$129,780	$129,780	$35,000	$35,000	$7,000	$7,000	$171,780	$171,780
Angie Risley	£69,500	£69,500	£20,000	£20,000	–	–	£89,500	£89,500
Bob White	$129,780	$89,780	–	–	–	–	$129,780	$89,780

1 The basic annual fee includes shares purchased for the Chair and Non-Executive Directors in lieu of part of the annual fee, details of which can be found on the table below.
2 Virginia Bottomley retired as a Non-Executive Director with effect from 14 April 2021.
3 John Ma was appointed as a Non-Executive Director with effect from 17 February 2021.

Chair and Non-Executive Director fees

In February 2022 the Committee reviewed the fees paid to the Chair and determined that with effect from 1 April 2022 the fees paid will remain unchanged:

Annual fee paid to the Chair	£428,645 of which £107,161 paid in shares
Annual fee paid to Non-Executive Directors	£69,500 of which £6,500 paid in shares or $129,780 of which $9,780 paid in shares
Intercontinental travel fee (per meeting)	£3,500 or $7,000
Fee for Senior Independent Director and Committee Chair	£20,000 or $35,000

Payments made to former Directors (audited)

No payments were made to former Directors in 2021.

Payments made to Roland Diggelmann since year end

Since the year end, we reached a mutual agreement with Roland Diggelmann that he would cease to be Chief Executive Officer and a member of the Board on 31 March 2022. In accordance with his employment agreement and with the Remuneration Policy approved by shareholders on 9 April 2020, Roland Diggelmann will continue to receive his base salary of CHF1,380,000, pension payments and benefits up to 28 February 2023. Such payments will cease or be reduced should Roland Diggelmann take an alternative remunerated role elsewhere.

Roland Diggelmann will receive a cash payment of CHF614,468 and a deferred share award worth (at grant) CHF614,468 in respect of his annual bonus relating to his service during 2021, as disclosed on pages 122–123. The deferred share award will vest on the third anniversary of the date of grant. Roland will participate in the Annual Bonus Plan 2022 in respect of his service during 2022 from 1 January 2022 to 31 March 2022. Subject to the performance of the Company, this bonus will be paid in March 2023 – 50% in the form of cash and 50% as a deferred share award which will vest after three years in line with the Remuneration Policy.

Roland Diggelmann holds awards (in aggregate) over 385,420 shares under the Performance Share Programme. These shares will be pro-rated to his date of leaving and vest subject to achievement of the relevant performance conditions, tested at the normal time. He will not receive a performance-related share award in 2022. The maximum number of shares which could vest will be 191,050 exclusive of dividend equivalents.

Roland Diggelmann is required to comply with the non-compete and non-solicitation clauses in his employment agreement for a period of 12 months up to 28 February 2023.

Remuneration arrangements agreed with Deepak Nath since year end

Deepak Nath will join the Company as Chief Executive Officer and a member of the Board on 1 April 2022. Deepak Nath will be paid in accordance with the Remuneration Policy approved by shareholders on 9 April 2020.

Deepak Nath will receive a base salary of $1,475,000 per annum and will participate in the Annual Bonus Plan and Performance Share Programme, in accordance with the Remuneration Policy. The Company will pay pension contributions reflecting average pension payments for the wider US workforce (currently 7.5% of salary per annum). He will also receive standard benefits, which are not materially different in nature or value relative to those received by Roland Diggelmann.

His notice period will be six months from him and 12 months from the Company.

Deepak Nath will also receive buy-out awards in respect of outstanding incentives he will forfeit on leaving his former company. All awards have been provided on a like-for-like basis in terms of the value provided and their performance and/or vesting periods. There has been no acceleration of any awards and the performance-based awards have not been replaced with a non-performance based award. Further details are provided below:

– An amount of up to $800,000 will be paid in cash in November 2022 in respect of his forfeited 2022 cash bonus, subject to the Committee's assessment of the targets attached to the cash bonus forfeited at his previous company.
– Deepak Nath held various performance-based share awards under arrangements made with his former employer, with an aggregate face value of €5,258,828 ($5,990,331) as at 11 February 2022. These will be replaced with awards over Smith+Nephew shares of an equivalent face value (calculated at the time that the replacement awards are granted). These awards will be capable of vesting at varying dates between 2022 and 2025 (fully aligned with their original vesting dates), subject to meeting the original performance conditions and continued employment.
– Deepak Nath also held various restricted share awards under arrangements made with his former employer, with an aggregate face value of €2,242,322 ($2,554,229) as at 11 February 2022. These will be replaced with awards over Smith+Nephew shares of an equivalent face value (calculated at the time that the replacement awards are granted), which will vest on their original vesting dates subject to continued employment.
– No buy-out will be provided in respect of Deepak Nath's long-term incentive award granted in November 2021 by his former employer.

The number and structure of certain of these awards (Deepak's performance share awards at his former employer vested over a four-year period) meant that it was not possible to provide compensation for these forfeited awards under the Company's Global Share Plan. Therefore, these awards will be granted under a one-off buy-out award agreement in accordance with Listing Rule 9.4.2(2). It is intended that the buy-out agreement will be executed as soon as reasonably practicable after Deepak becomes an employee of the Company. No shares may be issued in connection with the buy-out agreement so shareholders' existing holdings will not be diluted by the grant of these awards.

Malus and clawback may apply to the awards in the event of a significant adverse change in the financial performance or reputation of the Company, including corporate failure, or a significant loss by the Company in connection with Deepak's conduct and/or Deepak's performance or misconduct. Clawback may take place up to three years from the vesting of an award.

If Deepak leaves, any unvested awards will normally lapse. However, if he leaves because of his ill-health, injury or disability, the sale of his employing company or business out of the Group, redundancy, the Company terminating his employment other than in the event of summary dismissal or in such circumstances as the Committee will determine, his awards will not lapse. Performance-related awards will vest following the end of the relevant performance period (to the extent that the relevant performance conditions have been satisfied) and the restricted share awards will normally vest at the time Deepak leaves the Group. If Deepak dies in service, all awards will vest at the time of his death (in the case of the performance-related awards, to the extent the Committee determines the performance conditions have been satisfied).

In the event of a change of control of the Company, these awards will vest early (in the case of the performance-related awards, to the extent the Committee determines that the performance conditions have been satisfied), unless the Committee and the acquiring company agree that the awards will be rolled over into equivalent awards in the acquiring company. In the event that there is a demerger or other corporate event that will affect the value of the awards, the Committee may determine that the awards will vest on the same basis as for a change of control.

If there is a variation in the Company's share capital, a demerger or other corporate event that will affect the value of the awards, the awards will be adjusted in the same way as awards held by executive directors under the Performance Share Programme. If any changes are subsequently made to the buy-out agreement, any changes proposed to the advantage of Deepak will be subject to the same prior shareholder approval requirements as awards granted under the Company's Performance Share Programme. Awards granted under this agreement are not pensionable and transferable.

Deepak will not be expected to retain shares acquired under the awards post vesting in order to comply with his share ownership guideline.

Details of the awards granted under the buy-out agreement will be announced at the time of grant and included in the Company's Directors' Remuneration report for the 2022 financial year.

Remuneration implementation report continued

Service contracts

Executive Directors are employed on rolling service contracts with notice periods of up to 12 months from the Company and six months from the Executive Director. Further information can be found on page 135 of the Policy Report contained within the Annual Report 2020.

Outside directorships

Roland Diggelmann was a Non-Executive Director of Accelerate Diagnostics Inc until 7 May 2021. His remuneration for this role was paid entirely in stock options, with his last stock option of 13,779 shares having been granted on 1 April 2020. These stock options vested and became exercisable in 12 equal monthly instalments from 1 May 2020 at an option price of $8.33 and four monthly instalments vested in 2021. Roland was appointed a Non-Executive Director of Sonova Holding AG on 15 June 2021 and has not yet received any fees in respect of this appointment during 2021.

Anne-Françoise Nesmes is a Non-Executive Director of Compass Group plc and received £115,624.97 in respect of this appointment during 2021.

Directors' interests in ordinary shares (audited)

Beneficial interests of the Executive Directors in the ordinary shares of the Company are as follows:

	Roland Diggelmann			Anne-Françoise Nesmes		
	1 January 2021	**31 December 2021**	11 February 2022[1]	1 January 2021	**31 December 2021**	11 February 2022[1]
Ordinary shares	18,207	**18,207**	18,207[2]	–	**–**	–
Share options	2,425	**2,534**	2,534	–	**1,621**	1,621
Performance Share Programme awards[3]	193,072	**385,420**	385,420	42,726	**145,662**	145,662

1 The latest practicable date for this Annual Report.
2 The ordinary shares held by Roland Diggelmann on 11 February 2022 represent 20.28% of his base annual salary.
3 These share awards are subject to further performance conditions before they may vest, as detailed on page 125–126.

The beneficial interest of each Executive Director is less than 1% of the ordinary share capital of the Company.

Beneficial interests of the Chair and Non-Executive Directors in the ordinary shares of the Company are as follows:

Director	1 January 2021 (or date of appointment if later)	31 December 2021 (or date of retirement if earlier)	11 February 2022[1]	Shareholding as % of annual fee[2,3]
Roberto Quarta[4]	63,319	67,468	67,468	191.24
Virginia Bottomley[5]	19,546	19,546	N/A	N/A
Roland Diggelmann	18,207	18,207	18,207	20.28
Erik Engstrom	16,200	16,442	16,442	289.10
Robin Freestone	16,178	16,420	16,420	288.71
Jo Hallas[7]	N/A	N/A	–	–
John Ma[4,6]	–	296	296	3.72
Katarzyna Mazur-Hofsaess	–	366	366	6.44
Rick Medlock	249	3,264	3,264	57.39
Anne-Françoise Nesmes	–	–	–	–
Marc Owen[4]	7,786	8,072	8,072	101.51
Angie Risley	4,769	5,011	5,011	88.11
Bob White[4]	6,270	6,656	6,656	83.70

1 The latest practicable date for this Annual Report.
2 Calculated using the closing share price of 12.20p per ordinary share and $32.64 per ADS on 11 February 2022, and an exchange rate of £1:$1.3573.
3 All Non-Executive Directors in office since 1 January 2020 held the required shareholding during the year. Due to their length of service some Non-Executive Directors have not met their shareholding requirements, but this will continue to be monitored in accordance with the Remuneration Policy.
4 Roberto Quarta, John Ma, Marc Owen and Bob White hold some of their shares in the form of ADS.
5 Virginia Bottomley retired from the Board as a Non-Executive Director with effect from 14 April 2021.
6 John Ma was appointed Non-Executive Director with effect from 17 February 2021.
7 Jo Hallas was appointed Non-Executive Director with effect from 1 February 2022.

The beneficial interest of each Non-Executive Director is less than 1% of the ordinary share capital of the Company.

Chief Executive Officer remuneration compared to employees generally

The percentage change in the remuneration of the Chief Executive Officer between 2020 and 2021 compared to that of employees generally was as follows:

	Base salary % change 2021	Benefits % change 2021	Annual cash bonus % change 2021
Chief Executive Officer	0%	0%	N/A[1]
Chief Financial Officer	0%	0%	N/A[1]
Non-Executive Directors[2]	0%	N/A	N/A
Average for all employees	1.64%	N/A	N/A

1 The percentage increase in bonus is not applicable as nil bonus was paid in 2020.
2 There was no change to the fees paid to Non-Executive Directors during 2021.

The average cost of wages and salaries for employees generally increased by 11.45% in 2021 (see Note 3.1 to the Group accounts). Figures for annual cash bonuses are included in the numbers.

When considering remuneration arrangements for our Executive Directors, the Committee takes into account pay across the Group in the following ways:

- Salary levels and increases for all employees including Executive Directors take account of the scope and responsibility of position, the skills, experience and performance of the individual and general economic conditions within the relevant geographical market. When considering increases to Executive Director base salaries, the Committee considers the average pay increases in the market where the Executive Director is based.
- All employees including the Executive Directors have performance objectives determined at the beginning of the year which cascade down from the Strategic Imperatives for the Group.
- The level of variable pay determined for all employees, whether in the form of shares or cash is dependent on performance against these imperatives, both financially and personally.
- Executive Directors participate in benefits plans and arrangements comparable to benefits paid to other senior executives in the relevant geography. Executive Directors participate in the same senior executive incentive plans (currently the Annual Bonus Plan and the Performance Share Programme) as other Executive Officers and senior executives. The level of award reflects the differing seniority of participants and the market where the Executive is located. Performance conditions for the Performance Share Programme are the same for Executive Directors and Executive Officers. Executives, however, have only three measures with no reference to ROIC. For the Annual Bonus Plan (ABP) Performance Measures apply to all Executives consistently, however, weighting between Financials and Non-Financials differs based on the position.

Remuneration implementation report continued

Chief Executive Officer pay ratio

The regulations provide three options which may be used to calculate the pay for the employees at the 25th percentile, median and 75th percentile. We have used option A (as set out in the Companies (Miscellaneous Reporting) Regulations 2018), following guidance issued by some proxy advisers and institutional shareholders. The ratio has been calculated by comparing against the full-time equivalent pay of all UK employees within the Group including both our entities Smith & Nephew UK Limited and T.J.Smith and Nephew,Limited.

Option A calculates pay for all employees on the same basis as the single figure for remuneration calculated for Executive Directors. The period for which the employee pay has been calculated under Option A is the calendar year 2021. Figures are calculated by reference to 31 December 2021 using actual pay data from 1 January 2021 to 31 December 2021. The single figure for remuneration for each employee includes earned salary, annual incentive, allowance, pension and benefits for 2021. Part-time employees have been excluded for the purpose of calculations.

Comparisons have been made with employees at median (P50), lower (P25) and upper (P75) quartiles. We have used the actual salaries paid to our employees in the UK. The values were listed lowest to highest and three percentiles were identified. We are confident this methodology gives us the most reflective pay at the median. The Committee is satisfied that the individuals identified in the employee comparison group appropriately reflect the employee pay profile at those quartiles, and that the overall picture presented by the ratios is consistent with our pay, reward and progression policies for UK employees.

The table below sets out the ratio at the median, lower and upper quartiles:

Year	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
2019	116:1	81:1	51:1
2020	42:1	29:1	19:1
2021	71:1	49:1	32:1

In 2021 the ratio increased mainly due to the impact on bonuses during 2020 due to COVID.

The table below provides the total pay figure used for each quartile employee, and the salary component within this.

Component	CEO[1]	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
Salary	$1,509,582	$41,542	$63,469	$80,939
Total pay	$3,102,426	$43,790	$63,904	$96,134

1 Roland Diggelmann is paid in Swiss Francs and this figure was converted into US Dollars for comparative reasons using CHF to US$1.0939.

Relative importance of spend on pay

When considering remuneration arrangements for our Executive Directors and employees as a whole, the Committee also takes into account the overall profitability of the Company and the amounts spent elsewhere, particularly in returning profits to shareholders in the form of dividends and share buy-backs.

The following table sets out the total amounts spent in 2021 and 2020 on remuneration, the attributable profit for each year and the dividends declared and paid in each year.

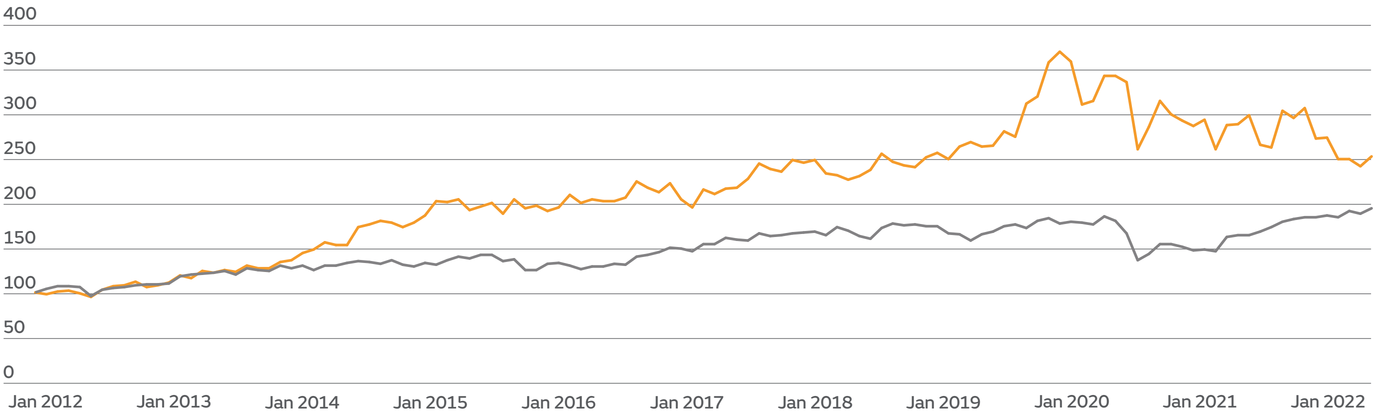
	For the year to 31 December 2021	For the year to 31 December 2020	% change
Attributable profit for the year	$524m	$448m	17%
Dividends paid during the year	$329m	$328m	0%
Share buy-back[1]	$0m	$16m	-100%
Total Group spend on remuneration	$1,562m	$1,392m	12%

1 Shares are bought in the market in respect of shares issued as part of the executive and employee share plans. The share buy-back programme for 2020 and 2021 has been suspended in light of the COVID pandemic. On 16 December 2021, we announced a commitment to return surplus capital to shareholders through a regular annual share buy-back; expected to be in the range of $250–300 million in 2022.

Total Shareholder Return

A graph of the Company's TSR performance compared to that of the FTSE 100 index is shown below in accordance with Schedule 8 to the Regulations.

Ten-year Total Shareholder Return
(measured in UK Sterling, based on monthly spot values)

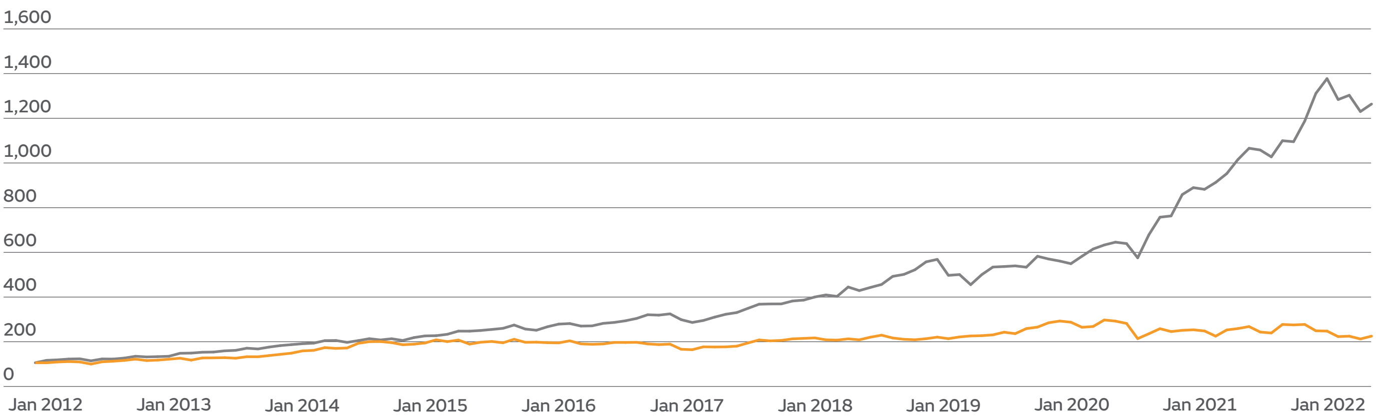


Source: DataStream

Smith & Nephew plc — FTSE 100

As we also compare the Company's performance to a tailored sector peer group of medical devices companies (see page 124), when considering TSR performance in the context of the Global Share Plan 2010 and Global Share Plan 2020, we feel that the following graph showing the TSR performance of this peer group is also of interest.

Ten-year Total Shareholder Return
(measured in US Dollars, based on monthly spot values)



Source: DataStream
Medical Devices comparators that are still trading for awards made since 2012

Smith & Nephew plc — Medical Devices

Remuneration implementation report continued

Table of historic data

The following table details information about the pay of the Chief Executive Officer in the previous 10 years:

Year	Chief Executive Officer	Single figure of total remuneration $	Annual Cash Incentive payout against maximum %	Long-term incentive vesting rates against maximum opportunity: Performance shares %	Options %
2021	Roland Diggelmann	$3,102,426	41	–	–
2020	Roland Diggelmann	$1,697,773	0[5]	–	–
2019	Roland Diggelmann[1]	$265,814	–	–	–
2019	Namal Nawana[2]	$4,489,374	71[4]	–	–
2018	Namal Nawana	$2,883,632	69	–	–
2018	Olivier Bohuon[3]	$2,383,582	63	46.5	–
2017	Olivier Bohuon	$5,116,689	61	54	–
2016	Olivier Bohuon	$3,332,850	30	8	–
2015	Olivier Bohuon	$5,342,377	75	33.5	–
2014	Olivier Bohuon	$6,785,121	43	57	–
2013	Olivier Bohuon	$4,692,858	84	0	–
2012	Olivier Bohuon	$4,956,771	84	–	–

1 Appointed Chief Executive Officer on 1 November 2019.
2 Appointed Chief Executive Officer on 7 May 2018 and resigned on 31 October 2019.
3 Retired as Chief Executive Officer on 7 May 2018.
4 Calculated as 106.7% for Namal Nawana (disclosed on page 108 of the Company's Annual Report for the year ended 31 December 2019), divided by the maximum potential payout of 150%.
5 Due to the impact of COVID upon the Chief Executive Officer's financial targets, a cash award of 0% was achieved.

Gender pay ratio

In 2021, the Committee reviewed our UK gender pay ratio. It was noted that today our gender pay gap is greater than we would like it to be, but we have seen an improvement in our mean pay gap in the UK. The mean pay gap has reduced from 22% in 2020 to 20% in 2021 and the median pay gap has increased from 16% to 17% for the same period. We shall continue to review these figures.

Shareholding requirements

The Chief Executive Officer is required to hold three times his salary in the form of shares and the Chief Financial Officer is required to hold two times her salary. Executive Directors have five years from their appointment within which to meet that holding requirement. Due to the tenure of the Executive Directors, neither have met their shareholding requirements, but this will continue to be monitored in accordance with the Remuneration Policy.

Post cessation shareholding requirements

In addition, Executive Directors are expected to hold vested shares for up to two years post-vesting of the Performance Share Programme and Deferred Bonus awards. They are expected to hold up to their shareholding requirement only. These shares are held in the Vested Share Account provided by the Company's share plan administrator.

Statement of voting at Annual General Meeting

At the Annual General Meeting held on 14 April 2021, votes cast by proxy and at the meeting and votes withheld in respect of the votes on the Directors' Remuneration Report are noted below. In addition, votes cast by proxy and at the meeting and votes withheld in respect of the votes on the Directors' Remuneration Policy, which was last approved by shareholders on 9 April 2020 are noted below:

Resolution	Votes for	% for	Votes against	% against	Total votes validly cast	Votes withheld
Approval of the Directors' Remuneration report (excluding policy)	662,280,244	99.46	3,589,474	0.54	665,869,718	1,512,622
Approval of the Directors' Remuneration Policy at the 2020 Annual General Meeting	676,749,445	97.71	15,843,720	2.29	692,593,165	352,762

Senior management remuneration (audited)

The Group's administrative, supervisory and management body (senior management) comprises for US reporting purposes, Executive Directors and Executive Officers. Details of the current Executive Directors and Executive Officers are given on pages 75–83.

Compensation paid to senior management in respect of 2019, 2020 and 2021 was as follows:

	2021	2020	2019
Total compensation (excluding pension emoluments, but including cash payments under the performance-related incentive plans)	**$15,795,000**	$12,369,000	$17,020,000
Total compensation for loss of office	–	–	$5,559,000
Aggregate amounts provided for under supplementary schemes	**$1,454,000**	$1,753,000	$1,564,000

As at 11 February 2022, senior management owned 383,714 shares and 6,133 ADSs, constituting less than 0.045% of the share capital of the Company. For this purpose, the Group is defined as the Executive Directors, members of the Executive Committee, including the Company Secretary and their Persons Closely Associated. Details of share awards granted during the year and held as at 11 February 2022 by members of senior management are as follows:

	Share awards granted during the year	Total share awards held as at 11 February 2022
Equity Incentive Programme awards	180,200	196,726
Performance Share Programme awards at maximum	1,115,640	1,427,184
Performance Share Programme – Supplementary awards	150,290	82,966
Conditional Share Awards under the Global Share Plan 2020	79,779	167,740
Options under Employee ShareSave plans	2,540	5,635

The Smith+Nephew Employee Share Trust

Note 19.2 of these accounts states the movement in Treasury Shares and the Trust during 2021. No more shares are held within the Trust than are required for the next six months of anticipated vestings. Any unvested shares held in the Trust are not voted upon at shareholder meetings. No more than 5% of the issued share capital at 31 December 2021 is held within the Trust. At 31 December 2021 shares were held in the Trust representing 0.18% of the issued share capital.

Dilution headroom

The Remuneration Committee ensures that at all times the number of new shares which may be issued under any share-based plans, including all-employee plans, does not exceed 10% of the Company's issued share capital over any rolling 10-year period (of which up to 5% may be issued to satisfy awards under the Company's discretionary plans). The Company monitors headroom closely when granting awards over shares taking into account the number of options or shares that might be expected to lapse or be forfeited before vesting or exercise. In the event that insufficient new shares are available, there are processes in place to purchase shares in the market to satisfy vesting awards and to net-settle option exercises.

Over the previous 10 years (2012 to 2021), the number of new shares issued under our share plans has been as follows:

All-employee share plans	7,644,197 (0.87% of issued share capital as at 11 February 2022)
Discretionary share plans	25,432,263 (2.89% of issued share capital as at 11 February 2022)

By order of the Board, on 22 February 2022

Angie Risley

Angie Risley
Chair of the Remuneration Committee