SMITH & NEPHEW PLC
Form 6-K
August 02, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of the

Securities Exchange Act of 1934

August 2, 2007

Commission File Number 001-14978

SMITH & NEPHEW plc

(Registrant s name)

15 Adam Street

London, England WC2N 6LA

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F __ü__ Form 40-F ______

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1).

Yes ______ No __ü__

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7).

Yes ______ No __ü__

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing information to the Commission pursuant to Rule 12g3-2 (b) under the Securities Exchange Act of 1934.

Yes ______ No __ü__

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2 (b) : 82- *n/a*.

Total Pages: 19

Smith & Nephew plc

INDEX TO EXHIBITS

Item 1. Press release entitled Smith & Nephew Interim Results Focus on attractive growth segments is delivering strong performance , dated August 2, 2007.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		Smith & Nephew plc (Registrant)
Date: August 2, 2007	By:	/s/ Paul Chambers Paul Chambers Company Secretary

Item 1

Smith & Nephew plc
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Smith & Nephew Interim Results **Focus on attractive growth segments is delivering strong performance**

2 August 2007

Smith & Nephew plc (LSE: SN, NYSE: SNN), the global medical technology business, announces its results for the second quarter and first half ended 30 June 2007.

	Quarter 2		Half year	
		Underlying		Underlying
	$m	increase %	$m	increase %
Revenues [1]	813	12	1,557	12
Trading profit	167	22	315	18
EPSA (cents) [2]	12.4	19	23.6	19
Business Unit Revenues [1]				
Orthopaedic - Reconstruction	291	15	553	15
- Trauma & CT	150	15	286	17
Endoscopy	178	11	355	12
Advanced Wound Management	194	6	363	4

Orthopaedic Reconstruction significantly outperformed the market with particularly strong growth in hip revenues

Clinical Therapies has grown to become global number 1 in bone stimulation treatments

Endoscopy generated revenue growth in double digits benefiting from new product introductions

Advanced Wound Management improved performance as US continued to perform well

Earnings Improvement Programme on track with tangible benefits coming through in enhanced margins

Integration of Plus Orthopedics and BlueSky going well

Reported results

- Reported revenue growth Q2 up 19%, H1 17%

- Reported profit before tax Q2 up 17%, H1 12%

- EPS Q2 11.8 cents up 16%, H1 21.5 cents compared with 54.5 cents in the comparable period which included 35.3 cents from the gain on sale of BSN Medical

Commenting on the second quarter, David Illingworth, Chief Executive of Smith & Nephew, said:

The second quarter has seen strong revenue growth across the business. Our focus on innovation in the attractive growth market segments in each business is delivering excellent results. This is particularly so in Orthopaedic Reconstruction, where the BIRMINGHAM HIP◊ Resurfacing System drove growth well above market rates. Margin improvement across the businesses shows that our Earnings Improvement Programme is working well.

News

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Analyst presentation

An analyst presentation and conference call to discuss the Company s second quarter results will be held at 1.00pm BST / 8.00am EST today, Thursday 2 August. This will be broadcast live on the web and will be available on demand shortly following the close of the call at http://www.smith-nephew.com/Q207. A podcast will also be available at the same address. If interested parties are unable to connect to the web, a listen-only service is available by calling +44 (0)20 7806 1960 in the UK or +1 (718) 354 1389 in the US. Analysts should contact Samantha Hardy on +44 (0)20 7960 2257 or by email at samantha.hardy@smith-nephew.com for conference details.

Notes

[1] Unless otherwise specified as reported , all revenue increases throughout this document are underlying increases after adjusting for the effects of currency translation and acquisitions. See note 3 to the financial statements for a reconciliation of these measures to results reported under IFRS.

[2] EPSA growth is reported, not underlying, and is stated before restructuring and rationalisation costs, acquisition related costs, amortisation of acquisition intangibles and taxation thereon, and in 2006 the gain on the disposal of the joint venture and the related fair value adjustment. See note 2 to the financial statements.

[3] Percentage of new products to revenue is based on products launched within the last three years.

[4] Comparisons are against restated numbers, see note 1 to the financial statements.

Enquiries

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Introduction

Second quarter performance has been strong with Group revenues increasing by 12% to $813 million. This revenue growth has been driven by new product sales, such as the BIRMINGHAM HIP◊ Resurfacing System (BHR◊), JOURNEY◊ Bi-cruciate Stabilised Knee, PERI-LOC◊ Locked Plating System and FASTFIX◊ Meniscal Repair System. Market conditions on balance in the quarter continued to be favourable across the business with continued pricing pressures in some geographies.

The Group trading margin of 20.5% in the quarter reflected the early benefits from the Earnings Improvement Programme (EIP) in all businesses, and especially in Advanced Wound Management.

The acquisitions of Plus Orthopedics Holding AG (Plus) and BlueSky Medical Group Inc (BlueSky) completed in the quarter and the integration of both these businesses is progressing well.

The share buy-back programme announced on 8 February 2007 continued with 12 million shares bought back in the quarter at a cost of $156 million.

Second Quarter Results

Revenue in the quarter increased by 19% on a reported basis to $813 million, including one month of Plus revenues of $28 million. This represents underlying growth of 12% on the same period last year after adjusting for movements in currency of 3% and acquisitions of 4%.

Trading profit in the quarter was $167 million, representing underlying growth of 22%. Trading margin of 20.5% was an encouraging 1.3% above the comparable period last year. The margin before Plus and BlueSky is 21%. The net interest charge was $3 million, reflecting the borrowings following the Plus acquisition and the share repurchases.

The tax charge reflects the estimated effective rate for the full year of 30%. Attributable profit before the costs of restructuring and rationalisation, acquisition related costs and amortisation of acquisition intangibles and taxation thereon was $116 million.

Adjusted earnings per share increased by 19% to 12.4¢ (62.0¢ per American Depositary Share, ADS). Basic earnings per share was 11.8¢ (59.0¢ per ADS) compared with 10.2¢ (51.0¢ per ADS) in 2006.

Trading cash flow, defined as cash generated from operations less capital expenditure but before the costs of macrotextured settlements, acquisition related costs and restructuring and rationalisation, of $136 million in the quarter reflects a higher trading profit to cash conversion rate of 81%, compared with 62% a year ago.

Orthopaedic Reconstruction

Reconstruction revenues at $291 million grew by 15% compared to the second quarter last year and well ahead of the global market which grew at 9%. Reconstruction revenues in the US grew by 20% in the quarter powered by continued BHR◊ procedure adoption. Outside the US revenue improved to a growth rate of 10%. New products generated 20% of revenues reflecting the success of last year s product launches.

Hip revenue growth accelerated to 29% in the quarter. In the US hip revenues grew by 50% as the broad acceptance of BHR◊ by the market continues to develop faster than expected. This product has generated a strong following of newly trained BHR◊ surgeons who are using it regularly. Our present market share in hip resurfacing is now estimated to be in excess of 50% outside the US. Revenues from hip products other than BHR◊ grew at an improved 6%.

Worldwide knee revenue growth was 7%. Outside the US revenues grew 13%, the third successive quarter of above average growth as new product introductions continue to gain market penetration. In the US knee revenues grew by a slower 3% reflecting our decision to focus our sales force on BHR◊ . The JOURNEY◊ DEUCE◊ Bi-Compartmental Knee System which broadens the JOURNEY◊ knee range was launched at the end of the quarter.

We were delighted to complete the acquisition of Plus in the quarter which significantly enhances our product range and presence in Europe, and adds to our growth capabilities in Japan and China. A comprehensive, world-wide integration programme is in place and on track.

Trading margin at 25.1% includes the impact of Plus. The margin of 26.2% before Plus represents an underlying improvement of approaching one per cent deriving mainly from EIP.

Orthopaedic Trauma and Clinical Therapies

Trauma revenues at $150 million grew by 15% driven by volumes and our programmes to improve salesforce effectiveness. Growth in the US was 13% and 21% outside the US maintaining the strong progress made in the first quarter. New products generated 38% of revenues.

Fixation product revenues grew by 10% worldwide, 11% in the US, and 8% outside the US. The quarter s revenue growth again benefited from the continued progress of our PERI-LOC◊ Periarticular Locked Plating System and the TRIGEN◊ INTERTAN◊ nail for hip fractures.

Clinical Therapies revenue growth was 25% with a strong contribution from the EXOGEN 4000+◊ unit introduced last year. The DUROLANE® Single Injection Joint Fluid Therapy product is benefiting from Smith & Nephew s strength and market reach across Europe, and we continue to work with Q-Med AB to gain pre-market approval of the product in the US.

Clinical Therapies has grown to become global number 1 in the bone stimulation market. This is a substantial achievement resulting from innovative products and our sales channel effectiveness.

Trading margin at 20.0% is a one per cent increase over the same quarter last year driven by our salesforce effectiveness programme as the benefits of the EIP driven reorganisation are delivered.

Endoscopy

Endoscopy continued its double digit revenue growth from the first quarter with revenues up 11% to $178 million. US revenues grew by 7% and outside the US grew by an outstanding 16% with Europe and Australia performing strongly and Japan experiencing price deflation.

Arthroscopic repair (knee, shoulder and hip) revenues grew by 19% in the quarter, making a very strong contribution. Knee and shoulder products, including FASTFIX◊ Meniscal Repair System and BIORAPTOR◊ Suture Anchor for the shoulder, led this growth. Repair revenues continue to outpace resection revenue growth. Resection revenues grew by 6%, an increase in pace over the first quarter. New product revenues were 29% in the quarter.

Visualisation and Digital Operating Room (DOR) revenues grew at 9%, with early sales of the new high definition camera system in the US in line with our expectations.

The trading margin of 18% earned in the second quarter is a more than one percent improvement on the same quarter last year, reflecting the benefit of the successful manufacturing rationalisation and factory moves completed earlier this year.

Advanced Wound Management

Revenues grew by 6% to $194 million, still slightly below market growth but improving as this business starts to realise its potential. US revenue growth at 11% continued the improved performance seen in the last two quarters. Outside the US revenues grew by 5%. We have invested in 18 new products launches in the year to date, the benefits of which will build progressively over the coming quarters.

ALLEVYN◊ dressings grew at 8% in the quarter. Infection management products, including ACTICOAT◊ antimicrobial silver dressings, returned to growth in a segment impacted by low price competition. IODOSORB◊ Cadexomer Iodine grew strongly. Total infection management revenues however currently lag market growth rates. The VERSAJET◊ Hydrosurgery Wound Debridement System had a strong quarter particularly in the US.

During the second quarter we announced the acquisition of BlueSky, a negative pressure wound therapy business. BlueSky provides us with a very valuable entry into this $1.1 billion fast growing segment of the woundcare market. We have completed the first stage of the integration and are on schedule for a worldwide launch early in 2008.

Advanced Wound Management has made a strong start to the implementation of its EIP programme ahead of the other businesses. Actions across the business include the rationalisation of European infrastructure and some country salesforces, factory streamlining and increased outsourcing. Headcount reduced by around 100 prior to the BlueSky acquisition. A substantial improvement in margin this quarter, by over 300 basis points, to 17.1% was achieved before accounting for BlueSky.

Half Year Results

Reported revenues increased by 17% to $1,557 million compared to the same period last year, with underlying growth at 12%.

Trading profit for the half year was up 23% to $315 million with trading margin higher at 20.2%. The net interest charge was $1 million. The tax charge of $87 million reflects the estimated effective rate for the year of 30%. Adjusted attributable profit of $222 million is before the costs of restructuring and rationalisation, acquisition related costs and amortisation of acquisition intangibles and taxation thereon. Attributable profit was $202 million.

EPSA rose by 19% to 23.6¢ (118.0¢ per ADS). Reported basic earnings per share were 21.5¢ (107.5¢ per ADS). A reconciliation of EPSA to reported earnings per share is provided in note 2 to the financial statements.

Trading cash flow was $247 million compared with $129 million a year ago. This is a trading profit to cash conversion ratio of 78% compared with 50% a year ago.

A first interim dividend of 4.51¢ per share (22.55¢ per ADS) will be paid on 9 November 2007 to shareholders on the register at the close of business on 19 October 2007. This represents a 10% increase on the 2006 first interim dividend in line with our current dividend policy.

Earnings Improvement Programme

The earnings improvement programme to deliver on average at least 1% margin improvement each year for the four years of the programme is progressing according to plan across all activity areas. We have made three senior appointments in this quarter with responsibility for operational effectiveness, IT and procurement. Within the businesses the reorganisation of the US Trauma salesforce has been completed and Advanced Wound Management, which is a major contributor to the EIP, achieved margin improvement of over 3%.

Board changes

Sir Christopher O Donnell retired just after the close of the second quarter. David Illingworth, Chief Operating Officer was appointed as Chief Executive Officer from 1st July. The Board would like to formally thank Sir Christopher for his efforts and leadership which, in his 10 years as Chief Executive, have delivered outstanding growth and built a platform for the future success of Smith & Nephew.

Outlook

Global market conditions continue to be favourably driven by underlying demographic trends which are creating strong demand for our innovative products. The revenue outlook for the year for the individual businesses and for the business as a whole continues to be favourable and is unchanged from the first quarter.

We continue to expect the EIP to increase trading margin by an average of at least 1% per annum until the end of 2010, including a significant increase in 2007, followed by larger increases in subsequent years. In 2010 this margin improvement is expected to equate to at least an additional $150 million in trading profit. We expect the cash costs of the programme to be incurred broadly evenly over three years, but we expect provisions charged to the income statement are likely to be earlier and more uneven.

We continue to expect the Plus acquisition to be broadly EPSA neutral this year and to become accretive thereafter. We continue to expect the BlueSky acquisition to dilute earnings by about 1% in 2007, to be broadly neutral in 2008 and to be accretive thereafter. We continue to expect the BlueSky and the Plus acquisitions together to dilute margins by about 1% in the full year.

The underlying growth in the business, coupled with the EIP and the Plus and BlueSky acquisitions, means that Smith & Nephew is well positioned for strong revenue performance and trading margin improvement for 2007 and beyond.

About Us

Smith & Nephew is a global medical technology business, specialising in Orthopaedic Reconstruction, Orthopaedic Trauma and Clinical Therapies, Endoscopy and Advanced Wound Management products. Smith & Nephew is a global leader in arthroscopy and advanced wound management and is one of the leading global orthopaedics companies.

Smith & Nephew is dedicated to helping improve people s lives. The Company prides itself on the strength of its relationships with its surgeons and professional healthcare customers, with whom its name is synonymous with high standards of performance, innovation and trust. The Company has 9,600 employees and operates in 31 countries around the world. Annual sales in 2006 were nearly $2.8 billion.

Forward-Looking Statements

This press release contains certain forward-looking statements within the meaning of the US Private Securities Litigation Reform Act of 1995. In particular, statements regarding expected revenue growth and *trading margins discussed under Outlook are forward-looking statements as are discussions of our product pipeline. These statements, as well as the phrases aim , plan , intend , anticipate , well-placed , believe , estimate , expect , target , 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 (including, but not limited to, the outcome of litigation, claims and regulatory approvals) 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. Please refer to the documents that Smith & Nephew has filed with the U.S. Securities and Exchange Commission under the U.S. Securities Exchange Act of 1934, as amended, including Smith & Nephew s most recent annual report on Form 20F, for a discussion of certain of these factors.*

All forward-looking statements in this press release are based on information available to Smith & Nephew as of the date hereof. All written or oral forward-looking statements attributable to Smith & Nephew or any person acting on behalf of Smith & Nephew are expressly qualified in their entirety by the foregoing. Smith & Nephew does not undertake any obligation to update or revise 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.

◊ Trademark of Smith & Nephew. Certain marks registered US Patent and Trademark Office.

DUROLANE® is a trademark of Q-Med AB.

SMITH & NEPHEW plc

2007 QUARTER TWO AND HALF YEAR RESULTS

Unaudited Group Income Statement for the 3 months and 6 months to 30 June 2007

3 Months 2006 $m	3 Months 2007 $m		Notes	6 Months 2007 $m	6 Months 2006 $m
686	813	**Revenue**	3	1,557	1,329
(188)	(229)	Cost of goods sold		(421)	(363)
(336)	(385)	Selling, general and administrative expenses		(757)	(651)
(30)	(32)	Research and development expenses		(64)	(59)
132	167	**Trading profit**	4	315	256
	(6)	Restructuring and rationalisation costs	5	(23)	
	1	Acquisition related costs	7	1	
(2)	(3)	Amortisation of acquisition intangibles		(7)	(4)
130	159	**Operating profit**	4	286	252
4	3	Interest receivable		7	11
(1)	(6)	Interest payable		(8)	(5)
2	2	Other finance income		4	3
		Loss on hedge of the sale proceeds of the joint venture			(3)
135	158	**Profit before taxation**		289	258
(39)	(47)	Taxation	10	(87)	(77)
96	111	**Profit from continuing operations**		202	181
		Discontinued operations: Net profit on disposal of the joint venture	11		332
96	111	**Attributable profit** [A]		202	513
		Earnings per share [A]	2		
		Including discontinued operations:			
10.2¢	11.8¢	Basic		21.5¢	54.5¢
10.2¢	11.8¢	Diluted		21.4¢	54.3¢
		Continuing operations:			
10.2¢	11.8¢	Basic		21.5¢	19.2¢
10.2¢	11.8¢	Diluted		21.4¢	19.2¢

[A] Attributable to the equity holders of the parent.

Unaudited Group Statement of Recognised Income & Expense for the 3 months and 6 months to 30 June 2007

3 Months 2006 $m	3 Months 2007 $m		6 Months 2007 $m	6 Months 2006 $m
17	6	Translation differences	10	43
		Cumulative translation adjustment on disposal of the joint venture		(14)
(4)	(2)	Losses on cash flow hedges	(3)	(6)
6	34	Actuarial gains on defined benefit pension plans	54	43

(1)	(12)	Taxation on items taken directly to equity	(19)	(13)
18	26	Net income recognised directly in equity	42	53
96	111	Attributable profit	202	513
114	137	Total recognised income and expense [A]	244	566

SMITH & NEPHEW plc

2007 QUARTER TWO AND HALF YEAR RESULTS continued

Unaudited Group Balance Sheet as at 30 June 2007

31 Dec 2006 $m		Notes	30 June 2007 $m	1 July 2006 $m
	ASSETS			
	Non-current assets			
635	Property, plant and equipment		736	627
831	Intangible assets		1,590	723
10	Investments		15	10
110	Deferred tax assets		118	130
1,586			2,459	1,490
	Current assets			
619	Inventories		777	614
680	Trade and other receivables		844	638
346	Cash and bank		153	377
1,645			1,774	1,629
3,231	**TOTAL ASSETS**		4,233	3,119