PARENT ACCOUNTS
PEGASUS LTD
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Annual Report 2017

We contribute to a sustainable healthcare system – always with people in mind

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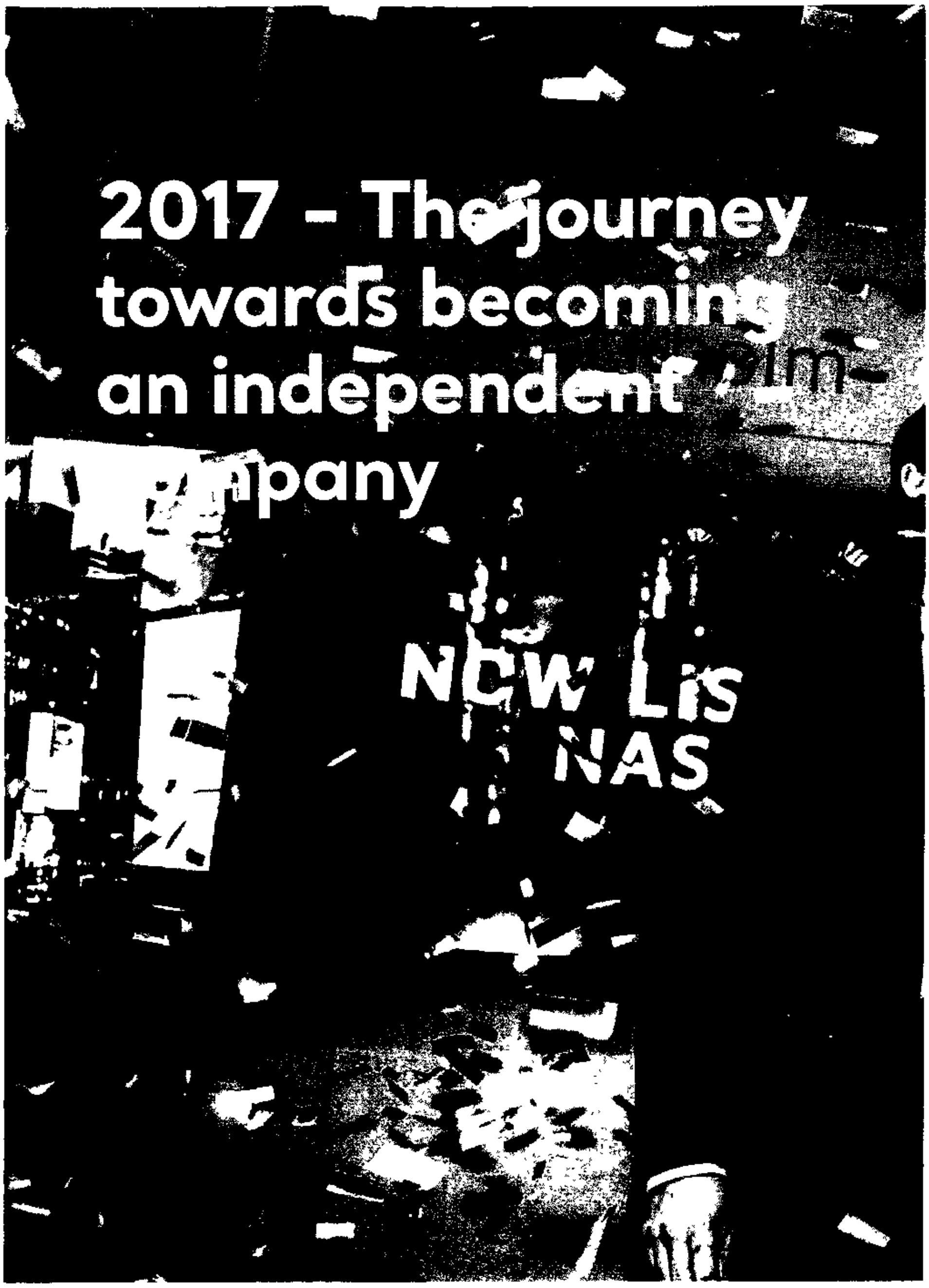
arjo
with people in mind

CONTENT

The formal annual report covers pages 38-90. The statutory sustainability report and sustainability report are defined on page 24-35. Please note that the official audited version of the annual report is the Swedish version.

2017 - The journey towards becoming an independent company



October 18 2016

Getinge's Board of Directors announces the intention to distribute the shares in Arjo to the Getinge shareholders.

January 10 2017

The new Arjo management team is appointed.

April 1 2017

Joacim Lindoff is appointed CEO of Arjo, and Arjo is now a separate division within Getinge

May 22 2017

Arjo's new strategy and business plan Arjo 2020 is launched internally and the journey starts towards making Arjo a market leader within long term care while still remaining the strong market position in acute care

November 10 2017

The prospectus is published and Getinge's Board of Directors proposes that an Extraordinary General Meeting on December 4 2017 shall resolve to distribute all the Arjo shares to the Getinge shareholders

November-December 2017

Meetings with investors and analysts to present the new Arjo.

December 4 2017

An extraordinary general meeting in Getinge decides to distribute all the shares in Arjo to the Getinge shareholders

December 12 2017

Arjo is listed on the Nasdaq Stockholm stock exchange

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, services and solutions that improve quality of life for people with reduced mobility and age-related health challenges.

We create 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.

Our main customers are private and public institutions within acute care and long-term care. The offering includes products and solutions for patient handling, hygiene, disinfection, medical beds, therapeutic surfaces, venous thromboembolism (VTE) prevention and diagnostics. We also offer product services as well as training in connection with product sales.

We sell products and solutions in more than 100 countries, divided into three geographic areas: North America, Western Europe and Rest of the World. We are nearly 6,000 employees worldwide and our head office is located in Malmö, Sweden.

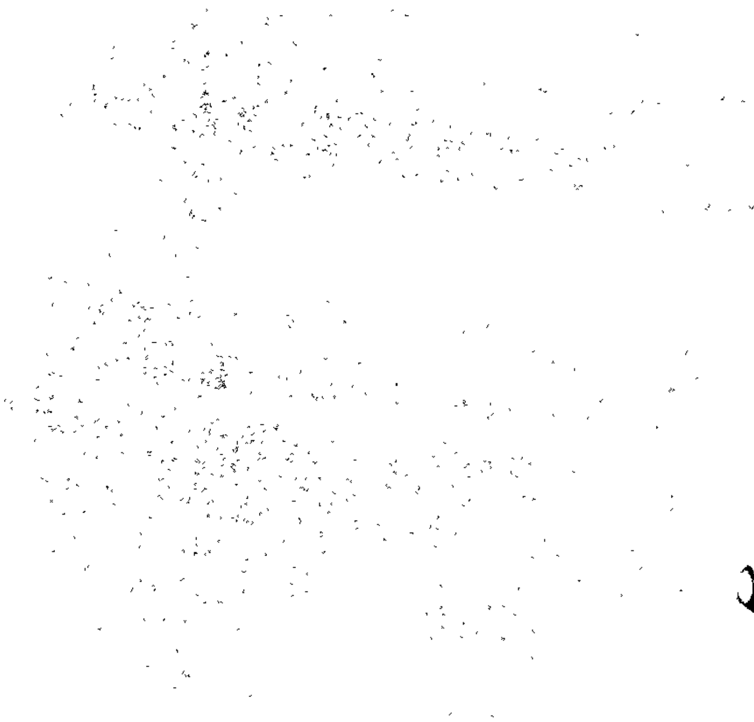
Acute care facilities | **Long-term care facilities**

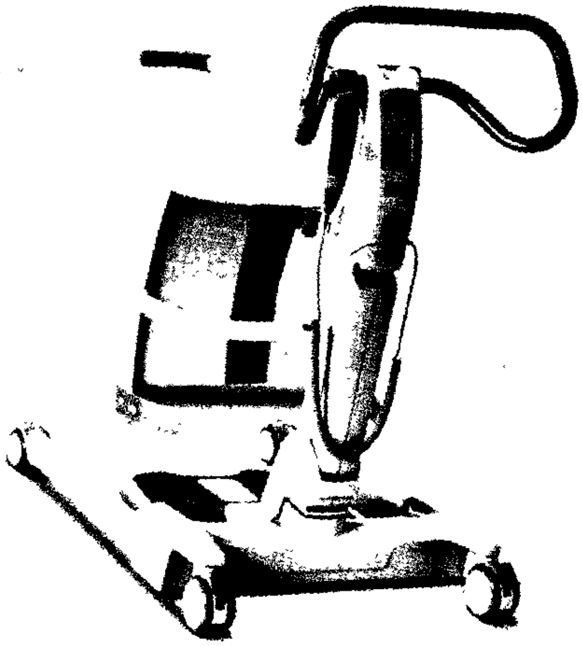
Care provider

Nursing homes

Home care

Acute care facilities	Long-term care facilities	Home care
Hospital groups/chains Individual hospitals Private and public hospitals	Grouped hospitals Individual hospitals or long-term care facilities Chains of long-term care facilities Private and public care facilities	Healthcare in the home Organized locally Not primary focus for Arjo





Key figures

	2017	2016
Net sales, SEK M	7,688	7,808
Organic growth in sales, %	-1.6	-2.6
EBITDA growth, %	-35.1	25.8
Adjusted EBITDA[1]	1,246	1,610
Adjusted EBITDA margin, %	16.2	20.6
Cash conversion, %	57.4	59.8
Equity/assets ratio, %	41.6	72.4
Profit/loss for the period, SEK M	266	490
Earnings per share, SEK[2]	0.43	1.80
Number of shares, thousands	272,370	272,370
Dividend per share, SEK[3]	0.50	n/a

1) Before acquisition, restructuring and integration costs
2) Before and after dilution
3) Dividend proposed by the Board of Directors

Net sales per geographic area

Net sales per customer segment

5,983
Employees globally

7,688
Net sales, SEK M

1,246
EBITDA, SEK M

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

It is time to take Arjo to the next level

2017 was a very exciting year for Arjo. Having been part of Getinge, we became a standalone company and were listed on Nasdaq Stockholm in December. In 2017 we have laid the foundation for the future of the company with clear plans in place to take Arjo to the next level.

Arjo was founded in Eslöv more than 60 years ago by entrepreneur Arne Johansson. The company has since evolved into a global partner for the acute care and long-term care sector. In 2017, we gained the opportunity to take another few important steps in Arjo's long and successful journey by listing the company on Nasdaq Stockholm. The spin-off from Getinge means that we can become even more focused in the areas in which our business has its heart and thereby position Arjo as a trusted partner in both acute care and long-term care. A partner who shares customers' values and ambitions, and has a deep understanding of the complexity that characterizes today's healthcare environments.

We operate in a global market, in which most indications are that the demand for healthcare services will continue to increase for the foreseeable future. Growth is largely being driven by demographic factors such as an aging population and higher

"Standing on our own two feet is very exciting for us and we have a great engagament in the group to deliver according to our targets"

incidence of chronic diseases. The economic performance of emerging markets is also enabling more countries to develop advanced healthcare. These factors are the basis for the assessment that the market is expected to grow by an average of 4 percent per year in the next five-year period.

After a few years of challenges and declining growth for Arjo, it is now time to switch gears. In particular, we will increase our market presence in long-term care, an area in which we see many possibilities for regaining leading positions. We can, as a standalone company, sharpen our focus with strengthened opportunities for carrying out our strategy and more efficiently developing the products and solutions that the market requires.

Our Arjo 2020 business plan

I took office as CEO of Arjo in April 2017, following many years with Getinge. At an early stage we defined a clear strategy for the new Arjo. With our business plan, which we call Arjo 2020, we will achieve our vision of being recognized globally as the most trusted partner for enabling care and improving quality of life for people with reduced mobility and age-related health challenges. The plan contains a number of overall focus areas with activities to strengthen our commercial focus, increase our operational agility, and to create sustainable, profitable growth.

During the year, we were able to make solid progress and also saw early signs that the activities we carry out are paying off. However, in 2017, our net sales declined -1.6 percent organically to SEK 7,688 M, mainly driven by negative trends in our two largest markets, the US and the UK. In the UK, the development was mainly due to continued lower investments by the National Health Services (NHS). With the exception for UK, however, we saw a positive growth in Western Europe of 2 percent for the full year. In the US, the weak development was mainly attributable to lower rental and DVT sales in the first half of the year. Although by initiating a number of clear actions, we managed to finish off the year on a positive note both within rental and DVT in the US. For the rental business, where we have had challenges for a long time, it was especially rewarding to close the year with two positive quarters. This shows that we are on the right path.

New products and solutions

During the year, we launched a number of new products and solutions. We entered into a partnership with Sony Mobile that will enable us to soon offer our customers a unique tracking solution. The solution aims to improve efficiency and quality of care by reducing time spent on locating critical equipment in healthcare environments. The partnership with Sony Mobile is an important milestone in our digitalization efforts that are being carried out on several fronts.

We have also expanded our product offering in the Patient Handling product category through Sara® Flex, a new addition to our Sara product family, which is a series of standing and raising aids for people with reduced mobility. Sara® Flex has a unique silicone leg support that enables the patient to be repositioned more comfortably.

In 2018, we will also launch a number of exciting new products and I look forward to speaking more about those in the near future.

In conclusion, I can say that, after a period of challenges and declining growth, Arjo now stands well-equipped for the future. We are putting an intense year behind us and look forward to successively take Arjo to the next level and start to generate growth. Standing on our own two feet is a stimulating opportunity for us and we have a great commitment within the Group to meet our targets. I look forward to a continued exciting and successful future with Arjo.

Malmö, March 29 2018

Joacim Lindoff
President & CEO

Arjo's history

Arjo's operations are based on an extensive know-how in enabling care for people with reduced mobility and age-related health challenges, that has been built up over our 60-year history as partner within acute and long term care.

Entrepreneurial spirit

Arjo was founded in 1957 by Swedish entrepreneur Arne Johansson and was given the name Arjo using the first two letters of the founder's first and last name. Arjo originally manufactured components and machine parts for other manufacturers, including medical devices. Arne Johansson was one of the first to understand the need for bathing and transfer equipment in healthcare and elderly care as well as for improved ergonomics for healthcare professionals. He developed a series of innovative products that could meet these needs in Sweden. Shortly thereafter, Arjo started selling its products outside Sweden.

1957	1972	1989	1995	2004
Arjo was founded	Launch of the first height-adjustable bathtub	Development of SARA standing and raising aid	Arjo is acquired by Getinge	Acquisition of BHM Medical

Acquisition history

In addition to organic expansion, Arjo will continuously evaluate acquisitions to gain access to new markets and further strengthen its market positions. Through acquisitions, Arjo can achieve growth and improve margins through synergies in research and development, manufacturing, distribution and sales. The following table shows Arjo's acquisition history since 2012.

Global expansion

At the end of the 1960s, Arjo expanded its products to Western Europe. The products were in high demand and Arjo quickly established several international sales companies, for example, in the UK, Germany, France, Belgium and the US. In the 1980s, Arjo strengthened its position as a key player in the international market with the acquisitions of US company Century and UK company Mecanaids. The international expansion continued and Arjo soon became a global player in products and equipment for hygiene and patient handling.

Strengthened market positions

In 1972, Arjo launched the first height-adjustable bathtub. In 1989, Arjo developed the first generation of SARA (standing and raising aid) and later on the Maxi Move patient lifter system. The development of innovative technology continued in the 1990s focusing on product development in hygiene and patient handling systems.

Listing followed by acquisition by Getinge

Arjo was first listed on the Stockholm and London stock exchanges in 1993. At that time, Arjo had about 1,100 employees and generated sales of approximately SEK 1,300 M. In 1995, Arjo was acquired by Getinge which then expanded its product offering to include patient lifts and hygiene systems. Arjo thus became the foundation of Getinge's Extended Care business area.

Further expansion

A number of corporate acquisitions were implemented in the 2000s to continue to strengthen the hygiene and patient handling offering. For example, BHM Medical was acquired in 2004 which broadened Arjo's range of patient lifts. The significant acquisition of Huntleigh Technology PLC took place in 2007 after which the ArjoHuntleigh brand was established. The first ground-breaking product that Huntleigh launched was the Nimbus mattress system, which is still found in Arjo's range. The Huntleigh Group operated in the areas of special mattresses for treating pressure ulcers, beds for intensive care, specialist care and nursing homes, products for preventing deep vein thrombosis and equipment for fetal and vascular diagnostics. Today, Arjo is a market-leading supplier of medical devices and solutions that improve quality of life for people with reduced mobility and age-related health challenges.

Arjo becomes an independent company and is listed on Nasdaq Stockholm

In 2016, Getinge's Board of Directors announced the intention to split Getinge into two separate companies, Getinge and Arjo, to provide the best conditions for further development and realization of their respective potential. An extraordinary general meeting in Getinge on December 4, 2017 decided to distribute all shares in Arjo to the Getinge shareholders.

Since December 12, 2017, Arjo is listed on Nasdaq Stockholm and a new exciting chapter begin in Arjo's more than 60 years of history.

Acquisition of Huntleigh Technology PLC
2007

Acquisition of Acare & TSS
2012

Acquisition of AccuMed and 1st Call Mobility
2016

Arjo is listed at Nasdaq Stockholm
2017

Year	Company	Business	Country	Sales
2016	AccuMed	Production facility for medical textiles	DO	SEK 100 M
2016	1st Call Mobility Ltd	Medical device solutions for bariatric care	GB	SEK 100 M
2012	Acare Medical Science Ltd	Medical beds	CN	SEK 135 M
2012	Therapeutic Support Systems (TSS)	Wound care	US	SEK 1,600 M

An attractive market with stable, long-term growth

Arjo operates in a market driven by favorable growth factors. The market is characterized by high entry barriers, with demands for safety, large investments and in-depth local knowledge. Arjo is one of the foremost players in the market, holding leading positions in several of the group's product categories.

The global medical devices market amounted to approximately SEK 3,145 billion in 2016. The market that Arjo addresses is estimated to amount to approximately SEK 65 billion in 2017, corresponding to about 2 percent of the global medical devices market.

Of the market in which Arjo serves, North America (US and Canada) accounts for 34% (approximately SEK 22 billion), Western Europe 31 percent (approximately SEK 20 billion) and Rest of the World 35 percent (approximately SEK 23 billion).

Market players

The market is generally characterized by a high degree of competition that varies somewhat between the submarkets. A small number of large, global players, with a presence in many geographies and in several product segments, dominate the market, alongside a further number of local and regional players with a more limited product offering.

The barriers to market entry are relatively high, such as strict product safety requirements and a global network with a high level of local knowledge. In recent years, a number of low-cost competitors have appeared in the market with pricing as their main competitive tool. However, there are few alternatives to the high-quality products that we and our competitors offer. Arjo is one of the foremost players in the market, holding leading positions in several of the group's product categories.

There are many suppliers of raw materials and components and most deliver relatively standardized products, which restricts their negotiating position.

Customers

Arjo's products and solutions are sold mainly to the acute care and long-term care customer segments. Customers are public institutions and private healthcare providers in the partly overlapping areas of acute care and long-term care. The customer base is fragmented and varies broadly due to geography and markets. The global healthcare industry has experienced far-reaching changes since the financial crisis of 2009, one of the consequences was market consolidation, resulting in fewer yet larger companies, with relatively extensive decisiveness in the value chain.

Purchasing is now increasingly centralized and conducted higher in the decision-making hierarchy, meaning that central purchasing departments now make purchases rather than healthcare professionals.

Acute care

Suppliers of acute care are primarily hospitals that treat patients with acute conditions. Acute care units make high demands of delivery reliability and the technical features of products. Most purchases take place through centralized purchasing units or via organized groups of suppliers of acute care. The product types provided by Arjo are considered to be of relatively low complexity for acute care customers compared with other types of equipment used at acute care units. The aftermarket for technical services is small in this customer segment since acute care units largely have their own service departments with medical engineers.

Long-term care

Providers of long-term care mainly comprise nursing homes and home care. They offer care for patients who are in need of rehabilitation or patients who are in need of care permanently or over extended periods due to old age or chronic diseases. In long-term care, different technical and aesthetic requirements are made on products compared with acute care. One example might be alternative product material, such as wood or plastic, to create more pleasant and calm surroundings in dementia care. Long-term care customers generally purchase lower volumes and make greater use of external parties for technical service and aftermarket services. In addition to institutional care, home care is a growing sub-segment of long-term care.

Public institutions

Although there are certain national differences, the public sector generally plays a key role in the healthcare system and represents a significant portion of the market. Public authorities

can either provide acute care and long-term care themselves or purchase care services from private companies. Purchases by public institutions mainly take place on the basis of public procurements.

Private healthcare providers

Private healthcare providers conduct proprietary operations and make purchases themselves. The share of private healthcare providers differs between countries and care segments. Although the share of private companies is rising in most of the markets in which Arjo operates, the vast majority of the potential customer base in, for example, Europe and Japan remains public players, whereas the US has a more balanced ratio between public and private healthcare providers.

Anticipated market growth

Global demand for medical and healthcare is heavily influenced by global megatrends, which are expected to contribute to attractive, long-term growth. These trends comprise, for example, demographic shifts including an aging population, an increased incidence of lifestyle-related diseases such as obesity, scientific advances in pharmaceuticals and medical devices, and financial development in emerging markets, meaning that increasing numbers of countries can build up advanced healthcare.

The growth in the markets where Arjo operates is closely linked to the overall healthcare market and follows the same growth curve. Arjo's market is expected to grow an average of 4 percent over the five-year period 2017–2022. The Patient Handling product category is expected to grow 6 percent in the same period. Growth in the acute care customer segment is expected to be driven primarily by the economic development in emerging markets, while growth in the long-term care segment is expected to be driven by significant investment to accommodate an aging population in the more developed countries.

Demand for complete solutions, including service and training, has risen in recent years and is expected to gain in importance in the future.

Business environment trends

Market dynamics and trends

Several megatrends affect the market conditions of the global healthcare industry. An aging population, the increase in lifestyle-related diseases and scientific advances in recent years are all trends that affect global demand for our products and services. Arjo is working to tackle these important trends in a long term sustainable manner.

Global trends

Demographic changes

The global trend of population growth combined with longer life expectancy means that the number of elderly people will rise. The share of the population in Europe aged 60 and above is expected to increase from about 22 percent in 2010 to about 34 percent by 2050. We can also see a clear increase in lifestyle-related diseases, such as obesity and various types of cardiovascular diseases. In the US, obesity-related diseases in adults have increased from affecting 25 percent of the entire population to 34 percent in just 14 years.

A population that is living longer and needs more and more care means that the healthcare sector is under immense financial pressure. This development entails an increase in the demand for acute and long-term care-related services and products. Healthcare spending for this age group is also increasing substantially. To meet these demographic changes, the focus of healthcare will mainly be confined to three areas: clinical outcomes, efficiency and cost savings.

Digitalization at all areas

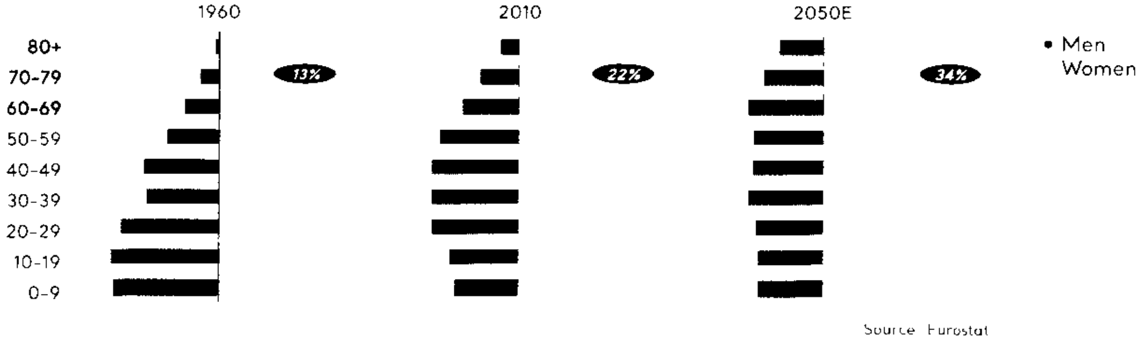
Digital technology can be found today in all areas of the healthcare industry and is gaining in importance. Mobile use has largely driven the digital trend of recent years and is being increasingly integrated with, for example, home care, and as a key tool in decision-making processes, among other areas. Automation in the healthcare sector is primarily being achieved through the introduction of IT systems for processors and functions.

Automation of the physical world, meaning healthcare providers and products, is expected to accelerate in the future through, for example, robot technology. With the Internet of Things (IoT), products are connected in order to collect data and improve diagnostics and treatment in real-time. IoT can also be used to check equipment throughout its life cycle. Real-time location services (RTLS) enable, for example, the location of critical equipment in healthcare environments and facilitate the taking of inventories.

Sustainability

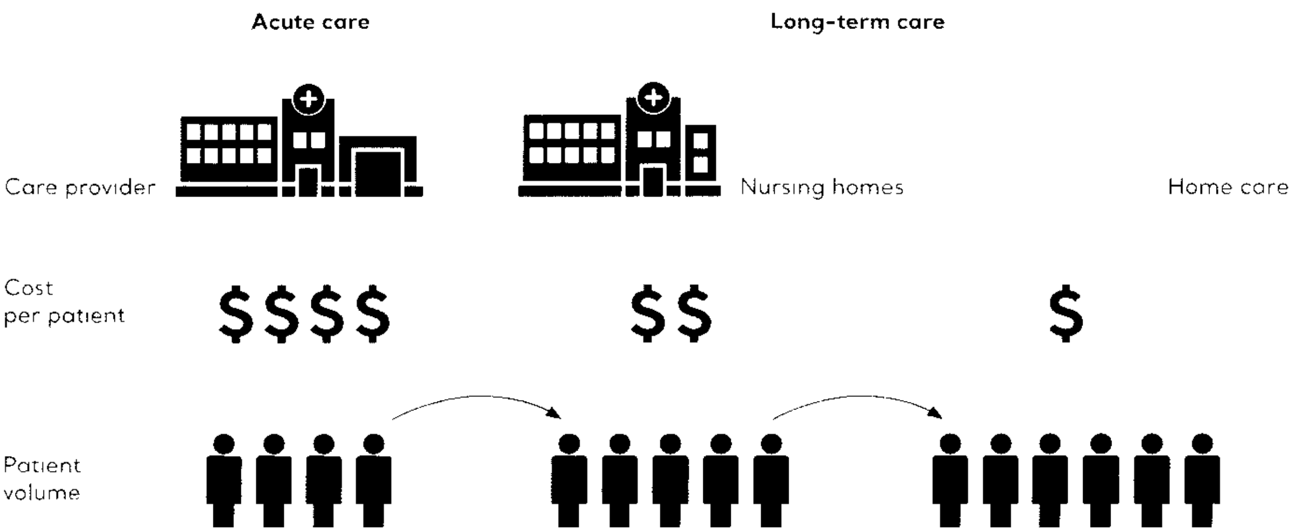
In recent decades, attention has increasingly been focused on such issues as climate change, environmental destruction and companies' social responsibility. Assuming active responsibility for contributing to sustainable development is a prerequisite for a global product company's business. Strategic sustainability efforts 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. These efforts may involve anything from anti-corruption and social responsibility in locations where the company operates, to production, raw materials and delivery. This also involves responsibility for the products' environmental impact throughout their life cycle. To maintain relevance in sustainable development, a company's sustainable activities must have a distinct connection to its business operations and value-generating processes.

Age demographics per age group in Europe



Source: Eurostat

The transition from acute care to long-term care



Industry-specific trends

The transition from acute care to long-term care
With a growing population and an increased proportion of elderly people and sick people, hospital will need to care for more patients in the future. Further demands will thus be placed on healthcare resources.

The average total cost of a bed in a hospital is often significantly higher compared with beds in long-term care facilities. In light of this, most suppliers of acute care endeavor to shorten patient care times to enhance the efficiency of healthcare, reduce costs and allocate more resources to other value-creating activities. 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 patient is significantly lower. Accordingly, there are good opportunities for Arjo to benefit from this market trend and thereby increase its market shares in the growing long-term care market.

Welfare trend in emerging markets
The economic performance of emerging markets is enabling more countries to develop advanced healthcare. There is a distinct, 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 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 predominately in public healthcare. However, the purchasing power in these markets is generally lower than in mature markets, but is partly offset by the size and growth of the market which is expected to undergo strong increase as these countries' economies expand.

Greater consolidation in healthcare
The healthcare industry has undergone major changes in the past decade, partly as a result of increased consolidation. The result has been fewer and larger healthcare players, with purchasing increasingly controlled by central purchasing departments, rather than physicians and healthcare professionals. In turn, this is leading to greater price pressure on suppliers and resulting difficulties for smaller players in developing the expertise required to supply the extensive portfolio of products and services that are in demand. As healthcare providers and thus end customers in the market have increasingly limited budgets, suppliers need to adjust their strategies to capture market shares. Acquisitions and consolidation have thus also gained in importance for medical device companies in recent years. Successful consolidation can generate comprehensive cost and earnings synergies for major players.

Vision and strategy

Vision

Our vision is to be recognised globally as the most trusted partner in enabling care and improving quality of life for people with reduced mobility and age-related health challenges.

To achieve this, we have defined a strategic intention; Arjo aims to become market leader within long-term care while maintaining the strong position in acute care. The ambition is also to reach a position as preferred solutions provider.

Arjo 2020 business plan

A business plan entitled "Arjo 2020" has been developed based on our strategic intent. Arjo 2020 comprises five overall focus areas, all of which are described in detail below. The foundation is the focus on a sustainable and winning culture where business and people grow together.

Arjo's five focus areas

❶ Improve customer value

We ensure value creation for our customers by driving an organization focused on the unique needs of customers in acute care and long-term care. We endeavor to deliver improved clinical results and higher financial value by contributing to more efficient care and reducing total care costs. The priorities in this area include continuous innovation, product renewal and development of the range of services offered. Arjo has clear plans for the areas of research, development and marketing, which is expected to lead to increased product renewal and new innovations in the coming years.

The goal is to develop and offer complete solutions to help customers face current and future demographic trends, stricter regulatory requirements, enhance the quality of care and the efficiency of patient flows and deliver greater patient safety. In 2017, we signed a partnership with Sony Mobile regarding

We will become the most trusted partner globally in enabling care and improving quality of life for people with reduced mobility and age-related health challenges

Five focus areas

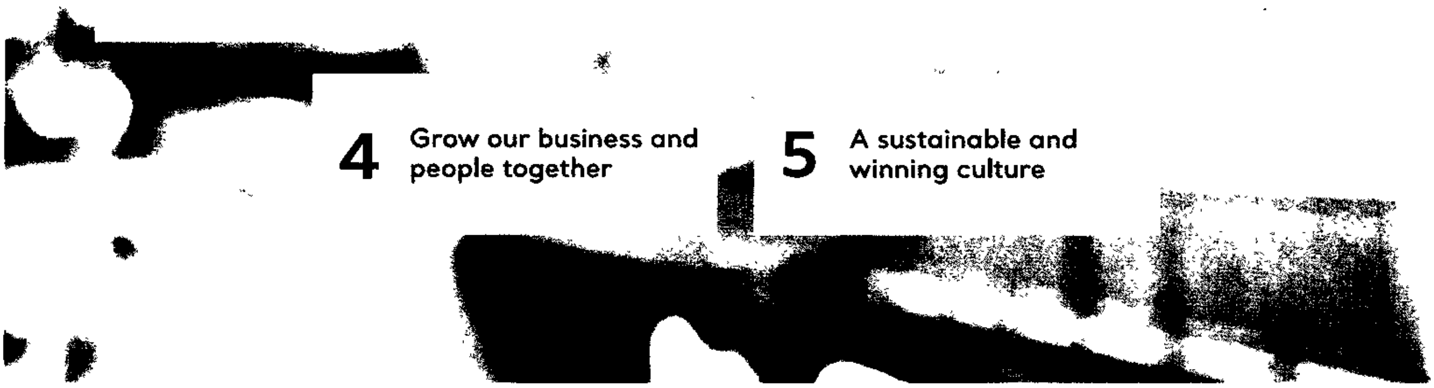
1 Improve customer value

2 Strengthened commercial focus

3 Increased operational agility

4 Grow our business and people together

5 A sustainable and winning culture



a new tracking solution. This is the first step in our journey towards making digital solutions help simplify the everyday lives of our customers.

❷ Strengthen 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 also intend to expand our presence in long-term care. In addition to an intensified focus on long-term care, Arjo's aim is to optimize its product portfolio and sales process.

Several activities were launched in the US market during the year, including investment in a dedicated sales team for long-term care. Additionally, focused work was commenced aimed at turning around the negative trend in rental operations in the US, an area in which Arjo has experienced challenges over a prolonged period The activities generated results and in the final two quarters of the year, there was a positive break in trend, which saw growth for the rental operations in both the third and fourth quarters.

The establishment of proprietary sales organizations in, for example, Japan, China and Latin America, also commenced during the year. This work will continue during 2018 and is expected to be completed in the third quarter to provide a good foundation for 2019.

❸ Increased operational agility

Arjo's target is to create an agile organization that can effectively meet both customer needs and changes in the market. We also work actively to ensure that we comply with existing regulatory requirements and strive to deliver the highest possible level of product quality and safety.

During the year, we established a strong organization with clear mandates and areas of responsibility. To attain the speed

required for achieving success in our industry today, we have created processes that enable swift decision-making close to our customers.

We have organized the Group to optimize its development resources based on closer and more flexible collaboration between research and development, purchasing and production. The new development function was implemented during the fourth quarter 2017 and has already started to generate certain coordination benefits.

❹ Grow our business and people together

It is the employees at Arjo who create and develop the business. Accordingly, Arjo has prepared a long-term plan that ensures that the organization has the necessary leadership, expertise and key skills to meet both 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.

During the year, Arjo established a strong organization characterized by equality and diversity. Diversity work is driven actively by the Arjo Management Team, which will continue to pursue this work in its respective functions during 2018. In addition we initiated talent programs on both global and local level during the year.

❺ A sustainable and winning culture

The objective is to create a result-oriented organization based on Arjo's core values of Passion, Collaboration, Openness, Excellence and Ownership. The common factor uniting these five core values is people's equal value and the will to improve the health and well-being of others. To bring about a winning and sustainable corporate culture, Arjo promotes enthusiasm, a focus on solutions that add value and generate a real positive change for people, assuming ownership and making decisions, and being a team player working toward attaining the Group's goals. Arjo also views equality as a key area to the Group's success.

Financial targets from 2018

In 2017 three financial targets have been defined and communicated for Arjo. The targets apply in the medium term starting in 2018. In determining the financial targets the board and management took into account factors such as growth in Arjo's primary markets. Furthermore, growth is expected to be driven by strategic initiatives, for example, in the U.S. market and the intensified operational focus entailed by Arjo becoming an independent company.

Sales growth
Average annual organic sales growth of 2–4 percent.

A prioritized area for Arjo is to turn around the development in recent years and generate organic growth.

Profitability growth
Average annual EBITDA growth of at least 10 percent.

Being the measurement closest to cash flow, EBITDA is considered a relevant profitability target for Arjo, since the business operating activities generate strong cash flow.

Cash conversion
Cash conversion exceeding 70 percent.

The cash conversion target is set to ensure Arjo's focus on capital management.

Dividend policy
The Board of Directors of Arjo 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 percent of net income after tax.

Our offering

Strong position with broad product portfolio

Today we are one of the leading global players in several of our product segments. The strong market position is the result of our extensive market presence, extensive range of products and services, as well as high quality and product safety.

Arjo is one of the leading global players in several of the product segments in which we operate. Our offering includes products and solutions for patient handling, hygiene, disinfection, medical beds, pressure ulcer prevention, venous thromboembolism (VTE) prevention and for diagnostics. In each of these areas, we develop, manufacture, distribute and sell a wide range of products and solutions that contribute to improving clinical outcome for patients and raising safety and productivity for healthcare professionals. On top of that, we offer complementary services, such as education and service of equipment. Our broad product range also enables us to offer a series of product and solution combinations that further enhance value for customers.

Our 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. During 2017 Arjo's research and development costs amounted to SEK 204 M (201), corresponding to 2,7 % (2,6) of net sales.

High quality and product safety

Product safety is the foundation for all companies operating in the medical technology industry and a factor that permeates all of Arjo's operations. We comply with all national and international regulatory frameworks, rules and norms in the markets in which we operate. To ensure high medical device quality, Arjo has also set up a number of product quality and efficiency parameters for its operations, which are continuously followed up, evaluated and developed. Arjo also has licenses and certifications for production facilities according to the applicable and regulatory framework in each country.

Products		Description	Competition	Percentage of total sales (%)
Patient handling		Arjo has a broad range of lifting and transferring solutions that meet the care receiver's specific needs while ensuring a safe, comfortable and dignified transfer. These include, for example, ceiling lifts, standing and raising aids and slings.	Hill-Rom, *Guldmann and* HandiCare	**23**
Pressure Injury Prevention		Arjo has a comprehensive range of advanced mattress systems for prevention of pressure ulcers. The range includes, for example, mattress replacement systems with alternating pressure redistribution and special solutions for bariatric patients.	Hill-Rom, InvaCare and Stryker	**19**
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	**18**
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 and CTC Pirus	**10**
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	**8**
Diagnostics		Arjo's Diagnostics product segment includes Doppler equipment for obstetric and cardiac diagnostics.	General Electric and Philips	**3**
Disinfection		Arjo's disinfection range includes high-quality flusher-disinfectors and the associated chemicals for safe cleaning and disinfection.	Meiko, Steelco *and Discher*	**2**
Service		Arjo also provides diverse services and solutions, such as technical service for products, purchasing consulting, information and training.		**17**

Fewer injuries in healthcare by customized solutions

90% fewer work-related injuries

Thanks to Arjo's customized Diligent Consulting program, work-related injuries have declined by more than 90 percent at Adventist Health Sonora[1] hospital in California.

Most staff injuries in the healthcare industry occur when patients are being moved within a unit. The Adventist Health Sonora hospital in California experienced 22 patient-handling injuries among 1,600 employees in 2013. These injuries resulted in costs of several hundred thousand US dollars in compensation and lost time on the job, so a decision was made to address the problem using external help.

In 2014, after carefully researching suppliers, the hospital selected Arjo's Diligent™ Consulting, largely due to its broad range of solutions and proven results. Arjo offered the most comprehensive solution with a guaranteed 60-percent reduction in injuries during the three-year contract.

Tailored solution

The program was fully tailored to Adventist Health Sonora's goal of decreasing staff injuries, facilitating early mobility in patients and improving patient outcomes.

In addition to patient handling equipment that is adapted to care needs, the program also included training, three years of support and clinical consulting services. The training was conducted with the help of Arjo's clinical experts, and included hands-on practice of how best to handle potential scenarios that could arise in care situations. During the initial training period, 48 local coaches and almost 250 general staff, whereof nine rehab staff and six clinical managers were trained. With the proper tools, training and strategies, the staff was given help in safely transferring and assisting patients without risky manual lifting. Every month, Arjo made follow-up site visits to review and improve working processes as well as to support the team with coaching and training.

Thanks to thorough training and strong leadership, the program became a major success at Adventist Health Sonora. In the first year following the program's introduction, there were four injuries, which was an 82% reduction compared with the preceding year. In 2016 and 2017, the injury rate declined by more than 90% compared with 2014.

Meaningful benefits

In addition to monetary savings and reduced injuries, the program also resulted in lower staff turnover and increased employee satisfaction. At the same time, patients have benefited from the decrease in the risk of falls and increasing mobility.

"Patients have a device to provide secure assistance, providing them a safer means to progress through their care. The equipment also allows more privacy and independence, which contributes to their motivation and healing," says Kelly Johnson, Employee Health Nurse at Adventist Health Sonora.

Due to the successful results, Adventist Health Sonora extended its three-year support contract with Arjo. They have also continued to order more equipment and the program is very popular among the staff.

Christopher Ryan, VP Marketing North America at Arjo, foresees great opportunities for Arjo's Diligent™ Consulting Solution.

"Our Diligent program enables us to deliver added value to our customers by customized solutions and guaranteed results. This program provides us with an advantage over competitors, and ultimately allows us to deliver better outcomes for our partner facilities."

Arjo's Diligent program is an injury-prevention program for healthcare facilities. It is headed by a clinical consulting team that guides and trains management and staff in safe patient handling at an early stage of the care process. Arjo's customized Diligent program creates a sustainable cultural change that results in fewer injuries to patients and staff, contributes to eliminating care-related conditions and reduces care times. The Diligent program is based on five core components:

- Assessment
- Process mapping
- Products
- Training and consulting
- Guaranteed result

"I never imagined it would work as well as it did, but I knew that it could decrease staff's potential for injury and reduce our injury rate, which ultimately saves us money."

Kathy Murray, Director, Risk Management/Occupational Health at Adventist Health Sonora

1) Adventist Health Sonora has more than 1,600 employees at some 30 clinics and sees more than 33,000 patients annually at the emergency department alone

How we create value

Where is the patient lift?

63%
less time spent on searching for equipment

Unique tracking solution that facilitates the localization of important equipment within healthcare.

According to a Nursing Times survey, more than one third of all nurses spend at least an hour during an average hospital shift searching for critical items or equipment. Obviously, that is time that could be put to better use in the healthcare system, where time and resources are at a premium nowadays.

In collaboration with Sony Mobile Communications, Arjo has addressed the problem and is launching a service in 2018 to improve healthcare efficiency. Using a Real-Time Location System (RTLS), healthcare facility assets can be quickly located via a mobile phone or desktop computer.

The solution is web-based and requires no installations or updates to the customer's IT system or hardware, giving it a low implementation threshold.

A research project on the use of tracking solutions was recently completed at one of Sweden's largest university hospitals. The result showed a 63% decrease in time spent searching for equipment.

There are multiple advantages to this solution, apart from the obvious one of being able to find equipment more quickly when it is needed. Items that have disappeared to other wards can be easily returned. The service also tracks where the equipment has been and how it got there. This makes it easy to analyze the equipment's degree of use, which may contribute to better purchasing control. It is also possible to check that equipment is stored as close as possible to the place it is most used in order to provide efficiency of deployment time.

Functions on several types of equipment

Arjo and Sony Mobile's solution does not only encompass Arjo's products. The solution can be applied to all equipment that needs to be available in a care facility. Electronic tags in the form of conveniently designed small discs can be placed discreetly on the specific equipment. The product's life span is very good, with a battery time of up to three years.

Digital solutions that simplify the customer's everyday life

Digital development is a key factor to make today's healthcare both safer and more efficient. Arjo's new tracking solution is just the first step in the way we can adapt our offering to simplify our customers' everyday life using digital solutions. By contributing to improved workflows, clinical outcomes and thus the care providers' safety can, in turn, be enhanced. Arjo, together with Sony Mobile, will start to implement this new tracking solution at hospitals in the US and the UK during the first half of 2018.

Trusted healthcare partner with experience and long customer relationships

Since its foundation in 1957, Arjo has evolved into a leading player in the global market, with extensive expertise in how to care for and improve quality of life for people with reduced mobility and age-related health challenges.

We have six competitive production facilities throughout the world, with current possibilities to scale-up production

As quality requirements rise in the healthcare sector, increasingly strict demands are also being placed on today's healthcare suppliers. We have provided the market with high-quality products for more than 60 years and today, Arjo is a recognized partner in the healthcare sector that facilitates first-rate, safe care and good work conditions throughout the continuum of care. With an established brand and extensive market know-how, Arjo has strengthened its product portfolio through both product development and supplementary acquisitions.

Beneficial to all

We offer products and solutions that free up limited resources to provide additional care capacity. Through value-generating activities, our offering contributes to improved care and reduced overall costs, regardless of whether a public facility or a private player is involved.

Healthcare providers meet both emotional and practical patient needs and thus value high-quality and safe products that are ergonomic and easy to use and maintain. Arjo contributes to securing a safe work environment for healthcare providers, at the same time as they can provide good service to patients.

The patient, in turn, expects the highest quality and safety, as well as dignified and efficient care which contributes to their health and wellbeing. Arjo offers products that improve care results and facilitate an enhanced care experience for the care receivers and their relatives.

Arjo's value chain

The care chain for the market in which we find ourselves can be divided into a number of steps, from component manufacturing, assembly and manufacturing of finished products to marketing, sales and distribution to customers. Arjo is positioned in the middle of the value chain, where research and development are core aspects of all operational steps. With focus on efficiency enhancement and optimization of manufacturing capacity, distribution and sales structure, Arjo has created a strong position in the value chain.

Scalable business platform

Our efficient operations are largely based on economies of scale. In recent years, we have implemented many efficiency measures to maximize economies of scale in the company, for example, consolidating production facilities and establishing R&D centers. These initiatives entail a more focused operation and efficient utilization of the cost base, at the same time as we enable a scale-up of production without investing in new facilities. In turn, this generates advantages in relation to our competitors.

The absolute majority of Arjo's products are developed and manufactured under our own management

Proprietary research, production and distribution

The absolute majority of Arjo's products are developed and manufactured under our own management, and today, we have six competitive production facilities throughout the world.

Arjo's largest production facility is located in Poznan, Poland. Products in the Patient Handling, Hygiene, Disinfection, VTE prevention and Medical Beds categories are primarily manufactured here. Arjo's second largest production facility is found in the Dominican Republic, and manufactures slings for lifting and transferring patients. Arjo's facility in Magog, Canada, mainly manufactures patient handling products. In Cardiff, Wales, we manufacture assembly and Doppler equipment for obstetric and cardiac diagnostics. There are two facilities in China: Zhuhai, which mainly produces hospital beds for the so-called value segment, and Suzhou, where we manufacture products for the treatment of pressure ulcers and the prevention of deep-vein thrombosis (DVT).

Our production facilities are supported by their own warehouses and distribution centers to be able to offer short lead times to our customers. Arjo's two main distribution centers are situated in Eersel, the Netherlands and Chicago, in the US.

Strategic product development

Innovation and product development has been key in contributing to Arjo's historical success. Over the years, Arjo has established several innovative products in the market, for instance, the Carendo shower chair, the Alenti hygiene lift and the Sara Stedy standing and raising aid. Arjo will continue to invest in research and development to further improve existing products and expand its product portfolio.

Customer-focused complete solutions

Arjo is one of the global market leaders in many of the product categories in which we operate. Our strong market positions are the result of solid market knowledge and a strong brand, but also a cost-efficient operations focused on product development and differentiation, an extensive range of products and services, strategic acquisitions and extensive market presence. Our business model includes the sales and rental of capital goods, sales of consumables and related services. In recent years, we have strived towards becoming a more customer-oriented organization that provides complete solutions for specific customer requirements.

A global sales chain

Good health and healthcare are basic human needs and demand for medical devices and solutions is high across the

Arjo has a large installed product base with customers, providing favorable conditions for significant additional sales

world. Arjo's geographical markets are largely isolated care systems with various regulatory structures and, to a certain extent, different sales and distribution processes. Our sales are mainly directly to the end customer through our globally established sales platform. In the markets where we have chosen not to have our own direct representation, sales are managed by external distributors. Today, Arjo conducts business activities in more than 60 countries and has locally established sales companies in half of these. We can ensure that customer requirements are identified and satisfied professionally through our sales force of slightly more than 1,000, supported by an extensive service team.

Local presence for deep customer relationships

A local presence allows strong customer relationships to be developed, which is considered decisive for becoming a leading partner in each market. We have extensive knowledge of our markets' various conditions and care systems and, for many years, we have established deep customer relationships with a large number of customers. Arjo has a large, diversified and recurring customer base, which permits sound revenue visibility and low operating risk.

A large installed product base that generates additional sales

For our customers, purchases of capital goods often involve a range of selection criteria and purchasing processes are generally more extensive than recurring sales of consumables and rental. However, the recurring revenues from consumables and service follow essentially the same life cycle as capital goods. A large and diversified customer base over many years also means that Arjo has a large base of products installed with customers, providing favorable conditions for significant additional sales. Aftermarket services such as service and disposables generally have higher margins.

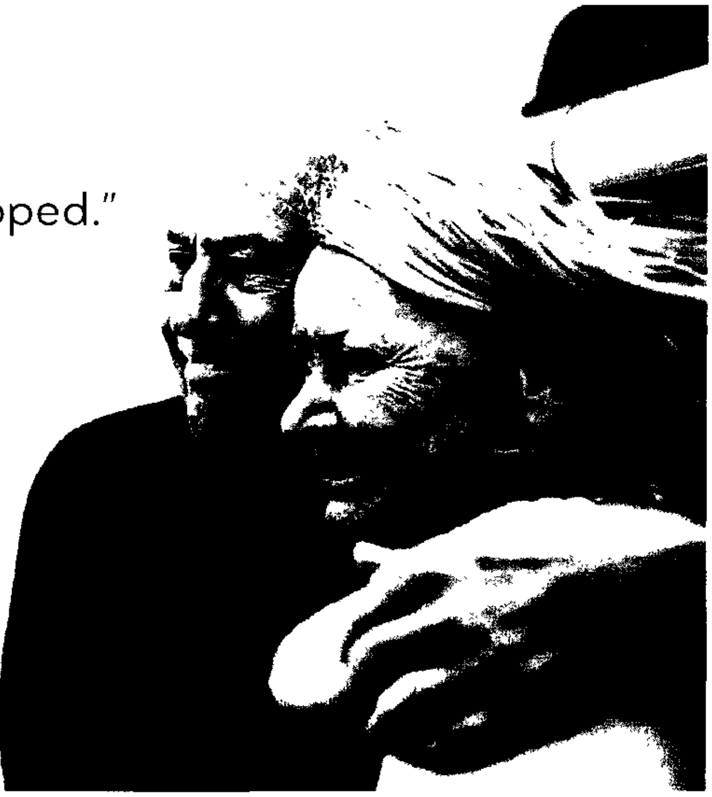
In 2017, sales of capital goods comprised 40% of net sales, while the remaining 60% comprised recurring sales of consumables, rental and service. The company's aim is to secure a higher share of revenue from recurring sales in future.

Favorable conditions for continued growth

Our goal is to expand in the fast-growing long-term care segment with our existing product portfolio, which will contribute to continued growth. We also assess that we have the capacity to produce larger volumes than we do today and can thus capitalize on growth opportunities in the market.

Since Arjo controls large sections of the value chain – from research and development to sales – the company is deemed to have the ability to adapt and meet the customer demands that arise in an increasingly dynamic market.

"A strong local presence allows deep customer relationships to be developed."



Quality as a business foundation

In the medical device industry, high demands are placed on quality, compliance and product safety. An efficient and well-functioning quality work is the basis for Arjo's business.

Arjo devotes significant efforts and resources to implementing and applying policies, directives and guidelines to ensure compliance with the relevant regulations. Annual audits are performed by designated accreditation bodies to ensure compliance for continued CE marking of Arjo's products. Authorities such as the FDA also 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 measure and ensure high quality. We also follow indicators related to product safety. Arjo strives to continuously improve internal processes and routines to ensure compliance and to maintain a top-class quality management system.

With the help of an independent third party, we proactively conduct internal audits at all production units to identify any areas of improvement and to ensure that the company complies with applicable requirements and regulations. In the past eight years, Arjo has had ten FDA inspections globally and only once has the FDA made an observation that required action by Arjo. None of Arjo's production units are covered by the voluntary Consent Decree between Getinge and the FDA.

New EU regulations for medical device equipment

In May 2017, new regulations were introduced for medical devices in the EU, which apply in 2020 to all players operating within medical devices in the EU. The new EU Medical Device Regulation, MDR, entail that more comprehensive information is required also for products of a lower classification, and for Arjo, this means that medical device classification must be implemented for all of our CE-marked products in accordance with the new classification rules. In addition, a number of updates to documentation and product marking are required. Arjo launched an extensive effort to implement the new requirements and adapt its business to the new regulations in 2017 and also commenced training measures for employees from a number of functions affected. We consider being well prepared for the new regulations an important competitive advantage and there is a genuine and extensive work behind our ambition to be at the forefront regarding regulatory requirements and regulations.

Global responsibility for sustainable development

Active sustainability efforts are a precondition for our future operations and are to be integrated in all aspects of our day-to-day operations. Structured sustainability efforts allow us to ensure the Group's long-term earnings capacity and strengthen competitiveness. These activities also have a favorable impact on the company's ability to attract and retain employees, customers, business partners and investors.

At Arjo, we are convinced that structured sustainability efforts ensures both the long-term earnings capacity and enhances competitiveness. The Group's financial results and stability naturally play an important role for shareholders, employees and business partners. A good balance between building up a financially profitable company and assuming responsibility for social, ethical and environmental issues is crucial to achieving long-term success. Clearly formulated social, ethical and environmental principles and structured sustainability efforts mean that we can ensure that we strike this balance.

Our sustainability efforts

Arjo has a global presence, conducting operations in many countries. Some of them do not have strong national laws and standards in such areas as human rights, safety and discrimination. For this reason, we have prepared a Code of Conduct and an anti-corruption policy that all of the Group's employees and suppliers must follow.

Our impact on the environment mainly takes the form of emissions to water and air, various types of energy consumption and waste. We continuously monitor and make changes to, for example, production and business control in order to meet society's requirements on our operations.

"With solid sustainability efforts we aim to create a culture in which all stakeholders can be proud of their relationship with us."

However, sustainability is not only a matter of requirements but also opportunities. Actively pursuing sustainability issues presents many opportunities for generating value and improving profitability. For example, through improved resource efficiency and lower costs for raw materials, energy and transportation.

We also believe that extensive sustainability efforts have a positive impact on our ability to attract and retain both customers and employees, which is crucial for Arjo's continued development. Sustainability thus permeates all of our strategic plans to create a culture in which all stakeholders can be proud of their relationship with us.

New sustainability priorities 2018

Arjo's sustainability work is based on the UN Agenda 2030 for sustainable development and prioritizes to the goals where we see the greatest possibility of makin a difference. In the second quarter of 2018, we will conduct a materiality analysis aimed at identifying what is important to Arjo in our endeavor to maximize our contribution to sustainable development. We are applying a structured process to conduct the analysis together with internal and external stakeholders throughout the value chain to identify the issues to be prioritized in our future sustainability activities.

A reliable partner on all levels

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

Over the past 60 years, Arjo has made a long journey and evolved from a small, local manufacturing company to become a global group with business activities on four continents and customers around the world. With this comes a great responsibility for sustainable and ethical conduct in all areas.

We follow applicable national and international laws and regulations where we operate. However, certain countries and regions lack strong national laws and standards in human rights, work environment, health, safety, discrimination and ethics as well as fundamental principles of business law. Certain areas also have a higher risk of corruption and unethical conduct among suppliers and other players.

Ethics

Through our operations, we impact the communities in the areas in which we conduct business activities. A fundamental precondition for us to operate based on long-term profitability and a sustainable approach is that we always conduct business in an ethical and morally justifiable manner. We have established a foundation of business ethics comprising the areas of health, safety, ethics and anti-discrimination. To ensure this standard of business ethics, Arjo has, for example, implemented a Code of Conduct and an anti-corruption policy that applies to all Arjo employees and subsuppliers. In this way, we can establish a strong and trusted brand with high potential for future business presence.

Code of Conduct

Arjo's Code of Conduct describes fundamental principles that are to be observed by all employees to ensure that the business is operated ethically and sustainably. Arjo's Code of Conduct, which also reflects core values that define Arjo's corporate culture, are 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. The Code of Conduct is complemented with local policies and to some extent more extensive efforts in high-risk countries with weak national legislation.

Adapted Supplier Code of Conduct

In order to protect Arjo's strong brand, it is important that our subsuppliers conduct their operations in accordance with our ethical, social and environmental standards. 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 laws, the environment and anti-corruption. The Code of Conduct lists a number of minimum requirements in each focus area, in addition to other laws and regulations, that each supplier and third-party agent must follow in order to maintain a business relationship with Arjo.

From 2018 and onwards, we will review our main suppliers and business partners to ensure that the requirements in the Code are upheld. If 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. The Code of Conduct is reviewed annually and any updates and adjustments are made as required.

Anti-corruption policy and whistleblowing

Arjo has zero tolerance for all types of fraud, bribery or other types of action that create improper benefits and contravene Arjo's policy, 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 both employees and business partners are expected to follow it. The policy includes rules and principles regarding gifts, business entertainment, remuneration and personal benefits. In connection with the anti-corruption policy, there is also a whistleblowing directive with detailed instructions on how employees should act in situations where there is evidence or suspicion of corruption or other ethically unacceptable actions.

Social responsibility

We strive to contribute to the communities in which we operate

Our sustainability work is based on the UN 2030 Sustainable Development Agenda, and our ambition is to assume our corporate social responsibility and contribute to the local communities in which we operate. We also support employees who are interested in working with various forms of volunteering.

As stated above, in 2018, Arjo will carry out a materiality analysis to define which of the UN's goals we will focus on in the future. However, Arjo is currently taking corporate social responsibility in several of the countries where we are represented. Arjo strives to contribute to peoples' well-being, human rights and to initiatives supporting education and learning. For this reason, we have chosen to collaborate with two organizations, Pratham and Together for Better, to help underprivileged children to learn to read and write. In addition, Arjo supports employees who are interested in working volunteering within Arjo's business areas around the world.

Cooperation for underprivileged children's right to education

Learning to read and write is a cornerstone for overcoming poverty. Arjo contributes to the Swedish organization Together for Better's work on children's right to education. The organization operates in the Dominican Republic, the location of one of

Arjo's largest production units. Together for Better's activities aim to create better conditions for schools and social entrepreneurs who run the schools, for example, by building class rooms, schools, and playgrounds, and providing the schools with educational materials. Today, Together for Better provides around 300 children with educational materials for the whole school year. The organization also offers ongoing support to a school for about 80 children in poverty by donating money to running costs and supporting children who are from particularly difficult conditions. In total, Together for Better's efforts have so far reached about 800 children in poverty.

"Every child in school - and learning well"

Arjo also participates in the Swedish Industry for Quality Education in India, a three-year school project in India run by the non-profit organization Pratham. Pratham is one of India's leading charities in children's education and seeks to achieve a widespread improvement in children's knowledge levels in India according to the "Every Child in School - and Learning Well" rule. The purpose of the three-year school project that Arjo supports is to provide education for 30,000 children with clearly measurable results. To date, Pratham has made it possible for nearly 34 million children in India to participate in the organization's education program.

Fair terms and protection

Our commitment to fair terms and conditions is established in the Code of Conduct and states that the Group will work to protect international human rights. The Code of Conduct also includes a strict ban on all forms of forced labor and child labor. Arjo's Code of Conduct also prohibits all forms of harassment and discrimination on grounds of, for example, race, gender, religion, marital status and ethnic background. Arjo supports freedom of expression, free movement and freedom of religion within the framework of applicable legislation, and the Group does not tolerate infringements of human rights

Systematic environmental efforts based on the business

Sustainability efforts have a distinct connection to the business operations and the value-generating processes. Arjo has high ambitions for its environmental work and we are firmly resolved to reduce our environmental footprint and contribute to sustainable development.

Arjo's environmental impact mainly comprises emissions to water and air, waste created during production and distribution and the impact from energy consumption. Using a systematic work approach, we can adjust the efficiency of our operations, thereby contributing to a better 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 efforts to fullfill our own internal objectives and comply with our own policies.

Environmental management system to ensure compliance

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 ISO14001. 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.

Measures taken during the year

To reduce our climate impact, we have mainly focused on various types of energy-efficiency enhancements and further improvements to our waste management. Over the years, a number of measures have been implemented to reduce energy consumption for heating and lighting, for example, by selecting electricity providers with a favorable production mix. In waste and recycling, measures are carried out to reduce the amount of hazardous waste, increase recycling and optimize the use of raw materials in production.

Environmental reporting

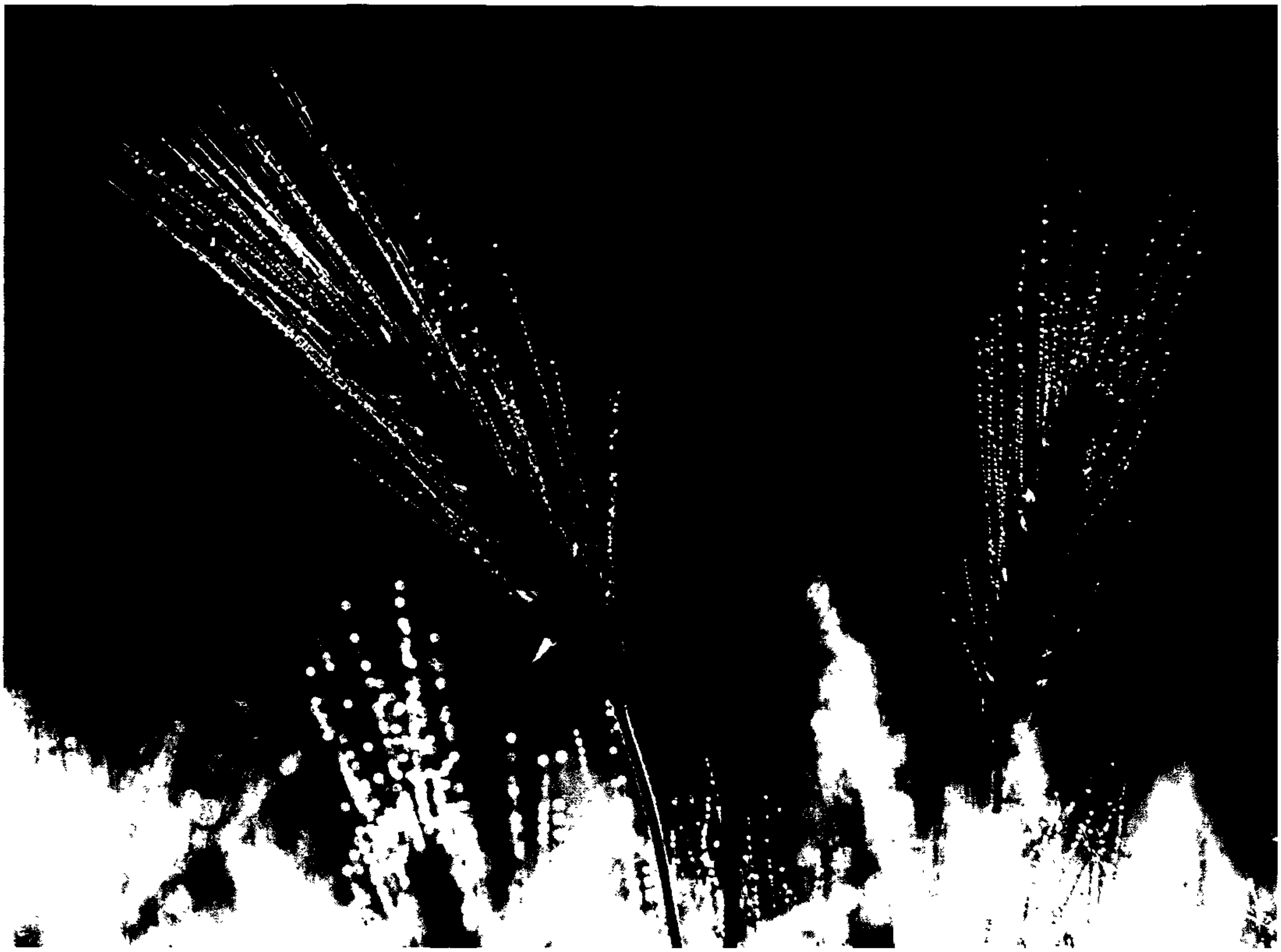
Quarterly environmental reporting from the Group's production facilities has taken place for a number of years, which offers favorable conditions for follow-up. This includes the reporting of energy consumption, waste and recycling, and emissions. Emissions from own vehicles are reported through leasing companies and a reporting system for emissions from freight transportation is being set up.

Arjo's environmental goals

We work continuously to enhance the efficiency of our energy consumption in the production process and thereby reduce our climate impact. Energy consumption in production increased during the year by approximately 9% from 4.56 MWh to 4.98 MWh/per SEK M and also CO_2 emissions from production increased from about 1.93 tons to about 2.65 ton/per SEK M. The increase in energy use and CO_2 emissions is mainly attributable to the Group's production unit in the Dominican Republic which was acquired in 2016 and consequently is included in the reporting for the first time in 2017. A higher production rate in 2017 also contributed to the higher energy consumption. In order to better reflect the energy consumption in the production in the future, we will measure energy consumption in production by MWh/production hours from 2018.

Recycling of non-hazardous waste increased during the year from 72% to 77%, as an effect of, for instance, measures for increased separation of scraped material in production and efforts to make recycling easier. We are also looking into solutions for recycling of our products, and in the US we have a partnership with a company specialized in environmentally friendly processes for recycling and reuse of products. This cooperation enables care units to reuse certain medical devices up to ten times, which otherwise could only be used once. The purpose is to help our customers to reduce their waste and lower associated costs.

The Group will review and communicate updated environmental goals in 2018.



Environmental goals

Energy and climate

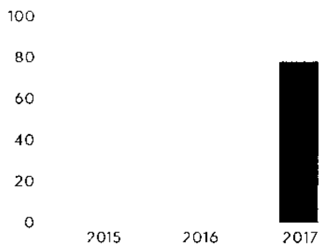
- Reduce CO_2 emissions from production by 5% by 2018, with 2015 as the base year.
- Reduce energy consumption in production by 10% by 2018, with 2015 as the base year.
- Reduce CO_2 emissions from company vehicles by 10% by 2020, with 2016 as the base year.

Waste

- Reduce the amount of hazardous waste in production by 10% by 2018, with 2015 as the base year
- All non-hazardous waste from production is to be recycled.

Recycling, %

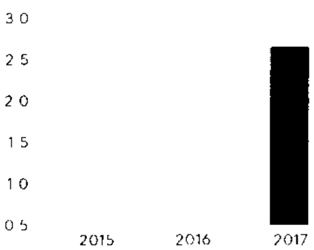
Waste to material or energy recycling



Target all waste shall be recycled

Total production-related CO_2 emissions

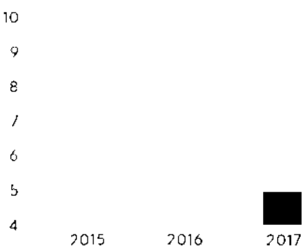
Direct and indirect emissions, tons per SEK M of internal sales



Target –5% in 2018 with 2015 as base year

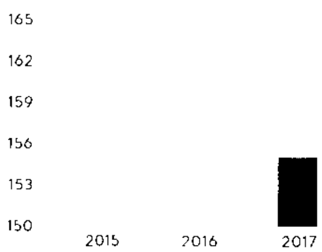
Total production energy use

Energy consumption in production, MWh per SEK M of internal sales



Target –10% in 2018 with 2015 as base year

Vehicles CO_2 emission



Target –10% in 2020 with 2016 as base year

A sustainable and winning culture with strong values

Shared values and a new organization form the basis for Arjo's continued development in the years ahead.

Diversity is becoming increasingly important to achieve success

Following the spin-off from Getinge, many exciting challenges and major opportunities await Arjo, not least in relation to building a strong and value-guided company based on Arjo's five core values. To ensure competitiveness and that Arjo is seen as an attractive employer, long-term HR efforts are conducted to support our strategic goals, based on the premise that the business and people should grow together.

At year-end 2017, Arjo had 5,983 full-time employees. Most of the Group's employees work in the US and the UK, which are Arjo's two largest markets in terms of sales, as well as Poland and the Dominican Republic, where the two largest production facilities are located. For detailed information about average number of employees per country, see Note 5 on page 64.

It is the employees 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 leadership, expertise 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.

Equal opportunities and diversity

Our basic view is that long-term competitiveness can only be achieved if the workplace is characterized by equality, equal opportunities and diversity. This entails, for example, that all employees have the same career opportunities and receive equal pay for equal work, taking into consideration local conditions.

Diversity is becoming increasingly important to achieve success in a global environment in which customers represent diversified groups from different cultures, backgrounds and ages, a factor that must be reflected in Arjo's own organization. The percentages of women and men in Arjo's management team were 40% and 60%, respectively, and diversity is regarded by Arjo's management as a key competitive advantage.

Diversity work is [illegible] in line with the Group's Diversity Policy. [illegible] all Group functions will present [illegible] for how to achieve a better balanced gender distribution in their respective management teams. Another goal is diversity in our talent programs and among final candidates in both internal and external recruitment processes for executive and key positions. We have a long-term view of recruiting our employees, for example, we endeavor to make it easier for our employees to combine their careers and family.

By 2017, the percentage of women and men was 37% and 63%, respectively, throughout the Group. Among the Group's managers, the percentage of women and men was 31% and 69%, respectively.

Health and safety

Employee health and safety is of the highest priority, and a safe and secure work environment is crucial to operations.

The work on health and safety matters is based on national legislation, international regulations and our own requirements and policies. Arjo strives to offer a safe and healthy work environment for its employees worldwide and conducts a continuous, long-term health and safety effort at all facilities.

Sickness absence in 2017 totaled 3.2% for the Group as a whole, a decrease from 2016 when the corresponding figure was 3.5%. During the year, Arjo implemented a series of measures to reduce sickness absense, which gave results. The number of accidents per hundred employees increased during the year and amounted to 1.3. No serious accidents were reported in 2017. The increase is mainly attributable to the production unit in the Dominican Republic, which had a high production rate during the year, and where new equipment and a higher proportion of new employees led to the increase in accidents. Increased training efforts and new safety precautions for sewing machines have been introduced to reduce the number of accidents at the production unit.

Our cultural core values

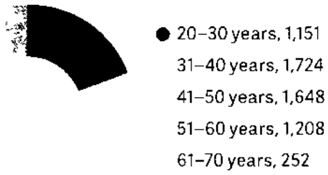
A winning and sustainable corporate culture
Arjo's objective is to create a result-oriented organization based on the company's core values of Passion, Collaboration, Openness, Excellence and Ownership.

The common factor uniting these five core values is people's equal value and the will to improve the health and well-being of others.

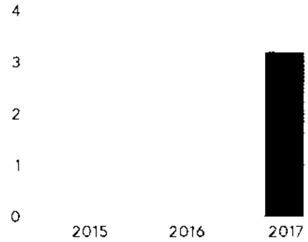
To bring about a winning and sustainable corporate culture, Arjo promotes behavior that demonstrate enthusiasm, focus on solutions that add value and generate a real positive change for people, assume ownership and make decisions, and promote being a team player working toward attaining the Group's goals.

To support this, Arjo works with clear management by objectives. Processes and tools that support this work are available to managers and employees. To assess the desired effect of these efforts, we measure the strengths and development areas of the organization by carrying out annual employee engagement surveys. The results of the surveys provide important and governing data for prioritizing Arjo's future strategic development initiatives.

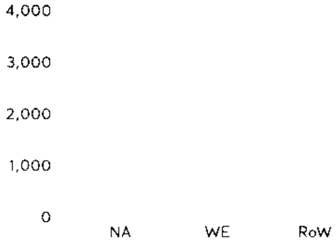
Age structure, number of employees



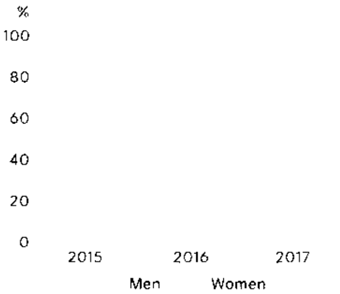
Sickness absense, %



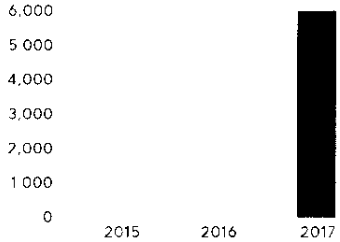
Employees per geographic area



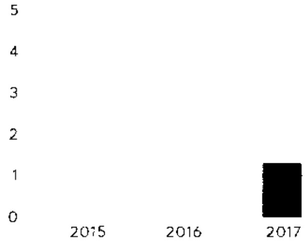
Gender distribution, general %



Number of employees



Accidents per 100 employees



Auditor's report on the statutory sustainability report

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

Engagement and responsibility

It is the board of directors who is responsible for the statutory sustainability report for the year 2017 on pages 24-35 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is substantially different and 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 opinion.

Opinion

A statutory sustainability report has been prepared.

Malmo, 29 March 2018

Ohrlings PricewaterhouseCoopers AB

Magnus Willfors
Authorized Public Accountant, Auditor in Charge

Cecilia Andrén Dorselius
Authorized Public Accountant, Auditor in Charge

The Arjo share

Arjo's series B share was listed on Nasdaq Stockholm AB on December 12, 2017 and is included in the Nasdaq Nordic Large Cap segment. The total amount of shares in Arjo is 272,369,573, whereof 18,217,200 shares of series A and 254,152,373 shares of series B. On December 31, 2017, the number of shareholders amounted to 39,734.

Share trend and liquidity

At year-end, the Arjo share was listed at SEK 23.53, which was a decrease of approximately 5 % since the stock exchange listing. The highest price paid in 2017 was SEK 26.47 on December 12 and the lowest was SEK 22.59 on December 19. At year-end, the market capitalization amounted to SEK 6.4 billion, compared with SEK 6.7 billion at the date of listing. The turnover of shares during the year totaled 1,798 million.

Share capital and ownership structure

At year-end 2017, share capital in Arjo totaled SEK 90,789,858, distributed among 272,369,573 shares. All shares have equal rights to dividends. All shares carry the same dividend entitlement. One Class A share carries ten votes and one Class B share carries one vote. The main owner is Carl Bennet AB who, at the end of 2017, held 20.0 percent of the capital and 50.1 percent of the votes. Since year-end 2017, Carl Bennet has increased his ownership in Arjo and by the date of the publication of the Annual Report, Carl Bennet held 25.0 percent of the capital and 53.2 percent of the votes in Arjo.

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 income after tax.

Shareholder Information

Financial information about Arjo is available on the website, www.arjo.com. Questions can also be addressed directly to Arjo's Investor Relations department. Annual reports, interim reports and other information from Arjo's head office can be requested via telephone, website or e-mail.

Analysts that monitor Arjo

Carnegie, Danske Bank, Handelsbanken, J.P. Morgan, Nordea, Pareto and SEB Enskilda.

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	57.2
USA	27.7
Spain	3.1
UK	1.2
Norway	1.0

Share data

	2017	2016
Result per share after tax	0.43	n/a
Market price at December 31	23.41	n/a
Cash flow	572	919
Dividend	0.5[1]	n/a
Dividend yield, %	2.1	n/a
Price/earnings ratio	54.4	n/a
Shareholders' equity	5,074	10,658
Average number of shares (million)	272 4	n/a
Number of shares, December 31, (million)	272.4	n/a

1) Dividend proposed by the Board of Directors

Ownership by category - capital, %

Swedish owners	57.2
Foreign owners	42.8
Swedish individuals	12.1
Swedish institutions	13
Swedish mutual funds	9.3
Swedish owners, other	22.8
Foreign institutions	3.8
Foreign mutual funds	30 1
Foreign owners, other	8.9

Arjo's major shareholders at December 31 2017

	Series A shares	Series B shares	Capital, %	Votes, %
Carl Bennet AB	18,217,200	36,332,969	20.00	50.10
Franklin Templeton		22,154,755	8.10	5.10
Fjärde AP-fonden		19,068,653	7.00	4.40
Fidelity		9,590,244	3.50	2.20
Swedbank Robur funds		6,756,075	2.50	1.50
Nordea funds		5,911,383	2.20	1.40
Vanguard		5,370,555	2.00	1.20
BlackRock		3,968,717	1.50	0.90
T. Rowe Price		3,090,304	1.10	0.70
Folksam		2,289,250	0.80	0 50

Ownership structure 2017

Shares	Capital, %	Votes, %	Shareholders	Shareholders, %
1-1,000	3.0	1.8	31,867	80.3
1,001-5,000	4.8	3.0	6,359	16.0
5,001-20,000	3.7	2.3	1,119	2.7
20,001-100,000	4.0	2.5	253	0 7
100,001-500,000	7.6	4.8	87	0.2
500,001-5,000,000	17.6	11.0	42	0.1
5,000,001-20,000,000	17.2	10.8	5	0
20,000,001-	28.2	55.2	2	0
Anonymous ownership	13.9	8.6	n/a	n/a
TOTAL	**100**	**100**	**39,734**	**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, hospital 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, Poland and in the UK.

Financial overview
Revenue
Consolidated net sales decreased -1.5% to SEK 7,688 M (7,808). Adjusted for acquisitions, divestments and exchange-rate fluctuations, net sales decreased -1.6%.

Restructuring costs
The Group's restructuring costs increased to SEK 324 M (155). These costs were mainly attributable to the spin-off from Getinge and include a write-down in the US operations amounting to about SEK 100 M. The costs include also impairment of intangible assets of SEK 74 M (88), attributable to IT.

EBITDA
EBITDA before restructuring, acquisition and integration costs amounted to SEK 1,246 M (1,610). The EBITDA margin before restructuring, acquisition and integration costs was 16.2% (20.6).

Operating result
The Group's operating profit declined to SEK 281 M (781), which corresponds to 3.7% (10.0) of net sales.

Net financial items
Net financial items amounted to SEK -102 M (-110).

Profit before tax
The Group's profit before tax declined 73.3% to SEK 179 M (671), which corresponds to 2 3% (8.6) of net sales.

Taxes
The Group's tax expense amounted to SEK 61 M (181), corresponding to 34.1% (27.0) of profit before tax (see Note 10). The percentage increase is attributable to the cut in corporate tax in the US, which led to a decline of nearly SEK 13 M in the value of the Group's loss carryforwards

Tied-up capital
Inventories amounted to SEK 1,104 M (1,044) and accounts receivable to SEK 1,898 M (2,277). The average consolidated operating capital was SEK 10,317 M (11,055). Return on operating capital was 5.9% (8.5). Goodwill totaled SEK 4,862 M (4,967) at the end of the fiscal year.

Investments
Investments amounted to SEK 927 M (257), of which SEK 406 M (68) pertains to intangible assets and SEK 521 M (189) to tangible assets. Investments primarily pertained to equipment for leasing, IT investments associated with the spin-off from Getinge and production tools. In cash flow, SEK 653 M (325) was recognized in investing activities and SEK 274 M as transactions with shareholders.

Financial position and equity/assets ratio
Shareholders' equity at year-end amounted to SEK 5,074 M (10,658), corresponding to an equity/assets ratio of 41.6% (72.4). The Group's net debt totaled SEK 4,602 M (-1,175), corresponding to a net debt/equity ratio of 0.91 (-0.11). Interest-bearing net debt/EBITDA adjusted[1] multiple totaled 3,69 (-0,73). The changes during the year are mainly due to the formation of Arjo as an independent Group and the capitalization in conjunction with the distribution of Arjo from Getinge.

Cash flow
Cash flow from operations amounted to SEK 572 M (919) The cash conversion was 57.4% (59.8).

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 36-37.

Sales trend
During the year, net sales fell organically by -1.6% to SEK 7,688 M (7,808). Western Europe represented the Group's largest market, with 48.8% (48.1) of sales, followed by North America with 36.7% (37.2) and Rest of the World with 14.6% (14.7) Acute care accounted for 67% (67) of sales, while long-term care represented 33% (33).

Group-wide events during the year
Arjo AB listed on Nasdaq Stockholm
In 2017, extensive work was undertaken to prepare for the distribution and listing of Arjo. At an Extraordinary General Meeting of Getinge AB on December 4, 2017, the shareholders resolved to distribute all of the shares in Arjo to the shareholders of Getinge and Getinge Group was thereby divided into two listed companies, Getinge and Arjo. All of the shares of Getinge's wholly owned subsidiary Arjo AB, including the underlying Group, were distributed to Getinge shareholders according to Lex ASEA rules and series B shares in Arjo AB were admitted to trading on Nasdaq Stockholm on December 12, 2017.

1) Before restructuring acquisition and integration costs

1,246
EBITDA, adjusted[1], SEK M

Financing
On December 12, 2017, external credit facilities were utilised in an amount of approximately SEK 5.1 billion to repay net debt to Getinge. The amount of approximately SEK 5.1 billion is made up of EUR 80 M, GBP 150 M, USD 58 M and SEK 2.2 billion. When the external credit facilities became available for use on December 12, 2017, arrangement fees and other costs fell due for payment, which were allocated over the term of the credit facilities.

Partnership with Sony Mobile
During the year, Arjo entered into a partnership with Sony Mobile Communications for a unique tracking solution. The cloud-based solution aims to improve efficiency and quality of care by reducing time spent on locating critical equipment in healthcare environments. The partnership with Sony Mobile is an important milestone in Arjo's digitalization efforts to help customers improve healthcare efficiency. With this solution, healthcare providers can focus their resources on ensuring the best possible care at a lower cost.

Launch of Sara® Flex – a new standing and raising aid
During the year, Sara® Flex was launched, the most recent addition in the Patient Care product segment. The product is a further development of the current Sara 3000, an aid used for moving a patient from a sitting to a standing position. The new design of Sara® Flex means that it is easier to use for the caregiver and makes transfer more comfortable for the patient.

Acquired and divested operations
There were no acquisitions or divestments in 2017.

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 2017, Arjo's research and development costs amounted to SEK 204 M (201), corresponding to 2.7% (2.6) of net sales

Personnel
At December 31, 2017, there were 5,983 (5,623) employees, of whom 127 (98) were employed in Sweden.

In 2017, Arjo made a comprehensive effort to establish 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
An Extraordinary General Meeting on August 30, 2017, resolved on guidelines for remuneration to senior executives. For further statement of guidelines and expensed amount see Note 5.

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 24–35.

Environmental impact
Arjo works systematically to impact the efficiency of its operations to contribute to a better 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, for example, by selecting electricity providers with a favorable production mix.

Further information concerning Arjo's environmental work is presented on pages 30–31.

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 and 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 supervisory 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 accreditation bodies to ensure compliance with CE marking standards for 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 the Arjo Management Team and the Treasury Function. The most significant financial risks to which the Group is exposed are currency risk, interest-rate risk and credit and counterparty 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 and PLN. Based on Group companies forecasted currency flows Group Finance hedge the most important currencies in line with 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 2017.

	Change in profit before tax	SEK M
Price change	±1%	±77
Cost of goods sold	±1%	±43
Salary costs	±1%	±28
Interest rates	±1 percentage point	±50

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 2017. The impact of a ±1 percentage point change in interest rates on equity is about SEK39M Consideration was given to the effect of the various risk-management measures that Arjo applies in accordance with its approved policy.

Outlook 2018

Sales growth for 2018 is expected to be in the lower end of the target of 2–4%.

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 2017 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 2017. 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 2017 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 Malmo, 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 36-37 and www.arjo.com.

Annual General Meeting and Extraordinary General Meetings in 2017

2017 Annual General Meeting (AGM)
The AGM was held on June 30, 2017. The AGM resolved to adopt the income statement and balance sheet presented and to approve the Board's proposed appropriation of profits.

Extraordinary General Meetings in 2017
During the autumn of 2017 and ahead of the listing of the company's shares on Nasdaq Stockholm on December 12, 2017, a number of Extraordinary General Meetings were held to resolve on adapting the company and the company's share capital structure to a listed environment.

2018 Annual General Meeting
The 2018 Annual General Meeting will be held on Friday, May 4, 2018 at 11.00 a.m. in Malmo. For further information, see Arjo's website, www.arjo.com.

Nomination Committee
An Extraordinary General Meeting held on August 30, 2017 decided 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 five 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. However, ahead of the 2018 Annual General Meeting, the Nomination Committee is to comprise representatives of the five largest shareholders in terms of the number of votes as per December 31, 2017. 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 2018 Annual General Meeting
Ahead of the 2018 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.

The Nomination Committee ahead of the 2018 Annual General Meeting comprises representatives of the three largest owner-registered shareholders in terms of votes, which is a deviation from the Nomination Committee instruction adopted by the Annual General Meeting. The reason for this is that such a composition of the Nomination Committee was regarded as more appropriate in relation to the size of the company and the Group.

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 2018 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 2018 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 an Extraordinary General Meeting on February 2, 2017, Carl Bennet, Ulf Grunander, Carola Lemne, Joacim Lindoff and Johan Malmquist were elected as new Board members and at an Extraordinary General Meeting on August 30, 2017, Eva Elmstedt was elected as a new Board member for the period until the end of the next Annual General Meeting. 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 on page 43 and in the presentation of Board members on pages 46-47.

The responsibility of the Chairman of the Board

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 statements and position (see "Internal control" below).

Board of Directors and Committees in 2017

			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	13/13		4/4
Carl Bennet	2017	No[2]		Member	13/13		4/4
Carola Lemne	2017	Yes	Member		13/13	5/5	
Ulf Grunander	2017	No[1]	Chairman		13/13	5/5	
Eva Elmstedt[3]	2017	Yes	Member		7/13	3/5	
Joacim Lindoff	2017	No[1]			13/13		
Board members appointed by employees							
Sten Börjesson	2017	-			10/13		
Ingrid Hultgren	2017	-			11/13		
Susanna Bjunö (Deputy)	2017	-			11/13		
Kajsa Haraldsson (Deputy)	2017	-			11/13		

1) Not independent in relation to the company and management
2) Not independent in relation to the company's major shareholders
3) Eva Elmstedt was elected as a member in August 2017 and participated in all Board meetings thereafter

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, adoption of the interim report, strategic review, future outlook and economic and financial reporting. The Board held its statutory meeting on February 2, 2017 and convened 13 times during the year, with an average attendance rate of 92% 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. In 2017, the Board also focused on issues relating to the company's listing on Nasdaq Stockholm.

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.

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 2017, 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 2017, the Committee held five minuted meetings, including informal contact when necessary. The attendance of members at the Committee meetings are presented in the table on page 43.

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 In 2017, 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 43.

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 2017, the Management Team comprised ten individuals. These persons are presented on pages 48-49.

For information regarding remuneration, any share-related incentive programs and terms of employment for the CEO and other senior executives, see Note 5 on page 64.

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. Ohrlings 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 statements 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

Meetings 2017

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

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.

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 statements is delegated to the CEO. However, the Board of Directors, through the Audit Committee, 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 statements 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 2017

The internal control environment was followed up and evaluated in 2017 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 2017 (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	335,417[1]	70,000	405,417
Ulf Grunander	575,000	240,000	815,000
Carola Lemne	575,000	120,000	695,000

1) Eva Elmstedt was elected a Board member in August 2017 and received a pro rata Board fee for the period until the end of the next AGM

Remuneration of Board of Directors

The Extraordinary General Meeting on August 30, 2017, 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 remuneration of the CEO, see 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, Molnlycke AB, Medvisor AB, Essity Aktiebolag (publ), 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

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 Lundbergforetagen 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

Susanna Bjunö
Born 1981

Employee representative (deputy Board member) since 2017.
Education and professional experience: M.Sc. in textile technology, University of Borås Employed in Arjo's subsidiary, ArjoHuntleigh AB
Other ongoing assignments/positions: Previous assignments/positions (past five years)
Holding: 500 series B shares

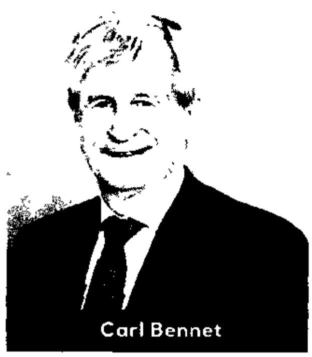
Sten Börjesson
Born 1967

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

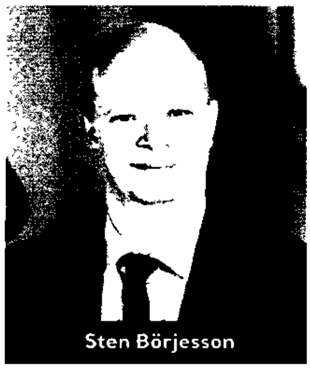
Eva Elmstedt
Born 1960

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, KnowIT AB (publ), Gunnebo Aktiebolag (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 2013-2014.
Holding: 11,000 series B shares and 476,190 synthetic share options.


Johan Malmquist


Carl Bennet


Susanna Bjunö


Sten Börjesson


Eva Elmstedt

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 Malmo AB and Chairman of Nystroms Gastronomi & Catering AB and Djurgårdsbutiken AB, as well as Board member of Lifco AB (publ), Djurgården Hockey AB and GREG Capital AB
Previous assignments/positions (past five years): Board member of Myteri Restaurang AB and Board assignments in 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 in 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 Praktikertjanst Aktiebolag
Other ongoing assignments/positions: Board member and CEO of the Confederation of Swedish Enterprise, Board member in AFA Livforsakringsaktiebolag, AFA Sjukforsakringsaktiebolag, AFA Trygghetsforsakring AB, the Research Institute of Industrial Economics and the International Chamber of Commerce Stockholm and partner of CALGO Handelsbolag.
Previous assignments/positions (past five years): Chairman of the Board of Scandinavian Venous Centre Holding AB, Board member and CEO of Praktikertjanst Aktiebolag, Chairman of Uppsala University and Board member of Getinge AB (publ), Investor AB (publ), Stiftelsen Forska! Sverige and The Swedish Corporate Governance Board.
Holding: 3,000 series B shares and 238,095 synthetic share options

Joacim Lindoff
Born 1973.

President and CEO since 2017
Education and professional experience M.Sc. in Economics, Lund University.
Other ongoing assignments/positions:
Previous assignments/positions (past five years): - Acting President and CEO of Getinge Group between August 2016 and March 2017, 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
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, as well as assignments in senior positions in NIBE's Heating business area Experience also includes 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 from 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

Mikael Persson

Kornelia Rasmussen

Anne Sigouin

Christian Stentoft

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 Flugger 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, Jonkoping 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: 2,000 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. Also experience as Engagement manager of Oleto Associates and as management consultant at Catalyst Consulting.
Holding: 714,285 synthetic share options

Proposed allocation 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	3,677,421,844
Net loss for the year	-141,195,406
Total	3,536,226,438

The Board and Chief Executive Officer propose that a dividend be distributed to shareholders as follows.

SEK 0.50 per share	136,184,787
to be carried forward	3,400,041,651
Total	3,536,226,438

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 Administration Report for the Group and Parent Company provides a fair and accurate overview 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, 29 March, 2018

Johan Malmquist
Chairman of the Board

Carl Bennet

Sten Borjesson

Eva Elmstedt

Ulf Grunander

Ingrid Hultgren

Carola Lemne

Joacim Lindoff
President & CEO

Our auditor's report was submitted on 29 March 2018
Ohrlings 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	2017	2016
Net sales	2, 3	7,688	7,808
Cost of goods sold	4	-4,260	-4,366
Gross profit		**3,428**	**3,442**
Selling expenses	4	-1,571	-1,392
Administrative expenses	4	-1,136	-1,016
Research and development costs	4, 28	-134	-133
Acquisition expenses		–	-7
Restructuring and integration costs	4	-324	-155
Other operating income		29	58
Other operating expenses		-11	-16
Operating profit (EBIT)	3, 4, 5, 6, 7	**281**	**781**
Interest income and other similar items	8	15	7
Interest expenses and other similar expenses	9	-117	-117
Profit after financial items		**179**	**671**
Taxes	10	-61	-181
Net profit for the year		**118**	**490**
Attributable to:			
Parent Company shareholders		118	490
Earnings per share, SEK[1]	11	0.43	1.80
– weighted average number of shares for calculation of earnings per share (thousand)	11	272,370	272,370

1) Before and after dilution

Statement of comprehensive income

SEK M	Note	2017	2016
Net profit for the year		**118**	**490**
Other comprehensive income			
Items that cannot be restated in profit			
Actuarial gains/losses pertaining to defined-benefit pension plans		-165	53
Tax attributable to items that cannot be restated in profit		32	-11
Items that can later be restated in profit			
Translation differences	16	-345	-286
Hedges of net investments		49	-
Cash-flow hedges	16, 26	101	-99
Tax attributable to items that can be restated in profit		-33	22
Other comprehensive income for the period, net after tax		**-361**	**-321**
Total comprehensive income for the year		**-243**	**169**
Comprehensive income attributable to:			
Parent Company shareholders		-243	169

Consolidated balance sheet

SEK M	Note	2017	2016
ASSETS			
Non-current assets			
Intangible assets	3, 4, 12	6,634	6,663
Tangible assets	3, 4, 12	1,134	1,110
Derivatives, non-current	26	-	9
Non-current financial receivables, interest-bearing		8	68
Non-current receivables, non-interest-bearing		12	32
Deferred tax assets	10	314	207
Total non-current assets		**8,102**	**8,089**
Current assets			
Inventories	13	1,104	1,044
Accounts receivable	14	1,898	2,277
Current tax assets		49	115
Current financial receivables	25	-	1,397
Derivatives, current	26	35	116
Other current receivables		186	78
Prepaid expenses and accrued income	15	164	151
Cash and cash equivalents		672	1,446
Total current assets		**4,108**	**6,624**
TOTAL ASSETS		**12,210**	**14,713**

CONSOLIDATED BALANCE SHEET, CONTINUED

SEK M	Note	2017	2016
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	16	91	1
Other reserves		419	648
Retained earnings		4,564	10,009
Equity attributable to the Parent Company shareholders		**5,074**	**10,658**
Non-current liabilities			
Non-current financial liabilities	26	5,131	1,361
Provisions for pensions, interest-bearing	21	61	36
Deferred tax liabilities	10	138	157
Other provisions, non-current	20	49	38
Total non-current liabilities		**5,379**	**1,592**
Current liabilities			
Other provisions, current	20	69	39
Current financial liabilities	26	90	340
Accounts payable	26	541	739
Current tax liabilities		104	36
Derivatives, current	26	7	224
Other liabilities		174	255
Accrued expenses and deferred income	22	772	830
Total current liabilities		**1,757**	**2,463**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**12,210**	**14,713**

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, 2016	**-**	**1,011**	**9,216**	**10,227**
Net profit for the year	–	–	490	490
Other comprehensive income for the year	–	-363	42	-321
Formation of Parent Company	1	–	–	1
Transactions with shareholders[2]	–	-	261	261
Closing balance at December 31, 2016	**1**	**648**	**10,009**	**10,658**
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**

1) For reserves, see also Note 16
2) For Transaction with shareholders, see also Note 25

Cash-flow statements

SEK M	Note	2017	2016
Operating activities			
Operating profit (EBIT)		281	781
Add-back of amortization, depreciation and write-down		715	755
Expensed restructuring and integration costs[1]		250	67
Paid restructuring and integration costs		-63	-108
Other non-cash items	27	36	21
Interest paid		-114	-104
Interest received		9	4
Other financial items		3	-10
Taxes paid		-135	-168
Cash flow before changes to working capital		**982**	**1,238**
Changes in working capital			
Inventories		-103	-87
Current receivables		176	-345
Current liabilities		-483	113
Cash flow from operations		**572**	**919**
Investing activities			
Acquired operations	24	–	-212
Investments in intangible and tangible assets		-653	-325
Divestment of intangible and tangible assets		1	11
Cash flow from investing activities		**-652**	**-526**
Financing activities			
Raising of loans	19	5,131	-
Repayment of interest-bearing liabilities	19	-11	-6
Change in non-current receivables		83	-47
Other transactions with shareholders		-5,897	289
Cash flow from financing activities		**-694**	**236**
Cash flow for the year	19	**-774**	**629**
Cash and cash equivalents at the beginning of the period		1,446	808
Cash flow for the year		-774	629
Translation differences		0	9
Cash and cash equivalents at year-end	27	**672**	**1,446**

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 38.

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 and loss, which are measured at cost either through profit and 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 is a transaction under shared controlling influence (joint venture) and is not currently encompassed by any IFRSs, which means that an appropriate accounting policy is 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:

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, which is why no comparative figures were recognized for 2016.

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 2016, and for the period 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 these combined 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 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.

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 gains, but only insofar as no impairment is required. Arjo has had a number of transactions with Getinge companies, and pricing complied

NOTE 1 CONTINUED

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
The basis for preparation of Arjo's combined 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 2016, 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 and 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 (including structured entities) 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 and loss. Exchange-rate differences attributable to operating receivables and liabilities are recognized as cost of goods sold. 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
Sales include products, services and leasing, 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. Income from leasing is allocated to a particular period over the term of the lease. Interest income is recognized continuously and dividends received are recognized after the right to the dividend is deemed secure. Internal sales are eliminated from the financial statements. For larger 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. The degree of completion of an assignment is established in a ratio between accrued assignment costs for work completed on the closing date and the calculated total assignment costs, except in those instances this does not correspond to the degree of completion. Changes in the scope and claims of the assignment are included only if there is an agreement with the customer. When the outcome of an assignment cannot be calculated in a reliable manner, only the amount corresponding to the accrued assignment costs that will probably be paid by the client is recognized as revenue. Other accrued assignment costs are recognized as costs in the period in which they occur. If it is probable that the total amount of accrued assignment costs will exceed total revenue from the assignment, the expected loss is promptly recognized as a cost in its entirety.

NOTE 1 CONTINUED

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 and 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
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.

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 and 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 and 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
Equipment for leasing	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."

Leasing. Arjo as a lessee
Financial leases. Arjo has no material financial leases as a lessee.

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 leasing contract is terminated prematurely is expensed during the period in which the contract is terminated.

Leasing. Arjo as a lessor
Leasing agreements are defined in two categories, operational and financial, depending on the financial significance of the agreement. Operational leasing agreements 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 and loss. The products' estimated realizable value at the expiration of the undertaking is continuously followed up on an individual basis. Financial lease agreements are recognized as non-current and current receivables. Payments received from financial leasing agreements are divided between interest income and depreciation of receivables.

NOTE 1 CONTINUED

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
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.

Financial instruments
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 77–80). 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 in profit and 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 and 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.

Other financial liabilities. This category includes liabilities to Getinge's Group companies, 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 and loss at the same time as the hedged item impacts profit and loss. Accumulated value changes from the hedging of net investments in foreign operations are reversed from shareholders' equity to profit and 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 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 marked-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.

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.

NOTE 1 CONTINUED

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 and 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 95-98.

New accounting policies applied by Arjo in 2017

No standards, amendments or interpretations effective from the fiscal year beginning on January 1, 2017 had a material impact on Arjo's financial statements.

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, 2018 and were not applied when preparing these financial statements. None of these are expected to

NOTE 1 CONTINUED

have any material impact on Arjo's financial statements with the exception of the following:

IFRS 9 Financial instruments
IFRS 9 Financial Instruments addresses the classification, measurement and recognition of financial assets and liabilities. The complete version of IFRS 9 was issued in June 2014. It replaces the elements of IAS 39 related to the classification and measurement of financial instruments. IFRS 9 retains a mix valuation approach but simplifies the approach in certain respects. There will be three measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit and loss. The classification of an instrument is to be based on the company's business model and the characteristics of the instrument. Investments in equity instruments are to be measured at fair value through profit and loss, although there is also the option of measuring the instrument at fair value through other comprehensive income at initial recognition. The instrument will then not be reclassified to profit and loss when divested. IFRS 9 also introduced a new model for calculating a reserve based on expected credit losses. Classification and measurement are not changed for financial liabilities except in cases when a liability is measured at fair value through profit and loss based on the fair value option. Changes in value attributable to changes in own risk are then to be recognized in other comprehensive income. IFRS 9 reduces requirements for applying hedge accounting by replacing the 80-125 criterion with requirements for an economic relationship between the hedging instrument and the hedged item, and that the hedge ratio is the same as that actually used in risk management. The rules concerning hedging documentation are also changed compared with IAS 39. IFRS 9 has been adopted by the EU and is to be applied in fiscal years beginning on January 1, 2018. Arjo has evaluated the effect of introducing the standard. The new rules will 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 assessment of write-down is that reserves for expected losses will not be changed. Given the fact that the Group's customers have high credit ratings and confirmed customer losses have historically been low, it has been assessed that the rules on impairment will not have a material impact on the Group's financial position.

Hedge accounting is applied to currency forward contracts held for managing currency exposure that arises during operations. The introduction of the new standard is not deemed to entail any changes to existing accounting policies for such hedges, which is why Arjo's financial position will not be impacted.

Arjo will apply the standard as of January 1, 2018.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 Revenue from Contracts with Customers regulates recognition of revenue. IFRS 15 is based on principles aimed at providing the users of financial statements with more relevant disclosures about the company's revenue. The expanded disclosure requirements entail that information is to be provided on the nature, timing and uncertainty of revenue, and cash flows arising from a contract with a customer. Under IFRS 15, revenue is to be recognized when the customer passes control of the sold good of service and is able to use or benefit from the good or service. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and associated SIC and IFRIC. IFRS 15 comes into effect on January 1, 2018. Early adoption is permitted. The standard has been adopted by the EU. Arjo has evaluated the standard and the analysis indicated that the current income recognition policies are compatible with IFRS 15. Accordingly, Arjo's assessment is that the standard will 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 will not be impacted by the introduction of the standard.

However, IFRS 15 will not entail any new disclosure requirements. The standard will be applied as of January 1, 2018.

IFRS 16 Leases
IFRS 16 Leases was published by the IASB in January 2016. The standard regulates recognition of leasing and will replace the IAS 17 Leasing agreements along with the accompanying interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires assets and liabilities attributable to all leasing agreements, with a few exceptions, to be recognized in the balance sheet. This recognition is based on the view that the lessee is entitled to use an asset over a specific time period, while also having a duty to pay for this entitlement. Recognition for the lessor will for the most part be unchanged. The standard is applicable to fiscal years beginning on or after January 1, 2019. Early adoption is permitted. The EU has adopted the standard.

Arjo has commenced work to analyze the effect that IFRS 16 will have on the consolidated financial statements. Arjo will review all of its contracts to determine whether there are additional contracts that will now be considered to be leases under the new definition in IFRS 16, and to verify the lease terms. This will subsequently be quantified and recognized in the company's balance sheet. Commitments that exist regarding operating leases are described in Note 18.

Arjo has not yet decided which transition rule to apply.

Arjo will also analyze additional disclosure requirements and the impact this will have on the information that needs to be collected. IFRS 16 will be applied as of January 1, 2019.

None of the IFRS or IFRIC interpretations that have yet to come into legal effect are expected to have any significant impact on Arjo.

Note 2 Net sales per revenue classification

SEK M	2017	2016
Product sales	4,328	4,428
Spare parts	640	663
Service assignments	736	769
Leasing	1,984	1,948
Total	**7,688**	**7,808**

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 customer'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	2017	2016	2017	2016
North America	**2,819**	**2,905**	**1,699**	**1,806**
of which, US	*2,242*	*2,331*	*1,116*	*1,201*
Western Europe	**3,749**	**3,759**	**5,498**	**5,376**
of which, UK	*992*	*1,116*	*3,715*	*4,537*
of which, Sweden	*78*	*78*	*835*	*149*
Rest of the World	**1,120**	**1,144**	**571**	**591**
Total	**7,688**	**7,808**	**7,768**	**7,773**

Note 4 Costs by cost category

SEK M	2017	2016
Costs by cost category		
Salaries and remuneration	-2,230	-2,185
Social security expenses	-416	-361
Pension expenses	-106	-109
Amortization and impairment of intangible assets	-315	-366
Depreciation and impairment of tangible assets	-400	-389
Goods and services	-3,958	-3,659
Total	**-7,425**	**-7,069**

SEK M	2017	2016
Amortization, depreciation and write-downs		
Cost of goods sold	-425	-403
Selling expenses	-112	-135
Administrative expenses	-100	-126
Research and development costs	-4	-3
Restructuring and integration costs	-74	-88
Total	**-715**	**-755**

Note 5 Employee costs

Group, SEK M	2017 Board and CEO[1]	2017 Other	2017 Total	2016 Board and CEO[1]	2016 Other	2016 Total
Salaries and remuneration	75	2,155	2,230	63	2,122	2,185
Social security expenses	13	403	416	8	353	361
Pension expenses	5	101	106	4	105	109
Total	**93**	**2,659**	**2,752**	**75**	**2,580**	**2,655**

1) Pertains to remuneration of Board and CEO of subsidiaries in the Group.

Average number of employees

SEK M	2017 Men	2017 Women	2017 Total	2016 Men	2016 Women	2016 Total
Australia	164	60	224	143	51	194
Belgium	50	21	71	54	24	78
Denmark	27	12	39	27	15	42
Dominican Republic	130	417	547	99	353	452
France	315	98	413	297	93	390
United Arab Emirates	7	2	9	3	2	5
Netherlands	94	60	154	82	55	137
Hong Kong	11	8	19	2	1	3
India	100	29	129	223	25	248
Ireland	25	3	28	72	21	93
Italy	92	34	126	89	39	128
Canada	233	116	349	218	100	318
China	223	141	364	247	122	369
Norway	7	4	11	7	4	11
New Zealand	30	8	38	25	5	30
Poland	263	433	696	269	393	662
Switzerland	36	9	45	36	13	49
Singapore	32	11	43	28	13	41
Spain	9	6	15	5	3	8
UK	723	318	1,041	672	279	951
Sweden	59	61	120	57	46	103
South Africa	53	25	78	54	27	81
South Korea	3	–	3	1	1	2
Czech Republic	8	5	13	7	5	12
Germany	283	76	359	301	68	369
USA	642	181	823	674	192	866
Austria	82	14	96	103	18	121
Total	**3,701**	**2,152**	**5,853**	**3,795**	**1,968**	**5,763**

NOTE 5 CONTINUED

Distribution of senior executives at the closing date, %

Arjo did not exist as an operating entity in Getinge, which is why information about the gender distribution among senior executives and Board members is not presented for the comparative year 2016.

Gender distribution

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

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

	Board fee[1)]	Basic pay	Variable remuneration	Other benefits	Pension expenses	Total
Chairman of the Board	1,676					1,676
Board members	2,582					2,582
CEO		4,667	630	77	1,400	6,774
Other senior executives, employed in the parent company		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 is invoiced via the Chairman's own company, which is the reason that the amount above includes social security contributions. For other Board members, the remuneration is the amount expensed during 2017 For a presentation of fees per Board member, see Corporate governance on page 45

Comments on the table

- Remuneration of CEO Joacim Lindoff refers to the period May 1-December 31, 2017. Remuneration of Jonas Lindqvist refers to the period April 28-December 31, 2017. Remuneration of Jan Andersson refers to the period September 15-December 31, 2017. For other member of the Arjo Management Team, remuneration refers to the period April 1-December 31, 2017.
- Variable remuneration refers to the 2017 fiscal year's expensed bonus, which will be paid in 2018.
- 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)

Remuneration of senior executives

Principles: The 2017 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 48-49. 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 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 2017 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 2017 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 2017 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 2017, the Remuneration Committee was convened on four 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.

Note 6 Fees to auditors

SEK M	2017	2016
Fee to PwC		
Fee and expense reimbursement:		
Auditing assignments	-8	-7
Auditing activities other than auditing assignments	0	-1
Tax consultancy services	0	-2
Other services	0	-1
Total	**-8**	**-11**

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. Auditing activities other than auditing assignments include the review of interim reports and services in conjunction with the issuance of certificates and audit certificates. Tax consultancy services primarily pertain to general tax matters concerning corporate tax. Other services pertain to consultancy regarding financial accounting, internal control and services in conjunction with acquisitions.

Note 7 Exchange-rate gains and losses, net

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

SEK M	2017	2016
Cost of goods sold	72	-
Other operating income and expenses	0	-2
Financial items	4	3
Total	**76**	**1**

Note 8 Interest income and other similar items

SEK M	2017	2016
Interest income	9	4
Currency gains	6	3
Total	**15**	**7**

Note 9 Interest expenses and other similar expenses

SEK M	2017	2016
Interest expenses	-108	-115
Currency losses	-1	-
Other	-8	-2
Total	**-117**	**-117**

Note 10 Tax

Taxes, SEK M	2017	2016
Current tax expense	-266	-129
Deferred tax	205	-52
Total	**-61**	**-181**

The relationship between the year's tax expense and the recognized profit before tax, SEK M		
Recognized profit before tax	179	671
Tax according to current tax rate in Sweden (22%)	-39	-148
Adjustment for tax rates in foreign subsidiaries	12	-24
Adjustment of tax expenses from earlier years	5	2
Tax effect of non-deductible costs	-57	-30
Tax effect of non-taxable income	36	45
Adjustment for changed tax rates[1]	-13	-
Changed value of temporary differences	-5	-21
Other	0	-5
Recognized tax expense	**-61**	**-181**

1) Due to the reduced tax rate in the US, the Group's tax loss carryforwards have been remeasured.

NOTE 10 CONTINUED

SEK M	2017	2016
Deferred tax assets relate to the following temporary differences and loss carryforwards		
Deferred tax assets relating to:		
Non-current assets	75	91
Financial receivables and derivatives	9	22
Current assets	115	58
Provisions	69	44
Loss carryforwards	90	14
Other	20	44
Offset	-64	-66
Deferred tax assets	**314**	**207**
Deferred tax liabilities relate to the following temporary differences		
Deferred tax liabilities relating to:		
Non-current assets	-149	-192
Financial receivables and derivatives	-6	–
Current assets	-1	-1
Provisions	-31	-2
Other	-15	-28
Offset	64	66
Deferred tax liabilities	**-138**	**-157**
Maturity structure for loss carryforwards		
Due in more than 5 years	93	–
No due date	252	53
Total	**345**	**53**

In addition to the above-mentioned loss carryforwards, there are further loss carryforwards of SEK M 52 not corresponding to reported deferred tax assets, these are due within 4-5 years.

Note 11 Earnings per share

Earnings per share before and after dilution amounted to SEK 0.43 (1.80). The calculation of earnings per share relating to the Parent Company shareholders is based on the following information:

SEK M	2017	2016
Earnings (numerator)		
Earnings relating to the Parent Company shareholders, which form the basis for calculation of earnings per share	118	490
Number of shares (denominator)		
Weighted average number of ordinary shares for calculation of earnings per share	272,369,573	272,369,573

The calculation of earnings per share in 2016 is based on the average number of shares outstanding that existed when Arjo was distributed in 2017. 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 the Group.

Note 12 Intangible assets and tangible assets

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

SEK M	Goodwill	Brands	Capitalized development costs	Customer relationships	Intangible assets, other[1]
INTANGIBLE ASSETS					
Cost, Jan 1, 2016	**5,150**	**820**	**756**	**826**	**286**
Investments	–	–	68	–	68
Acquisitions	162	–	–	39	–
Reclassifications	–	–	-118	–	991
Translation differences	-212	-69	-42	-5	-35
Accumulated cost, Dec 31, 2016	**5,100**	**751**	**664**	**860**	**1,310**
Amortization and impairment, Jan 1, 2016	**-143**	**-346**	**-283**	**-449**	**-274**
Amortization for the year	–	-45	-64	-56	-113
Impairment	–	–	–	–	-88
Reclassifications	–	–	22	–	-287
Translation differences	10	34	17	22	21
Accumulated amortization and impairment, Dec 31, 2016	**-133**	**-357**	**-308**	**-483**	**-741**
Closing carrying amount, Dec 31, 2016	**4,967**	**394**	**356**	**377**	**569**

1) Some IT-related tangible assets were reclassified to intangible assets during the year

NOTE 12 CONTINUED

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

1) Of which, land amounted to SEK 10 M in 2017

SEK M	Buildings and land[1]	Plant and machinery	Equipment, tools, fixtures and fittings[2]	Equipment for leasing	Construction in progress
TANGIBLE ASSETS					
Cost, Jan 1, 2016	**369**	**206**	**1,608**	**3,873**	**13**
Investments	2	7	28	128	24
Acquisitions	–	15	13	12	–
Sales/Disposals	-1	-2	-19	-396	-1
Reclassifications	4	-1	-837	258	-9
Translation differences	5	4	-40	159	0
Accumulated cost, Dec 31, 2016	**379**	**229**	**753**	**4,034**	**27**
Depreciation and impairment, Jan 1, 2016	**-117**	**-152**	**-774**	**-3,370**	**–**
Depreciation for the year	-14	-16	-74	-285	–
Acquisitions	–	-1	-6	–	–
Sales/Disposals	1	1	15	370	–
Reclassifications	–	–	252	-16	–
Translation differences	-2	-2	1	-123	–
Accumulated depreciation and impairment, Dec 31, 2016	**-132**	**-170**	**-586**	**-3,424**	**–**
Closing carrying amount, Dec 31, 2016	**247**	**59**	**167**	**610**	**27**

1) Of which, land amounted to SEK 18 M in 2016
2) Some IT-related tangible assets were reclassified to intangible assets during the year

NOTE 12 CONTINUED

Impairment testing

	2017	2016
Goodwill and intangible assets with an indefinite useful life	4,906	5,012

Arjo has 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 9.5% (9.9) 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 10.5% (10.9).

Intangible assets

There are a limited number of intangible assets, in the form of trademarks with a carrying amount of SEK 44 M (45), 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	2017	2016
Raw materials	230	244
Work in progress	14	21
Finished products	860	779
Total	**1,104**	**1,044**

Of the Group's inventories, SEK 1,096 M (977) is measured at cost and SEK 8 M (67) at net realizable value. At December 31, 2017, the Group's provisions for obsolescence totaled SEK 134 M (154).

Note 14 Accounts receivable

SEK M	2017	2016
Accounts receivable before provisions	2,073	2,358
Provisions for doubtful receivables	-175	-81
Total	**1,898**	**2,277**

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	2017	2016
Not fallen due	1,079	1,453
Fallen due 1–5 days	97	167
Fallen due 6–30 days	160	198
Fallen due 31–60 days	158	134
Fallen due 61–90 days	83	51
Fallen due, more than 90 days	496	355
Total	**2,073**	**2,358**

At December 31, 2017, the Group's provisions for doubtful receivables totaled SEK 175 M (81). A maturity analysis of these accounts receivable is presented below:

SEK M	2017	2016
Not fallen due	-3	-4
Fallen due 1–5 days	0	0
Fallen due 6–30 days	0	0
Fallen due 31–60 days	0	0
Fallen due 61–90 days	-1	-1
Fallen due, more than 90 days	-171	-76
Total	**-175**	**-81**

NOTE 14 CONTINUED

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

SEK M	2017	2016
EUR	563	570
USD	765	807
GBP	298	251
CAD	130	139
SEK	15	276
Other currencies	302	315
Total	**2,073**	**2,358**

Changes in provisions for doubtful receivables are as follows:

SEK M	2017	2016
At beginning of the year	**-81**	**-66**
Provision for expected losses	-159	-36
Confirmed losses	59	12
Payment made for reserved receivable	2	20
Acquisition of operations	–	-12
Translation differences	4	1
Amount at year-end	**-175**	**-81**

Note 15 Prepaid expenses and accrued income

SEK M	2017	2016
Accrued income	66	57
Prepaid rental expenses	6	6
Prepaid insurance expenses	9	10
Other	83	78
Total	**164**	**151**

Note 16 Shareholders' equity

Specification of other reserves

	Hedge reserve		Translation reserve		Total	
SEK M	2017	2016	2017	2016	2017	2016
Opening balance	**-78**	**-1**	**726**	**1,012**	**648**	**1,011**
Cash-flow hedges, change for the year	101	-99			101	-99
Tax on change for the year	-22	22			-22	22
Translation differences for the year			-345	-286	-345	-286
Hedge of net investment after tax			37	-	37	-
Closing balance	**1**	**-78**	**418**	**726**	**419**	**648**

Class of shares	A	B	Total
Quotient value per share	0.33	0.33	
Number of shares outstanding:			
December 31, 2016	**-**	**500,000**	**500,000**
Split (3:1)	-	1,000,000	1,000,000
Rights issue	18,217,200	252,652,373	270,869,573
December 31, 2017	**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, 2017, the company's share capital totaled SEK 91 M.

The registered share capital amounted to SEK 500,000 on December 31, 2016, distributed over 500,000 shares with a quotient value of SEK 1 per share. According to the Articles of Association applicable on December 31, 2016, the number of shares shall be not fewer than 500,000 and not more than 2,000,000, and the share capital shall not be less than SEK 500,000 and not more than SEK 2,000,000.

Note 17 Unutilized overdraft facilities and credit facilities

Contracted, unutilized overdraft facilities amounted to SEK 758 M on December 31, 2017. There are also granted, unutilized overdraft facilities of SEK 243 M.

Note 18 Leasing

Operating leases

SEK M	2017	2016
Costs relating to operating leases	-279	-264

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 leasing fees for non-cancellable leasing agreements amounted to the following:

SEK M	2017	2016
Due within 1 year	-213	-209
Due within 2 to 5 years	-473	-472
Due in more than 5 years	-71	-84
Total	**-757**	**-765**

Note 19 The Group's interest-bearing net debt

				Non-cash items		
	Jan 1, 2017	Cash flows	Cashflow 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
Net receivable/liability	**-1,175**	**5,977**	**-179**	**34**	**-55**	**4,602**

1) Refers to cash flows from transactions with shareholders related to interest-bearing net debt These are included as part of the item Transactions with shareholders in the Cash-flow statements

Note 20 Other provisions

SEK M	Restructuring	Guarantees	Personnel	Other	Total
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
Value according to opening balance 2016	**52**	**21**	**0**	**35**	**108**
Provisions	9	4	3	22	38
Used amount	-51	-3	-	-14	-68
Unutilized funds restored	-	-	-	-2	-2
Reclassifications	-	-16	2	14	0
Translation differences	2	-	-	-1	1
Value according to closing balance 2016	**12**	**6**	**5**	**54**	**77**
Of which:					
Current					39
Non-current					38

Expected timing of outflow:

SEK M	Total
Within 1 year	69
Within 3 years	10
Within 5 years	15
> 5 years	24
Value according to closing balance 2017	**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:

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**

2016, SEK M	Funded pension plans	Unfunded pension plans	Total
Present value of commitments	-1,892	-26	-1,918
Fair value of plan assets	1,941	–	1,941
Net assets in the balance sheet	**49**	**-26**	**23[1)]**

1) Of which, SEK 59 M is recognized as non-current financial receivables and SEK 36 M as pension provisions

SEK M	2017	2016
Pension commitments		
Opening balance	**23**	**-98**
Costs for service in the current year	-2	-3
Net interest rate	-1	-2
Administrative costs pertaining to plan assets	0	-1
Gains and losses from adjustments	30	-
Return on plan assets	158	324
Gain/(loss) attributable to changed demographic assumptions	1	–
Gain/(loss) attributable to changed financial assumptions	-322	-286
Experience-based gains/(losses)	-2	10
Restriction in plan surpluses with regard to asset ceilings	0	5
Exchange-rate differences	-1	4
Fees paid by employer	53	69
Paid benefits	2	1
Closing balance	**-61**	**23**

The defined-benefit pension commitment and composition of plan assets 2017, SEK M

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**

2016, SEK M	Present value of commitments	Fair value of plan assets	Net provisions for pensions
Sweden	-42	42	0
Germany	-8	-	-8
UK	-1,850	1,899	49
Italy	-18	-	-18
Total	**-1,918**	**1,941**	**23[1)]**

1) Of which, SEK 59 M is recognized as non-current financial receivables and SEK 36 M as pension provisions

NOTE 21 CONTINUED

	Sweden	Germany	UK	Italy
Significant actuarial assumptions 2017, %				
Discount rate	2.1	1.8	2.4	1.8
Expected salary increase rate	3.0	2.5	2.0	2.0
Expected inflation	2.0	1.8	3.4	1.0
Significant actuarial assumptions 2016, %				
Discount rate	2.5	1.6	3.0	2.0
Expected salary increase rate	3.0	2.5	2.0	2.0
Expected inflation	2.0	1.3	3.7	2.0

The discount rate corresponds to the interest rate of first-class corporate bonds or mortgage bonds (Sweden) with a remaining term that is almost equivalent to the actual commitments.

Sensitivity of defined-benefit commitments to changes in the significant assumptions for 2017, SEK M

SEK M	Expected value of pension commitments	Change compared with used calculation assumptions
Pension commitments according to original valuation	-2,171	
Discount rate +1 percentage point	-1,715	456
Inflation +1 percentage point	-2,496	-325
Salary increases +1 percentage point	-2,171	0

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	2017	2016
Equities and funds	2,069	1,879
Properties	6	5
Cash and cash equivalents and similar assets	6	35
Other	29	22
Total	**2,110**	**1,941**

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 2017 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 5 M (4). Alecta's surplus can be distributed to the insurers and/or the insured. At year-end 2017, Alecta's surplus in the form of the collective consolidation level was approximately 154% (149). 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	2017	2016
Salaries	281	249
Social security expenses	63	57
Interest expenses	5	11
Consultancy fees	7	6
Deferred income	61	36
Other	355	471
Total	**772**	**830**

Note 23 Pledged assets and contingent liabilities

Pledged assets
The Group has no pledged assets.

Contingent liabilities

SEK M	2017	2016
Guarantees	43	17
Other	-	3
Total	**43**	**20**

Note 24 Acquired/divested operations

No operations were acquired or divested in 2017.

Acquired operations in 2016

Net assets acquired, SEK M	2016
Intangible assets	39
Tangible assets	33
Inventories	27
Other current assets	14
Cash and cash equivalents	47
Deferred tax liabilities	-7
Other current liabilities	-16
Identifiable net assets	**137**
Goodwill	162
Total purchase consideration	**299**
Less:	
Unpaid purchase considerations	-40
Cash and cash equivalents in the acquired company	-47
Impact on the Group's cash and cash equivalents	**212**

AccuMed
The acquisition of AccuMed was completed in April 2016. Under the acquisition, Arjo will obtain a manufacturing unit for the production of medical textiles in the Dominican Republic. The operations have more than 400 employees and the total purchase consideration amounted to SEK 66 M. The goodwill arising in connection with the acquisition amounted to SEK 29 M and was attributable to future integration synergies for production. Acquisition expenses of SEK 1.0 M were charged to earnings.

Net assets acquired, SEK M	Carrying amount
Tangible assets	16
Inventories	22
Other current liabilities	-1
Identifiable net assets	**37**
Goodwill	29
Total purchase consideration	**66**
Less:	
Cash and cash equivalents in the acquired company	0
Impact on the Group's cash and cash equivalents	**66**

The operation was included in Arjo on April 1, 2016.

1st Call Mobility Limited
All of the shares in the UK company 1st Call Mobility Limited were acquired during the second quarter of 2016. The company is specialized in medical device solutions for bariatric patients, generates sales of approximately SEK 100 M and has 48 employees. The total purchase consideration amounted to SEK 233 M and the goodwill arising in connection with the acquisition amounted to SEK 133 M and was primarily attributable to geographical spread. Acquisition expenses of SEK 1.6 M were charged to earnings.

NOTE 24 CONTINUED

Net assets acquired, SEK M	Carrying amount
Intangible assets	39
Tangible assets	17
Inventories	5
Other current assets	14
Cash and cash equivalents	47
Deferred tax liabilities	-7
Other current liabilities	-15
Identifiable net assets	100
Goodwill	133
Total purchase consideration	233
Less:	
Unpaid purchase considerations	-40
Cash and cash equivalents in the acquired company	-47
Impact on the Group's cash and cash equivalents	146

The operation was included in Arjo on June 10, 2016.

No operations were divested in 2016.

Note 25 Transactions with related parties

Arjo's transactions with companies in Getinge Group are presented in the table below. Business terms and conditions as well as market-regulated pricing apply for delivery of products and services between Group companies.

Other income and expenses primarily refer to Group-wide services. In addition to the above, there were no other transactions with related parties. For remuneration and benefits to senior executives and on the Board of Directors, see Note 5.

SEK M	2017	2016
Sales	148	108
Other income	90	391
Purchases of goods	-48	-114
Other expenses	-282	-665
Financial income	11	2
Financial expenses	-48	-71
Accounts receivable	54	393
Current financial receivables	–	1,397
Non-current financial liabilities	–	1,361
Accounts payable	78	359
Current financial liabilities	90	340
Other non-interest-bearing liabilities	31	187
Shareholders' contributions received	1,203	–
Group contributions paid	–	-170
Dividends received	3,783	83
Dividends paid	-6,383	-26
Rights issue	90	–
Transfer of net assets	-4,034	374

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's treasury function 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.

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 are mainly generated from group internal product flows. The most important currencies are USD, EUR, GBP, CAD and PLN. In line with finance policy, the treasury function hedge the most important currency exposures based on the Group companies forecasted currency flows.

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 28 M (-99) at December 31, 2017.

The table on the next page outlines the effect on net profit, translated to SEK, of currency fluctuations of ±5 percent in the most important transaction currencies.

NOTE 26 CONTINUED

Sensitivity analysis transaction exposure (SEK M)

Currency (average rates, 2017)	Net volume	Effect on net profit ±5% (SEK M)
PLN, 2.26	925.7	±36
CNY, 1.26	159.0	±6
USD, 8.53	105.3	±4
EUR, 9.63	93.9	±4
CAD, 6.58	44.7	±2

Financing risk

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, according to the table below.

Credit facilities and loans

The table below presents Arjo's credit facilities and loans as per December 31, 2017.

Type	Currency	Amount, MLC	Utilized	Due
Revolving credit facility, 5 years	EUR	500	472	2022
Revolving credit facility, 3+1+1 years	EUR	50	0	2020 (with option of 1+1-year extension)
Bank loans, 3 years	USD	58	58	2020

As part of Getinge Group, Arjo raised intra-Group financing in the form of fixed-term loans from Getinge Treasury. In addition, Arjo had access to the cash pools at Getinge's disposal. Prior to the IPO, 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. These credit facilities and the bank loan were available to Arjo in connection with the IPO. 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).

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-hedging 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 at December 31, 2017. Based on Arjo's outstanding bank loans at December 31, 2017, 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 50 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, 2017, the total counterparty exposure in derivative instruments was SEK 28 M (1). Credit risks in outstanding derivatives are limited by the offset rules agreed with the respective counterparty. 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.

Financial derivatives. Arjo uses financial derivatives in the form of currency forward contracts to manage currency exposure arising in its business. All 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.

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.

Offsetting of financial derivatives. 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.

	2017		2016	
Outstanding derivative instruments, SEK M	Nominal amount	Fair value	Nominal amount	Fair value
Currency derivatives	1,985	28	2,780	-99
Total	**1,985**	**28**	**2,780**	**-99**

	2017		2016	
SEK M	Asset	Liability	Asset	Liability
Currency derivatives – cash-flow hedges	35	7	125	224
Total	**35**	**7**	**125**	**224**
Of which, short-term	35	7	116	224
Of which, long-term	-	-	9	-

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.

NOTE 26 CONTINUED

Distribution of currency for outstanding derivative instruments

2017	
AUD	180
CAD	130
GBP	458
PLN	453
USD	764
Total, SEK M	**1,985**

2016	
AUD	231
CAD	294
GBP	538
PLN	741
USD	976
Total, SEK M	**2,780**

Financial instruments by category

2017 Financial assets, SEK M	Loan receivables and accounts receivable	Assets at fair value through profit and 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 and 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 and 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**

Financial instruments by category

2016 Financial assets, SEK M	Loan receivables and accounts receivable	Assets at fair value through profit and loss	Derivatives used for hedging purposes	Available-for-sale financial assets	Total
Available-for-sale financial assets	-	-	-	-	-
Derivative instruments	-	-	125	-	125
Accounts receivables and other financial receivables	3,674	-	-	-	3,674
Financial assets at fair value through profit and loss	-	-	-	-	-
Cash and cash equivalents	1,446	-	-	-	1,446
Total	**5,120**	**-**	**125**	**-**	**5,245**

NOTE 26 CONTINUED

Financial instruments by category

2016 Financial liabilities, SEK M	Liabilities at fair value through profit and loss	Derivatives used for hedging purposes	Other financial liabilities	Total
Borrowings	-	-	-	-
Derivative instruments	-	224	-	224
Accounts payable and other financial liabilities	-	-	2,627	2,627
Total	**-**	**224**	**2,627**	**2,851**

The table below analyzes the Group's external financial liabilities, subdivided into the periods remaining on the closing date until the agreed date of maturity.

At December 31, 2017, SEK M	< 1 year	1–2 years	2–5 years	> 5 years
Bank loans	-94	-94	-5,140	-
Current financial liabilities	-90	-	-	-
Derivative instruments outflow	-849	0	-	-
Derivative instruments inflow	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	2017	2016
Cash and bank balances	672	1,446
Total	**672**	**1,446**

Adjustments for items not included in cash flow

SEK M	2017	2016
Gain from divestment/disposal of non-current assets	36	21
Total	**36**	**21**

Note 28 Capitalized development costs

SEK M	2017	2016
Research and development costs, gross	-204	-201
Capitalized development costs	70	68
Research and development costs, net	**-134**	**-133**

Note 29 Events after the end of the fiscal year

Financing

On February 9, 2018, Arjo AB announced that it was establishing a commercial paper program with a framework amount of SEK 2.5 billion and is conducting a first issue of almost SEK 1.5 billion. The purpose of the program is to diversify the Group's sources of financing.

Parent Company financial statements

Parent Company's income statement

SEK M	Note	2017	2016
Administrative expenses	2, 3, 4	-192	-
Restructuring and integration costs		-18	-
Other operating income	5	197	-
Operating loss		**-13**	**-**
Result from participations in Group companies	6	-108	-
Interest income and similar profit items	7	3	-
Interest expenses and similar loss items	8	-61	-
Profit/loss after financial items		**-179**	**-**
Taxes	9	38	-
Net profit/loss for the year[1]		**-141**	**-**

1) As well total comprehensive income

Parent Company's balance sheet

SEK M	Note	2017	2016
ASSETS			
Non-current assets			
Intangible assets	10	428	-
Participations in Group companies	11	5,369	-
Deferred tax assets	9	39	-
Total non-current assets		**5,836**	**-**
Current assets			
Receivables from Group companies		363	-
Current tax assets		1	-
Other receivables		29	-
Prepaid expenses and accrued income		12	-
Cash and cash equivalents		-	1
Total current assets		**405**	**1**
TOTAL ASSETS		**6,241**	**1**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Restricted shareholders' equity			
Share capital		91	1
Non-restricted shareholders' equity			
Retained earnings		3,677	-
Net profit/loss for the year		-141	-
Total shareholders' equity		**3,627**	**1**
Current liabilities			
Interest-bearing current loans, Group companies		2,458	-
Accounts payable		9	-
Other liabilities to Group companies		100	-
Other liabilities		7	-
Accrued expenses and deferred income	12	40	-
Total current liabilities		**2,614**	**-**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**6,241**	**1**

For information about Arjo AB's pledged assets and contingent liabilities, refer to Note 13.

Changes in shareholders' equity, Parent Company

SEK M	Share capital	Retained earnings and net profit/loss for the year	Total shareholders' equity
Opening balance at January 1, 2016	-	-	-
Deposited share capital	1	-	1
Closing balance at December 31, 2016	**1**	-	**1**
Opening balance at January 1, 2017	**1**	-	**1**
Net profit/loss for the year	-	-141	-141
Rights issue	90	-	90
Shareholders' contributions	-	3,677	3,677
Closing balance at December 31, 2017	**91**	**3,536**	**3,627**

Parent Company cash-flow statement

SEK M	Note	2017	2016
Operating activities			
Operating loss		-13	-
Add-back of amortization, depreciation and write-downs		15	-
Interest received and similar items		3	-
Interest paid and similar items		-61	-
Taxes paid		-	-
Cash flow before changes to working capital		**-56**	-
Cash flow from changes in working capital			
Current receivables		-347	-
Current liabilities		-11	-
Cash flow from operations		**-414**	-
Investing activities			
Acquisition of intangible assets	10	-443	-
Investments in subsidiaries		-2,895	-
Cash flow from investing activities		**-3,338**	-
Financing activities			
Rights issue		90	1
Shareholders' contributions received		1,203	-
Change in interest-bearing liabilities		2,458	-
Cash flow from financing activities		**3,751**	**1**
Cash flow for the year		**-1**	**1**
Cash and cash equivalents at the beginning of the year		1	-
Cash and cash equivalents at year-end		-	**1**

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.

Group contributions are recognized among result from participations in Group companies.

Note 2 Amortization according to plan

SEK M	2017	2016
Intangible assets	-15	-
Total	**-15**	**-**
Amortization is recognized as administrative expenses	-15	-
Total	**-15**	**-**

Note 3 Fees to auditors

Fee to PwC, SEK M	2017	2016
Fee and expense reimbursement:		
Auditing assignment	-2	-
Auditing activities other than auditing assignments	-	-
Tax consultancy services	-	-
Other services	-	-
Total	**-2**	**-**

Note 4 Employee costs

Average number of employees

Sweden	2017	2016
Men	3	-
Women	1	-
Total	**4**	**-**

Gender distribution

%	2017	2016
Women:		
Board members	38	20
Other members of senior management	40	-
Men:		
Board members	62	80
Other members of senior management	60	-

Salaries, other remuneration and social security expenses

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. No salaries and remuneration were paid in the Parent Company in 2016.

Note 5 Other operating income

SEK M	2017	2016
Sale of services to other Group companies	197	-
Total	**197**	**-**

Note 6 Result from participations in Group companies

SEK M	2017	2016
Group contributions	-108	-
Total	**-108**	**-**

Note 7 Interest income and similar profit items

SEK M	2017	2016
Currency gains	3	-
Interest income	0	-
Total	**3**	**-**

Note 8 Interest expenses and similar loss items

SEK M	2017	2016
Interest expenses to Group companies	-15	-
Currency losses	-46	-
Total	**-61**	**-**

Note 9 Taxes

SEK M	2017	2016
Current tax expense	-1	-
Deferred tax	39	-
Total	**38**	**-**
Relationship between the year's tax expenses and the recognized profit/loss before tax:		
Recognized profit/loss before tax	-179	-
Tax according to current tax rate	39	-
Tax effect of non-deductible costs	-1	-
Tax effect of non-taxable income	0	-
Recognized tax expense	**38**	**-**

Note 10 Intangible assets

SEK M	2017	2016
Software		
Opening cost	-	-
Investments	443	-
Closing accumulated cost	**443**	**-**
Opening amortization	-	-
Amortization for the year	-15	-
Closing accumulated amortization	**-15**	**-**
Closing planned residual value	**428**	**-**

Note 11 Participations in Group companies

Parent Company's holdings	Reg. office	Corp. Reg. No.	No. of participations 2017	No. of participations 2016	Percentage holding	Carrying amount, SEK M 2017
Arjo Austria GmbH	**Austria**	**FN42604d**	**1**	**-**	**39**	**8**
ArjoHuntleigh NV	Belgium	418.919.541	39 120	-	62	8
ArjoHuntleigh Magog Inc	**Canada**	**626505**	**24 126 001**	**-**	**100**	**575**
Getinge (Suzhou) Co.,Ltd	China	913205947573292624	1	-	100	235
Arjo Czech Republic s.r.o.	**Czech Republic**	**46 962 549**	**1**	**-**	**100**	**2**
Getinge Dominican Republic SA	Dominican Republic	131398278	3 591 999	-	100	65
Arjo France S.A.S.	**France**	**305.219.677**	**578 460**	**-**	**100**	**360**
Arjo Deutschland GmbH	Germany	HRB 12913	1	-	100	334
Huntleigh Healthcare GmbH	**Germany**	**HRB 23795**	**2**	**-**	**100**	**4**
Huntleigh Technology Ltd	UK	1891943	85 390 762	-	100	2,356
Arjo Hong Kong Limitid	**Hong Kong**	**465441**	**25 000**	**-**	**100**	**47**
ArjoHuntleigh Healthcare India Pvt. Ltd	India	U85199M-H2002PTC135700	1 905 709	-	100	0
ArjoHuntleigh Ireland Ltd	**Ireland**	**IE238034**	**33 336**	**-**	**100**	**37**
Arjo Italia Spa	Italy	5503160011	1 000 000	-	100	94
Arjo Nederland BV	**Netherlands**	**69089396**	**18**	**-**	**100**	**808**
Arjo Norge AS	Norway	994 290 177	100 000	-	100	1
Boxuan Medical Equipment Pte Ltd	**Singapore**	**200508769D**	**5 700 000**	**-**	**100**	**30**
Arjo Korea Co., Ltd	South Korea	101-86-76976	1 000	-	100	20
Arjo Iberia S.L.	**Spain**	**B67064618**	**3 000**	**-**	**100**	**0**
Arjo Sverige AB	Eslöv, Sweden	556528-4600	1 000	-	100	54
ArjoHuntleigh AB	**Malmö, Sweden**	**556304-2026**	**50 000**	**-**	**100**	**120**
Arjo Treasury AB	Malmo, Sweden	556475-7242	2 225	-	100	9
Arjo Switzerland AG	**Switzerland**	**CHE-107.306.624**	**100**	**-**	**100**	**42**
Arjo Middle East FZ-LLC	United Arab Emirates	94298	1	-	100	41
Arjo Holding USA Inc	**USA**	**-**	**10 000**	**-**	**100**	**119**
Total carrying amount						**5,369**

The summary above covers all directly owned subsidiaries.

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

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

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

Austria
Arjo Austria GmbH

Belgium
ArjoHuntleigh NV

Brazil
Arjo Brasil Participacoes ltda

Canada
ArjoHuntleigh Magog Inc
Arjo Canada Inc

China
Getinge (Suzhou) Co., Ltd
Acare Medical Science Co. Ltd
ArjoHuntleigh (Shanghai) Medical Equipment Co Ltd

Czech Republic
Arjo Czech Republic s.r.o.

Denmark
Arjo Danmark A/S

Dominican Republic
Getinge Dominican Republic SA

France
Arjo France S.A.S.

Germany
Arjo Deutschland GmbH
Huntleigh Healthcare GmbH

Hong Kong
Arjo Hong Kong Ltd

India
ArjoHuntleigh Healthcare India Pvt. Ltd

NOTE 11 CONTINUED

Ireland
ArjoHuntleigh Ireland Ltd

Italy
Arjo Italia Spa[2)]

Netherlands
Arjo Nederland BV
Huntleigh Holdings BV

New Zealand
Arjo New Zealand Limited

Norway
Arjo Norge AS

Poland
ArjoHuntleigh Polska Sp. z.o.o.

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

Spain
Arjo Iberia S.L.

Switzerland
Arjo Switzerland AG

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

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

South Korea
Arjo Korea Co. Ltd

United Arab Emirates
Arjo Middle East FZ-LLC

USA
Arjo Holding USA, Inc
Arjo, Inc

1) A Parent Company guarantee was issued in accordance with section 479(C) of the UK Companies Act 2006 for the 2017 fiscal year 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) A Parent Company guarantee was also issued for the 2017 fiscal year 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 Accrued expenses and deferred income

SEK M	2017	2016
Salaries	10	-
Social security expenses	4	-
Accrued IT expenses	24	-
Other accrued expenses and other deferred income	2	-
Total	**40**	-

Note 13 Pledged assets and contingent liabilities

Pledged assets
The Parent Company had no pledged assets in 2017 or 2016.

Contingent liabilities, SEK M	2017	2016
Guarantees		
Guarantees for subsidiaries	5,595	-
Other	43	-
Total contingent liabilities	**5,638**	-

Note 14 Proposed appropriation of profit

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

SEK	
Retained earnings	3,677,421,844
Net profit for the year	-141,195,406
Total	**3,536,226,438**
The Board and Chief Executive Officer propose that a dividend of SEK 0.50 per share shall be distributed to shareholders	136,184,787
To be carried forward	3,400,041,651
Total	**3,536,226,438**

Auditor's report

To the general meeting of shareholders in 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 financial year 2017 with the exception of the Corporate Governance Report on pages 42-45. The annual accounts and consolidated accounts of the Company are included on pages 38-87 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 as of 31 December 2017 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 2017 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 opinion does not include the Corporate Governance Report found on pages 42-45. 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.

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

Our audit activities

The focus and scope of the audit

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered areas where the Managing Director and Board of Directors made subjective judgements, for example, in respect of critical accounting estimates based on assumptions of future events that are inherently uncertain. As in all our audits, we also addressed the risk that the Board of Directors and Managing Director will override internal controls, and considered whether there is any evidence of bias that has created 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 audit 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 financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the 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 most significant in our audit of the annual accounts and consolidated accounts for the current period. These matters were addressed in 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 represent a significant part of the Balance Sheet of Arjo. The Company annually performs an 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 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 16% of total assets. Based on the Group's business operations, a significant portion of net sales is generated during the fourth quarter, which usually implies a significant increase in accounts receivables in conjunction with the year-end closing. 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, Italy and China. As of 31 December 2017, accounts receivables matured more than 90 days amounted to MSEK 496 which is equivalent to approximately 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 correctness of the valuation of the accounts receivables by assessing the appropriateness of the loss assessment executed by management, which was based on individual assessments taking into consideration the unique risk profiles of the local markets. 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' documentation, customer invoices, payment verification and obtaining customer invoice confirmations from customers. We have examined management's assessment of the valuation of customer receivables compared with the historical outcome for bad debts. 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.

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 1-37 and 91-103. 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 Directors 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 intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee of the Board of Directors 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 Directors and the Managing Director of Arjo AB (publ) for the financial year 2017 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 Directors 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 Directors 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's 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 fulfil 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 42–45 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.

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

Malmo, 29 March 2018
Ohrlings PricewaterhouseCoopers AB

Magnus Willfors
Authorised Public Accountant, Auditor-in-Charge

Cecilia Andrén Dorselius
Authorised Public Accountant

Multi-year overview: Group

Condensed consolidated income statement

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

Condensed consolidated balance sheet

SEK M	2017	2016	2015	2014
Intangible assets	6,634	6,663	6,343	6,336
Tangible assets	1,134	1,110	1,656	1,658
Non-current financial receivables	-	-	9	10
Financial assets	334	316	302	378
Total non-current assets	**8,102**	**8,089**	**8,310**	**8,382**
Inventories	1,104	1,044	1,194	1,134
Accounts receivable	1,898	2,277	1,584	1,842
Current financial receivables	-	1,397	1,477	1,622
Other current receivables	434	460	644	473
Cash and cash equivalents	672	1,446	808	1,369
Total current assets	**4,108**	**6,624**	**5,707**	**6,440**
TOTAL ASSETS	**12,210**	**14,713**	**14,017**	**14,822**
Shareholders' equity	5,074	10,658	10,227	10,602
Total shareholders' equity	**5,074**	**10,658**	**10,227**	**10,602**
Provisions for pensions, interest-bearing	61	36	98	328
Non-current financial liabilities	5,131	1,361	475	357
Other provisions	187	195	186	225
Total non-current liabilities	**5,379**	**1,592**	**759**	**910**
Accounts payable	541	739	369	376
Current liabilities	-	-	384	572
Current financial liabilities	90	340	1,168	1,257
Other non-interest-bearing liabilities	1,126	1,384	1,110	1,105
Total current liabilities	**1,757**	**2,463**	**3,031**	**3,310**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**12,210**	**14,713**	**14,017**	**14,822**

Condensed consolidated statement of cash flows

SEK M	2017	2016	2015	2014
Operating activities				
Operating profit (EBIT)	281	781	540	953
Add-back of amortization, depreciation and write-down	715	755	681	635
Expensed restructuring and integration costs[1]	250	67	186	82
Paid restructuring and integration costs	-63	-108	-166	-173
Other non-cash items	36	21	2	11
Financial items	-102	-110	-115	-92
Taxes paid	-135	-168	-162	-291
Cash flow before changes to working capital	**982**	**1,238**	**966**	**1,125**
Changes in working capital				
Inventories	-103	-87	-78	-40
Current receivables	176	-345	115	6
Current liabilities	-483	113	-192	-132
Cash flow from operations	**572**	**919**	**811**	**959**
Investing activities				
Acquired operations	-	-212	-	-
Net investments	-652	-314	-516	-498
Cash flow from investing activities	**-652**	**-526**	**-516**	**-498**
Financing activities				
Change in interest-bearing liabilities	5,120	-6	-17	-1
Change in non-current receivables	83	-47	-25	5
Transactions with shareholders	-5,897	289	-808	-134
Cash flow from financing activities	**-694**	**236**	**-850**	**-130**
Cash flow for the year	**-774**	**629**	**-555**	**331**
Cash and cash equivalents at the beginning of the period	1,446	808	1,369	1,012
Cash flow for the year	-774	629	-555	331
Translation differences	0	9	-6	26
Cash and cash equivalents at year-end	**672**	**1,446**	**808**	**1,369**

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

Net sales by geographic area

SEK M	2017	2016	2015	2014
North America	2,819	2,905	2,957	2,700
Western Europe	3,749	3,759	3,873	3,731
Rest of the World	1,120	1,144	1,285	1,137
Group	**7,688**	**7,808**	**8,115**	**7,568**

Key performance indicators for the Group

SEK M	2017	2016	2015	2014
Sales measures				
Net sales	7,688	7,808	8,115	7,568
Net sales growth, %	-1.5%	-3.8%	7.2%	-
Organic growth in sales, %	-1 6%	-2.6%	-2.3%	-
Expense measures				
Selling expenses as a % of net sales	20.4%	17.8%	19.4%	18.8%
Administrative expenses as a % of net sales	14.8%	13.0%	12.8%	12.4%
Research and development costs as a % of net sales	1.7%	1.7%	1.5%	1.5%
Earnings measures				
Operating profit (EBIT)	281	781	540	953
EBITA	596	1,147	733	1,137
Adjusted EBITA	846	1,221	923	1,221
EBITDA	996	1,536	1,221	1,588
EBITDA growth, %	-35 1%	25.8%	-23.1%	-
Adjusted EBITDA	1,246	1,610	1,411	1,672
Earnings per share, SEK	0.43	1.80	1.13	2.27
Margin measures				
Gross margin, %	44.6%	44.1%	44.3%	47.0%
Operating margin, %	3.7%	10 0%	6 7%	12 6%
EBITA margin, %	7.8%	14.7%	9.0%	15.0%
Adjusted EBITA margin, %	11.0%	15.6%	11.4%	16.1%
EBITDA margin, %	13.0%	19.7%	15.0%	21.0%
Adjusted EBITDA margin, %	16.2%	20 6%	17.4%	22.1%
Cash flow and return measures				
Return on shareholders' equity, %	1.5%	4.7%	2.9%	6.2%
Cash conversion, %	57.4%	59.8%	66.4%	60.4%
Operating capital, SEK M	10,317	11,055	11,168	10,699
Return on operating capital, %	5.9%	8 5%	6.5%	9.7%
Capital structure				
Interest-bearing (+) net debt / (-) net receivables	4,602	-1,175	-579	-1,059
Interest-coverage ratio, multiple	5.3×	8.2×	6.2×	10 9×
Net debt/equity ratio, multiple	0.9×	-0.1×	-0.1×	-0.1×
Net debt / adjusted EBITDA, multiple	3 7×	-0.7×	-0.4×	-0 6×
Equity/assets ratio, %	41.6%	72.4%	73.0%	71.5%
Equity per share, SEK	18.6	39 1	37.5	38 9
Other				
Number of shares	272,369,573	272,369,573	272,369,573	272,369,573
Number of employees, average	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	2017	2016	2015	2014
(A) Net sales preceding year	**7,808**	**8,115**	**7,568**	–
Acquired/divested net sales for the period	-	40	-46	–
(B) Organically net sales for the period	**-125**	**-210**	**-175**	**-**
Effect of changes in exchange rates	5	-137	767	–
Net sales	**7,688**	**7,808**	**8,115**	**-**
(B/A) Organic growth in sales, %	-1.6%	-2 6%	-2.3%	–

Expense measures

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

Profit and margin measures

SEK M	2017	2016	2015	2014
(A) Operating profit (EBIT)	281	781	540	953
Add-back of amortization and write-down	315	366	193	184
(B) EBITA	596	1,147	733	1,137
Add-back of depreciation and write-down	400	389	488	451
(C) EBITDA	996	1,536	1,221	1,588
Acquisition expenses	-	7	4	1
Restructuring and intergraton costs	324	155	186	83
Add-back of write-down of restructuring and integration costs	-74	-88	0	0
(D) Adjusted EBITA	846	1,221	923	1,221
(E) Adjusted EBITDA	1,246	1,610	1,411	1,672
(F) Net sales	7,688	7,808	8,115	7,568
(A/F) Operating margin, %	3.7%	10.0%	6.7%	12.6%
(B/F) EBITA margin, %	7.8%	14.7%	9.0%	15.0%
(C/F) EBITDA margin, %	13.0%	19.7%	15.0%	21.0%
(D/F) Adjusted EBITA margin, %	11.0%	15.6%	11.4%	16.1%
(E/F) Adjusted EBITDA margin, %	16 2%	20 6%	17 4%	22.1%

Cash flow and return measures

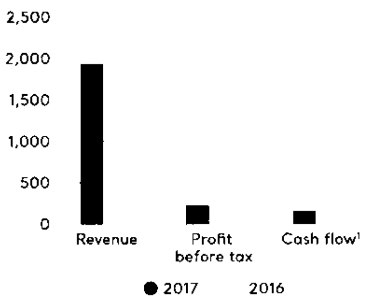
SEK M	2017	2016	2015	2014
Calculation of cash conversion				
(A) Cash flow from operations	572	919	811	959
(B) EBITDA	996	1,536	1,221	1,588
(A/B) Cash conversion, %	57.4%	59.8%	66 4%	60.4%
Calculation of return on equity				
(A) Net profit for the year	118	490	307	619
Shareholders' equity at beginning of the period	10,658	10,227	10,602	9,296
Shareholders' equity at the end of the period	5,074	10,658	10,227	10,602
(B) Average total shareholders' equity	7,866	10,443	10,415	9,949
(A/B) Return on total shareholders' equity, %	1.5%	4.7%	2.9%	6.2%
Calculation of return on operating capital				
Total assets opening balance	14,713	14,017	14,822	13,220
Total assets closing balance	12,210	14,713	14,017	14,822
Average total assets	13,462	14,365	14,420	14,021
Excluding average cash and cash equivalents	-1,058	-1,127	-1,089	-1,191
Excluding average other provisions	-220	-191	-206	-320
Excluding average other non-interest-bearing liabilities	-1,867	-1,993	-1,958	-1,811
(A) Operating capital	10,317	11,055	11,168	10,699
Operating profit (EBIT)	281	781	540	953
Add-back of acquisition expenses	-	7	4	1
Add-back of restructuring and integration costs	324	155	186	83
(B) EBIT after add-back of acquisition, restructuring and integration costs	605	943	730	1,037
(B/A) Return on operating capital	5.9%	8.5%	6.5%	9.7%

Capital structure

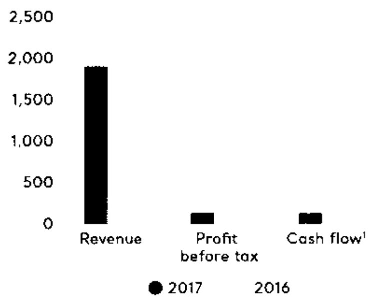
SEK M	2017	2016	2015	2014
Calculation of interest-bearing net debt, net debt/equity ratio and interest-bearing net debt / Adjusted EBITDA				
Financial liabilities	5,221	1,701	1,643	1,614
Provisions for pensions, interest-bearing	61	36	98	328
Less financial receivables	-8	-1,466	-1,512	-1,632
Less cash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

Quarterly performance

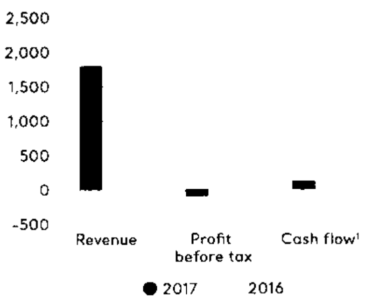
Quarter 1



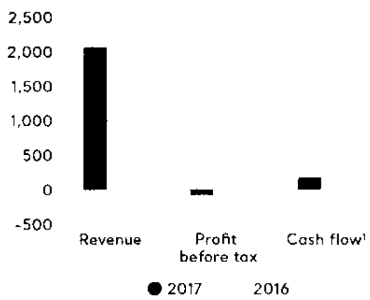
Quarter 2



Quarter 3



Quarter 4



1) From operations

The Group's 20 largest markets

	2017			2016			2015			2014		
Country	SEK M	%	#	SEK M	%	#	SEK M	%	#	SEK M	%	#
USA	2,242	29.2%	1	2,331	29.9%	1	2,377	29.3%	1	2,129	29.2%	1
UK	992	12.9%	2	1,116	14.3%	2	1,263	15.6%	2	1,148	15.8%	2
France	678	8.8%	3	645	8.3%	3	613	7.6%	4	615	8.4%	3
Germany	609	7.9%	4	595	7.6%	4	614	7 6%	3	575	7 9%	4
Canada	577	7.5%	5	574	7.3%	5	580	7.1%	5	571	7.8%	5
Australia	455	5.9%	6	428	5.5%	6	436	5.4%	6	383	5.3%	6
Netherlands	293	3.8%	7	269	3.4%	7	282	3.5%	7	285	3.9%	7
Italy	247	3.2%	8	238	3 0%	8	230	2 8%	8	209	2.9%	8
Austria	214	2.8%	9	200	2.6%	9	203	2.5%	9	201	2.8%	9
Belgium	181	2.4%	10	181	2.3%	10	193	2.4%	10	172	2.4%	10
Ireland	143	1.9%	11	132	1.7%	12	127	1.6%	13	166	2.3%	11
Switzerland	117	1.5%	12	134	1.7%	11	134	1 6%	12	109	1.5%	12
India	103	1.3%	13	106	1.4%	13	106	1.3%	14	76	1.0%	16
Denmark	89	1.2%	14	90	1.2%	15	91	1.1%	16	107	1.5%	13
South Africa	84	1.1%	15	86	1.1%	16	99	1.2%	15	85	1.2%	15
Sweden	78	1 0%	16	78	1.0%	17	54	0.7%	19	72	1.0%	18
Singapore	68	0.9%	17	51	0.7%	20	64	0.8%	18	63	0.9%	19
China	66	0.9%	18	100	1 3%	14	136	1.7%	11	104	1 4%	14
New Zealand	56	0.7%	19	54	0.7%	19	47	0.6%	20	39	0.5%	20
Japan	39	0.5%	20	26	0.3%	23	32	0.4%	21	18	0 2%	23

Quality and environmental certifications 2017

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	Hospital Beds, Patient Handling, Hygiene, Disinfection, VTE prevention	x	x	x	x	x
Zhuhai	China	Hospital Beds	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 2018

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President: Anne Sigouin

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

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

Edema
The abnormal accumulation of fluid in certain tissues within the body.

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

Prevention
Preventive activity/treatment.

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

VTE
VTE is short for Venous thromboembolism, and is a condition in which blood clots form in the deep 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 2016, unless otherwise specified.
- Swedish kronor (SEK) is used throughout the report.
- 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 and Nomination Committee

Annual General Meeting

The Annual General Meeting will be held on May 4, 2018 at 11:00 a.m. at Clarion Hotel & Congress Malmo Live, Dag Hammarskjolds torg 2 in Malmo, 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 27, 2018
- Inform the company of their intention to participate not later than April 27, 2018

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, P.O. Box191, 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 2017 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 2017 of SEK 0 50 per share. The total dividend thus amounts to approximately SEK 136 M. The proposed dividend for 2017 exceeds 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 8, 2018. Euroclear expects to distribute the dividend to shareholders on May 14, 2018.

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 Malmo, Sweden. Tel: +46 (0) 10 335 4500.

The following information will be published for the 2018 fiscal year:

May 4, 2018: Interim report, January-March
May 4, 2018: Annual General Meeting
July 19, 2018: Interim report, January-June
October 22, 2018: Interim report, January-September
February 4, 2019 Year-End Report 2018
April 2019: 2018 Annual Report

NARVA

Arjos arbete grundas i genuin omtanke om människors hälsa och välbefinnande. Arjo är en marknadsledande leverantör av medicintekniska produkter och lösningar som höjer livskvaliteten för vårdtagare med nedsatt rörlighet och åldersrelaterade sjukdomar. Erbjudandet omfattar produkter och lösningar för patienthantering, hygien, desinfektion, sjukvårdssängar, förebyggande av trycksår, förebyggande av ventrombos samt fördiagnostik inom obstetrik och kardiologi.

Arjo AB · Org.Nr 559092-8064 · Hans Michelsensgatan 10 · 211 20 Malmö · Sverige

www.arjo.com