

SMITH & NEPHEW PLC
Form 20-F
April 25, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

or

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-19003

Smith & Nephew plc

(Exact name of Registrant as specified in its charter)

England and Wales

(Jurisdiction of incorporation or organization)

15 Adam Street, London WC2N 6LA

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name on each exchange on which registered</u>
American Depositary Shares Ordinary Shares of 12 ² /9p each	New York Stock Exchange New York Stock Exchange*

* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None.

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

928,759,544	Ordinary Shares of 12²/9p each
268,500	Cumulative Preference Shares of £1 each

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark which financial statement item the registrant has elected to follow: Item 17 Item 18

Table of Contents

<u>Introduction</u>		1
<u>Special Note Regarding Forward-Looking Statements</u>		2
<u>Certain Specialist Terms</u>		2
<u>PART I</u>		
Item 1-	<u>Identity of Directors, Senior Management and Advisers</u>	3
Item 2-	<u>Offer Statistics and Expected Timetable</u>	3
Item 3-	<u>Key Information</u>	3
Item 4-	<u>Information on the Company</u>	10
Item 5-	<u>Operating and Financial Review and Prospects</u>	22
Item 6-	<u>Directors, Senior Management and Employees</u>	33
Item 7-	<u>Major Shareholders and Related Party Transactions</u>	43
Item 8-	<u>Financial Information</u>	44
Item 9-	<u>The Offer and Listing</u>	45
Item 10-	<u>Additional Information</u>	46
Item 11-	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	52
Item 12-	<u>Description of Securities Other than Equity Securities</u>	54
<u>PART II</u>		
Item 13-	<u>Defaults, Dividend Arrearages and Delinquencies</u>	55
Item 14-	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	55
Item 15-	<u>Controls and Procedures</u>	55
Item 16A-	<u>Audit Committee Financial Expert</u>	55
Item 16B-	<u>Code of Ethics</u>	55
Item 16C-	<u>Principal Accountant Fees and Services</u>	55
<u>PART III</u>		
Item 17-	<u>Financial Statements</u>	56
Item 18-	<u>Financial Statements</u>	56
Item 19-	<u>Exhibits</u>	57
<u>Signatures</u>		59
<u>Certifications</u>		60

INTRODUCTION

As used in this Annual Report, the term "Company" refers to Smith & Nephew plc or, where appropriate, the Company's Board of Directors, unless the context otherwise requires. The terms "Smith & Nephew" and "Group" are used for convenience to refer to the Company and its consolidated subsidiaries, unless the context otherwise requires.

The Consolidated Financial Statements of the Company in this Annual Report are presented in United Kingdom ("UK") pounds sterling. In this document, references to "US dollars" or "US\$" or "cents" are to United States ("US") currency, references to "euros" or "€" are to the currency used in member states of the European Union, references to "Swiss francs" or "CHF" are to the currency used in Switzerland and references to "pounds sterling", "sterling" or "£", "pence" or "p" are to UK currency. 1p is equivalent to one hundredth of £1.

Solely for the convenience of the reader, certain parts of this Annual Report contain translations of amounts in sterling into US dollars at specified rates. These translations should not be construed as representations that the sterling amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated. The translation of pounds sterling and pence to US dollars and cents appearing in this Annual Report have been made at the noon buying rate in The City of New York for cable transfers in sterling as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") on the date of the information so translated. On April 7, 2003, the Noon Buying Rate was US\$ 1.550 per £1.

A substantial portion of the Group's assets, liabilities, revenues and expenses is denominated in currencies other than sterling. Accordingly, fluctuations in the value of sterling relative to other currencies can have a significant effect on the translation into sterling of non-sterling assets, liabilities, revenues and expenses. For information regarding rates of exchange between sterling and US dollars and the effects of changes in exchange rates, see Item 3 "Key Information Exchange Rates" and Item 11 "Quantitative and Qualitative Disclosures About Market Risk".

On November 16, 1999, the Ordinary Shares of the Company were listed on the New York Stock Exchange, trading in the form of American Depositary Shares ("ADSs") evidenced by American Depositary Receipts ("ADRs"). Each ADS represents ten Ordinary Shares.

The Company furnishes the Bank of New York, as Depositary, with annual reports containing Consolidated Financial Statements and an opinion thereon by its independent auditors. Such financial statements are prepared on the basis of accounting principles generally accepted in the United Kingdom ("UK GAAP"). The annual reports contain reconciliations of net income, cash flow and shareholders' equity stated under UK GAAP to those as stated under accounting principles generally accepted in the United States ("US GAAP"). The Company also furnishes the Depositary with semi-annual reports prepared in conformity with UK GAAP, which contain unaudited interim consolidated financial information. Upon receipt thereof, the Depositary mails all such reports to recorded holders. The Company also furnishes to the Depositary all notices of shareholders' meetings and other reports and communications that are made generally available to shareholders of the Company. The Depositary makes such notices, reports and communications available for inspection by recorded holders of ADRs and mails to all recorded holders of ADRs notices of shareholders' meetings received by the Depositary. The Company is not required to report quarterly financial information.

The Company's fiscal year ends on December 31 of each year. References in this Annual Report to a particular year are to the fiscal year unless otherwise indicated. Except as the context otherwise requires, "Ordinary Share" or "share" refer to the ordinary shares of Smith & Nephew² of 12 each. References in this Annual Report to the "Companies Act" are to the Companies Act 1985, as amended, of Great Britain. References to the "FDA" are to the US Food and Drug Administration.

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This Annual Report contains the Consolidated Financial Statements and Financial Statement Schedules of Smith & Nephew and an opinion thereon by its independent auditors. Such financial statements are prepared under accounting principles generally accepted in the United Kingdom (UK GAAP). UK GAAP differ in certain respects from US generally accepted accounting principles (US GAAP). Differences between UK GAAP and US GAAP relevant to the Group are explained in Note 35 of the Notes to the Financial Statements.

Special Note Regarding Forward-Looking Statements

Certain statements contained in this Annual Report under the headings Item 4 Information on the Company , Item 5 Operating and Financial Review and Prospects , Item 8 Financial Information and Item 11 Quantitative and Qualitative Disclosures About Market Risk and elsewhere constitute forward-looking statements within the meaning of the US Private Securities Litigation Reform Act of 1995. When used in this Annual Report, the words anticipate , believe , estimate , expect , consider and similar expressions are generally intended to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Smith & Nephew, or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Specific risks faced by the Company are described under Item 3 Key Information Risk Factors .

Smith & Nephew expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein to reflect any change in Smith & Nephew's expectation with regard thereto or any change in events, conditions or circumstances on which any such statement is based. All subsequent written and oral forward-looking statements attributable to Smith & Nephew or persons acting on behalf of Smith & Nephew are expressly qualified in their entirety by the foregoing.

Certain Specialist Terms

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

Advanced wound management products are those associated with the treatment of skin wounds, ranging from products that provide moist wound healing using breathable films and polymers to products providing active wound healing by biochemical or cellular action.

Arthroscopic repair products are specialized devices, fixation systems and bioabsorbable materials to repair damaged tissue.

Bandaging products comprise traditional adhesive and support bandaging, Casting products are used externally to immobilize a fracture or damaged joint structures, usually made of plaster of paris or synthetic materials and Traditional woundcare products are those which comprise medical textile products that include adhesive tapes and fixture sheets used to secure wound management products to the body.

Chronic and acute wounds . Chronic wounds are those with long or unknown healing times including leg ulcers, pressure sores and diabetic foot ulcers. Acute wounds are those for which healing times can be reasonably predicted such as surgical and post-operative wounds.

Endoscopy products are specialized viewing devices, instruments and powered equipment used in minimally invasive surgical procedures. Through a small incision, surgeons are able to see inside the body via a monitor and identify and repair defects. Endoscopy of the joints is termed arthroscopy , with the principal applications being the knee and shoulder.

Image guided surgery is the use of computer-tracking and imaging technological tools that give surgeons real-time, precise feedback on the relationship between surgical instruments and the patient's anatomy.

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Orthopaedic products comprise implants, devices and systems to replace diseased or injured hip, knee and shoulder joints, and trauma products, devices such as rods, pins, screws and plates used to treat bone fractures.

Resection products comprise radiofrequency wands, electromechanical and mechanical blades, and hand instruments for resecting tissue. Access products are fluid management and insufflation instruments for better surgical access.

Rehabilitation products are individual items, pieces of equipment or product systems that are used to increase, maintain or improve functional capabilities after surgery or of individuals with disabilities.

Visualization products are digital cameras, digital image capture, central control, multimedia broadcasting, scopes, light sources and monitors to assist with visualization.

Product names referred to in this Annual Report are identified by the use of capital letters and are trademarks owned by or licensed to members of the Group or its associated undertakings and other interests.

PART I

ITEM 1 IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

ITEM 2 OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

ITEM 3 KEY INFORMATION

SELECTED FINANCIAL DATA

Summary

This information has been extracted or derived from the audited financial statements of the Group presented elsewhere in this Annual Report and in prior year Annual Reports on Form 20-F.

Smith & Nephew prepares its financial statements in accordance with UK GAAP which differ in certain respects from US GAAP. Reconciliations of net income and shareholders' equity are set forth in Note 35 of the Notes to the Financial Statements.

Consolidated Income Statement Data

	Years ended December 31				
	2002	2001	2000	1999	1998
(£ million, except per Ordinary Share and per ADS amounts)					
Amounts in accordance with UK GAAP:					
Turnover:					
Continuing operations	1,083.7	978.3	911.5	799.9	713.6
Discontinued operations	26.2	103.4	223.2	320.0	339.8
	<u>1,109.9</u>	<u>1,081.7</u>	<u>1,134.7</u>	<u>1,119.9</u>	<u>1,053.4</u>
Group turnover	1,109.9	1,081.7	1,134.7	1,119.9	1,053.4
Share of joint venture	155.0	123.6			
	<u>1,264.9</u>	<u>1,205.3</u>	<u>1,134.7</u>	<u>1,119.9</u>	<u>1,053.4</u>
Operating profit:					
Continuing operations:					
Before goodwill amortization and exceptional items	196.0	174.4	156.9	122.7	106.5
Goodwill amortization *	(17.5)	(10.4)	(6.9)	(1.8)	(0.3)
Exceptional items *	(29.9)	(21.1)	(12.4)	(40.1)	(15.9)
Discontinued operations:					
Before exceptional items	2.1	11.1	29.0	46.6	47.9
Exceptional items *			(3.9)	(11.6)	(2.0)
	<u>150.7</u>	<u>154.0</u>	<u>162.7</u>	<u>115.8</u>	<u>136.2</u>
Share of operating profit of the joint venture:					
Before exceptional items	19.6	12.8			
Exceptional items *	(2.6)	(5.0)			
	<u>167.7</u>	<u>161.8</u>	<u>162.7</u>	<u>115.8</u>	<u>136.2</u>
Share of operating profit of the associated undertaking					
	4.9				
	<u>172.6</u>	<u>161.8</u>	<u>162.7</u>	<u>115.8</u>	<u>136.2</u>
Profit on disposal of businesses *					
	18.0	49.2	109.5	62.9	
	<u>190.6</u>	<u>211.0</u>	<u>272.2</u>	<u>178.7</u>	<u>136.2</u>
Profit before interest	190.6	211.0	272.2	178.7	136.2
Interest income	6.6	2.5	4.4	10.3	8.1
Interest expense	(19.3)	(19.9)	(11.4)	(6.9)	(9.8)
	<u>177.9</u>	<u>193.6</u>	<u>265.2</u>	<u>182.1</u>	<u>134.5</u>
Profit before taxation	177.9	193.6	265.2	182.1	134.5
Taxation	(65.8)	(64.0)	(57.7)	(77.3)	(40.8)
	<u>112.1</u>	<u>129.6</u>	<u>207.5</u>	<u>104.8</u>	<u>93.7</u>
Profit for the financial year	112.1	129.6	207.5	104.8	93.7