ANNUAL REPORT

The journey back to profitable growth

arjo

with people in mind

This is Arjo

Our work is based on genuine care for human health and well-being, and contributes to a sustainable healthcare system – always with people in mind.

Arjo is a global supplier of medical devices and solutions that improve quality of life for people with reduced mobility and age-related health challenges.

We create value by contributing to improved clinical outcomes for patients and enabling a better work environment for healthcare professionals. We thereby contribute to an efficient healthcare process and sustainable healthcare system.

Our main customers are private and public institutions providing acute and long-term care. Our offering includes products and solutions for patient handling, hygiene, disinfection, prevention of pressure injuries and deep vein thrombosis, and diagnostics. We also offer medical beds and services including training in connection to product sales.

IMPROVED PRODUCTIVITY
– for customers

BETTER WORK ENVIRONMENT
– for healthcare professionals

ENHANCED QUALITY
– for patients and residents

EVEN SAFER CARE
– for the future

>6,000
Employees worldwide

>100
Number of countries in which Arjo sells products and services

8,217
Net sales, SEK M

Table of contents

The formal Annual Report comprises pages 42–96. The statutory sustainability report and the sustainability report is presented on pages 26-39. Please note that the official audited version of the annual report is the Swedish version.

2018 in brief

+21%

STRONG SHARE PRICE TREND
During Arjo's first year as a stock listed company, the value of the share increased by 21%.

USA
+4.1%

POSITIVE TREND REVERSAL IN THE US

The US turnaround plan is a key part of the Arjo 2020 business plan and, after a long period of declining growth, the US experienced an organic growth of 4.1% in 2018.

Read more about the Arjo 2020 plan on pages 8–9.

SALES COMPANIES IN JAPAN, CHINA AND LATIN AMERICA

During the year, we established proprietary sales companies in Japan, China and Latin America – all key markets for the Group's expansion in emerging markets.

NEW SOLUTIONS TO REDUCE WORK-RELATED INJURIES

During the year, we launched IndiGo, a new, intuitive transportation assistance system developed to reduce the ergonomic risk factors for healthcare professionals in conjunction with the transfer of medical beds. Medical beds are becoming heavier, with many weighing close to 200 kg without patients. In addition, patients are becoming heavier, now with an average weight of approximately 90 kg, meaning that it can be very heavy and strenuous work to move a modern medical bed with a patient in it.

Read more about the importance of ergonomic solutions for healthcare professionals on page 16.

ACQUISITION OF RENU MEDICAL

During the year, ReNu Medical was acquired, a US company specializing in green reprocessing for single use medical devices in areas such as DVT. This acquisition strengthens the Group's existing offering and opens up new business opportunities in a growing market, in which sustainability is becoming an increasingly important element.

MDSAP-CERTIFICATION ACHIEVED WITH GOOD RESULTS

Arjo successfully obtained its MDSAP-certification in October 2018, and this establishes that we comply with the requirements to sell medical devices in US, Canada, Australia, Japan and Brazil.

Read more on pages 32-33.

10,000 SARA STEDY PRODUCED DURING THE YEAR

The Sara Stedy patient lift is one of Arjo's best-selling products and during the year, 10,000 Sara Stedy units were produced at the Group's plant in Magog, Canada.

KEY PERFORMANCE MEASURES

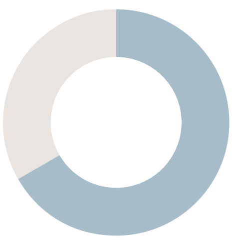
	2018	2017
Net sales, SEK M	8,217	7,688
Organic growth in sales, %	3.0	-1.6
EBITDA growth, %	18.4	-35.1
Adjusted EBITDA[1]	1,312	1,246
Adjusted EBITDA margin, %	16.0	16.2
Cash conversion	84.0	57.4
Equity/assets ratio, %	41.3	41.6
Net profit for the period, SEK M	296	118
Earnings per share, SEK[2]	1.09	0.43
Number of shares, thousands	272,370	272,370
Dividend per share, SEK[3]	0.55	0.50

1) Before items affecting comparability. 2) Before and after dilution. 3) Dividend proposed by the Board of Directors.

"During 2018, we have continued laying the foundation for sustainable business acumen by training the organization in our Code of Conduct and what it means to conduct business in an ethical and responsible manner."

Joacim Lindoff, President & CEO Arjo

SALES PER CUSTOMER SEGMENT

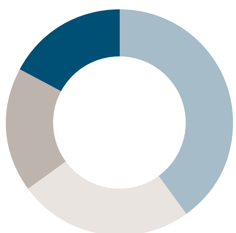


Acute care, 67 %
Long-term care, 33%

SALES PER GEOGRAPHY

Western Europe, 50%
North America, 37%
Rest of the World, 13%

SALES PER SERVICE TYPE



Capital goods, 40%
Rental, 25%
Disposables, 18%
Service, 17%

ARJO'S FINANCIAL TARGETS 2018-2020

Target: 2-4%
sales growth

Average organic sales growth of 2-4% per year.

Outcome: 3%

Organic net sales rose by 3.0% (-1.6) in 2018, primarily driven by the strong performance in the Group's largest markets, US and the UK.

Goal: >10%
profitability growth

Average reported EBITDA growth of more than 10% per year.

Outcome: 18.4%

EBITDA increased by 18.4%. The positive trend relates to higher sales and lower costs.

Goal: >70%
cash conversion

Cash conversion of more than 70%.

Outcome: 84%

Cash conversion amounted to 84.0% (57.4) for the whole year, driven by strong growth and continued focus on working capital.

The year we brought Arjo back to growth

2018 was Arjo's first year as an independent and listed company. This journey has had a strong start, with an organic sales growth of 3% and a significant improvement in profitability. Several important steps were taken to further strengthen the company's position and establish Arjo as an even stronger partner to customers in both acute and long-term care.

Joacim Lindoff, President & CEO – what contributed to 2018 being such a successful year for Arjo?

The primary reason is definitely that, as an independent company, we have had full focus on Arjo's core operations. Early in this journey, we set a clear direction for the company with our Arjo 2020 plan, which has created a positive momentum in the entire organization. One of the most important aspect of the plan is to turn around our business in the US market. The US is our single largest market and represents nearly 30% of sales. As part of the US turnaround plan, we implemented a number of measures that have led to positive impacts and that contributed to the company growing by 3% organically as a whole during the year.

What other key events would you like to highlight?

The UK is another important market for us. The UK National Health Services' (NHS) low levels of investment in healthcare over a prolonged period have led to a slowdown for us in the UK. At the beginning of the year, we developed an action plan to address and overcome the challenges in the UK market, which generated positive results during the year. We are continuing our work to stabilize the UK in the long term.

Overall, we have seen positive sales trends during the year – in both mature and emerging markets. We have established our own sales companies in several key markets, including China and Japan.

We have continued concentrating our operations to the core areas where we are strongest. One of the decisions made during the year was to divest Acare, our business for low-specification medical beds. The Acare transaction was finalized during the first quarter of 2019. We will now focus on retaining and further strengthening our positions in the premium segment for medical beds, where we already hold strong market positions and where profitability is considerably better.

We have also proceeded working towards ensuring high quality and compliance. Adapting our operations to the new MDR regulation has progressed with good results and is highly prioritized on our agenda.

The global population is becoming increasingly older and healthcare challenges are growing. How do you view Arjo's role in this development?

We have an important role in helping shape the healthcare of the future. This is primarily done within three areas: ensuring efficiency in the care process, offering healthcare providers solutions that enable them to gain more-for-less, and continuously improving clinical outcomes. For example, we put a lot of effort into reducing the risk of care-related injuries – partly to reduce pressure on the healthcare systems and partly to reduce the suffering of those who risk being affected.

Dementia is another major challenge for the healthcare systems of today and tomorrow. Today, about 60% of residents in long-term care live with some form of dementia, and global demographic trends indicate that this issue is expected to increase significantly in the next few years. Here, we can see extensive opportunities to use our products, experience, and knowledge to contribute to better and more effective dementia care.

We can also see that our customers are increasingly requesting solutions for preventive care. We offer a number of solutions that improve the utilization of resources today, and have a great focus in this area.

What is Arjo's main contribution to sustainability?

During the year, we focused on defining Arjo's sustainability agenda and the way in which we will contribute to sustainable development moving forward. You can read more about this on page 26.

In July, we acquired the US company ReNu Medical, which specializes in green

Success factors in 2018

- Focus on the core business as an independent company
- Commercial excellence
- Great commitment in the organization

> We hold leading positions in the areas in which we operate and we are actively looking at acquisitions and other investments, including partnerships in innovation, to further strenghten our competitiveness."

medical reprocessing of single use medical devices. This market is experiencing rapid growth, especially in the US where we see an increased demand from our customers for these types of solutions. With ReNu Medical, we are taking an important step in our commitment to contribute to sustainable development.

During 2018, we have continued laying the foundation for sustainable business acumen by training the organization in our Code of Conduct and what it means to conduct business in an ethical and responsible manner. In this work, we place particular importance on high-risk markets, and have trained our distributors in this area as well.

How would you like to summarize your first year as a listed company? And what happens moving forward?

The organization has done a fantastic job and I am incredibly proud of the progress we have made in our first year as an independent company. Arjo has always had competent and committed employees, and as an standalone company, we are becoming even stronger. We now have a 100% focus on Arjo's business, and exactly as we predicted when Arjo was separated from Getinge, this is generating results. Already in the first year, we exceeded our financial targets, which is of course very satisfying.

The US remains an important market and will remain a priority in 2019. Overall, our focus on long-term care will gradually bring results, and we will continue to invest in our sales organization and in product development.

We are continuing to build a strong Arjo where decisions are made as close to the customer as possible.

Arjo holds leading positions in the areas in which we operate and we are actively looking at acquisitions and other investments, including partnerships in innovation, to further strengthen our competitiveness.

Finally, I would like to thank my committed colleagues for this year. During 2018, we have proven that Arjo is and will be even stronger as a standalone company, and I look forward to a continued exciting and successful journey.

Global megatrends drive the market

Demographic changes, digitalization and the shift from acute care to long-term care are some of the global trends that impact the demand for Arjo's products and services. However, several other global megatrends will govern market conditions for the global healthcare industry in the next few years.

SEK 68 BILLION

The global market that Arjo addresses amounted to approximately SEK 68 billion in 2018.*

Demographics

More care at a lower cost

The global trend of population growth combined with longer life expectancy means that the number of elderly people in the world will rise sharply. We can also see a clear increase in lifestyle-related diseases, such as obesity and various types of cardiovascular diseases. According to the World Health Organization (WHO), the percentage of bariatric adults in the US increased from 25% to 34% in 2000-2014.** Healthcare spend will increase considerably for society and this trend is generating continued growth in demand for acute and elderly care-related services and products.

Digitalization

Digitalization in all areas

Today, digital technology can be found in all parts of the healthcare value chain. Mobile use has driven the digital development in recent years and is being increasingly integrated into healthcare, both as a source of information and as a key tool in decision-making processes. Automation in the healthcare sector is primarily being achieved through the introduction of IT systems for processes and functions. An increasing number of products are also being connected in order to gather data and improve diagnostics, among other things. This demographic trend places demands on effective solutions that enable a shift from traditional reactive care to proactive care.

Sustainability

Strategic sustainability efforts for increased competitiveness

In recent decades, attention has increasingly been directed to the issues of climate change, environmental impact and corporate social responsibility. Assuming active responsibility for contributing to sustainable development is a prerequisite for a global company. At the same time, the strategic sustainability efforts must be conducted in a financially sustainable manner to ensure long-term earnings capacity and strengthen the company's competitiveness. This also has a positive impact on the ability to attract and retain both customers and employees. Product safety is a basic requirement and must permeate a medical device business.

*Economist Intelligence Unit, 2017 **WHO, 2017 ***Eurostat

Changes in healthcare

Transition from acute to long-term care

With a growing population and an expanding proportion of elderly people, further demands are being placed on healthcare and healthcare providers are forced to deliver more care with fewer resources. The average total cost of a bed in an acute care unit is often significantly higher compared to a bed in a long-term care facility. To reduce costs, healthcare providers strive to reduce the patients' medical care time in acute care units. As a result, patients who require care over a longer period are increasingly being moved to long-term care facilities and home care, where the cost per day and per patient is significantly lower.

Increased welfare in emerging markets

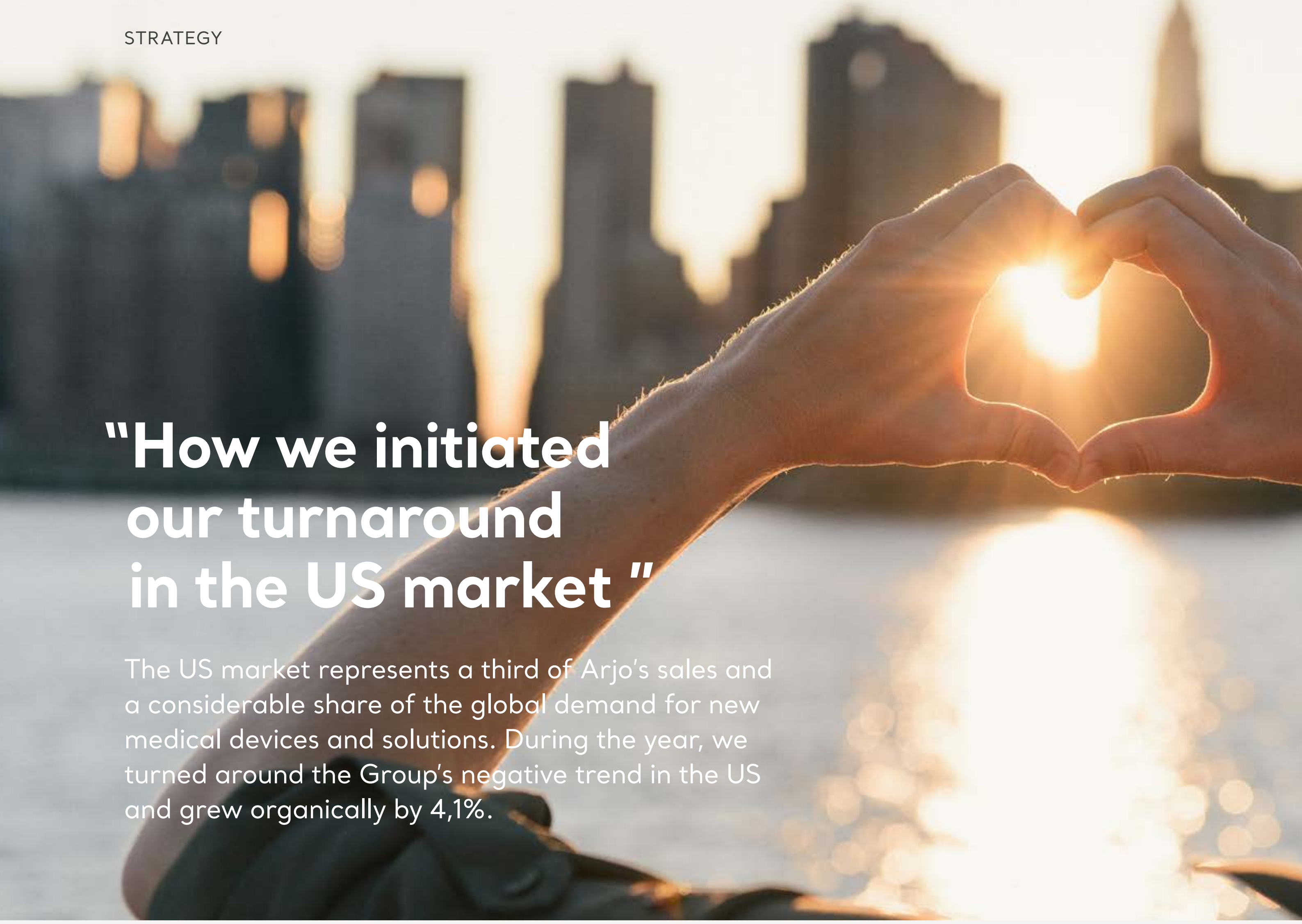
Welfare development results in expanded healthcare

The economic performance of emerging markets in recent years has enabled more and more countries to develop advanced healthcare. There is a clear, positive correlation between GDP per capita and the share of GDP spent on healthcare. Greater prosperity and a growing middle class have resulted in the often significant expansion of both private and public healthcare. Products with simpler functionality and a lower price that accelerate the expansion of healthcare are in demand. The purchasing power in emerging markets is generally lower than in mature markets, but is offset by the scope and the market growth that is expected to increase in conjunction with economic growth.

Increasing consolidation

Increasingly larger players in healthcare

The healthcare industry has undergone major changes in the past decade, partly as a result of increased consolidation. This has resulted in fewer and larger healthcare players, with purchasing increasingly controlled by central purchasing departments. In turn, this is leading to greater price pressure on suppliers and difficulties for smaller players to offer the extensive portfolio of products and services that are in demand. Mergers and acquisitions have therefore also gained importance for medical device companies, since consolidation can generate considerable cost and revenue synergies.



"How we initiated our turnaround in the US market"

The US market represents a third of Arjo's sales and a considerable share of the global demand for new medical devices and solutions. During the year, we turned around the Group's negative trend in the US and grew organically by 4,1%.

WITHIN THE ARJO 2020 framework, we are driving activities to achieve increased commercial excellence. It was through these activities that we could reverse our trend on the US market and reach profitable growth during 2018. The US market is considered one of the most developed geographical markets and accounts for a considerable share of the global demand for new medical devices and solutions.

The healthcare market in the US is characterized by a diversified care system, in which private healthcare providers account for more than half of the market. Consolidation has increased rapidly in recent years and over 60% of hospitals today belong to a larger healthcare system, where the focus is often on increased efficiency and cost-savings.

High costs of healthcare

The costs of health and medical care in the US are on average double that of other prosperous countries, largely due to high administrative costs, higher profits in the healthcare system and high capital expenditure. A factor that further contributes to the high costs is that financial penalties are imposed on those healthcare facilities that, for example, have a high proportion of patient incidents, healthcare-related diseases or work-related injuries among personnel.

Growth-driving factors

In the US, growth is driven by the demographic trend of an aging population and increased lifestyle-related health problems. Obesity is a serious problem and 34% of the population was already affected in 2014. This figure is expected to rise to 41% in 2025, with major rising healthcare costs as a result.

Arjo's US turnaround plan

When Arjo was part of the Getinge Group, the commercial focus was primarily within acute care, although we previously had very strong market positions within long-term care in the US, which is growing at a higher pace than acute care. For a long time, we also had challenges related to rental operations and the DVT product segment in the US. Our so-called US turnaround plan was developed to address these challenges. The plan comprises five focus areas, two of which were of particular focus in 2018: reversing rental operations and making investments to regain our leading positions in long-term care.

By implementing effective processes and clear follow-up efforts, we succeeded in turning around the negative trend in the rental operations during the year to grow by over 4%.

We also made an effort to recapture leading positions in long-term care, including investing in a dedicated sales team for this area. These investments are expected to gradually have an impact in 2019 and onwards, and will help us in retaking a leading position in long-term care.

The activities in our US turnaround plan have generated highly positive results and in 2018, the Group grew organically by 4,1% in the US with increased profitability. This was also one of the main reasons that the Group as a whole grew by 3% organically during the year.

"During the year, we succeeded in turning around the trend in the US and grew by **4.1%** in this key market"

Arjo's net sales in the US amounted to SEK 2,390 M for 2018, which corresponded to 29% of the total sales. Arjo's market share in the US is 12%.

FIVE FOCUS AREAS FOR THE FUTURE

Our vision is to become the most trusted partner globally in enabling care and improving quality of life for people with reduced mobility and age-related health challenges. Arjo aims to become the market leader in long-term care, while maintaining our strong position in acute care. The ambition is also to reach a position as preferred solution provider. Our business plan comprises five overall priority areas, all of which are described below. The foundation is the focus on a sustainable and winning culture where business and people grow together.

1

Improved customer value

We ensure value creation for our customers by leading an organization focused on the unique needs of customers in acute care and long-term care. Through considerable research investments and long experience within innovation and product development, we offer solutions that contribute to more effective care, reduced care costs and improved clinical results. In this way, we help customers meet current and future demographic challenges, increased regulatory requirements, improve quality and safety for healthcare providers and patients, as well as enhance the efficiency of patient flows. In 2018, a number of new products were launched and the Group has taken steps to offer further solutions for preventative care.

2

Strengthened commercial focus

One of the initiatives to intensify Arjo's commercial focus includes increasing its market presence in both existing and new markets. We currently hold a strong position in acute care and are investing in an increased presence in long-term care. In addition to this intensified focus on long-term care, we are also working to optimize our product portfolio and sales process. Two of the most important goals in this focus area are to turn around the trend in the US and the UK. These activities have generated positive results to date, and during 2018, the Group grew organically by 4,1% in the US and 7% in the UK. We also established proprietary sales companies in Japan, China and Latin America in order to use our own sales teams for increasing market shares in these markets moving forward.

3

Increased operational agility

Arjo is working to create an agile organization with processes that enable rapid decision-making closer to the customer. This means that we can effectively meet the needs of our customers and changes in the market. We also work actively to ensure our compliance with existing regulatory requirements and strive to deliver the highest possible level of product quality and safety. During the year, several activities were conducted to optimize the Group's resources, including within finance and product development. Substantial work was also conducted to ensure that Arjo meets the requirements in the EU's new MDR regulation (Medical Device Regulation).

4

Grow the business and people together

It is the people within the organization who generate and develop the business and we have established a long-term agenda to ensure that the organization has the necessary leadership, knowledge and key skills that meets current and future business needs. This work involves succession planning, activities to promote diversity and various training programs. During the year, Arjo continued to build an organization characterized by equality and diversity. Two development programs were also conducted, one at Group level and one within Supply Chain.

5

A winning and sustainable corporate culture

The objective is to create a result-oriented organization based on Arjo's core values. Our values are united by people equality and a desire to improve other people's health and well-being. In order to create a winning and sustainable corporate culture, Arjo promotes enthusiasm, a focus on value-added solutions that generate a truly positive change for people, a culture of ownership and decision making, and in addition being a team player working towards attaining the Group's common goals.

Arjo's strong offering

– Creating value for healthcare

By contributing to improved clinical outcomes for patients and enabling a safer environment for healthcare professionals, Arjo delivers sustainable value for healthcare – always with people in mind.

THE HUMAN BODY is made to move. If mobility is reduced, a long line of negative side effects often follows. This could involve lost muscle strength, blood clots, pressure injuries, infections and an increased risk of falls, as well as despondency and depression. All of these complications cost significant amounts for healthcare and demand extensive resources, not least in the form of personnel. By early mobilization of a patient, many complications can be avoided, and thus also suffering and high costs.

For many years, Arjo has worked in close collaboration with hospitals, care homes and, in particular, healthcare professionals, giving us a unique understanding of the challenges that exist in the healthcare sector. The foundation of our offering builds on increasing quality and effectiveness by delivering the right solutions for each specific need.

Healthcare providers are assessed on three main areas: clinical outcome of care, their degree of efficiency and financial results. For personnel, it is crucial that the work environment is secure and safe. The conditions should be adapted according to the care to be provided, with the right equipment and correct training. For a patient, quality of care is essentially about quality of life.

Arjo's approach is rooted in understanding the customer's organization together with their challenges and needs, rather than providing individual products. Accordingly, we can contribute to operational advantages and financial benefits in the form of lower costs and more productive care. By tailoring solutions with proven positive results, we deliver added value for our customers, their employees and for patients.

On the following pages, we present Arjo's offering to the healthcare sector in four selected focus areas.

IMPROVED PRODUCTIVITY
– for customers

BETTER WORK ENVIRONMENT
– for healthcare professionals

ENHANCED QUALITY
– for patients and residents

EVEN SAFER CARE
– for the future

IMPROVED PRODUCTIVITY

– for customers

Arjo's operational analysis leads to a sustainable change in care processes in hospitals and care units resulting in better productivity and positive clinical outcomes. We address the core issue, not the symptoms.

FOR MORE THAN 20 YEARS Arjo has helped customers work more efficiently and, simultaneously, enable better care outcomes and work environments using a unique tool for operational analysis.

Arjo's analysis provides healthcare facilities with the tools to ensure the right working techniques, effective use of spaces, and appropriate equipment to promote patient care. The work situation of healthcare professionals is also taken into consideration. Through long-term partnerships, Arjo can contribute to a sustainable and positive change.

Our operational analysis is conducted in three steps:

1. Analysis and identification of problems and opportunities within the business
2. Implementation of solutions, including evidence-based training programs
3. Continuous follow-up, support, and change evaluation

Due to our employees' deep knowledge and our unique tool for operational analysis, we can be the partner to our customers that we want to be. With the right investments in equipment for transferring and mobilizing patients, downward health spirals can be broken and create positive domino effects. This becomes apparent in the customers' own key performance measures, where it is possible to see a clear improvement after process changes and investments in the correct equipment based on our operational analysis. In addition to improvements in productivity and clinical outcomes, a completed transformation program usually results in lower personnel turnover and increased employee satisfaction.

Currently, Arjo's operational analysis comprises, in particular, the areas of Patient Handling and Hygiene. We are currently developing similar services in other areas to be able to offer a full-scale service for the customers' overall operational requirements, regardless of size or approach.

Proven experience

20 YEARS

Arjo has conducted operational analyses for over 20 years.

Annual savings

SEK 12 M

The AMBU Health Board in the UK was able to make major savings by using Arjo's evidence-based training program.

STEP 1

Customer analysis

Arjo documents and analyzes the healthcare providers' starting situation and needs. We also review the existing equipment, the state that it is in, and how service and maintenance is conducted. Based on this, we identify risks and areas of improvement and present a transformation program tailored for the unit.

STEP 2

Implementation

A detailed implementation plan enables the often necessary cultural change in care processes and use of equipment. Arjo trains selected personnel, who, in turn, train other personnel with the aim of building up internal know-how. With the right tools and validated approach, the employees learn to safely transfer, support and take care of their patients' hygiene.

STEP 3

Follow-up and support

To ensure the results of the transformation program, Arjo conducts follow-up site visits. We evaluate the developments, measure the results and implement any adjustments to achieve the desired effects. The customer receives feedback on how well the goals have been met based on their own key performance measures.

BETTER WORK ENVIRONMENT

– for healthcare professionals

The work environment affects how the employees feel, even after working hours. Arjo has a high level of knowledge and long experience with the work flows in care environments, and offers both products and services for safe patient transfers in addition to safe, high-qualitative work for healthcare professionals.

SLIGHTLY MORE THAN 10% of all employees in the western world work within healthcare, many of whom work in hospitals and in health and care services. Research shows that healthcare professionals run a large risk of muscular and skeletal injuries in conjunction with heavy work load and frequent manual patient transfers. Heavy lifting caused one third of all occupational accidents reported in the Swedish healthcare sector between 2008 and 2013*.

Patient transfers from, for example, a horizontal to a sitting position are conducted many times per day and per patient – something that can cause work-related injuries among caregivers. The number of overweight patients has also increased in recent years, and with equipment adapted to their needs being rare, transfers are conducted manually. This increases the risk of muscular and skeletal injuries among healthcare professionals.

Medical beds are an example of equipment that is often transported over long distances between wards and can be very heavy for caregivers to handle.

The risk of back problems and muscular and skeletal injuries is a cause for labor shortage in the healthcare sector. Many healthcare workers experience that they cannot provide effective and safe care without themselves being injured or ill.

In the US, it is estimated that among the top five causes of injuries for hospital workers, nearly half are due to overexertion or related movements like lifting, bending, and reaching. Such movements are often performed during patient handling and is the single largest cause of missed work days.** Europe is also experiencing personnel shortages with the risk of worsening in the next few years, with higher costs and declining healthcare as a result.

Decision-makers in health and care services must therefore prioritize efforts to prevent work-related health issues, absence from work and early retirement. Major development activities are today being conducted to implement preventive transfer programs to prevent muscular and skeletal injuries.

Heavy lifting in the care sector

2 TONS

The amount a single healthcare provider may lift per day.***

Fewer injuries with the right equipment

40%

From a study by Pompeii et al. from 2009, 40% of work-related injuries can be prevented by using patient lifts.

*Work Environment Authority 2018
** OSHA, 2011
*** Touhy-Main, K., 1997

In addition to physical products, Arjo offers health-care workers competence development that provides a deeper understanding on how to work more safely and effectively.

Today's medical beds can weigh close to 200 kg without a patient, who themselves are also becoming increasingly heavy. With Arjo's IndiGo installed, the work burden can be reduced by up to 70% in upward movements and 60% in downward movements.

Mobile and safe with Arjo's ergonomic offering

ERGONOMICS ENTAILS adapting the work to an individual to prevent the risks of ill health and accidents. Several studies* show that implementing programs that ensure safe patient transfers using the correct equipment and training generate significant cost savings. Arjo has a high level of knowledge and long experience of the work flows in care environments, regardless of whether it is in acute care or long-term care. In addition to our physical products, Arjo offers healthcare personnel competence development that provides a deeper understanding on safe and high quality working methods.

We have, for example, prepared a set of guidelines for care facilities that are aimed at providing personnel with the appropriate conditions for carrying out their work, a higher quality of life for patients and better return on investments. In 2019, Arjo will also launch a comprehensive guide for architects and residential planners, in which we will demonstrate the value of ensuring the proper planning of spaces at an early stage, and providing guidelines for the planning and construction of, for example, new healthcare facilities.

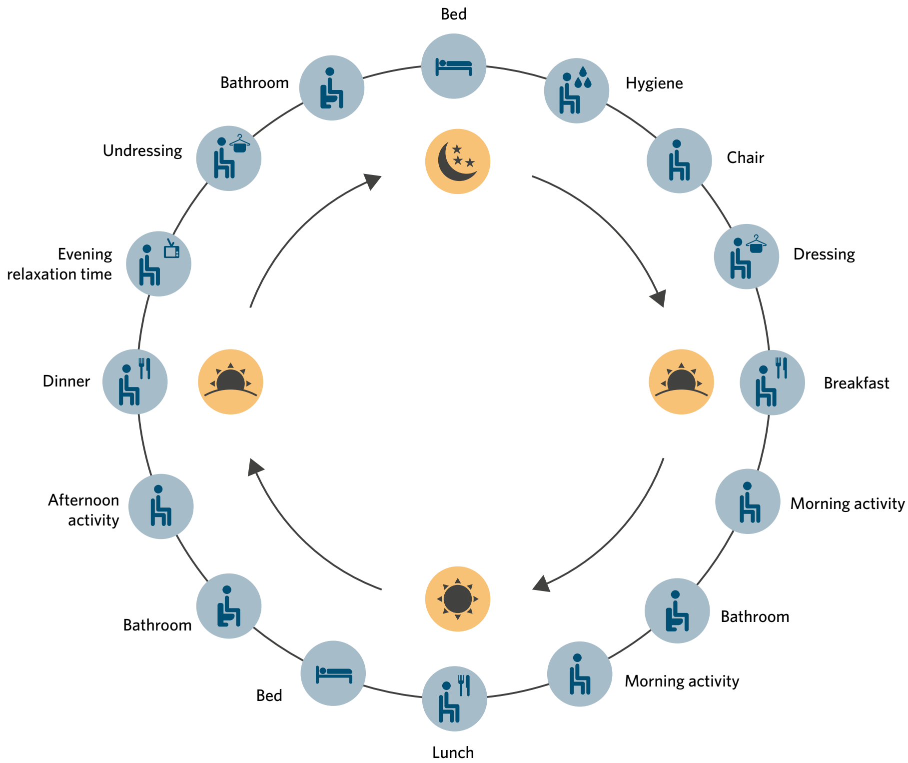
Keeping employees healthy provides a direct and measurable positive impact on healthcare efficiency. It is also crucial that those who apply for healthcare jobs remain in them and help create continuity.

High-quality equipment that is used correctly can significantly reduce the total cost of care units. The solutions Arjo offers provide healthcare facilities with better conditions to retain personnel and reduce costs for work-related injuries. In turn, this also benefits the patient, who receives safe, high quality and continuous care while maintaining dignity.

*Nelson 2008; Tomas 2009; Black 2011; Lilpscomb 2012

Our goals for implementing safe transfers and promoting mobility for patients are:

- To improve the working conditions of healthcare professionals through reduced risk of incorrect and excess lifting, and thereby reduce sick leave and associated costs.
- To ensure the patient's quality of care, safety and dignity, while reducing the risk of injury and symptoms related to restricted mobility.



The right equipment in the right place – 24 hours a day

A single patient may need help from a seated to standing position many times each day. This involves everything from getting out of bed in the morning to carrying out activities and hygiene routines. It is therefore crucial that the equipment is adapted to the specific activities and is available at the right place when required. The image above illustrates the daily life of a patient who may require assistance using different types of transfer.

HOW PATIENT TRANSFERS ARE FACILITATED

Arjo's range of transfer solutions is designed to ensure a simple and smooth care environment that is safe, comfortable and dignified for both patients and caregivers.

Transport assist solution

The intuitive drive assist solution, IndiGo, comprises a simple and smooth electric wheel that is installed under the medical bed. Using IndiGo, it is easy to move even heavy medical beds upwards and downwards, as well as maneuvering beds in tight spaces, such as in and out of elevators.

Shower and hygiene chairs

Carendo, the electric height adjustable hygiene chair, reduces static burden, saving time for healthcare professionals and making hygiene routines safer, more comfortable and more dignified for patients. The hygiene chair makes it possible for a single healthcare provider to, for example, conduct a shower procedure without stress and risk of personal injury.

Patient transfer solutions

Sara Flex is designed to facilitate daily transfers and care activities. The lift enables healthcare professionals to transfer a patient by themselves from a sitting position to a safe, secure and comfortable standing position in a manner that resembles the natural pattern of movement.

ENHANCED QUALITY

– for patients and residents

Today, about 50 million people are living with dementia, a cognitive impairment for which there is currently no cure. Nearly 10 million new cases are reported each year,* with enormous costs for society as a result. Arjo's knowledge and offering makes work easier for caregivers and improves the quality of life of those affected by dementia.

THE LIFE EXPECTANCY of the global population is increasing as a result of higher living standards and better healthcare. However, higher age also means an increased risk of developing dementia. Today, one person develops Alzheimer's every three seconds. Approximately 10 million new cases of dementia are diagnosed every year*, and every third person born in Europe will develop dementia during their lifetime.

In recent years, dementia has attracted a large amount of attention from governments and health organizations as one of the most important global challenges. Many countries in the western world have a national strategy for addressing and managing dementia. One of the challenges is to find methods for discovering dementia at an early stage, and how hospitals and healthcare facilities can be adapted to care for those living with dementia. Dementia care is filled with numerous nuances and challenging situations for caregivers, residents and family members. There is currently no cure or effective inhibitor treatment for dementia including Alzheimer's. Instead, dementia care primarily involves developing non-pharmaceutical care and supporting and facilitating possibilities for the person afflicted to live the most dignified life possible.

More than 60% of all residents in long-term care live with dementia and those affected often require considerable personnel-intensive care. At the same time, today's healthcare is not fully adapted for the needs of dementia patients in terms of care and security. At many healthcare facilities, the shortage of personnel is a major problem and the personnel often lack the appropriate expertise and know-how. Additionally, hospitals and care homes are often characterized by a high personnel turnover as a result of difficult working conditions and low levels of remuneration.

New dementia cases annually worldwide

10 MILLION

The number of people with dementia is increasing annually by 10 million*

Global cost

USD 1 TRILLION

Global dementia care is costing USD 1 trillion per year**

* WHO, 2018
**Alzheimer's Disease International, 2018

The Wellness Nordic Relax Chair offers a calming, multisensory experience through a combination of specially composed music, tactile stimulation and rocking movements. A weighted blanket and a specially designed cushion provide further comfort and give a cozy feeling that make it easier for dementia patients to find calm and relax.

Wellbeing and dignity are fundamental to dementia care

ARJO HAS A DEEP KNOWLEDGE regarding the care of elderly people. We believe that wellbeing and dignity are basic aspects for the way in which a patient experiences their care.

Dementia is one of the greatest challenges for our customers, both today and moving forward. It will have a major impact on how healthcare will be structured in the future, particularly in long-term care. We have developed products and solutions for the care of persons with age-related health challenges over a number of years, many of which correspond well to the physical needs of patients. In recent years, we have taken note of the psychological needs of patients with dementia as well.

It is important to create a greater sense of security and calm for the resident. Arjo is constantly developing its products and has put together specific guidelines for dementia-adapted product design that will be used for all new products moving forward. Creating solutions that are convenient, pain-free and less frightening is positive for all residents, not only for those with dementia.

However, Arjo's offering is comprised of more than correctly designed equipment. We want to contribute to an environment where personal care is friction-free, something critical to delivering good dementia care. We will achieve this by combining our product portfolio with our competence and an understanding of the challenges that exist within dementia care.

Through training and information, we ensure that caregivers have the know-how to adapt their care and to utilize resources and equipment in the best manner possible, thereby freeing up more time for the resident.

Our starting point is the challenge facing the customer, not the product itself. With a strong, commercial offering within dementia care, we also demonstrate that Arjo is a long-term partner for effective dementia care.

> "Anyone who lives with dementia often struggles to achieve inner peace. Thanks to Arjo's relaxation chair, our patients have found the calm and relaxation that so often evades them."
>
> **Mary McDonald**, registered nurse at Carter House home for the elderly, Te Puke, New Zealand

The dementia patient

Dementia is a collective name for a number of symptoms that are caused by brain damage. Usually, the memory and ability to carry out everyday activities declines. Worriness, depression and behavioral changes may be part of the clinical profile. In long-term care, a patient with dementia often needs help with everyday activities. They require assistance with everything from bathroom visits, transfers and hygiene to relaxation and sleep.

WITH CONSIDERATION FOR THE RESIDENT

Arjo's equipment is characterized by a high degree of functions that can provide a greater feeling of security and calm among residents.

A familiar appearance that is reminiscent of a home environment

Soft colors and pleasant material such as wood and textiles

Transfers that are made slowly and in one direction at a time

Functions that provide a greater feeling of security and safety

EVEN SAFER CARE

– for the future

To meet the demographic challenges facing the world, Arjo has an extensive focus on developing solutions that make a real difference and can simplify everyday life for our customers. Examples include activities for increased patient mobility, reduced burden for healthcare professionals and technical solutions enabling increased preventive care and efficiency.

THE TECHNOLOGICAL ADVANCEMENTS of recent years are placing entirely new demands on product development while creating new opportunities at the same time. The ability to collect and analyze detailed information about the customer and patient means that personally adapted solutions are becoming increasingly important elements in the healthcare and the medical device industry.

With Arjo's extensive industry experience and deep knowledge of our customers and their challenges, we have a great possibility to help lead the healthcare sector's digital development. This can be achieved, for example, through the development of new products and solutions. We also work together with our customers to jointly introduce a higher degree of innovation in the procurement process. The focus is then on resolving a problem rather than meeting a required specification for a pre-defined product.

Technological advancements are enabling more preventive healthcare, which, in turn, leads to cost-savings and a higher quality of life for patients. Cost-savings are achieved by being able to focus resources more effectively on patients whose health is at risk so that resource-intensive complications can be avoided to a higher degree. At the same time, improved patient health will enable people to stay longer in their home environments instead of being moved to residential care, something that often provides security and greater independence for a higher quality of life.

Long experience of innovations

60 YEARS

With more than 60 years' experience, Arjo has contributed to continuous product development and several groundbreaking innovations.

Share for research and development

SEK 200 M

In 2018, Arjo invested about SEK 200 M in research and development. Our goal is to invest about 2.5–3% of our turnover in this area.

> "By combining the knowhow of partners with our knowledge of healthcare and our capacity to commercialize solutions, we can secure products and solutions that meet the high future demands within the healthcare industry."

Due to rapid advances in technology, today's essential hospital equipment is becoming both smaller and more mobile. While this makes care environments much more efficient, it also comes with some key challenges. In a busy care environment, it is usual for equipment to go missing. On average, hospitals over-procure 20-30% of their mobile assets and lose up to 15% of critical equipment each year*.

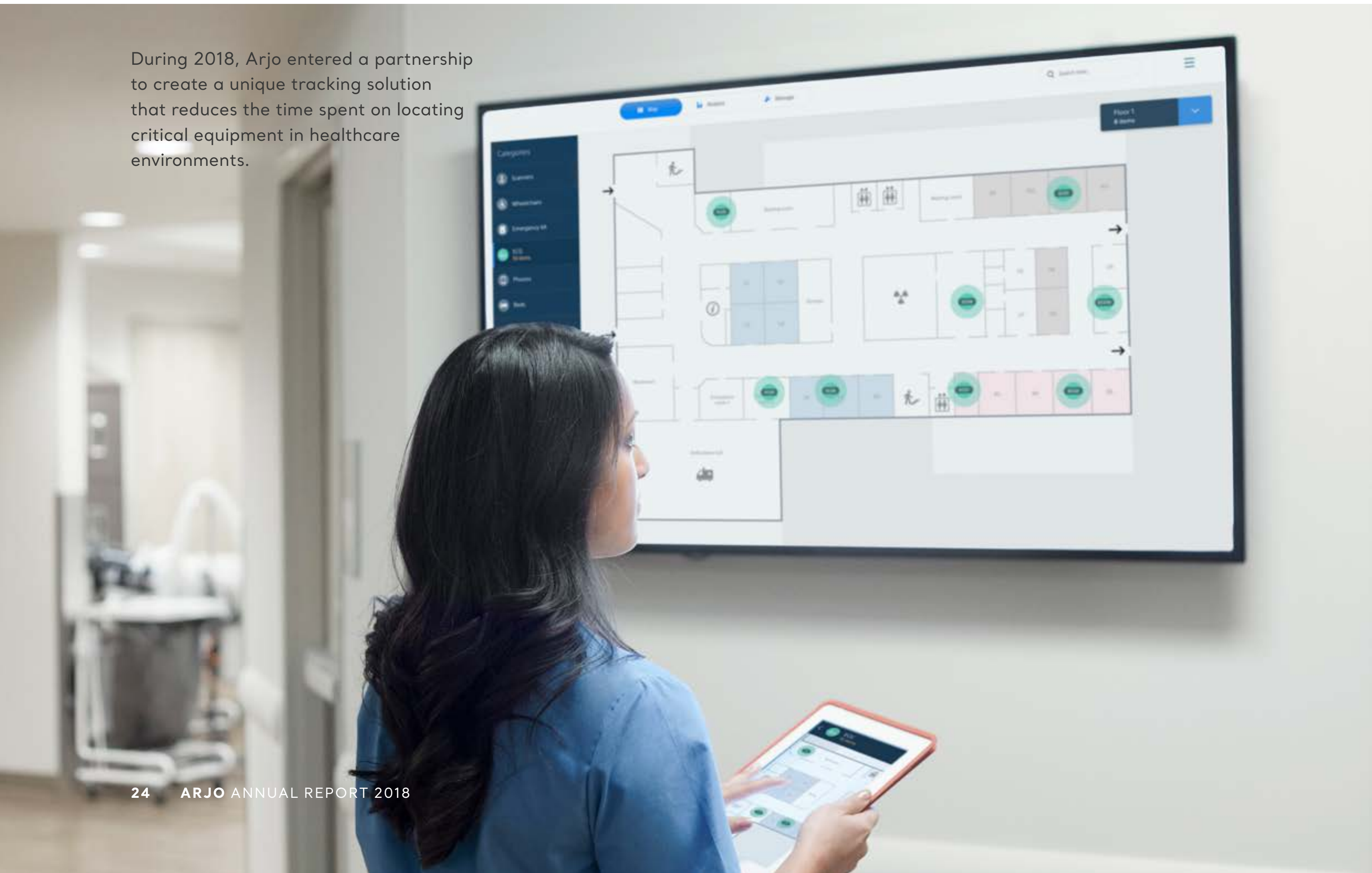
According to the Nursing Times**, more than one third of all nurses spend at least an hour during an average hospital shift searching for critical items or equipment. This is both time consuming and costly for the healthcare facilities, but also diverts critical resources which could otherwise be used to care for patients.

During 2018, Arjo entered a partnership to create a unique tracking solution that reduces the time spent on locating critical equipment in healthcare environments. The solution consists of a tracking device that, when connected to products, sends a signal to a cloud system every 2-5 seconds. The location of the equipment is then visualized on an interactive screen, allowing the nurse to quickly locate it in the healthcare facility. A research project conducted over two years at one of Sweden's largest university hospitals showed a 63 percent decrease of time spent searching for items or equipment when using the tracking solution.

By combining the knowhow of partners with our knowledge of healthcare and our capacity to commercialize solutions, we can secure products and solutions that meet the high future demands within the healthcare industry.

* Supply Chain Management: Concepts, Methodologies, Tools, and Applications. Information Resources Management Association. 2013

** Nurses Waste 'An Hour A Shift' Finding Equipment. Nursing Times, February 10, 2009



During 2018, Arjo entered a partnership to create a unique tracking solution that reduces the time spent on locating critical equipment in healthcare environments.

A strong position with a broad product portfolio

Products		Description	Competitors
Patient handling		Arjo has a wide range of lifting and transferring solutions that meet the the patient or resident's specific needs while ensuring a safe, comfortable and dignified transfer. Included among these are ceiling lifts, standing and raising aids, and slings.	Hill-Rom, Guldmann and HandiCare
Pressure Injury Prevention		Arjo has a comprehensive range of advanced mattress systems for the prevention of pressure injuries. The range includes, for example, mattress replacement systems with alternating pressure redistribution and special solutions for bariatric patients.	Hill-Rom, Joerns and Stryker
Medical Beds		Arjo offers a broad range of medical beds that ensure good ergonomics, comfort, safety and ease of use. Arjo's medical beds have technical performance adapted for a number of different purposes.	Hill-Rom, Stryker, Linet and Paramount Beds
VTE Prevention		Arjo has a comprehensive range of compression therapy products for the safe and efficient prevention of deep vein thrombosis (DVT) and treating edema. Pumps and garments are examples of products.	Cardinal, CTC Pirus and DJO
Hygiene		Arjo's range of shower and bathing products facilitate safe and efficient hygiene procedures and relaxing bathing experiences for care receivers. Bathing systems and shower equipment are examples of products.	Penner, Beka, Lopital and OG Wellness
Diagnostics		Arjo's Diagnostics product segment includes Doppler equipment for obstetric and cardiac diagnostics.	General Electric and Philips
Disinfection		Arjo's disinfection range include flusher-disinfectors and the associated chemicals for safe cleaning and disinfection.	Meiko, Steelco and Discher
Service		Arjo also provides diverse services and solutions, such as technical service for products, purchasing consulting, information and training.	

With a sustainable future in focus

During 2018, Arjo continued its work to define a long-term sustainability agenda. A structured materiality analysis resulted in the four focus areas of Compliance, Product Safety, Diversity and Use of Resources. This analysis, combined with the UN Sustainable Development Goals (SDGs), sets the foundation of Arjo's sustainability work.

With a growing population and an increasing proportion of elderly people, additional demands are being placed on healthcare - and healthcare providers are forced to deliver more care with fewer resources. Our products and solutions help the healthcare sector improve clinical outcomes and enable a better work environment for healthcare professionals. We therefore contribute to a more efficient healthcare process and sustainable healthcare system.

From a broader perspective, Arjo's primary contribution to a sustainable development thus lies in its day-to-day work to safeguard the future healthcare. A key focus area for Arjo is to improve preventive care, including everything from minimizing risks to reducing complications and care-related injuries. We also offer solutions for the reuse and recycling of products to increase their lifespan and thereby reduce environmental impact.

A good balance between building-up a financially profitable company and taking responsibility for social, ethical and environmental issues is crucial to our long-term success. From a well-defined sustainability agenda, we ensure that we can achieve this balance. We also believe that an organization permeated by a sustainable agenda promotes innovation and employee engagement from a broader perspective.

We have chosen to present our sustainability work through four focus areas identified in our materiality analysis: Compliance, Product Safety, Diversity and Use of Resources.

COMPLIANCE
– A credible partner

PRODUCT SAFETY
– High demands on safety

DIVERSITY
– New opportunities

USE OF RESOURCES
– Reduced environmental impact

Arjo's sustainability efforts are based on solid analysis

In 2018, a solid materiality analysis was conducted in order to lay the foundation for future sustainability work. Included was also a greater understanding of the company's key stakeholders and what the dialogue with these parties should look like going forward.

In 2018, Arjo increased its focus to define a long-term sustainability agenda, where a key aspect was to identify the most important areas to Arjo's customers, employees and the communities in which we exist. Together with both internal and external stakeholders, a structured analysis was conducted to identify the issues to be prioritized in our sustainability work. The materiality analysis resulted in four focus areas: Compliance, Product Safety, Diversity and Use of Resources. All four areas will be followed up through various key performance measures. The aim is to review the materiality analysis every two years to identify changes and key sustainability parameters for our stakeholders. Going forward, we will also further advance our work on the UN Sustainable Development Goals (SDGs.)

Importance for our stakeholders / Importance for Arjo	Important	Very important	
Very important	• Environmental performance of our products & services	• Energy and climate change • Waste management	• Product safety • Supplier practices • Compliance • Anti-corruption behavior
Important	• Fair work practices • Attract and retain talent	• Diversity • Health and safety • Community involvement	

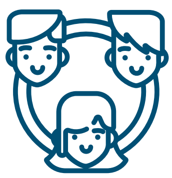
Materiality analysis

- In a thorough analysis together with our stakeholders, we identified the most important areas for successful sustainability work.

ARJO'S FOCUS AREAS IN SUSTAINABILITY

Compliance
– read more on page 30

Product Safety
– read more on page 32



Diversity
– read more on page 34

Use of Resources
– read more on page 36

During the year, Arjo began a collaboration with Master's degree students from the International Institute for Industrial Environmental Economics at Lund University for the evaluation of the Group's environmental work.

OUR STAKEHOLDERS	THE ROAD TO A DIALOG
Shareholders and investors	• Financial statements • Investor meetings • Annual General Meeting • Website • Press releases
Suppliers	• Ongoing dialog • Procurement and purchase negotiations • Regular audits
Society	• Local partnerships • Participation in networks • Interns and student theses
Employees	• Employee dialogues • Employee survey • Intranet/other internal communication channels • Dialog with trade union organizations
Customers	• Ongoing dialog • Customer surveys • Local partnerships

Continuous dialog with our key stakeholders

By understanding and collaborating with our stakeholders, we can ensure that we conduct our operations in a way that generates optimal results for everyone. Arjo's internal and external key stakeholders are characterized by their proximity to the company, influence on the company's activities and mutual exchange. Key stakeholder groups are mainly found along Arjo's value chain and are comprised of suppliers, employees and customers. Other key groups include current and potential shareholders, meaning investors, and the communities in which we operate. We endeavor to conduct dialogue with all of our stakeholders using several channels, illustrated by the table on the left.

UN Sustainable Development Goals

Arjo's sustainability work is based on the UN Agenda 2030 for sustainable development.
The SGDs where Arjo sees the greatest opportunity to have an impact are numbers 3, 4 and 12.

3 GOOD HEALTH AND WELL-BEING

Ensure healthy lives and promote wellbeing for all at all ages.

Arjo's role: By contributing to improved clinical outcomes, better quality of life for patients and a safer work environment for healthcare professionals, Arjo delivers sustainable value for healthcare with people in mind. Read more about our offering on page 25.

4 QUALITY EDUCATION

Ensure an inclusive and equal quality education and promote lifelong learning opportunities for all.

Arjo's role: Arjo supports the Swedish Industry for Quality Education in India, a three-year school project in Assam, India, run by the Pratham charity organization. The project works to achieve a large-scale improvement in pedagogy and the level of knowledge among children in India.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Ensure sustainable consumption and production patterns.

Arjo's role: A key milestone in our sustainability work during the year was the acquisition of ReNu Medical, which enables the reuse of medical disposables. The Group also works to ensure responsible waste management.

A credible partner for sustainable business relations

High business ethics and well-defined principles are fundamental for our ability to establish long-term business relationships and be a credible counterpart to all of our stakeholders.

Arjo has since 2017 established new structures within sustainability, with a distinct ownership of daily tasks and operations. Within Ethics and Business compliance, we hold quarterly meetings to enhance control of risks and ensure compliance with rules and legislations that we are subject to.

Code of Conduct

Arjo's Code of Conduct provides a basis for all the Group's operations and applies to all employees without exception. The Code covers laws and regulations, human rights, environment, health and safety, and ethics, aiming to ensure that operations are conducted in an ethical and sustainable manner. The Code of Conduct is based on a series of international principles, such as the UN Global Compact initiative, the UN Universal Declaration of Human Rights and the OECD's guidelines for multinational companies. It is supplemented by local policies and to some extent more extensive efforts in high-risk countries with weak national legislation. The Code of Conduct is available in all of the languages used within the Group. It is reviewed annually and any updates and adjustments are made if needed.

Adapted Supplier Code of Conduct

To ensure sustainable business throughout Arjo's value chain, we have also established a Code of Conduct for our suppliers and business partners. This Supplier Code of Conduct is structured according to the UN Global Compact initiative's four focus areas: human rights, labor, environment and anti-corruption. It is included in all new supplier agreements. During the year, 90% of Arjo's 25 largest suppliers signed the agreement containing the Supplier Code of Conduct.

Supplier audits

In 2018, we initiated reviews of all of our main suppliers and business partners to ensure that the requirements contained in the Code of Conduct are maintained. In the event that the requirements are not met, and if the supplier or business partner in question does not take adequate action to meet the requirements, the Group is entitled to cancel the contract and terminate all business connections.

Anti-corruption

Arjo has zero tolerance for all types of fraud, bribery or other types of action that create wrongful advantages and contravene our policies, local laws and regulations, industry standards and ethics codes in the countries where the Group operates. Our anti-corruption policy was prepared with the aim of combating corruption and the Group's employees and our business partners are expected to comply with it. The policy includes rules and policies regarding gifts, representation, remuneration and personal benefits.

Whistleblower function

We stress the importance of identifying suspicions of any wrongdoing at an early stage. Employees have the possibility to inform of any situations where there is evidence or suspicion of corruption or other ethically unacceptable actions via an anonymous system. During the year, we addressed four cases related to management and employees through the whistleblower system.

GDPR

Arjo protects privacy when processing personal data. To meet the requirements of the EU General Data Protection Regulation (GDPR), Arjo carried out a number of activities in 2018 under the framework of a global GDPR program. Working groups in each sales company at local level provided assistance to the central data protection activities, for example, through Data Protection Impact Assessments (DPIA) of the local processes in which personal data is processed. An employee training program was implemented. The continued work on ensuring that Arjo conducts its operations in accordance with the requirements of the GDPR and other applicable data protection laws is coordinated by Arjo's Data Privacy Manager and is monitored by the Ethics & Compliance Committee. The Committee is led by the Head of Legal & Compliance and comprises members of the Arjo Management Team.

Other Group policies

Presence in conflict zones in given particular attention when reviewing relevant is Group policy regarding trade restrictions.

Compliance as part of our daily work

In 2018, Arjo worked on a number of different projects to raise the organization's skill levels within compliance. We have seen excellent examples of cross-functional collaboration in the organization, from translation of policies to activities raising awareness. A total of 4,431 employees have undergone online training, 1,589 of whom participated in physical courses during the year.

Training of all distributors in Africa

Our operation in Africa is characterized by an extensive commitment to compliance and to ensure ethical business practices. Compliance is a key element of our strategies and initiatives for promoting a culture of openness, integrity and responsibility. This is in particular a requirement for all companies where there is dependence on indirect sales channel, as is the case with our operation in Africa. Here, clear compliance adds a further dimension of responsibility and accountability.

During the year, we developed an education program on compliance designed specifically for our distributors in Africa. This is also supported by a training program that covers, for example, the supplier Code of Conduct, anti-corruption guidelines and distributor guidelines. 17 representatives from all distributors in Africa participated in the training program in 2018.

IMPORTANCE OF FOLLOW-UP ACTIVITIES
Arjo follows up compliance in accordance with a number of KPIs, including:

- Training of new employees in the Code of Conduct
- Number of employees who have signed the Code of Conduct
- Number of business partners who have signed the Code of Conduct
- Number of cases relating to the whistleblower function and its nature

MDSAP certification

Arjo is certified according to the Medical Device Single Audit Program (MDSAP). The MDSAP is based on the global harmonized requirements for medical devices as described in the ISO 13485 standard, combined with regulatory requirements from the five member countries, the US, Canada, Australia, Japan and Brazil. This certification means that Arjo meets the requirements in these markets. The audit results from the MDSAP are shared with the authorities in these five countries and thus replace individual routine inspections. Arjo's MDSAP audit was conducted in October 2018 with excellent results.

High demands on quality and safety

The medical device industry places high demands on quality, compliance and product safety. Efficient and well-functioning quality work forms the basis for Arjo's business.

We devote significant efforts and resources in implementing and applying policies, directives and guidelines to ensure compliance with the relevant regulations. Annual audits are performed by notified bodies to ensure compliance for continued CE marking of Arjo's products. Several authorities, such as the FDA, conduct regular inspections of Arjo's production units to ensure regulatory compliance.

Arjo has a Group-wide Quality & Regulatory Compliance function and we have set up a number of product quality and efficiency parameters to ensure high quality. We also continuously follow up on key indicators related to product safety.

At Arjo, we continosly work to improve internal processes and procedures to ensure compliance and retain a high-class quality management system. Our quality management system is certified in accordance with the internationally recognized ISO 9001:2015 and ISO 13485:2016 standards.

Materials and substances used in Arjo's products must correspond with international regulations, including the European Parliament's REACH regulation and EU chemicals legislation to ensure that we have a safe product composition.

When our products and solutions are installed, we offer training to ensure that our customers understand how to use them safely and correctly.

Internal auditing

We conduct internal audits at all production units to identify any areas of improvement and to ensure that we comply with applicable requirements and regulations.

The most important authorities and regulations Arjo adheres to

A number of authorities contribute to ensure that medical devices are safe and well-functioning. It is important that Arjo complies with the rules applicable in the markets where our products are marketed and sold.

US Food and Drug Administration (FDA)

The US FDA conducts regular inspections of Arjo's production units to ensure regulatory compliance. The FDA requires that Arjo complies with the quality system regulation for medical devices in the US. Arjo's MDSAP certification confirms that these requirements have been met.

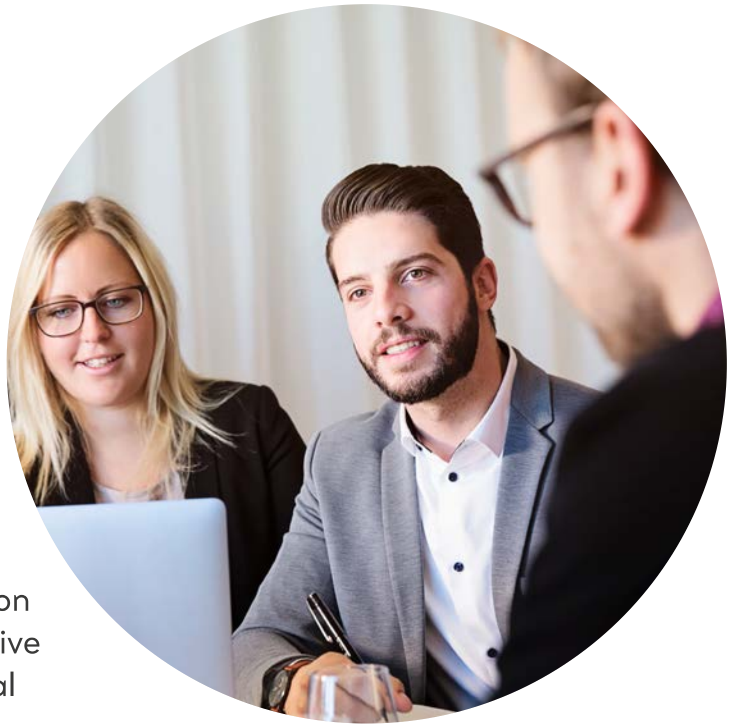
Health Canada Medical Device Regulation

Health Canada regulates products in accordance with the Canadian food and drugs legislation, which also covers medical devices. This is achieved by evaluating medical devices to assess their safety, efficiency and quality before being approved for sale in Canada. Health Canada requires that Arjo is MDSAP-certified to be able to sell medical devices on the Canadian market.

EU Medical Device Regulation (MDR)

This affects everyone that conducts business within the medical device industry in the EU. The new MDR regulation, which comes into force in May 2020, includes demands on more comprehensive clinical information, also for medical devices with lower classification. For Arjo, this means that the new regulation must be implemented for all of our CE-marked products in accordance with the new classification rules. A number of updates to documentation and product marking are required. Arjo launched an extensive effort in 2017 to implement the new requirements and adapt its business to the new regulations. This work, which is being managed within the company's existing structure, has progressed well and according to plan during 2018.

Diversity creates new opportunities



We conduct long-term work based on the premise that the company and people should grow together. Our ambition is to be an attractive and highly competitive employer, where all employees have equal opportunities.

It is the employees that create and develop our business. By investing in and developing our employees, we help them be better prepared to support our customers in the best possible manner. Through a clear and long-term HR agenda, we ensure that the organization has the necessary leadership, knowledge and key skills to meet both current and future business needs. Our HR work is future-oriented and centered on attracting, recruiting, developing and retaining employees with the necessary knowledge and values.

Equality and diversity

Arjo's primary view is that long-term competitiveness can only be achieved if the workplace is characterized by equality, equal opportunities and diversity. This means, for example, that all employees have the same career opportunities and receive equal pay for equal work, with local conditions taken into consideration.

To achieve success in a global environment, our own organization must reflect the diversity of groups from different cultures, backgrounds and ages. A key point is also that we employ local and locally established employees and managers to a high degree, particularly at our manufacturing units.

An organization that does not apply equal treatment and equal opportunities reduces their possibilities for securing skill sets over time. Our diversity work is driven proactively in line with the Group's diversity policy and as part of this work, all functions presented an action plan in 2018 on how they will achieve a better gender balance within their respective management teams. The result of this work has now been implemented in the Group's succession planning and recruitment process for senior positions and expert roles.

Another important goal is diversity in our development programs, and among short-listed candidates for internal and external recruitment processes for management and key positions.

Health and safety

Employee health and safety is of the highest priority, and a safe and secure work environment is crucial to operations. Our work on health and safety matters is based on national legislation, international regulations and our own requirements and policies.

We strive to offer a safe and healthy work environment for the company's global employees and conduct continuous and long-term health and safety work at all our facilities. At all production facilities, health and safety committees have been appointed to promote the employees' work conditions.

Sickness absence for 2018 totaled 2.3% for the Swedish organization. The number of accidents per 100 employees increased to 2.0 (1.3) during the year. This increase was attributed to the fact that we previously only reported accidents in our production units.

The proportion of women and men in the Group in 2018

- 37% (37) and 63% (63) of the entire Group.
- The percentages of women and men among the Group's managers were 31% (31) and 69% (69), respectively.
- The percentages of women and men in the Arjo Management Team were 40% (40) and 60% (60), respectively.

"At Arjo you can be yourself and have the opportunity to develop and be innovative in your area of work. You are genuinely encouraged to do so and I love it!"

Esteban Encarnacion
Quality Manager, Dominican Republic

"I love that we make a difference in the community and with people. There are so many things that have kept me at Arjo for 7 years, but the main ones are that I work with a really great team of people."

Priscilla Sanders
HR Director, Australia

"Over the past 15 year, I have had many opportunities in this company. To try out new things and go outside your comfort zone is what makes the journey with Arjo so exciting."

Melissa True
Director Supply Chain & Customer Service, Canada.

Employee survey

During the year, we conducted an employee survey that demonstrated a very strong commitment among all employees, with a response rate of 84%. There is a general feeling of strong engagement in the company and we noted a good understanding of our strategy and goals among the employees. There is potential for improvement in the area of involving and delegating leadership, a responsibility largely driven on a local level. In 2019, at the Group level, our activities will include initiating a leadership program for all of the Group's managers. The employee survey will be followed up by new surveys in coming years.

Mobility and skills development

We take a long-term approach to the recruitment of new expertise, which means, for example, that we work to facilitate the possibilities for our employees to combine career and family. Arjo offers exciting workplaces in other countries and welcomes employees seeking different geographic locations in the company. During the year, we conducted two staff development programs, one at Group level and one within Supply Chain. A newly started project will also offer employees at our head office an opportunity to spend one day a year with one of our customers, such as at a nursing home or care facility.

6,165

EMPLOYEES

At year-end 2018, Arjo had 6,165 full-time employees. Most of the Group's employees work in the US, the UK, Poland and the Dominican Republic. For detailed information about the average number of employees per country, see Note 5.

40%

WOMEN IN THE MANAGEMENT TEAM

Reduced environmental impact

Arjo has high ambitions for its environmental work and we are determined to reduce our environmental footprint and contribute to sustainable development going forward.

Our impact on the environment primarily involves use of resources, energy consumption, and waste management. We continuously monitor our operations and make any improvements required to production and business control, for example, in order to meet society's requirements on our operations. But sustainability work is not only a matter of requirements but also opportunities. By actively pursuing sustainability issues, we also gain many opportunities for generating value and improving profitability. This is achieved through, for example, improved resource efficiency and lower costs for raw materials, energy and transportation.

Environmental management system to ensure compliance

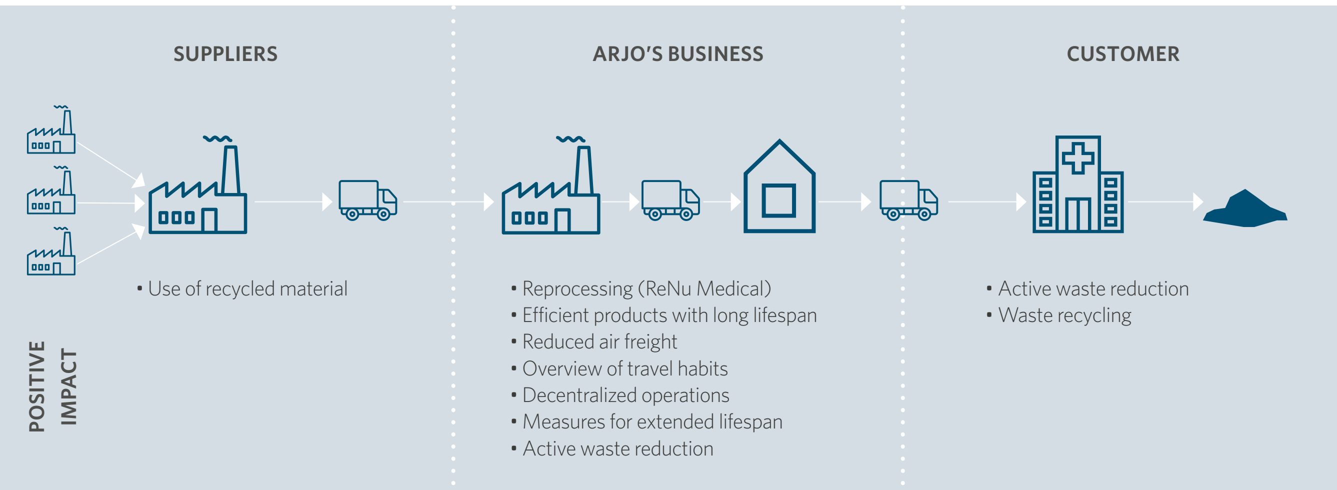
To ensure that production is conducted in accordance with applicable legislation and international regulations, the Group's production facilities are certified according to the international standard ISO 14001 Environmental Management Systems. This provides solid conditions for structured and proactive environmental work. The management system also includes regular updates on the environmental impact of the facilities.

Eco-design in product development

Arjo works in a dedicated manner to reduce the environmental footprint of new and existing products, including the possibilty of applying eco-design principles in product development. A key part of our natural approach to product development involves continuously questioning and evaluating materials and components. We work in accordance with the Lean business development method to maximize customer benefit, while minimizing the waste of resources through various types of efficiency enhancements and streamlining. Recycling and reuse are also of major importance to our product development process. We have extensive experience and understanding of the consequences resulting from choices made in product development. Our design team comprises both people with the latest competence and technical experience, and people with in-depth knowledge and experience of our business.

ENVIRONMENTAL ASPECTS OF ARJO'S SUPPLY CHAIN

The value chain comprises all of the steps required for us to be able to bring our products to market – starting at idea to production and distribution, consumption, and ultimately, reuse and recycling. Our main focus is on our own operations, but we have increasingly begun looking at what we can do to reduce the overall environmental impact among our suppliers and customers.



Reprocessing to reduce waste in healthcare

In 2018, we acquired the US-based company ReNu Medical, which specializes in green reprocessing of medical devices.

Arjo's offering includes compression solutions that increase the blood flow in deep veins by using a compression sleeve to apply pressure on an arm or a leg. This contributes to preventing blood clots, so-called deep-vein thrombosis (DVT). These sleeves, usually disposable, can be reprocessed several times for renewed use in healthcare.

In 2018, Arjo acquired the US-based company ReNu Medical, which specializes in environmentally-friendly reprocessing of single use non-invasive medical devices, such as DVT-prevention.

Unlike conventional methods of reprocessing, in which carcinogenic chemicals such as ethylenoxide (EtO) are used, ReNu's process is free of toxins, with no chemical residue or emissions. Instead, ReNu uses an environmentally-friendly, water-based high temperature process that does not use chemicals or carcinogens that could otherwise destroy the equipment or cause injury to patients or healthcare professionals. ReNu's method also enables the product to be reused twice as many times as traditional reprocessing using EtO, thereby further reducing waste.

The interest in these types of services is growing both in the US and in other parts of the world, and we see excellent opportunities for launching this offering in markets beyond the US. With this offering, Arjo is not only contributing to sustainable development - with reduced medical waste - but also to the safety of patients and their caregivers. With our customers in mind, Arjo works continuously to minimize the environmental impact of our single-use products, and ReNu's solution is an important step on the way.

NEW ENVIRONMENTAL GOALS 2019–2021

1. Reduce energy consumption in production by 5% by 2021, using 2018 as the base year
Arjo continues to work to enhance energy efficiency in production and the goal is to reduce energy consumption by 5% measured in MWh/ MSEK. Further work is done to implement energy-effective solutions for Arjo's production units.

2. Reduce CO_2 emissions in production by 5% by 2021, with 2018 as base year.
Limiting carbon dioxide emissions is an international company and Arjo continues its work to reduce carbon dioxide with 5% in production measured in tons of CO_2 / MSEK of internal sales.

3. Reduce the amount of hazardous waste in production by 10% by 2021, with 2018 as base year
Focus will be on minimizing total waste that is mainly made up of chemicals for cleaning our products.

4. 75% of non-hazardous waste is to be recycled
We work to reduce the total amount of waste, as well as moving waste upwards in the waste hierarchy, meaning from landfill and combustion to recycling and reuse.

Increased share of renewable energy
In addition to its new environmental goals, Arjo also has the ambition to reduce the total carbon dioxide emissions within production. An investigation will explore conditions and opportunites needed to increase the amount of renewable energy.

Arjo's environmental goals 2018

We work continuously to enhance the efficiency of our energy consumption in the production process and thereby reduce our climate impact. Between 2015 and 2018, Arjo worked in accordance with the environmental goals established during the time Arjo was part of Getinge. The outcome for these goals in the last year is shown below.

GOAL	OUTCOME 2015-2018	COMMENTS
Reduce CO_2 emissions from production by 5% by 2018, with 2015 as the base year.	Increased by 16% from 1.97 to 2.28 tons of CO_2/MSEK.	Between 2015 and 2018, Arjo acquired a new production facility in the Dominican Republic, where the use of fossil fuels is high, and therefore the largest source of greenhouse gas emmissions. This contributed to an increase in the Group's CO_2 emissions. No correction of the goal was made to address this change. One of our focus areas is to reduce the total amount of CO_2 emissions.
Reduce energy consumption in production by 10% by 2018, with 2015 as the base year.	Declined by 11% from 4.98 to 4.43 MWh.	The Group's energy consumption declined by 11% during the period. During the year, several investments were made in more efficient solutions at Arjo's production units.
Reduce CO_2 emissions from company vehicles by 10% by 2020, with 2016 as the base year.	Decreased by 5% from 159 to 151 g/km. Goal 140 g/km.	The Group follows-up, evaluates and works actively to ensure that the car fleet is energy-efficient and more environmentally friendly. This work will continue in 2019-2020 and a new car policy will be prepared for adaptation to the WLTP (The Worldwide Light Vehicle Test Procedure).
All non-hazardous waste from production is to be recycled.	70% recycled	The goal for all non-hazardous waste to be recycled or combusted was not achieved during the period. Two factories reached 90% in recycling waste, while two factories are in countries where the infrastructure for recycling is lacking. Decreasing the total amount of waste is also a core focus area.

The Board of Directors has prepared this Sustainability Report in accordance with the requirements of Swedish Annual Accounts Act.

Auditor's opinion regarding the statutory sustainability report

To the Annual General Meeting of Arjo AB (publ), Corp. Reg. No. 559092-8064

Assignment and distribution of responsibility

The Board of Directors is responsible for the sustainability report on pages 26–39 and for it being prepared in accordance with the Annual Accounts Act.

Approach and scope of review

Our review was conducted in accordance with the statement by the institute for the accounting profession in Sweden, FAR, RevR 12 Auditor's opinion regarding the statutory sustainability report. This means that our examination of the sustainability report is different and substantially less in scope than the approach and scope of an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that this review gives us an adequate basis for our opinion.

Opinion

A sustainability report has been prepared.

Malmö, 3 April 2019
Öhrlings PricewaterhouseCoopers AB

Magnus Willfors
Authorized Public Accountant,
Auditor in Charge

Cecilia Andrén Dorselius
Authorized Public Accountant

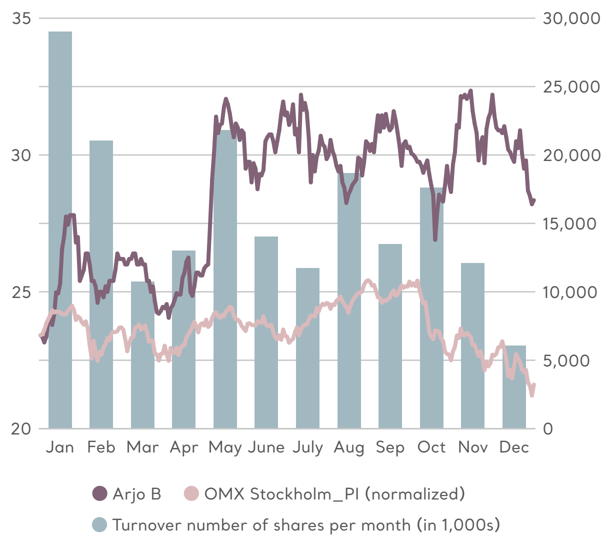
The Arjo share this year

The Arjo series B share was listed on Nasdaq Stockholm on December 12, 2017 and is included in the Nasdaq Nordic Large Cap segment. The share trend in 2018 was favorable with an increase of 21%. The number of shareholders on December 31, 2018 was 34,858.

Share trend

The Arjo share was listed at SEK 28.35 at the end of the year, an increase of 21% during the year.

The highest price paid for the Arjo share in 2018 was SEK 33.15 on June 28 and the lowest was SEK 22.90 on January 3, 2018. At year-end, market capitalization amounted to SEK 7.7 billion, compared with SEK 6.4 billion at the end of 2017. The turnover of shares for the year totaled 188 million.



Share capital and ownership structure

At year-end 2018, share capital in Arjo totaled SEK 90,789,858 distributed among 272,369,573 shares. All shares carry the same dividend entitlement. One series A share carries ten votes and one series B share carries one vote. The principal owner is Carl Bennet AB, holding 25.0% of the capital and 53.2% of the votes at year-end 2018.

Dividend policy

The Arjo Board has adopted a dividend policy entailing that future dividends will be adjusted in line with Arjo's profit level, financial position and future development potential. The aim is for the dividend to correspond to 30–50% of net profit after tax.

Shareholder information

Financial information about Arjo is available on the Group's website, www.arjo.com. Questions can also be put directly to Arjo's investor relations function. Annual reports, interim reports and other information can be requested from the Group's head office by telephone, from the website or by e-mail.

Analysts that monitor Arjo

Carnegie, Handelsbanken, Nordea, Pareto and SEB Enskilda.

0.55
Proposed dividend per share, SEK

1.09
Earnings per share, SEK

7.7
Market capitalization, SEK billion

Share capital distribution

	Series A	Series B	Total
No. of shares	18,217,200	254,152,373	272,369,573
No. of votes	182,172,000	254,152,373	436,324,373
% of capital	6.7	93.3	100
% of votes	41.8	58.2	100

Five largest countries – capital, %

Sweden	64.6
USA	13.5
Spain	4.3
Norway	3.5
UK	1.8

Share data

	2018	2017
Earnings per share after tax	1.09	0.43
Market price, December 31	28.35	23.41
Cash flow from operations/share	3.64	2.10
Dividend	0.55[1]	0.5[1]
Dividend yield, %	1.9	2.1
Price/earnings ratio	26.0	54.4
Equity per share	19.9	18.6
Average number of shares (million)	272.4	272.4
Number of shares, December 31 (million)	272.4	272.4

1) Dividend proposed by the Board of Directors.

Ownership by category – capital, %

Swedish owners	64.6
Foreign owners	35.4
Swedish individuals	11.5
Swedish institutions	25.6
Swedish mutual funds	14.0
Swedish owners, other	27.6
Foreign institutions	28.0
Foreign mutual funds	23.9
Foreign owners, other	0.8

Arjo's largest owners at December 31, 2018

	Series A shares	Series B shares	Capital, %	Votes, %
Carl Bennet AB	18,217,200	49,902,430	25.00	53.20
Fourth Swedish National Pension Fund		20,815,063	7.60	4.80
Swedbank Robur funds		13,050,444	4.80	3.00
Bestinver Gestión SGIIC		11,577,560	4.30	2.70
Fidelity Investments (FMR)		8,242,255	3.00	1.90
SHB Fonder & Liv		6,895,107	2.50	1.60
Nordea funds		6,129,756	2.30	1.40
Vanguard		6,123,680	2.20	1.40
Norges Bank		4,779,172	1.80	1.10
Fidelity International (FIL)		4,771,226	1.80	1.10

Ownership structure 2018 (based on no. of votes)

Shares	Capital, %	Votes, %	Shareholders	Shareholders, %
1–1,000	2.7	1.6	28,012	80.3
1,001–5,000	4.2	2.6	5,474	15.7
5,001–20,000	3.4	2.1	994	2.9
20,001–100,000	4.1	2.6	252	0.7
100,001–500,000	7.5	4.7	83	0.2
500,001–5,000,000	22.3	14.0	36	0
5,000,001–20,000,000	16.5	10.3	5	0
20,000,001–	32.7	58.0	2	0
Anonymous ownership	6.6	4.1	N/A	N/A
TOTAL	**100**	**100**	**34,858**	**100**

Directors' Report

Operation and structure

Arjo is a global supplier of medical devices and solutions that improve quality of life for people with reduced mobility and age-related health challenges. Arjo creates value by improving clinical outcomes for patients and enabling a better work environment for healthcare professionals. Arjo thereby contributes to a sustainable healthcare system – always with people in mind.

Arjo's main customers are private and public institutions providing acute and long-term care. The company's offering includes products and solutions for patient handling, hygiene, disinfection, medical beds, prevention of pressure ulcers, prevention of deep vein thrombosis and for diagnostics. The Group also offers services such as training in connection with product sales.

Organization

Approximately 95% of sales are conducted through Arjo's proprietary sales companies and the remaining 5% through distributors in markets for which Getinge Group lacks proprietary representation. Manufacturing is conducted at six production facilities in the Dominican Republic, Canada, China (where who facility is Acare's), Poland and in the UK.

Financial overview

Revenue

Consolidated net sales increased 6.9% to SEK 8,217 M (7,688). Adjusted for corporate acquisitions, divestments and exchange-rate fluctuations, net sales rose 3.0%.

Exceptional items

The Group reports exceptional items for the year in the form of restructuring costs, acquisition expenses and adjusted pension liability.
Restructuring costs
The Group's restructuring costs amounted to SEK 113 M (324). These costs were primarily attributable to the reorganization and efficiency enhancements of the Group's product development function and the change in logistics partner following on from the separation from Getinge. The restructuring costs include impairment of intangible assets of SEK 24 M (74), attributable to IT.
Acquisition expenses
Acquisition expenses amounted to SEK 3 M and refer to the acquisition of ReNu Medical.
Adjustment of pension liability
The Group's pension liability in the UK was adjusted due to a judgment from the High Court at the end of 2018. This judgement entails that all pension plans must equalize the differences in guaranteed minimum pension benefits between genders (GMP benefits). The change of SEK -40 M, is deemed to be a "past service cost" and is thus recognized in consolidated profit or loss. Since the change in pension liability was not connected to the Group's operations in 2018, it is recognized as exceptional items.

EBITDA

EBITDA before exceptional items amounted to SEK 1,312 M (1,246). The EBITDA margin before exceptional items was 16.0% (16.2).

Operating profit

The Group's operating profit increased to SEK 493 M (281), corresponding to 6.0% (3.7) of net sales.

1) Before exceptional items.

Net financial items

Net financial items amounted to SEK –98 M (–102).

Profit before tax

The Group's profit before tax increased 221% to SEK 395 M (179), corresponding to 4.8% (2.3) of net sales.

Taxes

The Group's tax expense amounted to SEK 99 M (61), corresponding to 25.1% (34.1) of profit before tax (see Note 10). The lower tax rate was largely due to the tax reduction in the US and tax effects from non-recurring items in connection with the separation from Getinge in 2017.

Tied-up capital

Inventories amounted to SEK 1,117 M (1,104) and accounts receivable to SEK 1,802 M (1,898). The average consolidated operating capital was SEK 9,946 M (10,317). Return on operating capital was 6.5% (5.9). Goodwill totaled SEK 5,259 M (4,862) at the end of the fiscal year.

Investments

Investments amounted to SEK 642 M (927), of which SEK 197 M (406) pertains to intangible assets and SEK 445 M (521) to tangible assets. Investments primarily pertained to rental equipment, IT investments associated with the spin-off from Getinge and production tools. In cash flow, SEK 642 M (653) was recognized in investing activities and SEK 0 M (274) as transactions with shareholders.

Financial position and equity/assets ratio

Shareholders' equity at year-end amounted to SEK 5,427 M (5,074), corresponding to an equity/assets ratio of 41.3% (41.6). The Group's net debt totaled SEK 4,630 M (4,602), corresponding to a net debt/equity ratio of 0.85 (0.91). Interest-bearing net debt/adjusted EBITDA[1] multiple totaled 3.52 (3.69).

Cash flow

Cash flow from operations amounted to SEK 991 M (572). The cash conversion was 84.0% (57.4).

Shareholders' equity

For information regarding the trading of shares in Arjo, the number of shares, the classes of shares and the rights associated with these in the company, see the Arjo Share section on pages 40–41.

Sales trend

Net sales increased organically during the year by 3.0% to SEK 8,217 M (7,688). Western Europe represented the Group's largest market, with 50.2% (48.8) of sales, followed by North America with 36.7% (36.7) and Rest of the World with 13.1% (14.6).

Group-wide events during the year

Financing

On December 12, 2017, external credit facilities were utilized in an amount of approximately SEK 5.1 billion to repay net debt to Getinge. In February 2018, Arjo established a commercial paper program of SEK 2.5 billion, which was subsequently raised to SEK 4.0 billion, to be used for financing in

8,217
Net sales, SEK M

SEK and EUR. SEK 2.76 billion of the program had been utilized at the end of the fiscal year. Commercial paper borrowing was used to repay interest-bearing bank loans. Arjo's bank financing is denominated in SEK, USD and EUR.

Acquired and divested operations

Acquisition of ReNu Medical – a green medical reprocessor of single use medical devices.

During the year, Arjo signed an agreement to acquire ReNu Medical, a privately owned US company specializing in green reprocessing for single-use non-invasive medical devices, for example, DVT.

The acquisition of ReNu Medical strengthens Arjo's offering in compression therapy products, such as DVT in the US. The acquisition is expected to contribute to a more profitable business model for Arjo and is also well aligned with the Group's focus on sustainability.

Divestment of low-spec medical beds business

During the year, Arjo signed an agreement to divest Acare, the Group's low-spec medical beds business, to China-based CBL.

The divestment is a key part of the Group's action plan to improve profitability in the product category of medical beds. The Group's strength is found outside the value segment and that is also the area where continued focus will help maintain and further strengthen Arjo's leading positions in the market.

Arjo acquired the Chinese company Acare Medical Science Ltd. in 2012. Arjo has now decided to focus on the premium segment for medical beds where the company already holds strong market positions and where profitability is significantly better.

The divestment involves a production and sales unit in Zhuhai, China, with 186 employees and sales of about SEK 80 M in 2017.

Acare was recognized in the balance sheet on December 31, 2018 as assets and liabilities held for sale. The divestment was completed in the first quarter of 2019 and did not result in any material effect on earnings or cash flow.

Research and development

The foundation of all research and development at Arjo is an in-depth understanding of the customer and customer needs. A customer-focused research and development process helps allocate resources to develop solutions that contribute to enhancing the efficiency of healthcare and solving the challenges Arjo's customers face. Arjo has, with about 60 years of market presence, developed competitive processes in this field. Innovation of new products and the renewal of existing product lines is one source of growth for Arjo and for the market as a whole. Arjo has continuously prioritized product design and ease of user-friendliness in developing new and existing products. In 2018, Arjo's research and development costs amounted to SEK 201 M (204), corresponding to 2.4% (2.7) of net sales. Of this amount SEK 141 M (134) was expensed during the year.

1,312

Adjusted EBITDA[1], SEK M

Personnel

At December 31, 2018, there were 6,165 (5,983) employees, of whom 162 (127) were employed in Sweden. In 2018, Arjo made a comprehensive effort to consolidate the organization that will lead Arjo forward. It is the people of Arjo who generate and develop the business and, accordingly, Arjo has prepared a long-term HR agenda that ensures that the organization has the necessary expertise, leadership and key skills to meet current and future business needs. This work involves succession planning, activities to promote diversity and various training programs. Such activities are necessary to ensure that Arjo can attract, recruit, develop and retain employees with the necessary expertise and values who can contribute to Arjo's continued development.

Remuneration to senior executives

The Annual General Meeting held on May 4, 2018 resolved on guidelines for the remuneration to senior executives. Refer to Note 5 for a description of these guidelines and amounts expensed.

Sustainability effort

Arjo endeavors to build up a financially profitable company, while at the same time assuming responsibility for social, ethical and environmental issues. This is regarded as crucial for achieving long-term success. Arjo has clearly formulated social, ethical and environmental principles and structured environmental efforts. Read more about the Group's sustainability efforts on pages 26–39.

Environmental impact

Arjo works systematically to impact the efficiency of its operations to contribute to a reduced environmental footprint, while at the same time generating cost-savings across our entire supply chain. Initiatives to reduce Arjo's environmental impact are partly a result of the national and international regulations that Arjo must comply with and to fulfill the Group's own internal objectives and live up to the Group's policies. To ensure that production is conducted in accordance with legislation and international rules, the Group has introduced environmental-management systems at its production facilities, which are certified according to the international standard ISO 14001. The implemented management system provides solid conditions for structured and proactive environmental work. The management system also includes regular updates to the environmental impact of the facilities.
To reduce Arjo's climate impact, the Group has mainly focused on various types of energy-efficiency enhancements and further improving waste management. A number of measures have been implemented to reduce energy consumption for heating and lighting.

Further information concerning Arjo's environmental work is presented on pages 36–39.

Risk management

Customers and healthcare reimbursement systems

A considerable share of Arjo's revenue is derived from sales of products to public sector entities. A political discussion taking place in many countries concerns whether private healthcare providers should be able to offer publicly funded healthcare services. There is a risk that authorities in countries where Arjo operates will decide to limit or completely discontinue public funding of private healthcare, which could affect the establishment of new hospitals and other healthcare facilities and their purchasing of healthcare products, such as Arjo's emergency and long-term care products.

Sales of the Group's products are also dependent on various reimbursement systems in each of Arjo's markets. In many of Arjo's markets (such as the US), it is often the patient's insurance company that – within the framework of the existing political reimbursement system – funds or subsidizes products for the patient's emergency or long-term care. Some of the success for sales of Arjo's products in these markets is dependent on whether Arjo's products have been approved for reimbursement under the various reimbursement systems.

Since Arjo conducts operations in many different countries and markets, the above-named risks are limited for the Group as a whole.

Research and development

Arjo's future growth is also dependent on the continued expansion of new product segments and new product types in existing product segments, which is dependent on the Group's ability to influence, predict, identify and respond to changing customer preferences and needs. Arjo invests in research and development in order to produce and launch new products, but there is no guarantee that any new products will achieve the same degree of success as in the past. Nor is there any certainty that Arjo will succeed in predicting or identifying trends in customer preferences and needs, or that Arjo will identify them earlier than its competitors. To maximize the return on research and development efforts, the Group has a highly structured selection and planning process to ensure that the Group prioritizes correctly when making decisions about potential projects. This process includes careful analyses of the market, technological progress, choice of production method and selection of subsuppliers. Development activities are conducted in a structured manner and the deliveries of every project undergo a number of fixed control points. Arjo is focused on product launches that will lead to more efficient care, in which more diseases can be treated, which is expected to drive demand from end customers and therefore market growth. Product development that leads to a broader product range is a means for increasing organic growth in the market in which Arjo operates.

Product liability and damage claims

As a medical device supplier, Arjo, like other healthcare industry players, could be subject to claims related to product liability and other legal issues. Such claims could involve large financial amounts and significant legal expenses. Arjo cannot provide any guarantee that its operations will not be subject to claims for compensation. A comprehensive insurance program is in place to cover any property or liability risks (e.g. product liability) to which the Group is exposed.

Protection of intellectual property rights

Arjo invests significant financial amounts in research and development, and is continuously developing new products and technological solutions. To secure revenues from these investments, new products and technologies must be protected from unlawful use by competitors. If possible and appropriate, Arjo protects its intellectual property rights by registering patents, copyrights and trademarks. The Group is also dependent upon know-how and trade secrets that cannot be protected under intellectual property law.

Changes related to general economic and political conditions

Arjo operates in several parts of the world and, like other companies, is affected by general global economic, financial and political conditions. Demand for Arjo's medical devices and solutions is influenced by various factors, including general macroeconomic trends.

Uncertainty about future economic prospects, including political concerns, could adversely affect customers' decisions to buy Arjo's products, which would adversely affect Arjo's operations, financial position and results. Furthermore, changes in the political situation in a region or country, or political decisions affecting an industry or country, could also have a material adverse impact on sales of Arjo's products. Since Arjo operates in a large number of geographical markets, this risk is limited for the Group as a whole.

Authorities and supervisory bodies

The healthcare market is highly regulated in all of the countries in which Arjo operates. Arjo's product range is subject to legislation, including EU Directives and implementing acts regarding medical devices, and the US Food and Drug Administration's (FDA) regulations and related quality systems requirements, which also encompass comprehensive evaluation, quality assurance and product documentation. It cannot be ruled out that Arjo's future operations, financial position and earnings may be adversely affected by difficulties in complying with the current regulations and requirements of authorities and notified bodies, or any changes thereof.

Arjo has developed its operations to comply with these laws and regulations and, to limit the above-named risk, Arjo devotes considerable efforts and resources to implementing and applying guidelines to ensure regulatory compliance. Annual audits are performed by designated certification bodies to ensure compliance with requirements for CE marking of Arjo's products, and authorities such as FDA conduct regular inspections of Arjo's production units to ensure regulatory compliance. All of the Group's production facilities are also certified according to ISO 13485 (Medical devices – quality management systems) and/or ISO 9001 (Quality management systems).

Financial risk management

Through its operations, Arjo is exposed to a number of financial risks. Arjo's risk management is regulated by a finance policy established by the Board. Ultimate responsibility for managing the Group's financial risks and developing methods and policies for mitigating these risks lies with Group management and Group Finance. The Group's financial risks comprise currency risk, interest-rate risk and credit and counterparty risk, of which the most important is currency risk.

Currency risks
Currency risks comprise exchange-rate fluctuations, which have an impact on the Group's earnings and shareholders' equity. Currency exposure occurs in connection with payments in foreign currency (transaction exposure) and when translating foreign subsidiaries' balance sheets and income statements into SEK (translation exposure). The effect of exchange-rate fluctuations on earnings calculated using volumes and earnings in foreign currencies is presented in Note 26.

Transaction exposure. Payment flows as a result of sales income and cost of goods sold in foreign currencies cause currency exposure that affects Group earnings in the event of exchange-rate fluctuations. The Group's payment flows in foreign currencies consist mainly of the income generated by export sales. The most important currencies are USD, EUR, GBP, CAD, PLN, CNY and AUD. Based on Group companies forecasted currency flows, Group Finance hedges the most important currency exposures in line with the finance policy. Hedging is conducted using currency forward contracts.

Translation exposure – income statement. When translating the results of foreign Group companies into SEK, currency exposure occurs, which affects the Group's earnings when exchange rates fluctuate.

Translation exposure – balance sheet. Currency exposure occurs when translating net assets of foreign Group companies into SEK, which can affect the Group's other comprehensive income.

Sensitivity analysis. Arjo's earnings are affected by a series of external factors. The table below shows how changes to some of the key factors that are important to Arjo could have affected the Group's profit before tax in 2018.

	Change	SEK M
Price change	±1%	±82
Cost of goods sold	±1%	±46
Salary costs	±1%	±30
Interest rates	+/- 1 percentage point	±54

The effect of a ±1 percentage point change in interest rates on Arjo's profit before tax was calculated based on the Group's interest-bearing liabilities, excluding pension liabilities, at year-end 2018. The impact of a ±1 percentage point change in interest rates on equity is about SEK 42 M. Consideration was given to the effect of the various risk-management measures that Arjo applies in accordance with its approved policy.

Outlook 2019
Organic sales growth for 2019 is expected to be in line with the 2018 level of approximately 3%.

Operating expenses are expected to continue to decline slightly as a percentage of sales in 2019.

Corporate Governance

Corporate governance in Arjo

Arjo AB (publ) is a Swedish public limited liability company listed on Nasdaq Stockholm, Large Cap segment. Arjo's corporate governance is based on Swedish legislation, Arjo's Articles of Association, the Swedish Corporate Governance Code (the "Code"), Nasdaq Stockholm's Rule Book for Issuers, and other applicable rules and recommendations. The 2018 Corporate Governance Report is presented here.

Introduction

Arjo is a global supplier of medical devices and solutions that improve quality of life for people with reduced mobility and age-related health challenges. Arjo creates value by improving clinical outcomes for patients and enabling a better work environment for healthcare professionals. Arjo thereby contributes to a sustainable healthcare system – always with people in mind. Arjo's main customers are private and public institutions providing acute and long-term care.

Confidence in Arjo and its products is entirely decisive for continued sales successes. Corporate governance is aimed at ensuring the continued strong performance of the Group and, consequently, that the Group fulfills its obligations to shareholders, customers, employees, suppliers, creditors and society. The Group's corporate governance and internal regulations are consistently geared toward business objectives and strategies. The Group's risks are well-analyzed and risk management is integrated in the work of the Board and in operational activities. Arjo's organization and governance are designed to be able to react quickly to changes in the market and, accordingly, operational decision-making is decentralized and close to the customer, while overall decisions on strategy and approach are made by Arjo's Board of Directors and Management Team.

External and internal regulations

Arjo's corporate governance, in addition to the requirements of Swedish legislation, is based on the Swedish Corporate Governance Code ("the Code"), which is available at corporategovernanceboard.se. Arjo complies with the Code's regulations and presents an explanation below for any deviation from the Code's regulations in 2018. In addition to the Code, the Group's corporate governance is also based on Nasdaq Stockholm's Rule Book for Issuers, which is available at nasdaqomxnordic.com, and also the Swedish Securities Council's opinions on good practice on the Swedish stock market, which is available at aktiemarknadsnamnden.se. This Corporate Governance Report summarizes the organization of the corporate governance and how it was conducted and developed in 2018 fiscal year. The internal governing documents relating to Arjo's corporate governance include Arjo AB's Articles of Association, instructions and formal work plan for the Board of Directors, Board committees and CEO, various policies and guidelines as well as Arjo's Code of Conduct. The Articles of Association are available on Arjo's website, www.arjo.com.

General Meetings

Shareholders exercise their rights to make decisions concerning Arjo's affairs at the General Meeting (Annual General Meeting and Extraordinary General Meetings), which is Arjo's highest decision-making body. The Annual General Meeting will be held each year before the end of June in Malmö, Sweden. Extraordinary General Meetings can be convened when required. The General Meeting resolves on a number of issues, including the adoption of the income statement and balance sheet, appropriation of Arjo's profit or loss, discharge of Board members and the CEO in relation to the company, the structure of the Nomination Committee, the election of Board members (including the Chairman) and auditors. The General Meeting also resolves on remuneration of Board members and auditors, guidelines for the remuneration of the CEO and other senior executives, and any amendments to the Articles of Association. At the Annual General Meeting, shareholders are entitled to address questions about the company and its results for the year in question.

Notices of Annual General Meetings and Extraordinary General Meetings at which amendments to the Articles of Association are to be addressed shall be served not earlier than six weeks and not later than three weeks prior to the meeting. Notices of other Extraordinary General Meetings shall be served not earlier than six weeks and not later than three weeks prior to the meeting. Notification of the convening of General Meetings is issued through an advertisement being placed in Post- och Inrikes Tidningar and on www.arjo.com. At the time of notice, an announcement that the notice has been issued is to be published in Svenska Dagbladet.

Shareholders who are entered in the shareholders' register maintained by Euroclear five weekdays before the meeting and have notified the company of their desire to participate in the proceedings of the Meeting by the date specified in the notice of the Meeting will be entitled to participate in the General Meeting of shareholders with full voting rights.

Shareholders

For more information about the shareholders and the share, see pages 40–41 and www.arjo.com.

2018 Annual General Meeting

The AGM was held on May 4, 2018. The AGM resolved to adopt the income statement and balance sheet presented and to approve the Board's proposed appropriation of profits.

2019 Annual General Meeting

The 2019 Annual General Meeting will be held on Tuesday, May 7, 2019 at 11:00 a.m. in Malmö, Sweden. For further information, see Arjo's website, www.arjo.com.

Nomination Committee

The AGM held on May 4, 2018 resolved on an instruction for Arjo's Nomination Committee that is to apply until further notice. The Nomination Committee ahead of Annual General Meetings is to comprise representatives of the three largest shareholders in terms of the number of votes registered in the shareholders' register maintained by Euroclear as per August 31 in the year prior to the year in which the Annual General Meeting is to be held, a representative for minor shareholders and the Chairman of the Board who is also to convene the first meeting of the Nomination Committee. The Committee member representing the largest shareholder in terms of the number of votes is to be appointed Chairman of the Nomination Committee. The Nomination Committee is to present proposals on the Chairman of General Meetings, the Board of Directors, the Chairman of the Board, auditors, Board fees as specified between the Chairman and other Board members, remuneration for Committee work and fees to the company's auditors.

Nomination Committee ahead of 2019 Annual General Meeting

Ahead of the 2019 Annual General Meeting, Arjo's Nomination Committee comprised Carl Bennet (Carl Bennet AB), Per Colleen (Fourth Swedish National Pension Fund), Marianne Nilsson (Swedbank Robur), Maria de Geer representing the minor shareholders and Board Chairman Johan Malmquist. The Nomination Committee Chairman is Carl Bennet.

From its statutory meeting until the submission of the Annual Report, the Nomination Committee held two meetings. As a basis for its proposal to the 2019 AGM, the Nomination Committee made an assessment as to whether the current Board of Directors is suitably composed and meets the demands that are placed on the Board in view of the company's operations, position and other conditions. The Nomination Committee has interviewed the company's Board members and discussed the principal demands that should be made of Board members, including the requirement for independent members, and considered the number of Board assignments each member has for other companies, as well as highlighting the issue of a more even gender distribution.

The Nomination Committee has announced that it applied rule 4.1 of the Code as diversity policy in preparing proposals of Board members ahead of the 2019 AGM. The aim of the policy is that the Board is to have a composition appropriate to the company's operations, phase of development and other relevant circumstances and to exhibit diversity and breadth of qualifications, experience and background, and strive for an equal gender distribution.

Board of Directors

Composition and Board members' independence

According to the Articles of Association, Arjo's Board of Directors is to comprise not fewer than three (3) and not more than ten (10) members elected by the Annual General Meeting for the period up until the end of the next Annual General Meeting. The Board members are elected annually at the AGM to serve for the period up to and including the next AGM. Employees have the right to appoint two representatives and two deputy members to the Board. At the AGM held on May 4, 2018, Carl Bennet, Eva Elmstedt, Ulf Grunander, Carola Lemne, Joacim Lindoff and Johan Malmquist were elected Board members. Arjo's CEO, Joacim Lindoff, is a member of the Board and Arjo's CFO serves as secretary to the Board. Other executives of Arjo participate in Board meetings as rapporteurs for special issues.

According to the Code, a majority of the Board members elected by the Meeting are to be independent in relation to Arjo and the Management Team. In addition, in accordance with the Code, at least two of the Board members who are independent in relation to Arjo and the Management Team, must also be independent in relation to the company's major shareholders.

Arjo's composition during the year in terms of independent Board members met the requirements of item 4.5 of the Code, but not item 4.4, since albeit half, but not a majority, of the Board members are independent in relation to the company and the executive management. If Arjo's CEO Joacim Lindoff were not a member of the Board of Directors, the Board would meet the requirement of independence contained in item 4.4. However, the company and its principal owner are of the opinion that there is reason to deviate from the Code's independence requirement, since it is important that the company's CEO is not only a rapporteur at Board meetings, but also has a formal role as Board member, with the commitment and responsibility that this implies.

The Board members' individual shareholdings, their independence in relation to the company, executive management and major shareholders as well as their other assignments in other companies are presented in the table below and in the presentation of Board members on pages 50–51.

Board Chairman's responsibility

The Chairman of the Board follows Arjo's operations through continuous contact with the CEO. The Chairman organizes and heads the Board's work, and is responsible for ensuring that the other Board members receive satisfactory information and documentation for decision-making. The Chairman is also responsible for ensuring that new Board members continuously update and deepen their knowledge of Arjo and otherwise receive the continuous training required to enable Board work to be conducted efficiently. It is also the Chairman who is responsible for contacts with shareholders regarding ownership issues and for ensuring that the Board evaluates its work annually.

Board of Directors' responsibility and work

The work of the Board of Directors is governed mainly by the Swedish Companies Act, the Code and the Board's formal work plan. The Board's formal work plan also states that the Board's overall assignment is to assume responsibility for the Group's organization and management of its business, adoption of the Group's overall goals, development and follow-up of the overall strategies, decisions about major acquisitions, divestments and investments, decisions regarding potential placements and loans in accordance with the finance policy, continuous follow-up of the operations, adoption of the quarterly reports and year-end reports, and the continuous evaluation of the CEO and other members of the Management Team.

The Board is also responsible for ensuring the quality of the financial reporting, including systems for monitoring the internal control of Arjo's financial reporting and position (see "Internal control" below). In addition, the Board shall ensure that Arjo's external information disclosure is characterized by openness and is correct, relevant and clear. The Board is also responsible for adopting the required guidelines and other policy documents, such as the communications policy and the insider policy. Recurring items on the agenda of the Board's meetings include the following: business situation, project status, market issues, risk management, adoption of the interim report, strategic review, future outlook and economic and financial reporting. The Board held its statutory meeting on May 4, 2018 and convened ten times in 2018, with an average attendance rate of 97% of the elected members. At its scheduled meetings, the Board addressed fixed agenda items in accordance with the Board's formal work plan and other ongoing accounting and legal business matters.

Board committees

From among its own numbers, the Board established two committees, the Audit Committee and the Remuneration Committee, both of which work within the instructions established by the Board.

Board of Directors and Committees in 2018

			Committees		Attendance at meetings		
	Year elected	Independent	Audit Committee	Remuneration Committee	Board meetings	Audit Committee	Remuneration Committee
Johan Malmquist, Chairman of the Board	2017	No[1]		Chairman	10/10		3/3
Carl Bennet	2017	No[2]		Member	9/10		3/3
Carola Lemne	2017	Yes	Member		10/10	4/4	
Ulf Grunander	2017	No[1]	Chairman		10/10	4/4	
Eva Elmstedt	2017	Yes	Member		10/10	4/4	
Joacim Lindoff	2017	No[1]			10/10		
Board members appointed by employees							
Sten Börjesson	2017	–			10/10		
Ingrid Hultgren	2017	–			9/10		
Susanna Bjunö (Deputy)[3]	2017	–			7/10		
Kajsa Haraldsson (Deputy)	2017	–			10/10		
Eva Sandling Gralén (Deputy)[3]	2018	–			2/10		

1) Not independent in relation to the company and management
2) Not independent in relation to the company's major shareholders
3) Eva Sandling Gralén replaced Susanna Bjunö in September 2018

Audit Committee
The Audit Committee is to monitor Arjo's financial reporting, monitor the efficiency of the company's internal control and risk management with respect to its financial reporting, remain informed about the audit of the annual report and consolidated financial statements, review and monitor the impartiality and independence of the auditors and, in particular, whether the auditors have provided the company with services other than auditing services. The Audit Committee meets regularly with the auditor to discuss the coordination of internal control and external auditing.

Additionally, the Audit Committee is to assist the Nomination Committee in proposals for the AGM resolution on the election of auditors by, for example, ensuring that the auditor's mandate period does not exceed the time permitted by applicable laws, managing the procurement of auditing services (if appropriate) and submitting a recommendation of a proposal to the Nomination Committee.

The Committee shall also inform the Board of the result of the audit, including how the audit has contributed to the reliability of the company's financial statements, and otherwise conduct the work required to meet all of the requirements contained in the EU Audit Regulation. In addition, the Audit Committee will resolve on guidelines for the procurement of services other than audit services from the company's auditor and, if appropriate, approval of such services. Finally, the Audit Committee will evaluate the work of the auditor and inform the Nomination Committee of the result of this evaluation.

In 2018, Arjo's Audit Committee comprised Board members Ulf Grunander (Chairman), Eva Elmstedt and Carola Lemne. The Committee meets the requirements of the Swedish Companies Act regarding auditing and audit competence.

In 2018, the Committee held four minuted meetings, including informal contact when necessary. The attendance of members at the Committee meetings are presented in the table on page 47.

The company's auditors participated in all meetings convened by the Audit Committee. Jointly with the auditors, the Committee discussed and established the scope of the audit.

Remuneration Committee
The Remuneration Committee's main tasks of the Committee are to prepare the Board's decisions in matters involving remuneration principles, remuneration and other employment terms and conditions for the CEO and other senior executives, and to monitor and evaluate programs involving variable remuneration of the Management Team that are ongoing and were concluded during the year. The Committee will also monitor and evaluate the application of remuneration guidelines for senior executives that the Annual General Meeting resolved upon, as well as the applicable remuneration structures and remuneration levels within the company.

The Remuneration Committee comprises Johan Malmquist (Chairman) and Carl Bennet. The Committee held three minuted meetings in 2018, including informal contact when necessary. The attendance of members at the Committee meetings are presented in the table on page 47.

CEO and Management Team
The CEO is responsible for the continuous management and development of Arjo in accordance with applicable legislation and regulations, including Nasdaq Stockholm's Rule Book for Issuers, the Code and the guidelines, instructions and strategies established by the Board of Directors. The CEO is to ensure that the Board of Directors receives objective and relevant information as required for the Board to be able to make well-founded decisions. In addition, the CEO oversees that Arjo's goals, policies and strategic plans as established by the Board are followed and is responsible for informing the Board of Arjo's performance between Board meetings.

The CEO heads the work of the Management Team, which is responsible for overall business development. In addition to the CEO, the Management Team comprises the CFO, EVP Human Resources & CSR, EVP Quality & Regulatory Compliance, EVP Corporate Development & Projects, EVP Product Development and Supply Chain & Operations, EVP Segment and Product Marketing, EVP Marketing Communication & Public Relations, President Global Sales and President Sales & Service North America. At year-end 2018, the Management Team comprised ten individuals. These persons are presented on pages 52–53.

For information regarding remuneration, any share-related incentive programs and terms of employment for the CEO and other senior executives, see Note 5 starting on page 70.

External auditing
Arjo's Annual General Meeting elects external auditors for one year at a time. The auditors review the Annual Report and accounts, as well as the administration by the Board of Directors and the CEO, according to an audit plan adopted in consultation with the Board's Audit Committee. In conjunction with the audit, the auditors report their observations to the Management Team for consideration and then to the Board of Directors through the Audit Committee. The Board meets the auditors at least one a year, when they report their observations directly to the Board without the presence of Arjo's CEO or CFO. The auditors also take part in the Annual General Meeting, where they summarize their audit work and provide their recommendation for the Auditor's Report. Öhrlings PricewaterhouseCoopers AB has been Arjo's firm of auditors since the company was formed, with Authorized Public Accountant Magnus Willfors as Auditor in Charge since August 16, 2017. Magnus Willfors is also a member of FAR, the institute for the accountancy profession in Sweden.

Internal control
Introduction
The Board's responsibility for internal control is defined in the Swedish Companies Act, the Annual Accounts Act, which contains information regarding the most important aspects of Arjo's system for internal control and risk management in connection with financial reporting that must be included in the company's Corporate Governance Report each year, and the Code. For example, the Board of Directors is to ensure that Arjo has effective internal control and formalized procedures to ensure compliance with established principles for financial reporting and internal control. Arjo's internal control procedures are based on the internal control framework issued by COSO (Committee of Sponsoring Organizations of the Treadway Commission), which is based on 17 fundamental principles connected to five components. The internal control procedures are based on a control environment that creates discipline and structure for the other components: risk assessment, control activities, information and communication, and follow-up, evaluation and reporting. At the start of 2019, the Internal Control Group function was strengthened with the recruitment of a new employee to work on a broad front to examine processes and continue developments in risk assessment, control activities, information and communication as well as follow-up evaluation and reporting.

Meetings 2018

Date	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Board of Directors	■	■			■■■■		■		■	■		■
Audit Committee	■			■			■			■		
Remuneration Committee	■									■		■

The procedures for internal control, risk assessment, control activities and follow-up regarding the financial statements have been designed to ensure reliable overall financial reporting and external financial reporting in accordance with IFRS, applicable laws and regulations as well as other requirements, which are to be applied by companies listed on Nasdaq Stockholm. This work involves the Board of Directors, the Arjo Management Team and other personnel.

Control environment

The Board has adopted instructions and governing documents aimed at regulating the roles and allocation of responsibility between the CEO and the Board. The way in which the Board monitors and ensures the quality of the internal control is documented in the Board's formal work plan, Arjo's finance manual and the corporate governance policy, in which the Board has established a number of basic principles that are important for internal control work. The internal control work is also presented in other governing documents, such as Arjo's Code of Conduct, directive for risk management and internal control, and other policies established by the Board and directives established by the Management Team. These include checks and follow-ups of outcome compared with expectations and previous years, and supervision of accounting policies, for example, as applied by Arjo. The responsibility for maintaining an effective control environment and the continuous work on risk assessment and internal control regarding the financial reporting is delegated to the CEO. However, the Board of Directors has ultimate responsibility. Managers at various levels within Arjo have, in turn, the corresponding responsibility in their respective areas of responsibility. The Management Team regularly reports to the Board and the Audit Committee following established procedures. Responsibilities, powers, instructions, guidelines, manuals and policy documents and directives, alongside laws and regulations, comprise the control environment for financial reporting.

Risk assessment

Arjo conducts continuous risk assessment to identify risks relating to financial reporting. These risks include errors in the financial statements (for example, regarding accounting and valuation of assets, liabilities, revenue and costs, and other deviations), as well as irregularities and fraud. Risk management is built into every process and various methods are used to assess, uncover and prevent risks and to ensure that the risks to which Arjo is exposed are managed in accordance with established policies, directives and instructions.

Control procedures

The structure of control activities is of particular importance in Arjo's work to prevent and uncover risks and weaknesses in the financial reporting. The control structure comprises clear roles in the organization that enable effective distribution of responsibility for specific control activities, including authorization controls in the IT system and attestation controls. The continuous analysis made of the financial reporting is very important for ensuring that the financial statements do not contain any material errors.

Information and communication

Arjo has information and communication procedures to promote completeness and accuracy in the financial reporting. Policies, guidelines and internal instructions regarding financial reporting are available in electronic and printed form. Regular updates regarding amendments to accounting policies, reporting requirements or other disclosures are made available to and known by the relevant employees. Guidelines are in place with respect to external disclosure of information and these were drafted with the aim of ensuring that Arjo complies with the requirements for disseminating correct information to the market.

Follow-up activities, evaluation and reporting

The Board of Directors assesses the information provided by the Management Team on a continuous basis. Between Board meetings, the Board regularly receives updated information regarding Arjo's performance. The Group's financial position, strategies and investments are discussed at every Board meeting. The Board is also responsible for monitoring the internal control. This work includes ensuring that measures are taken to address any weaknesses, as well as following up proposals to address issues highlighted in connection with the external audit. Each year, the company carries out a self-assessment of risk management and internal control activities. This process includes a review of the manner in which established procedures and guidelines are applied. The Board receives information regarding important conclusions drawn from this annual assessment process, and regarding any measures to be taken relating to the company's internal control environment. The external auditors also report regularly to the Board of Directors.

Outcome 2018

The internal control environment was followed up and evaluated in 2018 by carrying out a self-assessment and, for selected companies and processes, was also supplemented with audits performed by the Internal Control function. The self-assessment concluded that the Group has a satisfactory control environment for covering material risks related to financial reporting.

Follow-on work

Over the next year, the continuing work related to internal control at Arjo will principally focus on risk assessment, control activities and follow-up/monitoring. The Internal Control function ensures that the self-assessment and audit of the control environment related to financial reporting are carried out and followed up with audits of selected units and processes. Outcomes and any deviations in the control environment are followed up and reported to the CFO and Audit Committee. Regarding the control environment that is not related to the financial reporting, the Internal Control function works together with the company's other compliance functions such as Quality and Regulatory Compliance and Legal Compliance.

Fees for Board and Committee work 2018 (SEK)

Name	Board fee	Committee fee	Total
Johan Malmquist	1,150,000	125,000	1,275,000
Carl Bennet	575,000	92,000	667,000
Eva Elmstedt	575,000	120,000	695,000
Ulf Grunander	575,000	240,000	815,000
Carola Lemne	575,000	120,000	695,000

Remuneration of Board of Directors

The General Meeting on May 4, 2018, resolved that fees, excluding committee fees, would be paid in an amount of SEK 1,150,000 to the Chairman of the Board and SEK 575,000 to each of the other Board members elected by the AGM who is not employed by Arjo.

For work on the Audit Committee, remuneration is paid in an amount of SEK 240,000 to the Chairman and SEK 120,000 to each of the other members.

For work on the Remuneration Committee, remuneration is paid in an amount of SEK 125,000 to the Chairman and SEK 92,000 to each of the other members.

None of the Board members has signed agreements with Arjo or any of its subsidiaries concerning benefits upon termination of their assignment. For complete information regarding remuneration of senior executives, refer to Note 5.

Board of Directors

Johan Malmquist
Born 1961.

Chairman of the Board and Board member since 2017. Chairman of the Remuneration Committee.
Education and professional experience: M.Sc. in Economics, Stockholm School of Economics. Previous experience as CEO and President of Getinge Group 1997–2015, Business Area Director within Getinge Group, President of Getinge Group's French subsidiary and President of subsidiaries within the Electrolux Group.
Other ongoing assignments/positions: Chairman of Aktiebolaget Tingstad Papper and Board member of Getinge AB (publ), Trelleborg AB (publ), Elekta AB (publ), Dunkerintressena, Mölnlycke AB, Medvisor AB, Stena Adactum AB and Chalmers University of Technology Foundation.
Earlier assignments/positions include: President & CEO of Getinge Group 1997–2015. Board member of Svenska Cellulosa Aktiebolaget SCA (publ) and Capio AB.
Holding: 100,000 series B shares and 2,380,952 synthetic share options.

Carl Bennet
Born 1951.

Vice Chairman of the Board since 2018 and Board member since 2017. Member of the Remuneration Committee.
Education and professional experience: M.Sc. in Economics, Gothenburg University and Dr. Tech. h.c., Luleå University of Technology. Earlier experience as President & CEO of Getinge 1989–1997.
Other ongoing assignments/positions: CEO and Chairman of Carl Bennet AB, Chairman of Getinge AB (publ), Lifco AB (publ) and Elanders AB (publ) and Board member of Holmen Aktiebolag (publ) and L E Lundbergföretagen Aktiebolag (publ).
Previous assignments/positions (past five years): Chairman of the Board of Gothenburg University.
Holding: 18,217,200 series A shares and 49,902,430 series B shares via Carl Bennet AB.

Eva Sandling Gralén
Born 1964.

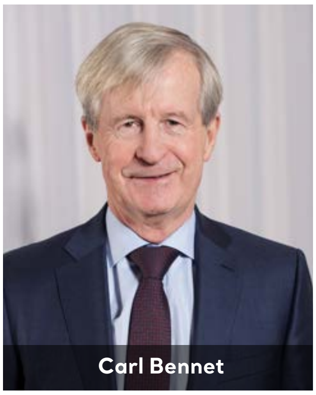
Employee representative (deputy Board member) since 2018.
Education and professional experience: Textile Engineering – Textile Technology, University of Borås. Bachelor of Environmental Science at Malmö University. Employed in Arjo's subsidiary, ArjoHuntleigh AB.
Other ongoing assignments/positions: -
Previous assignments/positions (past five years): -
Holding: -

Sten Börjesson
Born 1967.

Employee representative, member since 2017.
Education and professional experience: Upper-secondary education in economics and technology. Employed in Arjo AB.
Other ongoing assignments/positions: Owner of Höörs Antenn and Elektronikservice.
Previous assignments/positions (past five years): Member of the Board (employee representative) of Getinge AB 2007–2015.
Holding: -

Eva Elmstedt
Born 1960.

Board member since 2017. Member of the Audit Committee.
Education and professional experience: Bachelor degree in Economics and Computer Science, Indiana University of Pennsylvania, USA. Previous experience as EVP Global Services and member of the management team of Nokia Networks and Nokia Siemens Networks, as well as senior positions at Ericsson, the operator 3, and Semcon.
Other ongoing assignments/positions: Board member of Addtech AB (publ), Axiell Group AB, Gunnebo Group AB (publ), Proact IT Group AB (publ) and Thule Group AB (publ).
Previous assignments/positions (past five years): EVP Global Services and member of the management team of Nokia Networks and Nokia Siemens Networks.
Holding: 11,000 series B shares and 476,190 synthetic share options.




Ulf Grunander


Kajsa Haraldsson


Ingrid Hultgren


Carola Lemne


Joacim Lindoff

Ulf Grunander

Born 1954.

Board member since 2017. Chairman of the Audit Committee.
Education and professional experience: M.Sc. in Economics, Stockholm University. Previous experience as an authorized public accountant and CFO of Getinge Group 1993–2016.
Other ongoing assignments/positions: Chairman and CEO of Food Track i Malmö AB and Chairman of Nyströms Gastronomi & Catering AB and Djurgården Merchandise Handelsbolag, as well as Board member of AMF Pensionsförsäkring AB, Lifco AB (publ) and Djurgården Hockey AB.
Previous assignments/positions (past five years): Board member of a number of companies in Getinge Group, as well as CFO of Getinge Group 1993–2016.
Holding: 83,622 series B shares and 476,190 synthetic share options.

Kajsa Haraldsson

Born 1982.

Employee representative (deputy Board member) since 2017.
Education and professional experience: M.Sc. in industrial design engineering, Chalmers University of Technology. Employed in Arjo's subsidiary, ArjoHuntleigh AB.
Other ongoing assignments/positions: –
Previous assignments/positions (past five years): -
Holding: -

Ingrid Hultgren

Born 1958.

Employee representative, member since 2017.
Education and professional experience: Degree in microbiology, Uppsala University. Employed in Arjo's subsidiary, ArjoHuntleigh AB.
Other ongoing assignments/positions: General partner in Hultgreen Hedge kommanditbolag.
Previous assignments/positions (past five years): -
Holding: 4,000 series B shares.

Carola Lemne

Born 1958.

Board member since 2017. Member of the Audit Committee.
Education and professional experience: Licensed physician, M.D. and associate professor, Karolinska Institute. Previous experience as Medical Director of Pharmacia, Clinical Research Manager of Pharmacia Corp., CEO of Danderyd Hospital and President of Praktikertjänst AB and GD of the Confederation of Swedish Enterprise.
Other ongoing assignments/positions: Board member of Alecta, CEO of Calgo Enterprise and partner of Calgo Handelsbolag.
Previous assignments/positions (past five years): Chairman of Uppsala University and Board member of Getinge AB (publ), Praktikertjänst AB, Investor AB and Stiftelsen Forska! Sverige, AFA Sjukförsäkringsaktiebolag AB, AFA Trygghetsförsäkring AB, the Research Institute of Industrial Economics and the International Chamber of Commerce Stockholm and member of The Swedish Corporate Governance Board.
Holding: 3,000 series B shares and 238,095 synthetic share options.

Joacim Lindoff

Born 1973.

President & CEO since 2017.
Education and professional experience: M.Sc. in Economics, Lund University.
Other ongoing assignments/positions: –
Previous assignments/positions (past five years): Acting CEO of Getinge Group between August 2016 and March 2017, Executive Vice President of Getinge's former Infection Control business area, and Executive Vice President for the Surgical Workflows business area. Also served as the Chairman of the Board of the Swedish Medtech industry organization between 2010 and 2014.
Holding: 3,428 series B shares and 1,190,476 synthetic share options.

Auditors
Öhrlings PricewaterhouseCoopers

Magnus Willfors, Authorized Public Accountant, Auditor in Charge
Cecilia Andrén Dorselius, Authorized Public Accountant

Arjo Management Team

Joacim Lindoff

Born 1973.
President & CEO.

Education and professional experience: M.Sc. in Economics, Lund University. Previous experience from several positions within Getinge Group, including Acting CEO, Executive Vice President of Getinge's former Infection Control business area, and Executive Vice President for the Surgical Workflows business area. Also served as the Chairman of the Board of the Swedish Medtech industry organization.
Holding: 3,428 series B shares and 1,190,476 synthetic share options.

Jan Andersson

Born 1970.
EVP Segment and Product Marketing.

Education and professional experience: Studies in business administration, specialization in marketing, Mid-Sweden University, University of Wales and Lund University. Previous experience as Marketing Director of Baxter Renal, Interim VP Marketing of Baxter/Gambro (in conjunction with Baxters acquisition of Gambro), VP Marketing of DIAB Group and Marketing Director of Gambro Lundia AB.
Holding: 2,700 series B shares and 47,619 synthetic share options.

Katarzyna Bobrow

Born 1980.
EVP Quality & Regulatory Compliance

Education and professional experience: M.Sc. in Banking and finance, specialized in finance and monetary policy, Poznan University of Economics and Business and further studies in Quality Management, Poznan University of Technology. Previous experience of various positions in Getinge Group, including Senior Director QA Supply Chain and Operations. Also experience as Quality Specialist for Molex Polska.
Holding: 261,904 synthetic share options.

Marion Gullstrand

Born 1957.
EVP HR & Sustainability.

Education and professional experience: Bachelor's degree in psychology, four-year education in Gestalt Therapy – Organization and group level and EMBA – Executive Master in Business Administration, Lund University. Previous experience as HR Director of Wasa Group, VP HR of Trelleborg AB (publ), HR Director of IKEA Supply Chain Greater China Supply and other HR positions in IKEA Group, as well as various HR positions in Getinge Group, including Acting EVP HR & Sustainability.
Holding: 714,285 synthetic share options.

Jonas Lindqvist

Born 1962.
CFO.

Education and professional experience: M.Sc. in Economics, Lund University, EMBA, Stockholm School of Economics, and Advanced Management Program, Harvard Business School. Previous experience as CFO and member of the management team of several companies, including LR Holding AB, BMH Marine AB and companies in Nolato Group, as well as CFO and VP of Polyclad Europe/Cookson Electronics and EVP and CFO of Beijer Ref AB (publ).
Holding: 476,190 synthetic share options.


Joacim Lindoff


Jan Andersson


Katarzyna Bobrow


Marion Gullstrand


Jonas Lindqvist

Paul Lyon

Born 1962.
President Global Sales.

Education and professional experience: Bachelor's degree in engineering, Western Australian Institute of Technology. Previously held leading positions in several large industrial and health care groups, including Huntleigh Healthcare Plc UK, YTL Corporation JV Malaysia and Joyce Healthcare Group Australia. Also experience as Managing Director and President of different business areas within Getinge Group, including Getinge Group President APAC and Acting President & CEO of ArjoHuntleigh.
Holding: 476,190 synthetic share options.

Mikael Persson

Born 1967.
EVP Product Development and Supply Chain & Operations.

Education and professional experience: M.Sc. in Mechanical Engineering, Lund University. Previous experience of various positions in Alfa Laval, inter alia, VP Operations – Operations Development Manager, Supply Chain Director of Cardo Flow Solutions and Flügger A/S, VP Supply Chain of ArjoHuntleigh AB and COO Manufacturing Capital Equipment in Getinge Group.
Holding: 52,863 series B shares and 714,285 synthetic share options.

Kornelia Rasmussen

Born 1977.
EVP Marketing Communication & Public Relations.

Education and professional experience: IHM Business School and Communication, School of Education and Communication, Jönköping. Previous experience from various positions in Volvo Car Corporation, including as Director Corporate Communications and acting Senior Vice President – Public Affairs, and most recently as Executive Vice President Communications & Brand Management in Getinge Group.
Holding: 4,500 series B shares and 714,285 synthetic share options.

Anne Sigouin

Born 1969.
President Sales & Service North America.

Education and professional experience: Bachelor of Arts degree from Concordia University, Montreal, Quebec, Executive Education Leadership Consortium, Smith College, Northampton, MA, as well as numerous executive management programs. Previously held positions with increased scope and responsibilities in sales and marketing in Canada and in the US for Johnson & Johnson Medical Devices Companies and has also been Managing Director of ArjoHuntleigh AB in Canada and President of Getinge Group in Canada.
Holding: 309,523 synthetic share options.

Christian Stentoft

Born 1984.
EVP Corporate Development & Projects.

Education and professional experience: M.Sc. in Design and Innovation, Technical University of Denmark. Previously held various positions within Getinge Group, including VP Commercial Excellence & Head of PMO Asia Pacific and Extended Care Division – Director Business Strategy & Insights.
Holding: 714,285 synthetic share options.

Proposed appropriation of profit

Arjo AB (publ), Corp. Reg. No. 559092-8064

The following profits in the Parent Company are at the disposal of the Annual General Meeting:

Retained earnings	3,400,041,651
Net profit for the year	1,114,222,052
Total	4,514,263,703

The Board and Chief Executive Officer propose that a dividend of SEK

0.55 per share shall be distributed to shareholders	149,803,265
to be carried forward	4,364,460,438
Total	4,514,263,703

The Board of Directors deems the proposed dividend to be justified in relation to requirements that the Group's nature of business, scope and risks impose on consolidated shareholders' equity and the Group's consolidation requirements, liquidity and financial position.

The Board of Directors and CEO affirm that the consolidated financial statements have been prepared in accordance with international financial reporting standards IFRS, which have been adopted by the EU, and provide a fair and accurate account of the Group's financial position and profit. This Annual Report was prepared in accordance with generally accepted accounting policies and provides a fair and accurate account of the Parent Company's financial position and profit.

The Directors' Report for the Group and Parent Company provides a fair review of the performance of the Parent Company and the Group's operations, financial position and earnings and describes the material risks and uncertainties faced by the Parent Company and companies belonging to the Group.

Malmö, April 3, 2019

Johan Malmquist Chairman of the Board	Carl Bennet	Sten Börjesson	Eva Elmstedt
Ulf Grunander	Ingrid Hultgren	Carola Lemne	Joacim Lindoff President & CEO

Our auditor's report was submitted on April 3, 2019
Öhrlings PricewaterhouseCoopers AB

Magnus Willfors Authorized Public Accountant Auditor in Charge	Cecilia Andrén Dorselius Authorized Public Accountant

Consolidated financial statements

Consolidated income statement

SEK M	Note	2018	2017
Net sales	2, 3	8,217	7,688
Cost of goods sold	4	-4,555	-4,260
Gross profit		**3,662**	**3,428**
Selling expenses	4	-1,657	-1,571
Administrative expenses	4	-1,219	-1,136
Research and development costs	4, 28	-141	-134
Acquisition expenses	4	-3	–
Restructuring and integration costs	4	-113	-324
Adjustment of pension liability	4	-40	-
Other operating income		11	29
Other operating expenses		-7	-11
Operating profit (EBIT)	3, 4, 5, 6, 7, 18	**493**	**281**
Interest income and other similar items	8	11	15
Interest expenses and other similar expenses	9	-109	-117
Profit after financial items		**395**	**179**
Taxes	10	-99	-61
Net profit for the year		**296**	**118**
Attributable to:			
Parent Company shareholders		296	118
Earnings per share, SEK[1]	11	1.09	0.43
– weighted average number of shares for calculation of earnings per share (thousand)	11	272,370	272,370

[1] Before and after dilution.

Consolidated statement of comprehensive income

SEK M	Note	2018	2017
Net profit for the year		**296**	**118**
Other comprehensive income			
Items that cannot be restated in profit			
Actuarial gains/losses pertaining to defined-benefit pension plans		108	-165
Tax attributable to items that cannot be restated in profit		-18	32
Items that can later be restated in profit			
Translation differences	16	264	-345
Hedges of net investments	16	-126	49
Cash-flow hedges	16, 26	-52	101
Tax attributable to items that can be restated in profit		39	-33
Other comprehensive income for the period, net after tax		**215**	**-361**
Total comprehensive income for the year		**511**	**-243**
Comprehensive income attributable to:			
Parent Company shareholders		511	-243

Consolidated balance sheet

SEK M	Note	2018	2017
ASSETS			
Non-current assets			
Intangible assets	3, 4, 12	6,946	6,634
Tangible assets	3, 4, 12	1,153	1,134
Non-current financial receivables, interest-bearing	19	45	8
Non-current receivables for pensions, interest-bearing	19, 21	52	-
Non-current receivables, non-interest-bearing		34	12
Deferred tax assets	10	317	314
Total non-current assets		**8,547**	**8,102**
Current assets			
Inventories	13	1,117	1,104
Accounts receivable	14	1,802	1,898
Current tax assets		80	49
Current financial receivables	19	10	–
Derivatives, current	26	15	35
Other current receivables		342	186
Prepaid expenses and accrued income	15	188	164
Cash and cash equivalents	17, 19	961	672
Total current assets		**4,515**	**4,108**
Assets held for sale	24	74	-
TOTAL ASSETS		**13,136**	**12,210**

CONSOLIDATED BALANCE SHEET, CONTINUED.

SEK M	Note	2018	2017
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	16	91	91
Other reserves		543	419
Retained earnings		4,793	4,564
Equity attributable to the Parent Company shareholders		**5,427**	**5,074**
Non-current liabilities			
Non-current financial liabilities	19, 26	2,900	5,131
Provisions for pensions, interest-bearing	19, 21	27	61
Deferred tax liabilities	10	109	138
Other provisions, non-current	20	116	49
Total non-current liabilities		**3,152**	**5,379**
Current liabilities			
Other provisions, current	20	76	69
Current financial liabilities	19, 26	2,771	90
Accounts payable	26	458	541
Current tax liabilities		80	104
Derivatives, current	26	85	7
Other liabilities		259	174
Accrued expenses and deferred income	22	784	772
Total current liabilities		**4,513**	**1,757**
Liabilities held for sale	24	44	-
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**13,136**	**12,210**

For information about pledged assets and contingent liabilities, see Note 23.

Changes in shareholders' equity for the Group

SEK M	Share capital	Reserves[1]	Retained earnings	Total
Opening balance at January 1, 2017	**1**	**648**	**10,009**	**10,658**
Net profit for the year	–	–	118	118
Other comprehensive income for the year	–	-229	-132	-361
New share issue	90	–	–	90
Transactions with shareholders[2)]	–	–	-5,431	-5,431
Closing balance at December 31, 2017	**91**	**419**	**4,564**	**5,074**
Opening balance at January 1, 2018	**91**	**419**	**4,564**	**5,074**
Adjustment for prior years	-	-	-22	-22
Net profit for the year	-	-	296	296
Other comprehensive income for the year	-	124	91	215
Dividend	-	-	-136	-136
Closing balance at December 31, 2018	**91**	**543**	**4,793**	**5,427**

[1)] For reserves, see also Note 16.
[2)] For transactions with shareholders, see Note 25.

Cash-flow statements

SEK M	Note	2018	2017
Operating activities			
Operating profit (EBIT)		493	281
Add-back of amortization, depreciation and write-down		687	715
Other non-cash items	27	-84	36
Expensed exceptional items[1]		130	250
Paid exceptional items		-81	-63
Interest paid		-99	-114
Interest received		4	9
Other financial items		3	3
Taxes paid		-171	-135
Cash flow before changes to working capital		**882**	**982**
Changes in working capital			
Inventories		24	-103
Current receivables		95	176
Current liabilities		-10	-483
Cash flow from operations		**991**	**572**
Investing activities			
Acquired operations	24	-144	–
Acquired financial assets		-16	-
Investments in intangible and tangible assets		-642	-653
Divestment of intangible and tangible assets		85	1
Cash flow from investing activities		**-717**	**-652**
Financing activities			
Raising of loans	19	5,507	5,131
Repayment of interest-bearing liabilities	19	-5,336	0
Change in interest-bearing pension assets/provisions		-22	-53
Change in interest-bearing receivables		5	24
Change in other non-current receivables		-5	-
Dividend		-136	-
Transactions with shareholders		–	-5,796
Cash flow from financing activities		**13**	**-694**
Cash flow for the year	19	**287**	**-774**
Cash and cash equivalents at the beginning of the period		672	1,446
Cash flow for the year		287	-774
Translation differences		16	0
Reclassification to Assets held for sale		-14	-
Cash and cash equivalents at year-end	27	**961**	**672**

[1]Excluding write-downs on non-current assets.

Notes

Note 1 Accounting policies

General information
Arjo AB, which is the Parent Company of the Arjo Group, is a limited liability company with its registered offices in Malmö, Sweden. A description of the company's operations is included in the Directors' Report on page 42.

Basis of preparation
Arjo's consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS), as approved by the EU, and the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups.

Arjo applies the cost method to value its assets and liabilities, except as regards available-for-sale financial assets and financial assets and liabilities, including derivative instruments, at fair value through profit or loss, which are measured at cost either through profit or loss or other comprehensive income if they are hedging instruments attributable to cash-flow hedges. Additional information about the preparation of the consolidated financial statements is presented below.

The formation of the Arjo Group was a transaction under shared controlling influence (joint venture) and was not encompassed by any IFRSs, which meant that an appropriate accounting policy was to be applied in accordance with IAS 8. An applicable and accepted method is using previous carrying amounts (predecessor basis), which is the policy that Arjo has decided to apply.

The financial statements have been prepared based on the financial information reported for the above-mentioned entities for the purposes of consolidation in Getinge AB (publ), which was Arjo's Parent Company during the formation of the Arjo Group. Accordingly, the financial statements are an aggregate of this financial information and are presented as if the entities had been a group from the point in time that they had been a part of Getinge Group and means that the assets and liabilities of the unit are recognized in their carrying amounts for the highest level of the shared controlling influence (meaning Getinge AB).

Since not only legal entities were transferred in connection with the formation of the Arjo Group, the following considerations were made in the preparation of the financial statements, in addition to the policies used for determining which assets, liabilities, income, expenses and cash flows were to be included in the consolidated financial statements:

Acoounting and measurement policies for the combined financial statements until the spin-off from Getinge

Allocation of income and expenses
A prerequisite for preparing these financial statements is that income and expenses, and assets and liabilities, are based on items that can be identified for the comparative period and up until the spin-off since the company was not a legal Group during these periods. Getinge AB has applied internal cost allocations whereby central expenses, including IT and HR functions and other group staff function expenses, were debited to the respective units, which means that related expenses for Arjo have been included in these financial statements.

Remuneration of senior executives
No separate disclosures on remuneration of senior executives are presented for the period before April 1, 2017 since no management team of Arjo had been appointed prior to April 1, 2017. Board fees were paid from 2017.

Pension commitments
The majority of the pension commitments and related plan assets were recognized by each legal entity in Arjo for all periods, and were calculated in accordance with the policies presented below. Pension commitments and the fair value for directly attributable plan assets for these pension commitments were recognized in the financial statements based on the calculated commitments in accordance with IAS 19. Pension commitments and assets for which consent for transfer is required from a government authority or another party were included. Costs and remeasurement effects related to these commitments are reflected in the financial statements.

Derivatives and hedge accounting
Arjo's commercial flows until the spin-off were hedged in accordance with Getinge's finance policy via internal reporting for future flows, which in turn have been hedged by Getinge AB's treasury function. This function has handled all of Getinge Group's derivatives and hedging relationships regarding commercial flows and net investments. The derivatives and the hedge reserve attributable to Arjo regarding cash-flow hedges have been included in these financial statements. Since the derivatives have not been directly regulated, they are recognized as transactions with owners. Net investments were not hedged before the spin-off.

Financial expenses and capital structure
Financial expenses charged to the entities in Arjo for 2017 until the spin-off are based on actual borrowing and interest expenses in relation to Getinge's central treasury function and any external borrowing in the individual entities. Arjo's historical capital structure has not reflected that of a separate, listed entity since it has primarily been financed internally. Arjo's definitive capital structure was determined when Getinge distributed Arjo.

Income tax
As a result of Getinge being able to equalize tax between entities via Group contributions and similar methods, the entities comprising Arjo have not historically been levied tax as if they were an independent group.

Accordingly, tax in the past financial statements is recognized based on the taxable earnings of the entities and the Group's opportunities to equalize tax via, for example, Group contributions. Tax equalization that has taken place between Arjo and other Getinge companies has been recognized as a transaction with owners.

Earnings per share
The calculation of earnings per share for 2017 in these financial statements is based on the average number of shares outstanding that existed when Arjo was distributed, which amounts to 272,369,573 shares. This is deemed to be more relevant since the intention is to reflect the share structure that existed in Arjo in connection with the distribution of Arjo from Getinge. The actual number of shares was used for 2018.

Elimination of transactions in Arjo
Receivables, liabilities, income, expenses, and unrealized gains and losses arising between entities in Arjo are eliminated in their entirety. Unrealized losses are eliminated in the same manner as unrealized

NOTE 1 CONTINUED

gains, but only insofar as no impairment is required. Arjo has had a number of transactions with Getinge companies, and pricing complied with Getinge Group's transfer pricing policy. For additional information on transactions between Arjo and Getinge, see Note 25 Transactions with related parties.

Accounting and measurement policies after the spin-off from Getinge

The basis for preparation of Arjo's past financial statements is presented above.

The financial statements are presented in Swedish kronor (SEK). Unless otherwise stated, all amounts are given in millions of Swedish kronor (SEK M). Figures in parentheses pertain to operations in 2017, unless otherwise specified.

Significant estimates and assessments
To prepare the financial statements in accordance with IFRS, the company management is required to make assessments and assumptions that affect the recognized amounts of assets and liabilities and other information in the financial statements as well as the revenues and expenses recognized during the period. Estimates, assessments and assumptions are reviewed on a regular basis. The actual outcome may diverge from these assessments, estimates and assumptions. The Board of Directors and Arjo Management Team have deemed that the following areas may have a significant impact on Arjo's earnings and financial position:

Measurement of identifiable assets and liabilities in connection with acquisitions. In conjunction with acquisitions, all identifiable assets and liabilities in the acquired company are identified and measured at fair value, including the value of assets and liabilities in the previously owned share as well as the share attributable to non-controlling interests.

Goodwill and intangible assets with an indefinite useful life. The impairment requirement for goodwill and other intangible assets with an indefinite useful life is tested annually by Arjo in accordance with the accounting policy described here in Note 1. The recoverable amount for cash generating units has been established through the measurement of value in use. For these calculations, certain estimates must be made (see Note 12).

Pension commitments. Recognition of the expenses for defined-benefit pensions and other applicable retirement benefits is based on actuarial valuations, relying on assumptions for discount rates, future salary increases and expected inflation. In turn, the discount rate assumptions are based on rates for high-quality fixed-interest investments with durations similar to the pension plans (see Note 21).

Obsolescence reserve. Inventories are recognized at the lower of cost according to the first in/first out principle, and net realizable value. The value of inventories is adjusted for the estimated decrease in value attributable to products no longer sold, surplus inventories, physical damage, lead times for inventories, and handling and sales overheads. If the net realizable value is lower than the cost, a valuation reserve is established for inventory obsolescence (see Note 13).

Deferred tax. The measurement of loss carryforwards and the company's ability to utilize unutilized loss carryforwards is based on the company's assessments of future taxable income in various tax jurisdictions and includes assumptions regarding whether expenses that have not yet been subject to taxation are tax deductible. Deferred tax is recognized in profit or loss unless the deferred tax is attributable to items recognized in other comprehensive income, in which case the deferred tax is recognized together with the underlying transaction in other comprehensive income (see Note 10).

Subsidiaries
Subsidiaries are all companies over which Arjo exercises a controlling influence. Arjo controls a company when it is exposed to or has the right to variability of returns from its holding in the company and can affect these returns through its influence over the company.

Foreign currencies
Functional currency. Transactions in foreign currencies are translated to the functional currency of the financial statements according to the exchange rate on the date of the transaction. Receivables and liabilities in foreign currencies are measured at the closing day rate, and unrealized currency gains and losses are included in profit or loss. Exchange-rate differences attributable to operating receivables and liabilities are recognized in operating profit. Exchange-rate differences regarding financial assets and liabilities are recognized under other financial items.

Translation of foreign operations. Arjo applies the current method for translation of foreign subsidiaries' balance sheets and income statements. This means that all assets and liabilities in subsidiaries are translated at the closing day rate, and all income statement items are translated at average annual exchange rates. Translation differences arising in this context are due to the difference between the income statement's average exchange rates and closing day rates, and to the net assets being translated at a different exchange rate at year-end than at the beginning of the year. Translation differences are recognized under other comprehensive income. The total translation differences in conjunction with divestments are recognized together with the gain/loss arising from the transaction.

Revenue recognition 2017
The Group has three streams of income: products, services and rental. Income is measured at fair value excluding indirect sales tax and discounts provided. Income is recognized when essentially all risks and rights connected with ownership have been transferred to the buyer. This usually occurs in connection with delivery, after the price has been determined and collection of the receivable is appropriately secured. If delivery of finished products is postponed at the buyer's request, but the buyer assumes the proprietary rights and accepts the invoice (a "bill and hold" sale), income is recognized when the proprietary rights are transferred. Income is normally recognized once the buyer has accepted delivery and after installation and final inspection. However, income is recognized immediately after delivery if the installation and final inspection are of a simple nature, and after establishing provisions for estimated residual expenses. Income recognition for services takes place as and when the services are performed. For assignments extending over more than one accounting period, where the outcome can be measured in a reliable manner, income and expenses are recognized in relation to the degree of completion of the assignment on the closing date. This type of assignment exists to only a minor extent. For income recognition for rental, refer to the section on Arjo as a lessor.

Revenue recognition 2018
The Group has three streams of income: products, services and rental. Income is measured at fair value excluding indirect sales tax and discounts provided. Income from the sale of products is recognized when control of the goods is passed to the customer, which in the majority of cases takes place when the product leaves Arjo's warehouse. The products are often sold at volume discounts based on accumulated sales over a 12-month period. Income from the sale of products is recognized based on the price in the contract, less estimated volume discounts. Historical data is used to estimate the expected value of the discount and income is recognized only to the extent that it is highly probable that a material reversal will not occur. A liability (included in the item accrued expenses and deferred income) is recognized for expected volume discounts in relation to sales up to and including the closing date. If delivery of finished products is postponed at the buyer's request, but the buyer assumes the proprietary rights and accepts the invoice (a "bill and hold" sale), income is recognized when control is passed to the customer, which takes place when the products are placed in several locations in the warehouse. The Group's obligation to repair or replace defective products under normal guarantee rules is recognized as a

NOTE 1 CONTINUED

provision, refer to Note 20 Provisions.

The Group has both fixed-price service contracts and contracts on current account. Income from fixed price contracts are recognized over time in line with control of the services being passed to the customer. Income from contracts on current account is based on time spent and is recognized to the extent that Arjo has the right to invoice the customer (monthly). Advance payments from customers mainly refer to payments for service contracts. These contract liabilities are presented in Note 22 Accrued expenses and deferred income.

No financing component is deemed to exist on the date of sale since the credit period is 30–90 days, which is consistent with market practice.

Arjo applied the exemption not to provide disclosures on future contracted revenue since these have terms of less than one year.

For income recognition for rental, refer to the section on Arjo as a lessor.

Government grants

Government grants are measured at fair value when it is probable that the terms associated with the grants will be met and that the grants will be received. Government grants relating to costs are recognized in profit or loss. The income is recognized in the same period as the cost that the grants are intended to compensate. Government grants relating to the acquisition of assets reduce the assets' carrying amounts. Grants affect recognized earnings over the assets' useful life by reducing depreciation.

Financial income and expenses 2017

Financial income and expenses include interest income on bank deposits and receivables, interest expenses on loans, income from dividends, unrealized and realized profits and losses on financial investments, exchange-rate differences, and the change in value of derivative instruments used in financial activities. Borrowing costs in conjunction with the raising of loans are recognized as part of the loan to which they pertain and are charged to profit during the term of the loan.

Financial income and expenses 2018

Financial income and expenses include interest income on bank deposits and receivables, interest expenses on loans, income from dividends, unrealized and realized profits and losses on financial investments, exchange-rate differences, and the change in value of derivative instruments used in financial activities. Borrowing costs in conjunction with the raising of loans are recognized as part of the loan to which they pertain and are charged to profit during the term of the loan. Interest income on the receivables and interest expenses on liabilities are calculated by applying the effective interest method. The effective rate is the rate that makes the present value of all estimated inward and outward payments during the expected fixed-interest term equal to the carrying amount of the receivable or liability.

Intangible assets

Goodwill. Goodwill comprises the portion of a purchase price for an acquisition that exceeds the market value of the identifiable assets, with deductions for liabilities and contingent liabilities, calculated on the acquisition date, on the share of the acquired company's assets acquired by Arjo. In a business acquisition whereby the acquisition costs are less than the net value of acquired assets, assumed liabilities and contingent liabilities, the difference is recognized directly in profit or loss. Goodwill arising in conjunction with the acquisition of a foreign entity is treated as an asset in the foreign entity and translated at the exchange rate on the closing date. An impairment test of goodwill is conducted at least once per year or more often if there is an indication that there could have been a decrease in value. Impairment of goodwill is recognized in profit or loss. The gain or loss in connection with the divestment of an entity includes the residual carrying amount of goodwill that pertains to the divested unit.

Other intangible assets. Other intangible assets comprise capitalized development costs, customer relationships, technical know-how, trademarks, agreements and other assets. Intangible assets are recognized at cost with deductions for accumulated amortization and any impairment. Amortization is applied proportionally over the asset's anticipated useful life, which usually varies between three and 15 years. Acquired intangible assets are recognized separately from goodwill if they fulfill the criteria for qualifying as an asset, implying they can be separated or they are based on contractual or other legal rights and that their market value can be established in a reliable manner. Intangible assets that are recognized separately from goodwill in acquisitions of operations include customer relationships, technical know-how, trademarks, agreements, etc. Acquired intangible assets are measured at market value and amortized on a straight-line basis over their anticipated useful life. The useful life can, in certain cases, be indefinite. These intangible assets are not amortized. Instead they are subject to an impairment test at least every year or more often if there is an indication that there could have been a decrease in value. Costs for development, whereby research results or other knowledge is applied to produce new products, are recognized as an asset in the balance sheet to the extent that these products are expected to generate future financial benefits. These costs are capitalized when management deems that the product is technically and financially viable, which is usually when a product development project has reached a defined milestone in accordance with an established project model. The capitalized value includes expenses for material, direct expenses for salaries and indirect expenses that can be assigned to the asset in a reasonable and consistent manner. In other cases, development costs are expensed as they arise. Research costs are charged to earnings as they arise. Capitalized expenses are amortized on a straight-line basis from the point in time at which the asset is put into commercial operation and during the asset's estimated useful life. The amortization period is between three and 15 years.

Tangible assets

Properties, machinery, equipment and other tangible assets are recognized at cost, with deductions for accumulated depreciation and any impairment. The cost includes the purchase price and expenses directly attributable to the asset to bring the asset to the site and in the working condition for its intended use. Examples of directly attributable expenses included in the cost are delivery and handling costs, installation, legal services and consultancy services. Assets provided to the company in conjunction with the acquisition of new subsidiaries are recognized at market value on the acquisition date. Depreciation is conducted straight line. The value in the balance sheet represents the acquisition cost with deduction for accumulated depreciation and any impairment. Land is not depreciated since it is deemed to have an infinite economic life. However, the depreciation of other assets is based on the following anticipated useful lives:

Class of assets	Depreciation, number of years
Land	40 – 50
Buildings	10 – 50
Machinery	5 – 25
Equipment	10
Production tools	5
Rental equipment	5
Cars	4
Computer equipment	3

Tangible assets comprising parts with different useful lives are treated as separate components of tangible assets. Standard maintenance and repair costs are expensed during the periods in which they arise. More extensive repair and upgrading costs are capitalized and depreciated over the item's remaining anticipated useful life. Capital gains/losses are recognized under "Other operating income/expenses."

Leases. Arjo as a lessee

Financial leases. Financial leases are recognized as non-current and current liabilities. Payments regarding financial leases are divided between interest expenses and depreciation of the liability. In 2018, Arjo signed sale and leaseback agreements with existing financiers whereby

NOTE 1 CONTINUED

the asset is later sold on to external customers under a financial lease. The contractual terms of these two parts reflect each other. A financial lease liability to external financiers is recognized in the balance sheet and a financial lease receivable from external customers. Sales income is recognized in profit or loss when control and the risk are passed to the external customer.

Operating leases. Leasing of assets whereby the lessor essentially remains the owner of the asset is classified as operating leases, and payments made according to operating lease contracts or rental agreements are expensed proportionally during the lease or rental period, respectively. Any compensation, according to agreement, that the lessee is obliged to pay to the lessor if the lease is terminated prematurely is expensed during the period in which the contract is terminated.

Leases. Arjo as a lessor

Leases are defined in two categories, operational and financial, depending on the financial significance of the agreement. Operating leases are recognized as non-current assets. Income from operating leases is recognized evenly over the lease term. Straight-line depreciation is applied to these assets in accordance with the undertakings and the depreciation amount is adjusted to correspond with the estimated realizable value when the undertaking expires. The estimated impairment requirement is immediately charged to profit or loss. The products' estimated realizable value at the expiration of the undertaking is continuously followed up on an individual basis. Financial leases are recognized as non-current and current receivables. Payments received from financial leases are divided between interest income and depreciation of receivables.

Impairment

At the end of each accounting period, the carrying amount of the assets is assessed to determine whether there is any indication that impairment is required. If there is such an indication, the asset's recoverable amount is established. The recoverable amount is deemed to be the higher of the asset's net realizable value and its value in use, for which the impairment loss is recognized as soon as the carrying amount exceeds the recoverable amount. Previously recognized impairment on other intangible assets and tangible assets are reversed if the recoverable amount is deemed to have increased, although the impairment is not reversed to an amount greater than what the carrying amount would have been if no impairment had been recognized in earlier years. Recognized impairments of goodwill are not reversed.

Inventories

Inventories are measured at the lower of cost and production value, according to the first in/first out (FIFO) principle, and net realizable value. Inventories include a share of indirect costs related to this. The value of finished products includes raw materials, direct work, other direct costs and production-related expenses including depreciation. The net realizable value is calculated as the estimated sales price less estimated completion and selling expenses. An assessment of obsolescence in inventories is conducted on an ongoing basis during the year. The value of inventories is adjusted for the estimated decrease in value attributable to products no longer sold, surplus inventories, physical damage, lead times for inventories, and handling and sales overheads. If the net realizable value is lower than the cost, a valuation reserve is established for inventory obsolescence.

Accounts receivable 2017

Accounts receivable are financial assets that are not derivatives, with fixed or determinable payments that are not quoted on an active market. Accounts receivable are initially measured at fair value and in the subsequent periods at amortized cost using the effective interest method, less any reserve for decline in value.

A reserve for decline in value of accounts receivable is established when there is objective evidence that the Group will not receive all of the amounts that are due under the original terms of the receivable. The amount of the reserve comprises the difference between the carrying amount of the asset and the present value of the estimated cash flows, discounted by the effective interest of the receivable. The carrying amount of the asset is reduced by using a provision for depreciation. When a receivable cannot be collected, it is derecognized from the provision for depreciation for accounts receivable. Recovery of amounts that were previously derecognized was credited to the item selling expenses in the income statement.

Accounts receivable 2018

Accounts receivable are financial assets that are not derivatives, with fixed or determinable payments that are not quoted on an active market. Accounts receivable are initially measured at fair value. The Group holds accounts receivable to collect the contractual cash flows and, accordingly, measures them at amortized cost on the following reporting dates using the effective interest method, less any reserve for decline in value. See Impairment of financial assets under Financial Instruments for further information about the Group's accounting policies for accounts receivable.

Financial instruments 2017

A financial asset or financial liability is recognized in the balance sheet when the company is party to the contractual conditions of the instrument. A financial asset is derecognized from the balance sheet when the contractual rights to the asset are realized, extinguished or the company loses control over them. A financial liability is derecognized from the balance sheet when the contractual obligation has been fulfilled or in some other manner extinguished. Acquisitions and sales of financial assets are recognized on the transaction date, which is the date on which the company commits to acquire or sell the assets, apart from cases in which the company acquires or sells listed securities, when liquidity-date reporting is applied.

Financial instruments are recognized at amortized cost or fair value, depending on the initial classification according to IAS 39 (see pages 83–86). At the end of each accounting period, the company assesses whether there are objective indications that a financial asset or group of financial assets requires impairment.

Further information about financial instruments can be found in Note 14 Accounts receivable and Note 26 Financial risk management.

Financial assets measured at fair value through profit or loss. Financial assets in this category comprise derivatives. They are included in current assets if they are expected to be settled within 12 months of the end of the reporting period, otherwise, they are classified as non-current assets. All derivatives are measured at fair value in the balance sheet. Changes in fair value are recognized as a component of other comprehensive income insofar as they are part of a hedging relationship that qualifies as hedge accounting. They are reversed to profit or loss when the hedged transaction occurs, at which point they are recognized as part of gross profit.

Loan receivables and accounts receivable. Assets in this category comprise non-current financial receivables, accounts receivable and other current receivables. They are included in current assets with the exception of items that fall due more than 12 months after the end of the reporting period, which are classified as non-current assets. Assets in this category are initially measured at fair value including transaction costs.

After the acquisition date, they are recognized at amortized cost using the effective interest method. Accounts receivable are recognized in the amounts that are expected to be received after deductions for doubtful receivables, which are assessed on a case-by-case basis. The expected term of accounts receivable is short, which is why amounts are recognized at nominal values without discounting.

Any impairment of accounts receivable is recognized in operating expenses.

Cash and cash equivalents. The major portion of cash and cash equivalents comprises cash funds held at financial institutions, and only a minor portion comprises current liquid investments with a term from the acquisition date of less than three months, which are exposed to only an insignificant risk of value fluctuations. Cash and cash equivalents are recognized at nominal amounts, which are equivalent to fair value.

NOTE 1 CONTINUED

Other financial liabilities. This category includes non-recurring financial liabilities, accounts payable and other current liabilities. Non-current liabilities have an expected term longer than one year while current liabilities have a term of less than one year. Items in this category are initially measured at fair value and in the subsequent periods at amortized cost using the effective interest method.

Hedge accounting. For derivative instruments or other financial instruments that meet hedge-accounting requirements under the cash-flow hedging method or hedging of net investments in foreign operations method, the effective component of the value change is recognized in other comprehensive income. Accumulated value changes from cash-flow hedges are reversed from shareholders' equity to profit or loss at the same time as the hedged item impacts profit or loss. Accumulated value changes from the hedging of net investments in foreign operations are reversed from shareholders' equity to profit or loss when the foreign operation is divested in full or in part. The effect of the hedge is recognized on the same line as the hedged item.

Fair value. The fair value of derivative instruments was calculated using inputs comprising the most reliable market prices available. This requires all instruments that are traded in an effective market, such as currency forward contracts, to be measured at market-to-market prices. Arjo has no instruments for which no reliable prices were available in the market. Translation to SEK is conducted at the closing day rate. Additional information can be found in Note 26 Financial risk management.

Financial instruments 2018

A financial asset or financial liability is recognized in the balance sheet when the company is party to the contractual conditions of the instrument. A financial asset is derecognized from the balance sheet when the contractual rights to the asset are realized, extinguished or the company loses control over them. A financial liability is derecognized from the balance sheet when the contractual obligation has been fulfilled or in some other manner extinguished. Acquisitions and sales of financial assets are recognized on the transaction date, which is the date on which the company commits to acquire or sell the assets, apart from cases in which the company acquires or sells listed securities, when liquidity-date reporting is applied.

Financial instruments are initially measured at cost corresponding to the fair value of the instrument, plus transaction costs for all financial instruments except for those that belong to the category of fair value through profit or loss, which are measured at fair value excluding transaction costs. The classification determines how the financial instruments are measured after initial recognition, as described below. The classification of financial assets that are debt instruments is determined by the business model for the portfolio in which the financial asset is included and the characteristics of the contractual cash flows. Arjo's business model for all financial assets that are debt instruments is to collect the principal and any interest on the principal. The contractual cash flows for these assets comprise solely principal and interest on the principal, which is why they are classified as financial assets measured at amortized cost. All financial liabilities are classified as amortized cost except for derivative instruments and additional purchase consideration classified as fair value through profit or loss. Further information about financial instruments can be found in Note 14 Accounts receivable and Note 26 Financial risk management.

Financial assets measured at fair value through profit or loss. Financial assets in this category comprise derivatives. They are included in current assets if they are expected to be settled within 12 months of the end of the reporting period, otherwise, they are classified as non-current assets. All derivatives are measured at fair value in the balance sheet. Changes in fair value are recognized in profit or loss, except for the effective portion of the derivatives that is included in a hedging relationship that qualifies as hedge accounting, which is described below. They are reversed to profit or loss when the hedged transaction occurs, at which point they are recognized as part of gross profit.

Financial assets measured at amortized cost. The Group only classifies its financial assets as assets recognized at amortized cost when the asset is included in a business model the aim of which is to collect contractual cash flows, and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Assets in this category comprise non-current financial receivables, accounts receivable and other current receivables. They are included in current assets with the exception of items that fall due more than 12 months after the end of the reporting period, which are classified as non-current assets. Assets in this category are initially measured at fair value including transaction costs. After the acquisition date, they are recognized at amortized cost using the effective interest method. Accounts receivable are recognized in the amounts that are expected to be received after deductions for expected credit losses, which are assessed on a case-by-case basis. The expected term of accounts receivable is short, which is why amounts are recognized at nominal values without discounting. Any impairment of accounts receivable is recognized in operating expenses.

Cash and cash equivalents. The major portion of cash and cash equivalents comprises cash funds held at financial institutions, and only a minor portion comprises current liquid investments with a term from the acquisition date of less than three months, which are exposed to only an insignificant risk of value fluctuations.

Impairment of financial assets. On the closing date, the Group assesses the impairment requirement of a financial asset or a group of financial assets. These assessments are individual. All financial assets, except for those that belong to the category of financial assets measured at fair value through profit or loss, are tested for impairment. The majority of these financial assets that are subject to impairment rules (accounts receivable) are current, which is why the Group has chosen to apply the simplified approach whereby expected credit losses are recognized for the full lifetime from the date of initial recognition. Impairment requirements for accounts receivable are determined based on past experience of customer losses on similar receivables and an assessment of forward-looking information. The assessment comprises expected credit losses over the full lifetime of the asset based on various probability-weighted scenarios. Accounts receivable for which impairment requirements have been identified are recognized at the present value of the expected future cash flows. The impairment requirement of expected credit losses for receivables for which no individual impairment requirement has been identified is assessed collectively. Receivables with short terms are not discounted since the effect is not material.

Financial liabilities measured at fair value through profit or loss Financial liabilities in this category comprise derivatives and additional purchase consideration. All derivatives are measured at fair value in the balance sheet. Changes in fair value are recognized in profit or loss, except for the effective portion of the derivatives that meets hedge-accounting requirements, which are described below.

Financial liabilities measured at amortized cost. This category includes non-recurring financial liabilities, accounts payable and other current liabilities. Non-current liabilities have an expected term longer than one year while current liabilities have a term of less than one year. Items in this category are initially measured at fair value and in the subsequent periods at amortized cost using the effective interest method.

Net recognition of financial instruments Financial assets and liabilities are offset and recognized at a net amount in the balance sheet only when the company has a legally enforceable right of offset and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. The legal right may not be contingent on a future event and must be legally enforceable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy. The Group has netting agreements for derivatives (ISDA) but does not meet the requirements for net recognition of these.

NOTE 1 CONTINUED

Hedge accounting. The Group enters into derivative instruments to hedge the risks of currency exposure to which the Group is exposed. The requirements for hedge accounting include that there must be an economic relationship between the hedging instrument and the hedged item and that the economic relationship does not have a material impact on credit risk. The hedge ratio is to follow the quantity of the hedging instrument and the hedged item. Hedging documentation is also required that details the company's target and risk management strategy, the identified hedging instrument, the identified hedged item, the risk that is to be hedged and a strategy for monitoring effectiveness. Derivative instruments or other financial instruments that meet hedge-accounting requirements under the cash-flow hedging method or hedging of net investment in a foreign operation method are recognized as follows.

Cash-flow hedges of intra-Group purchases and sales in foreign currency. The currency forward contracts used for hedging of highly probable forecast transactions in foreign currency (cash-flow hedging) are measured at fair value in the balance sheet. The changes in value for the period, to the extent that they comprise an effective hedge, are recognized in other comprehensive income and the accumulated changes in value in a separate component of equity (the hedge reserve) until the hedged flow impacts net profit for the year, at which point the hedging instrument's accumulated changes in value are reclassified to net profit for the year in connection with the hedged item impacting the statement of income. The ineffective portion of the change in the value of the hedging instrument that exceeds the change in the value of the hedged item is recognized directly in the statement of income.

Hedging of currency risk in foreign net investments. Investments in foreign subsidiaries (net assets including goodwill) have been hedged to a certain extent by using currency loans as hedging instruments. Exchange-rate differences on currency loans for the period less deductions for tax effects are recognized in the statement of income. Accumulated value changes from the hedging of net investments in foreign operations are reversed from shareholders' equity to profit or loss when the foreign operation is divested in full or in part. The effect of the hedge is recognized on the same line as the hedged item.

Valuation techniques for determining fair value The fair value of derivative instruments was calculated using the most reliable market prices available. This requires all instruments that are traded in an effective market, such as currency forward contracts, to be measured at market-to-market prices. The fair value of the additional purchase consideration was determined based on inputs that are not based on observable market information. Accordingly, the are classified at level 3 of the fair value hierarchy. See Note 26 for more information about the Group's valuation processes.

Remuneration of employees

Recognition of pensions. Arjo has both defined-contribution and defined-benefit pension plans, of which some have assets in special funds or similar securities. The plans are usually financed by payments from the respective Group companies and the employees. Arjo's Swedish companies are generally covered by the ITP plan, which does not require any payments from employees.

Defined-benefit plans. Pension expenses for defined-benefit plans are calculated using the Projected Unit Credit Method in a manner that distributes expenses over the employee's working life. The calculation is performed annually by independent actuaries. These commitments are measured at the present value of expected future payments, with consideration for calculated future salary increases, utilizing a discount rate corresponding to the interest rate of first-class company or government bonds with a remaining term that is almost equivalent to the actual commitments. Arjo's net liabilities for each defined-benefit plan (which is also recognized in the balance sheet), comprises the present value of the obligation less the fair value of the plan assets. If the value of the plan assets exceeds the value of the obligation, a surplus arises, which is recognized as an asset. The recognized asset value is limited to the total of costs related to services rendered during previous periods and the present value of future repayments from the plan, or reductions in future contributions to the plan. The actuarial assumptions constitute the company's best assessment of the different variables that determine the costs of providing the benefits. When actuarial assumptions are used, the actual results could differ from the estimated results, and actuarial assumptions change from one period to another. These differences are recognized as actuarial gains and losses. Actuarial gains and losses are recognized in other comprehensive income for the period in which they are incurred.

Costs for defined-benefit pension plans in profit or loss comprise the total costs for service during the current and earlier years, interest on commitments and the expected return on plan assets. Costs for service during the current period and previous periods are recognized as employee costs. The interest component of pension expenses is recognized under financial expenses.

Defined-contribution plans. Defined-contribution plans are plans in which the company pays fixed fees to a separate legal entity and does not have any legal or informal obligation to pay additional fees. Arjo's payments for defined-contribution plans are recognized as expenses during the period in which the employees perform the services that the fee covers. The part of the Swedish ITP plan concerning family pension, disability pension, and employment group life insurance financed by insurance with Alecta is a defined-benefit pension multi-employer plan. For this pension scheme, according to IAS 19, a company is primarily to recognize its proportionate share of the defined-benefit pension commitment and the plan assets and expenses associated with the pension plan. The financial statements are also to include disclosures required for defined-benefit pension plans. Alecta is currently unable to provide the necessary information and therefore the above pension plans are recognized as defined-contribution plans in accordance with item 30 of IAS 19. This means that premiums paid to Alecta will also be recognized on an ongoing basis as expenses in the period to which they pertain.

Provisions

Provisions are recognized when Arjo has a legal or informal obligation as a result of past events and it is probable that payment will be required to fulfill the commitment and if a reliable estimation can be made of the amount to be paid. Pensions, deferred tax liabilities, restructuring measures, guarantee commitments and similar items are recognized as provisions in the balance sheet. Provisions are reviewed at the end of each accounting period.

Contingent liabilities

Contingent liabilities are commitments not recognized as liabilities/provisions either because it is not certain that an outflow of resources will be required to regulate the commitment or because it is not possible to make a reliable estimate of the amount.

Income taxes

Arjo's income tax include taxes on Group companies' profits recognized during the accounting period and tax adjustments attributable to earlier periods and changes in deferred taxes. Measurement of all tax liabilities/receivables is conducted at nominal amounts and in accordance with enacted tax regulations and tax rates or those that have been announced and will almost certainly be adopted.

Tax is recognized directly in other comprehensive income and shareholders' equity if the tax is attributable to items that are recognized directly in comprehensive income and shareholders' equity. Deferred tax is calculated to correspond to the tax effect arising when final tax is determined. Deferred tax corresponds to the net effect of tax on all existing differences between fiscal and carrying amounts of assets and liabilities by applying applicable tax rates. Temporary differences primarily arise from the depreciation of properties, machinery and equipment, the market valuations of identifiable assets, liabilities and contingent liabilities in acquired companies, the market valuation of investments classified as available-for-sale and financial derivatives, gains from intra-group inventory transactions, untaxed reserves and tax loss carryforwards, of which the latter is recognized as an asset only to the extent that it is probable that these loss carryforwards will be matched by future taxable profits. Deferred tax liabilities pertaining to temporary differences that are attributable to investments in subsidiaries and affiliates are not recognized, since the Parent Company, in each instance, can control the point in time of reversal of the temporary differences and a reversal in the foreseeable future has been deemed improbable.

Segment reporting
Arjo's operations comprise one operating segment, which is why only the disclosures in Note 3 are presented. The reporting of operating segments corresponds to the internal reporting submitted to the chief operating decision maker. This function in Arjo was identified as the CEO.

Cash-flow statement
Cash-flow statements are prepared in accordance with IAS 7 Statement of Cash Flows, indirect method. The cash flows of foreign Group companies are translated at average exchange rates. Changes in the Group structure, acquisitions and divestments are recognized net, excluding cash and cash equivalents, under "Acquired operations" and "Divested operations" and are included in cash flow from investing activities.

Dividend
Dividends proposed by the Board of Directors are not deducted from distributable earnings until the dividend has been approved by the Annual General Meeting (AGM).

Alternative performance measures
Alternative performance measures are presented in this report to monitor Arjo's operations, the primary measures being adjusted EBITDA, cash conversion and net debt/equity ratio. Definitions and reconciliations of the alternative performance measures are presented on pages 100–103.

New accounting policies applied by Arjo in 2018
No standards, amendments or interpretations effective from the fiscal year beginning on January 1, 2018 had a material impact on Arjo's financial statements. Comments on the introduction of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers are provided below:

IFRS 9 Financial instruments
IFRS 9 Financial Instruments is applied from the 2018 fiscal year and replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new rules on, for example, the classification and measurement of financial instruments, write-down of financial instruments, and hedge accounting.

The new rules did not impact the classification and measurement of material financial instruments, in the form of accounts receivable, accounts payable, liabilities to credit institutions and receivables and liabilities to Group companies, in the financial statements. All above-mentioned material items are recognized at amortized cost and will continue to be recognized according to this approach under IFRS 9.

The reserves for expected losses have not changed. Given the fact that the Group's customers have high credit ratings and confirmed customer losses have historically been low, the rules on impairment have not had a material impact on the Group's financial position. No forward-looking factors had any additional effects.

Arjo has decided to apply the rules on hedge accounting in IFRS 9. Hedge accounting is applied to currency forward contracts held for managing currency exposure that arises during operations. This takes place through cash-flow hedges of internal product flows and hedges of net investments. The introduction of the new standard did not have any effect on Arjo's financial position. Arjo applied IFRS 9 retrospectively from January 1, 2018 and in accordance with the standard did not restate comparative figures.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 introduces new requirements for income recognition and replaces IAS 18 Revenue, IAS 11 Construction Contracts and several IFRS income-related interpretations. Arjo applies IFRS 15 from the 2018 fiscal year. The standard provides more detailed guidance in many areas that were not previously described in previously applicable IFRS, for example, recognizing contracts with multiple performance obligations, variable consideration and whether or not income is to be recognized over time.

The implementation of IFRS 15 did not have any material impact on the financial statements. Parts of Arjo's income flows pertain to rental income that is not encompassed by IFRS 15 and thus were not impacted by the introduction of the standard.

However, IFRS 15 does entail new disclosure requirements. From 2018, sales per type of revenue have been added to Note 2 of this interim report, in addition to the previous sales per region. Arjo applied the modified retrospective approach for IFRS 15, which means that comparative figures are not restated.

New and revised standards and interpretations that have not yet come into effect
A number of new standards and interpretations will come into effect for fiscal years beginning on January 1, 2019 and were not applied when preparing these financial statements. None of these are expected to have any material impact on Arjo's financial statements with the exception of the following:

IFRS 16 Leases
IFRS 16 Leases comes into effect for the fiscal year beginning on January 1, 2019. The amendment compared with the current IAS 17 Leases is that all contracts in which the Group is the lessee are to be recognized in the balance sheet as an asset and a liability, except for short-term leases or leases where the underlying asset has a low value. The income statement will be impacted by depreciation of the asset and an interest expense on the lease liability instead of an operating lease cost. Arjo will mainly be impacted by leases of premises and cars. The lease portfolio contains about 2,500 agreements. Commitments that exist regarding operating leases are described in Note 18 of the 2018 Annual Report. For the transition to IFRS 16 on January 1, 2019, Arjo will apply the modified retrospective approach and in accordance with the standard will not restate the comparative year. Leases that were previously classified as operating leases under IAS 17 will be recognized at the present value of the remaining lease payments discounted by the incremental borrowing rate on January 1, 2019. Arjo will recognize a right-of-use asset that corresponds to the lease liability adjusted by any prepaid lease payments recognized on December 31, 2018. This entails that there will be no impact on the Group's shareholders' equity in connection with the transition. Arjo will apply the practical exemption for short-term leases (leases with a term of 12 months or less) and low-value leases (the value of the underlying asset in new condition is less than about USD 5,000) of not recognizing an asset or a liability, and instead recognizing an expense in profit or loss. Arjo has also decided to include non-lease components in the calculation for all assets except buildings. Arjo will utilize the following practical exemptions the first time that IFRS 16 is applied:

- The same discount rate was used on lease portfolios with similar characteristics
- Operating leases with a remaining term of less than 12 months on January 1, 2019 are recognized as a short-term lease
- Direct costs for right-of-use assets were not included in connection with the transition
- Historical information (hindsight) was used when determining the length of the lease if the contract contains options to extend or terminate the lease.
- Relied on its assessment as to whether leases are onerous by applying IAS 37 immediately before the date of initial application.

The preliminary and estimated effects that IFRS 16 will have on Arjo's financial statements on the transition date of January 1, 2019 are presented below.

	SEK billion
Right-of-use asset	about 1.3
Lease liability	about 1.3

The standard does not entail any material change for Arjo as the lessor.

The following accounting policies for leases will be applied from the 2019 fiscal year.

Leases in which Arjo is the lessee primarily comprise buildings and cars. Leases are normally signed for fixed periods of about five to ten years for buildings and three to five years for cars. Some leases have the option to extend the lease or terminate it in advance. These are described below. The terms are negotiated separately for each lease and comprise a large number of different contractual terms.

Leases are recognized as right-of-use assets and a corresponding liability on the day that the leased asset is available for use by Arjo. Right-of-use assets and the lease liability are recognized on the lines right-of-use assets and financial liabilities in the balance sheet. Each lease payment is distributed between depreciation of the liability and interest expenses. Interest expenses are distributed over the lease term so that each reporting period is charged with an amount that corresponds to a fixed interest rate for the liability recognized in each period. Right-of-use assets are depreciated on a straight-line basis over the shorter of the asset's useful life and the term of the lease.

Assets and liabilities arising from leases are initially recognized at present value. Lease liabilities include the present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less incentives
- variable lease payments that depend on an index or rate, initially measured using the index or rates on the commencement date
- amounts expected to be payable under a residual value guarantee
- the exercise price under a purchase option that the lessee is reasonably certain to utilize
- penalty for terminating the lease, if the length of the term reflects the assumption that the lessee will utilize this option.

Lease payments are discounted at the interest rate implicit if the rate can be determined, otherwise at the incremental borrowing rate.

The right-of-use assets are measured at cost and include the following:

- the amount at which the lease liability was originally measured
- lease payments paid on or before the commencement date, after any rewards received when the lease was signed
- initial direct costs
- costs for restoring the asset to the condition prescribed in the terms of the lease

Arjo has decided to apply the exemption in IFRS 16 that entails that payments for short-term leases and leases of a low value are expensed straight-line in profit or loss. Short-term leases are leases of 12 months or less. Low-value leases mainly include IT and office equipment.

Options to extend or terminate a lease

Options to extend or terminate a lease are included in a number of the Group's leases for buildings. The terms are used to maximize flexibility in managing leases. These options of providing the opportunity to either extend or terminate a lease in advance can only be utilized by the Group (and not the lessors) or by both the lessee and the lessor. Options that only the lessor can utilize are uncommon. The assessment of the use of options to extend or terminate a lease is reviewed if a significant event or change in circumstances arises that impacts this assessment and the change is within the lessee's control.

Significant estimates and assessments regarding lease terms

When determining the lease term, management considers all available information that creates an economic incentive to exercise the extension option or not exercise the option to terminate a lease. The option of extending a lease is included in the term of a lease if it is reasonably certain that the lease will be extended (or not ended). The leases that are primarily affected by this assessment are buildings. The various factors that Arjo mainly considers in its assessment of the exercise of various extension and termination options are the costs associated with terminating the lease and the significance of the asset for the operations (business-critical assets). On the transition date January 1, 2019, Arjo deemed it to be reasonable certain that it will exercise the option of extending certain leases for buildings. If Arjo had made the assessment that it would not exercise the extension options in the major leases for buildings, the lease liability would have been SEK 331 M lower.

Leases, Arjo as a lessor

Some of Arjo's customers do not purchase Arjo's aids, but lease them instead. Leases are defined in two categories, operational and financial, depending on the financial significance of the agreement. Operating leases are recognized as non-current assets. Income from operating leases is recognized evenly over the lease term. Straight-line depreciation is applied to these assets in accordance with the undertakings and the depreciation amount is adjusted to correspond with the estimated realizable value when the undertaking expires. The estimated impairment requirement is immediately charged to profit or loss. The products' estimated realizable value at the expiration of the undertaking is continuously followed up on an individual basis. Financial leases are recognized as non-current and current receivables. Payments received from financial leases are divided between interest income and depreciation of receivables.

Note 2 Net sales by type of revenue

SEK M	2018	2017
Product sales	4,810	4,398
Service incl. spare parts	1,373	1,325
Rental	2,034	1,965
Total	**8,217**	**7,688**

Note 3 Segment reporting

Arjo's operations comprise one operating segment. Net sales, intangible assets and tangible assets are presented below for the segment by geographic area. Net sales are based on the seller's domicile and assets are based on the domicile of the Arjo company. The Group has no single customer that accounts for 10% or more of the Group's sales.

	Net sales		Intangible assets and tangible assets	
SEK M	2018	2017	2018	2017
North America	**3,015**	**2,818**	**1,966**	**1,699**
of which, US	*2,390*	*2,242*	*1,380*	*1,116*
Western Europe	**4,125**	**3,771**	**5,536**	**5,498**
of which, UK	*1,128*	*992*	*3,745*	*3,715*
of which, Sweden	*75*	*78*	*826*	*835*
Rest of the World	**1,077**	**1,099**	**597**	**571**
Total	**8,217**	**7,688**	**8,099**	**7,768**

Note 4 Costs by cost category

SEK M	2018	2017
Costs by cost category		
Salaries and remuneration	-2,414	-2,230
Social security expenses	-498	-416
Pension expenses[1]	-168	-106
Amortization and impairment of intangible assets	-305	-315
Depreciation and impairment of tangible assets	-382	-400
Goods and services	-3,961	-3,958
Total	**-7,728**	**-7,425**

[1] The amount for 2018 includes an SEK -40 M adjustment of the pension liability.

SEK M	2018	2017
Amortization, depreciation and write-downs, SEK M		
Cost of goods sold	-409	-425
Selling expenses	-111	-112
Administrative expenses	-139	-100
Research and development costs	-4	-4
Restructuring and integration costs	-24	-74
Total	**-687**	**-715**

Note 5 Employee costs

	2018			2017		
Group, SEK M	Board and CEO[1]	Other	Total	Board and CEO[1]	Other	Total
Salaries and remuneration	87	2,327	2,414	75	2,155	2,230
Social security expenses	17	481	498	13	403	416
Pension expenses[2)]	7	161	168	5	101	106
Total	**111**	**2,969**	**3,080**	**93**	**2,659**	**2,752**

[1)] Pertains to remuneration of Board and CEO of subsidiaries in the Group.
[2)] Pension expenses attributable to other personnel include an SEK 40 M adjustment of the pension liability.

Average number of employees

	2018			2017		
SEK M	Men	Women	Total	Men	Women	Total
Australia	137	62	199	164	60	224
Belgium	52	24	76	50	21	71
Brazil	6	1	7	-	-	-
Denmark	21	15	36	27	12	39
Dominican Republic	161	463	624	130	417	547
France	326	111	437	315	98	413
United Arab Emirates	10	1	11	7	2	9
Netherlands	96	62	158	94	60	154
Hong Kong	12	10	22	11	8	19
India	131	23	154	100	29	129
Ireland	24	3	27	25	3	28
Italy	91	46	137	92	34	126
Japan	8	5	13	-	-	-
Canada	250	127	377	233	116	349
China	228	167	395	223	141	364
Norway	8	8	16	7	4	11
New Zealand	27	10	37	30	8	38
Poland	284	446	730	263	433	696
Switzerland	37	13	50	36	9	45
Singapore	33	11	44	32	11	43
Spain	17	8	25	9	6	15
UK	728	287	1,015	723	318	1,041
Sweden	89	74	163	59	61	120
South Africa	52	34	86	53	25	78
South Korea	2	–	2	3	–	3
Czech Republic	10	4	14	8	5	13
Germany	294	84	378	283	76	359
USA	609	176	785	642	181	823
Austria	84	21	105	82	14	96
Total	**3,827**	**2,296**	**6,123**	**3,701**	**2,152**	**5,853**

NOTE 5 CONTINUED

Distribution of senior executives at the closing date, %

Gender distribution in all companies in the Group

	2018	2017
Women:		
Board members	12%	16%
Other members of the company's management, incl. CEO	26%	30%
Men:		
Board members	88%	84%
Other members of the company's management, incl. CEO	74%	70%

Remuneration and other benefits for senior executives in 2018, SEK 000s

	Board fee[1]	Basic pay	Variable remuneration, short term	Variable remuneration, long term	Other benefits	Pension expenses	Total
Johan Malmquist, Chairman of the Board	1,275						1,275
Carl Bennet, Board member	667						667
Eva Elmstedt, Board member	695						695
Ulf Grunander, Board member	815						815
Carola Lemne, Board member	695						695
CEO		7,472	3,466	420	135	2,242	13,735
Other senior executives, employed in Arjo AB		8,580	2,661	465	378	2,452	14,536
Other senior executives, employed in other Group companies		12,356	4,783	672	621	1,858	20,290
Total	**4,147**	**28,408**	**10,910**	**1,557**	**1,134**	**6,552**	**52,708**

[1] Also includes fees for work on Board Committees.

Remuneration and other benefits for senior executives in 2017, SEK 000s

	Board fee[1]	Basic pay	Variable remuneration, short term	Other benefits	Pension expenses	Total
Johan Malmquist, Chairman of the Board	1,676					1,676
Carl Bennet, Board member	667					667
Eva Elmstedt, Board member	405					405
Ulf Grunander, Board member	815					815
Carola Lemne, Board member	695					695
CEO		4,667	630	77	1,400	6,774
Other senior executives, employed in Arjo AB		6,082	2,387	255	1,487	10,211
Other senior executives, employed in other Group companies		6,496	2,614	1,665	708	11,483
Total	**4,258**	**17,245**	**5,631**	**1,997**	**3,595**	**32,726**

[1] Also includes fees for work on Board Committees Remuneration of the Chairman of the Board was invoiced via the Chairman's own company in 2017, which is the reason that the amount above includes social security contributions. Remuneration for other Board members refers to fees expensed in 2017.

Comments on the table

- Remuneration of CEO Joacim Lindoff and other member of the Management Team refers to the period January 1–December 31, 2018.
- For 2017, remuneration of CEO Joacim Lindoff refers to the period May 1–December 31. Remuneration of Jonas Lindqvist refers to the period April 28–December 31. Remuneration of Jan Andersson refers to the period September 15–December 31. For other member of the Arjo Management Team, remuneration refers to the period April 1–December 31.
- Short-term variable remuneration refers to the 2018 fiscal year's expensed bonus, which was paid in 2019. Long-term variable remuneration refers to the earned and expensed portion of the long-term incentive program as per December 31, 2018. Payment of the long-term incentive program will take place in 2021 provided that the participants are still employed at Arjo on the payment date.
- Other benefits refer to company car, healthcare insurance and accommodation benefits.
- Other senior executives pertains to remuneration to members of the Arjo Management Team, other than the CEO (9 individuals)

NOTE 5 CONTINUED

Remuneration of senior executives

Principles: The 2018 AGM established guidelines for remuneration to senior executives, primarily entailing the following: Remuneration and other employment terms and conditions for senior executives is to be market-based and competitive in every market where Arjo is active so as to attract, motivate and retain skilled and competent employees.

The Annual General Meeting decides on remuneration to the Chairman of the Board and Board members. Employee representatives do not receive Board remuneration. Remuneration to the CEO and other senior executives comprises basic pay, variable remuneration, other benefits as well as pensions. Other senior executives comprise the individuals, who together with the CEO, comprise the Arjo Management Team. For the Management Team's structure, see pages 52-53. The allocation between basic pay and variable remuneration should be proportionate to the executive's responsibility and authority. The CEO's variable remuneration is a maximum of 60% of the basic pay.

Variable remuneration: Variable remuneration is limited to a maximum amount and linked to predetermined and measurable criteria, designed with the aim of promoting the company's long-term value creation. No variable remuneration will be paid if profit before tax is negative. The CEO's bonus for 2018 was based on financial targets set by the Board. The performance-based annual bonus for the CEO is not to exceed 60% of fixed annual salary. For other senior executives, bonuses for 2018 were based on a combination of financial targets and individual goals. The performance-based annual bonus for other senior executives is not to exceed 50-70% of fixed annual salary (depending on function and geographic placement).

Pensions: The CEO is entitled to a pension from the age of 65. The pension is premium based and amounted to 30% of basic pay. The age of retirement for other senior executives is also 65. These pension agreements are premium based. Pension agreements have been signed in accordance with local legislation in the country where the executive resides.

Severance pay: The period of notice for the CEO is a minimum of six months. If termination of employment is initiated by the company then severance pay of 12 months' pay will be awarded. Severance pay is not offset against any other income. Upon termination of employment of any other senior executives, they have the right to severance pay of a minimum of six months and a maximum of 12 months.

Drafting and decision-making process: During the year, the Remuneration Committee gave the Board its recommendations concerning policies for the remuneration to senior executives. The recommendations included the proportion between fixed and variable remuneration, the size of possible pay increases and proposed criteria for assessment of bonus outcomes. The Board discussed the Remuneration Committee's proposals and decided in line with the Remuneration Committee's recommendations. Remuneration of the CEO for the 2018 fiscal year was decided by the Board taking into account the Remuneration Committee's recommendations. Remuneration of other senior executives was decided by the CEO in consultation with the Chairman of the Board. During 2018, the Remuneration Committee was convened on three occasions.

In addition to the aforementioned variable remuneration, adopted share or share-related incentive programs may be included. The aim is that such a program will help to attract and retain highly skilled managers, while it makes the Management Team of Arjo AB shareholders of the company, which is considered to be an important and strong signal for other shareholders.

Long-term incentive program

In 2018, The Board decided to introduce a long-term incentive program. The program is cash-based and encompasses 55-60 senior executives. The incentive program is an addition to annual variable salary.

Purpose. The incentive program is targeted and has a long-term content. The aim of the program is to strengthen commitment and reward the senior executives who can exercise the greatest influence over Arjo's earnings.

Targets. The program extends for three years and remuneration may total a maximum of four monthly salaries during a three-year period. The calculation of outcome excludes the Group's exceptional items and impact of any acquisitions and divestments.

Outcome and payment. The outcome of the program is calculated every year and accumulated over a three-year period. Any outcome will be paid in 2021 provided that the senior executive remains employed at the company on the payment date.

Synthetic share options

Arjo's Board and the Management Team have been individually invited to sign an agreement for synthetic share options with Carl Bennet AB. The costs for this will not be charged to Arjo's income statement.

Note 6 Fees to auditors

SEK M	2018	2017
Fee to PwC		
Fee and expense reimbursement:		
Auditing assignments[1]	-10	-8
Tax consultancy services	0	0
Other services[2]	-2	0
Total	**-12**	**-8**

[1] Of which SEK 5 M (3) pertains to remuneration to Öhrlings PricewaterhouseCoopers AB.
[2] Of which SEK 2 M pertains to remuneration to Öhrlings PricewaterhouseCoopers AB.

Öhrlings PricewaterhouseCoopers AB (PwC) has the auditing assignment for the entire Group. Auditing assignments refer to statutory auditing, meaning assignments required to issue the auditor's report. This also includes the review of the interim report. No services for auditing activities other than auditing assignments have been performed. Tax consultancy services primarily pertain to general tax matters concerning corporate tax. Other services pertain to consultancy in connection with acquisitions.

Note 7 Exchange-rate gains and losses, net

Exchange-rate differences were recognized in profit or loss according to the following:

SEK M	2018	2017
Cost of goods sold	27	72
Other operating income and expenses	-4	0
Financial items	7	4
Total	**30**	**76**

Note 8 Interest income and other similar items

SEK M	2018	2017
Interest income	4	9
Currency gains	7	6
Total	**11**	**15**

Note 9 Interest expenses and other similar expenses

SEK M	2018	2017
Interest expenses	-105	-108
Currency losses	0	-1
Other	-4	-8
Total	**-109**	**-117**

Note 10 Tax

SEK M	2018	2017
Current tax expense	-114	-266
Deferred tax	15	205
Total	**-99**	**-61**
The relationship between the year's tax expense and the recognized profit before tax, SEK M		
Recognized profit before tax	395	179
Tax according to current tax rate in Sweden (22%)	-87	-39
Adjustment for tax rates in foreign subsidiaries	-2	12
Adjustment of tax expenses from earlier years	0	5
Tax effect of non-deductible costs	-25	-57
Tax effect of non-taxable income	7	36
Adjustment for changed tax rates[1)]	5	-13
Changed value of temporary differences	17	-5
Other	-14	0
Recognized tax expense	**-99**	**-61**

1) Due to the reduced tax rate in Sweden and the UK (in the US in the preceding year), the Group's temporary differences and tax loss carryforwards have been remeasured.

Amount recognized directly in equity

The total amount of current and deferred tax for the period, attributable to items that are not recognized in profit or loss but instead in other comprehensive income

SEK M	2018	2017
Deferred tax: actuarial gains/losses pertaining to defined-benefit pension plans	-18	32
Deferred tax: hedges of net investments and cash-flow hedges	39	-33

SEK M	2018	2017
Deferred tax assets relate to the following temporary differences and loss carryforwards		
Deferred tax assets relating to:		
Non-current assets	71	75
Financial receivables and derivatives	11	9
Current assets	125	115
Provisions	52	69
Loss carryforwards	166	90
Other	10	20
Offset	-118	-64
Deferred tax assets	**317**	**314**
Deferred tax liabilities relate to the following temporary differences		
Deferred tax liabilities relating to:		
Non-current assets	-183	-149
Financial receivables and derivatives	-17	-6
Current assets	-1	-1
Provisions	-8	-31
Other	-18	-15
Offset	118	64
Deferred tax liabilities	**-109**	**-138**
Maturity structure for loss carryforwards, SEK M		
Due within 5 years	28	0
Due in more than 5 years	139	93
No due date	540	252
Total	**707**	**345**

There are no material loss carryforwards for which deferred tax has not been recognized.

Note 11 Earnings per share

Earnings per share before and after dilution amounted to SEK 1.09 (0.43). The calculation of earnings per share relating to the Parent Company shareholders is based on the following information:

SEK M	2018	2017
Earnings (numerator)		
Earnings relating to the Parent Company shareholders, which form the basis for calculation of earnings per share	296	118
Number of shares (denominator)		
Weighted average number of ordinary shares for calculation of earnings per share	272,369,573	272,369,573

Note 12 Intangible assets and tangible assets

SEK M	Goodwill	Brands	Capitalized development costs	Customer relationships	Intangible assets, other	Total
INTANGIBLE ASSETS						
Cost, Jan 1, 2018	**4,990**	**733**	**706**	**835**	**1,649**	**8,913**
Investments	–	–	60	–	137	197
Acquisitions	192	–	–	–	12	204
Sales/disposals	–	–	-8	–	-94	-102
Reclassified to assets held for sale	47	-17	–	-49	-3	-22
Translation differences	166	15	10	33	18	242
Accumulated cost, Dec 31, 2018	**5,395**	**731**	**768**	**819**	**1,719**	**9,432**
Amortization and impairment, Jan 1, 2018	**-128**	**-390**	**-365**	**-512**	**-884**	**-2,279**
Amortization for the year	–	-38	-77	-38	-128	-281
Impairment	–	–	–	–	-24	-24
Sales/disposals	–	–	8	–	91	99
Reclassified to assets held for sale	–	11	–	23	2	36
Reclassifications	–	5	-1	–	-4	–
Translation differences	-8	-7	-1	-15	-6	-37
Accumulated amortization and impairment, Dec 31, 2018	**-136**	**-419**	**-436**	**-542**	**-953**	**-2,486**
Closing carrying amount, Dec 31, 2018	**5,259**	**312**	**332**	**277**	**766**	**6,946**

SEK M	Goodwill	Brands	Capitalized development costs	Customer relationships	Intangible assets, other	Total
INTANGIBLE ASSETS						
Cost, Jan 1, 2017	**5,100**	**751**	**664**	**860**	**1,310**	**8,685**
Investments	–	–	71	–	335	406
Sales/disposals	–	–	–	–	-4	-4
Reclassifications	–	–	–	–	21	21
Translation differences	-110	-18	-29	-25	-13	-195
Accumulated cost, Dec 31, 2017	**4,990**	**733**	**706**	**835**	**1,649**	**8,913**
Amortization and impairment, Jan 1, 2017	**-133**	**-357**	**-308**	**-483**	**-741**	**-2,022**
Amortization for the year	–	-46	-65	-38	-92	-241
Impairment	–	–	–	–	-74	-74
Sales/disposals	–	–	–	–	13	13
Translation differences	5	13	8	9	10	45
Accumulated amortization and impairment, Dec 31, 2017	**-128**	**-390**	**-365**	**-512**	**-884**	**-2,279**
Closing carrying amount, Dec 31, 2017	**4,862**	**343**	**341**	**323**	**765**	**6,634**

NOTE 12 CONTINUED

SEK M	Buildings and land[1]	Plant and machinery	Equipment, tools, fixtures and fittings	Rental equipment	Construction in progress	Total
TANGIBLE ASSETS						
Cost, Jan 1, 2018	**363**	**216**	**748**	**3,881**	**31**	**5,239**
Investments	5	18	53	325	44	445
Acquisitions	–	3	–	–	–	3
Sales/Disposals	–	-1	-17	-292	-1	-311
Reclassified to assets held for sale	-34	-25	-5	–	-2	-66
Reclassifications	–	24	17	–	-41	–
Translation differences	11	5	25	197	1	239
Accumulated cost, Dec 31, 2018	**345**	**240**	**821**	**4,111**	**32**	**5,549**
Depreciation and impairment, Jan 1, 2018	**-147**	**-173**	**-581**	**-3,204**	**–**	**-4,105**
Depreciation for the year	-15	-14	-63	-290	–	-382
Sales/Disposals	–	1	15	221	–	237
Reclassified to assets held for sale	15	19	4	–	–	38
Reclassifications	–	–	-2	2	–	0
Translation differences	-5	-3	-22	-154	–	-184
Accumulated depreciation and impairment, Dec 31, 2018	**-152**	**-170**	**-649**	**-3,425**	**–**	**-4,396**
Closing carrying amount, Dec 31, 2018	**193**	**70**	**172**	**686**	**32**	**1,153**

[1] Of which, land amounted to SEK 10 M in 2018.

SEK M	Buildings and land[1]	Plant and machinery	Equipment, tools, fixtures and fittings	Rental equipment	Construction in progress	Total
TANGIBLE ASSETS						
Cost, Jan 1, 2017	**379**	**229**	**753**	**4,034**	**27**	**5,422**
Investments	3	14	72	402	30	521
Sales/Disposals	-8	-27	-68	-434	-5	-542
Reclassifications	–	–	–	–	-21	-21
Translation differences	-11	0	-9	-121	0	-141
Accumulated cost, Dec 31, 2017	**363**	**216**	**748**	**3,881**	**31**	**5,239**
Depreciation and impairment, Jan 1, 2017	**-132**	**-170**	**-586**	**-3,424**	**–**	**-4,312**
Depreciation for the year	-14	-16	-65	-305	–	-400
Sales/Disposals	1	14	63	418	–	496
Translation differences	-2	-1	7	107	–	111
Accumulated depreciation and impairment, Dec 31, 2017	**-147**	**-173**	**-581**	**-3,204**	**–**	**-4,105**
Closing carrying amount, Dec 31, 2017	**216**	**43**	**167**	**677**	**31**	**1,134**

[1] Of which, land amounted to SEK 10 M in 2017.

NOTE 12 CONTINUED

Impairment testing

	2018	2017
Goodwill and intangible assets with an indefinite useful life	5,314	4,906

Arjo has only one cash-generating unit and, accordingly, goodwill and intangible assets with an indefinite useful life are tested for impairment based on the Group's total amount.

Goodwill and other net assets are tested for impairment annually and whenever conditions indicate that impairment may be necessary. The recoverable amount for the cash generating unit is based on the calculated value in use. The operating segment, corresponding to Arjo in its entirety, was tested for impairment, and it is at this level that goodwill is monitored.

Assumptions

The value in use of goodwill and other net assets attributable to Arjo was calculated based on discounted cash flows. A discount rate of 8.7% (9.5) before tax was applied when calculating the value in use. Arjo bases the calculation on attained earnings, forecasts, business plans, financial forecasts and market data. Cash flow for the first three years is based on a strategic plan established by the Arjo Management Team. Future cash flow has then been assumed to have a growth rate corresponding to 2% (2). This growth rate is based on the going concern assumption and does not exceed long-term growth for the industry as a whole. Based on the assumptions given above, the value in use exceeds the carrying amount of the cash generating unit.

Sensitivity analysis

Sensitivity analyses of changes in growth rates and the discount rate, which have a significant impact on the calculation of the discounted cash flows, were performed in connection with impairment testing. The sensitivity analyses revealed that the negative changes below would not individually lead to an impairment requirement.

- Growth rate after year four decreases to 1% (1).
- Discount rate before tax increases by 1 percentage point to 9.7% (10.5).

Intangible assets

There are a limited number of intangible assets, in the form of trademarks with a carrying amount of SEK 44 M (44), for which the useful life has been assessed as indefinite. For these trademarks, there is no foreseeable limit for the time period during which the trademarks are expected to generate net revenue for Arjo. The useful life for other intangible assets is three to 15 years. For strategic acquisitions, the useful life exceeds five years.

Note 13 Inventories

SEK M	2018	2017
Raw materials	229	230
Work in progress	14	14
Finished products	874	860
Total	**1,117**	**1,104**

Of the Group's inventories, SEK 1,108 (1,096) is measured at cost and SEK 9 M (8) at net realizable value. At December 31, 2018, the Group's provisions for obsolescence totaled SEK 103 M (134).

Note 14 Accounts receivable

SEK M	2018	2017
Accounts receivable before provisions	1,934	2,073
Provisions for doubtful receivables	-132	-175
Total	**1,802**	**1,898**

Accounts receivable net, after provisions for doubtful receivables, theoretically constitutes the maximum exposure for the calculated risk of losses. Accordingly, the carrying amount of accounts receivable represents the fair value. It is the Group's opinion that there is no significant concentration of accounts receivable to any single client.

A maturity analysis of accounts receivable is presented below:

SEK M	2018	2017
Not fallen due	1,045	1,079
Fallen due 1–30 days	336	257
Fallen due 31–60 days	128	158
Fallen due 61–90 days	75	83
Fallen due, more than 90 days	350	496
Total	**1,934**	**2,073**

At December 31, 2018, the Group's provisions for doubtful receivables totaled SEK 132 M (175). A maturity analysis of these accounts receivable is presented below:

SEK M	2018	2017
Not fallen due	-3	-3
Fallen due 1–30 days	-1	0
Fallen due 31–60 days	-1	0
Fallen due 61–90 days	-3	-1
Fallen due, more than 90 days	-124	-171
Total	**-132**	**-175**

Recognized amounts, by currency, for the Group's accounts receivable are as follows:

SEK M	2018	2017
EUR	552	563
USD	705	765
GBP	294	298
CAD	113	130
SEK	12	15
Other currencies	258	302
Total	**1,934**	**2,073**

NOTE 14 CONTINUED

Changes in provisions for doubtful receivables are as follows:

SEK M	2018	2017
At beginning of the year	**-175**	**-81**
Provision for expected losses	-25	-159
Confirmed losses	49	59
Payment made for reserved receivable	12	2
Operations being divested	16	–
Translation differences	-9	4
Amount at year-end	**-132**	**-175**

Note 15 Prepaid expenses and accrued income

SEK M	2018	2017
Accrued income	61	66
Prepaid leasing expenses	8	6
Prepaid insurance expenses	14	9
Prepaid bank fees	22	30
Prepaid IT expenses	29	0
Other	54	53
Total	**188**	**164**

Note 16 Shareholders' equity

Specification of other reserves

	Hedge reserve		Translation reserve		Hedges of net investments		Total	
SEK M	2018	2017	2018	2017	2018	2017	2018	2017
Opening balance	**1**	**-78**	**381**	**726**	**37**	**-**	**419**	**648**
Change for the year	-52	101			-126	48	-178	149
Tax on change for the year	11	-22			27	-11	38	-33
Translation difference for the year			264	-345			264	-345
Closing balance	**-40**	**1**	**645**	**381**	**-62**	**37**	**543**	**419**

Class of shares	A	B	Total
Quotient value per share	0.33	0.33	
December 31, 2017	18,217,200	254,152,373	272,369,573
December 31, 2018	**18,217,200**	**254,152,373**	**272,369,573**
Shares' voting rights in %	41.8	58.2	100.0

In accordance with the Articles of Association, the company's share capital amounts to not less than SEK 75 M and not more than SEK 300 M. Within these limits, the share capital can be raised or lowered without requiring an amendment to the Articles of Association. The maximum number of shares is 600 million. One series A share carries ten votes and one series B share carries one vote. Both classes of share have the same quotient value, which is SEK 0.33. At December 31, 2018, the company's share capital totaled SEK 91 M.

The registered share capital in Arjo AB (publ) amounted to SEK 90,789,858 on December 31, 2018, distributed over 272,369,573 shares with a quotient value of SEK 0.33 per share.

Note 17 Unutilized overdraft facilities and credit facilities

Contracted, unutilized overdraft facilities totaled SEK 3,370 M (758) on December 31, 2018. Of this amount, SEK 2,763 M (0) comprises back-up for the commercial paper program. There are also granted, unutilized overdraft facilities of SEK 237 M (243).

Note 18 Leases

Operating leases

SEK M	2018	2017
Costs relating to operating leases	-350	-279

Leasing costs for assets held via operating leases, such as leased premises, machinery, mainframe computers and office equipment, are recognized among operating expenses.

On the closing date, future lease payments for non-cancellable leases amounted to the following:

SEK M	2018	2017
Due within 1 year	-313	-213
Due within 2 to 5 years	-762	-473
Due in more than 5 years	-238	-71
Total	**-1,313**	**-757**

NOTE 18 CONTINUED

Commitments for operating leases at December 31, 2018

SEK M	
Operating leases at December 31, 2018	- 1,313
Discounted using the Group's weighted average incremental borrowing rate	299
Liabilities for financial leases at December 31, 2018	-51
Short-term leases expensed straight-line	1
Leases for which the underlying asset is of low value expensed straight-line	3
Leases reclassified to service contracts	88
Adjustment due to different handling of options to extend and cancel the lease	-331
Lease liability recognized at January 1, 2019	**-1,304**

Financial leases

In 2018, sale and leaseback agreements were signed with an existing financier whereby the asset is later sold on to external customers under a financial lease. The residual value according to plan is then SEK 0. The contractual terms of these two parts reflect each other. A financial lease liability to external financiers is recognized in the balance sheet and a financial lease receivable from external customers. The financial liability and receivable total the same amount.

	Nominal amount	Present value
SEK M	2018	2018
Due within 1 year	-9	-9
Due within 2 to 5 years	-43	-42
Total	**-52**	**-51**

Note 19 Consolidated interest-bearing net debt

			Non-cash items		
	Jan 1, 2018	Cash flows	Other non-cash items	Exchange-rate differences	Dec 31, 2018
Non-current and current financial liabilities	5,221	171	51	228	5,671
Provisions for pensions, interest-bearing	61	1	-36	1	27
Total interest-bearing liabilities	**5,282**	**172**	**15**	**229**	**5,698**
Non-current and current financial assets	-8	5	-51	-1	-55
Pension assets	-	-23	-39	10	-52
Cash and bank balances	-672	-287	14	-16	-961
Total interest-bearing assets	**-680**	**-305**	**-76**	**-7**	**-1,068**
Net receivable/liability	**4,602**	**-133**	**-61**	**222**	**4,630**

				Non-cash items		
	Jan 1, 2017	Cash flows	Cash flows from transactions with shareholders[1]	Other non-cash items	Exchange-rate differences	Dec 31, 2017
Non-current and current financial liabilities	1,701	5,129	-1,560		-49	5,221
Provisions for pensions, interest-bearing	36	-9		34		61
Total interest-bearing liabilities	**1,737**	**5,120**	**-1,560**	**34**	**-49**	**5,282**
Non-current and current financial assets	-1,466	83	1,381		-6	-8
Cash and bank balances	-1,446	774			0	-672
Total interest-bearing assets	**- 2,912**	**857**	**1,381**	**-**	**-6**	**-680**
Net receivable/liability	**-1,175**	**5,977**	**-179**	**34**	**-55**	**4,602**

[1] Refers to cash flows from transactions with shareholders attributable to interest-bearing net debt. These are included as part of the item Transactions with shareholders in the cash-flow statement.

Note 20 Other provisions

SEK M	Restructuring	Guarantees	Personnel	Other	Total
Value according to opening balance 2018	**15**	**32**	**7**	**64**	**118**
Provisions	47	10	4	23	84
Used amount	-38	-10		-15	-63
Changes in connection with acquisitions				60[1)]	60
Unutilized funds restored		-3		-13	-16
Reclassifications				3	3
Translation differences	1	1	-1	5	6
Value according to closing balance 2018	**25**	**30**	**10**	**127**	**192**
Of which:					
Current					76
Non-current					116
Value according to opening balance 2017	**12**	**6**	**5**	**54**	**77**
Provisions	7	29	3	26	65
Used amount	-4	-7	-2	-8	-21
Unutilized funds restored	–	–	–	-3	-3
Reclassifications	–	4	1	-5	–
Translation differences	0	0	0	0	0
Value according to closing balance 2017	**15**	**32**	**7**	**64**	**118**
Of which:					
Current					69
Non-current					49

[1)]The item refers to additional purchase consideration and is measured at fair value under level 3, see also Note 26

Expected timing of outflow:

SEK M	2018	2017
Within 1 year	76	69
Within 3 years	79	10
Within 5 years	19	15
> 5 years	18	24
Total	**192**	**118**

Note 21 Provisions for pensions and similar obligations

Defined-contribution plans

In many countries, Arjo's employees are covered by defined-contribution pension plans.

The pension plans primarily include retirement pensions. The premiums are paid continuously throughout the year by each Group company to separate legal entities, such as insurance companies. The size of the premium paid by the Group companies is normally based on a set proportion of the employee's salary.

Defined-benefit plans

Arjo has defined-benefit pension plans in Sweden, Germany, the UK and Italy. The pension plans primarily comprise retirement pensions. Each employer normally has an obligation to pay a lifelong pension. Vesting is based on the number of years of service. The employee must be affiliated with the plan for a certain number of years to achieve full retirement pension entitlement. The pension is financed through payments from each Group company.

Pension commitments are usually calculated at year-end after actuarial assumptions. New calculations are made if substantial changes occur during the year. Gains and losses on changed actuarial assumptions are recognized as part of comprehensive income.

The net value of the defined-benefit commitment is detailed below:

2018, SEK M	Funded pension plans	Unfunded pension plans	Total
Present value of commitments	-2,015	-27	-2,042
Fair value of plan assets	2,067	–	2,067
Net asset/liability in the balance sheet	**52**	**-27**	**25**

2017, SEK M	Funded pension plans	Unfunded pension plans	Total
Present value of commitments	-2,147	-24	-2,171
Fair value of plan assets	2,110	–	2,110
Net liability in the balance sheet	**-37**	**-24**	**-61**

SEK M	2018	2017
Pension commitments		
Opening balance	**-61**	**23**
Costs for service in the current year	-2	-2
Costs for service in previous years	-40	-
Net interest rate	0	-1
Administrative costs pertaining to plan assets	0	0
Gains and losses from adjustments	-	30
Return on plan assets	0	158
Gain/(loss) attributable to changed demographic assumptions	0	1
Gain/(loss) attributable to changed financial assumptions	141	-322
Experience-based gains/(losses)	-28	-2
Restriction in plan surpluses with regard to asset ceilings	-5	0
Exchange-rate differences	-2	-1
Fees paid by employer	21	53
Paid benefits	1	2
Closing balance	**25**	**-61**

The defined-benefit pension commitment and composition of plan assets 2018, SEK M

2018, SEK M	Present value of commitments	Fair value of plan assets	Net provisions for pensions
Sweden	-49	49	0
Germany	-8	-	-8
UK	-1,966	2,018	52
Italy	-19	-	-19
Total	**-2,042**	**2,067**	**25**

2017, SEK M	Present value of commitments	Fair value of plan assets	Net provisions for pensions
Sweden	-54	54	0
Germany	-8	-	-8
UK	-2,093	2,056	-37
Italy	-16	-	-16
Total	**-2,171**	**2,110**	**-61**

NOTE 21 CONTINUED

	UK
Significant actuarial assumptions 2018, %	
Discount rate	2.8
Expected salary increase rate	-
Expected inflation	2.4
Significant actuarial assumptions 2017, %	
Discount rate	2.4
Expected salary increase rate	-
Expected inflation	2.4

The discount rate corresponds to the interest rate of first-class corporate bonds with a remaining term that is almost equivalent to the actual commitments. The pension plan in the UK is closed which is why no expected salary increase rate is stated.

Sensitivity of defined-benefit commitments to changes in the significant assumptions for 2018, SEK M, UK

SEK M	Expected value of pension commitments	Changed compared with used calculation assumptions
Pension commitments according to original valuation	-1,966	
Discount rate +1 percentage point	-1,592	374
Inflation +1 percentage point	-2,227	-261

The sensitivity analyses above are based on a change in one assumption, while all other assumptions remain constant. It is unlikely that this will happen in practice, and changes in some of the assumptions may correlate. The calculation of sensitivity in the defined-benefit commitments for material actuarial assumptions uses the same method (the present value of defined-benefit commitments by applying the Projected Unit Credit Method at the end of the reporting period) as that used in the calculation of pension liabilities.

Composition of plan assets

SEK M	2018	2017
Securities	2,054	2,088
Properties	6	6
Cash and cash equivalents and similar assets	0	6
Other	7	10
Total	**2,067**	**2,110**

The weighted average term of the pension commitments is 20 years (20).

Information regarding recognition of multi-employer defined-benefit pension plans, Alecta

The commitment for retirement pensions and family pensions for salaried employees in Sweden is safeguarded through insurance with Alecta. According to a statement from the Swedish Financial Reporting Board, UFR 10, this is a multi-employer defined-benefit plan. For the 2018 fiscal year, the company did not have access to such information that makes it possible to recognize this plan as a defined-benefit plan. The pension plan in accordance with ITP, which is safeguarded through insurance with Alecta, is thus recognized as a defined-contribution plan. Fees for the year for pension insurance covered by Alecta amounted to SEK 4 M (5). Alecta's surplus can be distributed to the insurers and/or the insured. At year-end 2018, Alecta's surplus in the form of the collective consolidation level was approximately 142% (154). The collective consolidation level comprises the market value of Alecta's assets as a percentage of the insurance commitment calculated in accordance with Alecta's actuarial calculation assumption, which does not correspond with IAS 19.

Note 22 Accrued expenses and deferred income

SEK M	2018	2017
Salaries	309	281
Social security expenses	62	63
Commission and bonuses to customers	36	30
Interest expenses	3	5
Consultancy fees	27	7
Freight costs	18	0
IT expenses	39	31
Deferred income	79	61
Other	211	294
Total	**784**	**772**

Deferred income, specification of changes for the year

SEK M	2018
Opening balance	61
Provision for the year	98
Utilized amount for the year	-82
Translation differences	2
Closing balance	**79**

Note 23 Pledged assets and contingent liabilities

Pledged assets

The Group has no pledged assets.

Contingent liabilities

SEK M	2018	2017
Guarantees	15	43
Total	**15**	**43**

Note 24 Acquired/divested operations

Acquired operations in 2018

ReNu Medical Inc.

All of the shares in the US company ReNu Medical Inc. were acquired in July. The company is a specialized green medical reprocessor of single use medical devices. Its annual sales amount to approximately SEK 60 M, of which about SEK 40 M comprises sales to Arjo. The number of employees on the acquisition date was 87. The acquisition analysis is preliminary for the period until one year after the acquisition date. Acquisition-related costs amounted to SEK 3 M. If the acquisition had taken place on January 1, 2018, the Group's sales would have increased by approximately SEK 13 M and made a positive contribution to earnings.

Net assets acquired, SEK M	Carrying amount	Value adjust-ment	Fair value
Net assets			
Intangible assets	-	12	12
Tangible assets	-	3	3
Inventories, accounts receivables and other receivables	7	1	8
Accounts payable and other liabilities	-1	-10	-11
Cash and bank balances	12	-	12
Total net assets	**18**	**6**	**24**
Goodwill	-	192	192
Total net assets	**18**	**198**	**216**

Cash-flow effect	
Acquisition price	216
Unpaid purchase considerations	-60
Cash and cash equivalents in the acquired company	-12
Total cash-flow effect	**144**

Divested operations 2018

Acare Medical Science Co. Ltd.

During the year, Arjo signed an agreement to divest Acare, the Group's low-spec medical beds business, to China-based CBL. The divestment involves a production and sales unit in Zhuhai, China, with 186 employees and sales of about SEK 80 M in 2017. The divestment was completed in the first quarter of 2019 and was recognized in the balance sheet on December 31, 2018 as assets and liabilities held for sale, with assets amounting to SEK 74 M and liabilities to SEK 44 M. The divestment did not have a significant effect on cash flow or capital gains in 2019, but is expected to have an annual positive impact of about SEK 25 M on operating profit from 2019.

No operations were acquired or divested in 2017.

Note 25 Transactions with related parties

Companies in the Carl Bennet sphere are considered to be related parties to Arjo. In addition to normal dividends to Carl Bennet AB, Arjo had transactions only with companies in Getinge Group, which are presented in the table below. Business terms and conditions as well as market-regulated pricing apply for delivery of products and services between the companies.

Other income and expenses primarily refer to Group-wide services. For remuneration and benefits to senior executives and on the Board of Directors, see Note 5.

SEK M	2018	2017
Sales	72	148
Other income	-	90
Purchases of goods	-9	-48
Other expenses	-69	-282
Financial income	-	11
Financial expenses	-	-48
Accounts receivable	20	54
Non-current financial liabilities	55	–
Accounts payable	10	78
Current financial liabilities	-	90
Other non-interest-bearing liabilities	6	31
Shareholders' contributions received	-	1,203
Dividends received	-	3,783
Dividends paid	-	-6,383
Transfer of net assets	-	-4,034
Total transactions with shareholders	**-**	**- 5,431**
New share issue	-	90
Total transactions with shareholders	**-**	**-5,341**

Note 26 Financial risk management

Most of Arjo's operations are located outside Sweden. This situation entails that the Group is exposed to different types of financial risks that may cause fluctuations in net profit for the year, cash flow and shareholders' equity due to changes in exchange rates and interest rates. In addition, the Group is exposed to refinancing and counterparty risks.

The primary role of Arjo Group Finance is to support business activities and to identify and in the best way manage the Group's financial risks in line with the Board's established finance policy. Arjo's financial activities are centralized to benefit from economies of scale, to ensure good internal control and to facilitate monitoring of risk.

Currency risks

Currency risks comprise exchange-rate fluctuations, which have an impact on the Group's earnings and shareholders' equity. Currency exposure occurs in connection with payments in foreign currency (transaction exposure) and when translating foreign subsidiaries' balance sheets and income statements into SEK (translation exposure).

Translation exposure – income statement. When translating the results of foreign Group companies into SEK, currency exposure occurs, which affects the Group's earnings when exchange rates fluctuate.

Translation exposure – balance sheet. Currency exposure occurs when translating net assets of foreign Group companies into SEK, which can affect the Group's other comprehensive income. Exposure is reduced by Arjo applying hedge accounting, mainly to loans in foreign currency (EUR, GDP and GBP) but also to currency derivatives.

Transaction exposure – Payment flows as a result of sales income and cost of goods sold in foreign currencies cause currency exposure that affects Group earnings in the event of exchange-rate fluctuations. The Group's payment flows in foreign currencies consist mainly of the income generated by export sales that take place via a UK company with GBP as its functional currency. The most important currencies against the GBP are presented in the table below. Based on Group companies forecast currency flows, Group Finance hedges the most important currency exposures in line with finance policy. Hedging is conducted using currency forward contracts. The market value of financial currency derivatives that meet cash-flow hedging requirements and are recognized in other comprehensive income amounted to SEK -70 M (28) at December 31, 2018.

The table below outlines the effect on net profit for the year, translated to SEK, of currency fluctuations of ±5 percent in the most important transaction currencies. The volumes comprise forecast flows for the following years reduced by derivatives held on the reporting date.

Sensitivity analysis, transaction exposure (SEK M)

	2018			2017		
Currency	Estimated net volume, closing balance	Of which, derivatives	Effect on net profit for the year ±5% (SEK M)	Estimated net volume, closing balance	Of which, derivatives	Effect on net profit for the year ±5% (SEK M)
PLN	-614	454	± 24	-926	283	±36
CNY	-118	102	± 5	-159	-	±6
USD	20	-752	± 1	105	-593	±4
EUR	155	-241	± 6	94	-399	±4
CAD	-123	85	± 5	-45	131	±2
AUD	65	-92	± 3	23	-	±1

The hedge ratio is 1:1 for all of the Group's hedges. The Group did not recognize any ineffectiveness in profit or loss for the year.

Financing risk

Credit facilities and loans

Prior to the IPO, Arjo signed an agreement for external financing of a total of about EUR 600 M with a group of Nordic and international banks. Arjo established a commercial paper program of SEK 4,000 M in 2018, of which SEK 2,763 M was issued at the end of the year. The carrying amount was SEK 2,761 M.

The table below presents Arjo's credit facilities and loans as per December 31, 2018.

Type	Currency	Amount, MLC	Utilized	Due
Revolving credit facility, 5 years	EUR	500	202	2022
Revolving credit facility, 3+1+1 years	EUR	50	20	2020 (with option of 1+1-year extension)
Bank loans, 3 years	USD	58	58	2020
Commercial paper	EUR	97	65	2019
Commercial paper	SEK	3 000	2 095	2019

NOTE 26 CONTINUED

Arjo signed an agreement for two revolving credit facilities denominated in EUR with a bank syndicate and an international bank. The company also entered into an agreement regarding a bilateral loan facility denominated in USD with another international bank. Based on these agreements, Arjo believes that it has a highly diversified loan portfolio with a good maturity structure. Furthermore, Arjo has a well-composed group of both Nordic and international lenders. Arjo's policy is that refinancing risks are managed by signing long-term committed credit agreements with a range of tenures. All loan facilities include the usual guarantees and commitments, and do not contain any restrictions on dividends. The credit facilities may mature for earlier payment in full or in part if certain events occur, including, but not limited to, non-payment of past due amounts, non-compliance with financial covenants, rounds of terminations of the Group's other financing agreements (cross default) and the insolvency of Arjo or some of Arjo's subsidiaries. Financial covenants comprise Debt Repayment Capacity (the Group's net debt as a percentage of the Group's EBITDA) and Interest Payment Capacity (the Group's EBITDA as a percentage of the Group's net interest expenses). During the fiscal year, Arjo established a commercial paper program of SEK 2,500 M that was subsequently raised to SEK 4,000 M. Based on this commercial paper program, Arjo can finance its operations in SEK and EUR for three to 12 months. The option of financing based on the commercial paper program was used to repay other interest-bearing bank loans. Arjo's unutilized revolving credit facilities serve as a back-up to the commercial paper program.

Interest-rate risk

Arjo is exposed to interest-rate risk, defined as the risk of changed market interest rates impacting the Group's net interest. The aim of Arjo's interest policy is to reduce the short and long-term effect of changed market interest rates on the income statement. All external bank loans carried variable interest (3 month LIBOR and STIBOR) at December 31, 2018. Based on Arjo's outstanding bank loans at December 31, 2018, a momentary change in average interest rates of ±1 percentage point for the currencies represented in the Group's external bank loan would entail changed interest expenses of ±SEK 54 M on an annual basis.

Credit and counterparty risks

Arjo's financial transactions cause credit risks with regard to financial counterparties. Credit risks or counterparty risks constitute the risk of losses if the counterparties do not fully meet their commitments. The finance policy states that the credit risk must be limited through accepting only creditworthy counterparties and fixed limits. At December 31, 2018, the total counterparty exposure in derivative instruments was SEK -70 M (28). Credit risks in outstanding derivatives are limited by the offset rules agreed with the respective counterparty. The Group has ISDA agreements for all of its significant counterparties for raising funds and trading in financial instruments. For the financial assets and liabilities that are subject to legally binding offset agreements or similar, each agreement between the Company and its counterparties permits the relevant financial assets and liabilities to be offset. The derivatives were recognized at gross amount in the balance sheet. The Group's liquidity is placed in bank accounts with low credit risks by distributing between several banks with high credit ratings. Commercial credit risks are limited by a diverse customer base with a high credit rating since a high percentage are public customers.

Fair value disclosures pertaining to interest-bearing loans and other financial instruments.

Arjo's interest-bearing loans have floating interest rates and, accordingly, the fair value is assessed as corresponding to the carrying amount. For other financial assets and liabilities, fair value is assessed as corresponding to the carrying amount due to the short expected term. Financial derivatives. Arjo uses financial derivatives in the form of currency forward contracts to manage currency exposure arising in its business. Most of the outstanding currency forward contracts are held for hedging and are deemed to be effective. The currency forward contracts are found in level 2 of the fair value hierarchy, meaning that measurement at fair value is based on published forward rates in an active market.

	2018		2017	
Outstanding derivative instruments SEK M	**Asset**	**Liability**	**Asset**	**Liability**
Currency derivatives – cash-flow hedges	4	61	35	7
Currency derivatives – hedges of net investments	11	14	-	-
Currency derivatives - non-hedge accounting	-	10	-	-
Total	**15**	**85**	**35**	**7**
Of which, short-term	15	85	35	7
Of which, long-term	-	-	-	-

Distribution of currency for outstanding derivative instruments

	2018		2017	
	Nominal amount	**Fair value**	**Nominal amount**	**Fair value**
AUD	201	3	180	2
CAD	321	-6	130	-1
CNY	102	2	-	-
EUR	790	-3	-	-
GBP	1,408	-2	458	-4
PLN	704	-2	453	8
USD	787	-56	764	23
Other	325	-6	-	-
Total, SEK M	**4,638**	**-70**	**1,985**	**28**

The fair value of currency forward contracts is established using prices of currency forwards on the closing date, with the resulting value discounted to the present value. All derivatives are classified under level 2 of the fair value hierarchy.

Transition to IFRS 9 Financial instruments

IFRS 9 Financial Instruments is applied from the 2018 fiscal year and replaces IAS 39 Financial Instruments: Recognition and Measurement. The new rules did not impact the classification and measurement of material financial instruments, in the form of accounts receivable, accounts payable, liabilities to credit institutions and derivatives, in the financial statements. The names of the classes have been partly changed. Arjo has decided not to apply IFRS 9 retrospectively and thus comparative figures for 2017 have not been adjusted.

NOTE 26 CONTINUED

Financial instruments by category

2018 Financial assets, SEK M	Assets measured at amortized cost	Assets at fair value through profit or loss	Derivatives used for hedging purposes	Total
Derivative instruments	-	-	15	15
Accounts receivables and other financial receivables	1,812	-	-	1,812
Cash and cash equivalents	961	-	-	961
Total	**2,773**	**-**	**15**	**2,788**

Financial instruments by category

2018 Financial liabilities, SEK M	Liabilities measured at amortized cost	Liabilities at fair value through profit or loss	Derivatives used for hedging pur-poses	Total
Borrowings	5,671	-	-	5,671
Derivative instruments	-	10	75	85
Accounts payable and other financial liabilities	458	-	-	458
Additional purchase consideration	62	-	-	62
Total	**6,191**	**10**	**75**	**6,276**

Financial instruments by category

2017 Financial assets, SEK M	Loan receivables and accounts receivable	Assets measured at fair value through profit or loss	Derivatives used for hedging purposes	Available-for-sale financial assets	Total
Available-for-sale financial assets	-	-	-	-	-
Derivative instruments	-	-	35	-	35
Accounts receivables and other financial receivables	1,898	-	-	-	1,898
Financial assets at fair value through profit or loss	-	-	-	-	-
Cash and cash equivalents	672	-	-	-	672
Total	**2,570**	**-**	**35**	**-**	**2,605**

Financial instruments by category

2017 Financial liabilities, SEK M	Liabilities at fair value through profit or loss	Derivatives used for hedging purposes	Other financial liabilities	Total
Borrowings	-	-	5,131	5,131
Derivative instruments	-	7	-	7
Accounts payable and other financial liabilities	-	-	631	631
Total	**-**	**7**	**5,762**	**5,769**

NOTE 26 CONTINUED

The table below shows the Group's contractual and undiscounted cash flows from the external financial liabilities on the closing date until the contractual date of maturity.

At December 31, 2018, SEK M	Less than 6 months	7-12 months	1–2 years	2–5 years	> 5 years
Bank loans	–	–	-778	-2,131	–
Commercial paper	-2,703	-60	–	–	–
Other financial liabilities	-5	-5	-64	-32	–
Derivative instruments, outflows	-864	-620	-31	–	–
Derivative instruments, inflows	1,730	325	29	–	–
Accounts payable	-458	–	–	–	–
Total	**-2,300**	**-360**	**-842**	**-2,163**	**–**

At December 31, 2017, SEK M	< 1 year	1–2 years	2–5 years	> 5 years
Bank loans	-94	-94	-5,140	–
Other financial liabilities	-90	–	–	–
Derivative instruments, outflows	-849	0	–	–
Derivative instruments, inflows	844	1	–	–
Accounts payable	-541	–	–	–
Total	**-730**	**-93**	**-5,140**	**–**

Note 27 Supplementary disclosures to the cash-flow statement

Cash and cash equivalents

SEK M	2018	2017
Cash and bank balances	961	672
Total	**961**	**672**

Adjustments for items not included in cash flow

SEK M	2018	2017
Change in reserve[1)]	-72	0
Gain from divestment/disposal of non-current assets	-12	36
Total	**-84**	**36**

[1)]Primarily refers to inventories and customer reserves.

Note 28 Capitalized development costs

SEK M	2018	2017
Research and development costs, gross	-201	-204
Capitalized development costs	60	70
Research and development costs, net	**-141**	**-134**

Note 29 Events after the end of the fiscal year

The divestment of Acare was completed in the first quarter of 2019 and did not have any significant impact on cash flow or earnings. There were no other significant events after the end of the fiscal year.

Parent Company financial statements

Parent Company income statement

SEK M	Note	2018	2017
Administrative expenses	2, 3, 4	-155	-192
Restructuring and integration costs		-49	-18
Other operating income	5	66	197
Operating loss		**-138**	**-13**
Income from participations in Group companies	6	1,370	-108
Interest income and similar profit items	7	5	3
Interest expenses and similar loss items	8	-90	-61
Profit/loss after financial items		**1,147**	**-179**
Taxes	9	-33	38
Net profit/loss for the year[1)]		**1,114**	**-141**

[1)]Also comprehensive income for the year

Parent Company balance sheet

SEK M	Note	2018	2017
ASSETS			
Non-current assets			
Intangible assets	10	349	428
Participations in Group companies	11	6,292	5,369
Owner interest in other companies		16	-
Deferred tax assets	9	9	39
Total non-current assets		**6,666**	**5,836**
Current assets			
Financial receivables, Group companies		677	-
Other receivables from Group companies		82	363
Current tax assets		-	1
Other receivables		7	29
Prepaid expenses and accrued income		23	12
Cash and cash equivalents		-	-
Total current assets		**789**	**405**
TOTAL ASSETS		**7,455**	**6,241**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Restricted shareholders' equity			
Share capital		91	91
Non-restricted shareholders' equity			
Retained earnings		3,400	3,677
Net profit/loss for the year		1,114	-141
Total shareholders' equity		**4,605**	**3,627**
Provisions			
Other provisions		1	-
Total provisions		**1**	**-**
Current liabilities			
Financial loans, Group companies		-	2,458
Interest-bearing financial loans	12	2,761	-
Accounts payable		9	9
Other liabilities to Group companies		55	100
Other liabilities		1	7
Accrued expenses and deferred income	13	23	40
Total current liabilities		**2,849**	**2,614**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**7,455**	**6,241**

For information about Arjo AB's pledged assets and contingent liabilities, refer to Note 14.

Changes in shareholders' equity, Parent Company

SEK M	Share capital	Retained earnings and net profit for the year	Total shareholders' equity
Opening balance at January 1, 2017	**1**	**-**	**1**
Net loss for the year	-	-141	-141
New share issue	90	-	90
Shareholders' contributions	-	3,677	3,677
Closing balance at December 31, 2017	**91**	**3,536**	**3,627**
Opening balance at January 1, 2018	**91**	**3,536**	**3,627**
Net profit for the year	-	1,114	1,114
Dividend		-136	-136
Closing balance at December 31, 2018	**91**	**4,514**	**4,605**

Parent Company cash-flow statement

SEK M	Note	2018	2017
Operating activities			
Operating loss		-138	-13
Add-back of amortization, depreciation and write-downs		63	15
Other non-cash items		17	-
Dividend received		1,020	-
Interest received and similar items		5	3
Interest paid and similar items		-90	-61
Taxes paid		-3	-
Cash flow before changes to working capital		**874**	**-56**
Cash flow from changes in working capital			
Current receivables		293	-347
Current liabilities		-93	-11
Cash flow from operations		**1,074**	**-414**
Investing activities			
Acquisition of intangible assets	10	-56	-443
Sale of intangible assets		56	-
Investments in subsidiaries		-21	-2,895
Investments in other companies		-16	-
Cash flow from investing activities		**-37**	**-3,338**
Financing activities			
New share issue		-	90
Group contributions received		-	1,203
Raising of loans		2,759	2,458
Repayment of interest-bearing liabilities		-3,660	-
Dividend		-136	-
Cash flow from financing activities		**-1,037**	**3,751**
Cash flow for the year		**0**	**-1**
Cash and cash equivalents at the beginning of the year		-	1
Cash and cash equivalents at year-end		**-**	**-**

Notes

Note 1 Accounting policies

The financial statements of the Parent Company were prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2, Reporting of Legal Entities. In accordance with the regulations stipulated in RFR 2, in the annual financial statements for a legal entity, the Parent Company is to apply all of the IFRS/IAS regulations and statements that have been endorsed by the EU where possible within the framework of the Swedish Annual Accounts Act and with consideration of the link between accounting and taxation. The recommendation specifies which exceptions and additions are to be made from IFRS/IAS. Provisions conforming to IFRS/IAS are stated in Note 1 Accounting policies, for the consolidated financial statements. The Parent Company applies the accounting policies detailed for the Group with the exception of the following:

Shares and participations.
Subsidiaries are recognized in accordance with the acquisition method, implying that holdings are recognized at cost in the balance sheet less any impairment. Dividends from subsidiaries are recognized as dividend income.

The Parent Company applies the exemption in RFR 2 not to apply IFRS 9, meaning that financial instruments are measured based on cost in accordance with the Swedish Annual Accounts Act.
Group contributions are recognized in profit or loss under income from participations in Group companies.

Note 2 Amortization according to plan

SEK M	2018	2017
Intangible assets	-63	-15
Total	**-63**	**-15**
Amortization is recognized as administrative expenses	-63	-15
Total	**-63**	**-15**

Note 3 Fees to auditors

SEK M	2018	2017
Fee and expense reimbursement:		
Auditing assignment	-3	-2
Auditing activities other than auditing assignments	-	-
Tax consultancy services	-	-
Other services	-1	-
Total	**-4**	**-2**

Pertains to remuneration to Öhrlings PricewaterhouseCoopers AB.

Note 4 Employee costs

Average number of employees

Sweden	2018	2017
Men	3	3
Women	2	1
Total	**5**	**4**

Gender distribution

%	2018	2017
Women:		
Board members	33	38
Other members of senior management	40	40
Men:		
Board members	67	62
Other members of senior management	60	60

Salaries, other remuneration and social security expenses

2018, SEK 000s	Board and CEO	Other senior executives	Total
Salaries and remuneration	15,640	12,084	27,724
Social security expenses	5,458	4,392	9,850
Pension expenses	2,242	2,452	4,694

2017, SEK 000s	Board and CEO	Other senior executives	Total
Salaries and remuneration	9,632	8,724	18,356
Social security expenses	3,366	3,102	6,468
Pension expenses	1,400	1,487	2,887

See also Note 5 of the consolidated financial statements.

Note 5 Other operating income

SEK M	2018	2017
Sale of services to other Group companies	66	197
Total	**66**	**197**

Note 6 Income from participations in Group companies

SEK M	2018	2017
Dividend	1,020	-
Group contributions	350	-108
Total	**1,370**	**-108**

Note 7 Interest income and similar profit items

SEK M	2018	2017
Currency gains	0	3
Interest income	5	0
Total	**5**	**3**

Note 8 Interest expenses and similar loss items

SEK M	2018	2017
Interest expenses to Group companies	-30	-15
Currency losses	-60	-46
Total	**-90**	**-61**

Note 9 Taxes

SEK M	2018	2017
Current tax expense	-3	-1
Deferred tax	-30	39
Total	**-33**	**38**

Relationship between the year's tax expenses and the recognized profit before tax:		
Recognized profit before tax	1,147	-179
Tax according to current tax rate	-253	39
Tax effect of non-deductible costs	-1	-1
Tax effect of non-taxable income	224	0
Other	-3	0
Recognized tax income/expense	**-33**	**38**

Deferred tax assets in the balance sheet amounted to SEK 9 M (39) and were attributable to loss carryforwards and other temporary differences.

Note 10 Intangible assets

SEK M	2018	2017
Software		
Opening cost	443	-
Investments	56	443
Sales/disposals	-72	-
Closing accumulated cost	**427**	**443**
Opening amortization	-15	-
Amortization for the year	-63	-15
Closing accumulated amortization	**-78**	**-15**
Closing planned residual value	**349**	**428**

Note 11 Participations in Group companies

Parent Company's holdings	Reg. office/Country	Corporate Registration Number	No. of participations 2018	No. of participations 2017	Percentage holding	Carrying amount, SEK M 2018
ArjoHuntleigh NV	Belgium	418.919.541	39,120	39,120	62	8
Getinge Dominican Republic, SA	Dominican Republic	131398278	3,591,999	3,591,999	100	65
Arjo Sverige AB	Eslöv Sweden	556528-4600	1,000	1,000	100	54
Arjo France S.A.S.	France	305.219.677	578,460	578,460	100	360
Arjo Middle East FZ-LLC	United Arab Emirates	94298	1	1	100	41
Arjo Hong Kong Limited	Hong Kong	465441	25,000	25,000	100	47
ArjoHuntleigh Healthcare India Pvt. Ltd	India	U85199MH2002PTC135700	1,905,709	1,905,709	100	0
ArjoHuntleigh Ireland Ltd	Ireland	IE238034	33,336	33,336	100	37
Arjo Italia Spa	Italy	5503160011	1,000,000	1,000,000	100	94
Arjo Japan K.K	Japan	0104-01-135243	500	-	100	0
ArjoHuntleigh Magog Inc	Canada	626505	24,126,001	24,126,001	100	575
Getinge (Suzhou) Co.,Ltd	China	913205947573292624	1	1	100	235
Arjo (Suzhou) Medical Equipment Trading Co., Ltd	China	91320594MA1UQ6DX7G	1	-	100	21
ArjoHuntleigh AB	Malmö, Sweden	556304-2026	50,000	50,000	100	495
Arjo Treasury AB	Malmö, Sweden	556475-7242	2,225	2,225	100	9
Arjo Nederland BV	Netherlands	69089396	18	18	100	808
Arjo Norge AS	Norway	994,290,177	100,000	100,000	100	1
Arjo Switzerland AG	Switzerland	CHE-107.306.624	100	100	100	42
Boxuan Medical Equipment Pte Ltd	Singapore	200508769D	5,700,000	5,700,000	100	30
Arjo Iberia S.L.	Spain	B67064618	3,000	3,000	100	0
Huntleigh Technology Ltd	UK	1891943	85,390,762	85,390,762	100	2,356
Arjo Korea Co., Ltd	South Korea	101-86-76976	1,000	1,000	100	20
Arjo Czech Republic s.r.o.	Czech Republic	46,962,549	1	1	100	2
Arjo Deutschland GmbH	Germany	HRB 12913	1	1	100	334
Huntleigh Healthcare GmbH	Germany	HRB 23795	2	2	100	4
Arjo Holding USA Inc	USA	-	10,000	10,000	100	646
Arjo Austria GmbH	Austria	FN42604d	1	1	39	8
Total carrying amount						**6,292**

The table above includes all directly owned subsidiaries.

SEK M	2018	2017
Cost		
Opening cost	5,369	-
Investments	21	5,369
Shareholders' contributions	902	-
Closing accumulated cost	**6,292**	**5,369**

The Group companies directly or indirectly owned by Arjo AB are specified below

Sweden
Arjo Sverige AB, 556528-4600, Eslöv
ArjoHuntleigh AB, 556304-2026, Malmö
Arjo Treasury AB, 556475-7242, Malmö
Arjo IP Holding AB, 556247-0145, Malmö
ArjoHuntleigh International AB, 556528-1440, Eslöv

Australia
Arjo Australia Pty Ltd
Arjo Hospital Equipment Pty Ltd
Joyce Healthcare Group Pty Ltd

Belgium
ArjoHuntleigh NV

Brazil
Arjo Brasil Equipamentos Médicos Itda

Denmark
Arjo Danmark A/S

Dominican Republic
Getinge Dominican Republic, SA

France
Arjo France S.A.S.

United Arab Emirates
Arjo Middle East FZ-LLC

Hong Kong
Arjo Hong Kong Ltd

India
ArjoHuntleigh Healthcare India Pvt. Ltd

NOTE 11 CONTINUED

Ireland
ArjoHuntleigh Ireland Ltd

Italy
Arjo Italia Spa[2)]

Japan
Arjo Japan K.K.

Canada
ArjoHuntleigh Magog Inc
Arjo Canada Inc

China
Arjo (Suzhou) Medical Equipment Trading Co. Ltd
Acare Medical Science Co., Ltd
Getinge (Suzhou) Co., Ltd

Netherlands
Arjo Nederland BV
Huntleigh Holdings BV

Norway
Arjo Norge AS

New Zealand
Arjo New Zealand Limited

Poland
ArjoHuntleigh Polska Sp. z.o.o.

Switzerland
Arjo Switzerland AG

Singapore
Boxuan Medical Equipment Pte Ltd
Arjo South East Asia Pte Ltd

Spain
Arjo Iberia S.L.

UK
Huntleigh Technology Ltd[1)]
1st Call Mobility Ltd
ArjoHuntleigh International Ltd[1)]
Arjo UK Ltd
Huntleigh Diagnostics Ltd[1)]
Huntleigh Healthcare Ltd
Huntleigh International Holdings Ltd[1)]
Huntleigh Luton Ltd[1)]
Huntleigh Properties Ltd[1)]
Huntleigh (SST) Ltd[1)]
Pegasus Ltd[1)]

South Africa
ArjoHuntleigh South Africa Pty Ltd
Huntleigh Provincial Sales Pty Ltd
Huntleigh Africa (Pty) Ltd

South Korea
Arjo Korea Co. Ltd

Czech Republic
Arjo Czech Republic s.r.o.

Germany
Arjo Deutschland GmbH
Huntleigh Healthcare GmbH

USA
Arjo Holding USA, Inc
Arjo, Inc
ReNu Medical, Inc

Austria
Arjo Austria GmbH

1) A Parent Company guarantee was issued in accordance with section 479(C) of the UK Companies Act 2006 for certain subsidiaries registered in the UK. The Parent Company guarantee applies to all outstanding liabilities for the subsidiaries on the closing date until the commitments have been met. The stated subsidiaries have applied the exemption from statutory audit in accordance with section 479 (A) of the UK Companies Act 2006.

2) The Parent Company guarantee was also issued for the subsidiary registered in Italy and applies to all outstanding liabilities for the subsidiary on the closing date until the commitments have been met.

Note 12 Interest-bearing financial loans

SEK M	2018	2017
Commercial paper program	2,761	-
Total	**2,761**	**-**

The Parent Company established a commercial paper program during the year with a framework amount of SEK 4,000 M. Issues totaling SEK 2,763 M were implemented.

Note 13 Accrued expenses and deferred income

SEK M	2018	2017
Salaries	10	10
Social security expenses	3	4
Accrued IT expenses	5	24
Other accrued expenses and other deferred income	5	2
Total	**23**	**40**

Note 14 Pledged assets and contingent liabilities

Pledged assets
The Parent Company had no pledged assets in 2018 or 2017.

Contingent liabilities, SEK M	2018	2017
Guarantees		
Guarantees for subsidiaries	3,012	5,595
Other	85	43
Total contingent liabilities	**3,097**	**5,638**

Note 15 Proposed appropriation of profit

The following profits in the Parent Company are at the disposal of the Annual General Meeting:

SEK	
Retained earnings	3,400,041,651
Net profit for the year	1,114,222,052
Total	**4,514,263,703**

The Board and Chief Executive Officer propose that a dividend of SEK 0.55 per share shall be distributed to shareholders	149,803,265
To be carried forward	4,364,460,438
Total	**4,514,263,703**

Auditor's report

To the general meeting of the shareholders of Arjo AB (publ), corporate identity number 559092-8064

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Arjo AB (publ) for the year 2018 except for the corporate governance statement on pages 46–49. The annual accounts and consolidated accounts of the company are included on pages 42–93 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company and the group as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 46–49. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Our audit approach

Overview

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the Key audit matter
Valuation of intangible assets *With reference to Note 1 and Note 12.* Goodwill and other intangible assets with an indefinite useful life represent a significant part of the Balance Sheet of Arjo and amount to MSEK 5,314 (MSEK 4,906) as of 31 December 2018. The Company annually performs an annual impairment assessment of the assets based on a calculation of the discounted cash flow for the cash generating unit in which goodwill and other intangible assets are reported, which is Arjo Group as a whole. This impairment test is based on a high level of judgments and assumptions regarding future cash flows. Information is provided in Notes 1 and 12 as to how the Company's management has undertaken its assessments, and also provides information on important assumptions and sensitivity analyses. Key variables in the test are growth rate and discount factor (cost of capital). It is also presented that no impairment requirement has been identified based on the assumptions undertaken.	In our audit, we have evaluated the calculation model applied by management. We have reconciled and critically tested essential variables against budget and long term plan for the Company. We have performed a retrospective review of the prior period estimate by comparing it to actual current period results. We have tested the sensitivity analysis for key variables in order to assess the risk of need for impairment. We have also assessed the correctness of the disclosures included in the financial statements.
Valuation of accounts receivables *With reference to Note 1 and Note 14.* Accounts receivables comprise a significant area in the Group's financial reports as they are equivalent to approximately 14% (16%) of total assets. The Group undertakes business operations with both private and public players in a number of different countries where, for certain regions, the payment of customer invoices takes a long time after delivery to the customers. In the Group's operation, this refers primarily to the United States of America, UK and Italy. As of 31 December 2018, accounts receivables matured more than 90 days amounted to MSEK 350 (MSEK 496) which is equivalent to approx¬imately 18% (24%) of total (gross) accounts receivables as per the balance sheet date. The valuation of these, and other matured, or yet to mature, accounts receivables, is based on management's assessment of the customer's future payment capacity.	In our audit we have evaluated the valuation of the accounts receivables by assessing the appropriateness of the loss assessment executed by management. We have critically examined management's assessment by reviewing the aging of customer receivables compared with the historical outcome for bad debts. Our audit includes an assessment of the control environment for the sales process and also includes an examination of the reported revenue transactions against underlying documentation, such as customer agreements, sales orders, suppliers' documenta¬tion, customer invoices, payment verification and obtaining customer invoice confirmations from customers. The appropriate audit procedures for the respective significant units in the Group have been determined based on the nature of the operations and the complexity of the sales transactions. We have also assessed the correctness of the disclosures included in the financial statements.

Other Information than the annual accounts and consolidated accounts

This document also contains information other than the annual accounts and consolidated accounts and this information is found on pages 1–41 and 97–109. This information, in addition to the sustainability report and our statement regarding this report, do not constitute a part of the annual report. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Director's and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden 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 annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Director's and the Managing Director of Arjo AB (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Director's and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Director's and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group' equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 46–49 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Öhrlings PricewaterhouseCoopers AB was appointed auditor of Arjo AB (publ) by the general meeting of the shareholders on the 4 May 2018 and has been the company's auditor since 21 December 2016.

Malmö 3 April 2019
Öhrlings PricewaterhouseCoopers AB

Magnus Willfors
Authorized Public Accountant
Partner in charge

Cecilia Andrén Dorselius
Authorized Public Accountant

Multi-year overview: Group

Condensed consolidated income statement

SEK M	2018	2017	2016	2015	2014
Net sales	8,217	7,688	7,808	8,115	7,568
Cost of goods sold	-4,555	-4,260	-4,366	-4,521	-4,011
Gross profit	**3,662**	**3,428**	**3,442**	**3,594**	**3,557**
Selling expenses	-1,657	-1,571	-1,392	-1,575	-1,422
Administrative expenses	-1,219	-1,136	-1,016	-1,039	-937
Research and development costs	-141	-134	-133	-118	-116
Acquisition expenses	-3	-	-7	-4	- 1
Restructuring and integration costs	-113	-324	-155	-186	-83
Adjustment of pension liability	-40	-	-	-	-
Other operating income	11	29	58	15	16
Other operating expenses	-7	-11	-16	-147	-61
Operating profit (EBIT)	**493**	**281**	**781**	**540**	**953**
Interest income and other similar items	11	15	7	5	5
Interest expenses and other similar expenses	-109	-117	-117	-120	-97
Profit after financial items	**395**	**179**	**671**	**425**	**861**
Taxes	-99	-61	-181	-118	-242
Net profit for the year	**296**	**118**	**490**	**307**	**619**
Attributable to:					
Parent Company shareholders	296	118	490	307	619

Condensed consolidated balance sheet

SEK M	2018	2017	2016	2015	2014
Intangible assets	6,946	6,634	6,663	6,343	6,336
Tangible assets	1,153	1,134	1,110	1,656	1,658
Non-current financial receivables, interest-bearing	97	8	–	9	10
Financial assets	351	326	316	302	378
Total non-current assets	**8,547**	**8,102**	**8,089**	**8,310**	**8,382**
Inventories	1,117	1,104	1,044	1,194	1,134
Accounts receivable	1,802	1,898	2,277	1,584	1,842
Current financial receivables	10	–	1,397	1,477	1,622
Other current receivables	625	434	460	644	473
Cash and cash equivalents	961	672	1,446	808	1,369
Total current assets	**4,515**	**4,108**	**6,624**	**5,707**	**6,440**
Assets held for sale	74	–	–	–	–
TOTAL ASSETS	**13,136**	**12,210**	**14,713**	**14,017**	**14,822**
Shareholders' equity	5,427	5,074	10,658	10,227	10,602
Total shareholders' equity	**5,427**	**5,074**	**10,658**	**10,227**	**10,602**
Provisions for pensions, interest-bearing	27	61	36	98	328
Non-current financial liabilities	2,900	5,131	1,361	475	357
Other provisions	225	187	195	186	225
Total non-current liabilities	**3,152**	**5,379**	**1,592**	**759**	**910**
Accounts payable	458	541	739	369	376
Current liabilities	–	–	–	384	572
Current financial liabilities	2,771	90	340	1,168	1,257
Other non-interest-bearing liabilities	1,284	1,126	1,384	1,110	1,105
Total current liabilities	**4,513**	**1,757**	**2,463**	**3,031**	**3,310**
Liabilities held for sale	44	–	–	–	–
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**13,136**	**12,210**	**14,713**	**14,017**	**14,822**

Condensed consolidated statement of cash flows

SEK M	2018	2017	2016	2015	2014
Operating activities					
Operating profit (EBIT)	493	281	781	540	953
Add-back of amortization, depreciation and write-down	687	715	755	681	635
Other non-cash items	-84	36	21	2	11
Expensed exceptional items[1]	130	250	67	186	82
Paid exceptional items	-81	-63	-108	-166	-173
Financial items	-92	-102	-110	-115	-92
Taxes paid	-171	-135	-168	-162	-291
Cash flow before changes to working capital	**882**	**982**	**1,238**	**966**	**1,125**
Changes in working capital					
Inventories	24	-103	-87	-78	-40
Current receivables	95	176	-345	115	6
Current liabilities	-10	-483	113	-192	-132
Cash flow from operations	**991**	**572**	**919**	**811**	**959**
Investing activities					
Acquired operations	-144	-	-212	-	-
Acquired financial assets	-16	-	-	-	-
Net investments	-557	-652	-314	-516	-498
Cash flow from investing activities	**-717**	**-652**	**-526**	**-516**	**-498**
Financing activities					
Change in interest-bearing liabilities	171	5,131	-6	-17	-1
Change in non-current receivables	-22	-29	-47	-25	5
Dividend	-136	-	-	-	-
Transactions with shareholders	-	-5,796	289	-808	-134
Cash flow from financing activities	**13**	**-694**	**236**	**-850**	**-130**
Cash flow for the year	**287**	**-774**	**629**	**-555**	**331**
Cash and cash equivalents at the beginning of the period	672	1,446	808	1,369	1,012
Cash flow for the year	287	-774	629	-555	331
Translation differences	16	0	9	-6	26
Reclassification to assets held for sale	-14	-	-	-	-
Cash and cash equivalents at year-end	**961**	**672**	**1,446**	**808**	**1,369**

[1)]Excluding write-downs on non-current assets.

Net sales by geographic area

SEK M	2018	2017	2016	2015	2014
North America	3,015	2,818	2,905	2,957	2,700
Western Europe	4,125	3,771	3,759	3,873	3,731
Rest of the World	1,077	1,099	1,144	1,285	1,137
Group	**8,217**	**7,688**	**7,808**	**8,115**	**7,568**

Key performance indicators for the Group

SEK M	2018	2017	2016	2015	2014
Sales measures					
Net sales	8,217	7,688	7,808	8,115	7,568
Net sales growth, %	6.9%	-1.5%	-3.8%	7.2%	-
Organic growth in sales, %	3.0%	-1.6%	-2.6%	-2.3%	-
Expense measures					
Selling expenses as a % of net sales	20.2%	20.4%	17.8%	19.4%	18.8%
Administrative expenses as a % of net sales	14.8%	14.8%	13.0%	12.8%	12.4%
Research and development costs as a % of net sales	1.7%	1.7%	1.7%	1.5%	1.5%
Earnings measures					
Operating profit (EBIT)	493	281	781	540	953
EBITA	798	596	1,147	733	1,137
Adjusted EBITA	930	846	1,221	923	1,221
EBITDA	1,180	996	1,536	1,221	1,588
EBITDA growth, %	18.4%	-35.1%	25.8%	-23.1%	-
Adjusted EBITDA	1,312	1,246	1,610	1,411	1,672
Earnings per share, SEK	1.09	0.43	1.80	1.13	2.27
Margin measures					
Gross margin, %	44.6%	44.6%	44.1%	44.3%	47.0%
Operating margin, %	6.0%	3.7%	10.0%	6.7%	12.6%
EBITA margin, %	9.7%	7.8%	14.7%	9.0%	15.0%
Adjusted EBITA margin, %	11.3%	11.0%	15.6%	11.4%	16.1%
EBITDA margin, %	14.4%	13.0%	19.7%	15.0%	21.0%
Adjusted EBITDA margin, %	16.0%	16.2%	20.6%	17.4%	22.1%
Cash flow and return measures					
Return on shareholders' equity, %	5.6%	1.5%	4.7%	2.9%	6.2%
Cash conversion, %	84.0%	57.4%	59.8%	66.4%	60.4%
Operating capital, SEK M	9,946	10,317	11,055	11,168	10,699
Return on operating capital, %	6.5%	5.9%	8.5%	6.5%	9.7%
Capital structure					
Interest-bearing (+) net debt/(-) net receivables	4,630	4,602	-1,175	-579	-1,059
Interest-coverage ratio, multiple	6.2x	5.3×	8.2×	6.2×	10.9×
Net debt/equity ratio, multiple	0.9x	0.9×	-0.1×	-0.1×	-0.1×
Net debt / adjusted EBITDA, multiple	3.5x	3.7×	-0.7×	-0.4×	-0.6×
Equity/assets ratio, %	41.3%	41.6%	72.4%	73.0%	71.5%
Equity per share, SEK	19.9	18.6	39.1	37.5	38.9
Other					
Number of shares	272,369,573	272,369,573	272,369,573	272,369,573	272,369,573
Number of employees	6,123	5,853	5,763	5,339	5,294

Origin of key performance measures

Alternative performance measures refer to financial measures used by the company's management and investors to evaluate the Group's earnings and financial position, and that cannot be directly read or derived from the financial statements.

These financial measures are intended to facilitate analysis of the Group's performance. The alternative performance measures should not be considered substitutes, but rather a supplement to, the financial statements prepared in accordance with IFRS. The financial measures recognized in this report may differ from similar measures used by other companies.

The alternative performance measures recognized below have not been calculated in accordance with IFRS but have been presented since Arjo believes that they are important in connection with investors' assessments of the company and the company's share. The alternative performance measures are also presented in the company's other financial statements.

Sales measures

SEK M	2018	2017	2016	2015	2014
(A) Net sales preceding year	7,688	7,808	8,115	7,568	–
Acquired/divested net sales for the period	-3	-	40	-46	–
(B) Organically net sales for the period	231	-125	-210	-175	–
Effect of changes in exchange rates	301	5	-137	767	–
Net sales	8,217	7,688	7,808	8,115	–
(B/A) Organic growth in sales, %	3.0%	-1.6%	-2.6%	-2.3%	–

Expense measures

SEK M	2018	2017	2016	2015	2014
(A) Selling expenses	1,657	1,571	1,392	1,575	1,422
(B) Administrative expenses	1,219	1,136	1,016	1,039	937
(C) Research and development costs, net	141	134	133	118	116
(D) Net sales	8,217	7,688	7,808	8,115	7,568
(A/D) Selling expenses as a % of net sales	*20.2%*	*20.4%*	*17.8%*	*19.4%*	*18.8%*
(B/D) Administrative expenses as a % of net sales	*14.8%*	*14.8%*	*13.0%*	*12.8%*	*12.4%*
(C/D) Research and development costs net as a % of net sales	*1.7%*	*1.7%*	*1.7%*	*1.5%*	*1.5%*

Earnings and margin measures

SEK M	2018	2017	2016	2015	2014
(A) Operating profit (EBIT)	493	281	781	540	953
Add-back of amortization and write-down of intangible assets	305	315	366	193	184
(B) EBITA	798	596	1,147	733	1,137
Add-back of depreciation and write-down of tangible assets	382	400	389	488	451
(C) EBITDA	1,180	996	1,536	1,221	1,588
Exceptional items	156	324	162	190	84
Add-back of write-down of restructuring and integration costs	-24	-74	-88	0	0
(D) Adjusted EBITA	930	846	1,221	923	1,221
(E) Adjusted EBITDA	1,312	1,246	1,610	1,411	1,672
(F) Net sales	8,217	7,688	7,808	8,115	7,568
(A/F) Operating margin, %	6.0%	3.7%	10.0%	6.7%	12.6%
(B/F) EBITA margin, %	9.7%	7.8%	14.7%	9.0%	15.0%
(C/F) EBITDA margin, %	14.4%	13.0%	19.7%	15.0%	21.0%
(D/F) Adjusted EBITA margin, %	11.3%	11.0%	15.6%	11.4%	16.1%
(E/F) Adjusted EBITDA margin, %	16.0%	16.2%	20.6%	17.4%	22.1%

Cash flow and return measures

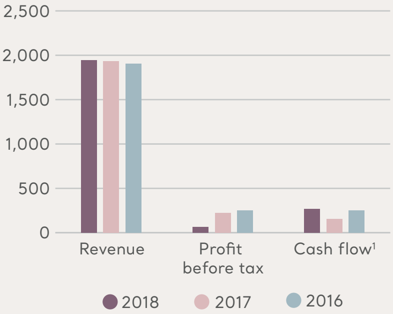
SEK M	2018	2017	2016	2015	2014
Calculation of cash conversion					
(A) Cash flow from operations	991	572	919	811	959
(B) EBITDA	1,180	996	1,536	1,221	1,588
(A/B) Cash conversion, %	84.0%	57.4%	59.8%	66.4%	60.4%
Calculation of return on shareholders' equity					
(A) Net profit for the year	296	118	490	307	619
Shareholders' equity at beginning of the period	5,074	10,658	10,227	10,602	9,296
Shareholders' equity at the end of the period	5,427	5,074	10,658	10,227	10,602
(B) Average total shareholders' equity	5,251	7,866	10,443	10,415	9,949
(A/B) Return on total shareholders' equity, %	5.6%	1.5%	4.7%	2.9%	6.2%
Calculation of return on operating capital					
Total assets opening balance	12,210	14,713	14,017	14,822	13,220
Total assets closing balance	13,136	12,210	14,713	14,017	14,822
Average total assets	12,673	13,462	14,365	14,420	14,021
Excluding average cash and cash equivalents	-817	-1,058	-1,127	-1,089	-1,191
Excluding average other provisions	-278	-220	-191	-206	-320
Excluding average other non-interest-bearing liabilities	-1,632	-1,867	-1,992	-1,958	-1,811
(A) Operating capital	9,946	10,317	11,055	11,168	10,699
Operating profit (EBIT)	493	281	781	540	953
Add-back of exceptional items	156	324	162	190	84
(B) EBIT after add-back of exceptional items	649	605	943	730	1,037
(B/A) Return on operating capital	6.5%	5.9%	8.5%	6.5%	9.7%

Capital structure

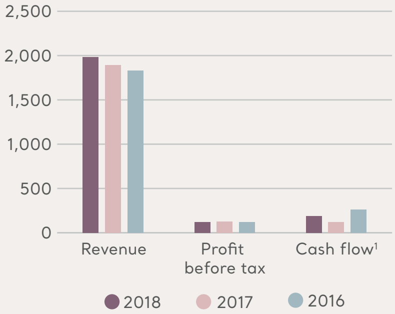
SEK M	2018	2017	2016	2015	2014
Calculation of interest-bearing net debt, net debt/equity ratio and interest-bearing net debt / Adjusted EBITDA					
Financial liabilities	5,671	5,221	1,701	1,643	1,614
Provisions for pensions, interest-bearing	27	61	36	98	328
Less financial receivables	-107	-8	-1,466	-1,512	-1,632
Less cash and cash equivalents	-961	-672	-1,446	-808	-1,369
(A) Interest-bearing (+) net debt/(-) net receivables	4,630	4,602	-1,175	-579	-1,059
(B) Shareholders' equity	5,427	5,074	10,658	10,227	10,602
(C) Adjusted EBITDA	1,312	1,246	1,610	1,411	1,672
(A/B) Net debt/equity ratio, multiple	*0.9x*	*0.9×*	*-0.1×*	*-0.1×*	*-0.1×*
(A/C) Interest-bearing net debt / Adjusted EBITDA, multiple	*3.5x*	*3.7×*	*-0.7×*	*-0.4×*	*-0.6×*
Calculation of interest-coverage ratio					
Profit after financial items	395	179	671	425	861
(A) Addition of interest expenses	105	117	115	117	95
Add-back of exceptional items	156	324	155	186	83
(B) Profit after financial items plus interest expenses and add-back of exceptional items	656	620	941	728	1,039
(B/A) Interest-coverage ratio	*6.2x*	*5.3×*	*8.2×*	*6.2×*	*10.9×*

Quarterly performance

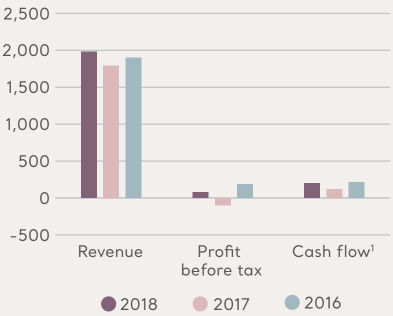
Quarter 1



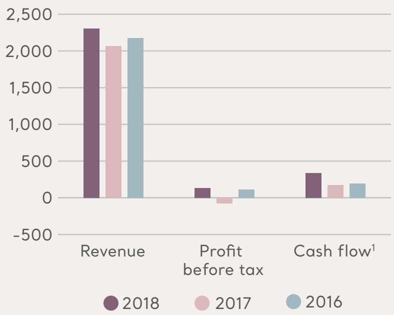
Quarter 2



Quarter 3



Quarter 4



[1]From operations.

The Group's 20 largest markets

	2018			2017			2016			2015			2014		
Country	SEK M	%	#	SEK M	%	#	SEK M	%	#	SEK M	%	#	SEK M	%	#
USA	2,390	29.2	1	2,242	29.2	1	2,331	29.9	1	2,377	29.3	1	2,129	29.2	1
UK	1,128	12.9	2	992	12.9	2	1,116	14.3	2	1,263	15.6	2	1,148	15.8	2
France	748	8.8	3	678	8.8	3	645	8.3	3	613	7.6	4	615	8.4	3
Germany	651	7.9	4	609	7.9	4	595	7.6	4	614	7.6	3	575	7.9	4
Canada	625	7.5	5	576	7.5	5	574	7.3	5	580	7.1	5	571	7.8	5
Australia	399	5.9	6	455	5.9	6	428	5.5	6	436	5.4	6	383	5.3	6
Netherlands	323	3.8	7	293	3.8	7	269	3.4	7	282	3.5	7	285	3.9	7
Italy	266	3.2	8	247	3.2	8	238	3.0	8	230	2.8	8	209	2.9	8
Austria	197	2.8	9	214	2.8	9	200	2.6	9	203	2.5	9	201	2.8	9
Belgium	186	2.4	10	181	2.4	10	181	2.3	10	193	2.4	10	172	2.4	10
Ireland	146	1.9	11	143	1.9	11	132	1.7	12	127	1.6	13	166	2.3	11
Switzerland	123	1.5	12	117	1.5	12	134	1.7	11	134	1.6	12	109	1.5	12
India	113	1.3	13	103	1.3	13	106	1.4	13	106	1.3	14	76	1.0	16
South Africa	98	1.1	14	84	1.1	15	86	1.1	16	99	1.2	15	85	1.2	15
Hong Kong	87	1.1	15	31	0.4	24	59	0.8	18	79	1.0	17	74	1.0	17
Denmark	80	1.0	16	89	1.2	14	90	1.2	15	91	1.1	16	107	1.5	13
Sweden	75	0.9	17	78	1.0	16	78	1.0	17	54	0.7	19	72	1.0	18
New Zealand	60	0.7	18	56	0.7	19	54	0.7	19	47	0.6	20	39	0.5	20
China	59	0.7	19	66	0.9	18	100	1.3	14	136	1.7	11	104	1.4	14
Singapore	56	0.7	20	68	0.9	17	51	0.7	20	64	0.8	18	63	0.9	19

Quality and environmental certifications 2018

City	Country	Production	ISO 9001	ISO 13485	SO 14001	CE	CMDCAS
Suzhou	China	VTE prevention, Pressure Ulcer Prevention	x	x	x	x	x
Magog	Canada	Patient handling	x	x	x	x	x
Poznan	Poland	Medical Beds, Patient Handling, Hygiene, Disinfection, VTE prevention	x	x	x	x	x
San Cristobal	Dominican Republic	Patient handling, VTE prevention	x	x	*	x	x
Cardiff	UK	Assembly and Doppler equipment for diagnostics	x	x	x	x	x

x = certified plant
* = certification planned for 2019

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Definitions

Financial terms

Operating capital
Average total assets less cash and cash equivalents, other provisions, accounts payable and other non-interest-bearing liabilities.

Return on operating capital
Rolling 12 months' operating profit with add-back of acquisition, restructuring and integration costs in relation to operating capital.

Return on shareholders' equity
Rolling 12 months' profit after tax in relation to average shareholders' equity.

Cash conversion
Cash flow from operations in relation to EBITDA.

EBIT
Operating profit.

EBITA
Operating profit before amortization and write-down of intangible assets.

Adjusted EBITA
EBITA with add-back of acquisition, restructuring and integration costs.

EBITA margin
EBITA in relation to net sales.

Adjusted EBITA margin
Adjusted EBITA in relation to net sales.

EBITDA
Operating profit before amortization, depreciation and write-down.

Adjusted EBITDA
EBITDA with add-back of acquisition, restructuring and integration costs.

EBITDA margin
EBITDA in relation to net sales.

Adjusted EBITDA margin
Adjusted EBITDA in relation to net sales.

Net debt/equity ratio
Interest-bearing net debt in relation to shareholders' equity.

Organic change
A financial change adjusted for currency fluctuations, acquisitions and divestments.

Earnings per share
Profit for the period attributable to Parent Company shareholders in relation to average number of shares.

Interest-coverage ratio
Profit after financial items plus interest expenses and add-back of restructuring costs in relation to interest expenses. Calculated based on rolling twelve-month data.

Operating expenses
Selling expenses, administrative expenses and research and development costs.

Operating margin
Operating profit in relation to net sales.

Equity/assets ratio
Shareholders' equity in relation to total assets.

Medical terms

Compression therapy
Treatment technique which means that one uses outer pressure with a certain frequency and for a certain period of time to treat and prevent venous leg ulcers.

Deep vein thrombosis (DVT)
Formation of a blood clot in a deep leg vein.

Edema
Swelling due to accumulation of fluid in tissues.

Ergonomics
A science concerned with designing the job to fit the worker to prevent illness and accidents.

FDA (US Food and Drug Administration)
The US authority responsible for protecting the public health by carrying out regular inspections of, among other things, medical devices.

MDR (EU Medical Device Regulation)
Regulations created by the EU to ensue better protection for the public health and patient safety by establishing modernized and more robust EU legislation. All medical device manufacturers and distributors must comply with these new regulations that will come into force in May 2020.

Prevention
Preventive activity/treatment.

Pressure injuries
Sores that occur when blood flow to the skin is reduced by external pressure. Most common in patients with reduced mobility.

VTE
The abbreviation VTE standards for venous thromboembolism – a blood clot in the veins.

Other information

Distribution policy

The printed version of Arjo AB's Annual Report is only distributed to shareholders who expressly request a copy. The Annual Report is also available in its entirety on the Group's website: www.arjo.com

Reading guide

- The Arjo Group is referred to as Arjo in the Annual Report.
- Figures in parentheses pertain to operations in 2017, unless otherwise specified.
- Swedish kronor (SEK) is used throughout.
- Millions of kronor are abbreviated SEK M.
- All figures pertain to SEK M, unless otherwise specified.
- Information provided in the Annual Report concerning markets, competition and future growth constitutes Arjo's assessment and is based mainly on a combination of material compiled externally and internally.

Annual General Meeting

Arjo's Annual General Meeting will be held at 11.00 a.m. on May 7, 2019 at Luftkastellet, Utsiktsvägen 10, SE-216 11 Limhamn, Malmö, Sweden.

Registration

Shareholders wishing to participate at the Annual General Meeting should:

- Be registered in the shareholders' register kept by Euroclear, not later than April 30, 2019
- Inform the company of their intention to participate not later than April 30, 2019

Applications can be submitted in the following ways:

- On Arjo's website, www.arjo.com
- By conventional mail to: Arjo AB, Att: AGM, c/o Euroclear Sweden, Box 191, SE-101 23 Stockholm, Sweden
- By telephone: +46 (0) 10 335 4700

Nominee-registered shares

Shareholders whose shares are registered in the name of a nominee must have temporarily registered their shares in their own name with Euroclear Sweden AB to be able to participate at the Annual General Meeting. Shareholders represented by proxy should submit a power of attorney to the company prior to the meeting. Anyone representing a legal entity must have a copy of the registration certificate or a corresponding document that indicates the proper authorized signatory.

Nomination Committee

Arjo's interim report for the third quarter of 2018 contained instructions for shareholders on how to proceed to submit proposals to Arjo's Nomination Committee and how to propose motions to be addressed at the Annual General Meeting.

Dividends

The Board of Directors and CEO propose a dividend for 2018 of SEK 0.55 per share (0.50), an increase of 10% compared with 2017. The total dividend thus amounts to approximately SEK 150 M (136).

The proposed dividend for 2018 is well in line with the target in Arjo's adopted dividend policy. The proposal is justified based on the combination of the Group's financial position and future development opportunities.

The Board's proposed record date is May 9, 2019. Euroclear expects to distribute the dividend to shareholders on May 14, 2019.

Financial information

Updated information on, for example, the Getinge share and corporate governance is available on Arjo's website www.arjo.com.

The Annual Report, year-end report and interim reports are published in Swedish and English and are available for download at www.arjo.com. The Annual Report can also be ordered from: Arjo AB, Att: Informationsavdelningen, Hans Michelsensgatan 10, SE-211 20 Malmö, Sweden. Tel: +46 (0) 10 335 4500.

The following information will be published for the 2019 fiscal year:

May 7, 2019: Interim report, January–March
May 7, 2019: Annual General Meeting
July 19, 2019: Interim report, January–June
October 23, 2019: Interim report, January–September
February 3, 2020 Year-End Report 2019
April 2020: 2019 Annual Report

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