Arjo Accounting Principles

Basis of preparation and accounting policies

Basis of preparation

In view of the decision of the board of directors of Getinge AB on November 10 to propose that the extraordinary gen- eral meeting resolve to distribute Arjo AB (publ) (Arjo) through a so-called Lex Asea, these combined financial statements have been prepared for the purpose of compiling a prospectus, since Arjo's shares are to be admitted to trad- ing on a regulated market.

The following combined financial statements for Arjo were prepared in accordance with International Financial Reporting Standards (IFRS)/International Accounting Stan- dards (IAS), as approved by the EU, and the Swedish Finan- cial Reporting Board's recommendation RFR 1 Supplemen- tary Accounting Rules for Groups.

The combined financial statements encompass the three fiscal years ending December 31, 2016, 2015 and 2014.

Arjo applies the cost method to value its assets and liabili- ties, except as regards available-for-sale financial assets and financial assets and liabilities, including derivative instru- ments, at fair value through profit and loss, which are mea- sured at cost either through profit and loss or other compre- hensive income if they are hedging instruments attributable to cash-flow hedges.

Additional information about the preparation of the combined financial statements is pre- sented below.

The formation of the Arjo Group is a transaction under shared controlling influence (joint venture) and is not cur- rently encompassed by any IFRSs, which means that an appropriate accounting policy is to be applied in accordance with IAS 8. An applicable and accepted method is using pre- vious carrying amounts (predecessor basis), which is the policy that Arjo has decided to apply.

The financial statements have been prepared based on the financial information reported for the above-mentioned entities for the purposes of consolidation in Getinge AB (publ), which is Arjo's parent company. Accordingly, the financial statements are an aggregate of this financial infor- mation and are presented as if the entities had been a group from the point in time that they had been a part of Getinge Group. The accounting policies comply with the accounting policies presented in Getinge AB's consolidated financial statements for the 2016 fiscal year, as described below, and entail that the entities' assets and liabilities are presented at the carrying amounts for the highest level of the shared con- trolling influence (meaning Getinge AB) for the periods encompassed by this financial statement.

This financial statement is also Arjo's first financial state- ments that has been prepared in accordance with IFRS. Con- sidering the above, IFRS 1 has no impact on the measure- ment of assets and liabilities. However, Arjo has decided in its presentation of the financial statements to apply the vol- untary exemption in IFRS 1 to reset translation differences in the opening balance sheet for 2014 to zero.

Since not only legal entities were transferred in connec- tion with the formation of the Arjo Group, the following con- siderations were made in the preparation of the financial statements, in addition to the policies used for determining which assets, liabilities, income, expenses and cash flows were to be included in the consolidated financial statements:

Allocation of income and expenses

A prerequisite for preparing combined financial statements is that income and expenses, and assets and liabilities, are based on items that can be identified. Getinge AB has applied internal cost allocations whereby central expenses, including IT and HR functions and other group staff function expenses, were debited to the respective units, which means that related expenses for Arjo have been included in the combined financial statements.

Remuneration of senior executives

No separate disclosures on remuneration of senior execu- tives are presented since Arjo had appointed no manage- ment team during the period encompassed by these com- bined financial statements. No Board fees were paid either.

Pension commitments

The majority of the pension commitments and related plan assets were recognized by each legal entity in Arjo for all periods, and were calculated in accordance with the policies presented below. Pension commitments and the fair value for directly attributable plan assets for these pension com- mitments were recognized in the financial statements based on the calculated commitments in accordance with IAS 19. Pension commitments and assets for which consent for transfer is required from a government authority or another party were included. Costs and remeasurement effects related to these commitments are reflected in the financial statements.

Derivatives and hedge accounting

Arjo's commercial flows have been hedged in accordance with Getinge's finance policy via internal reporting for future flows, which in turn have been hedged by Getinge AB's trea- sury function. This function has handled all of Getinge Group's derivatives and hedging relationships regarding commercial flows and net investments. The derivatives and the hedge reserve attributable to Arjo regarding cash-flow hedges have been included in these financial statements.

Since the derivatives have not been directly regulated, they are recognized as transactions with owners. Net investments were not hedged.

Financial expenses and capital structure

Financial expenses charged to the entities in Arjo are based on actual borrowing and interest expenses in relation to Get- inge's central treasury function and any external borrowing in the individual entities. Arjo's historical capital structure has not reflected that of a separate, listed entity since it has primarily been financed internally. Arjo's definitive capital structure will be determined when Getinge distributes Arjo.

Income tax

As a result of Getinge being able to equalize tax between entities via group contributions and similar methods, the entities

comprising Arjo have not historically been levied tax as if they were an independent group.
Accordingly, tax in these combined financial statements is recognized based on the taxable earnings of the entities and the Group's opportunities to equalize tax via, for exam- ple, group contributions. Tax equalization that has taken place between Arjo and other Getinge companies has been recognized as a transaction with owners.

Earnings per share
The calculation of earnings per share in these financial statements is based on the average number of shares out- standing that are expected to exist when Arjo is distributed, which amounts to 272 369 573 million shares. This is deemed to be more relevant since the intention going for- ward is to reflect the share structure that will exist in Arjo due to the proposed distribution of the Company.

Elimination of transactions in Arjo
Receivables, liabilities, income, expenses, and unrealized gains and losses arising between entities in Arjo are elimi- nated in their entirety. Unrealized losses are eliminated in the same manner as unrealized gains, but only insofar as no impairment is required. Arjo has had many transactions with Getinge companies, and pricing complied with Getinge Group's transfer pricing policy. Arjo has chosen to recognize these transactions on separate rows in its balance sheet as current/non-current receivables/liabilities from/to group companies. For additional information on transactions between Arjo and Getinge, see Note 25 Transactions with related parties.

Significant events after the end of the fiscal year
Due to the potential impact of events after the closing date in accordance with IAS 10, the policy has been decided for the financial statements to only take into account such potential events in the most recent period presented, mean- ing the 2016 fiscal year. Accordingly, the 2015 and 2014 fiscal years are considered to have been completed.

Accounting and measurement policies
The basis for preparation of Arjo's combined financial state- ments is presented above.
The financial statements are presented in Swedish kronor (SEK). Unless otherwise stated, all amounts are given in mil- lions of Swedish kronor (SEK M). Figures in parentheses per- tain to operations in 2015 and 2014, unless otherwise speci- fied. Amounts for each year are separated by a semi colon.

Significant estimates and assessments
To prepare the financial statements in accordance with IFRS, company management is required to make assessments and assumptions that affect the recognized amounts of assets and liabilities, other information provided in the financial statements and income and expenses recognized during the period. Estimates, assessments and assumptions are reviewed on a regular basis. The actual outcome may diverge from these assessments, estimates and assump- tions. The board of directors and group management have deemed that the following areas may have a significant impact on Arjo's earnings and financial position:

Measurement of identifiable assets and liabilities in connection with acquisitions. In conjunction with acquisitions, all identifi- able assets and liabilities in the acquired company are iden- tified and measured at fair value, including the value of assets and liabilities in the previously owned share as well as the share attributable to non-controlling interests.

Goodwill and intangible assets with an indefinite useful life. The impairment requirement for goodwill and other intangible assets with an indefinite useful life is tested annually by Arjo in accordance with the accounting policy described here. The recoverable amount for cash generating units has been established through the measurement of value in use. For these calculations, certain estimates must be made.

Pension commitments. Recognition of the expenses for defined-benefit pensions and other applicable retirement benefits is based on actuarial valuations, relying on assump- tions for discount rates, future salary increases and expected inflation. In turn, the discount rate assumptions are based on rates for high-quality fixed-interest invest- ments with durations similar to the pension plans.

Obsolescence reserve. Inventories are recognized at the lower of cost according to the first in/first out principle, and net realizable value. The value of inventories is adjusted for the estimated decrease in value attributable to products no longer sold, surplus inventories, physical damage, lead times for inventories, and handling and sales overheads. If the net realizable value is lower than the cost, a valuation reserve is established for inventory obsolescence.

Deferred tax. The measurement of loss carryforwards and the Company's ability to utilize unutilized loss carryforwards is based on the Company's assessments of future taxable income in various tax jurisdictions and includes assumptions regarding whether expenses that have not yet been subject to taxation are tax deductible. Deferred tax is recognized in profit and loss unless the deferred tax is attributable to items recognized in other comprehensive income, in which case the deferred tax is recognized together with the under- lying transaction in other comprehensive income.

Subsidiaries
Subsidiaries are all companies (including structured entities) over which Arjo exercises a controlling influence. Arjo con- trols a company when it is exposed to or has the right to variability of returns from its holding in the company and can affect these returns through its influence over the company.

Foreign currencies
Functional currency. Transactions in foreign currencies are translated to the functional currency of the financial state- ments according to the exchange rate on the date of the transaction. Receivables and liabilities in foreign currencies are measured at the closing day rate, and unrealized cur- rency gains and losses are included in profit and loss.

Exchange-rate differences attributable to operating receiv- ables and liabilities are recognized as other operating income (operating expenses). Exchange-rate differences regarding financial assets and liabilities are recognized under "*Other financial items*." When preparing the financial statements, the balance sheets of Arjo's foreign operations are translated from their functional currency to SEK, based on the closing day rate.

Translation of foreign operations. Arjo applies the current method for translation of foreign subsidiaries' balance sheets and income statements. This means that all assets and liabilities in subsidiaries are translated at the closing day rate, and all income statement items are translated at aver- age annual exchange rates. Translation differences arising in this context are due to the difference between the income statement's average exchange rates and closing day rates, and to the net assets being translated at a different exchange rate at year-end than at the beginning of the year. Translation differences are recognized under other compre- hensive income. The total translation differences in conjunction with divestments are recognized together with the gain/ loss arising from the transaction.

Revenue recognition

Sales include products, services and leasing, excluding indi- rect sales tax and discounts provided. Income is recognized when essentially all risks and rights connected with owner- ship have been transferred to the buyer. This usually occurs in connection with delivery, after the price has been deter- mined and collection of the receivable is appropriately secured. If delivery of finished products is postponed at the buyer's request, but the buyer assumes the proprietary rights and accepts the invoice (a "bill and hold" sale), income is recognized when the proprietary rights are trans- ferred. Income is normally recognized once the buyer has accepted delivery and after installation and final inspection. However, income is recognized immediately after delivery if the installation and final inspection are of a simple nature, and after establishing provisions for estimated residual expenses. Income recognition for services takes place as and when the services are performed. Income from leasing is allocated to a particular period over the term of the lease.

Interest income is recognized continuously and dividends received are recognized after the right to the dividend is deemed secure. Internal sales are eliminated from the finan- cial statements. For larger assignments extending over more than one accounting period, where the outcome can be mea- sured in a reliable manner, income and expenses are recog- nized in relation to the degree of completion of the assign- ment on the closing date. The degree of completion of an assignment is established in a ratio between accrued assign- ment costs for work completed on the closing date and the calculated total assignment costs, except in those instances this does not correspond to the degree of completion.

Changes in the scope and claims of the assignment are included only if there is an agreement with the customer. When the outcome of an assignment cannot be calculated in a reliable manner, only the amount corresponding to the accrued assignment costs that will probably be paid by the client is recognized as revenue. Other accrued assignment costs are recognized as costs in the period in which they occur. If it is probable that the total amount of accrued assignment costs will exceed total revenue from the assign- ment, the expected loss is promptly recognized as a cost in its entirety.

Government grants

Government grants are measured at fair value when it is probable that the terms associated with the grants will be met and that the grants will be received. Government grants relating to costs are recognized in profit and loss. The income is recognized in the same period as the cost that the grants are intended to compensate. Government grants relating to the acquisition of assets reduce the assets' carry- ing amounts. Grants affect recognized earnings over the assets' useful life by reducing depreciation.

Financial income and expenses

Financial income and expenses include interest income on bank deposits and receivables, interest expenses on loans, income from dividends, unrealized and realized profits and losses on financial investments, exchange-rate differences, and the change in value of derivative instruments used in financial activities. Borrowing costs in conjunction with the raising of loans are recognized as part of the loan to which they pertain and are charged to profit during the term of the loan.

Intangible assets

Goodwill. Goodwill comprises the portion of a purchase price for an acquisition that exceeds the market value of the iden- tifiable assets, with deductions for liabilities and contingent liabilities, calculated on the acquisition date, on the share of the acquired company's assets acquired by Arjo. In a busi- ness acquisition whereby the acquisition costs are less than the net value of acquired assets, assumed liabilities and con- tingent liabilities, the difference is recognized directly in profit and loss. Goodwill arising in conjunction with the acquisition of a foreign entity is treated as an asset in the foreign entity and translated at the exchange rate on the closing date. An impairment test of goodwill is conducted at least once per year or more often if there is an indication that there could have been a decrease in value. Impairment of goodwill is recognized in profit and loss. The gain or loss in connection with the divestment of an entity includes the residual carrying amount of goodwill that pertains to the divested unit.

Other intangible assets. Other intangible assets comprise capitalized development costs, customer relationships, tech- nical know-how, trademarks, agreements and other assets. Intangible assets are recognized at cost with deductions for accumulated amortization and any impairment losses.

Amortization is applied proportionally over the asset's antic- ipated useful life, which usually varies between 3 and 15 years. Acquired intangible assets are recognized separately from goodwill if they fulfill the criteria for qualifying as an asset, implying they can be separated or they are based on contractual or other legal rights and that their market value can be established in a reliable manner. Intangible assets that are recognized separately from goodwill in the context of acquisitions of operations include customer relationships, technical know-how, trademarks, agreements, etc. Acquired intangible assets are measured at market value and amor- tized on a straight-line basis over their anticipated useful life. The useful life can, in certain cases, be indefinite. These intangible assets are not amortized. Instead they are subject to an impairment test at least every year or more often if there is an indication that there could have been a decrease in value. Costs for development, whereby research results or other knowledge is applied to produce new products, are recognized as an asset in the balance sheet to the extent that these products are expected to generate future financial benefits. These costs are capitalized when management deems that the product is technically and financially viable, which is usually when a product-development project has reached a defined milestone in accordance with an estab- lished project model. The capitalized value includes expenses for material, direct expenses for salaries and indi- rect expenses that can be assigned to the asset in a reason- able and consistent manner. In other cases, development costs are expensed as they arise. Research costs are charged to earnings as they arise. Capitalized expenses are amor- tized on a straight-line basis from the point in time at which the asset is put into commercial operation and during the asset's estimated useful life. The amortization period is between three and 15 years.

Tangible assets
Properties, machinery, equipment and other tangible assets are recognized at cost, with deductions for accumulated depreciation and any impairment losses. The cost includes the purchase price and expenses directly attributable to the asset to bring the asset to the site and in the working condi- tion for its intended use. Examples of directly attributable expenses included in the cost are delivery and handling costs, installation, legal services and consultancy services. Assets provided to the Company in conjunction with the acquisition of new subsidiaries are recognized at market value on the acquisition date. Depreciation is conducted straight line. The value in the balance sheet represents the acquisition cost with deduction for accumulated deprecia- tion and any impairment losses. Land is not depreciated since it is deemed to have an infinite economic life. However, the depreciation of other assets is based on the following anticipated useful lives:

Class of assets	Depreciation, number of years
Land	40 – 50
Buildings	10 – 50
Machinery	5 – 25
Equipment	10
Production tools	5
Equipment for rental	5
Cars	4
Computer equipment	3

Tangible assets comprising parts with different useful lives are treated as separate components of tangible assets. Stan- dard maintenance and repair costs are expensed during the periods in which they arise. More extensive repair and upgrading costs are capitalized and depreciated over the item's remaining anticipated useful life. Capital gains/losses are recognized under "*Other operating income / expenses*".

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

Operating leases. Leasing of assets whereby the lessor essen- tially remains the owner of the asset is classified as operat- ing leases, and payments made according to operating lease contracts or rental agreements are expensed proportionally during the lease or rental period, respectively. Any compen- sation, according to agreement, that the lessee is obliged to pay to the lessor if the leasing contract is terminated prema- turely is expensed during the period in which the contract is terminated.

Leasing. Arjo as lessor
Leasing agreements are defined in two categories, opera- tional and financial, depending on the financial significance of the agreement. Operating lease agreements are recog- nized as non-current assets. Income from operating leases is recognized evenly over the lease period. Straight-line depre- ciation is applied to these assets in accordance with the undertakings and the depreciation amount is adjusted to correspond with the estimated realizable value when the undertaking expires. The estimated impairment requirement is immediately charged to profit and loss. The products' esti- mated realizable value at the expiration of the undertaking is continuously followed up on an individual basis. Financial lease agreements are recognized as non-current and current receivables. Payments received from financial leasing agreements are divided between interest income and amortization of receivables.

Impairment
At the end of each accounting period, the carrying amount of the assets is assessed to determine whether there is any indication that impairment is required. If there is such an indication, the asset's recoverable amount is established. The recoverable amount is deemed to be the higher of the asset's net realizable value and its value in use, for which the impairment loss is recognized as soon as the carrying amount exceeds the recoverable amount. Previously recog- nized impairment on other intangible assets and tangible assets are reversed if the recoverable amount is deemed to have increased, although the impairment is not reversed to an amount greater than what the carrying amount would have been if no impairment had been recognized in earlier years. Recognized impairment of goodwill is not reversed.

Inventories
Inventories are measured at the lower of cost and produc- tion value, according to the FIFO principle, and net realizable value. Inventories include a share of indirect costs related to this. The value of finished products includes raw materials, direct work, other direct costs and production-related expenses including depreciation. The net realizable value is calculated as the estimated sales price less estimated com- pletion and selling expenses. An assessment of obsoles- cence in inventories is conducted on an ongoing basis during the year. The value of inventories is adjusted for the esti- mated decrease in value attributable to products no longer sold, surplus inventories, physical damage, lead times for inventories, and handling and sales overheads. If the net realizable value is lower than the cost, a valuation reserve is established for inventory obsolescence.

Financial instruments
A financial asset or financial liability is recognized in the bal- ance sheet when the Company is party to the contractual conditions of the instrument. A financial asset is derecog- nized from the balance sheet when the contractual rights to the asset are realized, extinguished or the Company loses control over them. A financial liability is derecognized from the balance sheet when the contractual obligation has been fulfilled or in some other manner extinguished. Acquisitions and sales of financial assets are recognized on the transac- tion date, which is the date on which the Company commits to acquire or sell the assets, apart from cases in which the Company acquires or sells listed securities, when liquidity-date reporting is applied.

Financial instruments are recognized at amortized cost or fair value, depending on the initial classification according to IAS 39. At the end of each accounting period, the Company assesses whether there are objective indications that a financial asset or group of financial assets requires impairment.

Financial assets measured at fair value in profit and loss. Finan- cial assets in this category comprise derivatives. They are included in current assets if they are expected to be settled within 12 months of the end of the reporting period, other- wise, they are classified as non-current assets. All deriva- tives are measured at fair value in the balance sheet.

Changes in fair value are recognized as a component of other comprehensive income insofar as they are part of a hedging relationship that qualifies as hedge accounting. They are reversed to profit and loss when the hedged trans- action occurs, at which point they are recognized as part of gross profit.

Loan receivables and accounts receivable. Assets in this cate- gory comprise non-current financial receivables, accounts receivable and other current receivables. They are included in current assets with the exception of items that fall due more than 12 months after the end of the reporting period, which are classified as non-current assets. Assets in this category are initially measured at fair value including trans- action costs.
After the acquisition date, they are recognized at amor- tized cost using the effective interest method. Accounts receivable are recognized in the amounts that are expected to be received after deductions for doubtful receivables, which are assessed on a case-by-case basis. The expected term of accounts receivable is short, which is why amounts are recognized at nominal values without discounting.
Any impairment of accounts receivable is recognized in operating expenses.

Cash and cash equivalents. The major portion of cash and cash equivalents comprises cash funds held at financial institutions, and only a minor portion comprises current liquid investments with a term from the acquisition date of less than three months, which are exposed to only an insig- nificant risk of value fluctuations. Cash and cash equivalents are recognized at nominal amounts, which are equivalent to fair value.

Other financial liabilities. This category includes liabilities to Getinge's group companies, accounts payable and other cur- rent liabilities. Non-current liabilities have an expected term longer than one year while current liabilities have a term of less than one year. Items in this category are initially mea- sured at fair value and in the subsequent periods at amor- tized cost using the effective interest method.

Hedge accounting. For derivative instruments or other finan- cial instruments that meet hedge-accounting requirements under the cash-flow hedging method, the effective compo- nent of the value change is recognized in other comprehen- sive income. Accumulated value changes from cash-flow hedges are reversed from shareholders' equity to profit and loss at the same time as the hedged item impacts profit and loss. The effect of the hedge is recognized on the same line as the hedged item.

Fair value. The fair value of derivative instruments was calcu- lated using the most reliable market prices available. This requires all instruments that are traded in an effective market, such as currency forward contracts, to be measured at marked-to-market prices. Arjo has no instruments for which no reliable prices were available in the market. Trans- lation to SEK is conducted at the closing day rate.

Remuneration of employees

Recognition of pensions. Arjo has both defined-contribution and defined-benefit pension plans, of which some have assets in special funds or similar securities. The plans are usually financed by payments from the respective group companies and the employees. Arjo's Swedish companies are generally covered by the ITP plan, which does not require any payments from employees.

Defined-benefit plans. Pension expenses for defined-benefit plans are calculated using the Projected Unit Credit Method in a manner that distributes expenses over the employee's working life. The calculation is performed annually by inde- pendent actuaries. These commitments are measured at the present value of expected future payments, with consider- ation for calculated future salary increases, utilizing a dis- count rate corresponding to the interest rate of first-class company or government bonds with a remaining term that is almost equivalent to the actual commitments. Arjo's net lia- bilities for each defined-benefit plan (which is also recog- nized in the balance sheet), comprises the present value of the obligation less the fair value of the plan assets. If the value of the plan assets exceeds the value of the obligation, a surplus arises, which is recognized as an asset. The recog- nized asset value is limited to the total of costs related to services rendered during previous periods and the present value of future repayments from the plan, or reductions in future contributions to the plan. The actuarial assumptions constitute the Company's best assessment of the different variables that determine the costs of providing the benefits. When actuarial assumptions are used, the actual results could differ from the estimated results, and actuarial assumptions change from one period to another. These dif- ferences are recognized as actuarial gains and losses. Actu- arial gains and losses are recognized in other comprehensive income for the period in which they are incurred.
Costs for defined-benefit pension plans in profit and loss comprise the total costs for service during the current and earlier years, interest on commitments and the expected return on plan assets. Costs for service during the current period and previous periods are recognized as employee costs. The interest component of pension expenses is recog- nized under financial expenses.

Defined-contribution plans. Defined-contribution plans are plans in which the Company pays fixed fees to a separate legal entity and does not have any legal or informal obliga- tion to pay additional fees. Arjo's payments for defined-con- tribution plans are recognized as expenses during the period in which the employees perform the services that the fee covers. The part of the Swedish ITP plan concerning family pension, disability pension, and employment group life insurance financed by insurance with Alecta is a
defined-benefit pension multi-employer plan. For this pen- sion scheme, according to IAS 19, a company is primarily to recognize its proportionate share of the defined-benefit pen- sion commitment and the plan assets and expenses associ- ated with the pension plan. The financial statements are also to include disclosures required for defined-benefit pension plans. Alecta is currently unable to provide the necessary information and therefore the above pension plans are rec- ognized as defined-contribution plans in accordance with item 30 of IAS 19. This means that premiums paid to Alecta will also be recognized on an ongoing basis as expenses in the period to which they pertain.

Provisions
Provisions are recognized when Arjo has a legal or informal obligation as a result of past events and it is probable that payment will be required to fulfill the commitment and if a reliable estimation can be made of the amount to be paid. Pensions, deferred tax liabilities, restructuring measures, guarantee commitments and similar items are recognized as provisions in the balance sheet. Provisions are reviewed at the end of each accounting period.

Contingent liabilities
Contingent liabilities are commitments not recognized as lia- bilities/provisions either because it is not certain that an outflow of resources will be required to regulate the commit- ment or because it is not possible to make a reliable esti- mate of the amount.

Income tax
Arjo's income tax includes taxes on group companies' profits recognized during the accounting period and tax adjust- ments attributable to earlier periods and changes in deferred taxes. Measurement of all tax liabilities/receivables is con- ducted at nominal amounts and in accordance with enacted tax regulations and tax rates or those that have been announced and will almost certainly be adopted.
Tax is recognized directly in shareholders' equity if the tax is attributable to items that are recognized directly in share- holders' equity. Deferred tax is calculated to correspond to the tax effect arising when final tax is determined. Deferred tax corresponds to the net effect of tax on all existing differ- ences between fiscal and carrying amounts of assets and lia- bilities by applying applicable tax rates. Temporary differ- ences primarily arise from the depreciation of properties, machinery and equipment, the market valuations of identifi- able assets, liabilities and contingent liabilities in acquired companies, the market valuation of investments classified as available-for-sale and financial derivatives, gains from intra-group inventory transactions, untaxed reserves and tax loss carryforwards, of which the latter is recognized as an asset only to the extent that it is probable that these loss carryfor- wards will be matched by future taxable profits. Deferred tax liabilities pertaining to temporary differences that are attrib- utable to investments in subsidiaries and affiliates are not recognized, since the parent company, in each instance, can control the point in time of reversal of the temporary differences and a reversal in the foreseeable future has been deemed improbable.

Segment reporting
Arjo's operations comprise one operating segment, which is why no operating segment information is provided under IFRS 8, except for the disclosures provided in Note 3. The reporting of operating segments corresponds to the internal reporting submitted to the chief operating decision maker. This function in Arjo was identified as the CEO.

Cash-flow statement
Cash-flow statements are prepared in accordance with IAS 7 Statement of Cash Flows, indirect method. The cash flows of foreign group companies are translated at average exchange rates. Changes in the Group structure, acquisitions and divestments are recognized net, excluding cash and cash equivalents, under "*Acquired operations*" and "*Divested operations*" and are included in cash flow from investing activi- ties.

Dividend
Dividends proposed by the board of directors are not deducted from distributable earnings until the dividend has been approved by the annual general meeting.

Alternative performance measures
Alternative performance measures are presented in this Pro- spectus to monitor Arjo's operations, the primary measures being adjusted EBITDA, cash conversion and net debt/ equity ratio.

New accounting policies applied by Arjo in 2016
No standards, amendments or interpretations effective from the fiscal year beginning on January 1, 2016 had a material impact on Arjo's financial statements.

New and revised standards and interpretations that have not yet come into effect
A number of new standards and interpretations will come into effect for fiscal years beginning on January 1, 2016 and were not applied when preparing these financial statements. None of these are expected to have any material impact on Arjo's financial statements with the exception of the following:

IFRS 9 Financial instruments
IFRS 9 Financial Instruments will come into effect for the fiscal year beginning on January 1, 2018 and replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new rules on, for example, the classification and measurement of financial instruments, impairment of financial instruments, and hedge accounting. The standard has been adopted by the EU. Arjo has initiated work to evaluate the effect of introduc- ing the standard. No new rules on the classification and measurement of material financial instruments, in the form of accounts receivable, accounts payable, liabilities to credit institutions and receivables and liabilities to group compa- nies, in the financial statements are expected. All
above-mentioned material items are recognized at amor- tized cost and will continue to be recognized according to this approach under IFRS 9.
The preliminary assessment of impairment is that reserves for expected losses could be changed even though they have not yet been quantified. Given the fact that the Group's customers have high credit ratings and confirmed customer losses have historically been low, it has been assessed that the rules on impairment will not have a mate- rial impact on the Group's financial position.
Hedge accounting is applied to currency forward con- tracts held for managing currency exposure that arises during operations. The introduction of the new standard is not deemed to entail any changes to existing accounting pol- icies for such hedges, which is why Arjo's financial position will not be impacted.
Arjo is also working on analyzing the additional informa- tion that might be required to meet the disclosure require- ments of IFRS 7.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 introduces new requirements for income recognition and replaces IAS 18 Revenue, IAS 11 Construction Contracts and several IFRS income-related interpretations. IFRS 15 is applicable to fiscal years beginning on or after January 1, 2018. The standard provides more detailed guidance in many areas that were not previously described in applicable IFRS, for example, recognizing contracts with multiple per- formance obligations, variable consideration and whether or not income is to be recognized over time. The standard has been adopted by the EU.
Work on evaluating the standard has been initiated and the analysis indicates that the current income recognition policies are compatible with IFRS 15. Accordingly, Arjo's assessment is that the standard will not have any material

impact on the financial statements. Parts of Arjo's income flows pertain to rental income that is not encompassed by IFRS 15 and thus will not be impacted by the introduction of the standard.
IFRS 15 will entail new disclosure requirements and Arjo recently initiated work to identify the information that will need to be collected from companies in the Group to meet these requirements.

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

Arjo has commenced work to analyze the effect that IFRS 16 will have on the consolidated financial statements. Arjo will review all of its contracts to determine whether there are additional contracts that will now be considered to be leases under the new definition in IFRS 16, and to verify the lease terms. This will subsequently be quantified and recognized in the Company's balance sheet. Arjo has not yet decided which transition rule to apply. Arjo will also analyze additional disclosure requirements and the impact this will have on the information that need to be collected.