

Directors' Report

Operation and structure

Arjo is a market leader in the medical device industry that uses its sustainable and outcome-based solutions to raise the quality of care and life for people with reduced mobility and improve the work environment for healthcare professionals. The Group's solutions for patient transfers, 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 higher quality of care and improved use of resources, resulting in reduced costs for healthcare and society as a whole.

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

Organization

Approximately 97% of sales are conducted through Arjo's own sales companies and the remaining 3% 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 amounted to SEK 9,070 M (9,078). Adjusted for corporate acquisitions, divestments and exchange-rate fluctuations, net sales rose 3.5%.

North America represented 38.7% (39.2) of sales, with remaining shares represented by Global Sales at 57.4% (57.1) and Other at 3.9% (3.7).

Global Sales

Sales for Global Sales increased organically by 2.8% during the year. Several large markets performed particularly well, such as the UK and Germany, and in France, which is the Group's third largest market, double-digit growth was noted for the year. At the same time, growth was held back in other markets, mainly in Asia and Eastern Europe, where extensive lockdowns due to the Covid-19 pandemic negatively impacted sales.

North America

North America grew organically by 4.9% during the year, with a continued solid performance in the US and double-digit growth in Canada. The Group noted a recovery in the areas that initially declined in connection with the pandemic, such as patient handling and DVT. Demand also increased in the rental operations, even though order rates for critical care solutions were significantly lower due to a lower share of patients who were seriously ill with Covid-19.

Exceptional items

During the year, the Group had exceptional items of SEK 39 M (78). Most of these expenses comprise efficiency measures in Europe.

Exceptional items can be specified as follows: restructuring costs (38) and acquisition expenses (1).

EBITDA

EBITDA before exceptional items amounted to SEK 2,072 M (1,913). The EBITDA margin before exceptional items was 22.8% (21.1).

Operating profit

The Group's operating profit increased to SEK 1,077 M (866), corresponding to 11.9% (9.5) of net sales.

Net financial items

Net financial items amounted to SEK -88 M (-164).

Profit after financial items

The Group's profit after financial items increased to SEK 989 M (702), corresponding to 10.9% (7.7) of net sales.

Taxes

The Group's tax expense amounted to SEK 247 M (175), corresponding to 25.0% (25.0) of profit after financial items (see Note 11).

Tied-up capital

Inventories amounted to SEK 1,369 M (1,039) and accounts receivable to SEK 1,542 M (1,500). The average consolidated operating capital was SEK 11,236 M (11,408). Return on working capital was 9.9% (8.3). Goodwill totaled SEK 5,054 M (5,161) at the end of the fiscal year.

Investments

Investments amounted to SEK 760 M (805), of which SEK 249 M (296) pertains to intangible assets and SEK 511 M (509) to tangible assets. Investments primarily pertained to equipment for rental and IT investments.

Financial position and equity/assets ratio

Shareholders' equity at year-end amounted to SEK 6,885 M (5,630), corresponding to an equity/assets ratio of 47.1% (40.6). The Group's net debt totaled SEK 4,341 M (5,067), corresponding to a net debt/equity ratio of 0.6 (0.9). Net debt/adjusted EBITDA before exceptional items was 2.3% (2.9).

Cash flow

Cash flow from operations amounted to SEK 1,734 M (2,267). The cash conversion was 85.3% (123.3).

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

Launch of SEM scanner

During the year, Arjo launched the new SEM scanner, and received global distribution rights through the acquisition of an equity stake in Bruin Biometrics (BBI) in 2020. The SEM scanner has generated widespread interest among customers and more than 80 evaluations were completed at hospitals around the world, with excellent results. During the year, the SEM scanner was awarded an Innovative Technology Contract with US company Vizient, one of the country's largest group purchasing organizations. Arjo also signed framework agreements with a number of large purchasing organizations in the UK during the year.

FDA clearance for WoundExpress

During the year, Arjo received 510(k) clearance from the US Food and Drug Administration (FDA) for WoundExpress, an intermittent pneumatic compression (IPC) solution for treatment of venous leg ulcers. In addition, several studies were published during the year showing that WoundExpress can significantly improve lower leg wound management. To date, WoundExpress has been introduced to selected markets in Europe, and the product is expected to be available in the US in the first part of 2022.

MDR certification

The EU Medical Device Regulation (MDR) came into force in May 2021. During the year, Arjo expanded the company's MDR certificate to include more product groups than before.

Acquired and divested operations

Acquisitions in 2021

Acquisition of PAC Rentals

During the second quarter, Arjo acquired the South African company PAC Rentals, which offers rentals of specialized and therapeutic mattresses. The purchase price amounted to SEK 19 M. The acquisition took place as a transfer of assets and liabilities and has been integrated into Arjo's existing operations in South Africa. The acquired operations generate sales of approximately SEK 10 M annually.

Research and development

The foundation of all research and development at Arjo is an in-depth understanding of the customer's daily challenges 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. With 65 years of market presence, Arjo has 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 220 M (202), corresponding to 2.4% (2.2) of net sales. Of this amount SEK 100 M (114) was expensed during the year.

Personnel

Arjo has employees from across the world and the Group's employees are one of the company's primary resources. Arjo's Guiding Principles permeate the entire business and aim to promote a customer-oriented culture that forms the basis of sustainable and profitable growth. In addition to a strong customer focus, Arjo's culture is built on diversity, equality 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, 2021, there were 6,554 (6,214) employees, of whom 201 (191) 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. See Note 4 for a description of the amounts expensed under these guidelines. Ahead of the 2022 AGM the Board of Directors has proposed a clarification of the current Guidelines for Remuneration to Senior Executives regarding annual variable remuneration (STIP), where objectives related to sustainability shall be included as one of the parameters in the calculation of this remuneration.

Proposed guidelines for executive remuneration – Arjo AB

The Board of Arjo AB (publ) proposes that the 2022 AGM resolve on guidelines for remuneration to senior executives:

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 2021 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 sustainability. 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 (LTIP)

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. Remuneration shall be paid during the time the non-compete undertaking applies, however for not more than 12 months following termination of 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. This framework comprises three main 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, and the Board is responsible for the Sustainability Report. 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.

In 2021, the Group's CO2 emissions decreased by 18% compared with the base year in 2019 and a number of activities were carried out to reduce the Group's environmental impact. For example, Arjo's largest production site, in Poznan, Poland, and the site in Cardiff, UK, now use only renewable electricity in their operations. Furthermore, a number of improvement projects were implemented in product development, packaging and transportation. Further information concerning Arjo's environmental work is presented on pages 38-41.

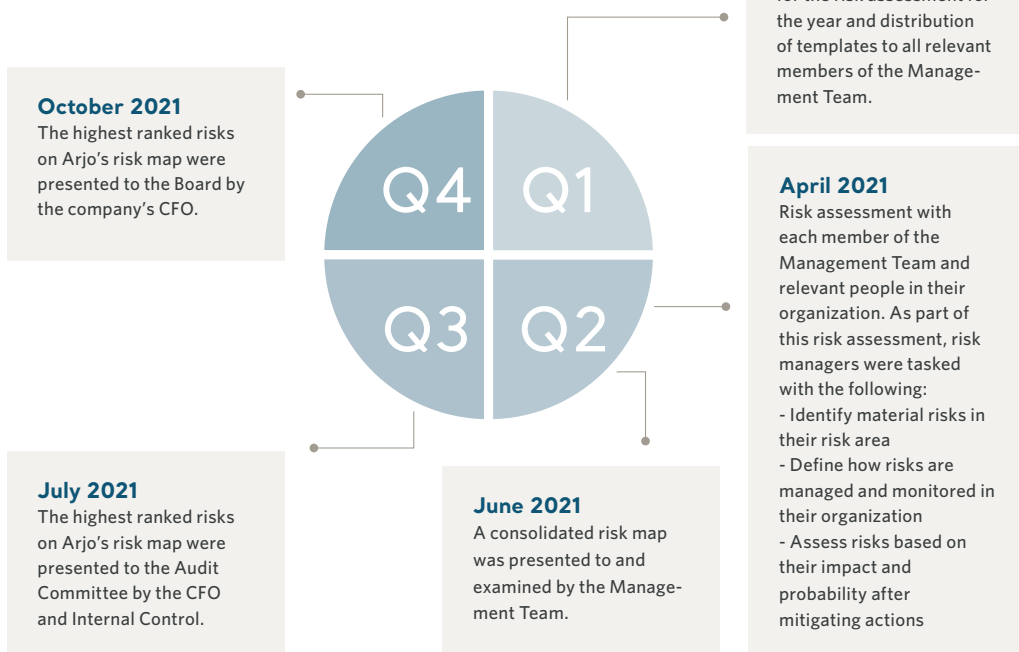
EU taxonomy

The EU established a new regulation, the EU taxonomy, in 2021 to create a classification system for environmentally sustainable economic activities in line with the EU's climate and energy targets for 2030. The EU taxonomy describes the industries that should report under the system, which economic activities fall under the framework of the taxonomy and the activities that meet the technical screening criteria to be aligned with the taxonomy requirements according to the EU's 2030 targets.

When screened, Arjo's products and services (as described on pages 28-29 and elsewhere) were not deemed to be taxonomy-eligible, and the eligible turnover is thus 0%. For total sales, see Note 2 Net sales by type of revenue.

Total capital expenditure comprise investments for the year in tangible and intangible assets, as defined in Note 13 Intangible assets (excluding goodwill) and 14 Tangible assets. Total operating expenditure comprises direct non-capitalized costs related to, for example, research and development, building renovations, short-term leases, maintenance and repairs, and other direct costs related to daily maintenance of tangible assets. In 2021, no building or machinery renovations were performed that can be related to the taxonomy, and

Risk assessment 2021



the related eligible capital and operating expenditure is thus also 0%.

Assessments and interpretations are based on the public information about the taxonomy that was available on January 31, 2022. Some parts of the EU taxonomy are still under development, and Arjo will continue to follow and evaluate the implementation of and future changes to the EU taxonomy.

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 key risks and assess how the company is to respond to and monitor them. 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 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 suppliers. 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. Computer-aided portfolio handling was introduced in 2021 and Arjo's internal legal affairs function was strengthened with additional expertise in intellectual property, which resulted in increased control and insight into the company's rights portfolio. The Management Team adopted a separate directive to enhance clarity internally about managing intellectual property rights.

Coronavirus (Covid-19)

The corona pandemic will impact 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. The organization is managing the situation well and is maintaining a close dialog with suppliers to ensure access to key components. 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 2021, Arjo continued its efforts to comply with the EU MDR that came into force in May 2021. In January 2021, Arjo's class Im products and class II intermittent pneumatic compressions were MDR certified. Arjo's class I products are MDR-compliant since May 2021. In December 2021 the product group of Pressure Area Management Systems was added to the scope of the MDR certificate. The existing CE marking applies to the remaining class I and III devices until June 2023. Activities continued during the year to ensure that these products will also be certified under the MDR by the deadline.

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 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 2021.

| | Change | SEK M |
|--------------------|----------------------|-------|
| Price change | ±1% | ± 91 |
| Cost of goods sold | ±1% | ± 49 |
| Salary costs | ±1% | ±34 |
| Interest rates | ±1% percentage point | ±43 |

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 2021. The impact of a ±1 percentage point change in interest rates on equity is about SEK 32 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 2022

Organic sales growth for 2022 is expected to be within the Group's target interval of 3–5%.