

Phillips-Medsize A/S
Gimsinglundvej 20
DK -7600 Struer

Annual Report 2018

1 January 2018 - 31 December 2018

The Annual Report was presented
and adopted at the Annual General
Meeting of the Group
on ^{3/5}2019


Chairman, Claus Bjerg

CVR No 24053415

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Financial Highlights

Phillips-Medisize A/S

(DKK million)	2014 1/1 - 31/12	2015 1/1 - 31/12	2016 1/1 - 31/12	2017 1/1 - 31/12	2018 1/1 - 31/12
Profit/loss					
Revenue	125	146	175	151	210
Operating profit/loss before depreciation (EBITDA)	14	7	4	15	26
Operating profit/loss (EBIT)	11	1	2	9	20
Net financials	-1	0	0	0	0
Operating profit/loss before tax (EBT)	10	1	2	9	20
Net profit/loss for the period after tax	11	-2	-2	7	15
Balance sheet					
Balance sheet total, year end	57	81	70	70	129
Share capital	17	17	17	17	17
Equity, year end	23	21	19	26	41
Cash flows for the year					
Hereof cash flows from:	-8	21	3	-10	38
Operating activities	-3	34	9	-14	47
Investing activities	-3	-9	-6	0	-3
- incl investments in intangible assets	-2	-8	-6	0	-1
- incl investments in property, plant & equipment	-1	-1	-1	0	-2
Financing activities	-1	-4	0	5	-5
Ratios					
Profit margin, %	8,6	0,9	1,2	6,3	9,5
Return on assets, %	22,3	2,1	3,0	13,7	20,2
Return on invested capital exclusive of goodwill, %	104,2	37,5	26,1	72,2	76,9
Liquidity ratio	1,3	1,1	1,0	1,4	1,4
Equity ratio, %	39,9	26,0	26,9	37,2	32,2
Equity ratio, incl. subordinate loan, %	46,0	26,0	26,9	37,2	32,2
Financial gearing	0,4	0,0	0,0	0,0	0,0
Revenue/invested capital exclusive of goodwill	5,5	-2.246,7	10,1	5,9	5,1

Definition of Financial Ratios

Profit margin:
$$\frac{\text{Operating profit/loss} \times 100}{\text{Revenue}}$$

Return on assets:
$$\frac{\text{Operating profit/loss} \times 100}{\text{Average operating assets}}$$

Return on invested capital excl goodwill
$$\frac{\text{Operating profit/loss before depreciation and goodwill amortisation}}{\text{Average invested capital excl goodwill}}$$

Liquidity ratio:
$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

Equity ratio
$$\frac{\text{Equity end of year} \times 100}{\text{Liabilities and equity end of year}}$$

Board of Directors and Executive Board, etc

Phillips-Medisize A/S
CVR No 24053415

Country of registration

Denmark

Board of Directors

Matthew Jon Jennings (Chairman)
William Patrick Welch
Norman Charles Roegner III

Executive Board

Søren Vestergård Jacobsen (CEO)

Main bankers

Jyske Bank

Main office

Phillips-Medisize A/S
Gimsinglundvej 20
DK-7600 Struer

Main activity

Phillips-Medisize A/S develops and manufactures medical devices

Auditors

Ernst & Young P/S
Vestre Havnepromenade 1A
9000 Aalborg
Denmark

Ownership

Phillips-Medisize Holdings A/S
Gimsinglundvej 20
7600 Struer
Ownership share: 100%

Management's Review

Phillips-Medisize A/S develops and produces innovative drug delivery devices and connected health services. The Company is contracted to develop and produce these products on behalf of global customers and does not market own products. The Company's business therefore consists of an innovation business (strategy, feasibility and development projects) and a production business. The products developed and produced are characterized by being highly innovative in respect to design, user-friendliness, functionality and safety and are as such aiming for the high-end segment of the market.

Development in activities and financial circumstances

In the period 1 January - 31 December 2018, the Company's revenue amounted to DKK 209.9 million compared with 150.5 million in the previous year, an increase of DKK 59.4 million, or 39%.

This increase is driven by a significant increase in the innovation business resulting from timing of the contracts Phillips-Medisize A/S has signed with our customers. The development in revenue is very satisfactory and does live up to the expectations for the year.

Operating profit/loss before depreciation and cost related to new ownerships (EBITDA) amounted to DKK 25,6 million is an increase of DKK 10.2 million or 66% compared with last year

The increase is driven by a profitable project and production portfolio and a satisfactory utilization of resources and production capacity. The Company have above that continued with a firm cost control closely aligned to our activity level. The development in profit is very satisfactory.

The higher revenue for 2018 compared to 2017 also resulted in a positive cash flow. The Company continued to do little investments, so the total cash flow was positive for 2018 with DKK 38.5 million.

The Company will continue to develop and execute the focused strategy within the high-end segment of drug delivery devices and connected health and will long-term reinforce growth both in the projects and production business - as the two businesses are closely linked in the Company's market focus. The Company expects to continue improving not only the market position but also the financial position.

Research and development activities

The Company has no research activities.

The Company has continued to expand its portfolio of proprietary technology accelerators and IP positions. For product development and development of production facilities and processes, a total of DKK 13.7 million was paid during the year compared with DKK 13.8 million for 2017. Of the DKK 13.7 million, DKK 0 has been capitalised in 2018 against DKK 0 million in 2017. Development costs for the year are therefore recognised in the income statement at DKK 13.7 million for the year against DKK 13.8 million in 2017. The development activities are expected to be increased in the coming year.

Significant post balance sheet events

From the balance sheet date until today, no events have occurred which significantly affect the assessment of the Annual Report.

Expected development

The Company's financial development is as always dependent on the expected orders and their timing. Sales of contracted innovation projects are though expected to increase in 2019 compared to 2018. The Company has a very good strategic fit with Phillips-Medisize/Molex and will therefore reinforce the long-term growth from previous years both in Denmark and via the office in Cambridge in the United Kingdom. Costs remain in good control. The Company therefore expects operating results in 2019 will increase compared to 2018.

The Company's capital structure

The Company has a solid equity and will continue to secure a sound financial structure in combination with the owners.

Quality management

Phillips-Medisize A/S' quality management system supports the Company's development and manufacture of medical devices for drug dosing and administration, devices for diagnostic systems as well as connected health systems. The quality management system is designed so as to form the basis of certification under DS/EN ISO 13485:2016, ISO 13485:2016 CMDCAS and ISO 14001:2015, respectively. The quality management system is in accordance with the national implementation of the directive for medical devices, 93/42/EEC, and moreover contains elements which ensure compliance with the requirements of FDA's 21 CFR 820 Quality System Regulation and Japan Quality Management System Compliance MHLW Ordinance No. 169.

Intellectual capital resources

The Company's present and future business is based on the development and manufacture of highly innovative medical devices and services. This foundation has been further developed being owned by Phillips-Medisize/Molex.

Phillips-Medisize A/S focuses on maintaining and developing the competences, which are the core of the Company's innovation capacity. In practice, this means that Phillips-Medisize A/S is constantly exploring new opportunities.

Innovative environment

Phillips-Medisize A/S has for many years given high priority to innovation. Innovation is based on the Company's vision and is incorporated in the corporate culture and the Company's values and reinforced in the management philosophy of the owners.

The Company has a well-founded corporate culture. This means that the employees have a natural passion for innovation and are dedicated to creating "the world's most effective and unique drug delivery devices and connected health solutions".

Cooperation with universities

Cooperation with knowledge centres, including universities, is a natural part of our work and an important factor in the further development of our core competences. Phillips-Medisize A/S has a long tradition of this and cooperates with leading universities. The development engineers participate in for instance relevant professional networks and conferences.

Cooperation with suppliers

Phillips-Medisize A/S cooperates with some of the world's best suppliers in a number of areas in which the Company does not itself have the necessary knowledge and competence. Not only do these partners provide components to Phillips-Medisize A/S, they also provide knowledge and competence for the development of the products. Furthermore, Phillips-Medisize A/S benefits from having very competent customers - typically the large pharmaceutical companies - which have considerable knowledge resources which are also of benefit to Phillips-Medisize A/S through cooperation in joint development projects.

Corporate social responsibility and environment

Phillips-Medisize A/S is aware of its corporate social responsibility, which is expressed partly in the Company's actions towards its own employees, and partly in its actions towards other stakeholders. Phillips-Medisize A/S' policies in the area are an integrated part of the Company's staff policy, Quality Management System and other systems and, among other things, address harassment, discrimination and mobbing in the workplace as well as unethical business behaviour, bribery, corruption, etc. Phillips-Medisize A/S has also communicated a whistle-blower policy to ensure that any inexpediency is identified and brought to an end.

Our customers, partners and owners regularly evaluate Phillips-Medisize A/S' status toward corporate social responsibility.

Phillips-Medisize A/S' environmental policy, which is certified according to ISO 14001:2004, contributes to ensuring that the Company meets its social responsibility.

Environmental policy

Phillips-Medisize A/S wants its name to be associated with quality. We want our customers to contract our services based on confidence in us in respect of us making intelligent decisions on their behalf - also in respect of environmental issues.

Any human behaviour has an impact on the surroundings. Phillips-Medisize A/S is constantly working on reducing the environmental impact and creating balance between this impact and the consideration for the performance characteristics of our products, finances, lifetime and aesthetics. We wish to contribute to a globally sustainable development and consider our activities in a lifecycle perspective. The Company is thus considering environmental effects and seeks to minimise the negative effects:

- Throughout the development (idea, design and engineering)
- When selecting raw materials
- During manufacturing - and also when optimising procedures
- Concerning Transport
- During use and disposal of our solutions

We always enter into dialogue with the supervising authorities to find the best solutions and in this way limit the pollution as far as possible.

We emphasise the consideration for the immediate environment and for a safe and healthy working environment for our employees. Our focus is on improving both the physical and the mental working environment.

When choosing suppliers, we ensure that these have an appropriate environmental behaviour and approach. We wish to have an ongoing dialogue with any supplier on creating good environmental conditions in the part of the lifecycle of the product for which we are responsible.

It is Phillips-Medisize A/S' opinion that the Company's policies and certification in 2018 have contributed to ensuring that Phillips-Medisize A/S fully complies with its environmental responsibility, which is also expected to be the case in future.

Management's Statement

The Board of Directors and the Executive Board have today considered and adopted the Annual Report of Phillips-Medsize A/S for the financial year 1 January - 31 December 2018.

The Annual Report is prepared in accordance with the International Financial Reporting Standards as adopted by the EU. Moreover, the Annual Report is prepared in accordance with additional Danish disclosure requirements according to the Danish Financial Statements Act.

In our opinion, the Financial Statements give a true and fair view of the financial position at 31 December 2018 of the Company and of the results of the Company's operations and cash flows for 2018.

In our opinion, Management's Review includes a true and fair account of the development in the operations and financial circumstances of the Company, of the results for the year and of the financial position of the Company as well as a description of the most significant risks and elements of uncertainty facing the Company.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Copenhagen ³¹ / ⁵ 2019

Executive Board

Søren Vestergård Jacobsen
CEO

Board of Directors

Matthew Jon Jennings
Chairman

William Patrick Welch

Norman Roegner

Independent Auditor's Report

To the Shareholders of Phillips-Medsize A/S

Opinion

We have audited the financial statements of Phillips-Medsize A/S for the financial year 1 January - 31 December 2018, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement in Management's Review.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Aalborg, 31 May 2019
Ernst & Young
Godkendt Revisionspartnerselskab
CVR-nr. 30 70 02 28



Hans B. Vistisen
State Authorised
Public Accountant
mne23254

Comprehensive income statement

Phillips-Medisize A/S

(DKK '000)

	<u>2018</u>	<u>2017</u>
Notes		
5 Revenue	209.869	150.532
6 Production costs	<u>(148.387)</u>	<u>(100.983)</u>
Gross profit/loss	61.482	49.549
6 Development costs	(13.653)	(13.823)
6 Distribution and marketing expenses	(13.403)	(13.574)
6 Administrative expenses etc	<u>(14.562)</u>	<u>(12.742)</u>
Operating profit/loss	19.864	9.410
7 Financial income	1.814	602
8 Financial expenses	<u>(1.873)</u>	<u>(806)</u>
Net financials	<u>(59)</u>	<u>(204)</u>
Profit/loss on ordinary activities before tax	19.805	9.206
9 Tax on profit/loss on ordinary activities	<u>(4.416)</u>	<u>(2.043)</u>
Net profit/loss for the year	15.389	7.163
Other income and expenses recognised directly via equity	<u>-</u>	<u>-</u>
Total comprehensive income statement	15.389	7.163
Proposed distribution of profit:		
Retained earnings	15.389	7.163
Proposed dividend for the year	<u>-</u>	<u>-</u>
	<u>15.389</u>	<u>7.163</u>

Assets

Phillips-Medisize A/S

(DKK '000)

	<u>2018</u>	<u>2017</u>
Notes		
Intangible assets		
Acquired rights	5.301	9.397
10 Total intangible assets	<u>5.301</u>	<u>9.397</u>
Property, plant and equipment		
Plant and machinery	164	301
Fixtures and fittings, tools and equipment	2.073	637
Leasehold improvements	207	321
11 Total property, plant and equipment	<u>2.444</u>	<u>1.259</u>
Financial assets		
12 Other financial receivables	1.192	1.145
Total financial assets	<u>1.192</u>	<u>1.145</u>
Investments		
13 Investment in subsidiaries	-	-
Total investments	<u>-</u>	<u>-</u>
Total non-current assets	<u>8.937</u>	<u>11.801</u>
14 Inventories	<u>9.720</u>	<u>6.739</u>
Receivables		
15 Trade receivables	37.359	21.475
16 Receivables from group enterprises	5.468	8.881
17 Contract work in progress	16.516	9.170
18 Other receivables	1.076	44
Prepayments	1.890	2.738
Total receivables	<u>62.309</u>	<u>42.308</u>
Cash at bank and in hand	<u>47.717</u>	<u>9.262</u>
Total current assets	<u>119.746</u>	<u>58.309</u>
Total assets	<u>128.683</u>	<u>70.110</u>

Liabilities and equity

Phillips-Medysize A/S

(DKK '000)

Notes	<u>2018</u>	<u>2017</u>
Equity		
19	16.778	16.778
20	24.697	9.308
	-	-
	41.475	26.086
Non-current liabilities		
21	668	565
22	421	684
	1.089	1.249
Current liabilities		
22	120	721
	10.550	5.429
17	40.398	5.175
16	3.736	8.122
	4.774	873
23	26.541	22.455
	86.119	42.775
	87.208	44.024
	128.683	70.110

Statement of Changes in Equity

Phillips-Medysize A/S

(DKK '000)

	Share capital	Retained earnings	Total
Equity at 1 January 2017	16.778	2.145	18.923
Net profit/loss for the year	-	7.163	7.163
Equity at 31 December 2017	16.778	9.308	26.086
Equity at 1 January 2018	16.778	9.308	26.086
Net profit/loss for the year	-	15.389	15.389
Equity at 31 December 2018	16.778	24.697	41.475

Cash Flow Statement

Phillips-Medysize A/S

(DKK '000)

Notes	<u>2018</u>	<u>2017</u>
Net profit/loss for the year	15.389	7.163
Depreciation, amortisation and impairment losses	5.788	6.029
24 Adjustments	3.199	1.972
25 Change in working capital	<u>22.167</u>	<u>(29.449)</u>
Cash flows from operating activities	<u>46.543</u>	<u>(14.285)</u>
Deposits	(47)	9
Purchase of intangible assets	(1.136)	(162)
Purchase of property, plant and equipment	<u>(1.741)</u>	<u>(181)</u>
Cash flows from investing activities	<u>(2.924)</u>	<u>(334)</u>
Financial income	1.814	602
Financial expenses	(1.873)	(806)
Repayment of long-term loans	-	(12)
Loan	<u>(5.105)</u>	<u>5.105</u>
Cash flows from financing activities	<u>(5.164)</u>	<u>4.889</u>
Cash flows for the year	38.455	(9.730)
Cash, beginning of year	<u>9.262</u>	<u>18.992</u>
Cash, end of year	<u>47.717</u>	<u>9.262</u>
Cash consist of:		
Cash at bank and in hand	<u>47.717</u>	<u>9.262</u>
Cash, end of period	<u>47.717</u>	<u>9.262</u>

The cash flow statement cannot be derived solely from the published material.

Notes

General

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Notes to the income statement

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Notes to the balance sheet

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- 11 Property, plant and equipment
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Notes without reference

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Notes

1 Accounting Policies

The Annual Report of Phillips-Medisize A/S has been prepared in accordance with International Financial Reporting Standards as approved by the EU (IFRS) and additional Danish disclosure requirements applying to medium-sized enterprises of reporting class C, of IFRS notification issued according to the Danish Financial Statements Act.

Basis of preparation

The Financial Statements are presented in DKK, which is considered the functional currency of the Company.

The Financial Statements have been prepared under the same accounting policies as last year.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act, the Company has not prepared consolidated Financial Statements.

Translation policies

Income statement

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Receivables and payables

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Gains and losses arising due to differences between the exchange rates at the balance sheet date and the transaction date rates are recognised in financial income and expenses in the income statement.

Comprehensive income

Phillips-Medisize A/S presents comprehensive income in two statements. An income statement and a statement of total comprehensive income which includes result for the year and income recognized in other comprehensive income. Other comprehensive income includes exchange gains/losses arising from translating the financial statements of a foreign operation.

Income statement

Revenue

Revenue is recognised in the income statement provided that delivery and transfer of risk have been made to the purchaser, and provided that the income can be stated reliably, and payment is expected received. Revenue is recognised exclusive of VAT and net of discounts relating to sales.

Sale of goods

Revenue from sale of goods is recognised in the income statement provided that transfer of risk has been made to the purchaser by year end, and provided that payment is expected received and revenue can be stated reliably.

Sale of services

Revenue concerning services, which comprise, among other things, sale of hours and milestone payments relating to development projects, is recognised as the services are delivered.

Notes

Sale of licences and income from royalties

Revenue concerning licences and income from royalties are recognised when Phillips-Medisize A/S has acquired the final right to the license or the royalty income.

Contract work in progress (construction contracts) is recognised at the rate of completion, which means that revenue equals the selling price of the work completed for the year (percentage-of-completion method). This method is applied when total revenues and expenses in respect of the contract and the stage of completion at the balance sheet date can be measured reliably, and it is probable that the economic benefits, including payments, will flow to the Company. The stage of completion is determined on the basis of the ratio between the expenses incurred and the total expected expenses of the contract.

Production costs

Production costs comprise salaries and cost of sales as well as indirect costs, including salaries and amortisation, depreciation and impairment losses, paid to achieve revenue for the year.

Development costs

Development costs include the development costs not meeting the criteria for capitalisation. Furthermore, salaries, amortisation, depreciation and impairment losses on capitalised development projects are recognised.

Distribution and marketing expenses

Distribution and marketing expenses comprise expenses relating to sale and distribution of the Company's products, including salaries to sales staff, advertising and exhibition expenses as well as amortisation, depreciation and impairment losses.

Administrative expenses

Administrative expenses comprise expenses for the administrative staff, Management and office expenses, including amortisation, depreciation and impairment losses.

Leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an approximated value as the discount rate. Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the other fixed assets of the Company.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged to the income statement.

All other leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

The lease obligations are disclosed in the notes.

Financial income and expenses

Financial income and expenses comprise interest, amortisation addition and deduction, fair value adjustments and realised and unrealised exchange adjustments.

Tax

Tax for the year consists of current tax for the year and change in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

Notes

Balance sheet

Intangible assets

Development projects

Development projects that are clearly defined and identifiable and which are considered to be marketable in the form of new products on a future potential market are recognised as intangible assets.

Development projects are recognised at cost when the criteria for recognition have been met.

Development projects that do not meet the criteria for recognition in the balance sheet are recognised as expenses in the income statement as incurred.

Cost comprises wages, salaries, material, services and depreciation of plant and equipment attributable to the Company's development activities. Grants for development projects are deducted from expenses incurred.

Interest expenses concerning financing of development projects recognised as intangible assets are recognised together with the asset. Other interest is recognised in the income statement.

Capitalised development projects are measured at the lower of cost less accumulated amortisation and impairment losses and the recoverable amount.

During the development work and after finalisation of the development work no amortisation is made of development projects recognised as an intangible asset and with an unpredictable useful life, but the asset is subject to an annual impairment test.

Acquired rights

Acquired rights comprise software and related consultancy hours. These are measured at cost less accumulated amortisation.

Acquired rights are amortised on a straight-line basis over 3 years.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Cost of a total asset is broken down in separate components which are depreciated separately if the useful lives of the individual components differ.

For assets acquired under finance leases cost is stated at the lower of fair value of the assets and net present value of the future minimum lease payments. At the calculation of the net present value, the interest rate implicit in the lease or the marginal loan interest of the leases is used as discounting rate.

Depreciation

Straight line depreciation is made over the expected useful lives of the assets and considering the scrap value of the asset. The following depreciation periods are applied:

Plant and machinery	
According to nature	3 - 6 years
Other plant and machinery	8 - 10 years
Other plant	3 - 10 years

Leasehold improvements are depreciated on a straight-line basis over the term of the leases.

Notes

Impairment of intangible assets and fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation. If so, the recoverable amount of the asset is stated, and write-down is made to the lower of recoverable amount and carrying amount. The recoverable amount of the asset is calculated as the higher of net selling price and value in use. Where a recoverable amount cannot be determined for the individual asset, the assets are assessed in the smallest group of assets for which a reliable recoverable amount can be determined based on a total assessment.

Investment in subsidiaries

Investment in subsidiaries are measured at cost, which includes the cost of acquisition calculated at fair value plus direct costs of acquisition. If there is evidence of impairment, an impairment test is conducted. Where the carrying amount exceeds the recoverable amount, a write down is made to such lower value.

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

The cost of raw materials, consumables and goods for resale equals landed cost. The cost of finished goods and work in progress comprises the cost of materials and direct labour with addition of indirect production costs.

Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management

Financing expenses are not recognised in cost.

Receivables

Receivables are recognised in the balance sheet at amortised cost, which corresponds to nominal value less provisions for bad debts.

Provisions for bad debts are determined on the basis of an individual assessment of each receivable.

Contract work in progress

Contract work in progress is measured at the selling price of the work performed calculated on the basis of the stage of completion. The stage of completion is measured by the proportion that the contract expenses incurred to date bear to the estimated total contract expenses - perhaps stated per milestone if the contract is divided into milestones and otherwise dictates this. Where it is probable that total contract expenses will exceed total revenues from a contract, the expected loss is recognised as an expense in the income statement and a provision.

Prepayments from customers are recognised under liabilities. Selling costs and expenses incurred in securing contracts are recognised in the income statement as incurred.

Equity

Dividend

Dividend is disclosed as a separate equity item.

Notes

Obligations

Pension obligations

Phillips-Medisize A/S has pension schemes comprising the employees. The pension schemes are defined contribution plans.

Expenses concerning defined contribution plans are expensed on a current basis in the income statement in the period of earning, and accrued payments received are included in other debt in the balance sheet. Payments of premium (eg a fixed amount or a fixed percentage of the salary) are made to independent insurance companies responsible for the pension obligations. When pension contributions for defined contribution plans have been paid, the Company has no further obligations to its employees or resigned staff.

Provisions

Provisions include warranty obligations and other provisions. Warranty obligations comprise obligations for improvement of products within the period of warranty. The provisions are recognised and measured based on experience of warranty work and other obligations.

Provisions are discounted if the timing effect is material, which is only the case for provisions for anniversary bonus included in other provisions.

Deferred tax and corporation tax

Provision for deferred tax is stated under the balance sheet liability method and is calculated on all temporary differences between the tax base and the carrying amount of assets and liabilities.

The tax base of assets is stated considering the planned use of the individual asset. When calculating the deferred tax, the tax base of any losses or provisions, etc. is included to the extent that it is considered likely that these may be included in future tax results. If, in that case, the deferred tax is a positive amount, this is recognised as a deferred tax asset in the balance sheet.

Corporation tax is recognised as the tax expected imposed on the taxable income for the year less tax paid on account.

Financial debts

Fixed-interest loans, such as bank loans, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost, corresponding to the capitalised value when using the effective interest rate, so that the difference between the proceeds and the nominal value (capital loss) is recognised in the income statement over the loan period

Other debts are measured at amortised cost, substantially corresponding to nominal value.

Prepayments and deferred income

Prepayments comprise expenses concerning subsequent financial years.

Deferred income comprises payments received in respect of income in subsequent years.

Notes

Cash flow statement

The cash flow statement is presented under the indirect method based on net profit/loss for the year.

The cash flow statement shows cash flows for the year, changes for the year in cash and cash equivalents as well as cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities

Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for non-cash operating items, and corporation taxes as well as changes in working capital. Working capital comprises current assets less short-term debt excluding items included in cash and cash equivalents.

Cash flows from investing activities

Cash flows from investing activities comprise acquisitions and disposals of intangible assets, property, plant and equipment as well as fixed asset investments.

Cash flows from financing activities

Cash flows from financing activities comprise of expenses received and paid and financial income, the raising and repayment of long-term debt, dividend paid and proceeds from share capital increases.

Cash and cash equivalents

Cash and cash equivalents comprise cash holdings and withdrawals from overdraft facility. Cash flows in foreign currencies are translated at the average monthly exchange rates which do not deviate materially from the exchange rates at the date of payment.

Notes

2 New accounting standards

Phillips-Medisize A/S has for the financial year 2018 implemented the standards, amendments and interpretations effective in the EU for 2018.

This is the first year where the Company uses IFRS 9 "Financial instruments" and IFRS 15 "Revenue from contracts with customers". The effect on the result, balance sheet, and cash flow statement is insignificant.

Other changes and interpretations that apply for the first time in 2018 have not had an impact on recognition or measurement in the financial statements.

Effect of IFRS 9

With IFRS 9, which replaces IAS 39, there is a change to the classification, measurement and impairment of financial assets and liabilities and introducing new standards for hedge accounting.

Based on Phillips-Medisize A/S' types of financial assets and liabilities and the historical low losses on receivables etc. the consequence of implementing IFRS 9's expected credit loss model is insignificant for the result, balance sheet, and cash flow statement. As a consequence, hereof the effect is not recognised in the opening balance at 1 January 2018.

Effect of IFRS 15

IFRS 15 Revenue from Contracts with Customers, which replaces the current trading standards (IAS 11 and IAS 18) with related interpretations, introduces a new five-step model for recognition and measurement of sales related to sales contracts with customers. The consequence of implementing IFRS 15 is insignificant for the result, balance sheet, and cash flow statement. As a consequence, hereof the effect is not recognised in the opening balance at 1 January 2018.

Effect of IFRS 16

IFRS 16 "Leasing" shall be implemented for the financial year beginning on 1 January 2019 and Phillip Medisize A/S' has not pre implemented the standard. For further information about the consequences of IFRS 16 regarding recognition and measurement please see note 31.

3 Significant accounting estimates and assessments

In connection with the financial reporting it is necessary for Management to make a number of accounting estimates and assessments affecting the carrying amount of certain assets and liabilities and the reported income and expenses for the accounting periods. Significant estimates are made, among other things, at the assessment of depreciation, amortisation and impairment, provisions and contingent liabilities and assets.

Management bases its estimates on historical experience and other assumptions considered reasonable in the situation. Results based on the assumptions are used to assess the carrying amount of the assets and the liabilities and the reported income and expenses not appearing elsewhere. The current results may deviate from the estimated results.

The following accounting estimates and assessments are considered significant for the Annual Report:

Development costs

Self-financed development projects that are clearly defined and identifiable and which are considered to be marketable in the form of new products on a future potential market are recognised as intangible assets. In case of uncertainty relating to the future economic benefits of the asset for the Company at the time of decision, a conservative assessment is made of the possible intangible asset based on historical experience and knowledge of customer interest as well as actual order indications.

Notes

Work in progress

Contract work in progress is recognised in revenue based on the stage of completion of the project, however, so that any future expected negative contribution margin of work in progress is immediately recognised in the income statement for the period.

The stage of completion of work in progress is estimated per project as the share of the resources used relative to the total expected resources for the project - perhaps divided into milestones if dictated by the contract. The stage of completion is estimated by the professional project manager in charge, and at the same time the probability of the work in progress in question meeting future development challenges affecting the stage of completion is considered.

In Management's estimate, after having reviewed work in progress, the estimates made are reasonable and appropriate.

Inventories

As part of the ordinary business, Phillips-Medisize A/S organises materials from sub suppliers for processing in the Company to meet the expected demand from the customers. A perfect organisation of materials for future customer needs is in many cases difficult, and therefore situations may arise where materials purchased or produced for the inventories are no longer expected to be in demand. Provisions for obsolescence of inventories are made in this respect. The provisions concerning inventories are made on the basis of historical scrapping due to obsolescence and knowledge and estimate of slow-moving materials.

The value of future scrapping due to obsolescence may deviate from the provision, but in Management's opinion, the estimates of obsolescence are reasonable and appropriate.

Tax

Deferred tax assets are recognised when it is probable that in future there will be sufficient taxable income to utilise the temporary differences and unutilised tax losses. The actual tax payments and results may deviate from the estimates made due to changes in expectations to the future taxable results. Management has assessed whether the tax asset should be recognised as income in the income statement and as an asset in the balance sheet. Management will continuously assess whether the accounting criteria have been met for recognition of the asset in the balance sheet and recognition as income in the income statement.

4 Financial risk management

As a consequence of Phillips-Medisize A/S international activities, the Company's income statement, balance sheet and equity will at any time be influenced, to a higher or lower degree, by a number of financial risks. These risks include:

- Foreign exchange risk
- Interest rate risk
- Credit risk
- Liquidity risk

Phillips-Medisize A/S addresses these risks on a current basis.

Foreign exchange risk

The Company's sales in foreign currencies, USD (20%) and EUR (76%) respectively, make up 96 per cent. This figure does not reflect the foreign exchange risk, partly because the risk is hedged if net trade takes place in very volatile currencies, and partly because it is part of the Company's purchase policy to match purchase and sales currencies to the highest possible extent.

In 2018, no contracts have been concluded to hedge foreign exchange risks. The Company's net monetary items in foreign currencies appear from note 28.

Notes

Interest rate risk

The Company does not have any interest-bearing debt as per 31. December 2018.

Credit risk

The Company's most material, primary financial instruments comprise trade receivables. The amounts at which this balance sheet item is recognised are identical with the maximum credit risk.

The Company sells the products and services to a number of different customers. The Company assesses the credit risk relating to these customers to be limited. The individual customers are assessed on a current basis and, if necessary, bank guarantees or accounts receivable insurance is used to secure outstanding accounts.

During the last 3 years, trade receivables have been at an acceptable level, and it is the Company's assessment that no significant credit risk is involved.

Liquidity risk

In 2018, cash flows have been positive.

The Company assesses and controls financial resources on a current basis, thus ensuring that adequate flexible, unutilised borrowing facilities are available at any time from the Company's owners. Short-term debt to credit institutions amounts to 0% of the balance sheet total compared with 0% at the end of 2017.

Notes

Phillips-Medisize A/S

(DKK '000)

	2018	2017
5 Revenue		
<i>Breakdown on type</i>		
Sale of goods	79.098	70.105
Sale of services	130.771	80.427
Total	209.869	150.532
Sales value from contract work in progress recognized in the above	139.122	69.915

6 Expenses, additional information

Production costs, development costs, distribution and marketing expenses and administrative expenses, etc include the following amounts for which the following information is stated:

Development costs

Development costs paid before capitalisation	13.303	13.453
Of this capitalised	-	-
Depreciation and impairment of development projects	350	370
Development costs recognised in the income statement	13.653	13.823

Classification by type of expenditure

Amortisation, intangible assets

Amortisation of intangible assets is recognised in the following items in the income statement:

Production costs	4.208	4.017
Development costs	335	337
Distribution and marketing expenses	192	299
Administrative expenses etc	497	508
	5.232	5.161

No impairment losses have been recognised in respect of intangible assets.

Depreciation, property, plant and equipment

Depreciation of property, plant and equipment is recognised in the following items in the income statement:

Production costs	507	755
Development costs	15	33
Distribution and marketing expenses	11	29
Administrative expenses etc	23	51
	556	868

Impairment losses reversed, property, plant and equipment

Impairment losses reversed, property, plant and equipment, are recognised in the following items in the income statement:

Production costs	-	-
Development costs	-	-
Distribution and marketing expenses	-	-
Administrative expenses etc	-	-
	-	-

Notes

Phillips-Medisize A/S

(DKK '000)

	2018	2017
6 Expenses, additional information (continued)		
Staff		
Fee to Executive Board and Board of Directors		
- Salaries	4.554	4.082
- Remuneration	-	-
- Pension	121	75
- Other expenses and staff obligations	9	652
Total fee to Executive Board and Board of Directors	4.684	4.809
Salaries and remuneration	68.441	53.660
Pensions	4.792	4.566
Other social security expenses	1.313	560
	79.230	63.595
Average number of full-time employees		
Denmark	97	89
	97	89
Staff expenses are recognised in the following items in the income statement:		
Production costs	53.463	38.609
Development costs	10.120	10.972
Distribution and marketing expenses	3.946	5.091
Administrative expenses etc	11.701	8.923
	79.230	63.595
7 Financial income		
Foreign exchange gain	1.814	600
Other financial income	-	2
Financial income	1.814	602
8 Financial expenses		
Interest on debt to banks	19	65
Foreign exchange loss	1.844	741
Other financial expenses	10	-
Financial expenses	1.873	806

Notes

Phillips-Medisize A/S

(DKK '000)

	2018	2017
9 Tax on profit/loss on ordinary activities		
Current tax	4.771	589
Prior - year adjustments	41	-
Change in deferred tax	(389)	1.454
Prior - year adjustments deferred tax	(7)	-
Total tax on profit/loss on ordinary activities	4.416	2.043
Tax for the year is specified as follows:		
Tax to be recognised in the income statement	4.416	2.043
	<u>4.416</u>	<u>2.043</u>
Tax on profit/loss for the year is specified as follows:		
Calculated tax on profit/loss before tax	4.352	2.025
Non-deductible expenses and non-taxable income	23	9
Prior - year adjustments of current tax last year	(457)	-
Prior - year adjustments of deferred tax last year	498	-
Adjustments to Net Operating Loss Carryforward	-	8
	<u>4.416</u>	<u>2.043</u>
Danish tax rate	22,0%	22,0%
Tax effect of:		
Non-deductible expenses and Non-taxable income	0%	0%
Unutilised tax losses	0%	0%
Prior - year adjustments of current tax last year	-2,3%	0,0%
Prior - year adjustments of deferred tax last year	2,5%	0,0%
Average effective tax rate for the year	22,3%	22,1%

Corporation tax paid, incl tax on account, amounts to DKK 425k.

At 1 June 2016, Phillips-Medisize A/S is part of the joint taxation with Phillips-Medisize Holdings A/S.

Notes

Phillips-Medsize A/S

(DKK '000)

10 Intangible assets

	Acquired rights	Development projects in progress	Total
Cost at 1 January 2017	18.227	-	18.227
Additions for the year	162	-	162
Cost at 31 December 2017	18.389	-	18.389
Amortisation and impairment losses at 1 January 2017	3.831	-	3.831
Amortisation for the year	5.161	-	5.161
Amortisation and impairment losses at 31 December 2017	8.992	-	8.992
Carrying amount at 31 December 2017	9.397	-	9.397
Cost at 31 December 2017	18.389	-	18.389
Amortisation at 31 December 2017	8.992	-	8.992
Carrying amount at 31 December 2017	9.397	-	9.397
Cost at 1 January 2018	18.389	-	18.389
Additions for the year	413	723	1.136
Cost at 31 December 2018	18.802	723	19.525
Amortisation and impairment losses at 1 January 2018	8.992	-	8.992
Amortisation for the year	5.232	-	5.232
Amortisation and impairment losses at 31 December 2018	14.224	-	14.224
Carrying amount at 31 December 2018	4.578	723	5.301
Cost at 31 December 2018	18.802	723	19.525
Amortisation at 31 December 2018	14.224	-	14.224
Carrying amount at 31 December 2018	4.578	723	5.301

As security for the Company's facility with the banks, a floating charge has been created secured on the Company's ordinary debt, inventories, operating equipment and material as well as intellectual property rights for up to DKK 25 million.

Notes

Phillips-Medsize A/S

(DKK '000)

11 Property, plant and equipment

	Plant and machinery	Other fixtures, fittings, tools and equipment	Leasehold improvements	Total
Cost at 1 January 2017	7.701	7.728	731	16.160
Additions for the year	69	76	36	181
Cost at 31 December 2017	7.770	7.804	767	16.341
Amortisation and impairment losses at 1 January 2017	7.257	6.627	330	14.214
Amortisation for the year	212	540	116	868
Amortisation and impairment losses at 31 December 2017	7.469	7.167	446	15.082
Carrying amount at 31 December 2017	301	637	321	1.259
Cost at 31 December 2017	7.770	7.804	767	16.341
Amortisation at 31 December 2017	7.469	7.167	446	15.082
Carrying amount at 31 December 2017	301	637	321	1.259
Hereof assets under finance lease:	-	-	-	-
Cost at 1 January 2018	7.770	7.804	767	16.341
Additions for the year	35	1.707	-	1.742
Disposals for the year	(1.792)	-	-	(1.792)
Cost at 31 December 2018	6.013	9.511	767	16.291
Amortisation and impairment losses at 1 January 2018	7.469	7.167	446	15.082
Amortisation for the year	172	271	114	557
Reversals for the year	(1.792)	-	-	(1.792)
Amortisation and impairment losses at 31 December 2018	5.849	7.438	560	13.847
Carrying amount at 31 December 2018	164	2.073	207	2.444
Cost at 31 December 2018	6.013	9.511	767	16.291
Amortisation at 31 December 2018	5.849	7.438	560	13.847
Carrying amount at 31 December 2018	164	2.073	207	2.444
Hereof assets under finance lease:	-	-	-	-

General, property, plant and equipment:

The carrying amount corresponds to the expected remaining life and any scrap value.

There are no contractual obligations at 31 December 2018 relating to the acquisition of property, plant and equipment (DKK 0 at 31 December 2017).

As security for the Company's facility with the banks, a floating charge has been created secured on the Company's ordinary debt, inventories, operating equipment and material as well as intellectual property rights for up to DKK 25 million.

Notes

Phillips-Medisize A/S

(DKK '000)

	2018	2017
12 Other financial receivables		
Other financial receivables (gross), end of year	1.192	1.145
Provisions for bad debts, end of year	-	-
Other financial receivables (net), end of year	1.192	1.145

The fair value of other financial receivables amounts to DKK 1.192k (2017: DKK 1.145k). The value comprises deposit for leased premises which will remain for the term of the lease.

The fair value is stated as the net present value of future expected cash flows concerning the receivables.

13 Investment in subsidiaries

	Shares
Cost at 1 January	-
Additions for the year	-
Disposals for the year	-
Cost at 31 December	-
Impairment losses at 1 January	-
Reversed impairment losses on disposals for the year	-
Impairment losses at 31 December	-
Carrying amount at 31 December 2018	-

Investments in subsidiaries are specified as follows:

Name	Share capital	Votes and ownership
Phillips-Medisize Ltd. United Kingdom I	0	100%

14 Inventories

	2018	2017
Raw materials and consumables	9.553	6.544
Work in progress	56	195
Finished goods and goods for resale	111	-
Inventories, end of year	9.720	6.739

Inventories are expected to be realised within a period of 12 months.

Cost of sales for the year is recognised in production costs	25.223	32.732
Write-down for the year of inventories is recognised in production costs	(42)	(65)
Resersal for the year of write-down of inventories is recognised in production costs	-	-

Notes

Phillips-Medysize A/S

(DKK '000)

	2018	2017
15 Trade receivables		
Trade receivables (gross), beginning of year	37.359	21.475
Provision for bad debt	-	-
Change of provision in the year	-	-
Realised losses in the year	-	-
Provision for bad debt, end of year	-	-
Trade receivables (net), end of year	37.359	21.475
Trade receivables not due (due 0-3 months after the balance sheet date)	37.359	21.475
Trade receivables due from 0 to 1 month before the balance sheet date	-	-
Trade receivables due more than 1 month before the balance sheet date	-	-
Trade receivables (net), end of year	37.359	21.475

All trade receivables fall due within one year.

Any provision for bad debt has been recognised directly in administrative expenses in the income statement and the provision, if any, will be made based on an individual assessment of the creditworthiness of the debtors.

The fair value of trade receivables is DKK 37,359k (2017: DKK 21,475k). For receivables falling due within 1 year after the balance sheet date, the carrying amount is in all materiality considered to correspond to the fair value.

16 Receivables from and payables to group enterprises

Receivables from group enterprises (gross) at 31 December	5.468	8.881
No provision has been made for receivables from group enterprises		

All receivables from group enterprises fall due within one year.

The fair value of receivables from group enterprises is DKK 5,468k (2017: DKK 8,881k). For receivables falling due within 1 year after the balance sheet date, the carrying amount is in all materiality considered to correspond to the fair value.

Payables to group enterprises (gross) at 31 December	3.736	8.122
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The fair value of payables to group enterprises is DKK 3,736k (2017: DKK 8,122k). For payables falling due within 1 year after the balance sheet date, the carrying amount is in all materiality considered to correspond to the fair value.

17 Contract work in progress

Expenses conc. work performed at the balance sheet date	310.526	197.524
Profit included in the income statement, net	31.567	20.276
Sales value of work performed at the balance sheet date	342.093	217.800
Invoicing on account	(360.947)	(211.353)
	(18.854)	6.447

The net value is recognised as follows in the balance sheet:

Contract work in progress	16.516	11.357
Prepayments received from customers conc. work in progress	(35.370)	(4.910)
	(18.854)	6.447

Contract work in progress conc. products	-	(2.187)
Prepayments received from customers conc. products	(5.028)	(265)

Prepayments, end of year	(40.398)	(5.175)
Contract work in progress, end of year	16.516	9.170

Notes

Phillips-Medysize A/S

(DKK '000)

	2018	2017
18 Other receivables		
Other receivables	1.076	44
Carrying amount, end of year	1.076	44

All other receivables fall due within one year.

The fair value of other receivables is DKK 1,076k (2017: DKK 44k). For receivables falling due within 1 year after the balance sheet date, the carrying amount is considered to correspond to the fair value.

19 Share capital

The share capital consists of 16,778,061 shares of DKK 1 16.778 16.778

No shares carry any special rights.

Specification of movement on share capital	2018	2017	2016	2015	2014
Share capital at the beginning	16.778	16.778	16.778	16.778	16.778
Capital increase	-	-	-	-	-
Capital reduction	-	-	-	-	-
Share capital at the end	16.778	16.778	16.778	16.778	16.778

20 Retained earnings

In 2018 DKK 0 was paid as dividend, corresponding to DKK 0 per share (2017: DKK 0, corresponding to DKK 0 per share). A dividend of DKK 0k, corresponding to DKK 0k per share, will be proposed for 2018.

Phillips-Medysize A/S's Executive Board and Board of Directors currently assess whether the Company's capital structure is adequate and which activities are necessary to ensure this.

Usually no dividend is paid out unless it may be included in net profit/loss for the year.

21 Deferred tax

	Long-term assets	Short-term assets	Loss carry-forward	Provisions	Total
Deferred tax at 1 January 2017	2.565	598	(3.672)	(380)	(889)
Adjustment for the year	(1.084)	(593)	2.227	904	1.454
Deferred tax at 31 December 2017	1.481	5	(1.445)	524	565
Of this not recognised in the balance sheet					-
Capitalised deferred tax at 31 December 2017	1.481	5	(1.445)	524	565
Deferred tax at 1 January 2018	1.481	5	(1.445)	524	565
Adjustment for the year	(874)	(7)	1.445	(461)	103
Deferred tax at 31 December 2018	607	(2)	-	63	668
Of this not recognised in the balance sheet					-
Capitalised deferred tax at 31 December 2018	607	(2)	-	63	668

Provision for deferred tax has been made at the current Danish tax rate.

It is expected that the capitalised loss carry-forward may be utilised within a time horizon of 3 - 4 years.

Notes

Phillips-Medysize A/S

(DKK '000)

	2018	2017
22 Provisions		
Warranty provisions at 1 January	1.055	1.399
Provisions in the year	213	441
Provisions used in the year	(730)	-
Provisions reversed in the year	(325)	(785)
Warranty provisions, end of year	<u>213</u>	<u>1.055</u>
Provisions for anniversary bonus at 1 January	350	280
Provisions in the year	14	75
Provisions used in the year	(30)	-
Provisions reversed in the year	(6)	(18)
Change for the year in the calculation of net present value	-	13
Provisions for anniversary bonus, end of year	<u>328</u>	<u>350</u>
Provisions, end of year	<u>541</u>	<u>1.405</u>
The due dates for warranty provisions are expected to be as follows:		
Due within 1 year	41	665
Due within 1-5 years	172	390
Due after 5 years	-	-
Warranty provisions, end of year	<u>213</u>	<u>1.055</u>
The due dates for provisions for anniversary bonus are expected to be as follows:		
Due within 1 year	79	56
Due within 1-5 years	165	203
Due after 5 years	84	91
Provisions for anniversary bonus, end of year	<u>328</u>	<u>350</u>

The Company provides 3-year warranty on certain products and is therefore obliged to repair or replace items which do not function satisfactorily.

Provisions of DKK 213k (2017: DKK 1,055k) for expected warranty claims have been recognised based on previous experience concerning the level of repairs and returns.

The statement of the expected due dates has been prepared based on previous experience of when repairs and returns, if any, appear.

No compensation will be received from other parties concerning the provisions.

The provision for anniversary bonus is the result of discounting of the nominal expectations, as the timing effect conc. anniversary bonus is material due to the long time horizon for actual payment of the anniversary bonus. No discounting has been used concerning the warranty provision as the time horizon is limited (max 3 years) and the timing effect is therefore immaterial.

Notes

Phillips-Medisize A/S

(DKK '000)

	<u>2018</u>	<u>2017</u>
23 Other payables		
Payroll items	25.978	18.975
Other	563	3.480
Total other payables	<u>26.541</u>	<u>22.455</u>
<p>No other payables fall due for payment after 1 year.</p> <p>The fair value of other payables is DKK 26,541k (2017: DKK 22,455k).</p> <p>For payables falling due within 1 year after the balance sheet date the carrying amount of the payables is in all materiality considered to equal the fair value of the payables.</p>		
24 Adjustments		
Change in other provisions etc	(864)	(274)
Financial income etc	(1.814)	(602)
Financial expenses etc	1.873	806
Tax on profit/loss for the year	4.004	2.042
	<u>3.199</u>	<u>1.972</u>
25 Change in working capital		
Change in receivables etc	(20.001)	(16.313)
Change in inventories	(2.981)	344
Change in trade payables etc	45.149	(13.480)
	<u>22.167</u>	<u>(29.449)</u>

Notes

Phillips-Medysize A/S

(DKK '000)

	2018	2017
26 Fee to auditors		
Statutory audit Ernst & Young, 2018	140	120
Fee to auditors appointed at the general meeting	140	120
PricewaterhouseCoopers, Other assurance assignments	74	25
Deloitte, Tax advisory services	22	269
Fee to other assignments	96	294
Total fee to auditors	236	414

27 Contingent liabilities and other financial obligations

a Rental and lease obligations concerning operating lease etc

The Company has entered into operating leases concerning two cars. The periods covered by the leases run for up to 47 months as from 31 December 2018.

Moreover, the Company has entered into nine tenancy agreements. The tenancy agreements covers up to 15 months.

Lease obligations relating to fixtures and fittings, etc	238	253
Rental obligations relating to offices and factory property	3.581	3.405
Total	3.819	3.658
Specified as follows:		
Due within 1 year	3.006	2.941
Due between 1 and 5 years	813	717
Due after more than 5 years	-	-
	3.819	3.658
Rental and lease payments for the period	3.138	3.037
Hereof minimum rental and lease payments	3.138	3.037

At the balance sheet date, there are no non-cancellable leases concerning assets held under operating lease from which rental income is received.

b Contract obligations

The Company has entered into contract obligations of DKK 2.793k. termination no later than 2021.

c Joint taxation

With effect from 1 June 2016, Phillips-Medysize A/S is included in the joint taxation with Phillips-Medysize Holdings A/S. Danish Group companies are jointly and severally liable for tax on consolidated taxable income, etc. The total amount of the annual report for Phillips-Medysize Holdings A/S, which is the management company in relation to joint taxation.

Before 1 June 2016, Phillips-Medysize A/S was included in the joint taxation with LDE Holding 11 ApS and Equity Datteholding 11 ApS. Danish Group companies are jointly and severally liable for tax on consolidated taxable income, etc.

d Litigations

Phillips-Medysize A/S is not engaged in any litigation.

Notes

Phillips-Medize A/S

(DKK '000)

28 Financial instruments

The scope and type of the Company's financial instruments appear from the income statement, the balance sheet and accounting policies under notes. Below information is provided on the conditions which may affect amounts, payment date or the reliability of future payments, where such information does not directly appear from the Company's Financial Statements or follow from normal practice.

Monetary items* in foreign currencies in the balance sheet at the end of the year:

At 31 December 2017				
Currency	Payment/expiry	Assets	Liabilities	Net
EUR	0-12 months	36.202	5.288	30.914
USD	0-12 months	9.605	2.496	7.109
GBP	0-12 months	8	-	8
Other	0-12 months	-	-	-

At 31 December 2018				
Currency	Payment/expiry	Assets	Liabilities	Net
EUR	0-12 months	83.878	37.096	46.782
USD	0-12 months	14.012	2.507	11.505
GBP	0-12 months	389	739	(350)
Other	0-12 months	-	-	-

* Monetary items are cash at bank and in hand and similar, receivables as well as payables which are settled in cash.

Hedging of foreign currency

No forward contracts have been made at 31 December 2018.

Sensitivity to foreign exchange risks:

The quantification of foreign exchange risks was made as an +/- 10% analysis of the effect on revenue:

	DKK million	2018		2017	
		Revenue	Risks	Revenue	Risks
Revenue nominated in EUR		156,6	0*	132,3	0*
Revenue nominated in USD		42,1	4,2	9,2	0,9
Revenue in DKK		8,1	0**	9,1	0**

* It is considered unlikely that EUR will fluctuate by +/- 10% due to Denmark's firm rates policy which allows only very marginal fluctuations

** There is no exchange risk in respect of DKK

In 2019 revenue is expected to be mainly in EUR, and therefore it is not assessed that there will be any material exchange risks.

Notes

Phillips-Medisize A/S

(DKK '000)

29 Related parties

The Company's related party with controlling interest is Phillips-Medisize Holdings A/S, Struer.

The related parties with significant influence in the Company are the Executive Board and some senior employees as well as their related family members. Related parties also comprise companies in which these persons have material interests.

Executive Board and senior employees

Besides what follows from the employment, there have been no transactions with the Executive Board or senior employees. Remuneration appear from note 6.

Accounts with related parties

The payment terms for normal trade is current month plus 30 days. No security has been provided for the accounts, and there has been no need to make provisions for expected bad debt concerning these accounts. Moreover, no losses have been realised concerning these accounts in 2018 or 2017.

30 Group matters

Statements of its Parent Company, MOLEX ELECTRONIC TECHNOLOGIES LLC, 2222 Wellington Court Lisle, IL 60532-1682, United States. Phillips-Medisize Holdings A/S is ultimate owned by Koch Industries Inc. 4111 East Street North, Wichita, Kansas 67220.

31 New Accounting standards

At the time of publication of this annual report, the IASB has issued new and amended accounting standards and interpretations that are not mandatory for Phillips-Medisize A/S when preparing the annual report for 2018.

The approved non-effective standards and interpretations are implemented as they become mandatory for Phillips-Medisize A/S. From these standards and interpretations, it has been assessed that only IFRS 16 potentially will influence the recognition and measurement of Phillips-Medisize A/S.

IFRS 16 Leases is effective for financial years beginning on or after January 1, 2019, significantly changes the accounting policy for the lease contracts currently treated as operating leases. The standard thus requires that all leases, regardless of type - with few exceptions - must be recognized in the lessee's balance sheet as an asset with an associated lease obligation.

At the same time, the lessee's income statement will be affected, as the annual leasing cost will in the future consist of two elements - partly a depreciation and partly an interest cost - as opposed to today, when the annual cost of operational leasing agreements is recognized in one amount under operating costs. Finally, the Company's cash flow statement will also be affected, as the current operational lease payments, which today are presented as cash flows from operating activities, will in the future be presented as financing activities as regards the repayment element and as financing activity or operating activity - depending on the choice of accounting policies - in so far as concerns the interest element.

The Company plans to implement IFRS 16 using the modified retrospective transition method, according to which the effect of the transition is recognized in the primary capital at the beginning of the year without adjustment of comparative figures.

Based on an analysis the Company expects to recognize leasing assets and a corresponding lease obligation of approx. DKK 2,771 thousand corresponding to approx. 2.2% of the balance sheet total at 1 January 2019.

At the same time, the expected lease payment in 2019 will be approx. 2.529 t.kr. (interest and repayments) which will be presented as a financing activity in accordance with IFRS 16.

Furthermore, the implementation of IFRS 16 will have a positive impact on EBITDA of approx. DKK 2,529 thousand, as the interest and lease payments are no longer included in the calculation of EBITDA.

In accordance with IFRS 16, the expected lease payments in 2019 are to be presented under cash flows from financing activities, as opposed to 2018 and earlier, where operational rent and lease payments are presented as cash flows from operating activities. From this, cash flow from operating activities will be improved in 2019.

The effect on the result for 2019 will, based on the current portfolio of leases are insignificant in relation to the expected result for 2019.