Interim report January – September 2019

July – September 2019 in brief

- Net sales increased 8.0% to SEK 2,141 M (1,981). Net sales grew organically by 4.7%.
- Adjusted EBITDA increased by 26.6% to SEK 381 M (301). IFRS 16 had a positive effect of SEK 92 M on adjusted EBITDA.
- Operating profit before restructuring activities amounted to SEK 125 M (132). Excluding negative currency effects, operating profit was SEK 159 M, corresponding to an improvement of about 20%.
- Profit after financial items declined to SEK 60 M (77).
- Earnings per share fell to SEK 0.16 (0.21).
- Cash flow from operations amounted to SEK 379 M (200). IFRS 16 had a positive effect of SEK 83 M on cash flow.
- Cash conversion was 109.5% (71.4). IFRS 16 had a negative effect of 7.4 percentage points on cash conversion.
- Arjo launches Auralis, an alternating pressure mattress system for prevention of pressure injuries.

January – September 2019 in brief

- Net sales increased by 9.3% to SEK 6,461 M (5,910). Net sales grew organically by 4.4%.
- Adjusted EBITDA increased by 34.6% to SEK 1,215 M (903). IFRS 16 had a positive effect of SEK 262 M on adjusted EBITDA.
- Profit after financial items increased to SEK 325 M (265).
- Earnings per share rose to SEK 0.90 (0.73).
- Cash flow from operations amounted to SEK 814 M (657). IFRS 16 had a positive effect of SEK 236 M on cash flow.
- Cash conversion was 69.0% (79.0). IFRS 16 had a positive effect of 6.0 percentage points on cash conversion.

Financial summary

SEK M	Quarter 3 2019	Quarter 3 2018	Jan – Sep 2019	Jan – Sep 2018	Rolling 12 months	Full-year 2018
Net sales	2,141	1,981	6,461	5,910	8,768	8,217
Gross profit	888	868	2,793	2,620	3,835	3,662
Gross margin, %	41.5%	43.8%	43.2%	44.3%	43.7%	44.6%
Adjusted EBITA[1]	198	204	678	617	991	930
Adjusted EBITA margin, %[1]	9.2%	10.3%	10.5%	10.4%	11.3%	11.3%
EBITDA	345	280	1,179	832	1,527	1,180
EBITDA margin, %	16.1%	14.1%	18.2%	14.1%	17.4%	14.4%
Adjusted EBITDA[1]	381	301	1,215	903	1,624	1,312
Adjusted EBITDA margin, %[1]	17.8%	15.2%	18.8%	15.3%	18.5%	16.0%
Operating profit (EBIT)	89	111	422	336	579	493
Profit after financial items	60	77	325	265	455	395
Net profit for the period	45	58	244	199	341	296
Number of shares, thousands	272,370	272,370	272,370	272,370	272,370	272,370
Earnings per share, SEK	0.16	0.21	0.90	0.73	1.26	1.09
Cash flow from operations	379	200	814	657	1,148	991
Cash conversion, %	109.5%	71.4%	69.0%	79.0%	75.2%	84.0%

1 Before exceptional items. See Alternative performance measures on page 20 and definitions on page 23.
For more information about the effects of IFRS 16, refer to Note 6 on pages 14-15.

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

arjo
with people in mind

Stable growth and continued focus on efficiency measures

Can you provide a general comment for the quarter?

Overall, this has been a stable quarter for us. The positive sales trend continues, all regions delivered growth in the quarter and the Group grew by 4.7% organically. Currency effects and challenges within rental operations had a negative impact on profitability this quarter.

We have now delivered our seventh consecutive quarter of growth, and we are simultaneously accelerating our efficiency measures, mainly in the UK, in order to adapt the business to the current market situation.

Can you elaborate on the Group's sales trend?

Our positive performance in North America continued with an organic growth of 5.4%, with both the US and Canada delivering a strong quarter. Organic growth in Western Europe amounted to 2.3% despite the UK declining by nearly 14% organically due to continued uncertainties related to Brexit. As the UK is our second largest market, this has an impact on all parts of our operations. Other Western European markets performed well, reporting an organic growth of 8.8% for the quarter. Organic growth in Rest of the World was 11.1%. Australia delivered a strong quarter in line with expectations, and we also see a positive trend in most of our distributor markets during the quarter, mainly in Eastern Europe and Africa.

What was the profitability trend in the quarter?

The gross margin for the quarter amounted to 41.5%, a level we are not satisfied with. The decline is attributed to three main areas: negative currency effects, rental operations and the UK.

Currency effects in the quarter had an impact of approximately 2 percentage points on the gross margin.

We are addressing the challenges in both the UK and rental operations within the frame of currently ongoing improvement measures. We have taken further action in the UK in the quarter and expect to generate full-year savings of SEK 30 M (previously announced SEK 20 M) starting in the fourth quarter of 2019.

It is satisfying that our measures are gaining traction in the US, where we at the end of quarter see an improvement of the underlying profitability in our rental operations. Increased sales within our service business are also contributing positively in the quarter.

Cash conversion was at a healthy 109.5% (71.4) for the quarter and we are well-positioned to surpass our full-year target. The quarter's improvement is primarily a result of solid working capital management, where we continue to see high savings potential, primarily within capital in our inventory.

> "We are growing in all of the Group's regions and are well prepared for the high activity level in the year's final quarter."

Operating profit before restructuring activities amounted to SEK 125 M (132). Excluding negative currency effects, operating profit was SEK 159 M, corresponding to an improvement of about 20% for the quarter.

Arjo has launched a new product for pressure injury prevention, Auralis, in the quarter. Can you share more about this?

Auralis is our latest addition in pressure injury prevention, comprising an alternating pressure mattress system for patients with reduced mobility. Pressure injuries are a major challenge in the healthcare sector and annual costs for treating this type of sore exceed USD 10 billion every year in the US alone. By launching this product, we can continue improve clinical outcomes and create efficiencies in healthcare.

What can we expect from the last quarter of the year?

We are entering the fourth quarter well prepared for the high activity level associated with the final months of the year. Our primary focus is to continue deliver on our Arjo 2020 plan and the initiatives for both increased growth and profitability. I expect a strong finish to the year where we deliver on our full-year outlook and financial targets. In parallel, we are developing the strategy and business plan for Arjo beyond 2020. We have already made significant progress and plan to present our new strategy during the first half of next year.

Joacim Lindoff
President & CEO

Group performance

Net sales and results

Third quarter of 2019

Net sales increased organically in the third quarter by 4.7% to SEK 2,141 M (1,981) following solid sales developments across all regions.

Organic growth in North America increased by 5.4%. The US, the Group's largest market, reported an organic growth of 5.6% following a profitable sales trend, including good progress in the Patient Handling category. Canada also grew during the quarter, reporting positive developments in all product categories and within rental.

Net sales in Western Europe increased organically by 2.3%, despite sales in the region's largest market, the UK, having fallen by 13.9%. The primary reason was the continued low investments in capital goods within the healthcare sector, due to uncertainties surrounding Brexit. Other countries in the region reported strong sales growth and an organic increase of 8.8%. France, Germany and the Netherlands performed particularly well.

Rest of the World also continued to deliver stable growth and net sales increased organically by 11.1%. Australia reported a strong organic growth in the quarter of 19.8% indicating a positive full-year outlook. Investments to build up own sales organizations and distributor markets in Rest of the World, such as in Eastern Europe and Africa, continued to generate results in the quarter.

Gross margin amounted to 41.5% in the quarter, down 2.3 percentage points compared with the third quarter last year. Currency effects impacted gross margin negatively by 2.1 percentage points in the quarter. Challenges within rental operations affected the gross profit by 25 Mkr, which had a negative impact on the gross margin. This is primarily a result of challenges in Europe and lower rental volumes for Critical Care solutions in the US. However, the gross margin was positively affected by continued profitable growth in the US and a healthy performance in service.

The previously announced efficiency program in the UK was intensified during the quarter to improve the gross margin and operating expenses while driving higher profitability. The total cost for this program amounts to approximately SEK 25 M and is expected to have a full-year savings effect of about SEK 30 M (instead of the previously announced SEK 20 M) starting from the fourth quarter of 2019, evenly distributed between gross profit and operating expenses. The program to enhance efficiencies within the US rental operations was completed and has started to generate results. It is expected to have a positive full-year effect mainly on the gross margin of approximately SEK 30 M from the fourth quarter of 2019. The cost of the program is approximately SEK 25 M.

Restructuring costs for the quarter amounted to SEK 36 M of the total estimated SEK 50 M for the full year. All program costs in the US and part of the costs in the UK were charged to the third quarter.

Operating expenses amounted to SEK 765 M (734) for the quarter. This increase includes negative currency translation effects of SEK 23 M. Costs for continued investments in research and development proceeded according to plan. Operating expenses as a percentage of net sales continued to decline by 1.3 percentage points during the quarter.

Adjusted EBITDA for the period increased by 26.6% to SEK 381 M (301). IFRS 16 had a positive effect of SEK 92 M on adjusted EBITDA. Excluding currency and IFRS 16 effects, the adjusted EBITDA amounts to SEK 316 Mkr, an improvement of 5.0%.

Operating profit for the period amounted to SEK 89 M (111). Operating profit before restructuring activities amounted to SEK 125 M (132). Excluding the negative currency effects, profit was SEK 159 M, corresponding to an improvement of about 20% for the quarter.

Net financial items amounted to SEK -29 M (-34) for the quarter. Net financial items also include currency effects of SEK 6 M (-3) and interest expenses attributable to IFRS 16 were SEK -11 M (0) for the quarter.

January-September 2019

Organic net sales increased by 4.4% during the period to SEK 6,461 M (5,910) compared to the third quarter in 2018. North America grew organically by 9.2% following strong performances in both the US and Canada. Western Europe noted a decline of 0.8% after the largest market in the region, the UK, experienced continued low capital goods investments in healthcare due to Brexit. Rest of the World reported an organic growth of 10.3% in part driven by sustained focus on distributor markets and investments in own sales organizations.

The gross margin was 43.2% for the period, in part negatively impacted by challenges within rental operations and lower sales in the UK. The gross margin was also negatively impacted by 1.1 percentage points in the period due to currency effects.

Operating expenses developed according to plan and amounted to SEK 2,339 M (2,203) for the period. The increase is primarily related to negative currency translation effects of SEK 97 M.

Net sales by geographic area, SEK M	Quarter 3 2019	Quarter 3 2018	Organic change	Jan – Sep 2019	Jan – Sep 2018	Organic change	Rolling 12 months	Full-year 2018
North America	838	744	5.4%	2,552	2,143	9.2%	3,424	3,015
Western Europe	999	962	2.3%	3,034	2,983	-0.8%	4,176	4,125
Rest of the World	304	275	11.1%	875	784	10.3%	1,168	1,077
Total	**2,141**	**1,981**	**4.7%**	**6,461**	**5,910**	**4.4%**	**8,768**	**8,217**

Exceptional items for the period comprise restructuring costs of SEK 36 M (78), which refers to two efficiency programs initiated to increase profitability and improve the gross margin in the US and UK.

Adjusted EBITDA for the period amounted to SEK 1,215 M (903), an increase of 34.5%. IFRS 16 had a positive effect of SEK 262 M on adjusted EBITDA.

The operating profit for the period amounted to SEK 422 M (336), up 25.6%.

Cash flow and financial position

Cash flow from operations amounted to SEK 379 M (200) for the quarter. Cash flow before changes in working capital increased by SEK 100 M year-on-year, partially based on higher add-back of amortization due to IFRS 16. The decline in working capital was SEK 136 M (57), primarily due to a reduction in accounts receivable.

The Group's cash conversion in the quarter amounted to 109.5% compared to 71.4% in the third quarter last year. The introduction of IFRS 16 had a positive impact of SEK 83 M on cash flow before changes to working capital compared to the same period last year. Cash conversion excluding IFRS 16 amounted to 116.9% for the quarter.

The acquired financial assets in the quarter amounted to SEK 34 M (16), of which SEK 30 M is related to an investment in Atlas Lift Tech, a company offering Patient Handling solutions in the US.

Net investments for the quarter amounted to SEK 163 M (134), divided between tangible assets of SEK 105 M (51) and intangible assets of SEK 58 M (83). The investments in tangible assets include investments in the rental fleet of SEK 74 M (41).

The equity/assets ratio was 40.8% (42.0). IFRS 16 had a negative effect of 3.7 percentage points on the equity/assets ratio. The net debt/equity ratio was 1.0 (0.9), and IFRS 16 increased net debt/equity ratio with 0.2.

Research and development

Arjo's research and development costs amounted to SEK 47 M (43) for the quarter, corresponding to 2.2% (2.2) of consolidated net sales. These costs for the January to September period amounted to SEK 150 M (152), corresponding to 2.3% (2.6). Refer to Note 4 for more information.

Outlook 2019

Organic sales growth for 2019 is expected to be in the upper part of the 2-4% interval.

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

Other key events during the quarter

Launch of Auralis, a new addition to pressure injury prevention

Arjo launched Auralis during the quarter, a new addition to the Pressure Injury Prevention (PIP) product portfolio. Auralis is an alternating pressure mattress system designed to treat and prevent complications for patients with reduced mobility. Pressure injuries have now become a global health problem involving high treatment costs exceeding USD 10 billion per year in the US alone.[1] Such injuries can cause significant pain and suffering and are expected to increase in line with an aging population.

Products and solutions for pressure injury prevention currently represent about 18% of Arjo's total sales, with alternating pressure systems corresponding to approximately 60% of sales in PIP. Sales of Auralis began in the UK as the first market, with a global launch scheduled in the beginning of 2020.

New accounting standards 2019

IFRS 16

IFRS 16 Leases came into effect for the fiscal year beginning on January 1, 2019. The amendment compared with IAS 17 Leases is that all contracts in which the Group is the lessee are to be recognized in the balance sheet as an asset and a liability, except for short-term leases or leases where the underlying asset has a low value. The income statement is impacted by depreciation of the asset and an interest expense on the lease liability instead of an operating lease cost. Arjo is mainly impacted by leases of premises and cars. The lease portfolio contains about 2,500 agreements.

In the first nine months of 2019, EBIT was positively affected by SEK 12 M and EBITDA positively by SEK 262 M. Net financial items were negatively impacted by SEK 30 M and profit before tax negatively by SEK 18 M. Refer to Note 1 Accounting policies and Note 6 Leases for more information.

1 Padula WV, Mishra MK, Makic MB, Sullivan PW. (2011). Improving the Quality of Pressure Ulcer Care with Prevention: A Cost-Effective Analysis. Med Care. 49(4):385-392

Other information

Nomination Committee ahead of 2020 Annual General Meeting

In accordance with the resolution of Arjo's 2018 Annual General Meeting, the Nomination Committee ahead of annual general meetings is to comprise representatives of the three largest shareholders in terms of the number of votes registered in the shareholders' register maintained by Euroclear Sweden AB as per August 31 in the year prior to the year in which the Annual General Meeting is to be held, one representative of the minor shareholders and the Chairman of the Board, who is also to convene the first meeting of the Nomination Committee. The Committee member representing the largest shareholder in terms of the number of votes is to be appointed Chairman of the Nomination Committee.

Ahead of the 2020 Annual General Meeting, this means that Arjo's Nomination Committee comprises: 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.

Shareholders who would like to submit proposals to Arjo's Nomination Committee ahead of the 2020 Annual General Meeting can contact the Nomination Committee by e-mail at nominating.committee@arjo.com or by mail: Arjo AB, Att: Nomination Committee, Hans Michelsensgatan 10, SE-211 20 Malmö, Sweden.

2020 Annual General Meeting (AGM)

Arjo's Annual General Meeting will be held on April 27, 2020 in Malmö, Sweden. Shareholders wishing to have a matter addressed at the Annual General Meeting on April 27, 2020 can submit their proposal to Arjo's Board Chairman by e-mail: agm@arjo.com, or by mail: Arjo AB, Att: Bolagsstämmoärenden, Hans Michelsensgatan 10, SE-211 20 Malmö, Sweden. To ensure inclusion in the notice and thus in the Annual General Meeting's agenda, proposals must be received by the company by March 9, 2020.

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 patients 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.

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

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

Financial risk management

Through its operations, Arjo is exposed to a number of financial risks. Arjo's risk management is regulated by a finance policy established by the Board. Ultimate responsibility for managing the Group's financial risks and developing methods and policies for mitigating these risks lies with Group management and Group Finance. The 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 12.

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.

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, October 22, 2019

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

Auditor's report

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

Introduction

We have reviewed the condensed interim financial information (interim report) of Arjo AB as of September 30, 2019 and the nine-month period then ended. The Board of Directors and the CEO are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, Review of Interim Report Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act, regarding the Group, and with the Swedish Annual Accounts Act, regarding the Parent Company.

Malmö, October 22, 2019
Öhrlings PricewaterhouseCoopers AB

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

Consolidated financial statements

Consolidated income statement

SEK M	Note	Quarter 3 2019	Quarter 3 2018	Jan – Sep 2019	Jan – Sep 2018	Full-year 2018
Net sales	2	2,141	1,981	6,461	5,910	8,217
Cost of goods sold	6	-1,253	-1,113	-3,668	-3,290	-4,555
Gross profit	6	**888**	**868**	**2,793**	**2,620**	**3,662**
Selling expenses		-429	-420	-1,341	-1,224	-1,657
Administrative expenses		-307	-283	-902	-872	-1,219
Research and development costs	4	-29	-31	-96	-107	-141
Exceptional items	5	-36	-21	-36	-78	-156
Other operating income and expenses		2	-2	4	-3	4
Operating profit (EBIT)	3, 6, 8	**89**	**111**	**422**	**336**	**493**
Net financial items	6	-29	-34	-97	-71	-98
Profit after financial items	6	**60**	**77**	**325**	**265**	**395**
Taxes		-15	-19	-81	-66	-99
Net profit for the period		**45**	**58**	**244**	**199**	**296**
Attributable to:						
Parent Company shareholders		45	58	244	199	296
Number of shares, thousands		272,370	272,370	272,370	272,370	272,370
Earnings per share, SEK[1]		0.16	0.21	0.90	0.73	1.09

1 Before and after dilution. For definition, see page 23.

Consolidated statement of comprehensive income

SEK M	Quarter 3 2019	Quarter 3 2018	Jan – Sep 2019	Jan – Sep 2018	Full-year 2018
Net profit for the period	**45**	**58**	**244**	**199**	**296**
Other comprehensive income					
Items that cannot be restated in profit					
Actuarial gains/losses pertaining to defined-benefit pension plans	-9	72	-59	72	108
Tax attributable to items that cannot be restated in profit	2	-12	10	-12	-18
Items that can later be restated in profit					
Translation differences	246	-121	540	339	264
Hedges of net investments	-38	26	-81	-113	-126
Cash-flow hedges	4	1	41	-38	-52
Tax attributable to items that can be restated in profit	7	-6	8	33	39
Other comprehensive income for the period, net after tax	**212**	**-40**	**459**	**281**	**215**
Total comprehensive income for the period	**257**	**18**	**703**	**480**	**511**
Comprehensive income attributable to:					
Parent Company shareholders	257	18	703	480	511

Consolidated balance sheet

SEK M	Note	Sep 30, 2019	Sep 30, 2018	Dec 31, 2018
Assets				
Intangible assets		7,170	7,014	6,946
Tangible assets		1,315	1,200	1,153
Tangible lease assets	6	1,228	-	-
Financial assets	10	672	530	448
Inventories		1,299	1,260	1,117
Accounts receivable		1,833	1,591	1,802
Current financial receivables	10	14	-	10
Other current receivables		521	628	625
Cash and cash equivalents	10	604	623	961
Assets held for sale		-	-	74
Total assets		**14,656**	**12,846**	**13,136**
Shareholders' equity and liabilities				
Shareholders' equity		5,980	5,396	5,427
Non-current financial liabilities	10	2,279	2,909	2,859
Non-current lease liabilities	6, 10	972	-	41
Provisions for pensions, interest-bearing	10	34	25	27
Other provisions		313	334	301
Current financial liabilities	10	3,178	2,490	2,761
Current lease liabilities	6, 10	291		10
Accounts payable		483	495	458
Other non-interest-bearing liabilities		1,126	1,197	1,208
Liabilities held for sale		-	-	44
Total shareholders' equity and liabilities		**14,656**	**12,846**	**13,136**

Changes in shareholders' equity for the Group

SEK M	Share capital	Reserves	Retained earnings	Total share-holders' equity[1]
Opening balance at January 1, 2018	**91**	**419**	**4,564**	**5,074**
Adjustment for prior years	-	-	-22	-22
Total comprehensive income for the period	-	124	387	511
Dividend	-	-	-136	-136
Closing balance at December 31, 2018	**91**	**543**	**4,793**	**5,427**
Opening balance at January 1, 2019	**91**	**543**	**4,793**	**5,427**
Total comprehensive income for the period	-	508	195	703
Dividend	-	-	-150	-150
Closing balance at September 30, 2019	**91**	**1,051**	**4,838**	**5,980**

1 Fully attributable to Parent Company shareholders

Consolidated cash-flow statement

SEK M	Note	Quarter 3 2019	Quarter 3 2018	Jan – Sep 2019	Jan – Sep 2018	Full-year 2018
Operating activities						
Operating profit (EBIT)		89	111	422	336	493
Add-back of amortization, depreciation and write-down	3	256	169	757	496	687
Other non-cash items		-26	-28	1	-35	-84
Expensed exceptional items[1]		36	18	36	68	130
Paid exceptional items		-25	-31	-45	-45	-81
Financial items		-30	-31	-90	-68	-92
Taxes paid		-57	-65	-178	-177	-171
Cash flow before changes to working capital		**243**	**143**	**903**	**575**	**882**
Changes in working capital						
Inventories		1	-20	-100	-108	24
Current receivables		104	59	90	302	95
Current liabilities		31	18	-79	-112	-10
Cash flow from operations		**379**	**200**	**814**	**657**	**991**
Investing activities						
Divested / acquired operations	8	11	-144	6	-144	-144
Acquired financial assets		-34	-16	-48	-16	-16
Net investments		-163	-134	-549	-418	-557
Cash flow from investing activities		**-186**	**-294**	**-591**	**-578**	**-717**
Financing activities						
Raising of loans		1,520	454	6,451	2,904	5,507
Repayment of interest-bearing liabilities		-2,040	-491	-6,948	-2,890	-5,336
Change in pension assets/liabilities		2	-4	1	-21	-22
Change in interest-bearing receivables		-5	-4	-11	2	0
Dividend		-	-	-150	-136	-136
Realized derivatives attributable to financing activities		12	-	68	-	-
Cash flow from financing activities		**-511**	**-45**	**-589**	**-141**	**13**
Cash flow for the period		**-318**	**-139**	**-366**	**-62**	**287**
Cash and cash equivalents at the beginning of the period		917	776	961	672	672
Translation differences		5	-14	9	13	16
Reclassification to Assets held for sale		-	-	-	-	-14
Cash and cash equivalents at the end of the period		**604**	**623**	**604**	**623**	**961**

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 2018 Annual Report, published on www.arjo.com.

New accounting standards

IFRS 16 Leases

IFRS 16 Leases is applied from the 2019 fiscal year and replaces IAS 17 Leases. 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.

The accounting policies applied by Arjo due to the introduction of IFRS 16 are presented in the 2018 Annual Report Note 1 Significant accounting policies. The financial effects of IFRS 16 Leases are presented in this report in Note 6.

IFRIC 23 Uncertainty over Income Tax Treatments

This IFRIC interpretation clarifies the accounting for uncertainties in income taxes. If it is probable that the taxation authority will accept a tax treatment, the accounting is to reflect its income tax filings in this respect. If it is not probable that a particular tax treatment is accepted, the effect is to be reflected when determining, for example, taxable profit, tax bases, unused tax losses, etc.

The introduction of IFRIC 23 does not have any material effect on Arjo's financial position.

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 3 2019	Quarter 3 2018	Jan – Sep 2019	Jan – Sep 2018	Full-year 2018
North America	838	744	2,552	2,143	3,015
Western Europe	999	962	3,034	2,983	4,125
Rest of the World	304	275	875	784	1,077
Total	**2,141**	**1,981**	**6,461**	**5,910**	**8,217**

Net sales by type of revenue, SEK M	Quarter 3 2019	Quarter 3 2018	Jan – Sep 2019	Jan – Sep 2018	Full-year 2018
Product sales	1,253	1,145	3,805	3,375	4,810
Service incl. spare parts	365	333	1,091	1,009	1,373
Rental	523	503	1,565	1,526	2,034
Total	**2,141**	**1,981**	**6,461**	**5,910**	**8,217**

Note 3 Depreciation/amortization and write-down

SEK M	Quarter 3 2019	Quarter 3 2018	Jan – Sep 2019	Jan – Sep 2018	Full-year 2018
Intangible assets	-73	-72	-220	-210	-305
Tangible assets	-95	-97	-287	-286	-382
Tangible lease assets	-88	–	-250	–	–
Total	**-256**	**-169**	**-757**	**-496**	**-687**
Of which, write-down	-2	0	-2	-7	-24

Note 4 Capitalized development costs

SEK M	Quarter 3 2019	Quarter 3 2018	Jan – Sep 2019	Jan – Sep 2018	Full-year 2018
Research and development costs, gross	-47	-43	-150	-152	-201
Capitalized development costs	18	12	54	45	60
Research and development costs, net	**-29**	**-31**	**-96**	**-107**	**-141**

Note 5 Exceptional items

SEK M	Quarter 3 2019	Quarter 3 2018	Jan – Sep 2019	Jan – Sep 2018	Full-year 2018
Acquisition expenses	–	-3	–	-3	-3
Restructuring and integration costs	-36	-18	-36	-75	-113
Adjustment of pension liability, UK	–	–	–	–	-40
Total	**-36**	**-21**	**-36**	**-78**	**-156**

Note 6 Leases

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

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

On the transition date of January 1, 2019, Arjo recognized a tangible lease asset of SEK 1,290 M and a lease liability of SEK 1,253 M. The difference comprised prepaid lease payments. The standard does not entail any material change for Arjo as the lessor.

NOTE 6 CONTINUED

Commitments for operating leases at December 31, 2018

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

Lease assets

SEK M	Sep 30, 2019
Buildings and land	956
Cars and other vehicles	259
Other	13
Total	**1,228**

Lease liabilities

SEK M	Sep 30, 2019
Financial leases from 2018	45
New leases according to IFRS 16	1,218
Total	**1,263**

Lease liabilities of SEK 245 M were repaid in 2019, of which a total of SEK 236 M was attributable to new lease liabilities under IFRS 16 and SEK 9 M referred to financial lease liabilities existing already in 2018.

Impact of IFRS 16 on Income statement 2019

SEK M	Lease expenses under IAS 17 Quarter 3 2019	Leases, depreciation under IFRS 16 Quarter 3 2019	Net impact Quarter 3 2019	Lease expenses under IAS 17 Jan – Sep 2019	Leases, depreciation under IFRS 16 Jan – Sep 2019	Net impact Jan – Sep 2019
Cost of goods sold	62	-59	3	171	-163	8
Gross margin	**62**	**-59**	**3**	**171**	**-163**	**8**
Operating expenses	30	-29	1	91	-87	4
Operating profit/loss (EBIT)	**92**	**-88**	**4**	**262**	**250**	**12**
Net financial items			-11			-30
Loss before tax			**-7**			**-18**
EBIT			**4**			**12**
Add-back of amortization of intangible assets			-			-
EBITA			**4**			**12**
Add-back of depreciation of tangible assets			88			250
EBITDA			**92**			**262**

IFRS 16 had a material impact on a number of key performance measures. Accordingly, Arjo has decided to present certain selected key performance measures in this report both including and excluding the effect of IFRS 16. These are key performance measures that include the following items:

- EBITDA
- Operating cash flow
- Total assets
- Net debt
- Interest expenses

These key performance measures are recognized in a separate section in Note 11 Key performance measures for the Group. The amounts with which IFRS 16 adjustments have been made are presented under the heading alternative performance measures.

Note 7 Financial assets and liabilities measured at fair value

Sep 30, 2019	Assets measured at fair value through profit or loss	Derivatives used for hedging purposes	Total
Other current receivables	–	16	16
Total assets	**-**	**16**	**16**
Other non-interest-bearing liabilities	–	63	63
Total liabilities	**-**	**63**	**63**

Sep 30, 2018	Assets measured at fair value through profit or loss	Derivatives used for hedging purposes	Total
Other current receivables	–	21	21
Total assets	**-**	**21**	**21**
Other non-interest-bearing liabilities	–	82	82
Total liabilities	**-**	**82**	**82**

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 fair value hierarchy.

Note 8 Divestments

In February, Acare Medical Sciences Co., Ltd – the Group's low-spec medical beds business – was divested to CBL based in China. The divestment involves a production and sales unit in Zhuhai, China, with 186 employees and sales of about SEK 80 M. Acare was recognized in the balance sheet for 2018 under assets and liabilities held for sale. The divestment did not have any significant capital gains effect. The sales proceeds of about SEK 24 M were received via a promissory note, of which SEK 11 M falls due for payment in the third quarter. Cash and cash equivalents in Acare on the divestment date amounted to SEK 5 M.

Divested net assets	Carrying amount
Net assets	
Assets held for sale	70
Liabilities held for sale	-46
Total net assets	**24**
Cash-flow effect	
Proceeds received	11
Cash and cash equivalents in divested company	-5
Total cash-flow effect	**6**

Note 9 Financial data per quarter

SEK M	Quarter 1 2018	Quarter 2 2018	Quarter 3 2018	Quarter 4 2018	Quarter 1 2019	Quarter 2 2019	Quarter 3 2019
Net sales	1,943	1,986	1,981	2,307	2,123	2,197	2,141
Cost of goods sold	-1,087	-1,090	-1,113	-1,265	-1,186	-1,229	-1,253
Gross profit	**856**	**896**	**868**	**1,042**	**937**	**968**	**888**
Operating expenses	-725	-744	-734	-814	-768	-806	-765
Exceptional items	-42	-15	-21	-78	0	0	-36
Other operating income and expenses	-6	5	-2	7	-1	3	2
Operating profit (EBIT)	**83**	**142**	**111**	**157**	**168**	**165**	**89**
Net financial items	-16	-21	-34	-27	-35	-33	-29
Profit after financial items	**67**	**121**	**77**	**130**	**133**	**132**	**60**
Taxes	-17	-30	-19	-33	-33	-33	-15
Net profit for the period	**50**	**91**	**58**	**97**	**100**	**99**	**45**
Adjusted EBITDA[1]	289	313	301	409	413	421	381
Adjusted EBITDA margin, %[1]	14.9	15.7	15.2	17.7	19.5	19.1	17.8

1 EBITDA before exceptional items. Refer to Note 5 Exceptional items on page 14, Alternative performance measures on page 20 and definitions on page 23.

Note 10 Consolidated interest-bearing net debt

SEK M	Sep 30, 2019	Sep 30, 2018	Dec 31, 2018
Non-current financial liabilities	2,279	2,909	2,859
Non-current lease liabilities	972	-	41
Current financial liabilities	3,178	2,490	2,761
Current lease liabilities	291	-	10
Provisions for pensions, interest-bearing	34	25	27
Interest-bearing liabilities	**6,754**	**5,424**	**5,698**
Less financial receivables	-82	-4	-55
Less pension assets	-	-53	-52
Less cash and cash equivalents	-604	-623	-961
Interest-bearing net debt	**6,068**	**4,744**	**4,630**
Adjustment IFRS 16, Non-current lease liabilities	-929	-	-
Adjustment IFRS 16, Current lease liabilities	-289	-	-
Interest-bearing net debt, excluding IFRS 16	**4,850**	**4,744**	**4,630**

Note 11 Key performance measures for the Group

SEK M	Quarter 3 2019	Quarter 3 2018	Jan – Sep 2019	Jan – Sep 2018	Full-year 2018
Sales measures					
Net sales	2,141	1,981	6,461	5,910	8,217
Net sales growth, %	8.0%	10.4%	9.3%	5.2%	6.9%
Organic growth in sales, %	4.7%	1.4%	4.4%	2.0%	3.0%
Expense measures					
Selling expenses as a % of net sales	20.0%	21.2%	20.8%	20.7%	20.2%
Administrative expenses as a % of net sales	14.4%	14.3%	14.0%	14.8%	14.8%
Research and development costs as a % of net sales	1.3%	1.6%	1.5%	1.8%	1.7%
Earnings measures					
Operating profit (EBIT)	89	111	422	336	493
EBITA	162	183	642	546	798
Adjusted EBITA[2]	198	204	678	617	930
EBITDA	345	280	1,179	832	1,180
EBITDA growth, %	23.4%	141.4%	41.7%	-2.5%	18.4%
Adjusted EBITDA[2]	381	301	1,215	903	1,312
Earnings per share, SEK	0.16	0.21	0.90	0.73	1.09
Margin measures					
Gross margin, %	41.5%	43.8%	43.2%	44.3%	44.6%
Operating margin, %	4.1%	5.6%	6.5%	5.7%	6.0%
EBITA margin, %	7.6%	9.2%	9.9%	9.2%	9.7%
Adjusted EBITA margin, %[2]	9.2%	10.3%	10.5%	10.4%	11.3%
EBITDA margin, %	16.1%	14.1%	18.2%	14.1%	14.4%
Adjusted EBITDA margin, %[2]	17.8%	15.2%	18.8%	15.3%	16.0%
Cash flow and return measures					
Return on shareholders' equity, %[1]			6.0%	2.8%	5.6%
Cash conversion, %	109.5%	71.4%	69.0%	79.0%	84.0%
Operating capital, SEK M			11,163	10,223	9,946
Return on operating capital, %[1]			6.2%	4.8%	6.5%
Capital structure					
Interest-bearing net debt			6,068	4,744	4,630
Interest-coverage ratio, multiple[1]			5.5×	4.9×	6.2×
Net debt/equity ratio, multiple			1.0×	0.9×	0.9×
Net debt/adjusted EBITDA, multiple[1,2]			3.3×	4.0×	3.5×
Equity/assets ratio, %			40.8%	42.0%	41.3%
Equity per share, SEK			22.0	19.8	19.9
Other					
No. of shares			272,369,573	272,369,573	272,369,573
Number of employees, average			6,180	6,131	6,123

1 Rolling 12 months.
2 Before exceptional items. See Alternative performance measures on page 20 and definitions on page 23.
For more information about the effects of IFRS 16, refer to Note 6 on pages 14-15.

NOTE 11 CONTINUED

SEK M	Quarter 3 2019	Quarter 3 2018	Jan – Sep 2019	Jan – Sep 2018	Full-year 2018
Earnings measures, excluding IFRS 16					
EBITDA	253	280	917	832	1,180
EBITDA growth, %	-9.6%	141.4%	10.2%	-2.5%	18.4%
Adjusted EBITDA[2]	289	301	953	903	1,312
Margin measures, excluding IFRS 16					
EBITDA margin, %	11.8%	14.1%	14.2%	14.1%	14.4%
Adjusted EBITDA margin, %[2]	13.5%	15.2%	14.7%	15.3%	16.0%
Cash flow and return measures, excluding IFRS 16					
Cash conversion, %	116.9%	71.4%	63.0%	79.0%	84.0%
Operating capital, SEK M			10,549	10,223	9,946
Return on operating capital, %[1]			6.6%	4.8%	6.5%
Capital structure, excluding IFRS 16					
Interest-bearing net debt			4,850	4,744	4,630
Interest-coverage ratio, multiple[1]			6.9%	4.9%	6.2×
Net debt/equity ratio, multiple			0.8×	0.9×	0.9×
Net debt/adjusted EBITDA, multiple[1,2]			3.5×	4.0×	3.5×
Equity/assets ratio, %			44.5%	42.0%	41.3%

1 Rolling 12 months.
2 Before exceptional items. See Alternative performance measures on page 20 and definitions on page 23.
For more information about the effects of IFRS 16, refer to Note 6 on pages 14-15.

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 3 2019	Quarter 3 2018	Jan – Sep 2019	Jan – Sep 2018	Full-year 2018
Operating profit (EBIT)	89	111	422	336	493
Add-back of amortization and write-down of intangible assets	73	72	220	210	305
EBITA	**162**	**183**	**642**	**546**	**798**
Add-back of depreciation and write-down of tangible assets	183	97	537	286	382
EBITDA	**345**	**280**	**1,179**	**832**	**1,180**
Adjustment for IFRS 16	-92	-	-262	-	-
EBITDA, excluding IFRS 16	**253**	**280**	**917**	**832**	**1,180**
Exceptional items[1]	36	21	36	78	156
Add-back of write-down of restructuring and integration costs	-	0	-	-7	-24
Adjusted EBITA	**198**	**204**	**678**	**617**	**930**
Adjusted EBITDA	**381**	**301**	**1,215**	**903**	**1,312**
Adjustment for IFRS 16	-92	-	-262	-	-
Adjusted EBITDA, excluding IFRS 16	**289**	**301**	**953**	**903**	**1,312**

1 Refer to Note 5 Exceptional items on page 14.

Cash conversion	Quarter 3 2019	Quarter 3 2018	Jan – Sep 2019	Jan – Sep 2018	Full-year 2018
Cash flow from operations, SEK M	**379**	**200**	**814**	**657**	**991**
Operating profit (EBIT)	89	111	422	336	493
Add-back of amortization, depreciation and write-down of intangible and tangible assets	256	169	757	496	687
EBITDA, SEK M	**345**	**280**	**1,179**	**832**	**1,180**
Cash conversion, %	**109.5%**	**71.4%**	**69.0%**	**79.0%**	**84.0%**

Cash conversion, excluding IFRS 16	Quarter 3 2019	Quarter 3 2018	Jan – Sep 2019	Jan – Sep 2018	Full-year 2018
Cash flow from operations, SEK M	**379**	**200**	**814**	**657**	**991**
Adjustment for IFRS 16	-83	-	-236	-	-
Cash flow from operations, SEK M, excluding IFRS 16	**296**	**200**	**578**	**657**	**991**
Operating profit (EBIT)	89	111	422	336	493
Add-back of amortization, depreciation and write-down of intangible and tangible assets	256	169	757	496	687
Adjustment for IFRS 16	-92	-	-262	-	-
EBITDA, SEK M, excluding IFRS 16	**253**	**280**	**917**	**832**	**1,180**
Cash conversion, %, excluding IFRS 16	**116.9%**	**71.4%**	**63.0%**	**79.0%**	**84.0%**

Net debt/equity ratio	Sep 30, 2019	Sep 30, 2018	Dec 31, 2018
Interest-bearing net debt, SEK M	6,068	4,744	4,630
Adjustment for IFRS 16	-1,218	-	-
Interest-bearing net debt, SEK M, excluding IFRS 16	**4,850**	**4,744**	**4,630**
Shareholders' equity, SEK M	5,980	5,396	5,427
Net debt/equity ratio	**1.01**	**0.88**	**0.85**
Net debt/equity ratio, multiple, excluding IFRS 16	**0.81**	**0.88**	**0.85**

Calculation of return on operating capital	Jan – Sep 2019	Jan – Sep 2018	Full-year 2018
Total assets opening balance	12,846	12,479	12,210
Total assets closing balance	14,656	12,846	13,136
Adjustment for IFRS 16	-1,228	-	-
Total assets closing balance, excluding IFRS 16	13,428	12,846	12,673
Average total assets	**13,751**	**12,663**	**12,673**
Average total assets, excluding IFRS 16	**13,137**	**12,663**	**12,673**
Average total assets	13,751	12,663	12,673
Average total assets, excluding IFRS 16	13,137	12,663	12,673
Excluding average cash and cash equivalents	-614	-515	-817
Excluding average other provisions	-324	-282	-278
Excluding average other non-interest-bearing liabilities	-1,650	-1,643	-1,632
Average operating capital	**11,163**	**10,223**	**9,946**
Average operating capital, excluding IFRS 16	**10,549**	**10,223**	**9,946**
Operating profit (EBIT)[1]	579	302	493
Add-back of exceptional items[1]	114	183	156
EBIT after add-back of exceptional items	693	485	649
Return on operating capital, %	**6.2%**	**4.8%**	**6.5%**
Return on operating capital, %, excluding IFRS 16	**6.6%**	**4.8%**	**6.5%**

1 Rolling 12 months.

Note 12 Transactions with related parties

	Quarter 3 2019	Quarter 3 2018	Jan – Sep 2019	Jan – Sep 2018	Full-year 2018
Transactions with related parties, SEK M					
Sales	15	17	46	58	72
Purchases of goods	-1	-3	-3	-8	-9
Other expenses	-	-14	-	-52	-69
Accounts receivable			15	23	20
Other current receivables			0	–	-
Non-current financial liabilities			30	54	55
Accounts payable			0	16	10
Other non-interest-bearing liabilities			6	-	6

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 expenses primarily refer to administrative services.

Parent Company financial statements

Parent Company income statement

SEK M	Quarter 3 2019	Quarter 3 2018	Jan – Sep 2019	Jan – Sep 2018	Full-year 2018
Administrative expenses	-37	-26	-114	-110	-155
Restructuring and integration costs	–	-1	–	-36	-49
Other operating income and expenses	0	0	0	-6	66
Operating loss (EBIT)	**-37**	**-27**	**-114**	**-152**	**-138**
Income from participations in Group companies	42	781	111	801	1,370
Net financial items[1]	-14	-17	-60	-77	-85
Profit/loss after financial items	**-9**	**737**	**-63**	**572**	**1,147**
Taxes	11	9	35	49	-33
Net profit/loss for the period	**2**	**746**	**-28**	**621**	**1,114**

1 Net financial items contain interest income, interest expenses, other financial expenses and 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	Sep 30, 2019	Sep 30, 2018	Dec 31, 2018
Assets			
Intangible assets	339	398	349
Financial assets	6,403	5,495	6,317
Current financial receivables, Group companies	865	733	677
Other current receivables, Group companies	6	2	82
Current receivables	23	19	30
Cash and cash equivalents	0	–	-
Total assets	**7,636**	**6,647**	**7,455**
Shareholders' equity and liabilities			
Shareholders' equity	4,427	4,112	4,605
Provisions	1	-	1
Current financial liabilities	3,170	2,490	2,761
Other current liabilities, Group companies	4	10	55
Other non-interest-bearing liabilities	34	35	33
Total shareholders' equity and liabilities	**7,636**	**6,647**	**7,455**

At the end of the period, the carrying amount of shares and participations in subsidiaries amounted to SEK 6,292 M (5,390). The carrying amount was unchanged during this period.

The Parent Company's commercial paper program has a framework amount of SEK 4,000 M. The total amount issued at the end of the period amounted to SEK 3,173 M (2,493).
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 exceptional items 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 exceptional items.

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 exceptional items.

EBITDA margin
EBITDA in relation to net sales.

Adjusted EBITDA margin
Adjusted EBITDA in relation to net sales.

Exceptional items
Total of acquisition, restructuring and integration costs as well as major non-recurring items.

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 244 M
Number of shares, thousands	272,370
Earnings per share	SEK 0.90

Interest-coverage ratio
Profit after financial items plus interest expenses and add-back of exceptional items 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 and other 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.

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

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

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

Prevention
Preventive activity/treatment.

Sequential VTE prevention
A treatment that aims to enhance the circulation of blood in the deep veins of the legs, which helps reduce deep vein thrombosis (blood clot in the deep veins of the legs).

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, similar to DVT (above).

Edema
Swelling due to accumulation of fluid in tissues.

Teleconference

Fund managers, analysts and the media are invited to a teleconference on October 22 at 2:00 p.m. CEST.

Dial the number below to participate:

Sweden: +46 (0)8 5065 3942
UK: +44 (0)330 336 9411
USA: +1 323-794-2597
Code: 9981140

A presentation will be held during the telephone conference. To access the presentation, please use this link: https://slideassist.webcasts.com/starthere.jsp?ei=1264236

Alternatively, use the following link to download the presentation: https://www.arjo.com/int/about-us/investors/reports--presentations/2019/

A recording of the teleconference will be available for 90 days via the following link: https://slideassist.webcasts.com/starthere.jsp?ei=1264236

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 2020:

February 3, 2020:	Year-end report 2019
April 2020:	2019 Annual Report

Contact

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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 October 22, 2019 at 1:00 p.m. CEST.

Customers in more than **100** countries

Approximately **6,000** employees worldwide

1,180 EBITDA (SEK M, full-year 2018)

8,217 Net sales (SEK M, full-year 2018)

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, prevention of pressure ulcers, prevention of deep vein thrombosis and for diagnostics. The Group also offers medical beds and services such as training in connection with product sales.

The company has customers in more than 100 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, medical beds, prevention of pressure ulcers, prevention of deep vein thrombosis and for obstetric and cardiac diagnostics.

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