

Smith & Nephew A/S

Slotsmarken 14, 2970 Hørsholm

CVR no. 26 02 00 50

Annual report 2017

Approved at the Company's annual general meeting on 31 May 2018

Chairman:


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Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Smith & Nephew A/S for the financial year 1 January - 31 December 2017.

The annual report is prepared in accordance with 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 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the annual report be approved at the annual general meeting.

Hørsholm, 31 May 2018
Executive Board:

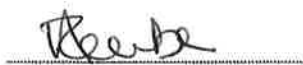


Birgit Kirstine Ølmestig

Board of Directors:



Anneli Diana Charlotte Dahl
Chairman



Victoria Reuben



Birgit Kirstine Ølmestig

Independent auditor's report

To the shareholder of Smith & Nephew A/S

Opinion

We have audited the financial statements of Smith & Nephew A/S for the financial year 1 January - 31 December 2017, which comprise an income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with 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 2017, and of the results of the Company's operations for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the 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 the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

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 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 the financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement 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.

Independent auditor's report

- 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.

Statement on the Management's review

Management is responsible for the Management's review.

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

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the 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 the 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 of the Management's review.

Copenhagen, 31 May 2018

KPMG

Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98



Kenn W. Hansen
State Authorised Public Accountant
mne30154

Management's review

Company details

| | |
|----------------------------|--|
| Name | Smith & Nephew A/S |
| Address, Postal code, City | Slotsmarken 14, 2970 Hørsholm |
| CVR no. | 26 02 00 50 |
| Established | 4 May 2001 |
| Registered office | Hørsholm |
| Financial year | 1 January - 31 December |
| Website | www.smith-nephew.com/Danmark/ |
| E-mail | sn.dk@smith-nephew.com |
| Telephone | +45 45 80 61 00 |
| Board of Directors | Anneli Diana Charlotte Dahl, Chairman Victoria Reuben Birgit Kirstine Ölmestig |
| Executive Board | Birgit Kirstine Ölmestig |
| Auditors | KPMG Statsautoriseret Revisionspartnerselskab Dampfærgevej 28, 2100 København Ø |

Management commentary

Business review

The Company's main business is selling of medical devices in Denmark within Orthopaedic, Endoscopy as well as Advanced Wound Care.

Financial review

The income statement for 2017 shows a profit of DKK 3,288 thousand against a profit of DKK 9,672 thousand last year, and the balance sheet at 31 December 2017 shows equity of DKK 32,815 thousand.

Events after the balance sheet date

After the balance sheet date, no significant events have occurred that are considered to have a material effect on the assessment of the financial statements.

Financial statements 1 January - 31 December

Income statement

| Note | DKK'000 | 2017 | 2016 |
|------|---|---------------|---------------|
| | Gross margin | 36,885 | 44,532 |
| 2 | Staff costs | -29,410 | -28,399 |
| | Depreciation of property, plant and equipment | -2,838 | -4,801 |
| | Other operating expenses | -327 | -92 |
| | Profit before net financials | 4,310 | 11,240 |
| | Financial income | 0 | 1 |
| 3 | Financial expenses | -62 | -6 |
| | Profit before tax | 4,248 | 11,235 |
| | Tax for the year | -960 | -1,563 |
| | Profit for the year | 3,288 | 9,672 |
| | | | |
| | Recommended appropriation of profit | | |
| | Retained earnings | 3,288 | 9,672 |
| | | 3,288 | 9,672 |

Financial statements 1 January - 31 December

Balance sheet

| Note | DKK'000 | 2017 | 2016 |
|------|--|---------------|---------------|
| | ASSETS | | |
| | Fixed assets | | |
| 4 | Property, plant and equipment | | |
| | Fixtures and fittings, other plant and equipment | 4,721 | 6,376 |
| | | <u>4,721</u> | <u>6,376</u> |
| | Investments | | |
| | Deposits, investments | 512 | 534 |
| | | <u>512</u> | <u>534</u> |
| | Total fixed assets | <u>5,233</u> | <u>6,910</u> |
| | Non-fixed assets | | |
| | Inventories | | |
| | Finished goods and goods for resale | 2,559 | 2,830 |
| | | <u>2,559</u> | <u>2,830</u> |
| | Receivables | | |
| | Trade receivables | 12,147 | 11,823 |
| | Receivables from group enterprises | 19,723 | 18,245 |
| | Deferred tax assets | 999 | 981 |
| | Corporation tax receivable | 195 | 0 |
| | Other receivables | 109 | 151 |
| | Prepayments | 60 | 286 |
| | | <u>33,233</u> | <u>31,486</u> |
| | Cash | <u>2,372</u> | <u>1,152</u> |
| | Total non-fixed assets | <u>38,164</u> | <u>35,468</u> |
| | TOTAL ASSETS | <u>43,397</u> | <u>42,378</u> |

Financial statements 1 January - 31 December

Balance sheet

| Note | DKK'000 | 2017 | 2016 |
|------|--|---------------|---------------|
| | EQUITY AND LIABILITIES | | |
| | Equity | | |
| | Share capital | 6,250 | 6,250 |
| | Retained earnings | 26,565 | 23,277 |
| | Total equity | 32,815 | 29,527 |
| | Liabilities other than provisions | | |
| | Current liabilities other than provisions | | |
| | Trade payables | 991 | 1,375 |
| | Payables to group enterprises | 544 | 2,997 |
| | Corporation tax payable | 0 | 1,074 |
| | Other payables | 9,047 | 7,405 |
| | | 10,582 | 12,851 |
| | Total liabilities other than provisions | 10,582 | 12,851 |
| | TOTAL EQUITY AND LIABILITIES | 43,397 | 42,378 |

- 1 Accounting policies
- 5 Contractual obligations and contingencies, etc.
- 6 Collateral
- 7 Related parties

Financial statements 1 January - 31 December

Statement of changes in equity

| DKK'000 | Share capital | Retained earnings | Total |
|--|---------------|-------------------|--------|
| Equity at 1 January 2017 | 6,250 | 23,277 | 29,527 |
| Transfer through appropriation of profit | 0 | 3,288 | 3,288 |
| Equity at 31 December 2017 | 6,250 | 26,565 | 32,815 |

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Smith & Nephew A/S for 2017 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Reporting currency

The financial statements are presented in Danish kroner (DKK'000).

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the most recent financial statements is recognised in the income statement as financial income or financial expenses.

Income statement

Revenue

Income from the sale of goods for resale and finished goods, is recognised in revenue when the most significant rewards and risks have been transferred to the buyer and provided the income can be measured reliably and payment is expected to be received.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Gross margin

The items revenue, cost of sales, other operating income and external expenses have been aggregated into one item in the income statement called gross margin in accordance with section 32 of the Danish Financial Statements Act.

Other operating income and operating expenses

Other operating income and operating expenses comprise items of a secondary nature relative to the Company's core activities, including gains or losses on the sale of fixed assets.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Cost of sales

Cost of sales includes the cost of goods used in generating the year's revenue.

External expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Depreciation

The item comprises depreciation of property, plant and equipment.

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

| | |
|--|------------|
| Fixtures and fittings, other plant and equipment | 3-10 years |
|--|------------|

The residual value is determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised. In case of changes in the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Balance sheet

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

Gains or losses are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses.

Impairment of fixed assets

The carrying amount of property, plant and equipment is assessed for impairment on an annual basis.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value of inventories is calculated as the sales amount less costs of completion and expenses required to effect the sale and is determined taking into account marketability, obsolescence and development in the expected selling price.

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Cash

Cash comprise cash and short term securities which are readily convertible into cash and subject only to minor risks of changes in value.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Corporation tax and deferred tax

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan. Financial liabilities also include the capitalised residual lease liability in respect of finance leases.

Other liabilities are measured at amortized cost normally corresponding to net realisable value.

| DKK'000 | 2017 | 2016 |
|---|---------------|---------------|
| 2 Staff costs | | |
| Wages/salaries | 26,920 | 25,987 |
| Pensions | 2,137 | 2,113 |
| Other social security costs | 353 | 299 |
| | 29,410 | 28,399 |
| Average number of full-time employees | 35 | 37 |
| 3 Financial expenses | | |
| Interest expenses, group entities | 0 | 2 |
| Other financial expenses | 62 | 4 |
| | 62 | 6 |

Financial statements 1 January - 31 December

Notes to the financial statements

4 Property, plant and equipment

| DKK'000 | Fixtures and fittings, other plant and equipment |
|--|--|
| Cost at 1 January 2017 | 28,124 |
| Additions | 1,516 |
| Disposals | -2,293 |
| Cost at 31 December 2017 | 27,347 |
| Impairment losses and depreciation at 1 January 2017 | 21,748 |
| Depreciation | 2,838 |
| Depreciation and impairment of disposals | -1,960 |
| Impairment losses and depreciation at 31 December 2017 | 22,626 |
| Carrying amount at 31 December 2017 | 4,721 |
| Depreciated over | 3-10 years |

5 Contractual obligations and contingencies, etc.

Other financial obligations

Other rent and lease liabilities:

| DKK'000 | 2017 | 2016 |
|----------------------------|-------|-------|
| Rent and lease liabilities | 3,113 | 1,704 |

6 Collateral

The Company has not provided any security or other collateral in assets at 31 December 2017.

7 Related parties

Information about consolidated financial statements

| Parent | Domicile |
|--------------------------|------------------------------------|
| Smith&Nephew USD Limited | 15 Adam Street, London WC2N 6LA |

Ownership

The following shareholders are registered in the Company's register of shareholders as holding minimum 5% of the votes or minimum 5% of the share capital:

| Name | Domicile |
|--------------------------|---------------------------------|
| Smith&Nephew USD Limited | 15 Adam Street, London WC2N 6LA |

