

Annual Report 2016/17



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Ambu in five minutes



This year, we launched the latest version of our single-use endoscope, Ambu® aScope™ 4 Broncho. Here, it can be seen in use in intensive care.

80 years pointing ahead towards new opportunities

In 1937, a man sits in a rented room in the Østerbro borough of Copenhagen. He is preoccupied with developing a device that can make working life easier for general practitioners and their patients. More specifically, a brand-new device which will make it possible for doctors to measure blood counts in their own practice instead of having to send the patient's blood sample to a laboratory.

The man is Holger Hesse. He is an engineer and entrepreneur and has just set up his own business.

The business is Ambu, and we are confident that Holger Hesse would be proud if he could see his business today. He would see 2,500 women and men who work every day to help doctors and patients worldwide. He would see a number of innovative products, no doubt recognising the principles behind some of them, while others would be of a different world. And he would see a culture based on curiosity, cooperation and a quest for quality that would resonate with his own ideas.

We have created a new market

Ambu has been transformed several times in the course of the 80 years that have passed since its foundation. The latest transformation was our 'Climbing New Heights' strategy from 2013 to 2017. In 2013, we had just acquired King Systems and thus established production in the USA. We were posting average quarterly revenue of DKK 346m. For the financial year we are now closing, we are posting average quarterly revenue of DKK 589m.

It is also worth noting that a quarter of our revenue in 2016/17 came from a product category which hardly played any role in the financial statements for 2012/13, namely Visualisation. In the past four years, we have succeeded in creating a market for single-use endoscopes which did not exist before. A market where, in the past year alone, we have generated revenue of more than half a billion Danish kroner. A market created through focused product development in close collaboration with doctors and based on a belief that we can solve some of the challenges facing hospitals in the form of time-consuming procedures and the risk of infection. This year, we have launched Ambu® aScope™ 4 Broncho, thereby increasing our relevance by covering more clinical procedures.

A shift in perspective

At Ambu, we are satisfied with our results over the past four years.

In many ways, Ambu has grown into a large enterprise. Compared with the early years and decades, the company has, of course, come an incredibly long way, but Ambu has also grown significantly in more recent years. This is, for instance, illustrated by the development on NASDAQ Copenhagen. When Ambu was listed it was as a Small Cap company. Four years ago, Ambu moved to Mid Cap, and 1st of January 2017, we became part of Large Cap. We have more than 25% more employees than five years ago. We are market leaders for several of our core products, such as resuscitation bags and electrodes, and we are leading in single-use endoscopes, spearheading product development and the dialogue with healthcare professionals.

Compared to our new competitors – i.e. the companies which our single-use endoscopes compete against – we are a small enterprise among giant conglomerates. Seen from this perspective, we have a completely different role and not least a potential which is far from having been unleashed.

Big Five 2020

We presented our 2020 strategy in early October 2017, just after the end of the financial year. It is a strategy which is very much about unleashing potential. Both the potential that comes from having many years of experience and solid knowledge of one's business, and the potential that is associated with all the opportunities that lie ahead.

The title of the 2020 strategy is Big Five, and it is ambitious, because that is how Ambu works best. The way to realise the strategy is by keeping up the good work, while at the same time expanding our business. Organic growth will not do it alone, and this is why, at the end of October, we acquired Invendo Medical as a supplement to our Visualisation business and to address the considerable potential in single-use endoscopes for gastrointestinal procedures.

We are privileged in many ways. Ambu has 80 years of history to lean on – setting us free and binding us in equal measure – and we have a future full of opportunities. Just as Holger Hesse would have wished.

Jens Bager
Chairman of the Board

Lars Marcher
President & CEO

Financial highlights

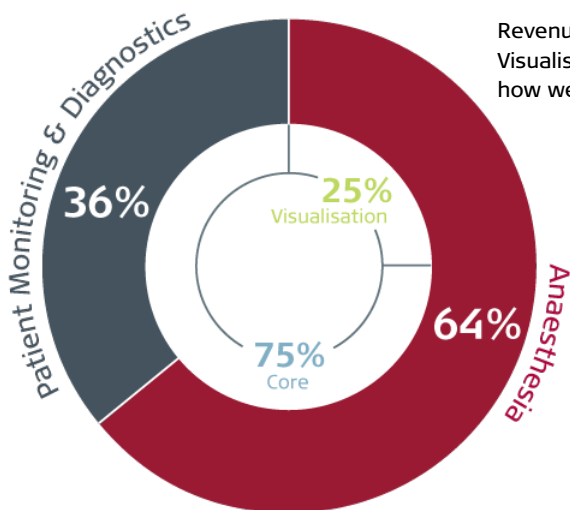
DKKm	2016/17	2015/16	2014/15	2013/14	2012/13
Income statement					
Revenue	2,355	2,084	1,889	1,584	1,383
Gross margin, %	56.5	53.9	50.9	52.4	51.1
EBITDA before special items	555	458	332	286	235
Depreciation	-45	-47	-48	-46	-43
Amortisation	-60	-55	-48	-42	-31
EBIT before special items	450	356	236	198	161
EBIT	450	356	236	198	100
Net financials	-57	-30	-21	10	-30
Profit before tax	393	326	215	208	70
Net profit for the year	301	250	152	151	48
Balance sheet					
Assets	2,500	2,364	2,252	2,045	1,850
Net working capital	457	519	549	450	391
Equity	1,279	990	1,034	852	649
Net interest-bearing debt	767	955	731	739	721
Cash flows					
Cash flows from operating activities	462	369	208	183	122
Cash flows from investing activities before acquisitions	-141	-84	-101	-80	-54
Free cash flows before acquisitions of enterprises and technology	321	285	107	103	68
Acquisitions of enterprises and technology	0	-155	-17	-112	-704
Cash flows from operating activities, % of revenue	20	18	11	12	9
Investments, % of revenue	-6	-4	-5	-5	-4
Free cash flows before acquisitions of enterprises, % of revenue	14	14	6	7	5
Key figures and ratios					
Organic growth, %	14	9	9	7	6
Rate of cost, %	37	37	38	40	39
EBITDA margin before special items, %	23.6	22.0	17.6	18.1	17.0
EBIT margin before special items, %	19.1	17.1	12.5	12.5	11.6
Tax rate, %	23	23	29	27	31
Return on equity, %	27	25	16	20	7
NIBD/EBITDA before special items	1.4	2.1	2.2	2.6	3.1
Equity ratio, %	51	42	46	42	35
Net working capital, % of revenue	19	25	29	28	28
Return on invested capital (ROIC), %	22	19	12	12	11
Average no. of employees	2,503	2,337	2,270	2,333	1,984
Share-related ratios					
Market price per share, DKK	487	356	181	106	56
Earnings per share (EPS) (DKK)	6.35	5.27	3.16	3.19	1.01
Diluted earnings per share (EPS-D) (DKK)	6.19	5.13	3.06	3.12	1.01
Cash flow per share	9.49	7.63	4.31	3.83	2.56
Equity value per share	26	21	21	18	14
Price/equity value	18.6	17.0	8.6	5.9	4.0
Dividend per share	1.85	1.55	0.95	0.94	0.31
Pay-out ratio, %	30	30	30	30	31
P/E ratio	77	68	57	33	55

For definitions, reference is made to note 5.9 to the consolidated financial statements.

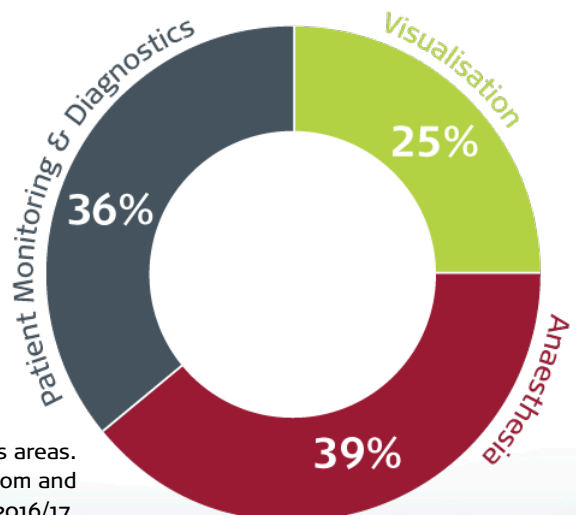
Ambu – in brief

 <p>Supplies medical devices for hospitals and ambulances</p>	 <p>Global sales. Directly and via distributors</p>	 <p>Production in China, Malaysia and the USA</p>	 <p>2,500 employees all over the world</p>	 <p>Founded in 1937</p>
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Breakdown of revenue 2016/17



VISUALISATION	ANAESTHESIA	PMD
• Single-use endoscopes	• Resuscitators	• Cardiology electrodes
• Video laryngoscopes	• Laryngeal masks	• Neurology electrodes
• Airway tubes with integrated camera	• Face masks	• Training manikins
	• Breathing circuits	• Neck collars



Highlights 2016/17

Revenue

DKK **2,355**m

+14% organic

Gross margin

56.5%

+2.6 percentage points

EBITDA

DKK **555**m

+21%

EBITDA margin

23.6%

+1.6 percentage points

EBIT

DKK **450**m

+26%

EBIT margin

19.1%

+2.0 percentage points

Free cash flows

DKK **321**m

+13%

Proposed dividend

DKK **1.85**/share

+19%

Primary events in 2016/17



Strategy and financial targets



In October 2017, Ambu acquired Invendo Medical GmbH, which has developed a platform of single-use endoscopes for gastrointestinal procedures.

Industry

As a global medtech company, Ambu is part of the healthcare industry. The industry is undergoing constant and dramatic changes due to technological advances which are increasingly paving the way for new and – clinically or economically – better solutions within established treatment areas.

Focus on health economics

National healthcare budgets have come under increasing pressure in recent years, which has led to pressure on prices in most product categories, but also to a markedly increased focus on optimising existing courses of treatment – for the benefit of the economy as well as patients. Increasing demands on efficiency pressurises hospitals into thinking along new lines.

At the same time, population growth and increasing life expectancies are fuelling an increased demand for the treatment of lifestyle diseases, for surgical procedures and for cosmetic treatments.

Economic and demographic developments mean that Ambu – as well as our competitors – are experiencing an increased pressure on prices as well as a need to document the efficacy of our products. Ambu has, in recent years, been able to mitigate the pressure on prices, and we are seeing an average drop in our prices of approx. 0.5% a year. Ambu is devoting more and more resources to health economics, i.e. to documenting the beneficial effects of our products on patient care and the hospitals' economy – over and above the clinical benefits.

Statutory requirements

Market conditions are thus becoming tougher, and the competition for market share is intense. At the same time, stricter standards are being imposed on suppliers by the authorities. The local registration of new products remains a challenge, often taking years.

Hygiene and infection control

Following a number of incidents, for example in the USA, the US Food and Drug Administration has warned of a number of hygiene-related challenges due to the inadequate cleaning of endoscopes. This has directed particular attention to the risk of infection and cross-contamination associated with multiple-use endoscopes.

Against this background, Ambu has built a position as a leading supplier of single-use products which eliminate the risk of infection. In addition, the use of single-use scopes also contributes to improving hospital procedures, thus increasing the relevance of the Ambu aScope, which is characterised by being sterile, among other things.

The challenges associated with the risk of infection from using non-sterile endoscopes are particularly pressing in connection with examinations of the gastrointestinal tract, which is one of the reasons why Ambu sees considerable potential in the acquisition of Invendo Medical GmbH.

Market opportunities

Ambu focuses on developing and selling single-use products which optimise working procedures, reduce costs and enhance patient care.

Thanks to our experience and size, we are strongly positioned in relation to our competitors and in terms of meeting customer needs and regulatory requirements. At the same time, Ambu is playing a vital role in operating theatres, as most of our products help doctors maintain patients' airways during surgical procedures. From this favourable position, Ambu therefore has considerable scope for realising further growth.

Business model

Ambu develops, manufactures and sells equipment for hospitals and rescue services all over the world. We develop our products in close collaboration with doctors and nurses, in order to most effectively ensure that our solutions are relevant for our customers.

Global product development

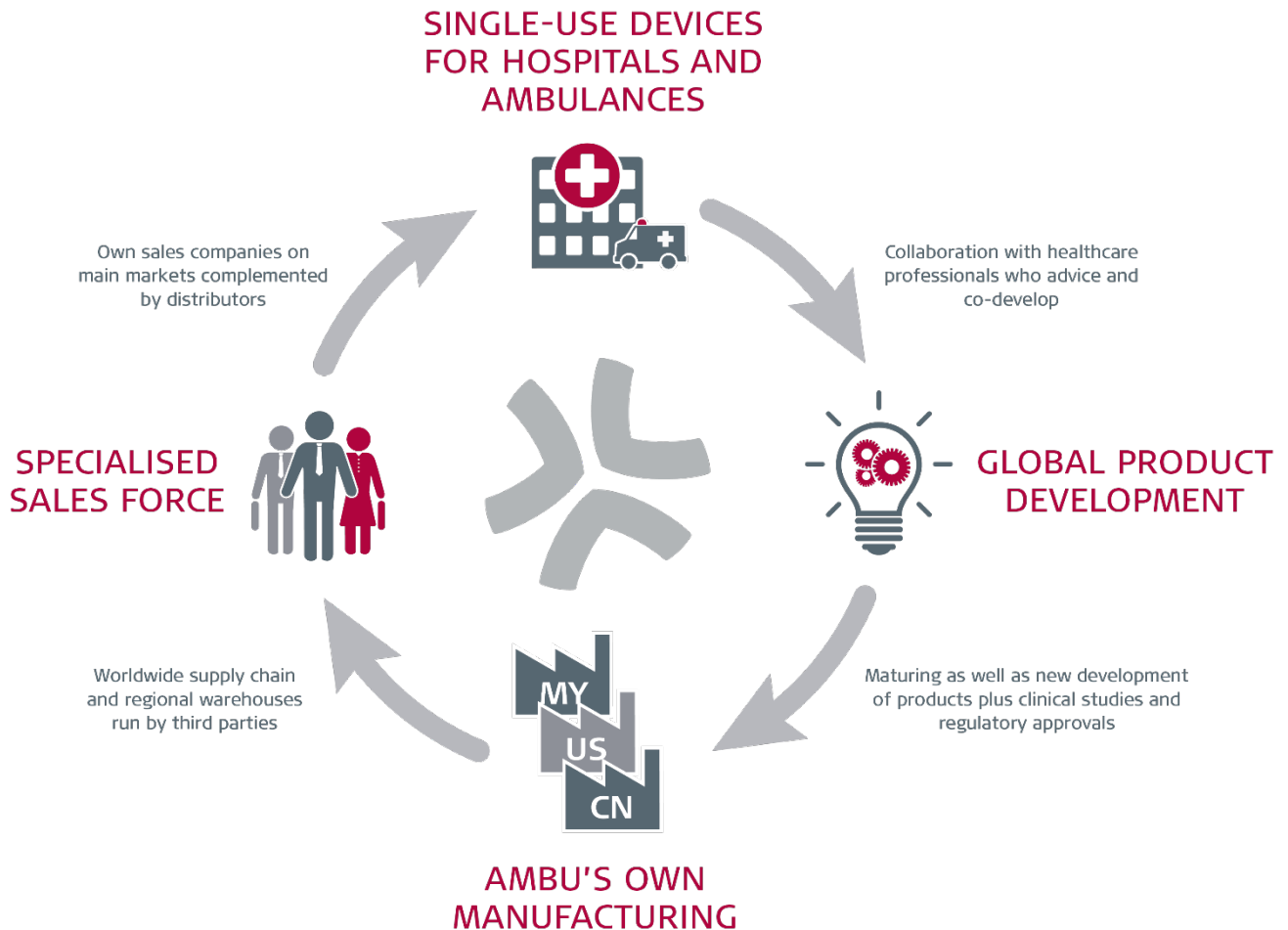
Ambu's product development is global. Our innovation centre is located in Denmark, where we focus on developing new products, but we also have local development departments at each of our factories in China, Malaysia and the USA.

Our own factories

We own and operate our own factories, which produce approx. 90% of the products we sell. The remaining approx. 10% of the products we sell are produced mainly by four to five subsuppliers with whom Ambu has been working for many years.

Specialised sales force

Most of our revenue is generated through our own direct sales. Ambu has sales reps in 19 countries, and over the past few years, we have increased our sales force, which has also become further specialised within our various business areas. Also, we have taken on a number of so-called clinical consultants to help customers optimise their use of our visualisation products.



Strategy

Ambu completed its four-year strategy Climbing New Heights at the end of the 2016/17 financial year. After three years, we had realised the overall financial targets, and after the official end of the strategy period, we can finally take stock.

	Results in 2017	Targets from 2013
Revenue	DKK 2.4bn	At least DKK 2bn
EBIT margin	19.1%	At least 17%
Working capital ratio	19%	25% or less

Posting revenue of DKK 2,355m, an EBIT margin of 19.1% and a working capital ratio of 19%, we have more than met the targets in the Climbing New Heights strategy.

Investments

The results follow in the wake of a number of investments which mean that our business is today stronger than ever.

Our future success will depend on our innovation power. Without relevant products and solutions, we cannot ensure strong organic growth. This is why since 2013 we have more than doubled our development department and increased our investments in development from DKK 47m to DKK 98m.

We have secured our production capacity through continuous optimisations of our factories and through the construction of a new factory in Malaysia with the capacity to produce up to four million endoscopes annually. The factory will be commissioned in January 2018.

Over the past four years, we have increased and trained our sales force to ensure that we have more sales reps and more specialised sales reps to ensure a stronger focus within the individual business areas. Our product portfolio has become very broad and diverse, and selling electrodes and selling endoscopes call for very different skills.

The most recent expansion of our sales organisation will take place in the USA in the course of the first half of 2017/18, where we will be investing in further specialisation.

Big Five 2020

Ambu's 2020 strategy is called 'Big Five'. The strategy builds on our existing strengths and takes aim at the potential that we see ahead of us.

Big Five identifies five areas which will set the direction for our work in the next three years.

1) Go for big potentials in Visualisation

Ambu has established a platform for single-use endoscopes which – given the position built by aScope and following the acquisition of Invendo Medical – will ensure high double-digit growth towards 2020. Our agenda is to:

- establish aScope as the hospitals' preferred choice for respiratory procedures
- expand our product portfolio so that Ambu addresses at least 50% of all endoscopy procedures.

2) Build on core

Our core business is relevant and is used by doctors, nurses and paramedics every day the world over. We want to build on this foundation and accelerate our growth even further by:

- increasing the relevance of our solutions for current users and settings
- protecting our position as a supplier of high-quality products.



3) Business boosters

In order to grow and support our business, we need to commercialise Ambu further through new concepts and solutions. We are going to:

- make acquisitions and form new partnerships to strengthen Ambu's position
- digitalise Ambu further
- intensify sales across Ambu
- keep up our high rate of innovation.

4) Enhance organisation

As part of the new strategy, we must develop and expand our organisation. Our agenda is to:

- stay grounded in the Ambu culture
- reap the benefits of shared services across the global organisation
- ensure that Ambu remains the best place to work.

5) x3 efficiency

2020 is three years away. In order to realise our ambitions, we must rethink the way we work with a view to increasing our relevance to patients and further increasing the efficiency of our working processes.

Financial targets for 2020

Our strategy translates in the following revenue and earnings targets:

Revenue

It took 75 years to get to 1 billion Danish kroner. Four years to hit 2 billion. We are now going to try to reach 5 billion Danish kroner in three years. Not an easy task, but we are going for 'the big five'.

5 billion DKK

We will approach the five billion in revenue through an average annual organic growth of 13-15% on Ambu's current product assortment supplemented by acquisitions of companies and technologies.

Earnings

During the previous strategy period, we achieved global scaling and made the necessary investments in development, production and sales. We are now ready to increase our EBIT margin to approx. 24-25% based on organic growth excluding acquisitions.

**+5 %-points
on EBIT margin**

In 2020, Ambu expects to increase free cash flow relative to revenue by a total of 3%-points to 18% excluding impact from non-recurring investments in buildings.

Financial outlook for 2017/18

In 2017/18, Ambu expects to achieve organic growth of approx. 13%, and each of our three business areas is expected to exceed the underlying growth rate in the market.

In the Visualisation business area, sales of endoscopes are expected to grow by approx. 40%, equating to minimum sales of 500,000 items in 2017/18. Sales will be of endoscopes for pulmonary and urological procedures, in particular, with no appreciable sales of endoscopes for gastrointestinal procedures.

The Anaesthesia business area is expected to grow by approx. 5%. The strongest growth will be realised for products such as resuscitation bags, laryngeal masks and breathing circuits.

The PMD business area is generally the most competitive of our markets, and also the most price-sensitive market. Based on price reductions of approx. ½-1%, PMD is expected to grow by 3-4%.

Market conditions

The general market growth in both Europe and North America is expected to remain at a low level of approx. 1-3%. The economic situation is challenging, and the general competitive situation is not changing materially.

Ambu enjoys a special position in the market, particularly on account of our single-use endoscopes for pulmonary and urological procedures, which is the most important reason for the overall growth outlook of ~13%.

In the USA, 36 new salespeople will be taken on during H1 2017/18, and the sales organisation will be reorganised for the purpose of increased specialisation within each of our three business areas. In recent years, Ambu has positioned itself as a leading supplier of single-use products and as a strong partner for the large general purchasing organisations (GPOs). This strategy will create continued growth opportunities for Ambu.

The European economies are still characterised by low economic growth, with no changes over the past 18 months. There are no immediate signs that this situation is going to change.

In the rest of the world, Ambu has realised double-digit growth rates in recent years, and the contribution margin from these regions is becoming increasingly important for Ambu's aggregate growth. This development is expected to continue in 2017/18.

In 2017/18, the pressure on prices is expected to be similar to previous years, i.e. a very modest approx. 0.5%. The strongest pressure on prices will be seen within PMD and Anaesthesia. However, the overall gross margin may still be increased as growth is driven by products generating above-average margins, and we

also see further potential for scaling and streamlining our factories.

Currency expectations

The outlook for 2017/18 is based on the following exchange rate assumptions:

	Expected exchange rate for 2017/18	Change in relation to 2016/17
USD/DKK	635	-6%
CNY/DKK	95	-4%
MYR/DKK	150	-3%
GBP/DKK	830	-3%

Just over 50% of Ambu's total revenue is invoiced in USD. In addition, just under 45% of revenue is invoiced in EUR or DKK, and the remaining approx. 5% in GBP. Production costs are settled in USD, MYR and CNY.

The effect of a strengthening of 10% relative to the Danish krone is estimated to be as follows for the main currencies:

DKKm	USD	MYR	CNY	GBP
Revenue	130	0	0	15
EBIT	30	-15	-15	10
EBIT margin	0.0%	-0.6%	-0.6%	+0.3%

Financial outlook

The financial outlook, calculated at the expected exchange rates for 2017/18, are unchanged against company announcement no. 2 of 25 October 2017 concerning the acquisition of Invendo Medical GmbH:

- Organic growth in local currencies of approx. 13%
- EBIT margin of approx. 20%
- Free cash flows of approx. DKK 275m

The expected EBIT margin of approx. 20% corresponds to an improvement in the level of 1 percentage point.

The outlook for the free cash flows corresponds to approx. 11% of revenue calculated before acquisitions of enterprises and technology but after an investment of approx. DKK 75m in buildings.

Adjusted for the DKK 75m investment in buildings, free cash flows of approx. 14% of revenue are expected in 2017/18, while in 2016/17, free cash flows corresponding to 15% of revenue were realised, adjusted for building investments in the amount of DKK 40m. The 1 percentage point reduction in the adjusted relative cash flows is due to increased investments in product development, including investments in our gastrointestinal business.

Acquisitions and partnerships

As an integrated part of its strategy, Ambu is working to identify companies and products that can supplement its current product portfolio. The outlook for the year may naturally be affected by new acquisitions and/or major new partnerships.

Financial outlook for 2017/18*	Local currencies	Danish kroner
Organic growth	Approx. 13%	-
EBIT margin	-	Approx. 20%
Free cash flows before acquisitions	-	Approx. DKK 275m

*Financial outlook for 2017/18 was first made public on 4 October 2017 in company announcement no. 1 2017/18 and later in company announcement no. 2 2017/18. The outlook stated above is unchanged since company announcement no. 2 2017/18.

Forward-looking statements

Forward-looking statements, especially such as relate to future sales, operating income and other financial key figures, are subject to risks and uncertainties. Various factors, many of which are outside Ambu's control, may cause the actual development of the company to differ materially from the expectations contained in this report. Such factors include, but are not confined to, changes in market conditions and the competitive situation, changes in demand and purchasing patterns, fluctuations in foreign exchange and interest rates, and general economic, political and commercial conditions.

See also the section on risks on page 23.

Financial results



Ambu's BlueSensor™ electrodes are known for providing a clear signal and for being gentle on the skin. Here, they are used to measure heart rate during a so-called stress test.

Revenue and growth – Business areas

The reporting on the individual business areas follows the new structure announced in connection with the presentation of the interim report for Q3 2016/17, and which is described on page 6.

To provide a complete picture, in the quarterly overview on page 20 growth is shown for both structures. All the growth realised for the year is considered to be organic.

Anaesthesia

Within Anaesthesia, sales declined by 1% in local currencies and 5% in Danish kroner in Q4. Full-year growth of 3% was realised both in local currencies and in Danish kroner.

The growth realised by Anaesthesia was less than the expected 4-5% announced in the interim report for Q3. The primary reason is lower-than-expected growth in the USA due to lower-than-expected sales of breathing circuits, as well as increased focus on Visualisation, which has impacted our efforts within Anaesthesia. The initiated division of the US sales force into Visualisation and Anaesthesia will strengthen our focus on both business areas and thus create a better starting point for achieving the long-term ambition of 5% growth within Anaesthesia.

Exclusive of breathing circuits, the remaining 70% of our Anaesthesia activities – laryngeal masks, face masks and resuscitation bags – have grown by an aggregate 6% (4%). In Europe and Rest of World the growth in Anaesthesia was 7% and 28%, respectively.

Visualisation

Our Visualisation activities grew by 73% in local currencies and by 68% in Danish kroner in Q4. Full-year growth of 63% in local currencies, or 62% in Danish kroner, was realised.

Visualisation accounted for an aggregate 25% (18%) of Ambu's revenue in 2016/17, which is in accordance with the outlook for the overall development communicated throughout 2016/17.

A total of 115,000 (60,000) scopes were sold in Q4, corresponding to volume growth of 92%.

To support the financial outlooks announced in 2016/17, in the interim reports we described our expectations as regards the sales of endoscopes for the year. In Q1, sales of 275-300,000 endoscopes were forecast, whereas in Q3, the forecast had been raised to approx.

350,000 endoscopes. At year-end, sales of 364,000 endoscopes had been realised, corresponding to a growth rate of 82% (100%). The growth is evenly distributed on the various territories; however, with a relative increase in sales in the USA.

aScope prices have been stable, and the realised margin is on a par with earlier levels. The most important impact on the average sales prices can be attributed to the sales channel, i.e. whether Ambu sells directly or via distributors, who are then paid a standard distributor margin.

In 2016/17, Ambu launched two new Visualisation products, thereby demonstrating increased relevance and potential for future growth. The two products are Ambu® aScope™ 4 Broncho and VivaSight with integration to the aScope platform. In addition, following the acquisition of Invendo Medical on 25 October 2017, Ambu has a new platform in the form of single-use endoscopes for gastrointestinal procedures.

Ambu® aScope™ 4 Broncho contains a number of innovative technological features, which means that the aScope can be used for upwards of 50% more procedures – growing the global potential from approx. three million annual procedures to five million pulmonary endoscopy procedures a year. The innovations include improved depth of field, improved adaptive lighting control and improved mechanical control sensitivity.

Ambu® aScope™ 4 Broncho has been developed in cooperation with bronchoscopy experts and is now being released for sale in Europe, Australia and selected markets in Asia. Ambu expects to obtain FDA market clearance in the USA at the beginning of 2018.

VivaSight is the product acquired by Ambu in 2016 from the Israeli company ETVision and consists of single-use double and single lumen tubes with integrated high-resolution camera. The VivaSight products are now integrated with the aScope monitor.

While increasing patient safety, VivaSight allows continuous visual monitoring of the positioning of the tube throughout the surgical procedure. Through continuous monitoring via direct video recording, the doctor can see immediately if the tube has moved and move it back into place. This is a major step forward for patient safety.

Revenue – business areas

	Q4			Composition of growth			YTD			Composition of growth		
	16/17	Distribution	15/16	Organic*	Currencies	Reported	16/17	Distribution	15/16	Organic*	Currencies	Reported
Anaesthesia	232	37%	244	-1%	-4%	-5%	923	39%	894	3%	0%	3%
Visualisation	178	28%	106	73%	-5%	68%	597	25%	369	63%	-1%	62%
PMD	219	35%	223	1%	-3%	-2%	835	36%	821	3%	-1%	2%
Revenue	629	100%	573	14%	-4%	10%	2,355	100%	2,084	14%	-1%	13%

*Local currencies

Construction of new factory

Our current production capacity for endoscopes is in the level of 450,000 units, and back in 2015/16, it was decided to build a new factory in Malaysia dedicated to the production of endoscopes. At the end of 2016/17, construction had been completed, and work had started on the interior fitting-out of the factory.

Still outstanding is clean-room calibration, with commissioning of the factory planned for the beginning of January 2018. The factory will have a maximum capacity in the level of four million endoscopes a year, distributed on four floors. In January 2018, the first of the four floors will be taken into use, while the remaining three floors will be taken into use successively and in step with requirements, without any need for significant additional investments.

Patient Monitoring & Diagnostics (PMD)

In Q4, PMD sales were up 1% in local currencies, but down 2% in Danish kroner. For the full financial year,

growth of 3% was posted in local currencies, and 2% in Danish kroner. This is just in line with the 3-4% growth outlook announced most recently in the interim report for Q3.

All in all, PMD sales accounted for 36% (39%) of Ambu's revenue in 2016/17.

The PMD business area consists of three product lines: cardiology, neurophysiology and first aid. Cardiology accounts for approx. 50% of PMD sales, while the other two product groups each account for around 25%.

Within PMD, neurophysiology is posting the strongest growth with double-digit growth rates for both Q4 and for the full year.

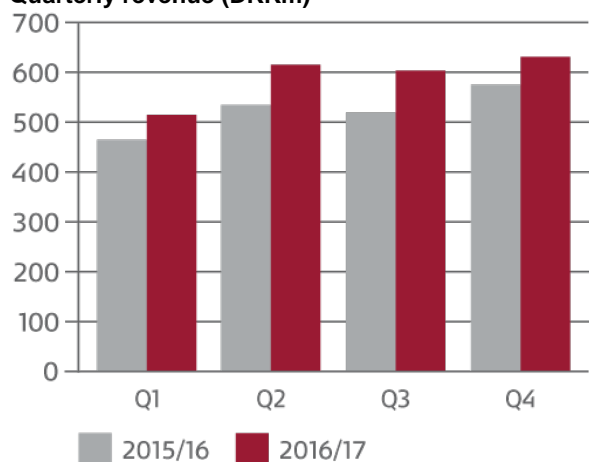
In 2016/17, the cardiology market was once again the most competitive product groups for Ambu, but positive aggregate growth was nevertheless realised, both in Q4 and for the full year.

Revenue and growth – Markets

For both Q4 and the full year, all three sales regions realised double-digit growth in revenue, and growth above the underlying market growth. As usual, higher revenue was posted in Q4 than in any other quarter, with revenue of DKK 629m (DKK 573m) being realised, corresponding to growth of 14% (8%) in local currencies and 10% (7%) in Danish kroner.

Measured in local currencies, Q4 revenue accounted for 28% (28%) of revenue for the year.

Quarterly revenue (DKKm)



Revenue – markets

	Q4			Composition of growth			YTD			Composition of growth		
	16/17	Distribution	15/16	Organic*	Currencies	Reported	16/17	Distribution	15/16	Organic*	Currencies	Reported
Europe	244	39%	210	18%	-2%	16%	962	41%	865	13%	-2%	11%
North America	303	48%	286	11%	-5%	6%	1,106	47%	989	12%	0%	12%
Rest of the world	82	13%	77	10%	-4%	6%	287	12%	230	24%	1%	25%
Revenue	629	100%	573	14%	-4%	10%	2,355	100%	2,084	14%	-1%	13%

*Local currencies

All three sales regions posted high double-digit growth for the full year within Visualisation, with a high degree of uniformity in terms of market penetration and customer behaviour across the markets.

In Europe, Anaesthesia posted 7% growth for the year, which is high compared to the underlying growth in the market. Realising 4% growth, PMD also had a satisfactory year.

As mentioned previously, in North America sales focus shifted from Anaesthesia towards Visualisation, which resulted in the highest growth for Visualisation in North America in 2016/17 of all markets. On the other hand, growth for Anaesthesia and PMD was somewhat lower than expected.

In the rest of the world, Anaesthesia realised growth of 28% in 2016/17, while the growth rate for PMD was 7%. The growth rates are in line with expectations and the high historical growth rates in this region. However, specifically for Q4, growth was slightly lower than expected due to timing differences in sales to Latin America.

Income statement

Revenue and gross profit

Revenue for the year was DKK 2,355m based on growth of 14% (9%) in local currencies and 13% (10%) in Danish kroner.

Gross profit was up 18% to DKK 1,331m (DKK 1,124m), while the gross margin increased 2.6 percentage points to 56.5% (53.9%). The increase was evenly distributed across the year, with a gross margin in Q4 of 59.1% (55.5%).

The gross profit development was generally in line with expectations, with the increase being attributable partly to a profitable product mix following the strong growth in sales of endoscopes, partly to the continued optimisation of production processes.

Furthermore, significant economies of scale have been realised as the overheads associated with factory operations increased significantly more slowly than the growth in revenue. In connection with the commissioning of the new factory for the production of endoscopes in January 2018, the factory overheads are not expected to increase significantly.

The aggregate effect of the pressure on prices is deemed to have been approx. 0.5% in 2016/17. This is unchanged compared to previous years and recognised in the improved gross margin as explained above. The pressure on prices is seen in the business units Anaesthesia and PMD. There seems to be no tendency for a pressure on prices for Visualisation products, which are sold at fixed prices, except for the deviations associated with the sales channel.

Currency exposure

Just over 50% of Ambu's total revenue is invoiced in USD. In addition, just under 45% of revenue is invoiced in EUR or DKK, and the remaining approx. 5% in GBP.

Production costs are settled in USD, MYR and CNY.

In 2016/17, the average USD/DKK exchange rate was 675 (671) and thus increased by less than 1%, while the average CNY/DKK and MYR/DKK exchange rates both decreased by 4%. GBP/DKK fell by 11%. All in all, the impact of exchange rates on revenue and earnings was therefore very limited compared to 2015/16, with no net effect on EBIT from the changes in foreign exchange rates.

Costs

Efficiency improvements and cost control are key priorities for Ambu, but on the other hand, double-digit growth rates cannot be maintained without investments. Capacity costs totalled DKK 881m (DKK 768m) in 2016/17.

Total capacity costs are impacted by a number of factors. Since 2015/16, Ambu has succeeded in reducing total freight and supply chain costs by approx. 2 percentage points, and freight and supply chain costs now equate to approx. 7% of revenue. This reduction had a significant

impact on the net increase in capacity costs in 2015/16, and the 6% increase in costs in 2016/17 should be seen in light of this. This was also described in the annual report for 2015/16.

In addition, capacity costs in 2016/17 include integration and transaction costs of DKK 15m in connection with the acquisitions of ETVision Medical Ltd. and Invendo Medical GmbH as well as costs relating to the expansion of the sales organisation in the USA initiated in Q4. The estimated aggregate impact of these activities on the cost increase in 2016/17 is approx. 4-5 percentage points. The 13% increase in capacity costs for the year against an increase in 2015/16 of 6% should be seen in light of this.

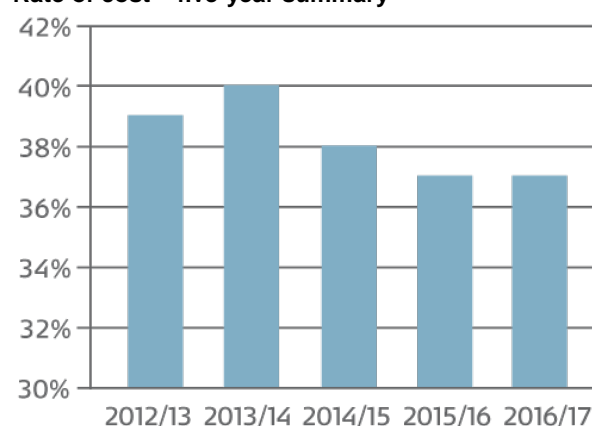
The rate of cost was 37% (37%).

Selling and distribution costs rose by 12% to DKK 539m. At the end of 2016/17, the sales organisation has more than 400 employees, corresponding to an increase of 10% relative to 2015/16.

Development costs increased by 15% to DKK 76m. The cash effect of the development activities was up 46% to DKK 98m, see note 2.5 to the consolidated financial statements.

Management and administrative expenses increased by 16% to DKK 256m. The increase is attributable, among other things, to transaction costs in connection with the acquisition of Invendo Medical GmbH, as well as a general increase in activity levels in Q4.

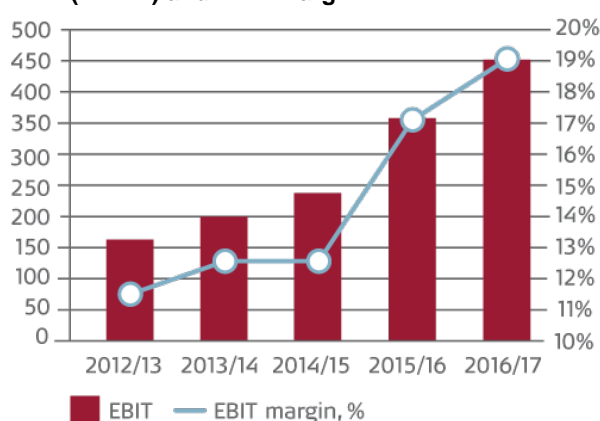
Rate of cost – five-year summary



Operating profit (EBIT)

EBIT was DKK 450m (DKK 356m), corresponding to an EBIT margin of 19.1% (17.1%) and thus a 26% increase in nominal EBIT inclusive of costs of DKK 10m associated with the integration of ETVision.

EBIT (DKK m) and EBIT margin



Net financials

Net financial expenses of DKK 57m were posted, against net financial expenses of DKK 30m the year before.

The changes are composed as follows:

- Interest expenses on bank and bond debt totalled DKK 33m (DKK 30m).
- Translation adjustments of working capital for subsidiary and market value adjustments of interest and currency swaps resulted in aggregate translation adjustments of DKK -24m (DKK +4m).
- Adjustment of the earn-out provision and the interest element of shorter discounting period of DKK 0m (DKK -4m).

The increase in translation adjustments is due to the weakening of USD against DKK, which has resulted in non-cash losses in Ambu A/S on intra-group balances.

Tax on profit for the year

The profit for the year adjusted for non-deductible and non-taxable items is taxed at a rate of 23% (23%).

Net profit

This results in a net profit of DKK 301m (DKK 250m).

Balance sheet

At the end of September 2017, Ambu had total assets of DKK 2,500m (DKK 2,364m). Following the acquisition of Invendo Medical GmbH on 25 October 2017, Ambu's total assets and liabilities have changed significantly. This is described in the consolidated financial statements, note 5.7.

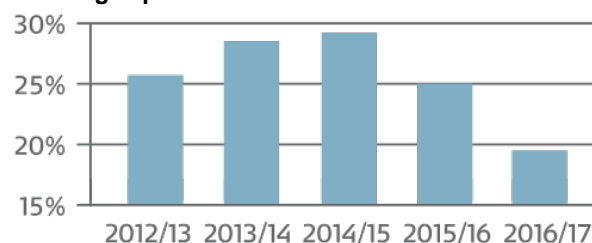
At the end of 2016/17, the net working capital had been reduced to DKK 457m (DKK 519m), corresponding to 19% (25%) of revenue for the year. At the end of FY 2014/15, the net working capital amounted to 29%. Over the past two financial years, Ambu has thus succeeded in significantly reducing funds tied up in this way, primarily due to lower investments in trade receivables and to a lesser extent reduced investments in inventories. There is some potential for further reductions, but at 19% most of the potential is deemed to have been realised.

At year-end, trade receivables amounted to DKK 437m (DKK 416m). This corresponds to a reduction in the

average number of credit days by a further two days to 65 (67).

The credit risk attaching to outstanding trade receivables is deemed to be unchanged, and the year was not affected by bad debts to any significant extent.

Working capital relative to revenue



At year-end, inventories totalled DKK 313m (DKK 287m), corresponding to 13% (14%) of revenue for the year.

At the end of September 2017, cash totalled DKK 19m (DKK 35m).

At the end of September 2017, Ambu had unutilised credit facilities of approx. DKK 1.0bn. To provide financing for Invendo Medical GmbH, after the end of the financial year, the credit facilities have been increased by an additional DKK 1bn, taking the unused facilities at the time of presentation of the annual report for 2016/17 to approx. DKK 2bn. The equivalent of up to DKK 1.7bn was committed in connection with the acquisition of Invendo Medical GmbH on 25 October 2017.

On 25 October 2017, it was announced in company announcement no. 2 that the idea of increasing the Class B share capital by approx. 3% is currently being considered with a view to securing Ambu's capital base before end of calendar year 2017. Danske Bank is committed to managing this process.

At the end of September 2017, financial net debt totalled DKK 767m (DKK 955m), of which DKK 700.5m is financed via corporate bonds. Interest-bearing net debt totalled 1.4 (2.1) x EBITDA for the year.

Cash flow statement

Free cash flows

Cash flows from operating activities amounted to DKK 462m (DKK 369m).

Income tax payments of DKK 91m (DKK 75m) are recognised. Changes in net working capital make a positive contribution of DKK 19m (DKK 8m) to cash flows, as other receivables were reduced, while trade payables and other payables were increased in the course of the year.

Cash flows from the accounting item Purchase of non-current assets totalled DKK -159m (DKK -84m), corresponding to 7% (4%) of revenue. Investments include investments in the factory in Malaysia to the tune of DKK 40m, exclusive of which investments for the year total 5% of revenue. These investments consist mainly of investments in production plant and equipment, and development projects.

Ambu's former manufacturing site in Ølstykke was sold in September 2017 at a cash price of DKK 16m against a book value of DKK 17m. The manufacturing site was operational until 2011 and has since been developed to a business park that hosts minor businesses on a lease basis.

Hereafter, free cash flows before acquisitions of enterprises and technology amounted to DKK 321m (DKK 285m), corresponding to 14% (14%) of revenue.

No acquisitions of enterprises or technology were made in the course of the financial year, whereas in 2015/16 such acquisitions reduced cash flows by DKK -155m in the form of intellectual property rights, primarily related to breathing circuits in the amount of DKK 59m, and ETVIEW Medical Ltd. in the amount of DKK 93m.

Free cash flows after acquisitions of enterprises and technology amounted to DKK 321m (DKK 130m).

Financing activities

Cash flows from financing activities totalled DKK -323m (DKK -80m), and relate to dividend paid and changes in debt items, incentive scheme payments as well as the acquisition of treasury shares.

Equity

At the end of September 2017, equity totalled DKK 1,279m (DKK 990m), corresponding to 51% (42%) of total assets. Following the acquisition of Invendo Medical GmbH in October 2017, the equity ratio has been significantly reduced as the value of the acquired assets

in Invendo Medical GmbH have been financed through loan capital. For further details, see note 5.7 in the consolidated financial statements.

Other comprehensive income

Equity is significantly affected by translation adjustments from the translation of the balance sheets of foreign subsidiaries in the amount of DKK -54m (DKK -4m) as a result of the weakened USD/DKK exchange rate.

Other equity

In December 2016, a dividend of DKK 75m (DKK 46m) was declared, of which DKK 73m (DKK 45m) has been paid out to the company's shareholders, with DKK 2m (DKK 1m) pertaining to Ambu's portfolio of treasury shares.

In 2016/17, Ambu employees exercised a total of 158,584 options in Ambu A/S, and Ambu's holding of treasury shares has been reduced accordingly, so that at the end of September 2017, Ambu's portfolio of Class B treasury shares stood at 1,206,888 shares (1,365,472 shares), corresponding to 2.48% (2.82%) of the total share capital.

In addition, at the end of September 2017, Ambu employees had exercised a total of 337,200 warrants to subscribe for shares in Ambu A/S at a subscription price corresponding to a total of DKK 21m.

In certain jurisdictions, Ambu obtains a deduction for employees' gains from the exercise of options and warrants. During the year, equity was increased by DKK 82m (DKK 50m), corresponding to the value of the deduction of employee gains.

Follow-up on announced outlook & results realised in 2016/17

Ambu most recently raised its outlook for 2016/17 in connection with the interim report for Q3 (23 August 2017). The realised results for FY 2016/17 are on a par with or exceed the raised outlook.

	Local currencies				
	Realised	23 August 2017	2 May 2017	1 February 2017	8 November 2016
Organic growth	14%	Approx. 14%	12-14%	9-11%	8-10%

	Danish kroner				
	Realised	23 August 2017	2 May 2017	1 February 2017*	8 November 2016*
EBIT margin*	19.1%	Approx. 19%	Approx. 19%	Approx. 18%	Approx. 18%
Free cash flows*	DKK 321m	Approx. DKK 300m	DKK 250-275m	Approx. DKK 200m	Approx. DKK 175m
Gearing	1.4	Approx 1.4	Approx. 1.5	Approx. 1.6	Approx. 1.75

* The outlook for the EBIT margin announced on 8 November 2016 and 1 February 2017 was before integration costs relating to the acquisition of ETVIEW. In the outlook for the EBIT margin and free cash flows as of 2 May 2017 onwards, integration costs of DKK 10m have been included as having been paid. No additional costs are expected to be incurred in connection with the integration of ETVIEW.

Quarterly results

DKKm	Q4 2016/17	Q3 2016/17	Q2 2016/17	Q1 2016/17	Q4 2015/16	Q3 2015/16	Q2 2015/16	Q1 2015/16
Revenue	629	601	613	512	573	517	532	462
Composition of reported growth:								
Organic growth in local currencies, %	14	16	14	11	8	9	8	11
Exchange rate effects on reported growth, %	-4	0	1	0	-1	-2	2	8
Reported revenue growth, %	10	16	15	11	7	7	10	19
Organic growth, products:								
Anaesthesia, %	22	23	20	19	9	18	13	13
PMD, %	1	5	4	0	5	-2	1	8
Organic growth in local currencies, %	14	16	14	11	8	9	8	11
Organic growth, products:								
Anaesthesia, %	-1	9	-2	8	2	-3	-1	-1
Visualisation, %	73	50	77	50	30	109	80	86
PMD, %	1	5	4	0	5	-2	1	8
Organic growth in local currencies, %	14	16	14	11	8	9	8	11
Organic growth, markets:								
Europe, %	18	13	16	5	5	12	12	16
North America, %	11	13	10	12	7	9	4	8
Rest of the world, %	10	40	19	36	18	2	12	-1
Organic growth in local currencies, %	14	16	14	11	8	9	8	11
Gross profit	372	343	341	275	318	284	279	243
<i>Gross margin, %</i>	<i>59.1</i>	<i>57.1</i>	<i>55.6</i>	<i>53.7</i>	<i>55.5</i>	<i>54.9</i>	<i>52.4</i>	<i>52.6</i>
Selling and distribution costs	-144	-131	-132	-132	-121	-116	-121	-123
Development costs	-20	-20	-18	-18	-15	-18	-17	-16
Management and administration	-74	-62	-60	-60	-51	-56	-56	-58
Other operating expenses	0	0	-10	0	0	0	0	0
<i>Total capacity costs</i>	<i>-238</i>	<i>-213</i>	<i>-220</i>	<i>-210</i>	<i>-187</i>	<i>-190</i>	<i>-194</i>	<i>-197</i>
Operating profit (EBIT)	134	130	121	65	131	94	85	46
<i>EBIT margin, %</i>	<i>21.3</i>	<i>21.6</i>	<i>19.7</i>	<i>12.7</i>	<i>22.9</i>	<i>18.2</i>	<i>16.0</i>	<i>10.0</i>
Financial income	8	-13	-5	23	-2	8	-13	13
Financial expenses	-29	-9	-6	-26	-9	-14	2	-15
Profit before tax	113	108	110	62	120	88	74	44
Tax on profit for the period	-26	-26	-26	-14	-28	-13	-22	-13
Net profit for the period	87	82	84	48	92	75	52	31

Quarterly results (continued)

DKKm	Q4 2016/17	Q3 2016/17	Q2 2016/17	Q1 2016/17	Q4 2015/16	Q3 2015/16	Q2 2015/16	Q1 2015/16
Balance sheet:								
Assets	2,500	2,501	2,507	2,529	2,364	2,248	2,299	2,269
Net working capital	457	483	506	491	519	492	570	548
Equity	1,279	1,157	1,105	1,000	990	970	858	938
Net interest-bearing debt	767	896	997	1,061	955	853	958	883
Cash flows:								
Cash flows from operating activities	160	139	90	73	101	196	50	22
Cash flows from investing activities before acquisitions of enterprises and technology	-32	-40	-39	-30	-22	-24	-19	-19
Free cash flows before acquisitions of enterprises and technology	128	99	51	43	79	172	31	3
Acquisitions of enterprises and technology	0	0	0	0	-93	-62	0	0
Cash flows from operating activities, % of revenue	25	23	14	14	18	38	9	5
Investments, % of revenue	-5	-7	-6	-6	-4	-5	-3	-4
Free cash flows before acquisitions of enterprises and technology, % of revenue	20	16	8	8	14	33	6	1
Key figures and ratios:								
Capacity costs	238	213	220	210	187	190	194	197
Rate of cost, %	38	35	36	41	33	37	36	43
EBITDA	161	156	147	91	154	121	113	70
EBITDA margin, %	25.6	26.0	24.0	17.8	26.9	23.4	21.2	15.2
Depreciation	-12	-11	-11	-11	-12	-12	-12	-11
Amortisation	-15	-15	-15	-15	-11	-15	-16	-13
EBIT	134	130	121	65	131	94	85	46
EBIT margin, %	21.3	21.6	19.7	12.7	22.9	18.2	16.0	10.0
NIBD/EBITDA	1.4	1.6	1.9	2.2	2.1	1.9	2.4	2.4
Net working capital, % of revenue	19	21	23	23	25	24	28	28
Share-related ratios:								
Market price per share (DKK)	487	420	300	284	356	276	232	210
Earnings per share (EPS) (DKK)	1.83	1.73	1.78	0.96	1.94	1.58	1.09	0.65
Diluted earnings per share (EPS-D) (DKK)	1.78	1.69	1.73	0.93	1.88	1.53	1.06	0.63

Corporate governance and shareholder information



The original Ambu Bag – the world's first manual resuscitator – was invented in 1956. This bag is kept at the head office and is normally protected against sunlight.

Risk management

Ambu has established policies and procedures which guarantee the efficient management of the identified risks, and the Ambu management focuses on ensuring satisfactory clarity about the group's risks at all times.

Risk policy and risk-taking

Risk assessments are naturally integrated into Ambu's decision-making processes, and an important element in ensuring continued growth. Risk management also contributes to protecting Ambu's business, employees, assets and reputation.

Ambu's activities involve a number of general and specific commercial and financial risks which may have a negative impact on the company's future growth, activities, financial standing and results. Ambu seeks to identify and quantify these risks via internal control and risk management systems, and the risks are hedged and limited to the greatest possible extent. However, the nature of Ambu's business, including production and development of new products, means that the company undertakes risks on an ongoing basis. The risk management systems are designed to ensure that only calculated risks are taken, and that these are constantly monitored and managed.

The risks which are deemed to have the largest potential impact on Ambu's business are described below. The description is not necessarily exhaustive, however, and the risk factors are not ranked in any order of priority.

Commercial and CSR risks

Competition and market conditions

In all Ambu's most important markets, there is a constant economic and political focus on reducing healthcare costs – a trend which is only further exacerbated in an environment of low global economic growth. At the same time, there is a general demand for efficiency increases in the healthcare sector. These structural changes are leading to a pressure on prices, while at the same time low-priced copies of products are being marketed in some product areas.

Ambu is constantly seeking to adapt its business to respond to these trends, among other things via the following activities:

- As an integrated part of product development, the question of how new products can contribute to streamlining hospital routines is considered. This is a principal element in the development of single-use products. Through clinical and health economics studies, Ambu is also working to document the savings and benefits of using Ambu's products, and the resulting data are used actively in connection with sales activities. A good example is Ambu's visualisation products.
- Ambu is constantly seeking – where this is possible based on clinical documentation and health economics studies – to position its products so that the price will not be the crucial parameter.

- Over the past few years, Ambu has upgraded its competences in the field of sales via group purchasing organisations (GPOs). In Ambu USA, significant competences have been built up over many years within this field, as a large part of hospital purchasing takes place via this channel. In Europe, the proportion of purchases made via group purchasing organisations is stable. On the other hand, the use of public tenders is widespread.
- By having factories in China, Malaysia and the USA, production costs are optimised, and close interaction is maintained with the most important markets, thereby maintaining Ambu's competitiveness. There is ongoing focus on optimising production and on identifying the most expedient locations and structure, including partnerships with production in India.
- In recent years, Ambu has focused on optimising its supply chains. An efficient and competitive supply chain is crucial to ensuring that we can control the commercial and regulatory risks to which we are exposed by virtue of our global presence.
- For all strategic products, Ambu aims to have the necessary technical expertise in-house so as to be independent of development companies.

Product development

Ambu's possibilities for realising its strategic targets depend on its ability to develop unique, high-quality products which are in demand from hospitals and clinics.

Developments in the medtech industry are fast-paced, and having a commercial understanding of the long-term needs of the sector is crucial to remain market-leading. An example of this is the conversion from multiple-use endoscopes to single-use products.

Ambu takes a targeted approach to improving its existing products, developing new products and generally strengthening the company's ability to innovate, for example by ensuring a strong commercial focus in its product development activities. Considerable investments are continuously being made in product development and the marketing of new products, and resources are continuously being invested in systems which can monitor the contributions made by individual projects and products to achieving the financial targets.

In connection with the development of new products, there is considerable focus on the environmental impacts of the materials used.

Ability to attract and retain employees

In order to attract and retain employees with the right competences, Ambu focuses on developing the individual employee, on continuous career development and on delegating a considerable degree of responsibility to its employees.

Finally, the offering of competitive terms of pay and employment is ensured at all times.

Trademarks, branding and patents

The company logo and name create coherence between the company and its products and make the company easily recognisable to its customers and stakeholders. The Ambu name is included in all product names, and the active branding is intended to help prevent plagiarism. A branding strategy and a branding manual have been prepared to ensure the ongoing updating of the Ambu brand.

It is company policy to patent products with a high market value or growth potential. In the medtech industry, opinions often differ as to whether a given product is patented or not, for which reason patent cases may result in considerable costs to protect Ambu's rights or to defend Ambu against alleged infringements of patents. To minimise the risk of such cases being instituted, before embarking on any new projects, Ambu makes a point of ascertaining whether patents exist within a particular project area, thereby establishing what sort of 'freedom to operate' Ambu can expect.

Ambu pursues a policy of selectively registering trademarks for its most important products in its most important markets.

Production and quality

Operating disturbances or stoppages at Ambu's production units may affect Ambu's ability to deliver. In order to manage this risk, the production units are subject to regular inspections, including inspections by external insurance brokers, consulting engineers etc. The conclusions from such reviews, combined with our own ongoing monitoring of the production environment, regularly result in the introduction of new measures in the form of fire protection, validation of alternative suppliers of critical components and raw materials as well as the building of buffer stocks.

The siting of Ambu's production facilities has been based on a risk assessment, including, among other things, an assessment of the risk of natural disasters, of the political climate, of issues related to foreign exchange and of the possibilities of attracting employees with the required qualifications.

In step with the growth in revenue, production capacity is continuously being assessed, resulting in continuous expansion of Ambu's production facilities as well as factory capacity.

Ambu's products are most often used in critical situations, and product quality is vital to the company's commercial success. Quality assurance is therefore a focus area for Ambu, both due to external regulatory requirements and as an active commercial parameter. With a view to meeting user needs and minimising patient risks, risk assessments, clinical trials and process validations are carried out in connection with product development and production, and Ambu's quality organisation is strengthened on an ongoing basis. Ambu lives up to the requirements of the US Food and Drug Administration (FDA) and the European CE requirements.

For all components and raw materials which are related to strategic products, the supply chain for production is ensured either by working with more than one subsupplier or by increasing the safety inventories to an appropriate level.

In FY 2016/17, Ambu was not inspected by the FDA, but in 2015/16 two inspections were made of the factories in Asia.

As regards the FDA warning letter issued in October 2013 to the factory in the USA, the FDA has informed us that this has been withdrawn with effect from 4 October 2017. The FDA re-inspected the factory in April 2015, and Ambu subsequently submitted a plan for the correction of the observations raised. Ambu has had no dialogue with the FDA regarding this warning letter since then.

Ambu organises regular mock inspections by independent consultants with a view to ensuring continuous improvements to the quality of our systems and processes.

IT security

Ambu has established special procedures to be followed in the event of potential IT breakdowns. The emergency support system includes, among other things, the conclusion of service level agreements for all business-critical systems and the use of external data hosting, while redundancy has been established for the most important business systems. In recognition of the complexity involved in maintaining this emergency support system – for example maintaining the necessary IT competences to ensure general IT security – the operation and maintenance of networks and servers, back-up, access and firewalls have been outsourced to a reputable external partner from June 2017.

Insurance

The company's insurance policy lays down the overall framework for the extent and management of insurance risks. The insurance policy contains guidelines on the group's security and insurance matters. Insurance matters and insurance risks are assessed annually in cooperation with insurance brokers. In addition to statutory insurance cover, the company has taken out product liability and operating loss insurance. Properties, operating equipment and inventories are covered on an all-risk basis at replacement cost.

Financial risks

The developments in Ambu's results and equity are impacted by a number of financial risks, including foreign exchange risks, interest rate risks, liquidity risks and credit risks. Ambu has centralised the management of financial risks in the group's finance function, which also acts as a service centre for all subsidiaries. The group does not engage in speculative transactions. Financial risks and financial risk management are described in further detail in note 4.1 to the consolidated financial statements.

Corporate governance

Principles

Ambu is managed with reference to the company's vision, mission, values, Code of Conduct and the Five Star Leadership management concept. The legal framework for Ambu's management is constituted mainly by statutory requirements, stock exchange rules and company law, see Section 107 b of the Danish Financial Statements Act (*Årsregnskabsloven*), NASDAQ Copenhagen's Recommendations on Corporate Governance, best practice and the company's internal rules on insider trading and the handling of confidential information by the management and employees.

Shareholders

The shareholders own Ambu and exercise their right to make decisions at the annual general meeting, for example adopting the annual report, deciding on amendments to the Articles of Association, electing members of the Board of Directors and appointing the company's auditors. At the annual general meeting, shareholders are entitled to ask the Board of Directors and the Executive Board questions and suggest items for consideration.

All shareholders are entitled to attend and vote at the annual general meeting. The notice convening the annual general meeting is published at least three weeks and a day and at the most five weeks before the date of the meeting. The documents are sent out to shareholders who have requested this. The notice can also be found on the Ambu website.

Ambu's Articles of Association do not impose any restrictions on ownership or voting rights, but the share capital is divided into Class A and Class B shares. Class A shares carry ten votes per share, while Class B shares carry one vote per share.

The Class A shares are non-negotiable, and according to Ambu's Articles of Association, a transfer of more than 5% of the total number of Class A shares at a price higher than that quoted for the company's Class B shares can take place only if the buyer offers all holders of Class A and Class B shares to buy their shares at the same price.

The Board of Directors regularly discusses the existing ownership structure with the holders of Class A shares. The Board of Directors and the holders of Class A shares agree that the ownership structure has been and remains expedient for all the company's stakeholders, as it creates a sound framework for the implementation of Ambu's strategy and plans, thereby safeguarding the interests of all shareholders. Moreover, the ownership structure does not restrict the planned activities in any way.

Board of Directors

Ambu has a two-tier management structure, consisting of the Board of Directors and the Executive Board. The

two bodies are independent of each other, and there is no overlap in membership.

On behalf of the shareholders, the Board of Directors is responsible for the overall management of Ambu, the formulation of objectives and strategies as well as the approval of the overall budgets and action plans. The Board of Directors also performs overall supervision of the company's activities, and ensures that Ambu is managed in a responsible manner and in compliance with legislation and the Articles of Association.

Composition of the Board of Directors

The Board of Directors currently has six members who have been elected by the shareholders at the annual general meeting and three members elected by the employees pursuant to the Danish rules on employee representation. The members elected by the shareholders are elected for one year at a time. The age limit is 65 years for new appointments and 70 years for reappointments. The employee-elected members are elected for a four-year term as stipulated by law.

In recent years, a gradual succession has taken place among the members elected by the shareholders. While the Chairman and the Vice-chairman have been members of the Board of Directors for seven years, the other members of the Board of Directors elected by the general meeting have served for between two and six years. The succession has brought new competences to the Board of Directors, and a good mix of different experience, backgrounds and ages has been created.

For the Board of Directors to undertake its responsibilities and act as a good sounding board for the Executive Board and the Executive Management Team, the following competences are particularly relevant: Insights into the management of a global growth company, insights into the medico and medtech industries with both public and private-sector customers, experience with innovation, experience with the acquisition and divestment of enterprises and insights into risk management and financial affairs. Ambu's Board of Directors is deemed to possess these competences and to be of the right size.

None of the members elected by the shareholders represent a controlling shareholder or have direct or indirect interests in the company over and above their interests as shareholders. All members elected by the annual general meeting are considered to be independent members, as defined by NASDAQ Copenhagen.

Duties of the Board of Directors

The Board of Directors held a total of 14 (12) meetings during the financial year, of which 13 were physical meetings and one was a conference call. On one occasion, one board member elected by the general meeting was unable to attend.

The Executive Management Team participates in the meetings of the Board of Directors to ensure a direct

dialogue and that the Board of Directors is well-informed about the company's operations.

Moreover, the Audit Committee held five meetings during the year. The Audit Committee consists of three members of the Board of Directors, in addition to which the President & CEO and the CFO participate in the meetings. The auditors appointed by the general meeting also participate in the meetings. The purpose of the committee is to assist the Board of Directors in ensuring the quality and integrity of the presentation of the company's financial statements, reporting and auditing.

The Audit Committee reviews and discusses Ambu's risk exposure and initiatives launched to counter these risks. At the same time, the committee monitors all accounting and reporting processes, the auditing process and the work and independence of external auditors. The Charter of the Audit Committee and the review of the control and risk management systems in connection with the financial reporting can be found at www.ambu.com/auditcom.

The Board of Directors has set up a Remuneration Committee with three members of the Board of Directors, which held three meetings in the course of the financial year. Ambu's President & CEO participates in the meetings. The duties of the committee are to ensure that the remuneration offered by Ambu is competitive and sufficient to attract and retain the members of the Executive Board and to recommend future incentive schemes. The Charter of the Remuneration Committee can be found at www.ambu.com/remunerationcom.

In addition, the Board of Directors has established a Nomination Committee, which consists of the Chairman and the Vice-chairman of the Board of Directors. Ambu's President & CEO occasionally participates in the committee meetings. The committee has held one meeting. The Nomination Committee is charged with evaluating the composition of the Executive Management Team and with evaluating and possibly renewing the Board of Directors so as to ensure that the board members live up to the requirements and possess the skills needed in a fast-growing company. The Charter of the Nomination Committee can be found at www.ambu.com/nominationcom

Executive Board

The Board of Directors appoints the Executive Board and lays down its terms of employment. The Executive Board is responsible for Ambu's day-to-day management, including the development of Ambu's activities and operations, its risk management, financial reporting and internal affairs. The Executive Board also prepares the company's strategy, budgets and targets for presentation to the Board of Directors. The delegation of powers and responsibilities by the Board of Directors to the Executive Board is described in Ambu's Order of Business and the provisions of the Danish Companies Act (*Selskabsloven*).

The Executive Board consists of President & CEO Lars Marcher and CFO Michael Højgaard.

Corporate governance

The Board of Directors has considered the new recommendations from the Committee on Corporate Governance (www.corporategovernance.dk) from May 2013, and as most recently amended in November 2014, and has systematically reviewed the recommendations in a document which can be found on the Ambu website (www.ambu.com/corpgov).

Ambu complies with all the committee's recommendations.

Report on the gender composition of the management, pursuant to Section 99 b of the Danish Financial Statements Act

Both on the Board of Directors and generally, Ambu will ensure that the most qualified person is appointed to a given position. The performance of all employees and managers is therefore assessed with reference to individual targets, and managers at all levels are measured in 180-degree surveys and assessed by their superiors and employees with reference to the Five Star Leadership management concept. The evaluations form the basis of, for example, promotions and the delegation of new responsibilities to ensure that such decisions are based on performance and objective criteria.

As a global group, Ambu wants to encourage diversity and create equal opportunities for all, regardless of gender, age, ethnicity and political and religious convictions. This ambition is described in Ambu's Code of Conduct, which can be found on the Ambu website (www.ambu.com/CoC), and a policy has been prepared to ensure an increased proportion of women in management.

At present, all members of the Board of Directors elected by the shareholders are men, while two of the employee-elected members of the Board of Directors are women. In 2016/17, Ambu worked to find a female candidate for the Board of Directors and thereby expand the number of Board members elected by the general meeting from six to seven for the purpose of fulfilling the objective that at least one member of the Board of Directors elected by the general meeting should be of the underrepresented gender in 2017.

The work involved dialogues with a number of qualified female candidates. For various reasons, none of which are gender-related, it has not been possible to nominate one of the identified candidates for election at the general meeting in December 2017.

It is Ambu's ambition that at least one seventh of the Board members elected by the general meeting should be women before the end of 2019/20.

In connection with the presentation of the annual report, it was ascertained that the share of female managers at other management levels (meaning employees with HR responsibilities) in companies covered by the requirements in Section 99 b of the Danish Financial

Statements Act has fallen from 40% last year to 37% this year. Ambu will therefore continually pursue the policy which has already been adopted for increasing the proportion of members of the underrepresented gender at other management levels.

The policy contains the following initiatives to promote the female gender:

1. In recruiting managers, the proportion of female candidates short-listed for a position must equal the proportion of female applicants for the position.

2. In connection with internal promotions to managerial positions, the aim is for at least one female candidate to be proposed.
3. All female managers are offered membership of a network.

For a complete report on Ambu's corporate governance, including the policy on diversity and the Board of Directors' views on all the recommendations from the Committee on Corporate Governance, see the Corporate Governance section on the website (www.ambu.com/corpgov).

Board of Directors and Executive Board

Board of Directors

Jens Bager, born 1959

Chairman, member of the Board since 2010.
Chairman of the Nomination Committee and the Remuneration Committee.
Position: Professional board member since 2016.
Honorary offices: Better Collection A/S (C), Poul Due Jensen Fonden (Grundfos Fonden) (MB).
Special competences: General management of international, listed companies within the ingredients and pharmaceutical industries.
No. of shares: 80,000 (80,240).

Mikael Worning, born 1962

Vice-Chairman of the Board of Directors, member of the Board since 2010.
Member of the Audit Committee and the Nomination Committee.
Position: President & COO of William Demant Inc.
Honorary offices: Various companies in the William Demant Group (MB).
Special competences: General management experience with focus on international sales and marketing of medtech products and management of international sales organisations.
No. of shares: 12,280 (12,280).

Pernille Bartholdy, born 1972

Member of the Board since 2013.
Position: Portfolio Management Coordinator. Elected by the employees.
No. of shares: 10 (0).

Oliver Johansen, born 1971

Member of the Board since 2015.
Member of the Remuneration Committee.
Position: Senior Vice President, Global R&D, Coloplast A/S.
Honorary offices: Acarix A/S (MB), Neurescue ApS (MB).
Special competences: General management experience in the field of global innovation, production, sales and distribution of medtech products.
No. of shares: 0 (884).

Jakob Bønnelykke Kristensen, born 1972

Member of the Board since 2013.
Position: Director, Innovation Project Management, Global Innovation.
Elected by the employees.
No. of shares: 1,606 (1,548).

Allan Søgaard Larsen, born 1956

Member of the Board since 2011.
Member of the Remuneration Committee.
Co-owner of investment companies Liberatio A/S and Liberatio Investments A/S.
Owner of the family company Toft-Larsen Holding A/S.
Honorary offices: Blæksprutten ApS (C), Dentalteamet Holding A/S (C), Liberatio A/S (C), Conferize A/S (C), Løkkefonden (MB), Toft-Larsen Holding A/S (MB).

Special competences: General management and special experience within the development and operation of international business activities in the cross-field between the public and private sectors.
No. of shares: 40,000 (40,000).

Anita Krarup Frederiksen, born 1975

Member of the Board since 2013.
Position: Vice President, Corporate Legal, HR & IP.
Elected by the employees.
No. of shares: 2,382 (1,940).

Christian Sagild, born 1959

Member of the Board since 2012.
Chairman of the Audit Committee.
Position: CEO of Topdanmark A/S and Topdanmark Forsikring A/S.
Honorary offices: Forsikring & Pension (MB).
Special competences: General management of a listed company, special insights into financial matters and risk management.
No. of shares: 25,000 (37,000).

Henrik Ehlers Wulff, born 1970

Member of the Board since 2015.
Member of the Audit Committee.
Position: Executive Vice President of Novo Nordisk A/S.
Honorary offices: Novo Nordisk Pharmatech A/S (C), NNE Pharmaplan A/S (MB).
Special competences: General management with experience in the field of global production, supply chain management and quality management, particularly in the area of GMP.
No. of shares: 2,129 (0).

Executive Board

Lars Marcher, born 1962

President & CEO since 2008.
Honorary offices: Subsidiaries in the Ambu group (C), Handicare AB (C), Confederation of Danish Industry – Committee on International Market Policy (C), Medicoindustrien (C), Danish American Business Forum (VC), Confederation of Danish Industry – Committee on Health Policy (MB), Danske Hospitalsklovne (MB).
No. of shares: 32,073 (31,696).

Michael Højgaard, born 1964

CFO since January 2013.
Honorary offices: Subsidiaries in the Ambu group (C/MB).
No. of shares: 4,324 (4,048).

Honorary offices and shareholdings as per 1 October 2017. C = Chairman of the Board of Directors, VC = Vice-Chairman of the Board of Directors, MB = member of the Board of Directors

Remuneration

Remuneration policy

According to the remuneration policy adopted by the general meeting, the remuneration paid to the Board of Directors and the Executive Board must be competitive and ensure that Ambu is able to attract and retain the necessary competences. The remuneration offered must also be structured so as to promote value creation and appropriately align the interests of the management with the interests of the shareholders.

Executive Board

The remuneration for the Executive Board is determined by the Board of Directors based on market levels, Ambu's financial position and the competences, efforts and results of the individual members of the Executive Board. Members of the Executive Board receive a fixed basic remuneration, the usual benefits such as company car and telephone, pension as well as cash bonuses and share options. In the past financial year, the remuneration received by the Executive Board totalled DKK 17.1m (DKK 15.9m), which is composed as follows for the two members of the Executive Board:

DKKm	Lars Marcher		Michael Højgaard	
	2016/17	2015/16	2016/17	2015/16
Fixed salary	5.3	4.8	2.6	2.3
Pension	0.5	0.5	0.2	0.2
Bonus	4.5	4.1	1.5	1.4
Share options	1.4	1.5	0.7	0.7
Other	0.3	0.3	0.1	0.1
Total	12.0	11.2	5.1	4.7

Ambu has one-year bonus programmes for the Executive Board and the rest of the Executive Management Team as well as other managers and specialists. The Executive Management Team receives a cash bonus if the company as a whole meets the targets defined. Bonuses for other managers and specialists are conditional upon overall targets for the company as well as area-specific targets.

The notices of termination to be given by Ambu to members of the Executive Board cannot exceed 18 months, and the notice of termination to be given by the members of the Executive Board to Ambu cannot normally exceed 9 months. Moreover, any severance pay to members of the Executive Board, for example in the event of a change of control, is subject to a maximum value corresponding to two years' remuneration.

Board of Directors

Members of the Board of Directors do not receive variable remuneration and are not part of share-based incentive programmes, but receive a fixed annual remuneration, which is approved by the general meeting.

In 2016/17, the basic remuneration for board members, which was most recently adjusted at the general meeting in December 2014, constituted DKK 225,000. The

Chairman receives three times the basic remuneration, while the Vice-Chairman receives two times the basic remuneration. Furthermore, the chairmen of the board committees receive a remuneration of DKK 125,000, while committee members receive DKK 75,000. The total remuneration paid to the Board of Directors, including the board committees, constituted DKK 3,250,000 in 2016/17. (2015/16: DKK 3,250,000). Members of the Nomination Committee do not receive a separate fee.

Warrants

Since 2012, Ambu has every year allocated warrants to a number of senior employees in the global organisation. The most recent allocation was made on 29 November 2016 and comprised the issuance of 83,900 warrants to a total of 71 managers and selected specialists without pre-emption rights for existing shareholders.

The number of subscription rights is conditional upon the achievement of certain financial targets in FY 2016/17, as determined by the Board of Directors and announced in the annual report.

Based on the results for FY 2016/17, all the subscription rights will be allocated in full, corresponding to 82,400, the deviation from 83,900 being due to dismissed employees.

The total value of the programme is calculated according to the Black-Scholes model and constitutes DKK 5m. Ambu's costs for the programme are expensed on an ongoing basis in the period up until the vesting of the subscription rights.

Share options

In November 2015, Ambu introduced a new share option scheme for the Executive Board, as the allocation of shares under the previous scheme from 2013 stopped at the end of FY 2014/15.

The Executive Board's share of the 2015 programme is a total of 233,922 share options awarded in November 2015. The number of options is conditional on the achievement of certain financial targets in each of the financial years 2015/16, 2016/17 and 2017/18. The financial targets are determined by the Board of Directors for one year at a time and announced in the annual report.

Based on the results for FY 2016/17, the two members of Ambu's Executive Board receive 79,654 (77,134) options. 77,134 options already allocated are now outstanding for final allocation subject to the achievement of the financial targets for the coming financial year.

Calculated according to the Black-Scholes model, the total value of the scheme is DKK 8m, and the costs associated with the scheme have been expensed on a continuous basis – in 2016/17, a total of DKK 2m (DKK 2m) was expensed in respect of the Executive Board's part of the scheme.

The allocation of the options is regulated by the guidelines for incentive pay adopted by the general meeting in December 2014. The rest of the Executive Management Team participates in the share option programme on terms covered by these guidelines.

Employee shares

In 2016/17, Ambu carried out an employee share programme in which all employees have been offered to buy Ambu shares at a value of up to 2% of fixed annual salary with a discount of 50% against the November 2016 share price on the condition that the shares are kept for two years. Globally, the participation rate was 75% among the staff who are employed on terms consistent with the Salaried Employees Act.

Final allocation of share option and warrant schemes

Year of allocation	Finally allocated	Options (O)/warrants (W)	Executive Board's share (%)	Outstanding		Exercise period
				Persons	Options/warrants	
2013	346,184	O	100%	1	155,460	2016-19
2014	403,588	O	66%	2	245,004	2017-20
2015	470,778	O	67%	4	470,778	2018-21
2016	110,922	O	70%	5	110,922	2018-21
2017	90,830	O	88%	3	90,830	2019-22
2017	9,631	O	0%	2	9,631	2019-22
2012	507,600	W	0%	0	0	2015-17
2013	400,000	W	0%	9	62,000	2016-19
2014	400,000	W	0%	20	380,000	2017-20
2016	154,000	W	0%	43	151,000	2018-21
2017	83,900	W	0%	69	82,400	2019-22

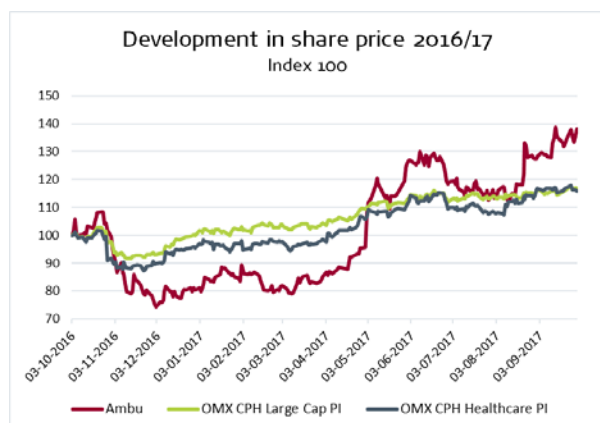
Shareholders and investor relations

Return

The opening price quoted for Ambu's Class B share at the beginning of the financial year was 356, rising to a closing level at the end of the financial year of 487, thereby securing a 37% return for shareholders, exclusive of dividend. By comparison, the Large Cap index on NASDAQ OMX Copenhagen rose by 17% in the same period, while the Health Care index increased by 16%.

The change in the share price increased Ambu's market capitalisation from DKK 17.2bn to DKK 23.7bn, with the value of both Class A and Class B shares being recognised at the price quoted for the Class B share.

On 1 January 2017, Ambu was transferred from Mid Cap to Large Cap at NASDAQ Copenhagen. Exclusive of the C20 companies, at the end of September 2017, a total of 21 Large Cap companies were listed at NASDAQ OMX Copenhagen, and following the development in the price of the Ambu share, Ambu is in the most valuable half of these companies in terms of market value.



Liquidity

A total of 15.8 million (12.6 million) shares were traded in the course of the financial year, corresponding to an average of 63,000 (50,000) shares per business day, and 38% (30%) of the total number of Class B shares were thus traded.

Shareholders

The share capital has increased to DKK 121,769,800 following three capital increases in connection with the exercise of employee warrants issued in 2012 and 2013. The number of Class B shares has increased from 41,506,720 to 41,843,920 shares of DKK 2.50 each. The number of Class A shares is unchanged at 6,864,000 shares of DKK 2.50 each. There have been no changes in the rights attached to the shares or in the negotiability of the shares.

Ambu's Class B share is listed on NASDAQ Copenhagen under ISIN code DKK0010303619 and shortname AMBU-B, while the Class A share is unlisted and non-negotiable. All Class A shares are owned by the three lines of descendants of Ambu's founder Holger Hesse.

Back in 1987, a shareholders' agreement was made by the holders of the Class A shares, which was described in the prospectus in connection with the listing of Ambu A/S in 1992. In November 2015, a new shareholders' agreement was made between the holders of the Class A shares, in which the agreed terms and conditions were updated. The updated shareholders' agreement now regulates the relationship between the three lines of the family and the family's views on the company's dividend policy, the appointment of candidates to the Board of Directors of the company, decisions concerning the possible conversion of Class A shares into Class B shares as well as the process of transferring or selling Class A shares.

The shareholders' agreement regulates only the family's holdings of Class A shares, while family's holdings of listed Class B shares are not regulated by the shareholders' agreement.

Ambu's Articles of Association also contain provisions on the trading of Class A shares.

In addition to the Class A shares, the family also holds 2,821,626 Class B shares, corresponding to 6.7% (of the Class B share capital). The family thus controls a total of 19.9% (20.1%) of the combined Class A and Class B share capital and 64.7% (66.9%) of the votes. In the course of the year, the family sold approx. 0.04 million Class B shares.

The international ownership interest has increased slightly, and it is estimated that just over 26% (25%) of the capital is now owned by institutional investors from Sweden, the UK, Germany, the USA etc.

On 30 September 2017, the total number of shareholders in Ambu having arranged name registration of their holding was 8,557 (6,393), who held a combined 97% (97%) of the total share capital.

As at 30 September 2017, the following shareholders had filed ownership of more than 5% of the share capital and/or votes:

	Share of votes %	Share of capital %
Dorrit Ragle*, Kongens Lyngby	19.4	2.0
Inga Kovstrup*, Fredericia	18.3	1.9
Hannah Hesse, Frederiksberg	10.4	2.5
Simon Hesse, Virum	10.4	2.4
N.P. Louis Hansen ApS, Nivå	6.7	15.2
Chr. Augustinus Fabrikker A/S, Copenhagen	4.8	11.0

* Dorrit Ragle and Inga Kovstrup have transferred a number of Class A shares to family members, but retain the voting rights associated with the shares transferred.

Corporate bonds

In March 2013, Ambu issued corporate bonds generating proceeds of DKK 701m. The bonds were purchased by a circle of Danish and international institutional investors, and in December 2013 they were listed on NASDAQ Copenhagen.

Since the introduction in March 2013, the spread between the bond and the mid-swap curve has narrowed from 2.18% to approx. 0.63% (0.93%) as at 30 September 2017.

Investor relations

Each quarter, a conference call has been held focusing on the interim report, and each quarter Ambu has participated in a considerable number of meetings and conferences with investors in Denmark and abroad.

Ambu strives to ensure a high and uniform level of information for its stakeholders, and seeks an active dialogue with investors, share analysts, journalists and the general public.

Communication takes the form of the regular issue of company announcements, investor presentations, conference calls, meetings etc. The aim is to ensure a well-founded share price that reflects both the actual and the expected creation of value in Ambu. This is done by ensuring that investors' knowledge of Ambu is up to date, and that Ambu is regarded as credible, accessible and professional.

The share is covered by analysts from ABG Sundal Collier, Carnegie Bank and Danske Market Equities.

The www.ambu.com website is updated on an ongoing basis with information about Ambu's results, activities and strategy, and all company announcements and financial statements can be viewed and downloaded there.

Ambu's IR policy prescribes a four-week 'quiet period'. This means that Ambu does not comment on topics relating to Ambu's business and which may be price-sensitive during a period of four weeks up to the release of financial reports.

During the year, Ambu issued 19 company announcements, one of which was a major shareholder announcement.

The people in charge of Investor Relations and the contact with analysts and investors are:
President & CEO Lars Marcher – lm@ambu.com
CFO Michael Højgaard – miho@ambu.com

Financial calendar 2017/18

2017	
9 November	Annual report 2016/17
13 December	Annual general meeting

2018	
3 January	Quiet period ending 31 January 2018
31 January	Interim report for Q1 2017/18
9 April	Quiet period ending 7 May 2018
7 May	Interim report for Q2 2017/18
26 July	Quiet period ending 23 August 2018
23 August	Interim report for Q3 2017/18
30 September	End of FY 2017/18

Financial calendar 2018/19

2018	
16 October	Quiet period ending 13 November 2018
13 November	Annual report 2017/18
12 December	Annual general meeting

Proposals to the annual general meeting

Ambu is a company characterised by progress, posting double-digit organic growth and with ambitious plans to continue this positive development towards 2020. The continued development of Ambu's market position, including the commercialisation of single-use endoscopes via the recent acquisition of Invendo Medical GmbH, requires further investments in innovation and marketing. Considering this, and the fact that Ambu remains open to the idea of acquiring enterprises and technology platforms, it is Ambu's intention to still pursue a balanced dividend policy, distributing about 30% of the net profit for the year, but also to regularly review its dividend policy if investments or acquisitions significantly impact Ambu's debt structure.

The Board of Directors proposes to the annual general meeting that dividend of DKK 1.85 (DKK 1.55) per share be declared for 2016/17, corresponding to 30% (30%) of the profit for the year. The Board of Directors deems this to be a reasonable level in view of Ambu's financial resources and the outlook for the coming financial year.

Against this background, the Board of Directors proposes that the net profit for the year of DKK 301m be appropriated as follows (DKKm):

Dividend of DKK 1.85 per share	90
Retained earnings	211
Total	301

Payment of the dividend will be effected automatically via VP SECURITIES A/S immediately after the annual general meeting.

Moreover, the Board of Directors proposes to the annual general meeting:

- that the Board of Directors be authorised to increase the Class B share capital with or without pre-emption rights for existing shareholders by up to 10%;
- that the denomination of both A and B shares in Ambu be changed from DKK 2.5 or multiples thereof to DKK 0.5 or multiples thereof, whereby the Board of Directors has the possibility to implement a share split, which is planned with effect as of first day of trading in January 2018;
- that the Board of Directors' authorisation to annually allocate share-based incentive remuneration to the Executive Board be increased from the current maximum of four months' base salary to up to 12 months' base salary;
- that the Board of Director's be given a special authorisation to allocate share-based incentive remuneration up to 36 months' base salary in 2020 subject to achievement of the financial targets in Big Five in fiscal year 2019/20;
- that the age restrictions applying to members of the Board of Directors be abolished.

The agenda for the annual general meeting with annexes is expected to be announced on Tuesday 14 November 2017. On the website, shareholders can sign up to attend the annual general meeting, and download all relevant material in relation to the general meeting.

CSR report, pursuant to Section 99 a of the Danish Financial Statements Act

Corporate social responsibility

Ambu takes a targeted approach to corporate social responsibility (CSR) based on the strong belief that it creates value for the company as well as for society when Ambu assumes responsibility through the way in which the company operates and through its products. Read more at www.ambu.com/CSR.

Ambu's CSR work is inspired by the principles set out in the UN's Global Compact initiative. The Global Compact is a set of internationally recognised principles which the UN encourages businesses worldwide to live up to.

Guidelines on Ambu's CSR work

1. We respect internationally proclaimed human rights and do not want to be complicit in human rights abuses.
2. We prohibit the use of forced and child labour.
3. We work for a safe and healthy work environment.
4. We do not accept bribery or other kinds of corruption.
5. We focus on reducing Ambu's environmental impact in our work on innovation and in the production and distribution of our products.
6. We use materials efficiently, and strive to optimise packaging and waste handling.
7. We work to reduce energy consumption.

We are committed to abide by the laws and regulations of the countries in which we operate. In the absence of adequate laws and regulations, we refer to recognised international standards and industry norms.

Organisation of CSR work

As mentioned in our annual report for 2015/16, the CSR organisation has been strengthened, and the CSR work is now being handled by the executive vice presidents for Finance, Operations and Sales together with staff from R&D and the legal department. The CSR unit meets every quarter and on an ad-hoc basis as and when required. In addition, Ambu has decided to strengthen its work with compliance significantly – please refer to the 'Human rights and business ethics' section.

Ambu's CSR work in 2016/17

Below follows a description of the initiatives announced in the latest annual report, including the results achieved by Ambu in 2016/17.

Substitution of classified phthalates in products

Ambu is dedicated to ensuring that its products are as safe for the environment, for patients and for healthcare professionals as at all possible. In 2016/17, Ambu focused on replacing classified phthalates in laryngeal tubes, KingVision's video cable and accessories for breathing circuits. We also initiated a major project in our production to find suitable phthalate-free softeners for our training manikins. A phthalate substitution plan has been prepared, which is firmly embedded in Global Innovation's 2020 strategy. Ambu would like to share its experience with other manufacturers, and for the fourth consecutive year, we have presented the case 'How we substitute phthalates' at external conferences for the medtech industry.

Human rights and business ethics

We work incessantly to strengthen our profile in the field of human rights and do not accept discrimination on the grounds of religion, race, skin colour, gender, age, sexual or political orientation, and we focus on ensuring that nobody is exposed to injustice or abuse, and that everybody enjoys freedom of speech and freedom of association.

We are continuing our work on human rights, among other things through our Code of Conduct, which supports the basic human rights, prohibits child labour and guarantees a safe work environment. Our Code of Conduct also prohibits bribery and corruption. With a view to aligning our ethical guidelines for important suppliers and distributors, in 2015/16 we combined our two codes of conduct for suppliers and distributors into a common set of rules, and the process of implementing the new code is ongoing.

We have not made observations that may indicate that our rules have been broken.

Ambu has an ever-increasing focus on maintaining high ethical standards and on complying with all relevant legislation, which has, among other things, resulted in an update of existing and a roll-out of new corporate guidelines/policies within various areas. In addition to the existing whistleblower function, a Compliance Manager function has been created. Employees can report any potential or actual breaches of our corporate guidelines to this function. The Compliance Manager can then assist the employee in assessing how the matter should be handled. Finally, a decision has been made to establish a compliance department as such, focusing exclusively on compliance.

Ambu collaborates with educational institutions, which means that we take on trainees, interns and students for the benefit of both Ambu and the people concerned.

Work environment

Ambu remains focused on ensuring a safe and healthy work environment, which has resulted in another green smiley from the Danish Working Environment Authority. Our production units follow the same management system.

In connection with our efforts to continually ensure a safe and healthy working environment, we keep an eye on sick days and monitor any work-related injuries. In the very few cases of work-related injuries or illness which we see, action plans are prepared to ensure the swiftest possible recovery for our employees.

Climate

Ambu has collected climate data from its factories pursuant to the guidelines described in the Green House Gas Protocol (GHGP) Scope 1 and Scope 2 for the past four years, and the data have been converted into CO₂ equivalents per year. The data show that the development in CO₂ equivalents is again less than the increase in production output (in tonnes). Ambu works each year to reduce CO₂ emissions per tonne produced.

Environment

Our factories have been working to increase the recycling of production waste via waste separation at source as well as selling the waste for recycling outside Ambu. Over a three-year period, we have succeeded in significantly increasing the level of recycling through our focused efforts.

CSR risks

For further information about CSR risks, please refer to the 'Commercial and CSR risks' section above.

Initiatives in 2017/18

In the next financial year, focus will be on the following initiatives:

- Continued substitution of phthalates
- Work on the effective recycling of waste throughout the entire product life cycle
- Introduce a global environmental management system
- Continued focus on energy optimisation and reduction of CO₂ emissions per tonne produced
- Continue work to implement corporate guidelines.

Consolidated financial statements 2016/17

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Income statement and statement of comprehensive income – Group

1 October – 30 September

DKKm

Income statement	Note	2016/17	2015/16
Revenue	2.1	2,355	2,084
Production costs	2.2, 2.4	-1,024	-960
Gross profit		1,331	1,124
Selling and distribution costs	2.2, 2.4	-539	-481
Development costs	2.2, 2.4, 2.5	-76	-66
Management and administration	2.2, 2.4, 5.4	-256	-221
Other operating expenses	2.6, 3.8	-10	0
Operating profit (EBIT)		450	356
Financial income	4.3	13	6
Financial expenses	4.3	-70	-36
Profit before tax		393	326
Tax on profit for the year	2.8	-92	-76
Net profit for the year		301	250
Earnings per share in DKK			
Earnings per share (EPS)	4.6	6.35	5.27
Diluted earnings per share (EPS-D)	4.6	6.19	5.13

Statement of comprehensive income	2016/17	2015/16
Net profit for the year	301	250
Other comprehensive income:		
<i>Items which are moved to the income statement under certain conditions:</i>		
Translation adjustment in foreign subsidiaries	-54	-4
<i>Adjustment to fair value for the period:</i>		
Cash flow hedging, realisation of previous years' deferred gains/losses	-3	3
Cash flow hedging, deferred gains/losses for the year	-6	3
Tax on hedging transactions	2	-1
Other comprehensive income after tax	-61	1
Comprehensive income for the year	240	251

Balance sheet – Group

30 September

DKKm

Assets	Note	30.09.17	30.09.16
Acquired technologies, trademarks and customer relations	3.1	163	185
Completed development projects	3.1	147	101
Rights	3.1	79	92
Goodwill	3.1	781	819
Development projects in progress	3.1	45	41
Intangible assets		1,215	1,238
Land and buildings	3.3	183	122
Plant and machinery	3.3	86	99
Other plant, fixtures and fittings, tools and equipment	3.3	36	27
Prepayments and plant under construction	3.3	62	23
Property, plant and equipment		367	271
Deferred tax asset	2.9	98	61
Other receivables	4.2	4	6
Other non-current assets		102	67
Total non-current assets		1,684	1,576
Inventories	3.4	313	287
Trade receivables	3.5, 4.2	437	416
Other receivables	4.2	14	22
Income tax receivable		2	2
Prepayments		31	26
Cash	4.2, 4.4	19	35
Total current assets		816	788
Total assets		2,500	2,364
Equity and liabilities	Note	30.09.17	30.09.16
Share capital	4.5	122	121
Other reserves		1,157	869
Equity		1,279	990
Provision for deferred tax	2.9	2	5
Other provisions	4.2, 5.1	36	37
Interest-bearing debt	4.2, 4.4	83	925
Non-current liabilities		121	967
Other provisions	4.2, 5.1	3	4
Interest-bearing debt	4.2, 4.4	703	65
Trade payables	4.2	160	104
Income tax		23	66
Other payables	4.2	182	134
Derivative financial instruments	4.2	29	34
Current liabilities		1,100	407
Total liabilities		1,221	1,374
Total equity and liabilities		2,500	2,364

Cash flow statement – Group

30 September

DKKm

	Note	2016/17	2015/16
Net profit for the year		301	250
Adjustment of items with no cash flow effect	3.6	265	215
Income tax paid		-91	-75
Interest expenses and similar items		-32	-29
Changes in net working capital	3.7	19	8
Cash flows from operating activities		462	369
Purchase of non-current assets		-159	-84
Sale of non-current assets		16	0
Divestment of subsidiary in respect of previous years		2	0
Cash flows from investing activities before acquisitions of enterprises and technology		-141	-84
Free cash flows before acquisitions of enterprises and technology		321	285
Acquisition of technology		0	-59
Acquisitions of enterprises	3.8, 5.1	0	-96
Cash flows from acquisitions of enterprises and technology		0	-155
Cash flows from investing activities		-141	-239
Free cash flows after acquisitions of enterprises and technology		321	130
Raising of long-term debt		0	274
Repayment of debt to credit institutions		-275	0
Repayment of finance lease debt		-4	-1
Capital increase, Class B share capital		21	5
Exercise of options		8	3
Cash settlement, options		0	-32
Purchase of Ambu A/S shares, treasury shares		0	-283
Dividend paid		-75	-46
Dividend, treasury shares		2	1
Cash flows from financing activities		-323	-80
Changes in cash and cash equivalents		-2	50
Cash and cash equivalents, beginning of year		21	-29
Translation adjustment of cash and cash equivalents		0	0
Cash and cash equivalents, end of year		19	21
Cash and cash equivalents, end of year, are composed as follows:			
Cash		19	35
Bank debt		0	-14
Cash and cash equivalents, end of year		19	21

Statement of changes in equity – Group

30 September

DKKm

	Share capital	Share premium	Reserve for hedging transactions	Reserve for foreign currency translation adjustment	Retained earnings	Proposed dividend	Total
Equity 30 September 2016	121	37	2	124	631	75	990
Net profit for the year					211	90	301
Other comprehensive income for the year			-7	-54			-61
Total comprehensive income	0	0	-7	-54	211	90	240
<i>Transactions with the owners:</i>							
Exercise of options					8		8
Share-based payment					11		11
Tax deduction relating to share options					82		82
Distributed dividend						-73	-73
Dividend, treasury shares					2	-2	0
Capital increase, Class B share capital	1	20					21
Equity 30 September 2017	122	57	-5	70	945	90	1,279
Equity 1 October 2015	121	32	-3	128	712	46	1,036
Changed accounting policies (note 1.2)					-2		-2
Corrected equity 1 October 2015	121	32	-3	128	710	46	1,034
Net profit for the year					175	75	250
Other comprehensive income for the year			5	-4			1
Total comprehensive income	0	0	5	-4	175	75	251
<i>Transactions with the owners:</i>							
Exercise of options					3		3
Cash settlement, options					-32		-32
Share-based payment					7		7
Tax deduction relating to share options					50		50
Purchase of treasury shares					-283		-283
Distributed dividend						-45	-45
Dividend, treasury shares					1	-1	0
Capital increase, Class B share capital	0	5					5
Equity 30 September 2016	121	37	2	124	631	75	990

Other reserves are made up of share premium, reserve for hedging transactions, reserve for foreign currency translation adjustment, retained earnings and proposed dividend and total DKK 1,157m (2016: DKK 869m).

Notes on the consolidated financial statements

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Section 1:

Basis of preparation of consolidated financial statements

This section provides an overview of the accounting policies applied as well as material estimates and assessments by the management.

All the companies in the Ambu group follow the same accounting policies, and the basic practice is described in this section. The specific accounting policies are included under the respective notes in Sections 2-5.

Basis of preparation of consolidated financial statements

Notes on the consolidated financial statements – Section 1

1.1 Basis of preparation

The group's general accounting policies are described below. In connection with this, specific accounting policies have been incorporated into each of the individual notes to the consolidated financial statements:

2.1 Revenue	3.1 Intangible assets	4.3 Net financials
2.2 Staff costs	3.2 Impairment test	4.5 Share capital and treasury shares
2.3 Share-based payment	3.3 Property, plant and equipment	4.6 Earnings per share
2.6 Other operating expenses	3.4 Inventories	5.1 Other provisions
2.8 Tax on profit for the year	3.5 Trade receivables	5.8 Adoption of the annual report and distribution of profit
2.9 Deferred tax	4.2 Categories of financial instruments	

General

The consolidated financial statements are presented in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), IFRS as adopted by the EU and additional requirements in the Danish Financial Statements Act. Ambu A/S is a public limited company domiciled in Denmark.

The financial statements of the parent company Ambu A/S are presented separately from the consolidated financial statements and can be found on the last pages of this report. The parent company's separate accounting policies are shown in conjunction with the financial statements of the parent company.

The accounting policies described below have been applied consistently in the preparation of the consolidated financial statements in the years presented. Accounting policies have been applied consistently with previous years with the exception of the early adoption of IFRS 9 described in note 1.2.

Basis of measurement

The consolidated financial statements are presented in Danish kroner (DKK), which is also Ambu A/S's functional currency. All amounts are rounded to the nearest million, unless otherwise stated.

The annual report has been prepared in accordance with the historical cost principle, except for derivative financial instruments and earn-out obligations presented as other provisions, which are measured at fair value.

Definition of materiality

The consolidated financial statements represent matters that have been deemed to be material or required under the IFRS provisions or additional requirements in the Danish Financial Statements Act.

Ambu includes qualitative and quantitative factors when assessing whether a relationship is material. If the presentation or disclosure of a matter does not increase the informative value for the person reading the financial statements, the matter is deemed to be immaterial.

Material accounting estimates

In connection with the preparation of the consolidated financial statements, the management makes material accounting estimates, assessments and assumptions which form the basis of the presentation, recognition and measurement of the group's assets and liabilities for accounting purposes.

The estimates made are based on assumptions deemed to be reasonable by the management, but which are naturally subject to uncertainty. Such assumptions may be incomplete or inaccurate, and unexpected events or incidents may occur. Furthermore, the company is subject to risks and uncertainties which may cause the realised results to deviate from the estimates.

Information about material estimates, assessments and assumptions applied where a change will significantly impact the consolidated financial statements is included in the following notes:

2.1 Revenue	3.1 Intangible assets	3.2 Impairment test
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Principles of consolidation

The consolidated financial statements comprise Ambu A/S and companies in which Ambu A/S has a controlling interest. Control is deemed to be obtained if Ambu A/S owns more than 50% of the voting rights, or if Ambu A/S in any other way has a controlling interest in the company.

The subsidiaries' financial statements are adjusted if necessary to ensure that their accounting policies are consistent with those of the rest of the group. All intercompany transactions, balances, income and expenses are fully eliminated on consolidation.

Basis of preparation of consolidated financial statements

Notes on the consolidated financial statements – Section 1

1.1 Basis of preparation (continued)

Foreign currency translation

A functional currency is determined for each company in the Ambu group. The functional currency is the currency used in the primary economic environment in which the individual subsidiary operates.

Transactions in foreign currencies are translated to the functional currency using the exchange rate applicable at the transaction date. Foreign exchange gains and losses in connection with the settlement of these transactions and the translation of monetary assets and liabilities in foreign currencies at the exchange rates applicable at the balance sheet date are recognised in the income statement under net financials.

Receivables, payables and other monetary items denominated in foreign currencies are translated to the functional currency at the exchange rate applicable at the balance sheet date. The difference between the exchange rate applicable at the balance sheet date and the exchange rate applicable at the date on which the receivable or payable occurred or the exchange rate stated in the most recent annual report is recognised in the income statement under net financials.

The financial statements of foreign subsidiaries are translated to Danish kroner at the exchange rates for balance sheet items applicable at the balance sheet date and at average exchange rates as far as income statement items are concerned. Exchange rate differences arising from the translation of the net assets of such subsidiaries at the beginning of the year using the exchange rates applicable at the balance sheet date and the translation of income statement items from the exchange rates applicable at the transaction date to the exchange rates applicable at the balance sheet date are recognised in other comprehensive income and presented as a separate reserve for foreign currency translation adjustments under equity.

Foreign currency translation adjustment of intercompany balances which are regarded as a supplement to the net investment in foreign subsidiaries is recognised in the consolidated financial statements in other comprehensive income under a separate reserve for foreign currency translation adjustments.

New accounting regulation

Ambu has adopted all relevant new and updated accounting standards issued by the IASB effective as of 1 October 2016. The adoption of these standards has not had any material financial effect on the statement of Ambu's results, assets and liabilities or equity in connection with the preparation of the financial statements for the financial years presented.

No accounting standards need to be adopted in FY 2017/18 which will have a material financial effect on the statement of Ambu's results, assets and liabilities or equity in connection with the preparation of the financial statements for 2017/18.

Standards not yet adopted

Other relevant standards and interpretations adopted by the IASB, but not yet approved by the EU, have not been incorporated into this annual report. These standards and interpretations are expected to be adopted when they become mandatory.

IFRS 15 'Revenue from Contracts with Customers' was issued in May 2014 and amended in April 2016. It will enter into force for financial years starting on 1 January 2018 and will thus apply as from Ambu's FY 2018/19. At present, the management does not believe that adoption of IFRS 15 will have a material effect on Ambu's results, assets and liabilities or equity.

IFRS 16 'Leases' was issued in January 2016 and enters into force on 1 January 2019. The standard regulates the accounting treatment of leases. The management expects the interest-bearing debt to be increased by an amount roughly corresponding to the discounted value of the contractual debt at the date of entry into force. Operating leases as at 30 September 2017 appear from note 5.2. At the current interest rate levels, the effect on EBIT is expected to be insignificant.

Presentation of income statement

Income and expenses are recognised according to the accruals concept. The income statement is presented by functions where the respective cost impacts the function to which the cost is deemed to relate. The group's functions are divided into production, sales and distribution, development, as well as management and administration.

Production costs

Production costs comprise costs incurred in generating the revenue for the year. Production costs include direct and indirect costs for raw materials and consumables, freight costs incurred in connection with the purchase of commodities etc., production wages and salaries for support functions and factory management, rent and leases as well as depreciation and impairment of plant.

Selling and distribution costs

Selling and distribution costs comprise costs for sales staff, advertising and exhibitions, depreciation, impairment and operation of central warehouses, as well as all costs relating to the transport of goods from the group's factories to the customers. In addition, amortisation of the identified intangible assets acquired by the company is recognised: customer relations and trademarks.

Development costs

Development costs comprise salaries and costs which, directly or indirectly, can be attributed to product improvements and the development of new products which do not meet the criteria for capitalisation of an internally generated development project. In addition, the amortisation and impairment of capitalised development costs as well as amortisation of rights and acquired technologies are recognised.

Basis of preparation of consolidated financial statements

Notes on the consolidated financial statements – Section 1

1.1 Basis of preparation (continued)

Management and administrative expenses

Administrative expenses comprise expenses incurred for management and administration, including expenses for the administrative staff, office premises and office expenses, as well as amortisation and impairment.

Presentation of balance sheet

Prepayments

Prepayments recognised under assets comprise costs incurred in respect of the coming financial year measured at cost.

Equity

Reserve for foreign currency translation adjustments in the consolidated financial statements comprises exchange rate differences arising from the translation of the financial statements of foreign subsidiaries to DKK as well as foreign currency translation adjustments of intercompany balances regarded as a supplement to the net investment in foreign subsidiaries. Reserve for foreign currency translation adjustments was zeroed on 1 October 2004 in accordance with IFRS 1.

Business combinations

Newly acquired enterprises are included in the consolidated financial statements as from the date of acquisition. Comparative figures are not restated for newly acquired enterprises. In connection with the acquisition of new enterprises in which Ambu obtains a controlling influence, the purchase method is applied. The identifiable assets, liabilities and contingent liabilities of the acquired enterprises are measured at fair value at the date of acquisition. Identifiable intangible assets are recognised, provided that such assets can be recognised separately or originate from a contractual right and the fair value can be measured reliably. Deferred tax on the reassessments made is recognised. The date of acquisition is the date when Ambu obtains actual control over the acquired enterprise.

For business combinations, the positive balances (goodwill) between the cost of the enterprise and the fair value of the acquired identifiable assets, liabilities and contingent liabilities are recognised as goodwill under intangible assets. Goodwill is not amortised, but is subject to an annual impairment test. The first impairment test is carried out by the end of the year of acquisition. Upon acquisition, goodwill is attributed to the cash-generating units, which will subsequently form the basis of an impairment test. Goodwill and fair value adjustments in connection with the acquisition of a foreign entity with another functional currency than DKK are treated as assets and liabilities of the foreign entity and are translated to the functional currency of such entity using the exchange rate applicable at the transaction date. Transaction costs incurred in connection with business combinations are expensed.

Cash flow statement

The cash flow statement has been prepared on the basis of the indirect method and shows the group's cash flows from operating, investing and financing activities for the year. Cash flows from operating activities comprise profit before tax adjusted for non-cash operating items, changes in net working capital, net financials received and paid and income tax paid. Cash flows from investing activities comprise payments made in connection with the acquisition and disposal of enterprises and activities, as well as investment, development, sale and improvements of intangible assets and property, plant and equipment.

The conclusion of finance leases is considered to be non-cash transactions. Cash flows relating to assets held under finance leases are recognised as payment of interest and repayment of debt. Cash flows from financing activities comprise changes to the size or composition of share capital and costs incidental thereto as well as the arrangement of loans, the repayment of interest-bearing debt, the purchase and sale of treasury shares and the payment of dividend to the group's shareholders.

Cash flows denominated in currencies other than Danish kroner (DKK) are translated using average exchange rates, unless such rates deviate materially from the exchange rates applicable at the transaction date.

Cash and cash equivalents comprise cash less short-term bank debt.

1.2 Changes in accounting policies

The group has decided to adopt IFRS 9 early in 2016/17. The implementation of IFRS 9 has led to changes in the accounting policies for recognition of credit risk associated with trade receivables and other receivables. In the past, receivables were tested for impairment when objective evidence existed in the form of delayed payments and provable financial problems for debtors etc. Under IFRS 9, write-downs for bad debts must be recognised at the time of the initial recognition of the claim. As the group has historically suffered only limited losses on bad debts, the adoption of IFRS 9 has no significant impact on the group's financial position or income statement. Reference is made to the consolidated statement of changes in equity, from which the effect can be seen, a total of DKK 2m. Furthermore, the comparative figure for trade receivables has been adjusted by DKK 2m.

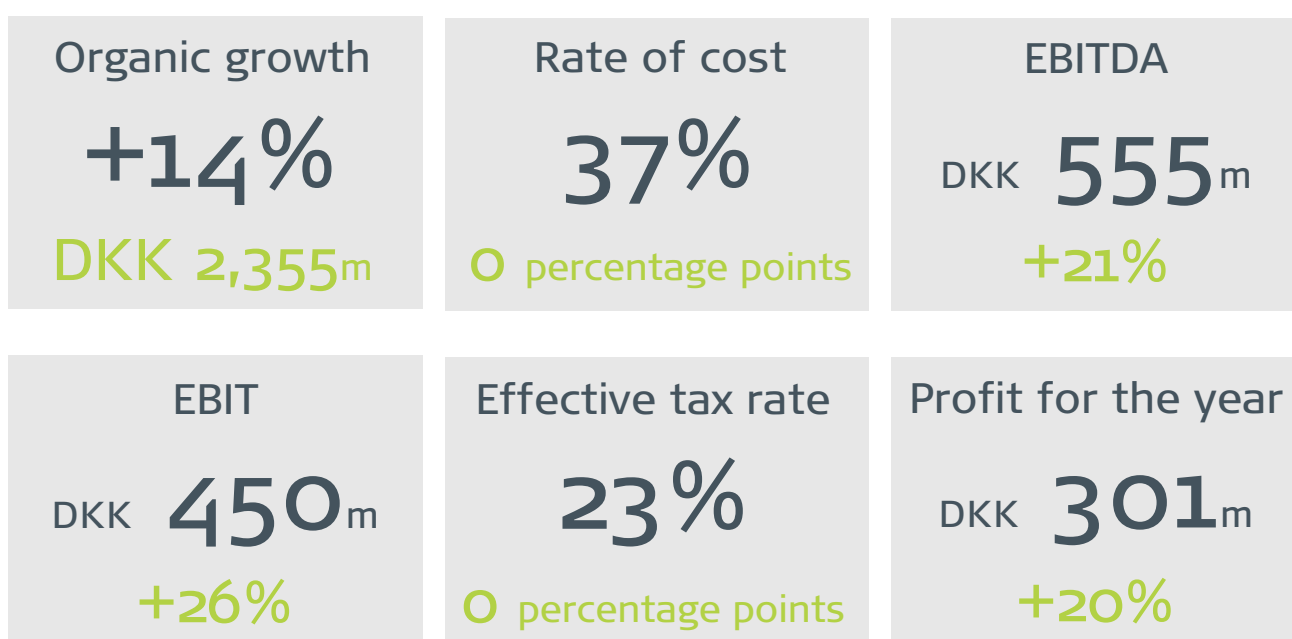
The adoption of IFRS 9 has also resulted in changes in accounting policies for hedge accounting. In the past, hedge accounting has been used to the extent that the management was able to document high expected and realised effectiveness. Under IFRS 9, the requirement is for an economic relationship only.

Section 2: Net profit for the year

This section contains notes relating to the net profit for the year from the group's activities.

In 2016/17, Ambu improved its operating profit (EBIT) by 2.0 percentage points to 19.1%, corresponding to an increase of DKK 94m.

The absolute increase was driven by reported growth of 13%, while a 2.6 percentage point improvement in the gross margin and unchanged capacity costs of 37% relative to revenue increased the EBIT margin. Note 2.2 explains the 17% increase in the group's staff costs for sales and distribution.



Net profit for the year

Notes on the consolidated financial statements – Section 2

DKK m

2.1 Revenue

	2016/17	2015/16
<i>Revenue by activities:</i>		
Anaesthesia	923	894
Visualisation	597	369
Patient Monitoring & Diagnostics	835	821
Total revenue	2,355	2,084
<i>Revenue by markets:</i>		
Europe ¹	962	865
North America ²	1,106	989
Rest of the world	287	230
Total revenue	2,355	2,084

1) Denmark is included in Europe by DKK 50m (2015/16: DKK 51m).

2) North America essentially covers sales to customers in the USA.

§ Accounting policies

Revenue from the sale of goods is recognised in the income statement, provided that delivery and passing of risk to the buyer have taken place before the end of the year, and provided that the income can be measured reliably and is expected to be received.

Revenue is measured at the fair value of the agreed consideration, exclusive of VAT and taxes collected on behalf of a third party. At the time of recognition of income, estimates are also recorded for a number of discounts. These are recognised as a reduction of gross revenue to revenue.

Based on IFRS 8 'Operating Segments' and the internal reporting to the management in their assessment of the group's results, financial position and allocation of resources, an operating segment has been identified which is concerned with the development, production and sale of medico products. This reflects the management's approach to the allocation of resources and the management of the organisation. Revenue by markets is distributed based on the purchasing country.

! Material accounting estimates

Price adjustments

Price adjustments are offset against trade receivables and primarily concern sales in the USA. Price adjustments in the US market are subject to estimation uncertainty as the actual discount is not determined until the distributor's sale to the end-customer (hospitals, clinics etc.). Price adjustments are the difference between the price agreed with the end-customer and the distributor's list price. Price adjustments are calculated on the basis of a combination of previous experience and sales data from distributors. Provisions for price adjustments total DKK 48m (2015/16: DKK 51m).

Net profit for the year

Notes on the consolidated financial statements – Section 2

DKKm

2.2 Staff costs

The staff costs of the group are distributed onto the respective functions as follows:

	2016/17	2015/16
Production costs	241	238
Selling and distribution costs	285	243
Development costs	37	28
Management and administration	127	115
Total staff costs	690	624
Staff costs included in property, plant and equipment	-1	-2
Staff costs included in intangible assets	-33	-24
Total staff expenses	656	598

Staff costs are distributed between the Executive Board, the Board of Directors and other employees as follows:

	2016/17	2015/16
Remuneration, Executive Board	15	14
Share-based payment	2	2
Staff costs, Executive Board	17	16
Wages and salaries	601	545
Pension contributions	13	11
Social security costs	46	43
Share-based payment	7	5
Share-based payment, employee shares	2	0
Remuneration, committees	1	1
Remuneration, Board of Directors	3	3
Total staff costs	690	624
Average number of employees	2,503	2,337
Number of full-time employees at end of year	2,607	2,450

Remuneration paid to the Executive Board and the Board of Directors totals DKK 21m (2015/16: DKK 20m).

§ Accounting policies

Staff costs comprise remuneration, wages and salaries, pension contributions etc. and share-based payment to the company's employees. The group has no defined benefit plans.

Net profit for the year

Notes on the consolidated financial statements – Section 2

2.3 Share-based payment

The Board of Directors is authorised by the annual general meeting to allocate share options (to the Executive Board and the Executive Management Team) and warrants (to a broad circle of middle managers etc.) in accordance with the group's guidelines on incentive pay. Each option entitles the holder to buy an existing Class B share in Ambu A/S. A warrant entitles the holder to buy a newly issued Class B share in Ambu A/S. The vesting period of all schemes is three years from the date of allocation, after which the exercise period runs for three years. For employee shares, the vesting period is two years.

The overview shows the assumptions for allocated schemes that are being vested, that have not been exercised or that have been exercised in the course of the financial year. A detailed explanation of each scheme is provided at the bottom of the note.

Scheme	Final allocation	Original allocation	No. of unexercised options/warrants	Of which vested, not exercised	Assumptions for allocation			
					Average exercise price	Black-Scholes value at time of allocation	Volatility/Risk-free interest rate	Dividend per share
1. Share options ²	Sept. 2013	346,184	155,460	155,460	DKK 43.20	DKK 2m	28% / 0.2%	DKK 0.75
2. Share options ²	Sept. 2014	403,588	245,004	245,004	DKK 46.65	DKK 2m	28% / 0.2%	DKK 0.75
3. Share options ²	Sept. 2015	470,778	470,778	-	DKK 50.40	DKK 2m	28% / 0.2%	DKK 0.75
4. Share options ²	Sept. 2016	110,922	110,922	-	DKK 196.30	DKK 3m	26% / -0.1%	DKK 0.95
5. Share options ²	Sept. 2017	90,830	90,830	-	DKK 212.10	DKK 2m	25% / 0.1%	DKK 0.95
6. Share options ²	Sept. 2018	87,956	87,956	-	DKK 229.00	DKK 2m	26% / 0.2%	DKK 0.95
7. Share options ²	Sept. 2017	9,631	9,631	-	DKK 385.60	DKK 1m	30% / -0.5%	DKK 1.55
8. Warrants ¹	Apr. 2012	507,600	-	-	DKK 39.50	DKK 4m	30% / 1.3%	DKK 0.63
9. Warrants ¹	Dec. 2013	400,000	62,000	62,000	DKK 66.30	DKK 4m	24% / 0.6%	DKK 0.75
10. Warrants ¹	Dec. 2014	400,000	380,000	-	DKK 115.30	DKK 6m	24% / 0.1%	DKK 0.94
11. Warrants ²	Sept. 2016	154,000	151,000	-	DKK 196.30	DKK 4m	26% / -0.1%	DKK 0.95
12. Warrants ²	Sept. 2017	83,900	82,400	-	DKK 385.60	DKK 5m	30% / -0.5%	DKK 1.55
13. Empl. shares ¹	Nov. 2018	17,240	17,240	-	DKK 271.90	DKK 2m	32% / -0.1%	DKK 1.55

1) Allocation is not subject to any assumptions.

2) The Board of Directors lays down performance-related targets for the allocation, which are determined for one year at a time and announced in the annual report.

This year's expenses for share-based payment amount to DKK 11m (2015/16: DKK 7m).

At the end of September 2017, there were 155,460 vested share options at an average exercise price of DKK 43.20, 245,004 vested share options at an average exercise price of DKK 46.65, and 62,000 vested warrants at an average exercise price of DKK 66.30.

	Share options				Warrants	
	Executive Board	Average exercise price	Senior employees	Average exercise price	Senior employees	Average exercise price
Outstanding as at 1 October 2016	971,882	DKK 87.22	347,652	DKK 73.87	934,200	DKK 106.05
Allocated during the year	0	-	9,631	DKK 385.60	83,900	DKK 385.60
Exercised during the year	-86,088	DKK 46.65	-72,496	DKK 46.65	-337,200	DKK 62.23
Forfeited during the year	0	-	0	-	-5,500	DKK 200.65
Outstanding as at 30 September 2017	885,794	DKK 91.17	284,787	DKK 91.34	675,400	DKK 161.89
Share price at the time of exercise		DKK 308.30		DKK 348.62		DKK 314.02

	Share options				Warrants	
	Executive Board	Average exercise price	Senior employees	Average exercise price	Senior employees	Average exercise price
Outstanding as at 1 October 2015	915,804	DKK 44.45	408,746	DKK 47.13	900,000	DKK 82.19
Allocated during the year	233,922	DKK 212.46	55,786	DKK 205.81	154,000	DKK 196.30
Exercised during the year	-177,844	DKK 32.22	-116,880	DKK 43.20	-108,800	DKK 39.66
Forfeited during the year	0	-	0	-	-11,000	DKK 73.25
Outstanding as at 30 September 2016	971,882	DKK 87.22	347,652	DKK 73.87	934,200	DKK 106.05
Share price at the time of exercise		DKK 204.86		DKK 210.30		DKK 221.75

Net profit for the year

Notes on the consolidated financial statements – Section 2

2.3 Share-based payment (continued)

Below is a description of schemes which had not been fully exercised at the beginning of the financial year.

1., 2., 3. Share option scheme (Executive Management Team)

In February 2013, the Executive Management Team was allocated a total of 1,225,590 share options (of which 811,804 are reserved for the Executive Board), which will be allocated successively over a period of three years provided that specific financial targets are achieved. The annual targets are determined by the Board of Directors and published in the annual report prior to the vesting year. The first subscheme entitles the holder to buy one Class B share of DKK 43.20, with the price of other subschemes increasing by 8.0% p.a.

The financial targets were achieved in full for FY 2012/13, and based on this, 346,184 options were allocated, 229,304 of which went to the Executive Board. The financial targets were achieved in full for FY 2013/14, and based on this, 403,588 options were allocated, 267,328 of which went to the Executive Board. The financial targets were partially achieved for FY 2014/15, and based on this, 470,778 options were allocated, 315,172 of which went to the Executive Board.

4., 5., 6., 7. Share option scheme (Executive Management Team)

In November 2015, the Executive Management Team was allocated a total of 289,708 share options (of which 233,922 are reserved for the Executive Board), which will be allocated successively over a period of three years provided that specific financial targets are achieved. The annual targets are determined by the Board of Directors and published in the annual report prior to the vesting year. The first subscheme entitles the holder to buy one Class B share of DKK 196.30, with the price of other subschemes increasing by 8.0% p.a. The financial targets for FY 2015/16 were achieved in full, and based on this, 77,134 options were finally allocated to the Executive Board, while 33,788 options were allocated to the three other members of the Executive Management Team. The financial targets have been achieved in full for FY 2016/17, and based on this, 100,461 options will be finally allocated, 79,654 of which go to the Executive Board. For 9,631 of the finally allocated options, the exercise price is DKK 385.60 and not DKK 196.30 plus 8.0% p.a.

8., 9., 10., 11., 12. Warrant scheme (broad circle of middle managers etc.)

Warrant schemes were established in April 2012, December 2013, December 2014, November 2015 and November 2016. The purpose of the warrant schemes is to promote the creation of value in Ambu by achieving the company's strategic objectives and creating identical interests among the participants in the warrant schemes and the company's shareholders. The warrant schemes established in 2012, 2013, 2014, 2015 and 2016 comprised 69, 52, 22, 46 and 71 senior employees in Denmark and abroad. Under all warrant schemes, each warrant entitles the holder to buy one Class B share with a nominal value of DKK 2.50 at a price of 39.50 under the 2012 scheme, at a price of 66.30 under the 2013 scheme, at a price of 115.30 under the 2014 scheme, at a price of 196.30 under the 2015 scheme and at a price of 385.60 under the 2016 scheme. Warrants under the 2015 and 2016 schemes have been allocated on the condition that specific financial targets are achieved. These targets are determined by the Board of Directors and published in the annual report prior to allocation. The total number of warrants allocated was 507,600 under the 2012 scheme, 400,000 under the 2013 scheme, 400,000 under the 2014 scheme, 154,000 under the 2015 scheme, and 83,900 under the 2016 scheme, corresponding to 1.1%, 0.8%, 0.8%, 0.3% and 0.2% of Ambu's share capital. The financial targets were achieved in full for FY 2016/17, and based on this, 82,400 warrants will be finally allocated.

13. Employee shares (all Ambu employees)

In November 2016, all Ambu's 1,174 employees were given the opportunity to participate in a share scheme. For a price of DKK 280.20 per share, corresponding to the market price at the date of allocation, the individual employee could join the scheme up to a certain maximum share of his or her total annual salary. After keeping these shares for two years, each employee will be allocated an equal number of shares by Ambu free of charge. Consequently, Ambu does not need to issue Class B shares. The calculated value of each employee share is DKK 271.90. The scheme consists of a total of 17,240 shares held by 616 employees, of which 565 shares are held by the Executive Board.

§ Accounting policies

The group's share-based payment has been treated in accordance with the rules on equity-based schemes where the fair value of the allocated schemes at the time of allocation is calculated according to the Black-Scholes model. This value is expensed over the vesting period for each of the respective schemes and is taken to equity. On recognition of the fair value during the vesting period, account is taken of the number of employees who are expected to obtain a final right to the schemes, including the conditions to which the allocation is subject. This estimate is reassessed at the end of a period so that only the number of rights expected to be vested are recognised.

Net profit for the year

Notes on the consolidated financial statements – Section 2

DKKm

2.4 Depreciation, amortisation and impairment losses on non-current assets

	2016/17	2015/16
Amortisation of intangible assets identified in connection with business combinations	25	18
Amortisation of intangible development projects and rights	35	37
Depreciation of property, plant and equipment	44	45
Impairment losses on property, plant and equipment	1	2
Total depreciation, amortisation and impairment losses	105	102

Depreciation, amortisation and impairment losses have been allocated to the following functions:

	2016/17	2015/16
Production costs	30	31
Selling and distribution costs	7	6
Development costs	53	49
Management and administration	15	16
Total depreciation, amortisation and impairment losses	105	102

§ Accounting policies

For a description of accounting policies, see notes 3.1, 3.2 and 3.3.

2.5 Development costs

	2016/17	2015/16
EBIT impact for development costs	76	66
÷ Amortisation of assets recognised in connection with business combinations	-19	-12
÷ Amortisation of development projects, rights and other non-current assets	-34	-37
EBITDA impact for development costs	23	17
+ Investments in development projects	74	49
+ Investments in rights	1	1
Investments	75	50
Liquid development costs for the year	98	67
Fraction for development costs in the income statement relative to liquid development costs	0.8	1.0

2.6 Other operating expenses

	2016/17	2015/16
Integration costs, ETView	10	0
Total other operating expenses	10	0

§ Accounting policies

Other operating expenses comprise items of a secondary nature to the activities of the enterprises.

Net profit for the year

Notes on the consolidated financial statements – Section 2

DKKm

2.7 Financial risks from operating activities

Foreign currency risks

The largest part of Ambu's revenue, production costs and capacity costs is invoiced and paid in foreign currencies, and all assets and liabilities in the subsidiaries' balance sheets are denominated in foreign currency. As a consequence, fluctuations in these exchange rates against DKK might impact Ambu's financial position and results. The most important exchange rates are USD, MYR, CNY and GBP (collectively referred to as 'main currencies').

Sensitivity analysis

The following table shows the impact on the group in the event of a 10% fluctuation in the main currencies relative to the recognised financial instruments. The development of 10% constitutes the management's assessment of a realistic exchange rate development within the main currencies. The financial instruments comprised by the sensitivity analysis include the group's trade receivables, cash, short-term and long-term payables, trade payables and forward exchange contracts.

	Decrease of 10% in main currencies		Increase of 10% in main currencies	
	2016/17	2015/16	2016/17	2015/16
Income statement	-19	-29	19	29
Other comprehensive income	0	0	0	0
	-19	-29	19	29

Hedging of expected future transactions

In order to hedge future expected net cash flows for purchasing silver for production, the group has entered into a derivative financial instrument which hedges the purchase price of silver throughout 2017/18. Interest rate swaps have been entered into to hedge the group's future and agreed debt to credit institutions, converting floating-rate debt into fixed-rate debt.

Hedging of currency development

A currency swap has been entered into under which Ambu pays USD 40m and receives an agreed amount in DKK. The swap was entered into for the purpose of hedging cash flows from the US business on later repayment of the bond loan.

Fair value of financial instruments	Contract value		Fair value	
	2016/17	2015/16	2016/17	2015/16
<i>Commodity hedging:</i>				
Silver price hedging	15	12	-2	2
<i>Currency swaps:</i>				
Currency swap, USD 40m, floating to fixed rate, maturity 15 March 2018	252	267	-21	-35
<i>Interest rate swaps:</i>				
Interest rate swap, EUR 13m, floating to fixed rate, maturity 31 December 2016	0	86	0	-1
Interest rate swap, DKK 500m, floating to fixed rate, maturity 1 March 2022	500	0	-6	0
Total financial liabilities	767	365	-29	-34

Net profit for the year

Notes on the consolidated financial statements – Section 2

DKKm

2.8 Tax on profit for the year

	2016/17	2015/16
Current tax on profit for the year	78	78
Deferred tax on profit for the year	16	-2
Adjustment, previous years	-2	0
Total tax on profit for the year	92	76
<i>Tax on profit for the year comprises (%):</i>		
Calculated 22.0% (2015/16: 22.0%) tax on income from ordinary activities before tax	22.0	22.0
Effect of tax rate in foreign subsidiaries	-0.1	-0.5
Income not subject to tax	-0.9	-0.2
Non-deductible costs	1.7	1.4
Adjustment, change in tax rates	0.1	0.1
Value adjustment, earn-out	-0.1	0.0
Tax adjustment in respect of previous years	-0.8	0.2
Utilisation of tax asset not previously recognised	-0.6	0.0
Impairment of tax asset	2.1	0.4
Effective tax rate	23.4	23.4

§ Accounting policies

The tax for the year, which consists of current tax and changes in deferred tax, is recognised in the income statement with the portion attributable to the profit for the year, and in equity with the portion attributable to amounts recognised directly in other comprehensive income. Tax is provided on the basis of the tax rules and tax rates applicable in the individual countries.

Net profit for the year

Notes on the consolidated financial statements – Section 2

DKKm

2.9 Deferred tax

	30.09.17	30.09.16
Deferred tax, beginning of year	-56	-13
Translation adjustment	1	1
Deferred tax on share-based payment recognised in equity	-53	-42
Deferred tax for the year recognised in the income statement	16	-2
Change in respect of previous years	-4	0
Deferred tax at end of year	-96	-56
<i>Deferred tax relates to:</i>		
Intangible assets	97	76
Property, plant and equipment	18	21
Current assets	-38	-25
Deferred tax on share-based payment recognised in equity	-127	-66
Payables	-5	-7
Tax loss carry-forward	-96	-127
Impairment of tax loss carry-forward and timing differences	55	72
	-96	-56
<i>Classified in the balance sheet as follows:</i>		
Deferred tax asset	-98	-61
Deferred tax	2	5
	-96	-56
Deferred tax falling due within 12 months	-43	-32

Tax losses in the group

At the end of September 2017, the company recognised a tax loss and other timing differences of DKK 102m (2016: DKK 89m) stemming from the US operating activities. Based on the management's expectations for the future and approved budgets, the value of these tax losses and other timing differences has been recognised at DKK 47m (2016: DKK 41m).

In the period prior to the acquisition on 28 September 2016, EView had built up a tax loss of DKK 24m stemming from operating activities in Israel. This tax loss not previously recognised has been utilised in 2016/17 in connection with an intercompany transfer of IP rights to Ambu A/S. The transfer does not have any significant impact on the group's financial position.

The total unrecognised tax asset as at 30 September 2017 amounts to DKK 55m (2016: DKK 72m). The vast majority of this contingent asset expires in the period 2034-2037.

§ Accounting policies

Deferred tax assets are assessed on an annual basis and are only recognised to the extent that such assets are likely to be used.

Deferred tax is measured under the balance-sheet liability method on the basis of all temporary differences between the carrying amount and tax base of assets and liabilities. Deferred tax is not recognised on temporary differences resulting from the initial recognition of goodwill. Deferred tax assets, including the tax base of tax loss carry-forwards, are recognised under other non-current assets at the expected usable value, either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity.

Adjustment is made of deferred tax in relation to eliminations made as regards unrealised intercompany profits and losses.

Deferred tax is measured on the basis of the taxation rules and tax rates which, pursuant to the legislation in force at the balance sheet date, will apply in the individual countries at the time when the deferred tax is expected to become payable as current tax. Changes in deferred tax resulting from changes in tax rates are recognised in the income statement.

Deferred tax is calculated on share-based payment to the extent that the individual scheme is tax-deductible for the group. Deferred tax is calculated as the difference between the value of the share-based payment at the time of allocation and the fair value, whichever is the higher. Deferred tax assets from share-based payment schemes are recognised proportionately over the vesting period.

Section 3:

Invested capital and working capital

This section provides explanatory notes concerning Ambu's total investments of DKK 141m, including development projects and production capacity. The section also contains notes describing the company's working capital, which at the end of the financial year totalled DKK 457m.

Investments for the year included the investment of DKK 40m in an expansion of production capacity for aScope in Malaysia as well as investments in the continued expansion of the group's global development departments. Investments in own development projects were up 51% to DKK 74m, which is in line with the management's strategy of penetrating new areas within Visualisation and of improvements of existing products.

Ambu is working continuously to optimise inventories through production planning and the reduction of safety stocks. However, the physical location of our factories in Asia does entail transport times of up to eight weeks from the factories to the regional warehouses in Europe and the USA. A significant proportion of inventories is therefore in transit at any one time and thus not available for sale.

Trade receivables are up 5% from DKK 416m to DKK 437m concurrently with reported growth of 13% for the year. At the same time, debtor days were reduced from 67 to 65.

Trade credits obtained in connection with the procurement of goods and services and other payables increased 44%, due to an increased cost and activity level in Q4.

Net working capital	%	30.09.2017	%	30.09.2016
Inventories	13	313	14	287
Trade receivables	19	437	20	416
Other operating assets	2	49	3	54
Trade payables	-7	-160	-5	-104
Other payables	-8	-182	-6	-134
	19	457	25	519

Working capital, %
of revenue

19%

-6 percentage
points

Total
investments for
the year

DKK **141m**

-41%

Free
cash flows

DKK **321m**

+13%

Invested capital and working capital

Notes on the consolidated financial statements – Section 3

DKKm

3.1 Intangible assets

2016/17	Acquired technologies, trademarks and customer relations	Completed development projects	Rights	Goodwill	Development projects in progress	Total
Acquisition price, beginning of year	255	289	129	819	41	1,533
Translation adjustment	-2	-2	0	-38	-1	-43
Additions during the year	0	0	0	0	74	74
Additions in connection with acquisition	0	0	0	0	0	0
Disposals during the year	0	0	0	0	0	0
Transferred during the year	0	70	0	0	-69	1
Acquisition price at end of year	253	357	129	781	45	1,565
Amortisation and impairment losses, primo	70	188	37	0	0	295
Translation adjustment	-5	0	0	0	0	-5
Disposals during the year	0	0	0	0	0	0
Impairment losses for the year	0	0	0	0	0	0
Amortisation for the year	25	22	13	0	0	60
Amortisation and impairment losses at end of year	90	210	50	0	0	350
Carrying amount at end of year	163	147	79	781	45	1,215

2015/16	Acquired technologies, trademarks and customer relations	Completed development projects	Rights	Goodwill	Development projects in progress	Total
Acquisition price, beginning of year	155	225	84	810	58	1,332
Translation adjustment	1	0	0	2	0	3
Additions during the year	0	0	63	0	49	112
Additions in connection with acquisition	99	0	0	7	0	106
Disposals during the year	0	0	-18	0	0	-18
Transferred during the year	0	64	0	0	-66	-2
Acquisition price at end of year	255	289	129	819	41	1,533
Amortisation and impairment losses, primo	52	164	30	0	0	246
Translation adjustment	0	0	0	0	0	0
Disposals during the year	0	0	-6	0	0	-6
Impairment losses for the year	0	0	0	0	0	0
Amortisation for the year	18	24	13	0	0	55
Amortisation and impairment losses at end of year	70	188	37	0	0	295
Carrying amount at end of year	185	101	92	819	41	1,238

Disposals during the year include DKK 12m relating to changed assumptions in respect of provisions for the capitalised purchase price of technologies (see note 5.1).

Invested capital and working capital

Notes on the consolidated financial statements – Section 3

3.1 Intangible assets (continued)

§ Accounting policies

On initial recognition, goodwill is recognised at cost in the balance sheet as described under 'Business combinations'. Subsequently, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised.

At the time of acquisition, goodwill is attributed to the cash-generating units which are expected to benefit from the business combination; however, not to a lower level than the lower of segment level and the level on which goodwill is monitored as part of the internal financial management. The management has identified an operating segment to which goodwill is allocated.

Acquired technologies, trademarks and customer relations primarily comprise identified technologies.

Development projects that are clearly defined and identifiable and where the technical utilisation degree, sufficient resources and a potential future market or scope for use in the company can be proven, and where the company intends to produce, market or use the project, are recognised as intangible assets where the cost of the project can be calculated reliably and there is sufficient certainty that the future earnings or the net selling price can cover the production costs, selling and distribution costs as well as management and administrative expenses. Other development costs are recognised in the income statement as incurred.

Recognised development costs are measured at cost less accumulated amortisation and impairment losses. Cost comprises salaries and other external expenses, e.g. consultancy fees, travel expenses etc., which are directly attributable to the group's development activities.

Upon completion of the development activity, development projects are amortised according to the straight-line method over the estimated useful life as from the time when the asset is ready for use. The basis of amortisation is reduced by impairment losses, if any. The useful life of the asset may subsequently be changed if the management believes that the original assumptions on which the useful life and any residual value are based have changed significantly.

Rights in the form of distribution rights and licences etc. are measured at cost less accumulated amortisation and impairment losses. Rights are amortised according to the straight-line method over the shorter of the remaining term of the agreement and the useful lives of the assets.

Other intangible assets, including intangible assets acquired in connection with business combinations, are measured at cost less accumulated amortisation and impairment losses. Other intangible assets are amortised according to the straight-line method over the expected useful lives of the assets.

Intangible assets are amortised according to the straight-line method over the expected useful lives of the assets/components as follows:

Acquired technologies, trademarks and customer relations	5-15 years
Completed development projects	5-10 years
Rights	5-20 years
Goodwill is not amortised.	

Changes in the useful lives of completed development projects

With effect from Q1 2016/17, the management has changed its estimate of the useful lives of completed development projects from 5 years to up to 10 years. With this change, the management believes that the useful lives of completed development projects to a greater extent correspond to the period in which Ambu obtains a financial advantage from these development projects. The effect of this change in 2016/17 on EBIT amounts to DKK 12m.

! Material accounting estimates

Calculation of the fair value of acquired intangible assets identified in connection with business combinations

When applying the purchase method in connection with business combinations, the management makes material estimates and assessments in its valuation of the acquired intangible assets. On 28 September 2016, Ambu acquired the entire share capital in EView Medical Ltd. at a price of DKK 90m, and on 15 February 2013, Ambu acquired the entire share capital in King Systems Corp. at a price of DKK 813m.

In connection with the acquisition of EView Medical Ltd., the management identified technologies worth DKK 99m. In connection with the acquisition of King Systems Corp., intangible assets of DKK 131m were identified: technologies (DKK 105m), trademarks (DKK 18m), customer relations (DKK 5m) and order book (DKK 3m).

All identified intangible assets have finite useful lives and will therefore affect EBIT negatively until the fair value, calculated at the date of the acquisition, is fully amortised.

In the management's valuation of acquired intangible assets, significant estimates and assessments are made of events which in future may prove to deviate from the assumptions made.

Invested capital and working capital

Notes on the consolidated financial statements – Section 3

3.2 Impairment test

Goodwill

The Ambu group is managed as one single unit, for which reason the management monitors goodwill as a whole. Consequently, the impairment test is based on the Ambu group's total cash flows. The market value of Ambu A/S's shares based on the traded price for the shares on NASDAQ Copenhagen is far higher than the booked equity. Therefore, the management has concluded that the net selling price calculated on the basis of a level 1 fair value measurement proves that there is no indication of impairment of goodwill.

Development projects

Development projects in progress are tested for impairment on an ongoing basis. For completed development projects, it is continuously assessed whether there is any indication of impairment. If the management finds that there is an indication of impairment, an impairment test is carried out, comparing the estimated future net cash flows with the carrying amount of the asset.

The impairment tests made have not resulted in any indication of impairment.

§ Accounting policies

The carrying amount of goodwill is tested for impairment together with the other non-current assets of the cash-generating unit to which goodwill has been allocated and is impaired to the recoverable amount in the income statement if the carrying amount is higher. Impairment of goodwill is recognised as a separate item in the income statement.

Goodwill is tested annually for impairment, the first time being by the end of the year of acquisition. Development projects in progress are also subject to an annual impairment test.

The carrying amount of other non-current assets is assessed on an annual basis to establish whether there is any indication of impairment. When such indication exists, the recoverable amount of the asset is calculated. The recoverable amount is the higher of the fair value of the asset less expected selling costs and the value in use. The value in use is calculated as the present value of expected future cash flows from the asset or the cash-generating unit in which the asset is included.

An impairment loss is recognised when the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount of the asset or the cash-generating unit. Impairment losses are recognised in the income statement under production costs, selling and distribution costs, development costs as well as management and administrative expenses, as appropriate.

Impairment of goodwill is not reversed. Impairment of other assets is reversed in so far as the assumptions and estimates on the basis of which the impairment is made have been changed. Impairments are only reversed in so far as the new carrying amount of the asset does not exceed the carrying amount of the asset after amortisation, had the asset not been impaired.

! Material accounting estimates

Indication of impairment of acquired intangible assets in connection with business combinations and subsequent impairment test hereof
All identified intangible assets recognised in connection with business combinations have finite useful lives and will therefore affect EBIT negatively until the fair value, calculated at the date of the acquisition, is fully amortised. The management performs an annual assessment of whether there are internal or external indications of impairment of the identified intangible assets. If there is any indication of impairment, an impairment test is carried out.

In an impairment test, significant estimates and assessments are made of future events which may have a significant impact on the group's EBIT and financial position if the planned events deviate from the management's best estimate.

Invested capital and working capital

Notes on the consolidated financial statements – Section 3

DKKm

3.3 Property, plant and equipment

	Land and buildings	Plant and machinery	Other plant, fixtures and fittings, tools and equipment	Prepayments and plant under construction	Total
2016/17					
Acquisition price, beginning of year	238	308	113	23	682
Translation adjustment	-9	-16	-2	-3	-30
Additions during the year	89	4	3	78	174
Disposals during the year	-81	-5	-19	0	-105
Transferred during the year	3	12	20	-36	-1
Acquisition price at end of year	240	303	115	62	720
Depreciation and impairment losses, beginning of year	116	209	86	0	411
Translation adjustment	-4	-10	-1	0	-15
Disposals during the year	-64	-5	-18	0	-87
Impairment losses for the year	0	0	0	0	0
Depreciation for the year	9	23	12	0	44
Depreciation and impairment losses at end of year	57	217	79	0	353
Carrying amount at end of year	183	86	36	62	367

There are no contractual obligations concerning the purchase of property, plant and equipment. The carrying amount of assets held under finance leases is DKK 89m (2015/16: DKK 2m), primarily recognised under land and buildings.

	Land and buildings	Plant and machinery	Other plant, fixtures and fittings, tools and equipment	Prepayments and plant under construction	Total
2015/16					
Acquisition price, beginning of year	236	286	129	25	676
Translation adjustment	2	1	0	0	3
Additions during the year	0	4	3	27	34
Disposals during the year	-2	-6	-25	0	-33
Transferred during the year	2	23	6	-29	2
Acquisition price at end of year	238	308	113	23	682
Depreciation and impairment losses, beginning of year	108	193	95	0	396
Translation adjustment	-1	-2	0	0	-3
Disposals during the year	-1	-5	-23	0	-29
Impairment losses for the year	0	1	1	0	2
Depreciation for the year	10	22	13	0	45
Depreciation and impairment losses at end of year	116	209	86	0	411
Carrying amount at end of year	122	99	27	23	271

Invested capital and working capital

Notes on the consolidated financial statements – Section 3

DKKm

3.3 Property, plant and equipment (continued)

§ Accounting policies

Land and buildings, plant and machinery and other plant, fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price and any costs directly attributable to the acquisition until the date when the asset is ready for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers, wages and salaries. The cost of a total asset is divided into separate elements which are depreciated individually when the useful lives of the individual elements differ.

For assets held under finance leases, cost is calculated at the lower of the fair value of the assets and the present value of the future minimum lease payments. For calculating the present value, the internal rate of interest of the lease is used as the discount rate or an approximation of this value.

Property, plant and equipment are depreciated according to the straight-line method over the expected useful lives of the assets/components as follows:

Buildings	10-25 years
Building installations	10 years
Plant and machinery	2-10 years
Other plant, fixtures and fittings, tools and equipment	3-5 years
Land is not depreciated.	

The basis of depreciation is calculated in consideration of the residual value of the asset and is reduced by impairment, if any. The residual value is fixed at the date of acquisition and is subject to annual review. When the residual value exceeds the carrying amount of the asset, depreciation will no longer take place.

In connection with changes in the depreciation period or the residual value, the effect of depreciation is recognised in future as a change in the accounting estimate.

Depreciation is recognised in the income statement under production costs, selling and distribution costs, development costs or management and administrative expenses, respectively, in so far as depreciation is not included in the cost of self-constructed assets. Reference is made to note 2.4.

3.4 Inventories

	30.09.17	30.09.16
Raw materials and consumables	83	75
Finished goods	230	212
	313	287
Cost of sales for the year	820	765
Write-down of inventories included in production costs for the year	5	1

§ Accounting policies

Inventories are measured at the lower of cost calculated according to the FIFO principle and net realisable value. The net realisable value is calculated as the selling price less costs of completion and costs necessary to make the sale.

The cost of goods for resale as well as raw materials and consumables comprises the acquisition price plus delivery costs.

The cost of manufactured goods and work in progress comprises the cost of raw materials, consumables, direct labour costs and production overheads in the form of logistics and planning costs, production management as well as expenses for production facilities and equipment etc.

Invested capital and working capital

Notes on the consolidated financial statements – Section 3

DKKm

3.5 Trade receivables

	30.09.17	30.09.16
Not due	339	329
1-90 days	79	55
91-180 days	6	15
> 180 days	13	17
Trade receivables	437	416
<i>At end of year, trade receivables were written down by:</i>		
Not due	-2	-2
1-90 days	-2	-1
91-180 days	-3	-2
> 180 days	-5	-4
Provision for bad debts	-12	-9

Credit risks

Ambu monitors trade receivables on a daily basis by means of due date reports, changes in payment pattern trends as well as ordinary follow-up routines to identify any indications that the initial expectations for losses on the individual receivables should be adjusted. The Ambu group does not use factoring in connection with the collection of debts.

A share of the trade receivables is overdue by more than three months. Reference is made to the detailed description of credit risks in note 4.1 where the management regards the risk of bad debts as being low.

§ Accounting policies

Under IFRS 9, trade receivables must be measured at amortised cost net of any write-down for expected impairment over the life of the claim. The loss is recognised at the time of the initial recognition of the claim and is subsequently assessed regularly on the basis of an expected credit loss model.

3.6 Adjustment of items with no cash flow effect

	2016/17	2015/16
Depreciation, amortisation and impairment losses	105	102
Share-based payment	11	7
Net financials and similar items	57	30
Tax on profit for the year	92	76
	265	215

3.7 Changes in net working capital

	2016/17	2015/16
Changes in inventories	-40	-6
Changes in receivables	-29	57
Changes in trade payables etc.	88	-43
	19	8

Invested capital and working capital

Notes on the consolidated financial statements – Section 3

DKKm

3.8 Business combinations

On 25 October 2017, Ambu acquired the German-based company Invendo Medical GmbH. For further information, reference is made to note 5.7 concerning subsequent events.

Ambu did not acquire any enterprises in 2016/17.

In 2015/16, Ambu acquired the Israeli company ETVIEW Medical Ltd. with subsidiaries in Israel and the USA (collectively referred to as 'ETVIEW'), which produces single-use airway tubes with integrated camera.

The integration of ETVIEW in Ambu's existing business continued in FY 2016/17 and was almost complete as at 30 September 2017. The costs of the integration total DKK 10m, which has been recognised under 'Other operating expenses' in the income statement.

	Previous ownership interest	Acquired ownership interest	Acquisition date	Type	Area	Cost
ETVIEW Medical Ltd.	0%	100%	28 Sep. 2016	Shares	Anaesthesia	90
Fair value on acquisition						ETVIEW Medical Ltd.
Technologies						99
Total intangible assets						99
Inventories						3
Trade receivables						1
Cash						1
Bank debt						-3
Payables						-18
Identifiable net assets						83
Goodwill						7
Total purchase price						90
<i>The purchase price comprises:</i>						
Cash						90
						90
Transaction-related costs included in management and administrative expenses						2
Cash flows for the acquisition of enterprises as at 30 September 2016						93

Description of the acquired activities

ETVIEW Medical Ltd. is located in Misgav, Israel, and produces single-use airway tubes with integrated camera through strategic suppliers. The airway tubes are sold globally and mostly through distributors; however, at the acquisition date, ETVIEW was directly represented on the US market through its own sales staff. The acquisition of ETVIEW strengthens Ambu's portfolio of visualisation products.

The most important asset is identified acquired technologies consisting of a patented visualisation technology platform. The fair value measurement is based on future sales budgets and is thus subject to some estimation uncertainty. Technologies are valued in accordance with the Relief from Royalty method and is amortised over the estimated useful life of 15 years.

The calculation of the fair value on acquisition of ETVIEW has been completed and is described above.

Goodwill

Goodwill is recognised at the amount by which the calculated purchase price exceeds the identifiable net assets. The calculated goodwill can be ascribed to employee know-how. The recognised goodwill is not deductible for tax purposes.

Information about the acquired enterprise

In the period from the acquisition date and until 30 September 2016, ETVIEW has contributed DKK 0m to consolidated revenue and DKK 0m to the operating profit for the year. Had ETVIEW been consolidated as from 1 October 2015, ETVIEW would have contributed DKK 15m to revenue and DKK -16m to the operating profit. The stated figures have been calculated before the effect of purchase price allocations.

Section 4:

Financial risk management, capital structure and net financials

This section provides an overview of Ambu's capital structure, net financials as well as a description of the measures taken by the management to prevent and reduce the financial risks to which Ambu is exposed.

Helped by a 21% increase in EBITDA, Ambu realised the expected debt multiple of 1.4 most recently announced. This is well below the level of 1.75, which has been the group's target in connection with the issuance of corporate bonds. Following the acquisition in October 2017 of Invendo Medical GmbH, gearing has been significantly increased, as described in further detail in note 5.7.

Investments for the year total DKK 141m and included the investment of DKK 74m in development projects, DKK 40m in a new factory in Malaysia for Visualisation as well as other investments in internal capacity and infrastructure. In Q4, the group's former factory in Denmark was sold for DKK 16m.

At the end of September 2017, interest-bearing debt corresponded to a weighted cost of capital of 3.4%, which is predominantly fixed-interest. A significant part of the cost of capital pertains to the company's corporate bonds, with a nominal value of DKK 700.5m, maturing in March 2018. The acquisition of Invendo Medical GmbH and the full refinancing of DKK 700m in March 2018 have been secured by means of binding loan commitments from the group's bank. See also note 5.7.

Net financials were reduced by DKK 27m as a result of intercompany translation adjustments in the parent company and other non-cash items. The underlying cash interest payment is unchanged, and in the region of DKK 30-34m.

Debt multiple

1.4 of EBITDA

Fall of -0.7

Net interest-bearing
debt

DKK **767**_m

DKK -188m

Cost of capital

3.4%

+0.6 percentage
points

Net financials

DKK **-57**_m

DKK -27m

Financial risk management, capital structure and net financials

Notes on the consolidated financial statements – Section 4

DKKm

4.1 Financial risk management

As an international player, Ambu is exposed to certain market risks, including fluctuations in foreign exchange and interest rates as well as the development in prices of raw materials.

Foreign currency risks

Fluctuations in foreign currency and foreign currency's impact on the group's financial objectives are continuously monitored by Ambu's Corporate Accounting department. See note 2.7 for further information about foreign currency risks.

Interest rate risks

It is group policy to hedge material interest rate risks in respect of the group's loans. Hedging is normally done through interest rate swaps converting floating-rate loans into fixed-rate loans.

The main part of the group's debt is arranged as fixed-rate debt through the issue of corporate bonds.

For the purpose of partially hedging the group's interest rate risk in connection with the refinancing of the bond loan, the management has entered into an interest rate swap of DKK 500m involving receipt of CIBOR 3 months and payment of a fixed interest rate. The interest rate swap has forward start in 2018 and thus matches the expected utilisation of the credit facility in connection with the repayment of the bond loan. This instrument does not contain a 'floor' on CIBOR 3 months, as is the case for the secured debt. Despite the lack of a 'floor' in the hedging instrument, the management deems that an economic relationship exists as an interest rate increase is deemed to be more likely than a further decline in interest rates, and has therefore decided to apply the rules set out in IFRS 9 on hedge accounting. The ineffective part of the hedging instrument is calculated as the part of the interest payments and fair value adjustments that have been derived from a negative interest rate for CIBOR 3 months. The secured credit facility has been arranged as a bullet loan to expire on 31 January 2020 with the option of a two-year extension. The management expects to use this option. The interest rate swap has been arranged as a bullet loan to expire on 1 March 2022.

As at the balance sheet date, the hedging instrument has a negative fair value of DKK 6m, of which DKK 1m has been recognised in the income statement as ineffectiveness, and DKK 5m has been recognised in other comprehensive income.

A likely decline in interest rates of 0.25 percentage points will result in an expense of DKK 5m in the income statement, whereas a likely increase in interest rates of 0.75 percentage points will result in income of DKK 15m, with DKK 1m being recognised in the income statement and DKK 14m being recognised in other comprehensive income.

Prices of raw materials

The world market price of silver can impact electrode production costs significantly. Management therefore hedges the silver purchases for the year. The hedging takes the form of derivatives hedging the expected purchases for the year. Reference is made to note 2.7 regarding the fair value of the hedge.

Liquidity risks

Financing and sufficient liquidity are fundamental to Ambu's continued operation and growth. Liquidity is managed centrally from Ambu's head office. No cash-pool solutions are applied, but intercompany loans have been extended by Ambu A/S to a few subsidiaries.

The objective of the cash management is to ensure a return for the shareholders and to ensure that adequate and flexible cash resources are being maintained, thus enabling Ambu to honour its current obligations, such as repaying loans and settling other liabilities.

The liquidity risk is countered by a consistent focus on budgeted and realised cash flow.

In March 2013, Ambu A/S issued bonds at a nominal value of DKK 700.5m. The bonds carry a fixed rate of interest of 3.375% and an effective rate of interest of 3.506%. The bonds must be repaid in full in March 2018. The fair value of the bonds issued was DKK 710m as at 30 September 2017 (2016: DKK 724m). The debt can be attributed to level 1 of the fair value hierarchy as the bond is listed on NASDAQ Copenhagen.

The refinancing of the bond debt has been secured through the conclusion of a credit facility agreement totalling DKK 1,500m, of which DKK 500m is earmarked for the repayment of the bond debt. The remaining portion of the bond debt is expected to be serviced by the ongoing operations and by utilisation of revolving credit facilities of DKK 500m. All facilities carry floating interest, the minimum interest rate being 0.8-1.5%, depending on the company's gearing. The earmarked facility of DKK 500m has been hedged at a fixed interest rate of between 1.38% and 1.98%, depending on gearing, through the conclusion of an interest rate swap. The credit facilities are bullet loans which expire on 31 January 2020.

Financial risk management, capital structure and net financials

Notes on the consolidated financial statements – Section 4

DKKm

4.1 Financial risk management (continued)

The cash resources consist of unutilised credit facilities in banks which are specified below:

	30.09.17	30.09.16
Unutilised credit facilities	1,043	135

On 25 October 2017, Ambu acquired the German-based company Invendo Medical GmbH. For further information, including any impact on credit facilities, reference is made to note 5.7 concerning subsequent events.

Credit risks

Ambu is exposed to credit risks in respect of bank deposits and trade receivables. The maximum credit risk corresponds to the carrying amount.

Cash is not deemed to be subject to any credit risks as the company's primary banks are SIFI banks.

Outstanding trade receivables are monitored on a regular basis in accordance with the company's debtor policy, which is based on concrete debtor assessments of private customers. Public-sector customers are an important part of the company's receivables, and it is believed that no debtor risks are associated with public-sector customers. No material changes were made during the financial year with regard to provisions for bad debts nor were any material losses ascertained. Reference is made to note 3.5.

4.2 Categories of financial instruments

Ambu has recognised the following financial instruments:

	30.09.17	30.09.16
Trade receivables	437	416
Other receivables	18	28
Cash	19	35
Receivables and cash and cash equivalents	474	479
Other provisions	39	38
Corporate bonds	700	699
Credit institutions	0	275
Finance leases	86	2
Bank debt	0	14
Trade payables	160	104
Other payables	182	134
Financial liabilities recognised at amortised cost	1,167	1,266
Earn-out obligation (level 3)*	0	3
Derivative financial instruments (level 2)*	23	35
Financial liabilities stated at fair value in the income statement	23	38
Derivative financial instruments (level 2)*	6	-1
Financial liabilities stated at fair value in other comprehensive income	6	-1

*) Level 1: The fair value of financial instruments traded on the active markets is based on the listed market prices at the balance sheet date. The listed price is used for the group's financial assets as the current purchase price.

Level 2: The fair value of financial instruments which are not traded in an active market (e.g. over-the-counter derivatives) is determined using ordinary valuation methods.

Level 3: If no observable market data are available, the instrument is included in the last category.

Financial risk management, capital structure and net financials

Notes on the consolidated financial statements – Section 4

DKK m

4.2 Categories of financial instruments (continued)

Earn-out obligations recognised at fair value

Ambu's earn-out obligations are recognised and measured at fair value using unobservable data (level 3). There have been no movements between the various hierarchies this year or the year before.

Earn-out obligations – level 3 of the IFRS fair value hierarchy	30.09.17	30.09.16
Fair value as at 1 October	3	6
Used during the year	0	-3
<i>Adjustments made through the income statement:</i>		
Adjustment to fair value	-3	0
Fair value as at 30 September	0	3

§ Accounting policies

Debt to credit institutions etc. is recognised at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost using the 'effective rate of interest method' so that the difference between the proceeds and the nominal value is recognised under financial expenses in the income statement for the duration of the loan term.

Derivative financial instruments are recognised as from the transaction date and are measured at fair value in the balance sheet. The fair value of derivative financial instruments is calculated on the basis of current market data as well as accepted valuation methods.

Changes in the fair value of derivative financial instruments classified as and fulfilling the criteria for hedging the fair value of a recognised asset or liability are recognised in the income statement together with any changes in the value of the hedged asset or liability as regards the hedged part.

Changes in the part of the fair value of derivative financial instruments classified as and fulfilling the criteria for hedging future cash flows, and which, in an efficient manner, hedge changes in the value of the hedged item, are recognised in other comprehensive income and presented as a separate reserve for hedging transactions under equity until the hedged transaction is realised. At this time, gains or losses on such hedging transactions are transferred from equity and recognised under the same item as the hedged item. When hedging proceeds from future borrowings, the gains or losses on hedging transactions are, however, transferred from other comprehensive income over the term of the loan.

For derivative financial instruments which do not fulfil the conditions for treatment as a hedging instrument, changes in the fair value are recognised on an ongoing basis in the income statement. The capitalised remaining lease obligation in respect of finance leases, measured at amortised cost, is also recognised under financial liabilities.

Other liabilities are measured at amortised cost, including corporate bonds issued.

Financial risk management, capital structure and net financials

Notes on the consolidated financial statements – Section 4

DKKm

4.3 Net financials

	2016/17	2015/16
<i>Other financial income:</i>		
Foreign exchange gains, net	0	6
Fair value adjustment, swap	10	0
Fair value adjustment, earn-out	3	0
Financial income	13	6

	2016/17	2015/16
<i>Interest expenses:</i>		
Interest expenses, banks	7	6
Interest expenses, leases	2	0
Interest expenses, bonds	24	24
<i>Other financial expenses:</i>		
Effect of shorter discount period, acquisition of technology	3	4
Ineffectiveness of interest rate swap	1	0
Fair value adjustment, swap	0	2
Foreign exchange loss, net	33	0
Financial expenses	70	36

§ Accounting policies

Financial income and expenses comprise interest, exchange gains and losses, write-downs of payables and transactions in foreign currencies, amortisation of financial assets and liabilities, including finance lease commitments. The timing effect and fair value adjustment of the purchase price payable are classified under net financials.

Financial risk management, capital structure and net financials

Notes on the consolidated financial statements – Section 4

DKKm

4.4 Net interest-bearing debt

2016/17	Contractual cash flows			Total	Fair value	Carrying amount	Weighted average effective rate of interest
	0-1 year	1-5 years	> 5 years				
Corporate bonds	724	0	0	724	710	700	3.5%
Finance leases	5	19	78	102	86	86	2.8%
Interest-bearing debt	729	19	78	826	796	786	3.4%
Cash	19	0	0	19	19	19	0.0%
Interest-bearing assets	19	0	0	19	19	19	0.0%
Net interest-bearing debt	710	19	78	807	777	767	3.4%

Current interest-bearing debt as at 30 September 2017 comprises: Corporate bonds of DKK 700m and finance lease debt of DKK 3m.

2015/16	Contractual cash flows			Total	Fair value	Carrying amount	Weighted average effective rate of interest
	0-1 year	1-5 years	> 5 years				
Credit institutions	50	225	0	275	275	275	1.0%
Corporate bonds	24	724	0	748	724	699	3.5%
Bank debt	14	0	0	14	14	14	1.6%
Finance leases	1	1	0	2	2	2	3.1%
Interest-bearing debt	89	950	0	1,039	1,015	990	2.8%
Cash	35	0	0	35	35	35	0.0%
Interest-bearing assets	35	0	0	35	35	35	0.0%
Net interest-bearing debt	54	950	0	1,004	980	955	2.8%

Current interest-bearing debt as at 30 September 2016 comprises: Credit institutions of DKK 50m, bank debt of DKK 14m and finance lease debt of DKK 1m.

In addition to the above, short-term contractual cash flows exist for the following: trade receivables, other receivables, trade payables and other payables. With the exception of non-current other receivables, these fall due within one year, and the contractual cash flows correspond to the carrying amount.

Reference is made to note 4.1 for a description of liquidity risks.

4.5 Share capital and treasury shares

Share capital

Ambu's share capital is divided into two share classes of DKK 2.50 per share each. A Class A share carries 10 votes per share, while a Class B share carries one vote per share. There is no difference between the economic rights pertaining to the individual share classes. All shares are paid in full.

	Class A shares		Class B shares		No. of shares	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
No. of shares issued, beginning of year	6,864,000	6,864,000	41,506,720	41,397,920	48,370,720	48,261,920
Additions	0	0	337,200	108,800	337,200	108,800
No. of shares issued at end of year	6,864,000	6,864,000	41,843,920	41,506,720	48,707,920	48,370,720

In FY 2016/17, several capital increases were implemented in connection with the exercise by employees of warrants allocated in 2012 and 2013. In consequence hereof, Ambu's share capital was increased by a nominal amount of DKK 843,000 through the issue of 337,200 Class B shares at a weighted price of 62.23.

Financial risk management, capital structure and net financials

Notes on the consolidated financial statements – Section 4

DKKm

4.5 Share capital and treasury shares (continued)

Treasury shares

	No. of shares		Nominal value		In % of share capital	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
Treasury shares, beginning of year	1,365,472	242,900	3.4	0.6	2.8%	0.5%
Additions	17,240	1,222,572	0.0	3.1	0.0%	2.5%
Disposals	-175,824	-100,000	-0.4	-0.3	-0.3%	-0.2%
Treasury shares at end of year	1,206,888	1,365,472	3.0	3.4	2.5%	2.8%

Treasury shares have been acquired to hedge option schemes and establish an employee share scheme (collectively 'schemes'). With the current holding of treasury shares, all allocated schemes up to 2018 have been fully hedged. The portfolio of and transactions with treasury shares only include Class B shares.

Disposals of treasury shares during the year can be ascribed to the employees' exercise of allocated option schemes as well as the establishment of an employee share scheme.

§ Accounting policies

Acquisition costs and consideration as well as dividend on treasury shares are recognised directly in retained earnings under equity. Proceeds from the sale of treasury shares and the issue of shares in Ambu A/S in connection with the exercise of share options or warrants are taken directly to equity.

4.6 Earnings per share

	2016/17	2015/16
Net profit for the year	301	250
Average no. of Class A and Class B shares in circulation (no.)	47,388,526	47,437,984
Diluted effect of outstanding share option, warrant and employee share schemes (no.)	1,205,026	1,346,398
Average number of outstanding Class A and Class B shares including the dilutive effect of share options, warrants and employee shares (no.)	48,593,552	48,784,382
Earnings per DKK 2,50 share (EPS) in DKK	6.35	5.27
Diluted earnings per DKK 2,50 share (EPS-D) in DKK	6.19	5.13

§ Accounting policies

Earnings per share are presented as both earnings per share and diluted earnings per share. Earnings per share are calculated as the net profit for the year divided by the average number of outstanding shares. Diluted earnings per share are calculated as the net profit for the year divided by the sum of the average number of outstanding shares including the dilutive effect of outstanding share options, warrants and employee shares that are 'in the money'. The dilutive effect of share options, warrants and employee shares that are 'in the money' is calculated as the difference between the number of shares that could be acquired at fair value for the proceeds from the exercise of the share options and allocated warrants as well as employee shares offset against the share of the Black-Scholes value not yet recognised.

Section 5: Provisions, other liabilities etc.

Section 5 includes statutory notes and notes of secondary importance to understanding Ambu's financial results and financial position.

Proposed dividend

DKK **1.85**/share
+19%

No. of treasury shares

1.2million
-0.2 million

Provisions, other liabilities etc.

Notes on the consolidated financial statements – Section 5

DKKm

5.1 Other provisions

	2016/17	2015/16
Provisions as at 1 October	41	54
Additions during the year	0	0
Used during the year	-1	-4
Reversal of unused amounts	-3	-12
Value adjustment	3	4
Foreign currency translation adjustment	-1	-1
Other provisions as at 30 September	39	41
Provisions expected to fall due:		
Current liabilities	3	4
Non-current liabilities	36	37
Other provisions as at 30 September	39	41

During the financial year, Ambu settled provisions in the amount of DKK 1m relating to the acquisition of technologies. The settlement of DKK 4m in 2015/16 related to earn-out and the acquisition of technology.

Reversal of unused amounts concerns a remeasurement of the earn-out agreement of DKK 3m (2015/16: change in the assumptions underlying the value-in-use calculation of the purchase price payable in connection with technology acquisitions in the amount of DKK 12m). The value adjustment for the year, which can be ascribed to the shorter discount period, amounts to DKK 3m (2015/16: DKK 4m).

As at the balance sheet date, provisions concern debt deriving from the acquisition of pain pump and other technologies.

§ Accounting policies

Provisions are recognised when the group, as a result of an event having occurred before or on the balance sheet date, has incurred a legal or actual liability, and it is probable that economic benefits will flow from the group in order to settle the liability. If the effect of the time value of money is significant, provisions are discounted using a before-tax discount rate. When applying a discount rate, the change in provisions due to the timing is recognised as a finance cost.

5.2 Operating leases

	2016/17	2015/16
Payments due within 0-1 year	31	31
Payments due within 1-5 years	46	69
Payments due after 5 years	0	61
Total operating leases	77	161
Operating leases expensed in the income statement	31	32

The significant reduction in operating leases is attributable to changed lease terms for the group head office. As from 2016/17, this lease is, at the time of recognition, classified as a finance lease resulting in an increase the group's net interest-bearing debt. For further information, reference is made to notes 3.3 and 4.4.

Operating leases have been entered into with Danish and foreign lease companies and with an original lease period of up to 5 years, being non-terminable on the part of both parties. The leases are normally renewable for a minimum of one year at a time, and the lease payments are normally fixed throughout the term of the lease. The lease commitment has been calculated on the basis of the payments falling due during the term of the lease.

Provisions, other liabilities etc.

Notes on the consolidated financial statements – Section 5

DKKm

5.3 Contingent liabilities and other contractual liabilities

Contingent liabilities

Ambu's ongoing operations and the use of Ambu's products in hospitals and clinics etc. involve the general risk of claims for damages and sanctions against Ambu. The risk is deemed to be customary for the industry.

Other contractual liabilities

A change-of-control clause exists in respect of committed borrowing facilities, which constitute the main part of Ambu's loan financing, not including corporate bonds, however.

Change-of-control remuneration to members of the Executive Board is subject to a maximum value corresponding to two years' remuneration.

5.4 Fee to auditors appointed by the annual general meeting

	2016/17	2015/16
Audit fee	2	2
Other assurance engagements	0	0
Tax consultancy services	4	2
Other services	1	2
Total fees	7	6

Fees for non-audit services provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab amounted to DKK 2m. Non-audit services comprise tax consultancy services relating to transfer pricing, treatment of rights, VAT and income tax returns, advice concerning share-based payment schemes as well as other general accounting and tax consultancy services.

5.5 Companies in the Ambu group

This note shows the legal entities which are consolidated in the consolidated financial statements:

Company	Reg. office	Currencies	Nominal capital	Ambu A/S's ownership interest	Established/acquired	Sales	Production	Other
Ambu Australia Pty. Ltd.	Australia	AUD	1	100%	2010	x		
Ambu Ltd.	UK	GBP	1,000	100%	1991	x		
Ambu United Kingdom Ltd.	UK	GBP	104,000	100%	2013			x
Ambu Sarl	France	EUR	170,245	100%	1989	x		
Ambu B.V.	Netherlands	EUR	22,700	100%	2006	x		
Ambu India Private Limited	India	INR	5,000,000	100%	2015	x		
ETView Medical Ltd.	Israel	NIS	181,820	100%	2016			x
ETView Ltd.	Israel	NIS	83,828	100%	2016	x		x
Ambu s.r.l.	Italy	EUR	68,200	100%	1992	x		
Ambu KK	Japan	JPY	20,000,000	100%	2000			x
Ambu Ltd.	China	CNY	6,623,760	100%	1998		x	
Ambu (Xiamen) Trading Co., Ltd.	China	CNY	479,885	100%	2008	x		
Ambu Sdn. Bhd.	Malaysia	MYR	2,400,000	100%	1995		x	
Ambu Mexico, S.A. DE C.V.	Mexico	MXN	1,000	100%	2014			x
Firma Ambu, S.L. ¹	Spain	EUR	200,113	100%	1993	x		
Ambu GmbH	Germany	EUR	51,129	100%	1992	x		
Ambu Inc.	USA	USD	250,000	100%	1983	x		
King Systems Holding Inc.	USA	USD	3,562	100%	2013			x
King Systems Corp.	USA	USD	843,800	100%	2013		x	
ETView Inc.	USA	USD	1	100%	2016			x

1. Firma Ambu, S.L. not only sells to Spain and Portugal, but also to the Latin American market.

Provisions, other liabilities etc.

Notes on the consolidated financial statements – Section 5

DKK m

5.6 Related parties

The group's related parties include the company's Board of Directors and Executive Board and members of their families. Related parties further include enterprises in which the above-mentioned persons have a significant interest.

During the year, no transactions, except for payment of the management's remuneration, have been carried out with the Board of Directors, Executive Board, major shareholders or other related parties as stated in notes 2.2 and 2.3.

5.7 Subsequent events

Apart from the acquisition of Invendo Medical GmbH ('Invendo') on 25 October 2017, no material events have occurred in the period between the end of the financial year and the Board of Directors' approval of the annual report.

Acquisition of Invendo Medical GmbH

On 25 October 2017, Ambu acquired the entire share capital in the German company Invendo. The company is a leading developer of sterile, single-use endoscopy products in the fields of gastroenterology and GI surgery. The management sees the acquisition as a good strategic match given the group's Big Five strategy and long-term value creation. Invendo has 35 employees.

The purchase price for Invendo will be settled in the form of a cash payment of DKK 860m followed by future milestone payments totalling DKK 521m, which are conditional upon the FDA approving each of the company's scopes. In addition, it has been agreed that earn-out payments in the range of DKK 0-298m will be made over a four-year period, depending on the future revenue during this period. The total cost before discounting of deferred payments will amount to a maximum of DKK 1,679m, and a minimum of DKK 860m in the unlikely event that milestone and earn-out payments do not fall due.

Composition of purchase price	Timing of payments	Maximum cost
Cash	Paid on 25 October 2017	860
<i>Contingent purchase price:</i>		
Milestone	Upon FDA approvals	521
Earn-out payments, revenue-dependent for a four-year period	First payment when revenue exceeds DKK 558m	298
Maximum cost before discounting to net present value		1,679

Fair value on acquisition and impact on the group's income statement

The purchase price allocation is currently under preparation, and a preliminary allocation is expected to be presented in connection with the presentation of the financial statements for H1 2017/18 on 7 May 2018. The management expects identifiable technologies and goodwill to constitute the vast majority of the assets included in the fair value on acquisition. Amortisation of acquired technologies under development begins at the time when the development project is approved by the FDA. The colonoscope is the first scope for which FDA registration is expected to be obtained, after which amortisation will begin. However, the amortisation will only have a limited effect on Ambu's EBIT for 2017/18. The amortisation will not have any effect on EBITDA and therefore not on the group's gearing either.

In Q4 2016/17, DKK 5m was spent on the acquisition of Invendo. The costs have been recognised under 'Management and administration' in the income statement.

Binding loan commitments

Initially, the deferred purchase price is funded through a binding financing commitment from Ambu's bank. In the period up until Q2 2017/18, the optimum future financing structure and the equity-to-debt ratio will be assessed, including the possibility of issuing new Class B shares.

Net interest-bearing debt

With the acquisition of Invendo, Ambu's net interest-bearing debt increased by DKK 860m to DKK 1,627m. In order to illustrate the effect of the purchase price on Ambu's financial position, the table includes pro forma figures for NIBD and EBITDA as well as gearing (NIBD/EBITDA). Pro forma figures for Ambu's financial position on 25 October 2017 have been calculated as the payment on 25 October 2017 plus NIBD as at 30 September 2017, assuming that EBITDA remains unchanged.

	30 September 2017	25 October 2017*
NIBD	767	1,627
EBITDA	555	555
Gearing	1.4	2.9

**Pro forma figures calculated before growth in EBITDA, reduction in NIBD as a result of future cash flows and other matters.*

Provisions, other liabilities etc.

Notes on the consolidated financial statements – Section 5

DKKm

5.8 Adoption of the annual report and distribution of profit

At the board meeting on 9 November 2017, the Board of Directors approved the annual report presented. Subsequently, the annual report will be presented to Ambu A/S's shareholders for adoption at the annual general meeting on 13 December 2017. The Board of Directors proposes that dividend of DKK 1.85 per share be paid. In 2015/16, the Board of Directors proposed a dividend payment of DKK 1.55 per share, which was later distributed to Ambu A/S's shareholders.

	2016/17	2015/16
Proposed dividend for the year	90	75
Transferred to distributable reserves	211	175
	301	250

§ Accounting policies

Proposed dividend is recognised as a liability at the time of its adoption by the annual general meeting. Expected dividend payable for the year is shown as a separate reserve under equity.

5.9 Key figure and ratio definitions

Income statement

Gross margin, %	Gross profit in % of revenue.
EBITDA	Operating profit before depreciation, amortisation and impairment losses.
EBIT	Operating profit.
Capacity costs	Selling and distribution costs, development costs, management and administrative expenses as well as other operating income and expenses.

Balance sheet

Net working capital	Inventories, trade receivables, other receivables and prepayments less trade payables and other payables.
Net interest-bearing debt	Interest-bearing debt less cash. Net interest-bearing debt is abbreviated NIBD.

Cash flows

Cash flows from operating activities	Cash flows from operating activities as defined in IAS 7.
Cash flows from investing activities before acquisitions of enterprises and technology	Cash flows from investing activities as defined in IAS 7 excluding cash flows for the acquisition of technologies and enterprises.
Free cash flows before acquisitions of enterprises and technology	The sum of cash flows from operating activities and cash flows from investing activities before acquisitions of enterprises and technology.
Acquisitions of enterprises and technology	Cash flows from the acquisition of enterprises and technologies, including payment to the seller and payment of earn-outs less cash in acquired enterprises.

Provisions, other liabilities etc.

Notes on the consolidated financial statements – Section 5

5.9 Key figure and ratio definitions (continued)

Key figures and ratios

Organic growth	Development in revenue, adjusted for fluctuations in foreign exchange rates and the effect of acquisitions, in % of revenue in the period of comparison.
Rate of cost	Capacity costs in % of revenue.
EBITDA margin	EBITDA in % of revenue.
EBIT margin	EBIT in % of revenue.
Liquid development costs for the year	Development costs for the year in the income statement plus related amortisation and depreciation with the subsequent addition of investments in development projects for the year, cash flows for the acquisition of technology and other rights which can be attributed to development activities.
Return on equity	Net profit/loss for the year for a rolling 12-month period in relation to average equity.
NIBD/EBITDA	Net interest-bearing debt/EBITDA.
Equity ratio	Equity's share of total assets at end of year.
Investments, % of revenue	Cash flows from investing activities, including assets disposed of, in % of revenue.
Net working capital, % of revenue	Inventories, trade receivables, other receivables and prepayments less trade payables and other payables in % of revenue.
Return on invested capital (ROIC)	EBIT for a rolling 12-month period less tax in relation to assets less interest-bearing debt.

Share-related ratios

Earnings per share (EPS)	Earnings per share for the year, calculated in accordance with IAS 33.
Diluted earnings per share (EPS-D)	Diluted earnings per share, calculated in accordance with IAS 33.
Cash flow per share	Cash flows from operating activities relative to number of shares at end of year.
Equity value per share	Total equity relative to number of shares at end of year.
Dividend per share	Dividend relative to number of shares at end of year.
Pay-out ratio	Dividend as a percentage of net profit/loss for the year.
P/E ratio	Market price relative to earnings per share (EPS).

Statements and reports



The VivaSight products acquired in connection with the ETVIEW acquisition in 2016 are now compatible with the Ambu® aView™ monitor. This means that doctors and nurses can connect aScope and VivaSight to the same monitor, thereby simplifying single-lung procedures.

Management's statement

On this day, the Board of Directors and the Executive Board have considered and approved the annual report of Ambu A/S for the financial year 1 October 2016 to 30 September 2017.

The annual report has been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the financial statements give a true and fair view of the group's and the company's assets, equity and liabilities and financial position as at 30 September 2017, and of the results of the group's and the company's operations and cash flows for the financial year 1 October 2016 to 30 September 2017.

In our opinion, the management's review includes a fair account of the development and performance of the group and the company, the results for the year and of the group's and the company's financial position, together with a description of the principal risks and uncertainties that the group and the company face.

The annual report is submitted for adoption by the annual general meeting.

Copenhagen, 9 November 2017

Executive Board

Lars Marcher
President & CEO

Michael Højgaard
CFO

Board of Directors

Jens Bager
Chairman

Mikael Worning
Vice-Chairman

Oliver Johansen

Allan Søgaard Larsen

Christian Sagild

Henrik Ehlers Wulff

Pernille Bartholdy
Elected by the employees.

Anita Krarup Frederiksen
Elected by the employees.

Jakob Bønnelykke Kristensen
Elected by the employees.

Independent auditor's report

To the shareholders of Ambu A/S

Opinion

In our opinion, the consolidated financial statements and financial statements give a true and fair view of the group's and of the company's assets, equity and liabilities and financial position as at 30 September 2017, and of the results of their operations and cash flows for the financial year 1 October 2016 to 30 September 2017 in accordance with the International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act.

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

What we have audited

The consolidated financial statements and the financial statements of Ambu A/S for the financial year 1 October 2016 to 30 September 2017, pp. 37-75 and pp. 82-93, comprise the income statement and statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies for both the group and the company ('the financial statements').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

We are independent of the group in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We declare that the non-audit services which we have performed for the group and the parent company, to the best of our knowledge, are in accordance with applicable laws and regulations in Denmark, and that we have not carried out non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

Appointment

We were appointed as auditors for Ambu A/S for the first time on 23 January 1992. We have been reappointed annually at the annual general meeting for a consecutive period of 26 years.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements for 2016/17. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How we have addressed the key audit matter
Recognition of revenue via distributors for the US market	
In the US market, Ambu largely sells its products through distributors who resell the products to public and private hospitals and clinics (the end-customers). The agreements with the distributors are structured so that Ambu's sales price to the distributor depends on the pricing arrangements which Ambu has agreed with the end-customer. It is therefore necessary for Ambu to subsequently adjust the price stated in the preliminary invoice.	We assessed the design and tested the effectiveness of the relevant internal controls and related systems which are used to process and calculate discounts for distributors. We also assessed the management's calculation of price adjustments by comparing the assumptions applied with the group's trading policies, the terms of existing contracts, third-party reported data and historical discount levels.
Price adjustments are recognised on an ongoing	We made an independent assessment of the most significant parameters included in the calculation of this obligation as at 30 September 2017 based on third-party reported data and the

basis, and price adjustments which have not been settled at the balance sheet date are recognised as a liability in the balance sheet.

We focused on this area, because the calculation of non-settled price adjustments to distributors is complex and includes significant management estimates.

Reference is made to note 2.1 Revenue.

terms of existing contracts.

Valuation of intangible assets

In connection with the previous acquisitions, the Ambu group has acquired technologies, trademarks and customer relations as well as rights totalling DKK 163m.

The value of intangible assets is determined in connection with the purchase price allocation. In case of indications of impairment, an impairment test is performed, based on the management's estimates of the future value based on strategic plans and related expected future cash flows.

We focus on this area, as the impairment test of acquired intangible fixed assets is based on complex and subjective judgments by the management as well as the management's estimate of future cash flows which are, by nature, subject to some uncertainty.

Reference is made to note 3.2 Impairment test.

Our audit of intangible assets included an update of our understanding of the business procedures and internal controls related to intangible fixed assets, as well as an assessment of the design and test of the implementation and efficiency of internal controls that are relevant to our audit.

We assessed the management's estimates and assumptions applied in the valuations by comparing the assumptions with internal reporting and assessing historical estimates and assumptions applied with the actual results realised.

We prepared independent sensitivity analyses of selected parameters which are included in the valuations prepared by the management.

Statement on management's review

The management is responsible for the management's review.

Our opinion on the financial statements does not cover the management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management's review and, in doing so, consider whether the management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management's review is in accordance with the consolidated financial statements and the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management's review.

Management's responsibilities for the financial statements

The management is responsible for the preparation of consolidated financial statements and financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act and for such internal control as the management deems necessary to enable the preparation of consolidated financial statements and financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless the management either intends to liquidate the group or the company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 9 November 2017
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 3377 1231

Jens Otto Damgaard
State Authorised Public Accountant

Martin Lunden
State Authorised Public Accountant

Financial statements 2016/17 – parent company

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Page 83	Balance sheet – parent company
Page 84	Cash flow statement – parent company
Page 85	Statement of changes in equity – parent company
Page 86	Notes on the financial statements



Income statement and statement of comprehensive income – parent company

Ambu A/S Financial statements

DKKm

Income statement	Note	2016/17	2015/16
Revenue		1,745	1,643
Production costs	2.1, 2.2	-1,050	-1,016
Gross profit		695	627
Selling and distribution costs	2.1, 2.2	-108	-85
Development costs	2.1, 2.2	-56	-51
Management and administration	2.1, 2.2	-143	-129
Other operating expenses	2.3	-4	0
Operating profit (EBIT)		384	362
Financial income	4.2	136	15
Financial expenses	4.2	-64	-39
Profit before tax		456	338
Tax on profit for the year	2.4	-72	-76
Net profit for the year		384	262

Statement of comprehensive income	2016/17	2015/16
Net profit for the year	384	262
Other comprehensive income:		
<i>Adjustment to fair value for the period:</i>		
Cash flow hedging, realisation of previous years' deferred gains/losses	-3	3
Cash flow hedging, deferred gains/losses for the year	-6	3
Tax on hedging transactions	2	-1
Other comprehensive income after tax	-7	5
Comprehensive income for the year	377	267

Balance sheet – parent company

Ambu A/S Financial statements

DKKm

Assets	Note	30.09.17	30.09.16
Completed development projects	3.1	122	70
Rights	3.1	183	104
Goodwill	3.1	147	147
Development projects in progress	3.1	32	31
Intangible assets		484	352
Property, plant and equipment	3.2	108	31
Investments in subsidiaries	3.3	975	975
Receivables from subsidiaries	4.1	5	5
Other receivables	4.1	4	6
Deferred tax asset	2.5	27	19
Other non-current assets		1,011	1,005
Total non-current assets		1,603	1,388
Inventories	3.4, 4.1	84	72
Trade receivables	3.5, 4.1	78	73
Receivables from subsidiaries	4.1	455	458
Other receivables	4.1	5	8
Prepayments		8	5
Cash	4.1	1	20
Total current assets		631	636
Total assets		2,234	2,024
Equity and liabilities	Note	30.09.17	30.09.16
Share capital		122	121
Other reserves		983	595
Equity		1,105	716
Other provisions	4.1, 5.1	36	37
Interest-bearing debt	4.1	83	925
Non-current liabilities		119	962
Other provisions	4.1, 5.1	3	4
Interest-bearing debt	4.1	703	51
Trade payables	4.1	48	15
Payables to subsidiaries	4.1	159	124
Income tax		16	64
Other payables	4.1	52	54
Derivative financial instruments	4.1	29	34
Current liabilities		1,010	346
Total liabilities		1,129	1,308
Total equity and liabilities		2,234	2,024

Cash flow statement – parent company

Ambu A/S Financial statements

DKKm

	Note	2016/17	2015/16
Net profit for the year		384	262
Adjustment of items with no cash flow effect	3.6	54	151
Income tax paid		-74	-59
Interest income and similar items		123	15
Interest expenses and similar items		-65	-33
Changes in net working capital	3.7	50	43
Cash flows from operating activities		472	379
Purchase of non-current assets		-186	-51
Sale of non-current assets		16	0
Divestment of subsidiary in respect of previous years		2	0
Cash flows from investing activities before acquisitions of enterprises and technology		-168	-51
Free cash flows before acquisitions of enterprises and technology		304	328
Acquisition of technology		0	-59
Acquisitions of enterprises		0	-93
Cash flows from acquisitions of enterprises and technology		0	-152
Cash flows from investing activities		-168	-203
Free cash flows after acquisitions of enterprises and technology		304	176
Raising of long-term debt		0	274
Repayment of debt to credit institutions		-275	0
Repayment of finance lease debt		-4	-1
Capital increase, Class B share capital		21	5
Exercise of options		8	3
Cash settlement, options		0	-32
Purchase of Ambu A/S shares, treasury shares		0	-283
Dividend paid		-75	-46
Dividend, treasury shares		2	1
Cash flows from financing activities		-323	-79
Changes in cash and cash equivalents		-19	97
Cash and cash equivalents, beginning of year		20	-77
Translation adjustment of cash and cash equivalents		0	0
Cash and cash equivalents, end of year		1	20
Cash and cash equivalents, end of year, are composed as follows:			
Cash		1	20
Bank debt		0	0
Cash and cash equivalents, end of year		1	20

Statement of changes in equity – parent company

Ambu A/S Financial statements

DKKm

	Share capital	Share premium	Reserve for hedging transactions	Reserve for foreign currency translation adjustment	Reserve for development costs	Retained earnings	Proposed dividend	Total
Equity 1 October 2016	121	37	2	5	0	476	75	716
Net profit for the year						294	90	384
Transferred to reserves					51	-51		0
Other comprehensive income for the year			-7	0				-7
Total comprehensive income	0	0	-7	0	51	243	90	377
<i>Transactions with the owners:</i>								
Exercise of options						8		8
Share-based payment						6		6
Tax deduction relating to share options						50		50
Distributed dividend							-73	-73
Dividend, treasury shares						2	-2	0
Capital increase, Class B share capital	1	20						21
Equity 30 September 2017	122	57	-5	5	51	785	90	1,105
Equity 1 October 2015	121	32	-3	5	0	548	46	749
Net profit for the year						187	75	262
Other comprehensive income for the year			5	0				5
Total comprehensive income	0	0	5	0	0	187	75	267
<i>Transactions with the owners:</i>								
Exercise of options						3		3
Cash settlement, options						-32		-32
Share-based payment						4		4
Tax deduction relating to share options						48		48
Purchase of treasury shares						-283		-283
Distributed dividend							-45	-45
Dividend, treasury shares						1	-1	0
Capital increase, Class B share capital		5						5
Equity 30 September 2016	121	37	2	5	0	476	75	716

Other reserves are made up of share premium, reserve for hedging transactions, reserve for foreign currency translation adjustment, reserve for development costs, retained earnings and proposed dividend and total DKK 983m (2016: DKK 595m). Other reserves are free for distribution except reserve for development costs.

§ Accounting policies

Reserve for development costs

Contrary to the accounting policies applied in the consolidated financial statements, in accordance with the Danish Financial Statements Act Ambu A/S must tie up a reserve in equity, corresponding to the capitalised value of development costs (see note 3.1). The amortisation of the capitalised development costs as well as deferred tax is set off against this reserve. Recognition of the reserve begins on 1 October 2016 and applies to development costs capitalised from this date onwards.

Notes on the financial statements

Ambu A/S Financial statements

DKKm

1.1 Basis of preparation

Ambu A/S is a public limited company domiciled in Denmark. Ambu A/S is the parent company of the Ambu group.

The financial statements of the parent company are included in the consolidated financial statements in accordance with the provisions of the Danish Financial Statements Act.

General

The financial statements of the parent company are presented in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), IFRS as adopted by the EU and additional requirements in the Danish Financial Statements Act.

Accounting policies – parent company

For information on accounting policies, reference is made to note 1.1 to the consolidated financial statements. In addition, the accounting policies of the parent company are supplemented for the following items:

Statement of changes in equity 3.3 Investments in subsidiaries 4.2 Net financials

For information relating to the parent company, reference is made to the following notes in the consolidated financial statements:

2.3 Share-based payment 4.5 Share capital and treasury shares 5.7 Subsequent events
3.2 Impairment test 5.3 Contingent liabilities 5.8 Adoption of the annual report and distr. of profit

The accounting policies have been applied consistently in the preparation of the financial statements of the parent company in the years presented. Accounting policies have been applied consistently with previous years with the exception of the early adoption of IFRS 9 as described in note 1.2 to the consolidated financial statements.

2.1 Staff costs

The staff costs of the parent company are distributed onto the respective functions as follows:

	2016/17	2015/16
Production costs	3	2
Selling and distribution costs	41	36
Development costs	28	21
Management and administration	86	77
Total staff costs	158	136

Staff costs are distributed between the Executive Board and other employees as follows:

	2016/17	2015/16
Remuneration, Executive Board	15	14
Share-based payment	2	2
Staff costs, Executive Board	17	16
Wages and salaries	123	105
Pension contributions	8	7
Social security costs	2	2
Share-based payment	3	2
Share-based payment, employee shares	1	0
Remuneration, committees	1	1
Remuneration, Board of Directors	3	3
Total staff costs	158	136
Average number of employees	181	143
Number of full-time employees at end of year	187	164

Notes on the financial statements

Ambu A/S Financial statements

DKKm

2.2 Depreciation, amortisation and impairment losses on non-current assets

	2016/17	2015/16
Amortisation of intangible development projects and rights	40	38
Depreciation of property, plant and equipment	7	8
Impairment losses on property, plant and equipment	1	1
Total depreciation, amortisation and impairment losses	48	47

Depreciation, amortisation and impairment losses have been allocated to the following functions:

	2016/17	2015/16
Production costs	0	1
Selling and distribution costs	1	0
Development costs	40	37
Management and administration	7	9
Total depreciation, amortisation and impairment losses	48	47

2.3 Other operating expenses

	2016/17	2015/16
Integration costs, ETView	4	0
Total other operating expenses	4	0

2.4 Tax on profit for the year

	2016/17	2015/16
Current tax on profit for the year	46	63
Deferred tax on profit for the year	30	13
Adjustment of deferred tax in respect of previous years	-4	0
Total tax on profit for the year	72	76
<i>Tax on profit for the year comprises (%):</i>		
Calculated 22.0% (2015/16: 22.0%) tax on income from ordinary activities before tax	22.0	22.0
Income not subject to tax	-6.1	-0.9
Non-deductible costs	0.7	0.9
Value adjustment, earn-out	-0.1	0.0
Effect of shorter discount period	0.0	0.5
Tax adjustment in respect of previous years	-0.7	0.0
Effective tax rate	15.8	22.5

Notes on the financial statements

Ambu A/S Financial statements

DKKm

2.5 Deferred tax

	30.09.17	30.09.16
Deferred tax, beginning of year	-19	10
Deferred tax on share-based payment recognised in equity	-34	-42
Deferred tax for the year recognised in the income statement	30	13
Adjustment of deferred tax in respect of previous years recognised in the income statement	-4	0
Deferred tax at end of year	-27	-19
Deferred tax relates to:		
Intangible assets	78	51
Property, plant and equipment	2	1
Current assets	1	1
Deferred tax on share-based payment recognised in equity	-106	-71
Payables	-2	-1
	-27	-19

3.1 Intangible assets

2016/17	Completed development projects	Rights	Goodwill	Development projects in progress	Total
Acquisition price, beginning of year	250	155	147	31	583
Additions during the year	0	105	0	67	172
Disposals during the year	0	0	0	0	0
Transferred during the year	66	0	0	-66	0
Acquisition price at end of year	316	260	147	32	755
Amortisation and impairment losses, beginning of year	180	51	0	0	231
Disposals during the year	0	0	0	0	0
Impairment losses for the year	0	0	0	0	0
Amortisation for the year	14	26	0	0	40
Amortisation and impairment losses at end of year	194	77	0	0	271
Carrying amount at end of year	122	183	147	32	484

2015/16	Completed development projects	Rights	Goodwill	Development projects in progress	Total
Acquisition price, beginning of year	209	110	147	31	497
Additions during the year	0	63	0	41	104
Disposals during the year	0	-18	0	0	-18
Transferred during the year	41	0	0	-41	0
Acquisition price at end of year	250	155	147	31	583
Amortisation and impairment losses, beginning of year	160	39	0	0	199
Disposals during the year	0	-6	0	0	-6
Impairment losses for the year	0	0	0	0	0
Amortisation for the year	20	18	0	0	38
Amortisation and impairment losses at end of year	180	51	0	0	231
Carrying amount at end of year	70	104	147	31	352

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3.2 Property, plant and equipment

	Land and buildings	Plant and machinery	Other plant, fixtures and fittings, tools and equipment	Prepayments and plant under construction	Total
2016/17					
Acquisition price, beginning of year	83	3	66	6	158
Additions during the year	89	0	0	12	101
Disposals during the year	-81	-2	-17	0	-100
Transferred during the year	1	0	13	-14	0
Acquisition price at end of year	92	1	62	4	159
Depreciation and impairment losses, beginning of year	66	3	58	0	127
Disposals during the year	-65	-2	-16	0	-83
Impairment losses for the year	0	0	0	0	0
Depreciation for the year	2	0	5	0	7
Depreciation and impairment losses at end of year	3	1	47	0	51
Carrying amount at end of year	89	0	15	4	108

	Land and buildings	Plant and machinery	Other plant, fixtures and fittings, tools and equipment	Prepayments and plant under construction	Total
2015/16					
Acquisition price, beginning of year	84	5	80	3	172
Additions during the year	0	0	2	6	8
Disposals during the year	-1	-2	-19	0	-22
Transferred during the year	0	0	3	-3	0
Acquisition price at end of year	83	3	66	6	158
Depreciation and impairment losses, beginning of year	65	4	71	0	140
Disposals during the year	-1	-2	-19	0	-22
Impairment losses for the year	0	0	1	0	1
Depreciation for the year	2	1	5	0	8
Depreciation and impairment losses at end of year	66	3	58	0	127
Carrying amount at end of year	17	0	8	6	31

3.3 Investments in subsidiaries

	2016/17	2015/16
Acquisition price, beginning of year	975	885
Additions	0	90
Disposals	0	0
Acquisition price at end of year	975	975
Carrying amount at end of year	975	975

Reference is made to note 5.5 to the consolidated financial statements for an overview of the company's subsidiaries.

§ Accounting policies

Investments in subsidiaries are measured at cost including goodwill. If there is any indication of impairment, an impairment test is carried out. Where the cost exceeds the recoverable amount, impairment is made to the lower value.

Notes on the financial statements

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3.4 Inventories

	30.09.17	30.09.16
Raw materials and consumables	0	2
Finished goods	84	70
	84	72
Cost of sales for the year	1,044	1,006
Write-down of inventories included in production costs for the year	0	1

3.5 Trade receivables

	30.09.17	30.09.16
Not due	69	56
1-90 days	5	5
91-180 days	1	2
> 180 days	3	10
Trade receivables	78	73
At end of year, trade receivables were written down by	3	1

3.6 Adjustment of items with no cash flow effect

	2016/17	2015/16
Depreciation, amortisation and impairment losses	48	47
Share-based payment	6	4
Net financials and similar items	-72	24
Tax on profit for the year	72	76
	54	151

3.7 Changes in net working capital

	2016/17	2015/16
Changes in inventories	-12	-5
Changes in receivables	-5	1
Changes in balances with group companies	38	56
Changes in trade payables etc.	29	-9
	50	43

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4.1 Categories of financial instruments

The parent company has recognised the following financial instruments:

	30.09.17	30.09.16
Receivables from subsidiaries	460	463
Trade receivables	78	73
Other receivables	9	14
Cash	1	20
Receivables and cash and cash equivalents	548	570
Credit institutions	0	275
Corporate bonds	700	699
Other provisions	39	38
Finance leases	86	2
Trade payables	48	15
Payables to subsidiaries	159	124
Other payables	52	54
Financial liabilities recognised at amortised cost	1,084	1,207
Earn-out obligation (level 3)*	0	3
Derivative financial instruments (level 2)*	23	35
Financial liabilities stated at fair value in the income statement	23	38
Derivative financial instruments (level 2)*	6	-1
Financial liabilities stated at fair value in other comprehensive income	6	-1

The parent company's earn-out obligation amounts to DKK 0m (2015/16: DKK 3m) out of the group's combined level-3 obligations in the fair value hierarchy. Reference is made to note 4.2 in the consolidated financial statements.

The parent company's payables fall due as follows:

2016/17	0-1 year	1-5 years	> 5 years	Total
Corporate bonds	700	0	0	700
Other provisions	3	36	0	39
Finance leases	3	13	70	86
Other financial liabilities	259	0	0	259
Derivative financial instruments	23	6	0	29
	988	55	70	1,113
2015/16	0-1 year	1-5 years	> 5 years	Total
Credit institutions	50	225	0	275
Corporate bonds	0	699	0	699
Other provisions	4	22	15	41
Finance leases	1	1	0	2
Other financial liabilities	193	0	0	193
Derivative financial instruments	1	33	0	34
	249	980	15	1,244

Notes on the financial statements

Ambu A/S Financial statements

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4.2 Net financials

	2016/17	2015/16
<i>Interest income:</i>		
Interest income, loans to subsidiaries	0	1
<i>Other financial income:</i>		
Dividend from subsidiaries	123	14
Fair value adjustment, swap	10	0
Fair value adjustment, earn-out	3	0
Financial income	136	15

	2016/17	2015/16
<i>Interest expenses:</i>		
Interest expenses, banks	6	6
Interest expenses, leases	2	0
Interest expenses, bonds	24	24
<i>Other financial expenses:</i>		
Effect of shorter discount period, acquisition of technology	3	3
Ineffectiveness of interest rate swap	1	0
Fair value adjustment, swap	0	3
Foreign exchange loss, net	28	3
Financial expenses	64	39

§ Accounting policies

Dividend from subsidiaries is recognised under financial income at the time the dividend is declared.

5.1 Other provisions

	2016/17	2015/16
Provisions as at 1 October	41	54
Additions during the year	0	0
Used during the year	-1	-4
Reversal of unused amounts	-3	-12
Value adjustment	3	3
Foreign currency translation adjustment	-1	0
Other provisions as at 30 September	39	41
Provisions expected to fall due:		
Current liabilities	3	4
Non-current liabilities	36	37
Other provisions as at 30 September	39	41

Notes on the financial statements

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5.2 Operating leases

	2016/17	2015/16
Payments due within 0-1 year	2	8
Payments due within 1-5 years	2	32
Payments due after 5 years	0	61
Total operating leases	4	101
Operating leases expensed in the income statement	2	7

5.3 Fee to auditors appointed by the annual general meeting

	2016/17	2015/16
Audit fee	1	1
Other assurance engagements	0	0
Tax consultancy services	1	1
Other services	1	0
Total fees	3	2

5.4 Related parties

The parent company's related parties include subsidiaries, the company's Board of Directors and Executive Board and members of their families. Related parties further include enterprises in which the above-mentioned persons have a significant interest.

Ambu A/S has engaged in the following important transactions with related parties:

	2016/17	2015/16
Sale of goods and services to subsidiaries	1,541	1,384
Licences granted to subsidiary	9	9
Purchase of goods and services from subsidiaries	1,017	976
Transfer of rights from subsidiary	105	0

During the year, no transactions, except for payment of the management's remuneration and intercompany transactions eliminated in the consolidated financial statements, have been carried out with the Board of Directors, Executive Board, senior employees, major shareholders or other related parties.

Outstanding balances and receivables in respect of related parties, essentially arising from ordinary business relations, i.e. the purchase and sale of goods and services, are included in the balance sheet of the parent company. Such transactions are carried out on the same terms as apply to the group's other customers and suppliers. For information on the year's interest on intercompany loans, reference is made to note 4.2.

The parent company has extended loans to a number of subsidiaries. The loans carry interest on market terms. Furthermore, the parent company has issued a declaration of support to the subsidiary Ambu Sdn. Bhd.

Guarantees have been provided to banks in respect of the subsidiaries. The subsidiaries have not furnished security for their debt to the parent company.

	2016/17	2015/16
Guarantees and security furnished on behalf of subsidiaries	24	25

Company announcements and financial calendar

Company announcements in 2016/17

- No. 1 Major Shareholder Announcement
- No. 2 Annual report 2015/16 (Earnings release)
- No. 3 Employee shares
- No. 4 Capital increase in connection with exercise of warrants issued
- No. 5 Launch of Global Incentive Programme
- No. 6 Disclosure requirement concerning share capital
- No. 7 Annual General Meeting in Ambu A/S
- No. 8 Interim report Q1 2016/17
- No. 9 Capital increase in connection with exercise of warrants issued
- No. 10 Disclosure requirement concerning share capital
- No. 11 Interim report for Q2 and H1 2016/17
- No. 12 Capital increase in connection with exercise of warrants issued
- No. 13 Disclosure requirement concerning share capital
- No. 14 Disclosure requirement concerning share capital – correction
- No. 15 Interim report Q3 2016/17
- No. 16 Capital increase in connection with exercise of warrants issued
- No. 17 Ambu launches 4th generation of single-use bronchoscopes
- No. 18 Patient safety made simpler with innovative visualisation devices
- No. 19 Financial Diary 2017/2018

Financial calendars 2017 and 2018

- | | |
|------------|--------------------------------------|
| 13.12.2017 | Annual general meeting |
| 03.01.2018 | Quiet period ending 31 January 2018 |
| 31.01.2018 | Interim report Q1 2017/18 |
| 09.04.2018 | Quiet period ending 7 May 2018 |
| 07.05.2018 | Interim report Q2 2017/18 |
| 26.07.2018 | Quiet period ending 23 August 2018 |
| 23.08.2018 | Interim report Q3 2017/18 |
| 30.09.2018 | End of FY 2017/18 |
| 16.10.2018 | Quiet period ending 13 November 2018 |
| 13.11.2018 | Annual report 2017/18 |
| 12.12.2018 | Annual general meeting |

About Ambu

Since 1937, breakthrough ideas have fuelled our work on bringing efficient healthcare solutions to life. This is what we create within our fields of excellence – Anaesthesia, Patient Monitoring & Diagnostics, and Emergency Care. Millions of patients and healthcare professionals worldwide depend on the functionality and performance of our products. We are dedicated to improve patient safety and determined to advance single-use devices. The manifestations of our efforts range from early inventions like the Ambu Bag™ resuscitator and the legendary BlueSensor™ electrodes to our newest landmark solutions like the aScope™ endoscope – the world's first single-use flexible video scope. Our commitment to bringing new ideas and superior service to our customers has made Ambu one of the most recognized medical companies in the world. Headquartered near Copenhagen in Denmark, Ambu employs approximately 2,500 people in Europe, North America and the Asia Pacific. For more information, please visit www.ambu.com.

