Smith & Nephew A/S
Slotsmarken 14, st.
2970 Hørsholm

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www.smith-nephew.com/danmark/

Smith & Nephew A/S

Annual report 2015

The annual report was presented and approved at the Company's annual general meeting

on June 21st 20 16

chairman

CVR no. 26 02 00 50
1577_1

Contents

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Smith & Nephew A/S for the financial year 1 January – 31 December 2015.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2015 and of the results of the Company's operations for the financial year 1 January – 31 December 2015.

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 should be approved at the annual general meeting.

Hørsholm, 20 June 2016
Executive Board:

Birgit Kirstine Ölmestig

Board of Directors:

Anneli Diana Charlotte Dahl Chairman	Elaine Richardson	Birgit Kirstine Ölmestig

Independent auditor's report

To the shareholder of Smith & Nephew A/S

Independent auditor's report on the financial statements

We have audited the financial statements of Smith & Nephew A/S for the financial year 1 January – 31 December 2015. The financial statements comprise accounting policies, income statement, balance sheet and notes. The financial statements are prepared in accordance with the Danish Financial Statements Act.

Management's responsibility 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 that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2015 and of the results of the Company's activities for the financial year 1 January – 31 December 2015 in accordance with the Danish Financial Statements Act.

Statement on the Management's review

In accordance with the Danish Financial Statements Act, we have read the Management's review. We have not performed any further procedures in addition to the audit of the financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the financial statements.

Copehagen, 20 June 2016
KPMG
Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Kenn W. Hansen
State Authorised
Public Accountant

Management's review

Company details

Smith & Nephew A/S
Slotsmarken 14, st.
2970 Hørsholm

Telephone:	+45 45 80 61 00
Website:	www.smith-nephew.com/danmark/
E-mail:	sn.dk@smith-nephew.com
CVR no.:	26 02 00 50
Established:	4 May 2001
Registered office:	Hørsholm
Financial year:	1 January – 31 December

Board of Directors

Anneli Diana Charlotte Dahl (chairman)
Elaine Richardson
Birgit Kirstine Ölmestig

Executive Board

Birgit Kirstine Ölmestig

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Dampfærgevej 28
2100 København Ø
Denmark

Annual general meeting

The annual general meeting will be held on 20 June 2016.

Management's review

Operating review

Principal activities

The Company's main business is the sale of hospital articles in Denmark.

Development in the financial year

On 31 March 2015, the Company merged with the former subsidiary AnthroCare Danmark ApS. The Anthrocare business in Denmark was acquired in 2014 and became a subsidiary of Smith & Nephew A/S in December 2014.

At 31 December 2014, the subsidiary was recognised at cost, corresponding to DKK 7,350 thousand. Due to the merger, assets and liabilities have been transferred to the Company based on the carrying amounts in ArthroCare Danmark A/S (pooling-of-interests method). The difference between the cost and the carrying amount of assets and liabilities in ArthroCare Danmark A/S, which amounts to DKK 7,299 thousand, has been recognised as a loss in the income statement for 2015, which is the main reason for the loss of DKK 9,144 thousand for 2015.

Further, the loss for 2015 is negatively impacted by changing market conditions and price pressure. For 2016, the Company will continue the strategy of developing the market with high-quality products.

Subsequent events

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

Accounting policies

The annual report of Smith & Nephew A/S for 2015 has been presented in accordance with the provisions applying to reporting class B entities under the Danish Financial Statements Act.

For 2015, the Company has decided to change the presentation in the income statement. Costs are now classified by nature instead of by function. Comparative figures for 2014 have been restated accordingly.

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

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates 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, payables and other monetary items denominated in foreign currencies are translated at the exchange rates 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 latest financial statements is recognised in the income statement as financial income or financial

Income statement

Revenue

Income from the sale of goods and finished goods is recognised in revenue when delivery and transfer of risk to the buyer have taken place, and the income may be reliably measured and 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 granted are deducted from revenue.

Gross profit

In the income statement, revenue, production costs and other operating income have been aggregated into "gross margin", in accordance with section 32 of the Danish Financial Statements Act.

Financial statements 1 January – 31 December

Accounting policies

Staff costs

Staff costs comprise wages and salaries, including holiday allowance, pension and other social security costs, etc., to the Company's employees, excluding reimbursements from public authorities.

Other operating costs

Other operating costs comprise items secondary to the activities of the entities, including losses on the disposal of property, plant and equipment.

Financial income and expenses

Financial income and expenses comprise interest income and expense, gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Dividends from equity investments in group entities at cost are recognised as income in the income statement in the financial year when the dividends are declared. To the extent that the dividends exceed the accumulated earnings after the acquisition date, the dividends are recognised as a reduction of the cost of the equity investment.

Tax on profit/loss for the year

Tax for the year comprises current tax for the year and changes in deferred tax, including changes in tax rates. The tax expense relating to the profit/loss for the year is recognised in the income statement at the amount attributable to the profit/loss for the year and directly in equity at the amount attributable to entries directly in equity.

Balance sheet

Property, plant and equipment

Leasehold improvements and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use.

Financial statements 1 January – 31 December

Accounting policies

The basis of depreciation is cost less any projected residual value after the end of the useful life. Depreciation is provided on a straight-line basis over the estimated useful life. The estimated useful lives are as follows:

Leasehold improvements	3-5 years
Fixtures and fittings, tools and equipment	3-10 years

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

Investments

Equity investments in group entities are measured at cost. When the cost exceeds the recoverable amount, write-down is made to this lower value. The cost is reduced by dividends received exceeding accumulated earnings after the acquisition date.

Impairment of non-current assets

The carrying amount of property, plant and equipment as well as equity investments in group entities is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the forecast net cash flows from the use of the asset or the group of assets, including forecast net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

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 costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

Financial statements 1 January – 31 December

Accounting policies

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses where there is an objective indication that a receivable or a portfolio of receivables has been impaired. If there is an objective indication that an individual receivable has been impaired, write-down is made on an individual basis.

Prepayments

Prepayments comprise prepayment of costs incurred relating to subsequent financial years.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term marketable securities with a term of three months or less which are easily convertible into cash and which are subject to only an insignificant risk of changes in value.

Equity

Dividends

Proposed dividends are recognised as a liability at the date on which they are adopted at the annual general meeting (declaration date). The expected dividend payment for the year is disclosed as a separate item under equity.

Corporation tax and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities measured on the planned use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation within the foreseeable future; either as a set-off against tax on future income or as a set-off against deferred tax liabilities. Any deferred net assets are measured at net realisable value.

Financial statements 1 January – 31 December

Accounting policies

Deferred tax is measured in accordance with 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. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement or equity, respectively.

Liabilities other than provisions

Financial liabilities are recognised at the date of borrowing at cost, corresponding to the proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost, corresponding to the capitalised value using the effective interest rate. Accordingly, the difference between cost and the nominal value is recognised in the income statement over the term of the loan together with interest expenses.

Other liabilities are measured at net realisable value.

Financial statements 1 January – 31 December

Income statement

DKK'000	Note	2015	2014
Gross profit		29,741	28,987
Staff costs	1	-27,768	-25,138
Depreciation	2	-4,235	-712
Ordinary operating profit/loss		-2,262	3,137
Other operating expenses		-511	-4
Operating profit/loss	5	-2,773	3,133
Loss on shares in subsidiary		-7,299	0
Financial income		3	2
Financial expenses		-11	-2
Profit/loss before tax		-10,080	3,133
Tax on profit/loss for the year	3	936	-858
Profit/loss for the year		-9,144	2,275

Proposed profit appropriation/distribution of loss		
Retained earnings	-9,144	2,275
	-9,144	2,275

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	2015	2014
ASSETS			
Non-current assets			
Property, plant and equipment	4		
Leasehold improvements		0	0
Fixtures and fittings, tools and equipment		7,206	1,343
		7,206	1,343
Investments			
Investments in subsidiary	5	0	7,350
Other receivables		534	501
		534	7,851
Total non-current assets		7,740	9,194
Current assets			
Inventories			
Raw materials and consumables		4,278	9,422
		4,278	9,422
Receivables			
Trade receivables		15,474	13,776
Receivables from group entities		2,727	891
Deferred tax asset		1,274	301
Corporation tax receivable		134	0
Other receivables		148	279
Prepayments		412	283
		20,169	15,530
Cash at bank in and in hand		2,683	6,960
Total current assets		27,130	31,912
TOTAL ASSETS		34,870	41,106

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	2015	2014
EQUITY AND LIABILTIES			
Equity	6		
Share capital		6,250	6,250
Retained earnings		13,604	22,748
Total equity		19,854	28,998
Liabilities			
Current liabilities			
Trade payables		983	1,331
Payables to group entities		6,409	1,747
Corporation tax payable		0	518
Other payables		7,624	8,512
		15,016	12,108
Total liabilities other than provisions		15,016	12,108
TOTAL EQUITY AND LIABILITIES		34,870	41,106

Contractual obligations, contingencies, etc.	7
Related party disclosures	8

Financial statements 1 January – 31 December

Notes

	DKK'000	2015	2014
1	**Staff costs**		
	Wages and salaries, etc.	25,522	23,066
	Pensions	1,996	1,861
	Other social security costs	250	211
		27,768	25,138
2	**Depreciation**		
	Depreciation of property, plant and equipment	4,235	712
3	**Tax on profit/loss for the year**		
	Current tax	0	814
	Deferred tax	-973	44
	Adjustment regarding prior year	37	0
		-936	858

Financial statements 1 January – 31 December

Notes

4 Property plant and equipment

DKK'000	Leasehold improve-ment	Fixtures and fittings, tools and equipment	Total
Cost at 1 January 2015	501	12,256	12,757
Addition from merger, etc.	0	3,446	3,446
Additions	0	9,042	9,042
Disposals	0	-93	-93
Cost at 31 December 2015	501	24,651	25,152
Depreciation and impairment losses at 1 January 2015	-501	-10,913	-11,414
Addition from merger, etc.	0	-2,375	-2,375
Depreciation for the year	0	-4,235	-4,235
Disposals	0	78	78
Depreciation and impairment losses at 31 December 2015	-501	-17,445	-17,946
Carrying amount at 31 December 2015	0	7,206	7,206

5 Investments in subsidiary

The former subsidiary (wholly-owned) ArthroCare Danmark A/S was merged into Smith & Nephew A/S in 2015.

At 31 December 2014, the subsidiary was recognised at cost, corresponding to DKK 7,350 thousand. Assets and liabilities have been transferred based on the carrying amounts in ArthroCare Danmark A/S (pooling-of-interests method).

The difference between the cost and the carrying amount of assets and liabilities in ArthroCare Danmark A/S, which amounts to DKK 7,299 thousand, has been recognised as a loss in the income statement for 2015.

Financial statements 1 January – 31 December

Notes

6 **Equity**

DKK'000	Share capital	Retained earnings	Total
Balance at 1 January 2015	6,250	22,748	28,998
Distribution of loss for the year	0	-9,144	-9,144
Balance at 31 December 2015	6,250	13,604	19,854

The share capital consist of 12,500 shares of nom. DKK 500 each. All shares rank equally. There has been no changes in the share capital during the past five years.

7 **Contractual obligations, contingencies, etc.**

Contingent liabilities

The Company has a rental commitment for rent and lease obligations at a total amount of DKK 2,147 thousand (2014: 2,752 thousand).

8 **Related party disclosures**

Ownership

The following shareholder is registered in the Company's register of shareholders as holding a minimum of 5% of the voting rights or a minimum of 5% of the share capital:

Smith & Nephew USD Limited
15 Adam Street
London WC2N 6LA
England

The consolidated financial statements can be obtained at request at the company.

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Smith & Nephew A/S

Long-form audit report dated 20 June 2016 in respect of the financial statements for 2015

1578_1

Contents