

Directors' Report

Operation and structure

Arjo is a global supplier of medical devices and solutions that helps its customers improve their clinical and financial results. The Group's solutions for patient handling, hygiene, disinfection, diagnostics, treating leg ulcers, prevention of pressure injuries and deep vein thrombosis, and our medical beds are all designed to promote mobility, safety and dignity in all care situations. Fundamentally, it means contributing to improved quality of care and enhanced efficiency, resulting in reduced healthcare costs.

Arjo's main customers are private and public institutions providing acute and long-term care.

Organization

Approximately 96% of sales are conducted through Arjo's own sales companies and the remaining 4% through distributors in markets for which Arjo lacks proprietary representation. Manufacturing is conducted at five production facilities in the Dominican Republic, Canada, China, Poland and in the UK.

Financial overview

Revenue

Consolidated net sales increased 1.1% to SEK 9,078 M (8,976). Adjusted for corporate acquisitions, divestments and exchange-rate fluctuations, net sales rose by 3.9%.

Western Europe represented the Group's largest market, with 45.7% (46.4) of sales, followed by North America with 39.9% (39.3) and Rest of the World with 14.4% (14.4).

Exceptional items

During the year, the Group had exceptional items of SEK 78 M (53). Most of the expenses for the year comprise efficiency measures in Europe.

Exceptional items can be specified as follows: restructuring costs (67), acquisition expenses (4) and damage claims and disputes (7).

EBITDA

EBITDA before exceptional items amounted to SEK 1,913 M (1,728). The EBITDA margin before exceptional items was 21.1% (19.2).

Operating profit

The Group's operating profit increased to SEK 866 M (671), corresponding to 9.5% (7.5) of net sales.

Net financial items

Net financial items amounted to SEK -164 M (-129).

Profit after financial items

The Group's profit after financial items increased to SEK 702 M (542), corresponding to 7.7% (6.1) of net sales.

Taxes

The Group's tax expense amounted to SEK 175 M (139), corresponding to 25.0% (25.6) of profit after financial items (see Note 11).

Tied-up capital

Inventories amounted to SEK 1,039 M (1,144) and accounts receivable to SEK 1,500 M (2,001). The average consolidated operating capital was SEK 11,408 M (11,082). Return on working capital was 8.3% (6.5). Goodwill totaled SEK 5,161 M (5,413) at the end of the fiscal year.

Investments

Investments amounted to SEK 805 M (750), of which SEK 296 M (231) pertains to intangible assets and SEK 509 M (519) to tangible assets. Investments primarily pertained to equipment for rental, IT projects and distribution rights in BBI.

Financial position and equity/assets ratio

Shareholders' equity at year-end amounted to SEK 5,630 M (5,914), corresponding to an equity/assets ratio of 40.6% (41.0). The Group's net debt totaled SEK 5,067 M (5,903), corresponding to a net debt/equity ratio of 0.9 (1.0). Net debt/adjusted EBITDA before exceptional items was 2.9% (3.0).

Cash flow

Cash flow from operations amounted to SEK 2,267 M (1,252). The cash conversion was 123.3% (74.7).

Shareholders' equity

For information regarding the trading of shares in Arjo, the number of shares, the classes of shares and the rights associated with these in the company, see the Arjo Share section on pages 48-49.

Group-wide events during the year

MDR audit

Arjo has been certified under the EU's new Medical Device Regulation (MDR). Due to the pandemic, the EU decided to postpone the introduction of the Regulation from 2020 to 2021, which means it will now come into effect in May 2021. Arjo started to digitally train the organization in 2020 to ensure that employees understand what the certification means for both the company and healthcare.

Acquired and divested operations

Acquisition of equity stake in Bruin Biometrics (BBI)

In October, Arjo acquired a 10% equity stake in Bruin Biometrics (BBI), a US-based company developing solutions for diagnosing patients with an elevated risk of developing pressure injuries. The deal gives Arjo exclusive global distribution rights for BBI's portable SEM Scanner, which allows early identification of pressure injury risk and thereby reduces patient suffering and healthcare costs. BBI has found itself in a start-up phase with limited sales, with annual sales amounting to approximately SEK 15 M. The acquisition is expected, primarily through the distribution agreement, to have a positive impact on Arjo's net sales and earnings per share beginning in 2021, and will contribute substantially to both net sales and EPS development from 2023 and onwards. This acquisition entitles Arjo to a permanent BBI board seat and veto rights for a number of important legal business and operational matters. Therefore, Arjo is considered to have a significant influence in BBI and the holding is recognized as participations in associated companies using the equity method. The purchase price amounts to SEK 214 M, of which SEK 135 M refers to participations in associated companies and SEK 79 M to distribution rights. The value of the participations at year-end amounted to SEK 120 M. The change was attributable to currency effects. Income from participations was insignificant for the period.

Acquisition of AirPal

In December, Arjo acquired operations in AirPal, a privately owned US-based company specializing in Air-Assisted Lateral Transfer solutions for patients. The acquisition strengthens Arjo's patient handling portfolio and is part of the Group's long-term strategic focus toward driving healthier outcomes for people facing mobility challenges, and will help advance Arjo's agenda toward increased profitable growth. Focus will initially be on the US market, with geographic expansion continuing in such countries as the UK and Australia. Annual sales amount to approximately SEK 40 M. The deal is an asset purchase agreement and involves an upfront payment of SEK 49 M, and also includes an earn-out tied to performance in 2021 to 2023 valued at SEK 36 M. The value of the net assets amounts to SEK 85 M.

Research and development

The foundation of all research and development at Arjo is an in-depth understanding of the customer's daily lives and needs. A customer-focused research and development process helps allocate resources to develop solutions that contribute to enhancing the efficiency of healthcare and solving the challenges Arjo's customers face. Arjo has, with about 60 years of market presence, developed competitive processes in this field. Innovation of new products and the renewal of existing product lines is one source of growth for Arjo and for the market as a whole. Arjo has continuously prioritized product design and ease of user-friendliness in developing new and existing products. During the year, Arjo's research and development costs amounted to SEK 202 M (212), corresponding to 2.2% (2.4) of net sales. Of this amount SEK 114 M (139) was expensed during the year.

Personnel

Arjo has employees from throughout the world and the Group's development depends on them. Arjo's Guiding Principles permeate the entire business and aim to promote a customer-oriented culture that forms the basis of sustainable profitable growth. In addition to a strong customer focus, Arjo's culture is built on diversity, equity and inclusion, and puts a premium on good health and safety for employees, visitors and partners. Arjo endeavors to be an attractive company in which all employees have equal opportunities, regardless of age, ethnicity, religion or gender. For further information, refer to Arjo's sustainability report. At December 31, 2020, there were 6,214 (6,141) employees, of whom 191 (186) were employed in Sweden. Arjo has employees in a total of 30 countries.

Remuneration to senior executives

The 2020 AGM approved the proposed guidelines for executive remuneration. These guidelines apply up until the 2024 AGM on the condition that no amendments are proposed, and are described below. See Note 6 for a description of the amounts expensed under these guidelines.

Guidelines for executive remuneration – Arjo AB

1. Scope of the guidelines, etc.

These guidelines refer to remuneration and other employment conditions for the individuals who are members of the Arjo Management Team during the validity of the guidelines, in the following referred to as "senior executives." The guidelines are applicable to remuneration agreed, and amendments to remuneration already agreed, after adoption of the guidelines by the 2020 AGM. These guidelines do not apply to any remuneration resolved or approved by the general meeting.

2. Promotion of Arjo's business strategy, long-term interests and sustainability, etc.

A prerequisite for the successful implementation of the company's business strategy and safeguarding of its long-term interests, including its sustainability, is that the company is able to recruit and retain qualified personnel. The basic principle is that remuneration and other terms and conditions of employment for senior executives shall be based on market conditions and be competitive in all

markets where Arjo operates, to ensure that competent and skillful employees can be attracted, motivated and retained. Individual levels of remuneration shall be based on experience, competence, responsibility and performance and be market-conforming in the country in which the senior executive is employed.

3. Principles for various types of remuneration

The total remuneration to senior executives shall be on market terms and comprise basic salary (fixed cash salary), variable remuneration, pension benefits and other benefits. Additionally, the general meeting may – irrespective of these guidelines – resolve on, among other things, share-related or share price-related remuneration.

Fixed remuneration

The fixed remuneration for each position is determined based on a global position evaluation system and external market payroll data. The fixed remuneration, meaning the basic salary, shall be based on the individual executive's area of responsibility, authority, competence and performance.

Variable remuneration

The allocation of basic salary and variable remuneration shall be proportional to the responsibility and authority of the executive. The variable remuneration shall always be limited in advance to a maximum amount and be connected to predetermined and measurable criteria, designed with the purpose of promoting the company's business strategy and long-term value creation.

The company's sustainability work is incorporated in the ongoing operations of the company. If the company's key guidelines for sustainability work or ethical guidelines are not followed, the company may refrain from paying variable remuneration or reclaim the paid remuneration. The annual variable remuneration is constructed in such a way that it supports Arjo's strategy to develop products and solutions on a long-term basis which contribute to improve care outcomes, create a more efficient care process, enable a better work environment for healthcare professionals and increase the quality of life for patients. If the above activities are conducted in an efficient and sustainable way, it will result in improved financial results and increased capital efficiency, which form the basis for the variable remuneration.

Annual variable remuneration (STIP)

For senior executives, the annual variable remuneration (annual bonus) shall be capped at 50% of the fixed annual basic salary, except in cases where the nature and competition situation of the position, as well as the country of employment, so require. In such cases the annual variable remuneration shall be capped at 80% of the fixed annual basic salary. The variable remuneration shall be based on the objectives set by the Board of Directors. The objectives are related to earnings, volume growth, working capital and cash flow. All members of the group management have the same goals for annual variable remuneration with the purpose of promoting the shareholders' interests, the company's core values, and jointly strive to achieve the company's business strategy, long-term interests and a sustainable development of the company.

Variable long-term cash bonus (LTI/P)

In addition to basic salary and the annual variable remuneration above, senior executives can obtain a variable long-term bonus (LTI bonus), awarding clear target based and measurable achievements, and which is conditional upon continued employment at the end of the performance period of the LTI bonus (with certain customary exceptions). The criteria for payment of the LTI bonus are to be designed so that they promote Arjo's business strategy and long-term interests, including its sustainability, by having a clear link to the business strategy. The criteria for the LTI bonus are related to earnings per share, adjusted for potential acquisitions, divestments, restructuring costs and/or other material non-recurring costs. By connecting the targets to shareholder interests, common interests are created which further aim at promoting Arjo's business strategy and long-term interests.

The performance period for the LTI bonus shall be at least three fiscal years and the LTI bonus shall be capped at 100% of one year's basic salary for each three-year period, i.e. one third of the annual basic salary per year. Senior executives in the Management Team are to reinvest at least 50% of the payment (net after tax) from each LTI program in Arjo shares, until an amount corresponding to one annual salary (gross) has been reinvested in shares in the company using the funds that the senior executive has received in payment under the LTI program issued by the company. The senior executives shall keep these shares for at least three years from the time of investment.

Determination of the outcome for variable remuneration, etc.

When the measurement period of the criteria for awarding variable cash remuneration has been finalized, the Board of Directors shall, based on a proposal from the Remuneration Committee, determine whether the criteria have been satisfied. When determining the satisfaction of the criteria, the Board of Directors, may based on a proposal from the Remuneration Committee, grant exceptions from the set criteria on the basis of what is mentioned in item 5 below. For the satisfaction of financial objectives, the evaluation shall be based on the latest financial information made public by the company, taking into account any adjustments that the Board of Directors has determined in advance when implementing the program. Variable cash remuneration can be paid after the completion of a measurement period (annual variable remuneration) or be subject to deferred payment (LTI bonus).

Arjo actively works with ensuring that the company is managed in the most sustainable, responsible and efficient way possible and that applicable legislation and other regulations are complied with. Arjo also applies internal rules which include a code of conduct and different steering documents on group level (policies, instructions and guidelines) in several areas. Variable remuneration shall not be awarded, or variable remuneration may be reclaimed, if the senior executive has acted contrary to these rules, principles or the company's code of conduct. In case earnings before taxes are negative, variable remuneration shall not be awarded. The Board of Directors shall have the possibility, pursuant to applicable law or contractual provisions, to in whole or in part reclaim variable remuneration paid on incorrect grounds (clawback).

Other variable remuneration

Further variable cash remuneration may be awarded in extraordinary circumstances, provided that such extraordinary arrangements are only made for the purpose of recruiting or retaining executives. Such remuneration may not exceed an amount corresponding to 50% of the basic salary and may not be paid more than once each year and per each individual. Any resolution on such remuneration shall be made by the Board of Directors based on a proposal from the Remuneration Committee. In addition to the variable remuneration above, share-related or share price-related incentive programs as resolved from time to time, may be set up according to the above.

Pension

For the CEO, pension benefits shall be premium defined. The pension premiums for premium defined pension shall amount to not more than 30% of the fixed basic salary. Variable cash remuneration shall not qualify for pension benefits.

Other senior executives shall be covered by ITP 1 or ITP 2 and the pension benefits shall be premium defined. Variable cash remuneration shall only qualify for pension benefits to the extent required by mandatory collective agreement provisions as applicable to the executive. Should that be the case, it should be considered when forming the total remuneration package. The pension premiums for premium defined pension shall amount to a maximum of 30% for parts exceeding the cap in applicable ITP plan.

For employments governed by rules other than Swedish, pension benefits and other benefits may be duly adjusted for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of these guidelines.

Other benefits

Other benefits such as company car, extra health insurance or occupational health service may be provided to the extent this is considered customary for senior executives holding equivalent positions on the labor market on which the employee operates. The total value of these benefits shall amount to not more than 10% of the fixed basic salary.

Terms of notice

Senior executives shall be employed until further notice. Upon termination of the CEO's employment, if such termination is determined by the company, the notice period shall be twelve (12) months. The notice period may not exceed twelve (12) months if notice of termination of other senior executives' employment is made by the company. The notice period may not to exceed six (6) months, without any right to severance pay, when termination is made by the executive.

Senior executives may be compensated for a non-compete undertaking after the termination of the employment, however, only to the extent severance pay is not paid during the same period of time. The purpose of such remuneration shall be to compensate the senior executive for the difference between the monthly basic salary at the time of termination of the employment, and the (lower) monthly income which is obtained, or could be obtained, by a new employment agreement, assignment or own business. The remuneration may be paid during the period the non-compete undertaking is applicable, and no longer than a period of twelve (12) months after the termination of the employment.

Salary and employment conditions for employees

In the preparation of the Board's proposal for these remuneration guidelines, salary and employment conditions for employees of the company have been taken into account by including information on the employees' total income, the components of the remuneration and increase and growth rate over time, in the Remuneration Committee's and the Board's basis for decision when evaluating whether the guidelines and the limitations set out herein are reasonable. The development of the gap between the remuneration to executives and remuneration to other employees will be disclosed in the remuneration report.

4. The decision-making process to determine, review and implement the guidelines

The Board of Directors has previously established a Remuneration Committee. The Committee's tasks include preparing the Board of Directors' decision to propose guidelines for executive remuneration. These guidelines are subject to review on annual basis by the Board of Directors and submitted for resolution by the annual general meeting when changes are proposed, or at least every four years. The Remuneration Committee shall also monitor and evaluate programs for variable remuneration for the executive management, the application of the guidelines for executive remuneration as well as the current remuneration structures and compensation levels in the company. The CEO and other members of the executive management do not participate in the Board of Directors' processing of and resolutions regarding remuneration-related matters in so far as they are affected by such matters.

5. Derogation from the guidelines

The Board may temporarily resolve to derogate from the guidelines, in whole or in part, if in a specific case there is special cause for the derogation and a derogation is necessary to serve the company's long-term interests, including its sustainability, or to ensure the company's financial viability. As set out above, the Remuneration Committee's tasks include preparing the Board's resolutions in remuneration-related matters. This includes any resolutions to derogate from the guidelines.

Sustainability agenda

Arjo endeavors to build up a sustainable, profitable company, while at the same time assuming responsibility for social, ethical and environmental issues. This is regarded as crucial for achieving long-term success.

Arjo's offering of know-how, equipment and solutions generates values that contribute to a sustainable future within healthcare. Based on a regular materiality analysis, an active sustainability agenda is pursued through the Arjo Sustainability Framework 2030 in three focus areas: a sustainable offering throughout the value chain, a responsible company and an attractive workplace. Arjo ensures that approved activities are implemented through clear governance and a systematic work process. The sustainability agenda is pursued by the Management Team, and the Board regularly studies reports to support the development of key initiatives. Arjo is working to modify the sustainability reporting process in accordance with the Global Reporting Initiative (GRI) guidelines, and reports will be prepared in accordance with GRI from 2022.

Read more about the Group's sustainability efforts on pages 30-45.

Environmental impact

Arjo works systematically to reduce the Group's environmental footprint throughout the value chain. Initiatives to reduce Arjo's environmental impact are partly a result of the national and international regulations that Arjo must comply with and to fulfill the Group's own internal objectives and follow policies.

To ensure that production is conducted in accordance with legislation and international rules, the Group has introduced environmental-management systems at its production facilities, which are certified according to the international standard ISO 14001. These management

systems provide solid conditions for structured and proactive environmental work. The management systems also include regular updates to the environmental impact of the facilities.

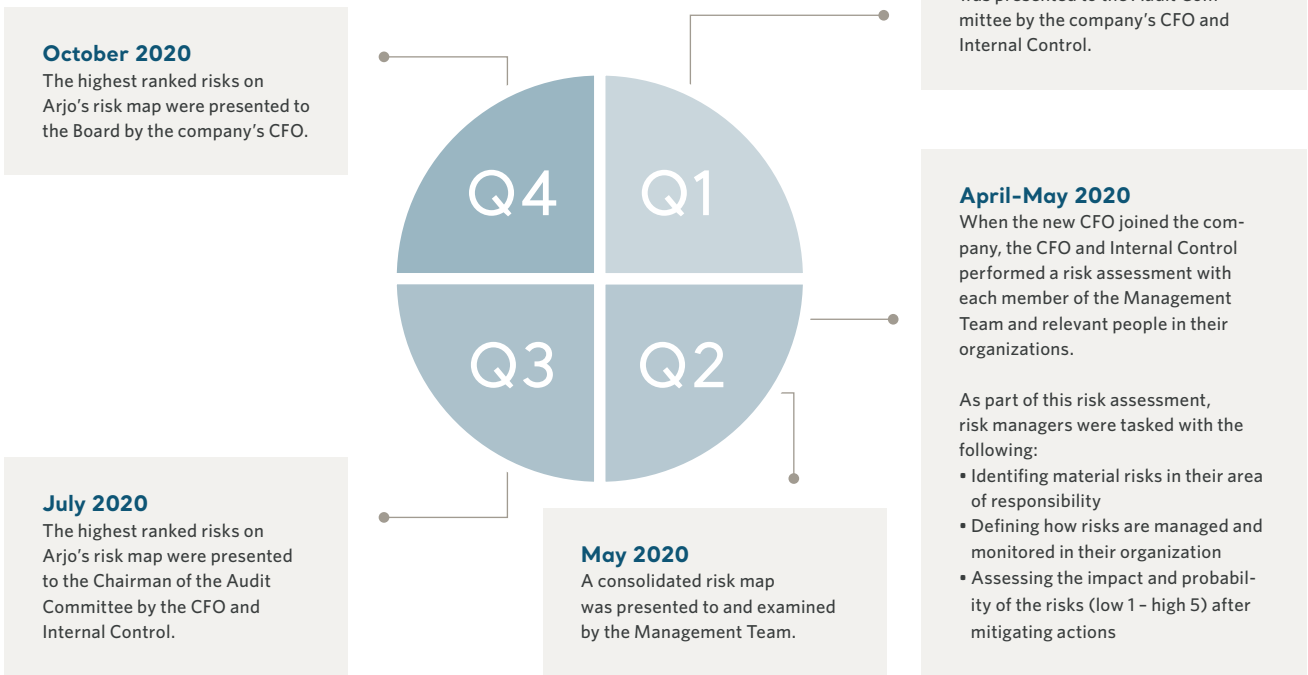
The key goal is to reduce Arjo's total CO₂ emissions by 50% by 2030, with 2019 as the base year. To reduce the company's climate impact, focus is primarily directed to minimizing energy consumption and CO₂ emissions in the areas of production, vehicles, transportation and business travel, reducing the amount of hazardous and non-hazardous waste and increasing the contribution to the circular economy.

Further information concerning Arjo's environmental work is presented on page 41.

Risk management

Arjo is exposed to a number of strategic, operational, financial and compliance-related risks. The Management Team performs a risk assessment every year led by the CFO and the Internal Control function, in accordance with the company's directive on risk management and internal control. The purpose of the assessment is to identify and analyze the company's most material risks and any events that could impact Arjo's ability to carry out the company's strategy and achieve defined objectives and visions. The results of the risk assessment comprise a risk register containing descriptions of the company's most critical risks, how they are managed by the responsible function(s) and an evaluation of the probability that these risks may arise in a specific time period and their impact on the company. Identifying risks from a Group perspective enables management and the Board to examine and adapt to key risks and assess how the company respond to and monitor these. The main risks are then illustrated in a risk map that shows residual risk, meaning the risk remaining after control activities have taken place, which is presented to the Audit

Risk assessment 2020



October 2020

The highest ranked risks on Arjo's risk map were presented to the Board by the company's CFO.

January 2020

Arjo's risk assessment for 2019 was presented to the Audit Committee by the company's CFO and Internal Control.

April-May 2020

When the new CFO joined the company, the CFO and Internal Control performed a risk assessment with each member of the Management Team and relevant people in their organizations.

As part of this risk assessment, risk managers were tasked with the following:

- Identifying material risks in their area of responsibility
- Defining how risks are managed and monitored in their organization
- Assessing the impact and probability of the risks (low 1 - high 5) after mitigating actions

July 2020

The highest ranked risks on Arjo's risk map were presented to the Chairman of the Audit Committee by the CFO and Internal Control.

May 2020

A consolidated risk map was presented to and examined by the Management Team.

Committee by the CFO and Internal Control, and to the Board by the company's CFO.

Arjo's risk assessment process is outlined in the illustration on page 54.

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 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 and conditions of ill health 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, may sometimes be subject to claims related to product liability and other damage claims. Such claims could involve large financial amounts, result in significant legal expenses and negatively affect the company's reputation and customer relationships. Arjo limits the risk of product liability and other damage claims related to its products and their use through the company's extensive quality and safety activities. A comprehensive insurance program is in place to cover any liability risks (including product liability) to which the Group is exposed.

Protecting and managing the infringement 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, design and trademarks. The Group is also dependent upon know-how and trade secrets that cannot be protected under intellectual property law.

In 2020, the Group prepared improved its instructions on how to prevent, investigate and manage potential cases of infringement. In addition, improved procedures have been implemented to ensure efficient maintenance of the existing portfolio of rights.

Coronavirus (Covid-19)

The corona pandemic impacts both the Group's customers in the healthcare sector and society as a whole. The restrictions and recommendations introduced by the authorities to restrict the rate of infection could lead to limited accessibility and difficulties for the company to reach customers. It could also lead to lower demand for the products and services that are not prioritized during a crisis, or higher demand that cannot be met. The pandemic could also present a risk for some of the company's employees who are exposed to the virus through their work environment, which imposes strict requirements on the operations as regards a high level of expertise and precautionary measures. Covid-19 could also impact the Group's supply chain, which may lead to delays to deliveries and production disruptions. In addition, coronavirus may also entail fluctuations in the financial system, which could result in indirect or direct financing difficulties for the company. The Group is closely monitoring developments and is successively making the necessary business decisions to ensure production and deliveries to the healthcare sector in this serious situation. Arjo is following the guidelines set by the authorities in the geographical areas in which the company operates, and providing its personnel with equipment and training to manage the risk of exposure and ensure a safe and secure work environment. Arjo to date has not experienced any major production disruptions due to the pandemic. The organization is managing the situation well and is maintaining a close dialog with subsuppliers to ensure access to key components. Production capacity for medical beds has been increased to meet higher demand. Arjo is working proactively to ensure financial contingency in this uncertain time and is continuing to closely monitor developments.

Risk of cyber attacks

Arjo is dependent on IT and its surrounding infrastructure and thus is exposed to the risk of cyber attacks. These attacks may comprise trojans, ransomware, malware or data hacking which could involve the aim of intrusion, data corruption, data theft, threats or taking over a system. They could also take on the form of phishing via e-mail that leads to revealing confidential information, downloading malicious code, financial payments or collecting authentication information (user name and password). The risk of cyber attacks also arises if access controls are not handled correctly and unauthorized users gain access to areas of systems that they are not permitted to enter.

Arjo works actively on risk assessments of its IT infrastructure and sensitive data and has defined mitigating processes and controls, known as IT General Control (ITGC) to protect the company. The control environment includes firewalls, patch management, virus programs, penetration and recovery tests and automated scanning of incoming and outgoing e-mail traffic to identify phishing. To restrict access to the system and data, access controls are used, for example, employees' VPN accounts linked to the company's HR system. Arjo's Chief Information Security Officer (CISO) held a number of training courses on IT security during the year to increase know-how, encourage caution and ensure that employees are aware of and follow the company's IT policy and directives. The internal control environment is evaluated by the company's CISO every year and partly by the external auditors.

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 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.

Arjo devotes significant efforts and resources to implementing and applying guidelines to ensure regulatory compliance. Annual audits are performed by designated accreditation bodies to ensure compliance for continued CE marking of Arjo's products and international legal requirements, including the FDA, MDSAP and EU MDR.

In 2020, Arjo continued efforts to meet the requirements of the EU MDR that is scheduled to come into force in May 2021. Arjo has had an organization-wide plan in place since 2017 to ensure MDR compliance and has achieved MDR certification following a successful QMS audit at the end of 2019 and audit of product documentation in 2020.

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) from BSI The Netherlands.

Financial risk management

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

Currency risks

Currency risks comprise exchange-rate fluctuations, which have an impact on the Group's earnings and shareholders' equity. Currency exposure occurs in connection with payments in foreign currency (transaction exposure) and when translating foreign subsidiaries' balance sheets and income statements into SEK (translation exposure). The effect of exchange-rate fluctuations on earnings calculated using volumes and earnings in foreign currencies is presented in Note 28.

Transaction exposure

Payment flows as a result of sales income and cost of goods sold in foreign currencies cause currency exposure that affects Group earnings in the event of exchange-rate fluctuations. The Group's payment flows in foreign currencies consist mainly of the income generated by export sales. The most important currencies are USD, EUR, GBP, CAD, PLN, CNY and AUD.

Arjo hedges the most important currency exposures in the period when the transaction occurs. Hedging took place using currency forward contracts. For more information, see Note 28 Financial risk management

Translation exposure – income statement

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

Translation exposure – balance sheet

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

Sensitivity analysis

Arjo's earnings are affected by a series of external factors. The table below shows how changes to some of the key factors that are important to Arjo could have affected the Group's profit after financial items in 2020.

	Change	SEK M
Price change	±1%	±91
Cost of goods sold	±1%	±50
Salary costs	±1%	±34
Interest rates	±1% percentage point	±50

The effect of a ±1 percentage point change in interest rates on Arjo's profit after financial items was calculated based on the Group's interest-bearing liabilities, excluding pension liabilities, at year-end 2020. The impact of a ±1 percentage point change in interest rates on equity is about SEK 40 M. Consideration was given to the effect of the various risk-management measures that Arjo applies in accordance with its approved policy.

Taxes

Arjo is a global company with operations in many countries. Through its operations, the Group contributes to society through taxes and fees. The global environment entails the risk of double taxation and tax disputes since the Group's transactions and business dealings involve exposure to the areas of corporate tax, customs duties, social security contributions, income tax and value added value. Arjo follows national and international tax legislation and pays taxes and fees in accordance with local laws and regulations in the countries where it operates.

Arjo follows the OECD guidelines for transfer pricing, which means that gains are allocated and taxed where the amount is generated. The OECD's guidelines on internal pricing can be interpreted in different ways, which may mean that the tax authorities in different countries may question the results of Arjo's transfer pricing model, despite the fact that the company follows the OECD guidelines. This may entail the risk of tax disputes in the Group when Arjo and the local tax authorities have differing interpretations.

Outlook 2021

Organic sales growth for 2021 is expected to be in the interval of the Group's new target of 3-5% per year.