

Smith & Nephew A/S

Slotsmarken 14 st., 2970 Hørsholm

CVR no. 26 02 00 50

Annual report 2019

Approved at the Company's annual general meeting on 29 May 2020

Chairman:



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Anneli Diana Charlotte Dahl

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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 2019.

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 2019 and of the results of the Company's operations for the financial year 1 January - 31 December 2019.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

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

Hørsholm, 29 May 2020
Executive Board:


Gary Neil Lancaster
Director

Board of Directors:


Anneli Diana Charlotte Dahl
Chairman


Jytte Birgit Madsen


Gary Neil Lancaster

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 2019, 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 2019, and of the results of the Company's operations for the financial year 1 January - 31 December 2019 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.

Independent auditor's report

- 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.

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, 29 May 2020

KPMG

Statsautoriseret Revisionspartnerselskab

CVR no. 25 57 81 98



Kenn Wolff Hansen
State Authorised Public Accountant
mne30154

Management's review

Company details

Name	Smith & Nephew A/S
Address, Postal code, City	Slotsmarken 14 st., 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 Jytte Birgit Madsen Gary Neil Lancaster
Executive Board	Gary Neil Lancaster, Director
Auditors	KPMG Statsautoriseret Revisionspartnerselskab Dampfærgevej 28, 2100 København Ø

Management's review

Financial highlights

DKK'000	2019	2018	2017	2016	2015
Key figures					
Gross profit	34,149	37,717	36,885	44,531	29,738
Profit before interest and tax (EBITA)	5,211	6,078	4,311	11,239	-2,773
Operating profit/loss	5,236	6,133	4,310	11,239	-2,773
Net financials	0	-1	-62	-5	-8
Profit for the year	3,990	4,705	3,288	9,673	-9,144
Financial ratios					
Total assets	56,022	64,864	43,397	42,378	49,254
Investment in property, plant and equipment	3,076	2,626	1,516	3,971	765
Equity	41,510	37,520	32,815	29,527	19,854
Financial ratios					
Equity ratio	74.1%	57.8%	75.6%	69.7%	40.3%
Return on equity	10.1%	13.4%	10.5%	39.2%	-37.4%
Average number of employees	29	31	35	37	36

Financial ratios are calculated in accordance with the Danish Finance Society's recommendations. For terms and definitions, please see the accounting policies.

Management's review

Business review

The Company's main business is selling of medical devices in Denmark within Orthopaedic, Endoscopy as well as Advanced Wound Care. The products are mainly manufactured within the Smith and Nephew group outside in other countries outside Denmark.

Financial review

The income statement for 2019 shows a profit of DKK 3,990 thousand against a profit of DKK 4,705 thousand last year, and the balance sheet at 31 December 2019 shows equity of DKK 41,510 thousand.

Special risks

The company are buying the main part of goods in local currency from foreign intercompany vendors. The exchange risk that has previously been identified as a risk factor has therefore been reduced. Operating in a tender driven highly competitive market there is always a price risk that are supervised closely. Smith & Nephew has well established routines and a pricing organisation that follows the market and competitors closely to manage the price risk.

Impact on the external environment

The company's activities have no significant impact on the external environment.

Research and development activities

All research and development activities are performed by other Smith & Nephew group companies.

Events after the balance sheet date

Overall it is too early to determine the impact of the COVID-19 pandemic on the Company but currently there is a significant decline in all but the most urgent surgical procedures which will result in a substantial decrease in the Company's 2020 first half revenue and profit compared to the first half of 2019. The Company has initiated cost saving measures to mitigate this impact.

It is difficult to determine how long the situation will last, the speed of normalisation thereafter, and the timing of catch-up of postponed procedures. However, the Company operates in markets with strong growth fundamentals and will be ready to meet demand once the situation normalises. Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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

Outlook

Due to the situation with COVID-19 described in the section Subsequent events the expectation is a decrease in revenue for year 2020. The company has implemented mitigating factors and cost savings however we have not reduced our workforce as a result of this. We strongly believe in building the organisation to be well prepared in the recovery phase to be able to support our customers and patients in the best way possible.

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2019	2018
	Gross profit	34,149	37,717
2	Staff costs	-26,688	-28,871
3	Depreciation of property, plant and equipment	-2,226	-2,712
	Other operating expenses	-24	-56
	Profit before net financials	5,211	6,078
	Financial expenses	0	-1
	Profit before tax	5,211	6,077
4	Tax for the year	-1,221	-1,372
	Profit for the year	3,990	4,705

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2019	2018
	ASSETS		
	Fixed assets		
5	Property, plant and equipment		
	Fixtures and fittings, other plant and equipment	5,237	4,576
		<u>5,237</u>	<u>4,576</u>
	Investments		
	Deposits	531	515
		<u>531</u>	<u>515</u>
	Total fixed assets	<u>5,768</u>	<u>5,091</u>
	Non-fixed assets		
	Inventories		
	Finished goods and goods for resale	3,353	2,434
		<u>3,353</u>	<u>2,434</u>
	Receivables		
	Trade receivables	12,267	12,206
	Receivables from group enterprises	28,641	40,402
6	Deferred tax assets	799	952
	Corporation tax receivable	109	0
	Other receivables	69	71
7	Prepayments	38	59
		<u>41,923</u>	<u>53,690</u>
	Cash	<u>4,978</u>	<u>3,649</u>
	Total non-fixed assets	<u>50,254</u>	<u>59,773</u>
	TOTAL ASSETS	<u>56,022</u>	<u>64,864</u>

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2019	2018
	EQUITY AND LIABILITIES		
	Equity		
8	Share capital	6,250	6,250
	Retained earnings	35,260	31,270
	Total equity	41,510	37,520
	Liabilities other than provisions		
9	Non-current liabilities other than provisions		
	Other payables	926	0
		926	0
	Current liabilities other than provisions		
	Trade payables	1,832	1,346
	Payables to group enterprises	3,563	16,213
	Corporation tax payable	0	293
	Other payables	8,191	9,492
		13,586	27,344
	Total liabilities other than provisions	14,512	27,344
	TOTAL EQUITY AND LIABILITIES	56,022	64,864

- 1 Accounting policies
- 10 Contractual obligations and contingencies, etc.
- 11 Collateral
- 12 Related parties

Financial statements 1 January - 31 December

Statement of changes in equity

Note	DKK'000	Share capital	Retained earnings	Total
	Equity at 1 January 2018	6,250	26,565	32,815
13	Transfer, see "Appropriation of profit"	0	4,705	4,705
	Equity at 1 January 2019	6,250	31,270	37,520
13	Transfer, see "Appropriation of profit"	0	3,990	3,990
	Equity at 31 December 2019	6,250	35,260	41,510

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Smith & Nephew A/S for 2019 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to medium-sized reporting class C entities.

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

Omission of a cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act, no cash flow statement is prepared for the parent company, as its cash flows are reflected in the consolidated cash flow statement.

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

The Company has chosen IAS 18 as interpretation for revenue recognition.

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 profit

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

Other operating expenses

Other operating expenses comprise items of a secondary nature relative to the Company's core activities, including 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

Depreciation is based on the residual value of the asset and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the acquisition date and are reassessed annually. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.

In the case of changes in the depreciation period or the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Financial expenses

Financial expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest expenses, exchange rate gains and losses, 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.

Investments

Deposits are measured at amortised cost.

Leases

The Company has chosen IAS 17 as interpretation for classification and recognition of leases.

Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operating leases. Payments relating to operating leases and any other rent agreements are recognised in the income statement over the term of the lease. The Company's aggregate liabilities relating to operating leases and other rent agreements are disclosed under "Contingent liabilities".

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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Receivables

Receivables are measured at amortised cost.

The Company has chosen IAS 39 as interpretation for impairment of financial receivables.

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.

Receivables in respect of which there is no objective evidence of individual impairment are tested for objective evidence of impairment on a portfolio basis. The portfolios are primarily based on the debtors' domicile and credit ratings in line with the Company's risk management policy. The objective evidence applied to portfolios is determined based on historical loss experience.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

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.

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. 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.

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

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Financial ratios

The financial ratios stated under "Financial highlights" have been calculated as follows:

Operating profit/loss	Profit/loss before financial items adjusted for other operating income and other operating expenses
Equity ratio	$\frac{\text{Equity, year-end} \times 100}{\text{Total equity and liabilities, year-end}}$
Return on equity	$\frac{\text{Profit/loss after tax} \times 100}{\text{Average equity}}$

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2019	2018
2 Staff costs		
Wages/salaries	24,590	26,629
Pensions	1,823	1,925
Other social security costs	275	317
	<u>26,688</u>	<u>28,871</u>
Average number of full-time employees	<u>29</u>	<u>31</u>
By reference to section 98b(3), (ii), of the Danish Financial Statements Act, remuneration to Management is not disclosed.		
3 Depreciation of property, plant and equipment		
Depreciation of property, plant and equipment	2,226	2,712
	<u>2,226</u>	<u>2,712</u>
4 Tax for the year		
Estimated tax charge for the year	1,061	1,326
Deferred tax adjustments in the year	153	47
Tax adjustments, prior years	7	-1
	<u>1,221</u>	<u>1,372</u>
5 Property, plant and equipment		
DKK'000	Fixtures and fittings, other plant and equipment	
Cost at 1 January 2019	29,605	
Additions	3,076	
Disposals	<u>-3,197</u>	
Cost at 31 December 2019	<u>29,484</u>	
Impairment losses and depreciation at 1 January 2019	25,029	
Depreciation	2,226	
Reversal of accumulated depreciation and impairment of assets disposed	<u>-3,008</u>	
Impairment losses and depreciation at 31 December 2019	<u>24,247</u>	
Carrying amount at 31 December 2019	<u>5,237</u>	
Depreciated over	<u>3-10 years</u>	

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2019	2018
6 Deferred tax assets		
Deferred tax at 1 January	-955	-999
Adjustments for the year	156	47
Deferred tax at 31 December	-799	-952
Deferred tax relates to:		
Property, plant and equipment	-799	-952
	-799	-952

The company expects to be able to utilize the tax asset in the foreseeable future, based on the company's expectation of future results.

7 Prepayments

Prepayments include accrual of expenses relating to subsequent financial years, including insurance policies, DKK 38 thousand.

8 Share capital

Analysis of the share capital:

12,500 shares of DKK 500.00 nominal value each	6,250	6,250
	6,250	6,250

The Company's share capital has remained DKK 6,250 thousand in the past year.

9 Non-current liabilities other than provisions

DKK'000	Total debt at 31/12 2019	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Other payables	926	0	926	0
	926	0	926	0

Other payables consists of accrued vacation in accordance with LBK nr. 1025 of 4 October 2019. It is the company's expectation that the debt will be paid to Feriefonden in 2021.

10 Contractual obligations and contingencies, etc.

Other financial obligations

Other rent and lease liabilities:

Rent and lease liabilities	2,381	2,467
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11 Collateral

The Company has not provided any security or other collateral in assets at 31 December 2019.

Financial statements 1 January - 31 December

Notes to the financial statements

12 Related parties

Smith & Nephew A/S' related parties comprise the following:

Parties exercising control

Related party	Domicile	Basis for control
Smith&Nephew USD Limited	Building 5, Croxley Park Hatters Lane Watford Hertfordshire WD18 8YE United Kingdom	Immediate parent company
Smith & Nephew Plc.	Building 5, Croxley Park Hatters Lane Watford Hertfordshire WD18 8YE United Kingdom	Ultimate parent company

Information about consolidated financial statements

Parent	Domicile	Requisitioning of the parent company's consolidated financial statements
Smith & Nephew Plc.	Building 5, Croxley Park Hatters Lane Watford Hertfordshire WD18 8YE United Kingdom	www.smith-nephew.com
Smith&Nephew USD Limited	Building 5, Croxley Park Hatters Lane Watford Hertfordshire WD18 8YE United Kingdom	www.smith-nephew.com

Related party transactions

Smith & Nephew A/S was engaged in the below related party transactions:

DKK'000	2019	2018
Sale of goods and services to group entities	1,438	1,473
Purchase of goods and services from group entities	57,425	52,933
Management fee from group entities	2,587	615
Receivables from group entities	28,641	40,402
Payables to group entities	3,563	16,213

13 Appropriation of profit

Recommended appropriation of profit
Retained earnings

3,990	4,705
3,990	4,705