Interim report January – March 2018

January-March 2018 in brief

- Net sales increased 0.6% to SEK 1,943 M (1,931). Net sales rose organically by 2.3%.
- Adjusted EBITDA declined to SEK 289 M (460), primarily due to higher operating expenses related to Arjo now operating as an independent company.
- Comparisons of gross margin and operating expenses between the first quarters of 2017 and 2018 do not provide a fair presentation since the first quarter of 2017 reflects only the legal structure of the former Getinge, which did not include all of the expenses for Arjo as an independent company. Accordingly, full-year figures for 2017 provide a more fair presentation as comparative figures.
- Restructuring and integration costs amounted to SEK 42 M (69), mainly related to a re-organization of product development to enhance efficiency.
- Profit after financial items declined to SEK 67 M (224).
- Earnings per share fell to SEK 0.18 (0.60).
- Cash flow from operations amounted to SEK 268 M (153). The cash conversion was 107.6% (33.4).
- Continued positive performance in the rental operations in the US, and stabilization in the UK.

Financial summary

	Quarter 1 2018	Quarter 1 2017	Rolling 12 months	Full-year 2017
Net sales, SEK M	1,943	1,931	7,700	7,688
Gross profit, SEK M	856	917	3,367	3,428
Gross margin, %	44.1	47.5	43.7	44.6
Adjusted EBITA	189	367	668	846
Adjusted EBITA margin, %	9.7	19.0	8.7	11.0
EBITDA	249	458	787	996
EBITDA margin, %	12.8	23.7	10.2	13.0
Adjusted EBITDA[1]	289	460	1,075	1,246
Adjusted EBITDA margin, %	14.9	23.8	14.0	16.2
Operating profit (EBIT), SEK M	83	238	126	281
Profit after financial items, SEK M	67	224	22	179
Profit for the period, SEK M	50	164	4	118
Number of shares, thousands	272,370	272,370	272,370	272,370
Earnings per share, SEK	0.18	0.60	0.01	0.43
Cash flow from operations, SEK M	268	153	687	572
Cash conversion, %	107.6	33.4	87.3	57.4

1 Before acquisition, restructuring and integration costs. See Alternative performance measures on page 17 and definitions on page 20.

At Arjo, we are committed to improving the everyday lives of people affected by reduced mobility and age-related health challenges. With products and solutions that ensure ergonomic patient handling, personal hygiene, disinfection, diagnostics, and the effective prevention of pressure ulcers and venous thromboembolism, we help professionals across care environments to continually raise the standard of safe and dignified care. Everything we do, we do with people in mind. www.arjo.com

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with people in mind

Strong start to the year with positive sales growth

I am very happy to state that the increased external focus as a stand-alone company and the initiatives implemented to date have started to generate results. Arjo's net sales for the first quarter of 2018 increased organically by 2.3%. This marked a strong start to the year that was also supported by a healthy order intake.

All sales regions and most product categories reported organic growth in sales for the quarter. In the US, the positive performance of the rental operations continued, meaning that we are now reporting the third consecutive positive quarter. We also saw a slightly positive trend in DVT in the US in the quarter, with both volumes and the product mix stabilizing. Western Europe reported a solid performance in several larger markets and it is also worth noting that net sales in the UK increased during the quarter following a period of declining sales. As announced at the beginning of the year, we have an action plan in place and our new management team in the UK is taking a robust approach to overcoming these challenges in line with the plan. In the Rest of the World, increased sales were primarily driven by Australia, India and South Africa.

Due to the fact that the first quarter 2017 was not charged with all group-wide expenses, the comparison with last year does not provide a fair presentation, neither on gross margin, nor operating expenses. This is a situation that we will continue to see throughout the current year when comparing to 2017.

Gross margin was 44.1%, which was in line with the fourth quarter and full year 2017. The quarter was impacted by a slightly unfavorable product mix and meanwhile we we continue our work on improving the gross margin as a key element of our Arjo 2020 plan.

We had good cost control in the quarter and the cost trend was slightly lower than planned, despite continued investments mainly in the sales organization. Higher operating expenses compared with the first quarter of 2017 were primarily related to Arjo now operating as an independent Group.

The adjusted EBITDA declined to SEK 289 M due to the slightly lower gross margin and the higher operating expenses compared with the first quarter of 2017. Compared with the fourth quarter of 2017, we can report positive adjusted EBITDA growth of 20.4%.

We made a decision during the quarter to reorganize the product development function to enhance the efficiency of the organization.
This change means that we will create an ecosystem around each product category that as far as possible will bring together product development, marketing, purchasing and production. In addition, we have made clearer priorities among our development projects and from this year we will intensify our focus in Patient handling, Hygiene and Pressure ulcer prevention. By implementing these measures, we believe that we can

"The strong start to the year means that we now – with even more confidence – believe that we will achieve this target."

leverage existing resources to better supply the market with more new products, thereby enhancing value for our customers. As part of this re-organization, we also decided to relocate product development, currently situated in San Antonio, Texas, to other development units in the Group where we see opportunities for co-location and thus greater efficiency. Restructuring costs for this change amount to approximately SEK 40 M and were charged to the first quarter in their entirety. We expect the reorganization to lead to total savings of about SEK 20 M for the current year and from 2019 we anticipate total annual savings of approximately SEK 40 M.

This initiative, together with several other smaller efficiency projects now in progress, will contribute to both an improved gross margin and cost structure going forward.

We have strong focus on developing new products, and we have received a very positive response to the recently launched Sara® Flex, a standing and raising aid for people with reduced mobility. In a clinical study evaluating six different standing and raising aids, Sara Flex showed positive differences to the other devices and was named closest to the active pattern of movement.

In summary, I see strong and positive momentum in our organization. Much work remains to be done to achieve the targets we set in the Arjo 2020 plan, but we are continuing to deliver on our plans and meet the milestones that we established.

Accordingly, I can state that during the first three months of the year, we have taken the first important steps as an independent company. Our target of reaching the lower end of the interval of 2-4% growth in sales for the full-year remains firm. The strong start to the year means that we now – with even more confidence – believe that we will achieve this target.

Joacim Lindoff
President & CEO

Group performance

Net sales and results

First quarter of 2018

Net sales increased organically in the first quarter by 2.3% to SEK 1,943 M (1,931), with a favorable performance in all of the Group's geographic regions.

Sales in North America increased organically by 2.3% The positive performance of the rental operations continued in the quarter and the Group now reports three consecutive quarters of growth in the US rental operations. Demand in DVT in the US continued to stabilize during the quarter.

Sales in Western Europe rose organically by 1.5% in the quarter, with a positive trend in several markets. The UK increased by 3% in the quarter, with high sales in, for example, wound care. Robust growth figures were also reported in several other Western European countries in the quarter, such as the Netherlands and Italy. Healthy volumes were reported in the region in sales of capital goods and performance for most of the Group's product categories in the region was positive.

Net sales in the Rest of the World rose organically by a healthy 5.6 % despite low sales volumes in China, Japan and Latin America. Volumes sold in these markets, where we have already started to establish in-house sales organizations, were based on existing distributor inventories, meaning that a limited percent of sales were credited to Arjo. The region as a whole noted positive sales growth in such areas as hospital beds and wound care and in the countries that performed particularly well in the region include Australia, India and South Africa.

The gross margin was 44.1% (47.5), slightly negatively impacted by unfavorable product mix due to high volumes of medical beds and DVT hard ware, product areas where the Group generally have lower margins. The gross margin increased by 0.5 of a percentage point compared with the fourth quarter of 2017.
Compared with the first quarter of 2017, the gross margin was positively impacted by currency effects of about SEK 19 M, of which SEK 18 M in transaction effects and SEK 1 M in translation effects. Since Arjo has applied a new, independent currency strategy and management since its listing, the conditions for comparisons with 2017 are not equal and thus 2018 should be seen as a base for future currency comparisons of transaction effects.

Operating expenses for the quarter increased 19.8% to SEK 725 M (605). The first quarter of 2017 was not charged with all group-wide expenses, which is why comparison between the quarters does not provide a fair presentation. The actual cost increase for the quarter was slightly better than plan and was primarily the result of costs related to Arjo now being an independent Group and investments in, for example, a dedicated sales organization for long-term care in the US.

Restructuring and integration costs amounted to SEK 42 M (69). Most of this amount, SEK 40 M, was related to the reorganization and efficiency enhancements of the Group's product development function that was charged to the first quarter of 2018 in its entirety. The restructuring costs for the reorganization did not have any impact on cash flow for the quarter, but instead are expected to have an impact on the remainder of the year. The reorganization is expected to lead to total savings of about SEK 20 M in 2018 and subsequently total annual savings of approximately SEK 40 M from 2019.

EBITDA before acquisition, restructuring and integration costs decreased to SEK 289 M (460), yielding an adjusted EBITDA margin of 14.9% (23.8). The adjusted EBITDA was impacted by the lower gross margin and higher operating expenses compared with the first quarter of 2017. Adjusted EBITDA growth compared with the fourth quarter of 2017 was 20.4%.

Net financial items amounted to SEK -16 M (-14). Profit after financial items fell to SEK 67 M (224). The tax expense for the quarter amounted to SEK 17 M (60), corresponding to a tax rate of 25% (27). Net profit for the period declined to SEK 50 M (164).

Net sales by geographic area, SEK M	Quarter 1 2018	Quarter 1 2017	Organic change	Rolling 12 months	Full-year 2017
North America	681	724	2.3%	2,776	2,819
Western Europe	1,013	965	1.5%	3,797	3,749
Rest of the World	249	242	5.6%	1,127	1,120
Total	**1,943**	**1,931**	**2.3%**	**7,700**	**7,688**

Cash flow and financial position

Cash flow from operations was SEK 268 M (153) for the quarter, corresponding to a cash conversion of 107.6% (33.4). The improvement in cash flow was mainly driven by increased working capital in line with the Group's plans.

Net investments for the quarter amounted to SEK 108 M (90), distributed as tangible assets of SEK 67 M (59) and intangible assets of SEK 41 M (31). Net investments also include investments of SEK 47 M (47) in the rental fleet.

Arjo established a commercial paper with a framework amount of SEK 2,500 M during the quarter. The first issue corresponded to SEK 2,414 M and entailed that the Group raised new loans of a net SEK 157 M in the quarter. As a result of the commercial paper program, the Group believes that interest expenses will be reduced by about 15% year on year. The commercial paper program is recognized as a current liability but can be replaced on maturity by unutilized credit facilities under Arjo's long-term bank credit agreements signed in 2017. At the end of the quarter, the Group's cash and cash equivalents amounted to SEK 999 M (1,288), and interest-bearing net debt was SEK 4,549 M (-1,233 = net receivable). The equity/assets ratio was 41.3% (76.4) and the net debt/equity ratio was 0.9 (-0.1).

Research and development

Arjo's research and development expenses amounted to SEK 44 M (53) for the quarter, corresponding to 2.3% (2.7) of consolidated net sales.

Outlook 2018

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

Given the difficulty in analyzing the Group's earnings and cost trend compared with 2017, when the creation of Arjo as an independent Group began, the Group also provides a forecast for operating expenses for the full-year 2018.

The Group's operating expenses for the full-year 2018 are expected to amount to approximately SEK 2,950 M, which is about SEK 100 M higher than operating expenses for the full-year 2017 when expenses for Arjo as an independent Group were not fully reflected.

Other key events during the quarter

Reorganization to optimize the Group's development resources

During the quarter, the reorganization of the product development function was initiated to enhance the efficiency of the organization. This reorganization is being carried out as part of the work on optimizing the Group's development resources based on closer and more flexible collaboration between research and development, purchasing and production.

The new organization will create an ecosystem around each product category with colocation of product development, marketing, purchasing, further development and production. The Group has also decided to clarify its priorities in development projects and from 2018 will intensify its focus on the offering in Patient handling, Hygiene and Pressure ulcer prevention that all represent key areas of long-term care.

These measures are expected to improve the efficiency of the development function and the Group expects to leverage existing resources to enhance value and supply the market with more and superior products in the future.

As a result of the above, a decision was made to relocate product development, currently situated in San Antonio, Texas, to other development functions in the Group where there are more opportunities for co-location of these functions.

Restructuring costs for this reorganization amount to approximately SEK 40 M and were charged to the first quarter in their entirety. The restructuring costs did not have any impact on cash flow for the quarter, but instead are expected to have an impact on the remainder of the year. In addition to the efficiency measures above, the reorganization is expected to lead to total savings of about SEK 20 M in 2018 and subsequently total annual savings of approximately SEK 40 M from 2019.

Other information

Key events after the end of the quarter

There are no key events to report after the end of the reporting period.

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. 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 Group management 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.

Transactions with related parties

Transactions between Arjo and companies in Getinge Group are specified in Note 9.

Forward-looking information

This report contains forward-looking information based on the current expectations of Arjo's Management Team. Although management considers the expectations presented by such forward-looking information to be reasonable, there is no guarantee that these expectations will prove correct. Consequently, actual outcomes may vary considerably compared with what is stated in the forward-looking information, due to such factors as changed conditions regarding the economy, market and competition, changes in legal and regulatory requirements, as well as other policy measures and fluctuations in exchange rates.

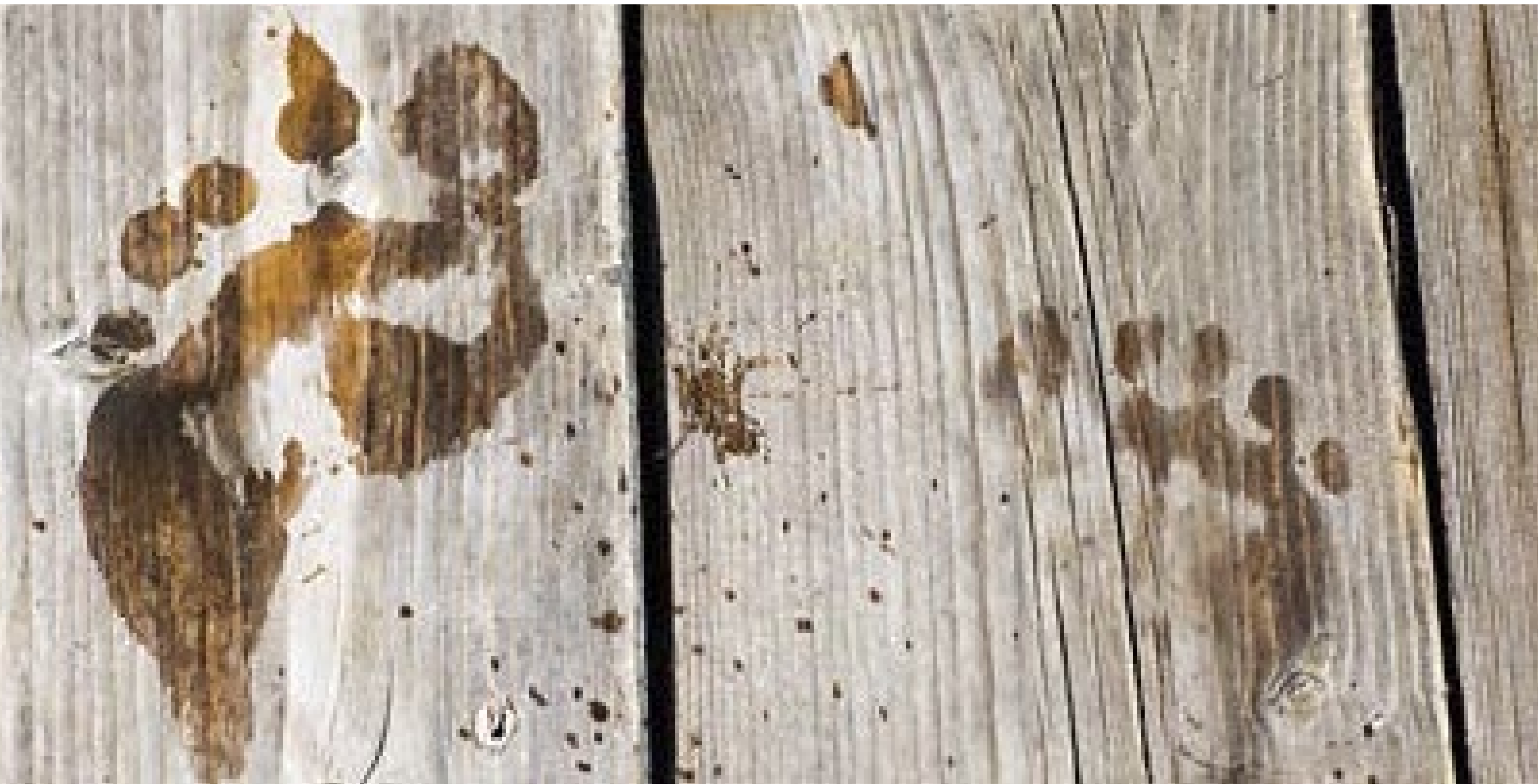
This interim report is unaudited.

Assurance

The Board of Directors and CEO assure that the interim report provides a true and fair review of the Parent Company and the Group's operations, position and earnings and describes the material risks and uncertainties faced by the Parent Company and the Group.

Malmö, May 4, 2018

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



Consolidated financial statements

Consolidated income statement

SEK M	Note	Quarter 1 2018	Quarter 1 2017	Full-year 2017
Net sales	2	1,943	1,931	7,688
Cost of goods sold		-1,087	-1,014	-4,260
Gross profit		**856**	**917**	**3,428**
Selling expenses		-392	-383	-1,571
Administrative expenses		-307	-187	-1,136
Research and development costs	4	-26	-35	-134
Restructuring and integration costs		-42	-69	-324
Other operating income and expenses		-6	-5	18
Operating profit (EBIT)	3, 6	**83**	**238**	**281**
Net financial items		-16	-14	-102
Profit after financial items		**67**	**224**	**179**
Taxes		-17	-60	-61
Net profit for the period		**50**	**164**	**118**
Attributable to:				
Parent Company shareholders		50	164	118
Number of shares, thousands		272,370	272,370	272,370
Earnings per share, SEK[1]		0.18	0.60	0.43

1 Before and after dilution. For definition, see page 20.

Consolidated statement of comprehensive income

SEK M	Quarter 1 2018	Quarter 1 2017	Full-year 2017
Net profit for the period	**50**	**164**	**118**
Other comprehensive income			
Items that cannot be restated in profit			
Actuarial gains/losses pertaining to defined-benefit pension plans	-	-	-165
Tax attributable to items that cannot be restated in profit	-	-	32
Items that can later be restated in profit			
Translation differences	290	-24	-345
Hedges of net investments	-125	-	49
Cash-flow hedges	48	75	101
Tax attributable to items that can be restated in profit	17	-16	-33
Other comprehensive income for the period, net after tax	**230**	**35**	**-361**
Total comprehensive income for the period	**280**	**199**	**-243**
Comprehensive income attributable to:			
Parent Company shareholders	280	199	-243

Consolidated balance sheet

SEK M	Note	March 31, 2018	March 31, 2017	Dec 31, 2017
Assets				
Intangible assets		6,845	6,530	6,634
Tangible assets		1,142	1,126	1,134
Financial assets		408	323	334
Inventories		1,227	1,160	1,104
Accounts receivable		1,726	1,895	1,898
Current financial receivables	7	–	1,492	–
Other current receivables		553	472	434
Cash and cash equivalents	7	999	1,288	672
Total assets		**12,900**	**14,286**	**12,210**
Shareholders' equity and liabilities				
Shareholders' equity		5,332	10,909	5,074
Non-current financial liabilities	7	3,089	223	5,131
Provisions for pensions, interest-bearing	7	56	26	61
Other provisions		306	231	256
Current financial liabilities	7	2,412	1,372	90
Accounts payable		507	520	541
Other non-interest-bearing liabilities		1,198	1,005	1,057
Total shareholders' equity and liabilities		**12,900**	**14,286**	**12,210**

Changes in shareholders' equity for the Group

SEK M	Share capital	Reserves	Retained earnings	Total shareholders' equity[1]
Opening balance at January 1, 2017	**1**	**648**	**10,009**	**10,658**
Total comprehensive income for the period	–	-229	-14	-243
New share issue	90	–	–	90
Transactions with shareholders	–	–	-5,431	-5,431
Closing balance at December 31, 2017	**91**	**419**	**4,564**	**5,074**
Opening balance at January 1, 2018	**91**	**419**	**4,564**	**5,074**
Adjustment for prior years	–	–	-22	-22
Total comprehensive income for the period	–	230	50	280
Closing balance at March 31, 2018	**91**	**649**	**4,592**	**5,332**

1 Fully attributable to Parent Company shareholders

Consolidated cash-flow statement

SEK M	Note	Quarter 1 2018	Quarter 1 2017	Full-year 2017
Operating activities				
Operating profit (EBIT)		83	238	281
Add-back of amortization, depreciation and write-down	3	166	220	715
Other non-cash items		9	2	36
Expensed restructuring and integration costs[1]		40	2	250
Paid restructuring and integration costs		-2	-6	-63
Financial items		-16	-14	-102
Taxes paid		-27	-13	-135
Cash flow before changes to working capital		**253**	**429**	**982**
Changes in working capital				
Inventories		-110	-173	-103
Current receivables		110	399	176
Current liabilities		15	-502	-483
Cash flow from operations		**268**	**153**	**572**
Investing activities				
Net investments		-108	-90	-652
Cash flow from investing activities		**-108**	**-90**	**-652**
Financing activities				
Raising of loans		2,412	-	5,131
Repayment of interest-bearing liabilities		-2,266	-10	-11
Change in interest-bearing receivables		0	2	83
Transactions with shareholders		-	-215	-5,897
Cash flow from financing activities		**146**	**-223**	**-694**
Cash flow for the period		**306**	**-160**	**-774**
Cash and cash equivalents at the beginning of the period		672	1,446	1,446
Translation differences		21	2	0
Cash and cash equivalents at the end of the period		**999**	**1,288**	**672**

1 Excluding write-down of non-current assets

Note 1 Accounting policies

The Group's interim report has been prepared in accordance with IAS 34 Interim Financial Reporting and the applicable rules of the Swedish Annual Accounts Act. The Parent Company has prepared the interim report in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities.

The accounting policies applied in the preparation of this interim report apply to all periods and are consistent with the accounting policies presented in Note 1 Significant accounting policies in the 2017 Annual Report, published on www.arjo.com.

New accounting standards

IFRS 9 Financial instruments

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

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

The reserves for expected losses have not changed. Given the fact that the Group's customers have high credit ratings and confirmed customer losses have historically been low, the rules on impairment have not had a material impact on the Group's financial position.

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

IFRS 15 Revenue from Contracts with Customers

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

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

However, IFRS 15 does entail new disclosure requirements. Sales per type of revenue have been added to Note 2 of this interim report, in addition to the previous sales per region.

IFRS 16 Leases

IFRS 16 comes into effect for the fiscal year beginning on January 1, 2019. The standard has not yet been adopted by the EU. The amendment compared with the current IAS 17 Leases is that all contracts in which the Group is the lessee are to be recognized in the balance sheet as an asset and a liability, except for short-term leases or leases where the underlying asset has a low value. The standard does not entail any material change for the lessor.

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 of the 2017 Annual Report.

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.

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 by geographic area and type of revenue

Net sales by geographic area, SEK M	Quarter 1 2018	Quarter 1 2017	Full-year 2017
North America	681	724	2,819
Western Europe	1,013	965	3,749
Rest of the World	249	242	1,120
Total	**1,943**	**1,931**	**7,688**

Net sales by type of revenue	Quarter 1 2018	Quarter 1 2017	Full-year 2017
Product sales	1,109	1,070	4,398
Service incl. spare parts	330	354	1,325
Rental	504	507	1,965
Total	**1,943**	**1,931**	**7,688**

Note 3 Depreciation/amortization and write-down

SEK M	Quarter 1 2018	Quarter 1 2017	Full-year 2017
Intangible assets in acquired companies	-32	-26	-101
Intangible assets	-34	-101	-214
Tangible assets	-100	-93	-400
Total	**-166**	**-220**	**-715**
Of which, write-down	-2	-67	-74

Note 4 Capitalized development costs

SEK M	Quarter 1 2018	Quarter 1 2017	Full-year 2017
Research and development costs, gross	-44	-53	-204
Capitalized development costs	18	18	70
Research and development costs, net	**-26**	**-35**	**-134**

Note 5 Financial assets and liabilities measured at fair value

Mar 31, 2018	Assets at fair value through profit and loss	Derivatives used for hedging purposes	Total
Financial assets	–	–	–
Other current receivables	–	82	82
Total assets	**-**	**82**	**82**
Other non-interest-bearing liabilities	–	–	–
Total liabilities	**-**	**-**	**-**

Mar 31, 2017	Assets at fair value through profit and loss	Derivatives used for hedging purposes	Total
Financial assets	–	–	–
Other current receivables	–	118	118
Total assets	**-**	**118**	**118**
Other non-interest-bearing liabilities	–	158	158
Total liabilities	**-**	**158**	**158**

The fair value of derivative instruments is established using valuation techniques. For this purpose, observable market information is used. All derivatives are classified under level 2 of the value hierarchy.

Note 6 Financial data per quarter

SEK M	Quarter 1 2017	Quarter 2 2017	Quarter 3 2017	Quarter 4 2017	Quarter 1 2018
Net sales	1,931	1,894	1,795	2,068	1,943
Cost of goods sold	-1,014	-1,029	-1,050	-1,167	-1,087
Gross profit	**917**	**865**	**745**	**901**	**856**
Operating expenses	-605	-727	-656	-853	-725
Restructuring and integration costs	-69	-16	-135	-104	-42
Other operating income and expenses	-5	-2	3	22	-6
Operating profit (EBIT)	**238**	**120**	**-43**	**-34**	**83**
Net financial items	-14	5	-52	-41	-16
Profit/loss after financial items	**224**	**125**	**-95**	**-75**	**67**
Taxes	-60	-33	25	7	-17
Net profit/loss for the period	**164**	**92**	**-70**	**-68**	**50**
Adjusted EBITDA[1]	460	296	251	240	289
Adjusted EBITDA margin[1], %	23.8	15.6	14.0	11.6	14.9

1 EBITDA before acquisition, restructuring and integration costs. See Alternative performance measures on page 17 and definitions on page 20.

Note 7 Consolidated interest-bearing net receivables/debt

SEK M	Mar 31, 2018	Mar 31, 2017	Dec 31, 2017
Financial liabilities	5,501	1,595	5,221
Provisions for pensions, interest-bearing	56	26	61
Interest-bearing liabilities	**5,557**	**1,621**	**5,282**
Less financial receivables	-9	-1,566	-8
Less cash and cash equivalents	-999	-1,288	-672
Interest-bearing net receivables/debt	**4,549**	**-1,233**	**4,602**

Note 8 Key figures for the Group

SEK M	Quarter 1 2018	Quarter 1 2017	Full-year 2017
Sales measures			
Net sales	1,943	1,931	7,688
Net sales growth, %	0.6%	1.4%	-1.5%
Organic growth in sales, %	2.3%	-1.1%	-1.6%
Expense measures			
Selling expenses as a % of net sales	20.2%	19.8%	20.4%
Administrative expenses as a % of net sales	15.8%	9.7%	14.8%
Research and development costs as a % of net sales	1.3%	1.8%	1.7%
Earnings measures			
Operating profit (EBIT)	83	238	281
EBITA	149	365	596
Adjusted EBITA	189	367	846
EBITDA	249	458	996
EBITDA growth, %	-45.6%	-0.2%	-35.1%
Adjusted EBITDA	289	460	1,246
Earnings per share, SEK	0.18	0.60	0.43
Margin measures			
Gross margin, %	44.1%	47.5%	44.6%
Operating margin, %	4.3%	12.3%	3.7%
EBITA margin, %	7.7%	18.9%	7.8%
Adjusted EBITA margin, %	9.7%	19.0%	11.0%
EBITDA margin, %	12.8%	23.7%	13.0%
Adjusted EBITDA margin, %	14.9%	23.8%	16.2%
Cash flow and return measures			
Return on shareholders' equity, %[1]	0.0%	4.5%	1.5%
Cash conversion, %	107.6%	33.4%	57.4%
Operating capital, SEK M	10,565	11,038	10,317
Return on operating capital, %[1]	4.0%	8.7%	5.9%
Capital structure			
Interest-bearing (+) net debt/(-) net receivables	4,549	-1,233	4,602
Interest-coverage ratio, multiple[1]	3.8x	8.2x	5.3×
Net debt/equity ratio, multiple	0.9x	-0.1x	0.9×
Net debt / adjusted EBITDA, multiple[1, 2]	4.3x	2.9x	3.7×
Equity/assets ratio, %	41.3%	76.4%	41.6%
Equity per share, SEK	19.6	40.1	18.6
Other			
No. of shares	272,369,573	272,369,573	272,369,573
Number of employees, average	5,872	5,755	5,853

1 Rolling 12 months
2 The calculation for March 2018 and 2017 is based on the net debt on December 31, 2017 since the net debt for earlier periods in 2017 does not reflect how Arjo is financed as an independent Group.

Alternative 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.

Adjusted EBITA/EBITDA SEK M	Quarter 1 2018	Quarter 1 2017	Full-year 2017
Operating profit (EBIT)	83	238	281
Add-back of amortization and write-down of intangible assets	66	127	315
EBITA	**149**	**365**	**596**
Add-back of depreciation and write-down of tangible assets	100	93	400
EBITDA	**249**	**458**	**996**
Restructuring and integration costs	42	69	324
Add-back of write-down of restructuring and integration costs	-2	-67	-74
Adjusted EBITA	**189**	**367**	**846**
Adjusted EBITDA	**289**	**460**	**1,246**

Cash conversion	Quarter 1 2018	Quarter 1 2017	Full-year 2017
Cash flow from operations, SEK M	**268**	**153**	**572**
Operating profit (EBIT)	83	238	281
Add-back of amortization, depreciation and write-down of intangible and tangible assets	166	220	715
EBITDA, SEK M	**249**	**458**	**996**
Cash conversion, %	**107.6%**	**33.4%**	**57.4%**

Net receivables/indebtedness	Mar 31, 2018	Mar 31, 2017	Dec 31, 2017
Interest-bearing net receivables/debt, SEK M	4,549	-1,233	4,602
Shareholders' equity, SEK M	5,332	10,909	5,074
Net receivables/indebtedness, multiple	**0.85**	**-0.11**	**0.91**

Calculation of return on operating capital	Quarter 1 2018	Quarter 1 2017	Full-year 2017
Total assets opening balance	14,286	13,467	14,713
Total assets closing balance	12,900	14,286	12,210
Average total assets	**13,593**	**13,876**	**13,462**
Average total assets	13,593	13,876	13,462
Excluding average cash and cash equivalents	-1,144	-1,102	-1,058
Excluding average other provisions	-269	-209	-220
Excluding average other non-interest-bearing liabilities	-1,615	-1,527	-1,867
Operating capital	**10,565**	**11,038**	**10,317**
Operating profit (EBIT)[1]	126	739	281
Add-back of acquisition expenses[1]	-	6	-
Add-back of restructuring and integration costs[1]	298	211	324
EBIT after add-back of acquisition, restructuring and integration costs[1]	424	956	605
Return on operating capital, %	**4.0%**	**8.7%**	**5.9%**

1 Rolling 12 months.

Note 9 Transactions with related parties

	Quarter 1 2018	Quarter 1 2017	Full-year 2017
Transactions with related parties			
Sales	12	57	148
Other income	-	-	90
Purchases of goods	-1	-19	-48
Other expenses	-21	-6	-282
Financial income	-	3	11
Financial expenses	-	-20	-48
Accounts receivable	12	119	54
Current financial receivables	-	1,492	-
Other current receivables	1	-	-
Non-current financial liabilities	82	223	-
Accounts payable	12	123	78
Current financial liabilities	-	1,372	90
Other non-interest-bearing liabilities	32	-	31
Net received/paid Group contributions/shareholders' contributions	-	-	1,203
Net received/paid dividends	-	-11	-2,600
New share issue	-	-	90
Transfer of net assets	-	63	-4,034

Transactions between Arjo and companies in Getinge Group are specified in the table above. In addition to the above, there were no other material transactions with related parties.

Arjo uses Getinge as a distributor in certain markets. Business terms and conditions as well as market-regulated pricing apply for delivery of products and services between the Groups.

Other income and expenses primarily refer to administrative services.

Net assets are transferred for the establishment of the Arjo Group and to optimize the capital structure.

Parent Company financial statements

Parent Company income statement

SEK M	Quarter 1 2018	Quarter 1 2017	Full-year 2017
Administrative expenses	-44	-	-192
Restructuring and integration costs	-2	-	-18
Other operating income and expenses	-7	-	197
Operating profit (EBIT)	**-53**	**-**	**-13**
Result from participations in Group companies	-	-	-108
Net financial items[1]	-58	-	-58
Profit/loss after financial items	**-111**	**-**	**-179**
Taxes	24	-	38
Net profit/loss for the period	**-87**	**-**	**-141**

1 Net financial items contain interest income and other similar items, and interest expenses and other similar expenses include exchange-rate gains and losses attributable to the translation of financial receivables and liabilities in foreign currencies measured at the closing day rate.

Parent Company balance sheet

SEK M	Mar 31, 2018	Mar 31, 2017	Dec 31, 2017
Assets			
Intangible assets	369	-	428
Financial assets	5,454	-	5,408
Receivables from Group companies	322	-	363
Current receivables	12	-	42
Cash and cash equivalents	-	1	-
Total assets	**6,157**	**1**	**6,241**
Shareholders' equity and liabilities			
Shareholders' equity	3,540	1	3,627
Current financial liabilities	2,412	-	-
Current financial liabilities, Group companies	167	-	2,458
Other current liabilities, Group companies	12	-	100
Other non-interest-bearing liabilities	26	-	56
Total shareholders' equity and liabilities	**6,157**	**1**	**6,241**

At the end of the period, the carrying amount of shares and participations in subsidiaries amounted to SEK 5,390 M. The change for the period is SEK 21 M and comprises forming new subsidiaries and capital contributions to subsidiaries.

The Parent Company established a commercial paper with a framework amount of SEK 2,500 M during the period. The first issue amounted to a corresponding SEK 2,414 M.

Intangible assets comprise software.

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. The following data was used to calculate earnings per share:

Profit for the period attributable to Parent Company shareholders	SEK 50 M
Number of shares, thousands	272,370
Earnings per share	SEK 0.18

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.

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

Edema
Swelling due to accumulation of fluid in tissues.

Teleconference

Fund managers, analysts and the media are invited to a teleconference on May 4 at 9:00 a.m. CET.

Dial the number below to join the conference:

Sweden: +46 (0)8 5033 6574
UK: +44 (0)330 336 9105
USA: +1 646-828-8156
Code: 9658277

A presentation will be held during the telephone conference. To access the presentation, please use this link: https://slideassist.webcasts.com/starthere.jsp?ei=1188389

Alternatively, use the following link to download the presentation: https://www.arjo.com/int/about-us/investors/reports--presentations/2018/

A recording of the teleconference will be available for 90 days via the following link: https://slideassist.webcasts.com/starthere.jsp?ei=1188389

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 following financial statements will be published in 2018:

July 19, 2018:	Interim report, January-June
October 22, 2018:	Interim report January-September

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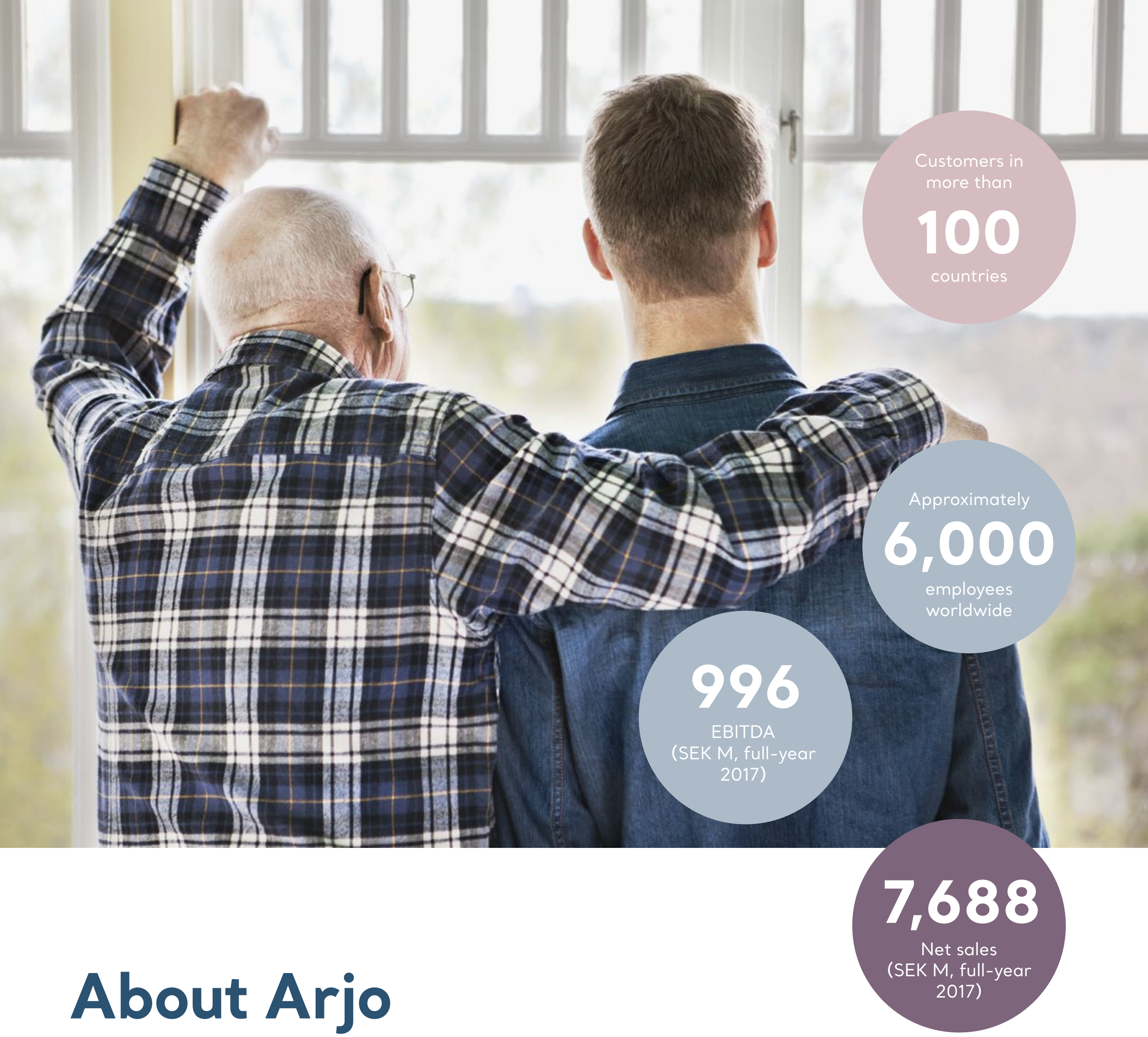
This information is information that Arjo AB is obliged to make public pursuant to the EU Market Abuse Regulation and the Swedish Securities Market Act. The information was submitted for publication, through the agency of the contact person set out above, on May 4, 2018 at 8:00 a.m. CET.



About Arjo

Arjo's 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 market-leading supplier of medical devices and solutions that improve quality of life for patients 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 obstetric and cardiac diagnostics. The Group also offers services such as training in connection with product sales.

The company operates in more than 60 countries, which Arjo has divided into three geographic areas: North America, Western Europe and Rest of the World. Arjo has about 6,000 employees worldwide and the head office is in Malmö, Sweden.

Arjo's work is based on genuine care for human health and well-being. Arjo is a market-leading supplier of medical devices and solutions that improve quality of life for patients with reduced mobility and age-related health challenges. 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 obstetric and cardiac diagnostics.

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