Annual report 2018/19

Ideas that work for life

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The annual report is published in English and Danish. In case of discrepancies between the two versions, the English text shall prevail.

Introduction

Ambu has developed a range of single-use endoscopes and reusable monitors for airways. Now, we are expanding the concept of advanced single-use devices for other clinical areas.

Letter to the shareholders

Investing in the future of Ambu

Healthcare systems around the world are under pressure. They need to provide access to care for an aging population with a higher prevalence of lifestyle diseases, while maintaining budgets. Medical personnel and payors alike demand efficient and safe solutions that reduce cost and improve patient outcomes.

The movement from reusable to single-use products exemplifies the way innovation helps meet these challenges. Single-use devices offer greater convenience and flexibility as well as removing the risk of cross-contamination, all while being an attractive economic offering. These factors drive the adoption of single-use devices, especially within endoscopy, which the FDA highlights by recommending that hospitals begin transitioning to duodenoscopes with disposable components or – when they become available – duodenoscopes that are 100% single-use.

Founded in 1937, Ambu's mission has always been to develop innovative, high-quality devices that improve patient care. Today, single-use is a key concept in healthcare and we finish the 2018/19 financial year in a strong position, as we have further strengthened our first-mover advantage in technology for single-use devices.

Accelerating our innovation engine

Throughout the past ten years, Ambu has spearheaded the creation of the global single-use pulmononary endoscopy market. And we are as committed as ever to innovation and are planning to invest more in R&D in the coming year than we did in the past two years combined.

This year we started an accelerated expansion into new endoscopy procedures. We successfully entered ENT and advanced our pipeline to enter urology and GI next year, while preparing the launch of new monitors. These new areas significantly expand the addressable market for Ambu. In three years' time, we will have a portfolio that is relevant across 100 million endoscopy procedures yearly.

Our investment in innovation, our modular development approach and our exclusive technology partners will all allow us to not only enter new areas, but also innovate rapidly to ensure we remain the most technologically advanced offering in all the areas in which we compete.

The Ambu® aScope™ 4 Broncho, our fourth-generation single-use bronchoscope, is a good example of our commitment to continuous innovation.

Leveraging our cost advantage

Providing a compelling economical offering is critical to accelerating the shift from reusable to single-use in healthcare systems. Ambu's high-quality, low-cost manufacturing network allows us to offer advanced products at competitive prices.

Next year we will sell approx. 900,000 endoscope units – several times more units than the next single-use endoscopy player. An increasing demand for our products combined with our pipeline means that we are planning to expand our production capacity.

Investing in staying ahead

For Ambu to sustain our first-mover advantage and successfully expand into new endoscopy procedures, we need to significantly invest in our commercial infrastructure. In the past year we have increased our spend in sales and marketing by approx. 25% and a comprehensive investment plan for 2019/20 has been confirmed and is in the works.

Reflecting the size of the market, the USA has been the number one focus for our investments. Here, we have moved to a 100% direct endoscopy sales force through the transition of the distribution agreement with Tri-anim and the decision to evolve our collaboration with Cook Medical from a US distribution to a global co-marketing set-up. We believe that having a 100% direct sales force in the USA will be a competitive advantage.

In addition to the USA, we have made strategic investments in commercial infrastructure around the world, especially in the UK, Germany, France, Italy, Japan, China, and Australia. All markets, where we see significant growth opportunities.

Ready for the future

In May 2019, the Board of Directors decided that it was time to bring in a new CEO to take Ambu to the next level. This new journey has now started.

Our investments in innovation, high-quality manufacturing and commercial infrastructure reflect the scale of our commitment to making Ambu one of Europe's leading medical device companies. A single-use medical device company focused on making a difference around the world for our customers and their patients, living by the values Ambu was founded on: Ideas that work for life.

Jens Bager	Juan Jose Gonzalez
Chairman of the Board	CEO

Financial highlights

DKKm	2018/19	2017/18	2016/17	2015/16	2014/15
Income statement					
Revenue[1]	2,820	2,606	2,355	2,084	1,889
Gross margin, %	58.0	59.4	56.5	53.9	50.9
EBITDA before special items	589	678	555	458	332
Depreciation	-51	-49	-45	-47	-48
Amortization	-58	-66	-60	-55	-48
EBIT, before special items	480	563	450	356	236
EBIT	306	563	450	356	236
Net financials	107	-98	-57	-30	-21
Profit before tax	413	465	393	326	215
Net profit for the year	317	337	301	250	152
Balance sheet					
Assets	4,558	4,234	2,500	2,364	2,252
Net working capital	387	535	457	519	549
Equity	2,182	1,882	1,279	990	1,034
Net interest-bearing debt	1,035	1,245	767	955	731
Cash flows					
Cash flow from operating activities	533	554	462	369	208
Cash flow from investing activities before acquisitions	-259	-233	-141	-84	-101
Free cash flow before acquisitions of enterprises and technology	274	321	321	285	107
Acquisitions of enterprises and technology	-2	-928	0	-155	-17
Cash flow from operating activities, % of revenue	19	21	20	18	11
Investments, % of revenue	-9	-9	-6	-4	-5
Free cash flow before acquisitions of enterprises, % of revenue	10	12	14	14	6
Key figures and ratios					
Organic growth, %	4	15	14	9	9
Rate of cost, %	41	38	37	37	38
EBITDA margin before special items, %	20.9	26.0	23.6	22.0	17.6
EBIT margin before special items, %	17.0	21.6	19.1	17.1	12.5
EBIT margin, %	10.9	21.6	19.1	17.1	12.5
Tax rate, %	23	28	23	23	29
Return on equity, %	16	21	27	25	16
NIBD/EBITDA before special items	1.8	1.8	1.4	2.1	2.2
Equity ratio, %	48	44	51	42	46
Net working capital, % of revenue	14	21	19	25	29
Return on invested capital (ROIC), %	15	17	17	15	10
Average number of employees	2,957	2,712	2,503	2,337	2,270
Share-related ratios					
Market price per share, DKK	114	154	97	71	36
Earnings per share (EPS) (DKK)	1.30	1.39	1.27	1.05	0.63
Diluted earnings per share (EPS-D) (DKK)	1.28	1.36	1.24	1.03	0.61
Cash flow per share	2.12	2.20	1.90	1.53	0.86
Equity value per share	9	7	5	4	4
Price/equity value	13.1	20.6	18.6	17.0	8.6
Dividend per share	0.38	0.40	0.37	0.31	0.19
Pay-out ratio, %	30	30	30	30	30
P/E ratio	88	111	77	68	57

[1]Revenue in 2018/19 is affected by DKK 41m due to the adoption of IFRS 15. Please see note 1.2 to the consolidated financial statements.

For definitions, see note 5.11 to the consolidated financial statements.

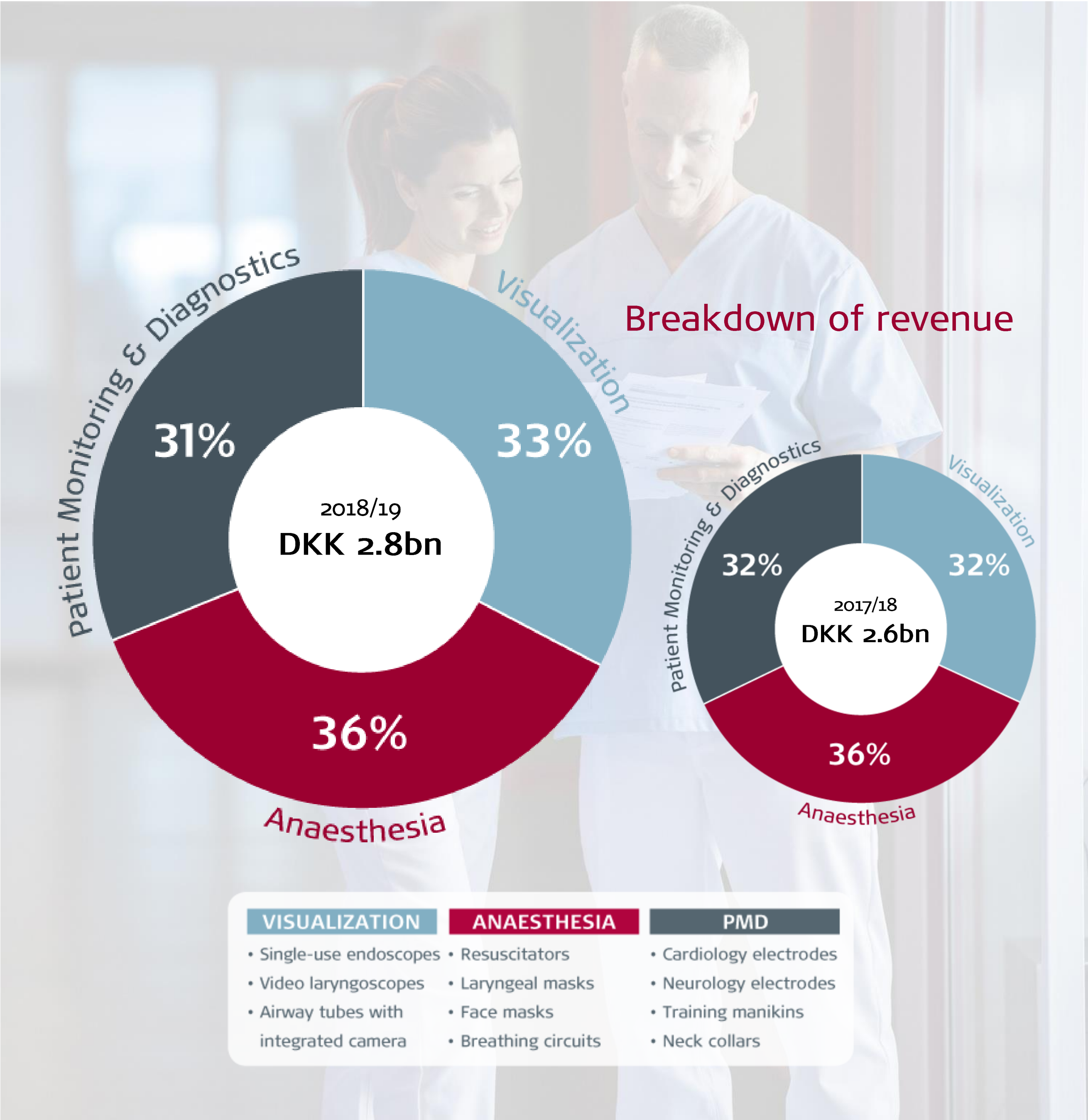
Ambu – at a glance

Single-use medical devices for hospitals, clinics and rescue services

Direct commercial infrastructure on all major markets

Production in China, Malaysia and the USA

3,000 dedicated employees globally



Highlights 2018/19

During the 2018/19 financial year, Ambu accelerated investments in commercial infrastructure to maximize future value creation and strengthen our position as the global leader in single-use Visualization. Following reduced short-term growth and earnings, in the long term these investments will enable Ambu to take full commercial advantage of our technologies and pipeline in single-use Visualization.

Revenue
DKK **2,820**m
+4% organic growth

Gross margin
58.0%
-1.4 percentage points

EBIT before special items
DKK **480**m
-15%

EBIT margin before special items
17.0%
-4.6 percentage points

Free cash flow
DKK **274**m

Proposed dividend
DKK **0.38**/share

Number of endoscopes sold
618,000 units
+10%

Key events in 2018/19

- Launch of aScope BronchoSampler™ – January 2019
- New CEO appointed: Juan Jose Gonzalez – May 2019
- Cook Medical and Ambu announce collaboration to address endoscope-related infections – May 2019
- Ambu announces expansion of product portfolio and commercial infrastructure – June 2019
- Decision to discontinue SC210 colonoscope – June 2019
- aScope™ 4 Slim and Intervention for ENT approved by FDA – July 2019
- Ambu invests in a 100% direct sales organization for pulmonology in the USA – August 2019

Strategy and financial targets

Ambu® aScope™ 4 RhinoLaryngo Slim is one of two single-use endoscopes for ENT procedures (nose and throat) which we launched in 2018/19.

Industry

Ambu is part of the global healthcare industry, which is influenced by a number of mega trends.

Mega trends

Demographic changes are resulting in population growth and increasing life expectancies. This entails an increased need for the treatment of lifestyle diseases, for surgical procedures and for cosmetic treatments.

▶ Ambu operates in a market in which there is a demand for high-quality equipment which helps doctors, nurses and paramedics in their efforts to diagnose and treat patients.

Technological advances will facilitate new – clinically and economically – better solutions within established treatment areas.

▶ Ambu is at the forefront of technology within the development of advanced single-use devices – for the benefit of hospitals and patients.

Increased pressure on healthcare budgets calls for efficiency improvements and a stronger focus on optimizing treatment programmes – for the benefit of the overall economy and patient outcomes.

▶ Along with our development of innovative solutions, it is important that we highlight the health economic benefits of our solutions for hospitals. This means documenting the beneficial effects of our products on patient care and hospital economy – over and above the clinical benefits.

Sustainability and environmental impact from the manufacture and use of medical devices is becoming a high-priority concern for all stakeholders.

▶ Ambu advocates single-use to increase patient safety. However, with our single-use stand comes responsibility for designing devices with minimal environmental impact.

Market opportunities

Visualization

Technologically driven design and innovation of flexible single-use endoscopes and a growing and ageing population are fuelling endoscopy market growth.

Growing awareness of the risk of infections among government agencies, hospital managements, healthcare professionals and patients are building the endoscopy market for single-use devices.

Ambu's vision

We will simplify flexible endoscopy by developing single-use endoscopes for all relevant clinical areas: Airways, ENT, urology and gastroenterology (GI).

We will improve patient safety.

Anaesthesia and Patient Monitoring & Diagnostics

Ambu's products – such as masks, electrodes, resuscitators and breathing circuits – are an integral part of the routine and life-saving care provided daily by hospitals and rescue services.

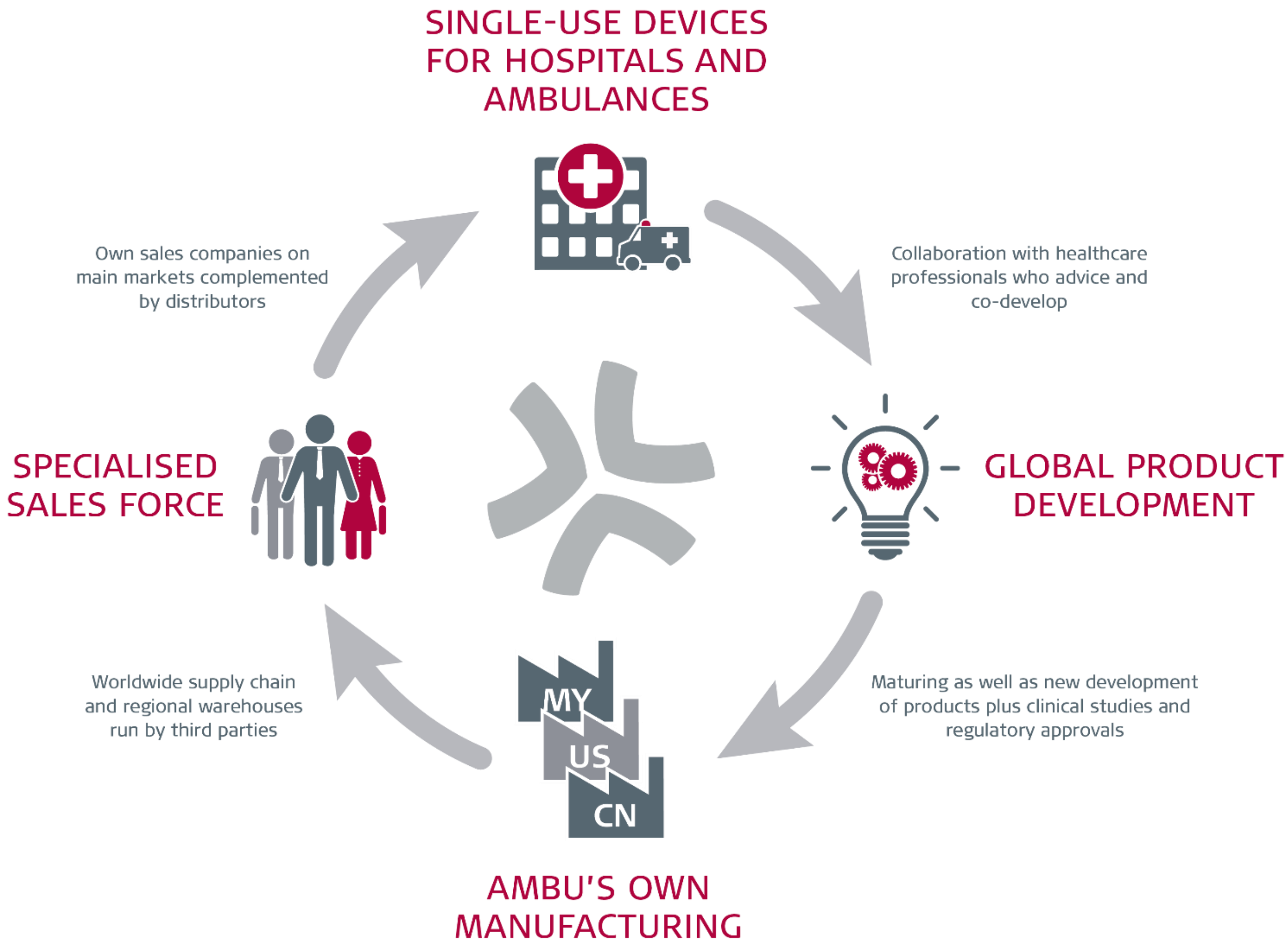
Ambu's vision

Focusing on customers and patient safety, we will develop our position through the strengthening of our product portfolio.

Business model

Ambu develops, manufactures and sells medical devices to hospitals, clinics and rescue services all over the world.

Single-use focus
The majority of our devices are single-use which means that each device is only used on one specific patient – but might be reused several times during a specific procedure for a specific patient – whereafter the device is discarded. The main advantages of single-use devices are that each patient is treated with a clean device – for improved patient safety – and that patient-ready devices are readily available. For advanced products, like endoscopes, the single-use concept means that the technology churn rate is higher so that healthcare professionals always have the latest technology at hand.



GLOBAL PRODUCT DEVELOPMENT

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.

Our product development organization is global. Our main innovation centres are located in Denmark, Germany and Malaysia, where we focus our efforts on developing new products. In addition, we have local development departments at our factories in China and USA.

We have more than ten years of experience in the development of advanced single-use technology, and our engineers cover fields such as mechanics, electronics, optics, software, usability, and clinical research & biosafety. We rely on an organization of more than 150 in-house engineers and a similar number of exclusive consultants.

AMBU'S OWN MANUFACTURING

We own and operate factories in Penang (Malaysia), Xiamen (China) and Noblesville (Indiana, USA), where we specialize in large-scale high-quality, low-cost production. This is where we produce approx. 85% of the products we sell. The remaining approx. 15% are produced mainly by a small number of subsuppliers with whom Ambu has been working for many years.

We have systematically implemented LEAN manufacturing principles in our processes and operate from a philosophy of minimizing waste and energy consumption.

Our supply chain setup from manufacturing to end-user is centrally controlled and operated through our enterprise resource planning. We use regional warehouses for storage and end-user delivery. These warehouses are run by third-party logistics providers.

SPECIALISED SALES FORCE

Most of our revenue is generated through our own direct sales force, which has experience in single-use devices and is specialized within each of our business areas. Ambu has direct sales in 19 countries and sales via distributors on other markets.

The focus of our direct sales force is to make sure that we find the best solutions for our customers and their clinical needs. A part of this customer-centred dialogue is the specific role of our clinical consultants, who are not actively involved in pre-sales activities, but instead liaise with healthcare professionals once they are customers of Ambu. They help optimize our customers' use of our Visualization products by offering courses, engaging in on-site training or as go-to-persons for specific support questions.

We are currently onboarding sales representatives and marketing professionals in all regions so as to be able to handle the increasing sales from our expanded product portfolio over the coming years.

We aim to have a direct commercial infrastructure on all major markets, whereas we use distributors on other markets. In some markets, we may choose a combination of the two.

Strategy

Effective from 15 May 2019, Ambu's Board of Directors appointed Juan Jose Gonzalez as new CEO. Juan Jose Gonzalez has for the past 14 years held a number of executive positions in the US and European healthcare industry, and before joining Ambu, he was President of the US activities of the Johnson & Johnson subsidiary DePuy Synthes.

During the past ten years, Ambu has spearheaded the establishment of single-use endoscopy, and this part of our business has grown rapidly and now represents one third of our overall business. We are very optimistic about the future potential of our Visualization business, and we have a pipeline of single-use endoscopes to be launched during the coming quarters. Most of our investments into innovation and sales & marketing are aimed at maximizing the value from this part of our business.

Within Anaesthesia and PMD, we will continue to make targeted investments to maintain our position. Our factories in China and the USA are dedicated to manufacturing our Anaesthesia products, while at our factory in Malaysia approx. 25% of the overall capacity is dedicated to PMD products.

Adjusting the strategy

Launched in 2017, our 'Big Five 2020' strategy focused on revenue growth from innovation and the launch of single-use endoscopes as well as on expanding our EBIT margin through operational synergies. In June 2019, however, it was decided to adjust the strategy and invest even more in innovation as well as commercial infrastructure and marketing capabilities.

The rationale behind adjusting the strategy has to do with the attractiveness of the products we have launched and our pipeline in Visualization. We believe our position is unique, but we also recognize that further investments in innovation will be required to maintain and cement our position in the long term. In the 2018/19 financial year, our investments in innovation totalled 6% of revenue, and we expect this percentage to increase going forward.

The investments in commercial infrastructure that we announced in Q4 relates to the expansion of our global sales and marketing organization and to the transition of a major distributor of aScope Broncho in the USA. Most of our investments are made in the USA and all investments are in the Visualization area.

Building GI sales organizations

In addition to these investments, we have been reconsidering our position within gastrointestinal endoscopy (GI), and we have found that on this market also, Ambu should build a direct commercial infrastructure rather than working with a distribution partner. This means that we are building a dedicated sales organization to cover the market for the duodenoscope in the USA. The rationale for this decision is not only based on our belief that a direct sales force will be more effective, but also on the fact that we see significant potential for the duodenoscope when we launch in early Q4 2019/20. We expect the list price to be in the range USD 1,400-1,600.

Rather than appointing Cook Medical as our US distributor, it has therefore been decided to establish a global co-marketing agreement, whereby Ambu and Cook Medical will be working together on introducing the duodenoscope to hospitals not only in the USA but on all major markets.

Evolving the business

The adjustments to our strategy will require continued investments in innovation and commercial infrastructure. We firmly believe that these investments will secure profitable growth as we keep launching new products and continue to lead the conversion of the market to single-use.

As we evolve, this growth potential will ensure that we achieve operational scale and profitability as a much bigger company compared to where we are today.

Building blocks of Ambu's strategy

Innovation

We will continue to invest in innovation to maintain our competitive advantage. This is done by bringing our pipeline of products to the market, launching and commercializing them effectively. We invest in innovation capabilities to make sure we can develop differentiated technologies that bring value to healthcare professionals and their patients.

Globalization

We will further globalize Ambu by investing heavily in the expansion of our direct sales force and our marketing infrastructure. This includes new markets as well as key geographies in which we see significant opportunities to strengthen our coverage.

Drivers of single-use endoscopy

The market for endoscopy is changing, and we have identified three key factors which we believe will drive the shift from reusable towards single-use endoscopy.

Risk of contamination will continue to be a driver of single-use endoscopy within all markets. Based on concerns on the part of authorities and the market, eliminating operational challenges associated with the sterilization and reprocessing of reusable scopes is a significant opportunity.

Convenience and availability are challenges that can be resolved with single-use scopes. Always having the latest technology available and making sure that hospitals can perform an endoscopy when the clinical need is there will further drive the shift to single-use.

Healthcare economics are under pressure, and reusable scopes are costly to reprocess and repair, while also being prone to wear and tear. Studies show that single-use scopes are advantageous compared to reusable scopes and can lower healthcare sector costs.

In combination, these drivers represent substantial growth opportunities for a future market within single-use endoscopy. As we improve the technology, invest in innovation and improve the performance of our single-use scopes, we believe that Ambu can be a significant single-use player in all endoscopy markets.

Ambu's key advantages

First-mover advantage as Ambu has been working in the single-use market for over ten years. This gives us a significant understanding of what it takes to develop and commercialize single-use endoscopes.

Distinctive R&D and pipeline where technology teams work across a wide group of technological areas. Moreover, our strong and exclusive long-term relationships with strategic R&D partners have – in terms of size and span of competences – given us a significant R&D organization within single-use.

Offering a broad range of products is the result of a strong ability to bring new products to market. As the range of our product offering grows and we enter into more areas, there is a positive effect when we go to a healthcare system and present offerings across endoscopic areas like pulmonology, ENT, urology and gastroenterology.

A high-quality, low-cost manufacturing setup that enables us to launch quality products at price points that can drive conversion, and hereby accelerate the transition from reusable to single-use.

Dedicated sales force trained in our value proposition and our customers' complex workflows can effectively drive the conversion. Effectiveness combined with continuous and increasing product launches creates a significant opportunity for value and operational scale.

Capability expansion

We will support Ambu's growth by expanding our operational, manufacturing and supply chain capabilities to make sure we maintain our low-cost competitive advantage. This also includes enhancement of new critical commercial and enabling capabilities in terms of healthcare economics, clinical evidence, pricing and GPO contracting to accelerate the penetration of our products.

Talent and Culture

We will maintain and preserve the Ambu culture as we scale up the company and further strengthen our winning spirit on our journey towards new milestones in patient care. Securing the onboarding of critical talent is a core priority to succeed in all our markets and to keep a high quality of company-wide support functions.

Pipeline overview

Single-use pure player

Ambu develops products with a focus on becoming a single-use pure player within all main endoscopy areas. We are broadening our range within pulmonology, ENT and urology and soon we will start launching products within GI. And we will bring advanced monitors to be used across our aScope™ product line.

Monitor technology platform

One of the main drivers of single-use endoscopy is the quality of the image on the monitor. Ambu is working with exclusive technology partners to develop new portable monitors with advanced full HD imaging featuring enhanced image quality, more processing power and improved functionality. This platform will be the basis for monitors to be used across pulmonology, ENT and urology.

Pulmonology

With aScope™ 4 Broncho, we have successfully penetrated the market and won an approx. 20% share of the 3 million annual procedures in the pulmonary endoscopy market. Going forward, we have an opportunity to penetrate the bronch suite market which represents an incremental 2 million procedures by introducing next generation of our bronchoscope featuring an HD camera chip and an improved working channel. We also plan to develop tailor-made versions of our bronchoscope for selected markets and procedures as well as a video laryngoscope that is integrated with the aView™ monitor platform.

ENT (Ear-Nose-Throat)

The ENT endoscopy market represents a significant opportunity with its 11 million procedures. Ambu has recently launched aScope™ 4 RhinoLaryngo Intervention and Slim. Both scopes received FDA approval in 2018/19. With the positive feedback received on the ENT scopes, we expect a faster penetration of the ENT market compared to how aScope 3 has performed historically within pulmonary endoscopy. In the 16 weeks of global sales that we had in 2018/19, we saw a satisfactory pick-up confirming this expectation. We are now working on high resolution scopes for ENT.

Urology

Urology represents another important market for Ambu with a total of 8 million procedures. We are developing a cystoscope to target bladder and urethra procedures, which account for 6 million out of the total 8 million urology procedures. To complete our urology portfolio, we will be introducing a ureteroscope to target kidney procedures which account for 2 million procedures. The combination of a single-use cystoscope and an ureteroscope is ideal as physicians in many cases use both on the same patient.

Gastroenterology (GI)

The single-use duodenoscope will mark Ambu's entrance into the GI market, which represents a major opportunity with a total of 72 million procedures split across colonoscopy (50 million), gastroscopy (20 million) and duodenoscopy (2 million). GI is a very important market to which we – besides the duodenoscope – will bring a gastroscope and a colonoscope. Ambu will thereby be able to present a total offering of basic-line GI aScopes™ which share the same design and functions. In 2021/22, we plan to launch the next generation of the duodenoscope as well as a cholangioscope.

Products to be launched in 2019/20

Single-use duodenoscope
Used for procedures in the pancreas and bile ducts (ERCP procedures).

Single-use cystoscope
Used for bladder and urethra procedures.

Next gen reusable monitor
Monitor for single-use aScope™ products primarily within pulmonology, urology and ENT.

Additions to the pipeline

Announced 13 November 2019. Expected 2021/22.

Next generation single-use bronchoscope
Tailor-made for smaller patients.

Single-use bronchoscope (selected procedures)
Tailor-made for selected procedures.

New video laryngoscope
Integrated with monitor platform.

Single-use ENT high resolution
Optimized for high resolution.

Single-use cystoscope HD
High-definition cystoscope.

Next generation single-use duodenoscope
2nd generation duodenoscope.

Single-use cholangioscope
Tool for use with a duodenoscope.

Ambu single-use endoscopy

	Market opportunity (annual procedures)		Expected launch
Pulmonology	5 million	aScope BronchoSampler™	Launched
		aScope™ 4 Broncho	Launched
		Next generation single-use bronchoscope	Q4 2020/21
		Next generation single-use bronchoscope for smaller patients*	2021/22
		Next generation single-use bronchoscope for selected procedures*	2021/22
		Next generation video laryngoscope*	2021/22
ENT	11 million	aScope™ 4 RhinoLaryngo Intervention	Launched
		aScope™ 4 RhinoLaryngo Slim	Launched
		Single-use ENT high resolution*	2021/22
Urology	8 million	Isiris™	Launched
		Single-use cystoscope	Q2 2019/20
		Single-use ureteroscope	2021/22
		Single-use cystoscope HD*	2021/22
Gastroenterology (GI)	2 million	Single-use duodenoscope	Q4 2019/20**
		Next generation single-use duodenoscope*	2021/22
		Single-use cholangioscope*	2021/22
	20 million	Single-use gastroscope	Q2 2020/21
	50 million	Single-use colonoscope	Q2 2020/21

* Product not previously announced
**Launch of duodenoscope is expected in early Q4 2019/20 rather than “before the end of september 2020.”

Outlook for 2019/20

During the 2018/19 financial year, we have decided to accelerate our investments in commercial infrastructure in the USA, Europe and Asia-Pacific with the aim of maximizing value and strengthen our position as a global leader in single-use Visualization. We will launch a range of new products across multiple endoscopy markets and we will continue to invest significantly in innovation and commercial infrastructure.

The expected financial performance for 2019/20 will, among other things, be influenced by the following:

- Further expansion of the direct sales organization in the USA and building our own commercial infrastructure for the duodenoscope
- Decision in August 2019 to transition our US distributor partnership and move to a direct sales organization for pulmonary endoscopy
- Impact from launch of two single-use scopes in the ENT market in 2018/19
- Expected launch of the duodenoscope in early Q4 2019/20
- Minimal impact from competition

On this basis we have set the following financial targets for 2019/20:

Organic growth

16-22%

Core is expected to contribute approx. 4-5% growth and Visualization including product launches in the range 40-55%.

EBIT margin

12-14%

before special items

The level of EBIT margin reflects the significant investments that have been decided.

Endoscope units sold

Approx. 900,000 units

Endoscope sales will be driven mainly by the pulmonary business.

Organic growth is expected to be in the range of 16-22%. The growth will be driven by Visualization, which will continue to see high double-digit growth rates of 40-55%. In 2018/19, we launched our ENT product portfolio, and we expect the ENT area to contribute to our overall organic growth in 2019/20. Within the business areas Anaesthesia and PMD, stable growth rates of approx. 4-5% are expected.

Across the quarters, growth will be relatively modest in the early part of the year while increasing to higher levels later in the year.

EBIT margin before special items is expected to be 12-14%. The level of the EBIT margin is significantly impacted by the investments in commercial infrastructure which have been decided.

Across the quarters, the EBIT margin will be relatively low in the early part of the year, while increasing during the year in step with revenue growth and as we gain scale.

Endoscope unit sales are expected to be approx. 900,000 in 2019/20. Growth will be driven by the pulmonary area but ENT and to some extent duodenoscopes are also expected to contribute to overall unit growth.

Free cash flow is expected to be negative in 2019/20. It will be negatively impacted by a lower EBIT margin and one-off effects such as compensation agreed in connection with the transition of the distributor in the USA of DKK 136m and income tax payable in Germany related to the internal transfer of intellectual property rights of DKK 60m. In 2019/20, we will invest up to approx. DKK 275m in innovation to accelerate our future product pipeline and total CAPEX are expected to be around 14-15% of revenue for 2019/20.

We have decided not to provide any financial guidance on our free cash flow.

Market conditions

The general market growth in Europe and North America is expected to remain unchanged at approx. 2-3%. In most of our markets, current macroeconomic conditions continue to appear supportive, with the exception of the UK where BREXIT-related uncertainty persists. We will continue to follow the trade conflict between the USA and China. As Ambu has production in Xiamen, China, we are exposed to any additional customs duties on imports to the USA of products manufactured in China that might be decided. Furthermore Ambu will be exposed to the extent that the Medical Device Excise Tax in the USA is not repealed on 1 January 2020.

As regards the competition within Visualization, we see a number of companies that have announced their intention to launch products within one or more of the endoscopy areas. We expect to see an increasing number of competitors, and we will continue to invest significantly to stay ahead of competition. We expect the financial effects of such competition to be minimal in 2019/20.

In 2019/20, the pressure on prices is expected to be similar to previous years, i.e. a modest approx. 0.5%. Price pressures will primarily be seen within PMD and Anaesthesia, but we expect to be able to still increase our aggregate gross margin based on growth in Visualization and the scaling and streamlining of our supply chain as a whole.

Currency expectations

The financial outlook for 2019/20 is based on the following exchange rate assumptions:

Currency	**Realized in 2018/19**	**Expected for 2019/20**
USD/DKK	662	665
CNY/DKK	96	95
MYR/DKK	160	160
GBP/DKK	845	865

Just over 50% of Ambu's total revenue is invoiced in USD. In addition, just under 40% of revenue is invoiced in EUR or DKK, approx. 5% in GBP and the remaining 5% is invoiced in other currencies. Production and capacity costs are predominantly settled in USD, DKK, EUR, MYR and CNY.

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

DKKm	**USD**	**MYR**	**CNY**	**GBP**
Revenue	195	0	4	23
EBIT before special items	32	-21	-17	17
EBIT margin before special items	+0.1%	-0.6%	-0.5%	+0.4%

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 realized results 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 32.

Financial results

Ambu® aScope BronchoSampler™ was launched in January 2019 and is an integrated sampling solution, which complements the Ambu® aScope™ 4 Broncho. It improves the bronchoscopic sampling workflow.

Business performance – Regions

Comparative figures for 2017/18 are stated in brackets.

Ambu has organized its sales operations into three regions:

- North America
- Europe
- Rest of World

Full-year revenue totalled DKK 2,820m (DKK 2,606m), corresponding to organic growth of 4% (15%) and reported growth of 8% (11%).

Since 2015, Ambu and Tri-anim Health Services, have been in a partnership to sell Ambu’s single-use bronchoscopes in the USA. As part of the adjustments to the strategy, Ambu and Tri-anim have in August 2019 with effect from 1 October 2019 agreed to fully transition the sales of aScope™ products to Ambu.

The 4% organic growth that is achieved for 2018/19, is significantly below what was initially expected for 2018/19 in the Annual report for 2017/18. The lower growth is mainly due to the transition of Tri-anim as well as the effect from the decision made in August 2019 to change pricing policies and remove certain rebates offered to certain distributors with Anaesthesia and PMD in the USA, which in total has impacted the achieved organic growth negatively by 12 percentage points.

In addition to the above, reported growth has been affected by the implementation of the new accounting standard IFRS 15. Reference is made to note 1.2 of the financial statement.

For Visualization, organic growth totalled 9% including impact from transitioning the distributor in North America.

For Anaesthesia and PMD combined, organic growth was 2% including impact from changed pricing policies in North America.

North America accounted for 45% of revenue in 2018/19, compared to 46% in 2017/18, and organic growth was a negative -3% (17%) while reported growth was a positive 5%. Visualization saw negative organic growth of -7% as a consequence of the decision to transition the aScope distributor, while Anaesthesia posted negative organic growth of -2% and PMD grew 2%. For the Core portfolio, growth rates were significantly impacted by the decision made in August 2019 to change pricing policies towards distributors.

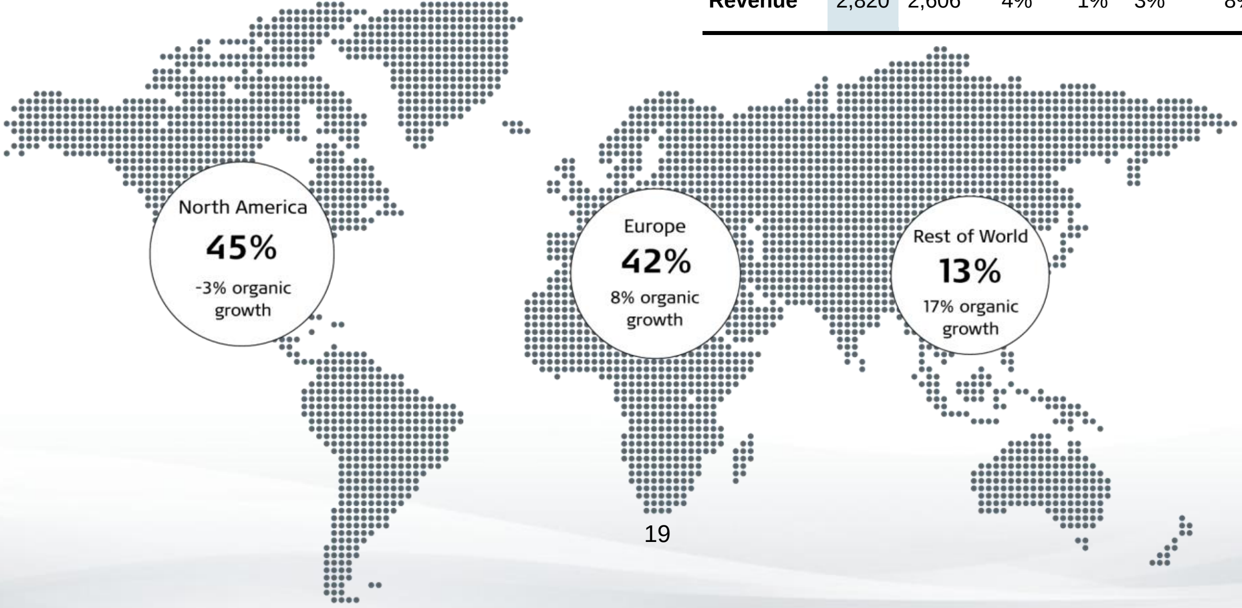
The low results in North America do not reflect our underlying performance and the demand for our products that we see in North America. Based on customer sales in 2018/19 and disregarding whether sales are made directly by Ambu or through a distributor, our combined growth rate in North America is double-digit, with Core realizing growth of approx. 5% and Visualization high double-digit growth. We expect the disturbance to the reported figures seen in 2018/19 to be eliminated as we move into 2019/20.

Europe accounted for 42% of revenue in 2018/19, which is unchanged to last year with organic growth of 8% (14%) and reported growth of 9%. Visualization achieved 21% organic growth, while Anaesthesia and PMD grew 2%.

Rest of World accounted for 13% of revenue in 2018/19, compared to 12% last year. Organic growth was 17% (11%), and reported growth was 20%. Visualization achieved 37% organic growth, while Anaesthesia grew 13% and PMD 7%.

In Rest of World, the Asia-Pacific region accounts for two thirds of the revenue generated, and the region has grown 19%. The other markets in Rest of World are the Middle East and Latin America.

DKKm	18/19	17/18	Organic growth	IFRS 15	Fx	Reported Growth
North America	1,266	1,208	-3%	3%	5%	5%
Europe	1,176	1,083	8%	0%	1%	9%
Rest of World	378	315	17%	0%	3%	20%
Revenue	2,820	2,606	4%	1%	3%	8%



Business performance – Business areas

Visualization

DKKm	18/19	17/18	Organic growth	IFRS 15	Fx	Reported Growth
North America	403	404	-7%	4%	3%	0%
Europe	430	354	21%	1%	0%	22%
Rest of World	108	78	37%	0%	1%	38%
Revenue	**941**	**836**	**9%**	**2%**	**2%**	**13%**

In 2018/19, total Visualization sales grew organicly by 9% (46%), and 13% (40%) in reported growth. Most of the Visualization revenue stems from sales of aScope™ 4 Broncho.

The growth in Visualization is significantly impacted by transitioning the distributor in the USA in Q4. On this basis, the organic growth in North America became negative and ended at -7% (+18%), whereas Europe and Rest of World contributed positive organic growth of 21% (49%) and 37% (28%), respectively.

In 2018/19, we sold a total of 618,000 (560,000) endoscopes which equates to an increase of 9% compared to last year. Volumes are significantly impacted by having to buy back 81,000 scopes in connection with the transition the US distributor and by having to cancel all initially planned orders from the distributor covering the last five weeks of Q4.

In support of our financial outlook, we have regularly provided information about the number of endoscopes sold, and at the beginning of 2018/19, we expected sales of more than 750,000 endoscopes for the year. In connection with the Visualization update presentation in June 2019, we adjusted this figure to ~750,000 due to the discontinuation of the SC210 colonoscope. At the presentation of our interim report for Q3 in August, the figure was adjusted to ~600,000 as a consequence of transitioning the US distributor. With actual sales in 2018/19 ending at 618,000 endoscopes sold we end the year slightly better than anticipated.

During the financial year, we saw stable prices for our aScope, and the margin realized is on a par with previous years. The only impact we see on prices stems from the sales channel mix i.e. whether sales are direct or via distribution. As we have transitioned our aScope distributor in the USA with effect from 1 October 2019, the approx. 28% margin previously paid to the distributor will from this date be added to revenue.

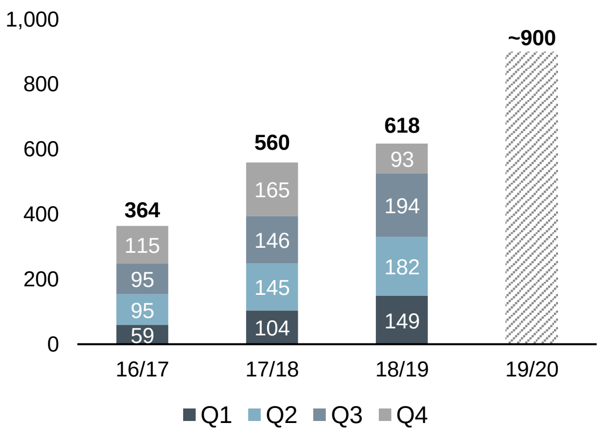
On 25 October 2017, Ambu acquired Invendo Medical GmbH and thereby secured access to a technology platform for single-use endoscopes for gastrointestinal procedures which it would alternatively have taken years to develop in-house. In June 2019, we decided to discontinue the SC210 colonoscope, as we firmly believe that the colonoscope based on aScope technology will be a superior product, when launched in Q2 2020/21. Following this decision, we are now able to focus all our resources on the development of aScope™ products for colonoscopy, gastroscopy and duodenoscopy. Ambu will thereby eventually be able to present a total offering of GI aScopes™ which share the same technical design.

The launch of aScope™ 4 RhinoLaryngo Intervention and aScope™ 4 RhinoLaryngo Slim marked Ambu's entry into the ENT area. The scopes were launched in Q1 and Q3 2018/19, respectively, and in Q4 we saw a positive sales trend characterized by a faster uptake within ENT compared to when we launched aScope™ Broncho, but of course measured on a low base.

The VivaSight™ products, which were acquired in 2016, were integrated with the aView™ monitor in 2017/18 and thus became an integral part of Ambu's aScope™ product family. VivaSight™ consists of single-use double-lumen and single-lumen tubes with an integrated camera, and is used during surgical procedures in or around the lungs to increase patient safety and improve procedure workflow. Sales of VivaSight™ continued to develop positively during 2018/19, with growth of 47%.

Following the expansion of the factory in Malaysia in 2018, when the first and second floors were taken into use, we have now occupied the remaining third and fourth floors. This means that the building is now fully equipped and functional, and we will be taking the two top-floors into use during 2019/20.

Number of endoscopes sold, '000 units



The number of scopes in Q4 2018/19 is significantly impacted by having to buy back inventory and by having to cancel Q4 orders from the distributor in the USA.

Anaesthesia

DKKm	18/19	17/18	Organic growth	IFRS 15	Fx	Reported Growth
North America	615	580	-2%	2%	6%	6%
Europe	222	214	2%	1%	0%	3%
Rest of World	154	132	13%	0%	4%	17%
Revenue	**991**	**926**	**1%**	**2%**	**4%**	**7%**

Within Anaesthesia, revenue grew organic in 2018/19 by 1% (6%), while reported growth was 7% (0%). All in all, Anaesthesia accounted for 36% (36%) of Ambu's revenue in 2018/19.

Organic growth in North America was a negative -2% (7%) and was significantly impacted by the change in pricing policies announced in the Q3 interim report in August 2019.

In Europe, we saw organic growth of 2% (5%), while Rest of World generated organic growth of 13% (4%).

In August 2019, Ambu reached a final agreement to settle a dispute with the US authorities concerning compliance with laws and regulations governing sales of anaesthesia products to US government institutions. The financial implications of the settlement are limited to the payment of a restitution totalling USD 3.3m. Provisions in a similar amount had been made and expensed in earlier accounting periods, and the settlement will therefore have no further impact on Ambu's EBIT, nor will it impact Ambu's growth opportunities in the USA.

Patient Monitoring & Diagnostics

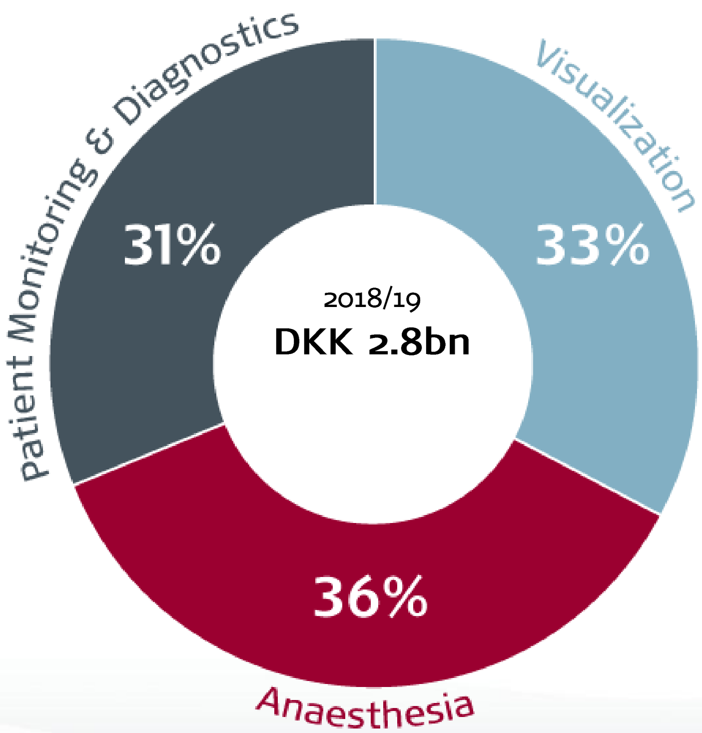
DKKm	18/19	17/18	Organic growth	IFRS 15	Fx	Reported Growth
North America	247	224	2%	2%	6%	10%
Europe	525	515	2%	0%	0%	2%
Rest of World	116	105	7%	0%	3%	10%
Revenue	**888**	**844**	**3%**	**1%**	**1%**	**5%**

The PMD business consists of three product groups: Cardiology, neurophysiology and first aid. Cardiology accounts for approx. 50% of PMD sales, while the other two product groups each account for around 25%. Neurophysiology and cardiology accounted for the strongest growth for the full year.

In 2018/19, PMD accounted for 31% (32%) of Ambu's revenue, and PMD sales grew 3% (5%) organically, and 5% (6%) reported.

PMD growth in North America was to a minor degree impacted by the change in pricing policies in the USA, and the 2% organic growth (6%) is the accumulated result of positive growth in neurophysiology and negative growth in cardiology.

Organic growth rates in Europe and in Rest of World were 2% (1%) and 7% (11%), respectively, which is ascribable to intensifying competition in some markets and some order phasing especially in Rest of World.



Income statement

In line with previous announcements, the income statement for 2018/19 is significantly impacted by the changes to the commercial model in the USA in August 2019, the decisions made in June 2019 to discontinue the SC210 colonoscope and to invest further in commercial infrastructure primarily in the USA but also in Europe and Rest of World.

DKKm	18/19	17/18	Change value	Change %
Revenue	2,820	2,606	214	8%
Production costs	-1,183	-1,059	-124	12%
Gross profit	**1,637**	**1,547**	**90**	**6%**
Gross margin, %	*58.0*	*59.4*	-	-
Selling and distribution costs	-762	-607	-155	26%
Development costs	-103	-111	8	-7%
Management and administration	-292	-266	-26	10%
Total capacity costs	-1,157	-984	-173	18%
EBIT before special items	**480**	**563**	**-83**	**-15%**
EBIT margin before special items, %	*17.0*	*21.6*	-	-
Special items	-174	0	-174	-
EBIT	**306**	**563**	**-257**	**-46%**

Revenue and gross profit

Revenue for the year was DKK 2,820m, up DKK 214m from last year corresponding to reported growth of 8% (11%). Reported growth is composed of organic growth of 4% (15%) and currency effects and changes in accounting policies (IFRS 15) of 4% (-4%). Under IFRS 15 we cannot maintain our accounting practice of offsetting the fees paid to Group Purchasing Organizations (GPOs) in the revenue. Instead these fees are presented as Selling costs. Please refer to note 1.2 of the financial statement.

Gross profit was up 6% at DKK 1,637m (DKK 1,547m), while the gross margin decreased by 1.4 percentage points to 58.0% (59.4%).

The gross profit was positively impacted by the reported growth in revenue and by efficiency increases in manufacturing. However, gross profit is impacted negatively by DKK 29m due to write-downs from the discontinuation of SC210 and scale effects from the revenue reduction of DKK 250m that was decided in August 2019 and which has led to higher inventories by the end of 2018/19 and lower operational scale than initially planned.

The combined effect of price reductions in 2018/19 was in line with expectations, and equals approx. 0.5 percentage points, impacting primarily Anaesthesia and PMD. Added to this is the impact from the contract extension with a major GPO in the USA in Q2 2018/19.

Prices are under pressure in the business areas Anaesthesia and PMD. No price pressure trends are seen for Visualization, and no price pressure is expected in the short term despite competitors starting to enter the market.

Currency exposure

Just over 50% of Ambu's total revenue is invoiced in USD. In addition, just under 40% of revenue is invoiced in EUR or DKK and approx. 5% in GBP while the remaining 5% is invoiced in other currencies. Production and capacity costs are predominantly settled in USD, DKK, EUR, MYR and CNY.

In 2018/19, the average USD/DKK exchange rate was 662 (626), up 6%. The average CNY/DKK exchange rate appreciated by 1%, while GBP/DKK was unchanged, and MYR/DKK appreciated by 3%. The combined exchange rate impact on this year's revenue is positive by DKK 80m, while the net impact on earnings and EBIT margin before special items is limited due to the cost base in the USD, including factories in China and Malaysia, which settle approx. 45% of their direct manufacturing costs in USD.

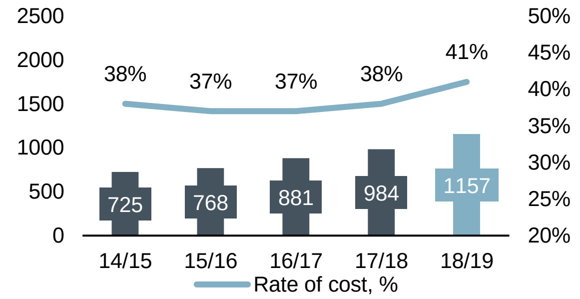
Capacity costs

In 2018/19, capacity costs totalled DKK 1,157m (984m), corresponding to an 18% absolute increase of DKK 173m. Exclusive of net effects of DKK 37m from GPO fees, accelerated commercial expansion in the sales organization in Q4, and release of accruals in respect of long-term incentives for management (LTIs), the increase would have been 14%.

LTI costs affecting EBIT before special items in 2018/19 were DKK 6m. This was DKK 20m less than 2017/18 primarily due to reversal of LTIs that were accrued in previous years but reversed in 2018/19 because the realized financial results for 2018/19 are lower than previously expected.

The rate of cost was 41% (38%), inclusive of the above effects from GPO, LTI and lower sales in Q4. Adjusted for these effects, the rate of cost would have been 38%.

Total capacity costs and rate of cost, %



Selling and distribution costs were up DKK 155m or 26% at DKK 762m due to the expansion of the commercial infrastructure across regions.

The cost increase includes GPO fees of DKK 41m which were not included last year due to the adoption of IFRS 15. Exclusive of GPO fees the increase is 19%.

The investment in commercial capabilities reflects our ambition of becoming a single-use pure player within all the main endoscopy markets that we strategize to enter. As a consequence, we will triple the size of our Visualization sales force in the USA and double the sales force in both Europe and Asia-Pacific (Rest of World).

Development costs decreased by 7% to DKK 103m as the underlying running costs in Innovation are unchanged, whereas amortization has decreased by DKK 8m to DKK 58m.

At the end of the financial year, the global development organization comprises 153 (113) employees.

DKKm	18/19	17/18
Development costs	103	111
÷ Amortization related thereto	-58	-66
+ Investments	181	121
= Cash flow	**226**	**166**

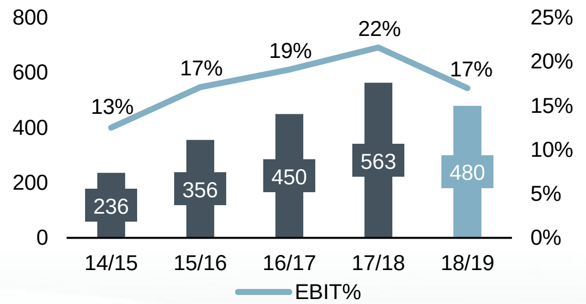
Development costs are capitalized in so far as the direct resources associated with approved projects are concerned. Management and administrative expenses as well as overheads associated with the development activity are expensed directly. Amortization declines slightly in 2018/19 due to the phasing of development projects, but we expect to see significant growth in amortization in the years to come as the higher innovation pipeline relative to prior years and the Invendo technologies begin to be put into service.

Management and administrative expenses were up 10% at DKK 292m inclusive of lower share-based payments (LTI) of DKK 14m compared to last year. Adjusted for the decline in LTI, management and administrative costs increased by 15% due to increasing wages and salaries in HQ.

Operating profit (EBIT) before special items

EBIT before special items was DKK 480m (DKK 563m), with an EBIT margin before special items of 17.0% (21.6%).

EBIT before special items – DKKm



Depreciation and amortization

Depreciation and amortization equals an expense of DKK 109m (DKK 115m).

EBITDA before special items

EBITDA before special items was DKK 589m (DKK 678m) with an EBITDA margin before special items of 20.9% (26.0%).

Special items

Special items were a cost of DKK 174m (DKK 0m) composed of one-off costs of DKK 38m in the form of severance pay and acceleration of CEO's share options expected to vest as well as other severance and strategy costs that by nature are significant and relate to the CEO succession. Additionally, a compensatory accrual of DKK 136m was made to our former US distributor at end of Q4 2018/19 expected to mature in Q1 2019/20.

Operating profit (EBIT)

EBIT including special items was DKK 306m (DKK 563m), corresponding to a decrease of DKK 257m.

Net financials

Net financials amounted to net income of DKK 107m, against net financial expenses of DKK 98m the year before.

The changes are composed as follows:

- Foreign exchanges constitute net income of DKK 19m (DKK 5m).
- Interest expenses on bank, lease and bond debt totalled DKK 20m (DKK 31m).
- Fair value adjustments of derivative instruments constituted a net expense of DKK 10m (net income of DKK 2m).
- The interest element from liabilities stated at present amortized value is recognized as a net expense of DKK 3m (DKK 3m).
- Fair value adjustments of contingent consideration relating to the acquisition of Invendo Medical GmbH represent net income of DKK 121m (expense of DKK 71m).

This fair value adjustments of DKK 121m consists of the following elements:

- Adjustment of the fair value of contingent earn-out payments has led to non-cash financial income of DKK 187m. To achieve the minimum threshold of the earn-out, accumulated revenue from sales of GI-products in the period from October 2017 to October 2021 must be EUR 75m. Based on the latest estimates this revenue is not going to be achieved and the value of the earn-out is now DKK 0m.
- Changes in expected timelines account for the fair value adjustment of the non-cash income of DKK 15m for contingent milestones. When Ambu receives FDA approval of the duodenoscope and the gastroscope, milestones of EUR 40m and EUR 20m respectively will be payable.
- According to the ordinary amortization plan made in conjunction with the purchase price allocation of Invendo Medical GmbH, the unwinding of cash flows relating to milestones and earn-out has caused a non-cash financial cost of DKK 81m.

With respect to the unwinding of cash flows for FY 2019/20, we expect to incur DKK 55m. These fair value adjustments have no cash flow effects.

Tax on profit for the year

Tax on profit for the year totalled DKK -96m (DKK -128m), corresponding to a tax rate of 23% (28%).

One-off net effects of DKK 7m positively impact the effective tax rate by 1.7 percentage points. These are effects from non-taxable income to the tune of DKK 10m stemming from fair value adjustment of contingent consideration and eligibility for US tax loss carry-forwards for the year of DKK 3m.

The higher effective tax rate of 28% last year was due to the US Reform lowering the federal part of the income tax in the USA from 35% to 21% with an effect on Ambu's tax asset. Adjusted for this effect, the tax rate was 23%.

Going forward, Ambu's effective tax rate is expected to remain at the level of approx. 23% adjusted for non-deductible and non-taxable items.

Net profit

This results in a net profit of DKK 317m (DKK 337m) and thus a decrease of -6%.

Earnings per share (EPS)

Earnings per share for the financial year were DKK 1.30 (DKK 1.39).

Balance sheet

At the end of September 2019, Ambu had total assets of DKK 4,558m (DKK 4,234m).

Balance sheet condensed by main items

DKKm	18/19	17/18	Change value
Non-current assets	3,397	3,249	148
Inventories	506	382	124
Trade receivables	474	478	-4
Other current assets	61	62	-1
Cash	120	63	57
Total assets	**4,558**	**4,234**	**324**
Equity	2,182	1,882	300
Contingent consideration	378	498	-120
Interest bearing debt	1,155	1,308	-153
Trade and other payables	649	380	269
Other liabilities	194	166	28
Total equity and liabilities	**4,558**	**4,234**	**324**

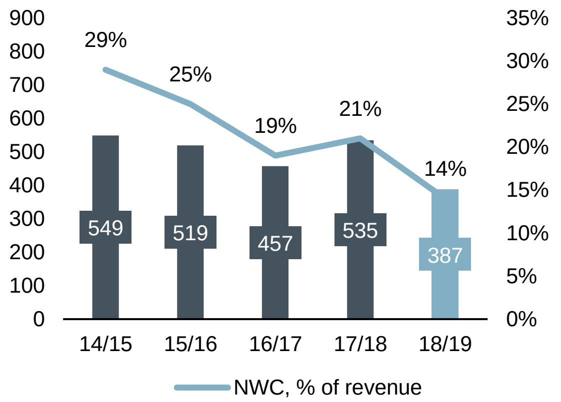
Total **invested capital** was DKK 3,217m, up DKK 90m from last year with a 15% (17%) return on invested capital based on EBIT before special items.

Non-current assets were DKK 3,397m, up DKK 148m from last year driven by investments in development projects of DKK 159m (DKK 104m), investments of DKK 63m in manufacturing capacity on our existing compounds in China and Malaysia, foreign exchange rate translations of DKK 58m from the appreciating USD/DKK rate less amortization, depreciation, and impairment of plant and machinery, in total DKK 109m.

Net working capital

At the end of 2018/19, the net working capital had been significantly decreased to DKK 387m (DKK 535m), corresponding to 14% (21%) of revenue for the year. This reduction is significantly impacted by the accrued costs reported within special items. Adjusted for these items, the working capital rate would have been 19%.

Net working capital and net working capital relative to revenue, %



Inventories were DKK 506m at the end of the year, corresponding to growth of 32% compared to the same time last year. The growth in absolute values of DKK 124m is explained by the buyback of inventories from the distributor in the USA and increased safety stocks at our factories. The inventories bought back in the USA equal 81,000 units of scopes, which will be phased into the manufacturing planning in H1 2019/20, whereafter inventories are expected to have normalized.

Trade receivables totalled DKK 474m at the end of the year against DKK 478m at the same time last year despite the lower revenue in Q4. The reason for this is that all inventories bought back from the distributor have been fully paid by end of September 2019, which is earlier than normal credit terms would stipulate. Calculated at fixed exchange rates, the average number of credit days was 53 (59).

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

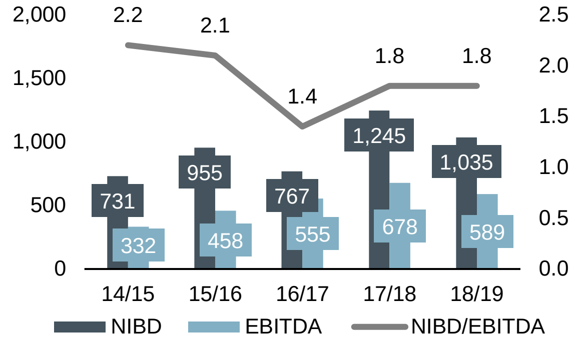
Trade and other payables totalled DKK 649m (DKK 380m) up DKK 269m or 71% from last year. The significant increase is caused by the accrual for special items of DKK 156m maturing in Q1 2019/20.

Net interest-bearing debt and gearing

Cash and cash equivalents amounted to DKK 120m (DKK 63m), and total net interest-bearing debt (NIBD) was DKK 1,035m (DKK 1,245m), corresponding to 1.8 (1.8) of EBITDA before special items.

At the end of September 2019, Ambu had unutilized capital resources from cash, draft and credit facilities of approx. DKK 1.4bn (DKK 1.2bn).

NIBD, EBITDA (before special items) and NIBD/ EBITDA (before special items)



Contingent consideration was DKK 378m at the end of the year, which is a decrease of DKK 120m from last year due to the unwinding of cash flows and fair value adjustments of no longer expected earn-out payments as described above. The contingent consideration relating to the milestone payment maturing upon FDA approval of the duodenoscope (EUR 40m) is classified as short-term at a fair value of DKK 264m. The payment of EUR 40m will be funded out of Ambu's existing credit facilities.

Other liabilities were DKK 194m, corresponding to an increase over last year of DKK 28m primarily stemming from incrementally higher deferred taxes in Ambu A/S.

Equity

At the end of September 2019, equity totalled DKK 2,182m (DKK 1,882m), corresponding to an equity ratio of 48% (44%) of total assets.

Other comprehensive income

Other comprehensive income includes a translation adjustment arising from the translation of foreign subsidiaries of DKK 65m (DKK 19m) because of a strengthening of the USD/DKK exchange rate by 8% since the end of the previous financial year.

Other equity

At the general meeting held on 12 December 2018, it was decided to pay dividend of DKK 101m. Since the general meeting, the proposed dividend of DKK 101m has been distributed in full, including DKK 3m on Ambu's portfolio of treasury shares.

At the end of the year, Ambu employees had exercised a total of 1,167,029 purchase options in Ambu A/S.

In accordance with Ambu's remuneration policy, a general employee share programme for 2018/19 was established in Q1, while the general employee share programme for 2016/17 has vested, and Ambu's obligations in this respect have thus been fulfilled. Consequently, the holding of treasury shares was reduced by 128,751 Class B shares in Ambu A/S.

At the end of the year, Ambu's holding of treasury Class B shares had hereafter been reduced by 1,295,780 to 6,442,639 (7,738,419), corresponding to 2.559% (3.079%) of the total share capital.

In addition, at the end of the year, Ambu employees had exercised a total of 535,000 warrants to subscribe for shares in Ambu A/S.

In certain jurisdictions, Ambu obtains a deduction for employees' gains from the exercise of options and warrants. During the year, equity was decreased by DKK 36m (increase of DKK 26m), corresponding to the value adjustment of any deductible value of employee gains.

Cash flow statement

Free cash flow before acquisitions was DKK 274m (DKK 321m), down DKK 47m from last year, corresponding to 10% of revenue (12%).

DKKm	18/19	17/18	Change in value
Cash flow from operating activities	533	554	-21
Cash flow from investing activities before acquisitions	-259	-233	-26
Free cash flow before acquisitions	**274**	**321**	**-47**
Acquisitions of enterprises and technology	-2	-928	926
Cash flow from financing activities	-216	651	-867
Changes in cash	56	44	12
Cash flows in % of revenue:			
Cash flow from operating activities	19%	21%	-
Investments	-9%	-9%	-
Free cash flow before acquisitions	10%	12%	-

Cash flow from operating activities (CFFO) amounted to DKK 533m, representing a decrease of DKK 21m compared to the year before, corresponding to 19% of revenue (21%). The decrease in CFFO is ascribable to the lower reported EBIT only partly funded by net working capital.

Income tax payments were DKK 44m (DKK 40m), corresponding to 11% of profit before tax (9%). The reduced tax payment in Denmark is ascribable to the recovering of substantial tax deductions in connection with last year's transfer of intellectual property rights from Ambu Innovation GmbH (former Invendo Medical GmbH) to Ambu A/S, as well as deductions due to the exercise by employees of share options and warrants.

Ambu expects to see significant negative cash flows from normalization of working capital in FY 2019/20 as trade receivables will increase, and trade and other payables including accrued special items are paid out.

Cash flow from investing activities (CFFI) totaled DKK -259m, an increase in investments of DKK 26m.

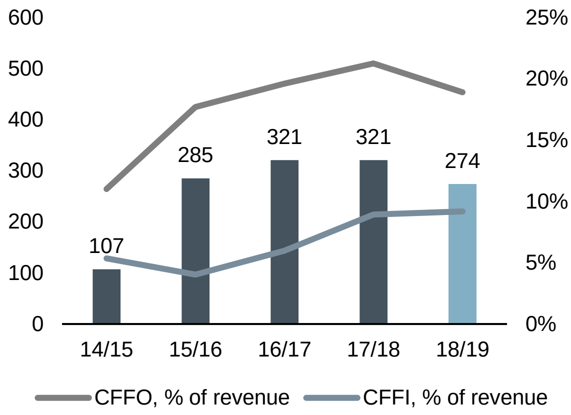
Total investments equate to 9% (9%) of revenue.

Free cash flow before acquisitions of enterprises and technology then totalled DKK 274m (DKK 321m).

Acquisitions of enterprises and technology totalled DKK 2m (DKK 928m). Last year included the acquisition of Invendo Medical GmbH, including DKK 75m in milestone payments made in April 2018.

The milestone payment of DKK 298m for the FDA approval of the duodenoscope is expected to mature in the second half of FY 2019/20.

Free cash flow before acquisitions – DKKm



Cash flow from financing activities (CFFF) amounted to DKK -216m (DKK 651m). The cash flow primarily relates to the share capital increase in Class B and the selling of treasury shares following the exercise by employees of warrants and share options, respectively, the payment of dividend of DKK 98m (DKK 90m) and changes in credit institution debt by DKK 150m.

Changes in cash and cash equivalents then come to DKK 56m (DKK 44m).

Follow-up on announced outlook

relative to the results realized in 2018/19

During the 2018/19 financial year, Ambu made a number of adjustments to the full-year outlook. These adjustments resulted from strategic decisions made in order to accelerate investments in commercial infrastructure globally for the purpose of maximizing long-term values. Significant investments were made in a strong product pipeline with upcoming launches of a range of new products across multiple endoscopy markets, and these investments will continue.

The realized free cash flow of DKK 274m versus the most recent financial outlook announced on 22 August of approx. DKK 200m is caused by the first instalment of the transition fee due to the US distributor of USD 10m not being paid until early October. The delay has been caused by legal implications when finalizing the settlement agreement which have all been dealt with. Adjusted for this timing difference, the reported cash flow would have been DKK 205m.

Local currencies

	Realized	22 August 2019	17 June 2019	1 May 2019	31 January 2019	13 November 2018
Organic growth	4%	4-5%	14-15%	15-16%	15-16%	15-16%

Danish kroner

	Realized	22 August 2019	17 June 2019	1 May 2019	31 January 2019	13 November 2018
EBIT margin before special items	17.0%	Approx. 17%	Approx. 22%	22-24%	22-24%	22-24%
Free cash flow before acquisitions	DKK 274m	Approx. DKK 200m	Approx. DKK 375m	DKK 400m-475m	DKK 400m-475m	DKK 400m-475m

Q4 2018/19

Highlights

In Q4 we implemented a range of very significant decisions, which have impacted growth as well as our cost base. In the USA, the distributor partnership for aScope sales was transitioned and significant changes to pricing policies were implemented. These changes were communicated in August 2019 and significantly reduced our growth expectations for the full year by approx. 12 percentage points. The effect is the reporting of negative organic growth of 19% for Q4.

Going forward, these changes will enable Ambu to achieve stronger growth at better prices as the margins and rebates that are currently shared with distributors can, to a large extent, be added to revenue.

Our end-customers who use Ambu's products are not expected to be impacted by these changes.

Business Areas

DKKm	Q4 18/19	Q4 17/18	Organic growth	IFRS 15	Fx	Reported growth
Visualization	132	249	-47%	1%	-1%	-47%
Anaesthesia	243	247	-7%	2%	3%	-2%
PMD	231	233	-3%	1%	1%	-1%
Revenue	**606**	**729**	**-19%**	**1%**	**1%**	**-17%**

In Q4, Visualization posted negative organic growth of 47% (+39%). Anaesthesia reported negative organic growth of 7% (+6%), while PMD (Patient Monitoring & Diagnostics) delivered -3% (+5%).

Markets

DKKm	Q4 18/19	Q4 17/18	Organic growth	IFRS 15	Fx	Reported growth
North America	192	364	-51%	2%	2%	-47%
Europe	292	269	8%	1%	0%	9%
Rest of World	122	96	23%	0%	4%	27%
Revenue	**606**	**729**	**-19%**	**1%**	**1%**	**-17%**

North America realized negative organic growth of 51% (+18%) while Europe achieved 8% (12%) organic growth, and Rest of World delivered 23% (13%).

Income statement

DKKm	Q4 18/19	Q4 17/18	Change value	Change %
Revenue	606	729	-123	-17%
Production costs	-270	-299	29	-10%
Gross profit	**336**	**430**	**-94**	**-22%**
Gross margin, %	*55.4*	*59.0*		
Selling and distribution costs	-209	-165	-44	27%
Development costs	-27	-27	0	0%
Management and administration	-82	-73	-9	12%
Total capacity costs	-318	-265	-53	20%
EBIT before special items	**18**	**165**	**-147**	**-89%**
EBIT margin before special items, %	*3.0*	*22.6*	-	-
Special items	-136	0	-136	-
EBIT	**-118**	**165**	**-283**	**-172%**

Revenue totalled DKK 606m (DKK 729m), with negative organic growth of 19% and negative reported growth of 17%.

Gross profit was DKK 336m (DKK 430m), corresponding to a margin 55.4% (59.0%). The decrease in gross margin is ascribable to product mix and less scale from overheads in factories.

Total capacity costs were DKK 318m (DKK 265m), up 20% from Q4 2017/18, including approx. DKK 20m of costs that related to hirings in connection with the expansion of commercial infrastructure.

EBIT before special items was DKK 18m (DKK 165m) representing an EBIT margin before special items of 3.0% (22.6%) due to the above-mentioned reasons for negative organic growth and product mix.

Quarterly results

DKKm	Q4 2018/19	Q3 2018/19	Q2 2018/19	Q1 2018/19	Q4 2017/18	Q3 2017/18	Q2 2017/18	Q1 2017/18
Composition of revenue, products:								
Visualization	132	295	283	231	249	218	211	158
Anaesthesia	243	257	260	231	247	244	228	207
PMD	231	221	242	194	233	211	212	188
Revenue	**606**	**773**	**785**	**656**	**729**	**673**	**651**	**553**
Key figures, revenue:								
Endoscopes sold, ’000 units	93	194	182	149	165	146	145	104
Growth in number of endoscopes sold, %	-44	33	26	43	43	54	53	76
Composition of reported growth:								
Organic growth, %	-19	10	14	15	15	17	15	14
IFRS 15 effects on reported growth, %	1	2	2	1	0	0	0	0
Exchange rate effects, %	1	3	5	3	1	-5	-9	-6
Reported revenue growth, %	**-17**	**15**	**21**	**19**	**16**	**12**	**6**	**8**
Organic growth, products:								
Visualization, %	-47	30	27	42	39	47	43	58
Anaesthesia, %	-7	0	5	8	6	10	8	0
PMD, %	-3	2	10	1	5	2	3	4
Organic growth, %	**-19**	**10**	**14**	**15**	**15**	**17**	**15**	**14**
Organic growth, markets:								
North America, %	-51	15	16	20	18	18	16	16
Europe, %	8	5	9	11	12	18	14	12
Rest of the world, %	23	9	24	10	13	7	17	12
Organic growth, %	**-19**	**10**	**14**	**15**	**15**	**17**	**15**	**14**
Revenue	606	773	785	656	729	673	651	553
Production costs	-270	-337	-313	-263	-299	-271	-257	-232
Gross profit	**336**	**436**	**472**	**393**	**430**	**402**	**394**	**321**
Gross margin, %	*55.4*	*56.4*	*60.1*	*59.9*	*59.0*	*59.7*	*60.5*	*58.0*
Selling and distribution costs	-209	-190	-181	-182	-165	-155	-146	-141
Development costs	-27	-26	-23	-27	-27	-34	-26	-24
Management and administration	-82	-65	-73	-72	-73	-62	-66	-65
Total capacity costs	*-318*	*-281*	*-277*	*-281*	*-265*	*-251*	*-238*	*-230*
Operating profit (EBIT) before special items	**18**	**155**	**195**	**112**	**165**	**151**	**156**	**91**
EBIT margin before special items, %	*3.0*	*20.1*	*24.8*	*17.1*	*22.6*	*22.4*	*24.0*	*16.5*
Special items	-136	-38	0	0	0	0	0	0
Operating profit (EBIT)	**-118**	**117**	**195**	**112**	**165**	**151**	**156**	**91**
EBIT margin, %	*-19.5*	*15.1*	*24.8*	*17.1*	*22.6*	*22.4*	*24.0*	*16.5*
Financial income	4	131	5	0	0	3	6	3
Financial expenses	-6	33	-30	-30	-27	-7	-44	-32
Profit before tax	**-120**	**281**	**170**	**82**	**138**	**147**	**118**	**62**
Tax on profit for the year	28	-65	-40	-19	-32	-35	-27	-34
Net profit for the year	**-92**	**216**	**130**	**63**	**106**	**112**	**91**	**28**

Quarterly results (continued)

DKKm	Q4 2018/19	Q3 2018/19	Q2 2018/19	Q1 2018/19	Q4 2017/18	Q3 2017/18	Q2 2017/18	Q1 2017/18
Balance sheet:								
Assets	4,558	4,357	4,418	4,262	4,234	4,167	4,046	3,894
Net working capital	387	624	713	568	535	558	538	457
Equity	2,182	2,226	2,075	1,874	1,882	1,863	1,743	1,918
Net interest-bearing debt	1,035	1,112	1,266	1,274	1,245	1,410	1,241	981
Cash flows, in DKKm:								
Cash flow from operating activities	152	225	63	93	216	181	70	87
Cash flow from investing activities before acquisitions of enterprises and technology	-82	-77	-52	-48	-56	-78	-48	-51
Free cash flow before acquisitions of enterprises and technology	70	148	11	45	160	103	22	36
Acquisitions of enterprises and technology	0	-1	-1	0	0	-76	-1	-851
Cash flows, in % of revenue:								
Cash flow from operating activities	25	29	8	14	30	27	11	16
Cash flow from investing activities before acquisitions of enterprises and technology	-13	-10	-7	-7	-8	-12	-8	-9
Free cash flow before acquisitions of enterprises and technology	12	19	1	7	22	15	3	7
Key figures and ratios:								
Capacity costs	318	281	277	281	265	251	238	230
Rate of cost, %	52	36	35	43	36	37	37	42
EBITDA before special items	45	186	221	137	194	182	184	118
EBITDA margin before special items, %	7.4	24.1	28.2	20.9	26.6	27.0	28.3	21.3
Depreciation	-13	-15	-12	-11	-14	-12	-12	-11
Amortization	-14	-16	-14	-14	-15	-19	-16	-16
EBIT before special items	18	155	195	112	165	151	156	91
EBIT margin before special items, %	3.0	20.1	24.8	17.1	22.6	22.4	24.0	16.5
NIBD/EBITDA before special items	1.8	1.5	1.7	1.8	1.8	2.2	2.0	1.7
Net working capital, % of revenue	14	21	25	21	21	22	22	19
Share-related ratios:								
Market price per share (DKK)	114	106	176	157	154	215	136	111
Earnings per share (EPS) (DKK)	-0.38	0.88	0.53	0.26	0.44	0.46	0.37	0.12
Diluted earnings per share (EPS-D) (DKK)	-0.37	0.87	0.52	0.25	0.43	0.45	0.36	0.11

Corporate governance and shareholder information

Can we minimize plastic waste from hospitals? We have engaged in a pilot study with Rigshospitalet Glostrup and the Danish Technological Institute to find out if soft plastic from anaesthesia face masks can be recycled into new high-quality, single-use medical devices.

Risk management

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

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 controls and risk management systems, and to hedge and limit the risks to the greatest possible extent. However, the nature of Ambu's business, including the production and development of new products, means that the company is exposed to risks on an ongoing basis. The company's risk management systems are designed to ensure that only calculated risks are taken, and that these are constantly monitored and carefully 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.

Market conditions

In all Ambu's most important markets, there is a constant economic and political focus on reducing healthcare costs. 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, and 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 these trends, among other things via the following activities:

- Manufacturing by own factories in China and Malaysia and collaboration with a partner who manufactures in India are crucial factors that enable us to maintain and increase our profit margin.
- An efficient supply chain which is pivotal in enabling us to manage the commercial and regulatory risks to which we are subject as a consequence of our global presence.
- Based on clinical documentation and health economics studies, we position our products so that the price will not be the crucial parameter.
- Focus on sales via group purchasing organizations (GPOs). In Ambu US, significant competences have been built up over many years within this field, as hospitals make many of their purchases via this channel.

Product development

Ambu's possibilities for realising its strategic targets depend on its ability to develop unique, high-quality products.

Developments in the medtech industry are fast-paced, and having a commercial understanding of the long-term needs of the sector is crucial to remaining market-leading. An example of this is the conversion from multiple-use endoscopes to single-use products that add more efficient workflows and improve patient safety through the elimination of contamination risks.

Ambu takes a targeted approach to improving its existing products, developing new technologies and generally strengthening the company's ability to innovate, for example by ensuring a commercial focus in its product development activities. For strategic technologies it is important to have the necessary technical competencies in-house.

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

However, product development also involves a risk of development projects being delayed and changed in the process, resulting in increased development costs. We strive to take the necessary financial precautions to the extent that this is possible.

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, it is ensured at all times that Ambu offers competitive terms of pay and employment, including the opportunity to participate in employee share programmes.

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 minimize 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 inspections, 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 safety stocks.

The siting of Ambu's production facilities has been based on a risk assessment, including 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 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 organization 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 stocks to an appropriate level.

Implementation of the new EU Medical Device Regulation is progressing as planned. Ambu's quality management system and the first technical files of Ambu's products have been updated and are ready for audit by notified body. Negotiation with notified body for timing of audits on Ambu's quality Management System and technical files is ongoing. The first audits are expected at the beginning of fiscal year 2019/20. The full implementation of the Medical Device Regulation in all technical files are planned to continue during the next years.

As both Ambu and King System branded products are certified by a UK-based notified body, a certification strategy has been ensured to mitigate any risk of a potential 'hard Brexit'.

Implementation of Ambu's global quality management system at the site Ambu Innovation GmbH in Kissing, Germany, will be ensured during 2019/20.

FDA has conducted a routine inspection at our Chinese manufacturing site in October 2018. The inspection has been successfully concluded.

IT security

Special procedures have been put in place to mitigate any potential losses caused by IT breakdowns. The emergency support system includes 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.

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 subject to a number of financial risks, including foreign exchange risks, interest rate risks, liquidity risks and credit risks as well as the risk of changing international trading conditions – for instance through the implementation of toll barriers and limitations of free trade.

Ambu has centralized the management of financial risks in the group's finance function, which also acts as a service centre for all our 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

Corporate governance refers to the philosophy governing the management of the company based on the shareholders' views on the ownership, management structures, risk, control systems, remuneration policies etc. Ambu strives to establish close and trusting relations with relevant stakeholders, including shareholders, employees, customers, suppliers and society as a whole. We also strive to ensure transparency, and we want to openly share relevant information with our stakeholders.

Ambu's Board of Directors complies with all Nasdaq Copenhagen's recommendations on corporate governance and reports on compliance on our website. This reporting constitutes the statutory reporting on corporate governance pursuant to section 107 b of the Danish Financial Statements Act (*Årsregnskabsloven*).

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 one 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, defining strategies and setting objectives as well as approval of the overall budgets and 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.

The Board has established a yearly process whereby a self-evaluation is being performed assisted by an external consultant. The self-evaluation in 2018/19 has led to focus areas which will be included into the work of the Board in 2019/20.

Composition of the Board of Directors

The Board of Directors currently has five 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. According to the Articles of Association the Board of Directors consists of six members elected by the annual general meeting, but one member left the Board of Directors in February 2019, and the position remained vacant until the end of FY 2018/19. A candidate will be proposed at the annual general meeting in December 2019.

The shareholder-elected members are elected for one year at a time, while the employee-elected members are elected for four years at a time under applicable legislation.

The Chairman and the Vice-chairman of the Board of Directors are elected directly by the general meeting.

For the Board of Directors to undertake its responsibilities and act as a good sounding board for the Executive Board, 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.

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 the Committee on Corporate Governance.

Duties of the Board of Directors

The Board of Directors held eight (six) meetings during the financial year. All board members participated in all board and committee meetings where they had the right to appear.

Moreover, the Audit Committee held four (four) meetings during the year. The Audit Committee consists of three members of the Board of Directors, in addition to which the CEO, the CFO and the auditor appointed by the general meeting participate in the audit committee 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 CEO and CFO participate 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 CEO occasionally participates in the meetings. 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 CEO Juan Jose Gonzalez and CFO Michael Højgaard.

Corporate governance

The Board of Directors has considered the recommendations from the Committee on Corporate Governance (www.corporategovernance.dk) from May 2013, and as most recently amended on 23 November 2017, 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

Ambu will always ensure that the most qualified person is appointed to a given position within the company. This also applies to all appointments to the Board of Directors. The performance of all employees and managers is assessed with reference to individual targets. In addition, managers at all levels are measured in 180-degree surveys and assessed by their superiors and employees with reference to Ambu's management concept and values. These assessments are a part of the complete evaluation, which forms the basis for promotions and the delegation of new responsibilities.

As a global group, Ambu wants to encourage diversity and create equal opportunities for all regardless of gender, age, ethnicity, political, sexual orientation 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 achieve an increased proportion of women in management.

Currently, the Board of Directors consists of male members only, however, Ambu is working continually on finding suitable female members to join. The process is ongoing with a goal of meeting the target of women accounting for at least one member by election at the general meeting in December 2019.

In accordance with the requirements set out in section 99b of the Danish Financial Statements Act, Ambu can report having a share of female managers at other management levels (meaning employees with HR responsibilities) in the Ambu group of 37%. In the 2017/18 annual report, the number was also 37%, and consequently no change has been ascertained.

Ambu will continually work to increase the share of the underrepresented gender at other management levels in the company with a view to meeting our target of 40% of such managers being women within the next three years.

Focus will still be on the following initiatives aimed at promoting the underrepresented gender:

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

- In connection with internal promotions to managerial positions, efforts will be made to ensure that both genders are represented in the field of applicants, in so far as this is possible.
- Ambu has implemented a program for talent management training to further progress as well.

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 Collective A/S (C).
Special competences: General management of major international, privately owned and listed companies.
No. of shares: 150,000 (150,000)

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), Delivery1 (MB).
Special competences: General management experience with focus on international sales and marketing of medtech products and management of international sales organizations.
No. of shares: 66,900 (61,400)

Thomas Lykke Henriksen, born 1973
Member of the Board since 2017.
Position: Senior HR Partner & HRIS Manager
Elected by the employees.
No. of shares: 9,602 (9,270)

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.
Special competences: General management experience in the field of global innovation, production, sales and distribution of medtech products.
No. of shares: 22,920 (4,420)

Jakob Koch, born 1979
Member of the Board since 2017.
Position: Head of IP. Elected by the employees
No. of shares: 2,571 (1,045)

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: 6,664 (8,185)

Christian Sagild, born 1959
Member of the Board since 2012.
Chairman of the Audit Committee.
Position: Professional board member
Honorary offices: Danske Bank (MB), Royal Unibrew (MB), Nordic Solar Energy (C), Nordic Solar Global (C), Blue Ocean Robotics (MB).
Special competences: General management of a listed company, special insights into financial matters and risk management.
No. of shares: 240,000 (185,000)

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).
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: 10,645 (10,645)

Executive Board

Juan Jose Gonzalez, born 1972
CEO since 2019.
Honorary offices: Subsidiaries in the Ambu group (C/MB), Straumann group (MB)
No. of shares: 161,000

Michael Højgaard, born 1964
CFO since January 2013.
Honorary offices: Subsidiaries in the Ambu group (C/MB).
No. of shares: 38,050 (22,110)

Honorary offices and shareholdings as per 13 November 2019. 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
Ambu's remuneration policy is complemented by the overall guidelines for an incentive programme for the Board of Directors and the Executive Board and was most recently presented at the general meeting in 2018.

Under the remuneration policy, it is possible to offer a base salary, a cash bonus element of up to 40% of the base salary, and a share-based element which can constitute up to 100% of the base salary based on a standard valuation.

Effective for the current Big Five 2020 strategy period, an additional share-based incentive scheme has been established for the Executive Board and the Executive Management Team entitled 'Big Five 2020', which in addition to the ordinary incentive scheme described above allows the allocation of additional share options equating to up to 300% of the annual salary at the end of FY 2019/20.

Moreover, pension contributions of up to 12% as well as a company car and other usual non-cash staff benefits are offered.

Below follows a description of the most important elements and conditions set out in the applicable remuneration policy, including the elements received by the company's Board of Directors and Executive Board. A more detailed description can be found in the remuneration report, which is available on www.ambu.com.

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

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 150,000, while committee members receive DKK 100,000. The total remuneration paid to the Board of Directors, including the board committees, constituted DKK 4,033,333 in 2018/19. (2017/18: DKK 4,300,000). Members of the Nomination Committee do not receive a separate fee.

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. The remuneration consists of a fixed base salary, a cash bonus and participation in share-based incentive schemes in the form of options to buy Class B shares in Ambu A/S. In addition, members of the Executive Board receive pension contributions and usual non-cash benefits.

In the past financial year, the remuneration received by the Executive Board totalled DKK 39.4m (DKK 26.3m) including severance pay of DKK 25.4m in connection with the appointment of a new CEO, which is composed as follows:

2018/19 DKKm	Base pay	Pen-sion	Tax comp.	STI*	LTI**	Seve-rance	Total
Juan Jose Gonzalez	2.7	0.4	1.4	2.8	0.5	-	**7.8**
Michael Højgaard	3.3	0.6	-	0.0	-0.4	-	**3.5**
Subtotal	**6.0**	**1.0**	**1.4**	**2.8**	**0.1**	**-**	**11.3**
Lars Marcher	4.7	0.8	-	0.0	-2.8	25.4	**28.1**
Total	**10.7**	**1.8**	**1.4**	**2.8**	**-2.7**	**25.4**	**39.4**

2017/18 DKKm	Base pay	Pen-sion	Tax comp.	STI	LTI	Seve-rence	Total
Michael Højgaard	3.1	0.6	-	1.3	2.7	-	**7.7**
Lars Marcher	6.3	0.9	-	2.6	8.8	-	**18.6**
Total	**9.4**	**1.5**	**-**	**3.9**	**10.5**	**-**	**26.3**

*STI reported for CEO of DKK 2.8m includes relocation package and sign-on bonus
**The value of share-based payments settled in shares is calculated according to the Black-Scholes formula expensed over the service period.

The variable remuneration reported for CEO Juan Jose Gonzalez is based on performance share units (PSU) and cash bonus. Final allocation of the long-term incentives (LTI) and payment of the short-term incentives (STI) are subject to approval of the revised remuneration policy presented at the annual general meeting. The allocation of PSU has therefore not yet been made, and the LTI cost of DKK 0.5m at end of 2018/19 is only made for accrual accounting.

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 nine 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. In the event of the death of an Executive Board member, the company will pay up to 18 months' severance pay to the relatives of such Executive Board member.

Description of variable remuneration policy components
The variable components consist of a cash bonus and a share-based payment which depend on the financial results realized by Ambu.

The financial targets used to calculate any cash bonus and share-based payment are:
- Organic growth reported at fixed exchange rates.
- EBIT before special items in Danish kroner or EBIT margin before special items calculated at fixed exchange rates.
- Free cash flow before acquisitions denominated in Danish kroner (only for cash bonus).

The financial targets are defined annually in connection with the budget process and apply to allocations for the following financial year.

As CEO Juan Jose Gonzalez has only been with Ambu since May 2019, it has been agreed that his variable compensation for 2018/19 are based on discretionary KPIs.

Employee shares

In the past three financial years, employee shares have been allocated by Ambu each year. All employees have been offered the chance to buy shares in Ambu for up to 2% of their fixed annual salary at a discount of 50% of the share price applying immediately prior to such purchase, provided that the shares are held for two years. In the last allocation in December 2018, approx. 800 employees decided to participate in the programme, on a global level. It has been decided that the programme will be repeated in FY 2019/20.

The table on the following page provides an overview of all existing share-based programmes, shown for the two members of the Executive Board, other members of the Executive Management Team, Vice Presidents and other employees.

Existing share programmes

		Purchase options						PSUs[3]	Warrants					Purchase options (employee shares)			Total
		2013	2015	2020, years 1 and 2	2020, year 3	2020, Big Five	Subtotal	2019	2013	2014	2015	2016	Subtotal	2016	2017	2018	
Number of participants[1, 2]	Executive Board	2	2	2	2	2		1						2	2	2	
	Other members of the Executive Mgmt. Team	2	3	2	2	3								2	2	2	
	Vice Presidents			30	27				25	21	25	27		25	27	18	
	Others			57	17				27	1	21	44		587	639	775	
	Total	**4**	**5**	**91**	**48**	**5**		**1**	**52**	**22**	**46**	**71**		**616**	**670**	**797**	
Number of options issued[1, 2] ('000)	Juan Jose Gonzalez							29									29
	Michael Højgaard	1,307	379	134	81	372	2,273							1			2,275
	Lars Marcher	2,752	790	496	270	1,246	5,554							2	1	1	5,559
	Sub-total	**4,059**	**1,170**	**630**	**351**	**1,618**	**7,827**	**29**						**3**	**2**	**2**	**7,862**
	Other members of the Executive Mgmt. Team	2,044	327	70	33	177	2,651							1	1		2,653
	Vice Presidents			512	244		756		1,540	1,990	665	290	4,485	11	6	5	5,262
	Others			189	70		259		460	10	105	130	705	71	45	47	1,127
	Total	**6,103**	**1,497**	**1,400**	**698**	**1,795**	**11,493**		**2,000**	**2,000**	**770**	**420**	**5,190**	**86**	**54**	**54**	**16,904**
	Executive Board's share	**67%**	**78%**	**45%**	**50%**	**90%**	**68%**		**0%**	**0%**	**0%**	**0%**	**0%**	**3%**	**3%**	**3%**	**47%**
	Unconditionally allocated	yes	yes	yes	no	no			yes	yes	yes	yes		yes	yes	yes	
	Matured	yes	yes	no	no	no			yes	yes	yes	yes		yes	yes	no	
Value of exercised options, DKKm	Juan Jose Gonzalez																
	Michael Højgaard	113	10				122										123
	Lars Marcher	217					217										217
	Sub-total	**330**	**10**				**339**										**340**
	Other members of the Executive Mgmt. Team	130	4				134										134
	Vice Presidents								103	164	34		302	1			303
	Others	17					17		14	2	3		19	9			45
	Total	**477**	**13**				**491**		**117**	**167**	**37**		**321**	**10**			**822**
	Executive Board's share	**69%**	**71%**				**69%**		**0%**	**0%**	**0%**		**0%**	**4%**			**41%**
Number of outstanding options ('000)	Juan Jose Gonzalez							29									29
	Michael Højgaard		254	47	81	372	754										755
	Sub-total		**254**	**47**	**81**	**372**	**754**	**29**									**783**
	Other members of the Executive Mgmt. Team	376	182	33	16	98	705								1		706
	Vice Presidents			233	236		469			550	345	290	1,185		6	5	1,664
	Others	900	790	294	340	1,246	3,571		10		65	115	190		47	48	3,855
	Total	**1,276**	**1,227**	**608**	**672**	**1,716**	**5,499**	**29**	**10**	**550**	**410**	**405**	**1,375**		**54**	**54**	**7,009**
	Executive Board's share	**0%**	**21%**	**8%**	**12%**	**22%**	**14%**	**100%**	**0%**	**0%**	**0%**	**0%**	**0%**		**1%**	**1%**	**11%**
	Exercise price, DKK	10	43	120	134	134		0	13	23	39	77		0	0	0	
	Year of expiration	2021	2023	2024	2025	2024		2022	2019	2020	2021	2022		2018	2019	2020	
Market value of outstanding options as at 30 September 2019, DKKm	Juan Jose Gonzalez							3									3
	Michael Højgaard		18				18										18
	Sub-total		**18**				**18**	**3**									**21**
	Other members of the Executive Mgmt. Team	39	12				51										51
	Vice Presidents									50	26	11	86		1	1	87
	Others	93	56				149		1		5	4	10		5	5	170
	Total	**132**	**86**				**218**	**3**	**1**	**50**	**30**	**15**	**96**		**6**	**6**	**329**
	Unconditionally allocated	132	86				218		1	50	30	15	96				314
	Conditionally allocated							3							6	6	15
	Total	**132**	**86**				**218**	**3**	**1**	**50**	**30**	**15**	**96**		**6**	**6**	**329**
	Executive Board's share	**0%**	**21%**				**8%**	**100%**	**0%**	**0%**	**0%**	**0%**	**0%**		**1%**	**1%**	**6%**

[1]Share-based incentive schemes allocated prior to FY 2012/13 are not included in this table, including a three-year scheme for the Executive Board allocated in the financial years from 2008/09 to 2011/12. All purchase options related to this scheme had been exercised at the end of FY 2015/16.

[2]Calculated before cancellation of options due to non-vesting of options, resignations etc.

[3]PSUs are subject to approval on the Annual General Meeting.

Conditionally allocated: A written agreement has been entered into stating that options are allocated on condition that future financial KPIs are achieved. / **Vested**: The financial KPIs have been determined, and the allocation has been calculated accordingly. All conditions are met, except for continued employment / **Matured**: The vesting period set out in the option agreement has expired, and the option can be freely exercised within the remaining term of the agreement

Further detailed information on remuneration is shown in note 5.5 and in the remuneration report, which is available on www.ambu.com.

Shareholders and investor relations

Share capital
Ambu's share capital is divided into two classes of shares with a nominal share value of DKK 0.50 each. Class A shares carry 10 votes per share, while Class B shares carry one vote per share. There is no difference between the economic rights pertaining to the individual share classes. All shares are paid in full. Ambu's Class B share is listed on Nasdaq Copenhagen under ISIN code DK0060946788 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.

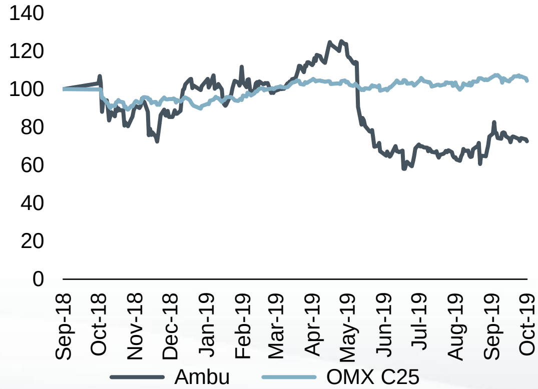
The share capital consist of 34,320,000 Class A shares and 217,489,600 Class B shares. The total number of shares is 251,809,600.

At Ambu's annual general meeting on 13 December 2017, it was decided to carry out a 1:5 share split with effect from January 2018. After the split, Ambu's shares have a nominal value of DKK 0.50 each. All relevant ratios were restated in last year's annual report to reflect the share split.

Capital increase
In 2018/19, four capital increases were made due to the exercise by employees of warrants allocated in 2013, 2014 and 2015. As a consequence, Ambu's share capital has been increased by a nominal amount of DKK 267,500 through the issue of 535,000 Class B shares at a paid weighted price of DKK 30.94 (FY 2017/18: DKK 91.28) per nominal share value of DKK 0.50. There is no change in the number of Class A shares from last year, hence the number is 34,320,000 shares of DKK 0.50 each. The rights attaching to the shares and their negotiability are unchanged.

Return
Ambu's Class B share opened the financial year at a price of 159 and ended the year at 114. In comparison, Nasdaq Copenhagen's C25 index fell 2.5% in the same period. The price decrease has lowered Ambu's market capitalization from DKK 37.6bn to DKK 27.8bn, corresponding to a decrease of 9.8bn. Over the past five years, Ambu stock has generated an average annual return (compounded) to shareholders of 26%. Total shareholder return in 2018/19 was -29%, exclusive of dividends.

Development in share price 2018/19 (index 100)



Ambu in C25
Ambu was listed in 1992 and was a Small Cap stock until January 2011, when the company was moved into the Mid Cap category. In January 2017, Ambu was moved again, this time into the Large Cap category, and Ambu was included in the C25 Index in June 2018.

Liquidity
In FY 2018/19, 331.6 million shares were traded on Nasdaq, equating to an average of 1.3 million shares per business day.

Treasury shares
In the financial year, 1,295,780 treasury shares were sold, corresponding to a total selling price of 24m (FY 2017/18: DKK 25m) and a weighted price of DKK 18.35 (DKK 9.43) per share based on a nominal share value of DKK 0.50. At the end of the fiscal year, the portfolio of treasury shares comprises 6.4 million shares, corresponding to 2.6% of the share capital. Historically, Ambu has been authorized to acquire up to 10% of the company's share capital as treasury shares to cover the share option schemes, and there are no plans at the moment to change this policy.

Shareholders
On 30 September 2019, the total number of shareholders in Ambu having arranged name registration of their holding was 39,706 (22,567), who held a combined 97% (98%) of the total share capital.

As at 30 September 2019, the following shareholders had filed ownership of more than 5% of the share capital and/or votes:

	Share of capital, %	Share of votes, %
Dorrit Ragle*, Virum	0.1	17.9
Inga Kovstrup*, Fredericia	1.8	18.0
Hannah Hesse, Frederiksberg	2.4	10.2
Simon Hesse, Virum	3.8	10.9
N.P. Louis Hansen ApS, Hellerup	14.9	6.6

** 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.*

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 the family's holdings of listed Class B shares are not regulated by the shareholders' agreement. Moreover, Ambu's Articles of Association contain provisions on the trading of Class A shares.

In addition to the Class A shares, the family also holds approx. 13.4 million Class B shares, corresponding to 6.2% (6.4%) of the Class B share capital. The family thus controls a total of 19.0% (19.1%) of the combined Class A and Class B share capital and 63.6% (63.7%) of the votes.

As at 30 September 2019, international owners own 29% (32%) of the capital. International owners are institutional investors from, for example, Sweden, the UK, Germany and the USA.

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 all 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 realized 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, Danske Market Equities, Nordea Market Equities, J.P. Morgan, DNB Markets and SEB 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 16 company announcements. See page 109.

The people in charge of Investor Relations and the contact with analysts and investors are:

- CFO Michael Højgaard (miho@ambu.com)
- IR Manager Nicolai Thomsen (nith@ambu.com)

Financial diary 2019/20 and 20/21

2019	2019/20
13 November	Annual report 2018/19
17 December	Annual general meeting
2020	**2019/20**
7 January	Quiet period ending 4 February 2020
4 February	Interim report for Q1 2019/20
7 April	Quiet period ending 5 May 2020
5 May	Interim report for Q2 2019/20
29 July	Quiet period ending 26 August 2020
26 August	Interim report for Q3 2019/20
30 September	End of FY 2019/20
2020	**2020/21**
14 October	Quiet period ending 11 November 2020
11 November	Annual report 2019/20
9 December	Annual general meeting

Proposals to the AGM

Ambu is developing positively with a strong pipeline of products a stable development in net interest bearing debt and a high equity ratio.

Against this background, the Board of Directors recommends that Ambu still pursues a balanced dividend policy, distributing approx. 30% of the net profit for the year, but also that the dividend policy is regularly reviewed if necessary, investments or potential acquisitions emerge which may significantly impact Ambu's financial position.

The Board of Directors therefore proposes to the general meeting that dividend of DKK 0.38 (DKK 0.40) be paid per share for FY 2018/19, corresponding to 30% (30%) of the net profit. The proposed dividend for the year equates to a 5% decrease compared to last year, and the Board considers this level reasonable in view of Ambu's financial resources and the expected results in the coming financial year.

Against this background, the Board of Directors proposes that the net profit for the year of DKK 317m be appropriated as follows (DKKm):

Dividend of DKK 0.38 per share	96
Retained earnings	221
Total	**317**

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

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

- To update Ambu's remuneration policy
- To prepare and publish Ambu's annual report, company announcements and documents for internal use by the general meeting in English.

The agenda for the annual general meeting with annexes is expected to be announced on Wednesday 13 November 2019.

The general meeting will be held on Tuesday 17 December 2019 at Tivoli Hotel & Congress Center, Arni Magnussons Gade 2, DK-1577 Copenhagen.

Shareholders can sign up to attend the annual general meeting, and download all relevant material in relation to the general meeting at www.ambu.com/AGM.

ESG report

Corporate Social Responsibility
– Environmental, Social and Corporate Governance in Ambu

At Ambu, we believe that the activities of companies are of critical importance to the development of a sustainable society. We want to play a proactive role in improving social, climate and environmental conditions locally as well as internationally, especially in areas with a natural link to our business. We continue to foster an open dialogue with all our stakeholders, including healthcare professionals, investors, and academia, in order to gain insights into their opinion on what we do well and what we need to do better.

Sustainability and ESG (Environmental, Social and Corporate Governance) have indeed turned into a megatrend and our work with ESG has undergone thorough revision.

At Ambu, we work with ESG based on the UN Global Compact and its ten principles on human rights, labour rights, the environment and anti-corruption. Besides informing our stakeholders about our ESG efforts, this is also our statutory ESG (corporate social responsibility) report, pursuant to section 99a of the Danish Financial Statements Act.

Ambu's ABC values are our lodestars in providing solutions that save lives and improve patient care:

- Look **A**head
- Do Our **B**est
- **C**are for People

Our values are the focal point, together with the UN Global Compact, in our approach to ESG and testify to the fact that ESG has always been an integrated part of Ambu and the company's mission of creating real value for society at large through its products and through its dedication to ESG. Our approach to environmental, social and corporate governance is reflected in several specific policies.

ESG strategy aligned with the SDGs

The UN's Sustainable Development Goals (SDGs) provide a powerful aspiration for improving our world. At the heart of 'Agenda 2030', the 17 SDGs set the direction, and Ambu has a special focus on the SDGs most relevant to our stakeholders and our business – this is where we believe we will be able to have the biggest impact. To respond to the risks, increased focus and opportunities arising from sustainability, we decided to launch new sustainability targets creating a close link between our business and the SDGs.

Ambu has always focused on SDG 3 Good Health and Well-being, and SDG 8 Decent Work and Economic Growth – and will continue to do so going forward. Ambu supports good health and well-being by raising the standard of care and lowering risk of contamination for patients around the world in alignment with our vision to save lives and improve patient care.

For SDG 7 Affordable and Clean Energy and SDG 12 Responsible Consumption and Production we have set measurable and ambitious targets. These are described in the section on Environment and Climate below.

Governance of ESG
To succeed in our new sustainability endeavours, top-level commitment and representation across line of business is crucial. Consequently, a Sustainability Steering Committee has been established consisting of Executive Vice Presidents and Vice Presidents representing Research & Development, Global Operations, Sales, Human Resources, Investor Relations and Legal. The steering committee meets quarterly and reports directly to the CEO and CFO who approve policies, reporting and selected processes. The Sustainability Steering Committee ensures ESG activities and targets are anchored and executed across Ambu's functions and operations.

Risks

The tables below give an overview of the main risks and actions related to each of the UN Global Compact principles and the identified policy areas.

Human rights	
Risk	With a global presence and production sites and suppliers located in risk countries, non-compliance with human rights and labour standards is a risk.
Action	An updated Code of Conduct with an emphasis on human rights and labour standards is being implemented for our suppliers and we have a strong ongoing focus on ethical management at our own production sites. We have also improved our whistleblower hotline enabling all customers, business partners as well as our own employees to raise serious concerns.

Labour	
Risk	The safety of our employees is a risk as we operate manufacturing sites.
Action	Safety is an ongoing action point at management level, and we work towards increasing job rotation at our factories, reducing the number of short-term staff and retaining and educating production employees.

Environment and climate	
Risk	With own production and sourcing of raw materials from suppliers, negative environmental impact is a risk.
Action	We work systematically to reduce our environmental footprint at our own production sites and encourage our suppliers to do the same. We have launched new targets towards 50% green energy in 2025 and committed to phasing in new sustainable plastic technologies.

Anti-corruption	
Risk	Global reinforcement of anti-corruption legislation requires an ongoing focus on compliance in especially high-risk countries (as defined by Transparency International).
Action	Focused training within selected high-risk areas, e.g. sales force in business ethics and anti-corruption. Ongoing monitoring of changes in anti-corruption legislation and implementation of contemporary rules. Update of Code of Conduct – also towards suppliers. Improving our whistle-blower hotline.

Environment and climate

Policy excerpt
Preserving the environment is important for Ambu, and we strive to minimize negative environmental impact and prevent climate change. We aim to reduce the negative climate and environmental impact of our business activities, and we expect the same of our suppliers. We are confident that consistent and systematic environmental initiatives create both environmental benefits as well as value for stakeholders. We aim to incorporate environmental considerations as an integral part of our business activities. Our work to mitigate climate emissions is focusing on, but not limited to, energy, heating, behavior and transportation. In our work to mitigate our environmental impact, we focus on efforts within, but not limited to, responsible sourcing, responsible packaging, responsible use of chemicals and waste management.

Policy implementation and progress
In 2019 we have committed to new measurable targets to promote our environmental and climate activities.

We will:
- Work towards reducing our carbon-emissions by 50% by 2025 compared to 2019 baseline

- Have 95% of new products released after 2025 be PVC-free
- Have 100% phthalate-free products by 2020
- Have 100% recyclable, reusable or compostable packaging applied by 2025 (if suitable solution and/or technology exists)

We also commit to:
- Phasing in new sustainable plastic technologies
- Engaging in possible partnerships, especially in relation to waste and take-back of products at hospitals

We have already initiated several actions to deliver on our environmental and climate policy and 2025 targets.

Local renewable energy and energy efficiency

In October 2019, we signed an agreement to install solar panels on the roof of our Penang production site in Malaysia. The panels will generate an estimated 1,500 MWh of electricity a year, equating to 14% of our total electricity consumption in Malaysia. We are also looking into opportunities for sourcing carbon-neutral Guarantees of Origin to further reduce our carbon footprint in Ambu.

At our production facilities in Xiamen in China, we have continued the upgrading of our machines with an eye for energy optimization, resulting in energy improvements of 280 MWh, which corresponds to around 3% of our total electricity consumption in China. In our production in Malaysia, we have installed new oil-free air compressors and reduced our energy consumption by more than 20% compared to our old compressors. We have also continued installing LED-lighting. At our headquarters in Denmark, we have installed four electrical car chargers to promote the use of electrical cars.

Recycling of products after end-use

In alignment with the need to recycle materials, we wish to engage in helping hospitals to ensure recycling of our products after end-use. Together with Danish governmental organizations and private partners, we participate in a pilot project on the safe and effective recycling of non-phthalate PVC anaesthesia masks. After promising initial results, the next step is to investigate whether the quality of the recycling material is high enough to be reused in our products such as masks or alternatively in our training manikins.

We are working towards our target that 95% of the products we launch by 2025 will be PVC-free. In 2019, we launched the PVC-free product aScope BronchoSampler™. We will continue to explore new opportunities to minimize the use of PVC in our products and bring more PVC-free products to market in the coming years.

Moving away from phthalates

At Ambu we prioritize safety, reduction of risk, and better products for our patients and healthcare professionals. Research suggests that continued exposure to phthalates may have harmful effects on humans. Ambu thus commits to phasing out phthalates, which are classified as harmful to reproduction or as endocrine disruptors, in all existing products and to not use phthalates in new products. Ultimately, this means that we can offer better and safer products. By 2020 all products from Ambu will be free from harmful phthalates, and we are well under way. As at 1 October 2019, more than 93% of our products are free from harmful phthalates. In the current financial year, we have successfully substituted the harmful phthalates in training manikins, breathing bags and closed suction systems. The substitution of phthalates in our remaining circuits and VivaSight products is pending and will be implemented in early 2020.

Responsible packaging

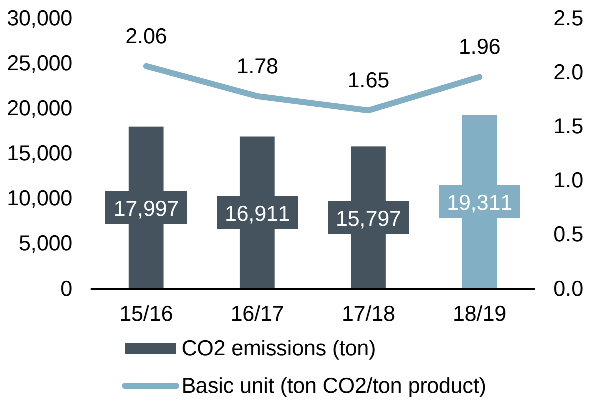
Our target is 100% recyclable, reusable or compostable packaging by 2025 if a suitable solution and/or technology exists. In the short term, we will map the environmental impacts of all our packaging, and based on the results, we will launch initiatives and projects to deliver on our target.

Overview environmental and climate data

In 2018/2019, we carried out an extensive review of the quality of our environmental and climate data. This resulted in the identification of additional energy data that have been included in our 2018/19 data. We have also included data from our Danish headquarters. Consequently, 2018/19 will be our new baseline going forward. Next year, we will introduce short-term targets for each area of our environmental and climate data.

Environmental and climate data	Unit	2018/19	2017/18	2016/17	2015/16
CO_2 e, scope I	Ton	2,230	2,029	2,012	3,110
CO_2 e, scope II	Ton	17,081	13,768	14,899	14,886
Energy	GJ	130,849	107,185	113,072	118,681
Water	M^3	129,958	101,142	116,233	100,007
Waste	Ton	1,661	1,226	1,426	1,382
Waste recycled	%	57	70	65	59

Notes: Total greenhouse gas emissions (scope I and II) at our production sites and Danish headquarter (from 2018/19), which in total are responsible for more than 95% of our energy consumption. Country-specific emission factors were mostly used when calculating scope II greenhouse gas emissions. Calculations were based on IEA data from the IEA Emission Factors 2018 © 2019 IEA Online Data Services.
Prior-year figures adjusted to emissions calculated based on IEA statistics. The decrease to a recycle rate of 57% in 2018/19 is largely due to the incorrect categorization of a significant waste stream in our production in previous years.



Note: The increase in CO_2-level compared to previous years is largely due to inaccurate energy data for the years prior to 2018/19 and the inclusion of scope I and scope II emissions from our Danish headquarters.

Environmental impact from single-use products

We continue our endeavours to advocate single-use products in order to stop cross-contamination of patients. Apart from working vigorously to reduce the environmental impact of our products, we see a growing number of studies mapping the environmental impact from reusable products vs. single-use products. Due to the use of detergents and personal protective equipment, the indication is that reusable bronchoscopes are associated with the same or a higher level of material and energy consumption as well as emissions of CO_2-equivalents and resource consumption compared to Ambu® aScope™ 4 Broncho single-use scopes.

Please visit www.ambu.com/endoscopy/pulmonology/in-focus/environmental-impact for access to the study and more information on the environmental impact of using reusable versus single-use endoscopes.

Social and employee terms

Policy excerpt

At Ambu, we believe, that working with colleagues from different cultures and of different ages, genders and ethnicities is a valuable attribute of being a global company. By ensuring the safety of our employees in the workplace, a good professional and social atmosphere in the company as well as a high level of employee satisfaction, we continue to make Ambu a great place to work. Ambu offers fair working conditions for all employees in alignment with applicable labour laws and good practice.

Policy implementation and progress

The safety of our employees is a core focus. Our health and safety officers at our various locations are responsible for systematic training and control of adequate safety procedures to meet respective risk levels, for the overall purpose of ensuring a safe workplace for all employees. Likewise, systematic registration, reporting and follow-up are performed on all work accidents. We continue to monitor safety at all our sites. Safety training is tailored to local needs and allows flexibility in safety training in line with local laws and traditions.

For this financial year we report on our lost-time injury frequency (LTIF). LTIF is calculated as the number of lost-time injuries per one million hours worked. LTIF covers injuries that result in incapacity to work for one or more calendar days in addition to the day of the incident. The number of hours worked is based on 1,667 working hours annually per full-time employee and monthly records of employee numbers converted into full-time employees.

Safety	2018/19
LTIF Number of injuries/million hours worked	1.32

We will continue to report on our LTIF year-to-year and will be launching a short-term target next year.

At Ambu, employee satisfaction surveys are performed systematically every third year, most recently in 2017/18. The results are followed by a process, which involves working attentively to improve identified focus areas, while maintaining a continued focus on already successful areas.

Gender equality

Policy excerpt

We aim for a balanced gender composition within our workforce in a long-term perspective. Recruitment and promotion processes must always identify the person best qualified for a position. The policy does not require Ambu to make changes to its top management solely to achieve a more even gender composition. Ambu will continue to work for a balanced gender composition at all management levels, ensuring a solid talent pipeline. The Human Resource department ensures that recruitment and promotion procedures are aligned with the policy.

Policy implementation and progress

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. The Board of Directors currently has five members who have been elected by our shareholders and three members elected by the employees in Ambu. The shareholder-elected members are all men. The Board of Directors aims to have at least one female board member elected by 2020. Ambu's Executive Board has two members, both male. The group of managers below executive management level comprises 251 members: 37% women and 63% men.

Ambu will continue the work to further support the development towards equal gender representation at Board level as well as other management levels in the organization. Initiatives will primarily be managed via systematic and individual management training as well as via an implemented talent management training programme. We have also launched a graduate programme to promote young talents and ensure a diverse talent pipeline with respect to gender, nationality and qualifications.

Human rights

Policy excerpt

Ambu respects and supports the international human rights principles and standards for labour as defined by the United Nations. This implies minimum standards for freedom of association, non-discrimination, working hours, salary and benefits, disciplinary measures, child labour and forced labour. Parallel to this, Ambu's ABC values (Look Ahead, Do our Best and Care for people) encourage a generally responsible and humane behaviour among all employees. Ambu will continue to further increase diversity within the employee group across locations.

Policy implementation and progress

Human rights principles are reflected in our Code of Conduct, Employee Policy and Supplier Code of Conduct. We continue to implement our Supplier Code of Conduct in our value chain based on risk assessments and spend. We also ensure compliance with the EU's General Data Protection Regulation (GDPR) when handling personal data. Our whistleblower hotline encourages and enables all customers, business partners as well as our own employees to raise serious concerns on improper management, including serious breaches of occupational health and safety standards, concerns about environmental pollution, serious issues directed towards an employee, for example, discrimination, violence or sexual assault, or the serious violation of local policies.

Conflict minerals

Ambu has issued product statements and obtained documentation from our suppliers that our raw materials are not sourced from conflict areas. In addition, we have carried out a thorough review of all raw materials used in Ambu's endoscopes and BlueSensor electrodes for potential content of 'conflict minerals' and obtained solid CMRT documentation concluding that raw materials such as soldering tin are not purchased from conflict areas.

Anti-corruption and bribery

Policy excerpt

As a global company, Ambu is dedicated to ensuring that its business is conducted in an honest way, and without the use of corrupt practices or acts of bribery to obtain an unfair advantage. It is important that we act with integrity in all our dealings. Bribery and corruption harm the societies in which such acts are committed and prevent economic growth and development. It is Ambu's policy to comply with all applicable anti-bribery laws and to accurately reflect all transactions in Ambu's books and records. Ambu takes a zero-tolerance approach to acts of bribery and corruption by any employee or anyone acting on our behalf.

Policy implementation and progress

In support of our anti-bribery policy, we have updated our Code of Conduct towards business partners and our Code of Conduct for employees to provide clear guidance on e.g. gifts, entertainment and hospitality. We continue to roll-out the Code of Conduct towards suppliers based on risk and spend. In 2019/20, we will conduct additional training in business ethics and our anti-bribery policy for our sales force on selected markets.

Ambu's whistleblower hotline did not receive any reports relating to corruption and/or bribery in 2018/19. The whistleblower line received one report concerning discrimination in the financial year which, based on a thorough investigation, was closed without leading to further inquiry

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Consolidated financial statements 2018/19

Ambu® BlueSensor™ electrodes are used by cardiology professionals to diagnose heart conditions. A common use of electrodes is for ECGs (electrocardiograms) which help determine if the patient's heart beats irregularly and whether the heart gets enough oxygen.

Income statement and statement of comprehensive income – Group

1 October – 30 September

DKKm

Income statement	Note	2018/19	2017/18
Revenue	2.2	2,820	2,606
Production costs	2.3, 2.4	-1,183	-1,059
Gross profit		**1,637**	**1,547**
Selling and distribution costs	2.3, 2.4	-762	-607
Development costs	2.3, 2.4, 2.5	-103	-111
Management and administration	2.3, 2.4, 5.5	-292	-266
Operating profit (EBIT) before special items		**480**	**563**
Special items	2.3, 2.6	-174	0
Operating profit (EBIT)		**306**	**563**
Financial income	4.3	140	12
Financial expenses	4.3	-33	-110
Profit before tax		**413**	**465**
Tax on profit for the year	2.8	-96	-128
Net profit for the year		**317**	**337**
Earnings per share in DKK			
Earnings per share (EPS)	4.6	1.30	1.39
Diluted earnings per share (EPS-D)	4.6	1.28	1.36

Statement of comprehensive income	2018/19	2017/18
Net profit for the year	317	337
Other comprehensive income:		
Items which are moved to the income statement under certain conditions:		
Translation adjustment in foreign subsidiaries	65	19
Adjustment to fair value for the year:		
Cash flow hedging, realization of previous years' deferred gains/losses	0	1
Cash flow hedging, reclassification to the income statement	0	5
Tax on hedging transactions	0	-1
Other comprehensive income after tax	**65**	**24**
Comprehensive income for the year	**382**	**361**

Balance sheet – Group

30 September

DKKm

Assets	Note	30.09.19	30.09.18
Acquired technologies, trademarks and customer relations	3.1	134	146
Acquired technologies in progress	3.1	661	661
Completed development projects	3.1	161	130
Development projects in progress	3.1	229	131
Rights	3.1	57	67
Goodwill	3.1	1,547	1,505
Intangible assets		**2,789**	**2,640**
Land and buildings	3.3	290	286
Plant and machinery	3.3	114	93
Other plant, fixtures and fittings, tools and equipment	3.3	58	47
Prepayments and plant under construction	3.3	59	29
Property, plant and equipment		**521**	**455**
Deferred tax asset	2.9	87	154
Other non-current assets		**87**	**154**
Total non-current assets		**3,397**	**3,249**
Inventories	3.4	506	382
Trade receivables	3.5, 4.2	474	478
Other receivables	4.2	16	19
Income tax receivable		5	7
Prepayments		40	36
Cash	4.2, 4.4	120	63
Total current assets		**1,161**	**985**
Total assets		**4,558**	**4,234**

Equity and liabilities	Note	30.09.19	30.09.18
Share capital	4.5	126	126
Other reserves		2,056	1,756
Equity		**2,182**	**1,882**
Deferred tax	2.9	66	40
Provisions	4.2, 5.1	38	36
Contingent consideration	4.2, 5.2	114	498
Interest-bearing debt	4.2, 4.4	1,151	1,304
Non-current liabilities		**1,369**	**1,878**
Provisions	4.2, 5.1	5	4
Contingent consideration	4.2, 5.2	264	0
Interest-bearing debt	4.2, 4.4	4	4
Trade payables	4.2	266	194
Income tax		72	79
Other payables	4.2	383	186
Derivative financial instruments	4.2	13	7
Current liabilities		**1,007**	**474**
Total liabilities		**2,376**	**2,352**
Total equity and liabilities		**4,558**	**4,234**

Cash flow statement – Group

30 September

DKKm

	Note	2018/19	2017/18
Operating profit (EBIT)		306	563
Adjustment of items with no cash flow effect	3.6	121	141
Changes in net working capital	3.7	170	-66
Interest expenses and similar items		-20	-44
Income tax paid		-44	-40
Cash flow from operating activities		**533**	**554**
Investments in intangible assets		-159	-104
Investments in tangible assets		-100	-130
Divestment of subsidiary in respect of previous years		0	1
Cash flow from investing activities before acquisitions of enterprises and technology		-259	-233
Free cash flow before acquisitions of enterprises and technology		**274**	**321**
Acquisition of technology	5.1	-2	-2
Acquisitions of enterprises	3.9, 5.2	0	-926
Cash flow from acquisitions of enterprises and technology		-2	-928
Cash flow from investing activities		**-261**	**-1,161**
Free cash flow after acquisitions of enterprises and technology		**272**	**-607**
Redemption of corporate bonds	3.8	0	-701
Raising of long-term debt	3.8	75	1,960
Repayment of debt to credit institutions	3.8	-225	-760
Refund received in connection with the raising of lease debt	3.8	0	25
Repayment in respect of finance leases	3.8	-8	-3
Redemption of derivative financial instruments	3.8	0	-12
Exercise of options		17	20
Purchase of treasury shares	4.5	0	-493
Sale of treasury shares, employee share programme		7	6
Dividend paid		-101	-92
Dividend, treasury shares		3	2
Capital increase, Class B share capital		16	699
Cash flow from financing activities		**-216**	**651**
Changes in cash and cash equivalents		**56**	**44**
Cash and cash equivalents, beginning of year		63	19
Translation adjustment of cash and cash equivalents		1	0
Cash and cash equivalents, end of year		**120**	**63**
Cash and cash equivalents, end of year, are composed as follows:			
Cash		120	63
Bank debt		0	0
Cash and cash equivalents, end of year		**120**	**63**

Statement of changes in equity – Group

30 September

DKKm

	Share capital	Share premium	Reserve for hedging trans-actions	Reserve for foreign currency translation adjustment	Retained earnings	Proposed dividend	Total
Equity 1 October 2018	**126**	**0**	**0**	**89**	**1,566**	**101**	**1,882**
Net profit for the year					221	96	317
Other comprehensive income for the year				65			65
Total comprehensive income	**0**	**0**	**0**	**65**	**221**	**96**	**382**
Transactions with the owners:							
Share-based payment					12		12
Tax deduction relating to share options					-36		-36
Exercise of options					17		17
Sale of treasury shares, employee share programme					7		7
Distributed dividend						-98	-98
Dividend, treasury shares					3	-3	0
Share capital increase, warrants					16		16
Equity 30 September 2019	**126**	**0**	**0**	**154**	**1,806**	**96**	**2,182**

	Share capital	Share premium	Reserve for hedging trans-actions	Reserve for foreign currency translation adjustment	Retained earnings	Proposed dividend	Total
Equity 1 October 2017	**122**	**57**	**-5**	**70**	**945**	**90**	**1,279**
Net profit for the year					236	101	337
Other comprehensive income for the year			5	19			24
Total comprehensive income	**0**	**0**	**5**	**19**	**236**	**101**	**361**
Transactions with the owners:							
Termination of reserve		-752			752		0
Share-based payment					26		26
Tax deduction relating to share options					74		74
Exercise of options					20		20
Purchase of treasury shares					-493		-493
Sale of treasury shares, employee share programme					6		6
Distributed dividend					-2	-88	-90
Dividend, treasury shares					2	-2	0
Share capital increase, warrants	1	31					32
Share capital increase, ordinary	3	664					667
Equity 30 September 2018	**126**	**0**	**0**	**89**	**1,566**	**101**	**1,882**

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 2,056m (2018: DKK 1,756m).

As at 30 September 2018, the reserve for share premium not required by the Articles of Association has been dissolved through transfer to the reserve for retained earnings.

Notes on the consolidated financial statements

Sections 1-5

Section 1: Basis of preparation of consolidated financial statements

Section 2: Net profit for the year

Section 3: Invested capital and net working capital

Section 4: Financial risk management, capital structure and net financials

Section 5: Provisions, other liabilities etc.

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 Segment information	3.2 Impairment test	4.6 Earnings per share
2.2 Revenue	3.3 Property, plant and equipment	5.1. Provisions
2.3 Staff costs	3.4 Inventories	5.2 Contingent consideration
2.6 Special items	3.5 Trade receivables	5.5 Share-based payment
2.8 Income taxes	4.2 Financial instruments	5.10 Adoption of the annual report etc.
2.9 Deferred tax	4.3 Net financials	5.11 Key figure and ratio definitions
3.1 Intangible assets	4.5 Share capital and treasury shares	

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. The group's ultimate parent company, 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. The accounting policies have been applied consistently with previous years, except for the changes 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 contingent consideration for business combinations, 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:

2.2 Revenue	3.2 Impairment test

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.

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 recognized 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 recognized 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 recognized 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 recognized 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 at 1 October 2018. The effect of the adoption of IFRS 15 on the statement of Ambu's results, assets and liabilities or equity for FY 2018/19 is presented in note 1.2.

Standards adopted early

The group decided to adopt IFRS 9, 'Financial Instruments', fully in FY 2016/17.

Standards not yet adopted

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

IFRS 16 'Leases' was issued in January 2016 and entered into force on January 1, 2019. The standard regulates the accounting treatment of leases. Going forward, leasing assets and a corresponding lease debt will be recognized in the balance sheet. The assets will be depreciated over the lease term, while the lease payment will be divided into an interest element and repayment of the lease debt. As of October 1, 2019 non-current assets are expected to increase between DKK 60-70m with a corresponding increase in interest bearing debt and the net impact on profit before tax is expected to be DKK 0-2m.

Presentation of income statement

Income and expenses are recognized 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, amortization of the identified intangible assets acquired by the company is recognized: 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 capitalization of an internally generated development project. In addition, the amortization and impairment of capitalized development costs as well as amortization of rights and acquired technologies are recognized.

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 amortization and impairment.

1.1 Basis of preparation (continued)

Presentation of balance sheet
Prepayments
Prepayments recognized 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.

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 recognized, provided that such assets can be recognized separately or originate from a contractual right and the fair value can be measured reliably. Deferred tax on the revaluations made is recognized. 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 recognized as goodwill under intangible assets. The cost of the enterprise is made up of the fair value of the agreed consideration, including any contingent consideration. Goodwill is not amortized, but is subject to an annual impairment test. The first impairment test is carried out at 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 flow from operating activities comprises operating profit (EBIT) adjusted for non-cash operating items, changes in net working capital, net financials received and paid and income tax paid. Cash flow from investing activities comprises 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 recognized as payment of interest and repayment of debt. Cash flow 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, alternating between positive and negative balances.

1.2 Changes in accounting policies

Following the implementation of IFRS 15, Ambu's long-standing accounting practice of offsetting fees paid to group purchasing organizations (GPOs) against revenue is now changed. As from FY 2018/19, the accounting policies have therefore been changed so that revenue is presented without any deduction of these fees, while selling and distribution costs are increased accordingly, and operating profit (EBIT) is therefore unaffected. The change is made as a consequence of the clarification of the principal/agent relationship. The standard has been implemented using the catch-up method without restatement of comparative figures. The effect of the change in accounting policies amounts to a total of DKK 41m in FY 2018/19.

From FY 2018/19, Ambu's definition of geographical regions has been changed, so that the sale takes place in the country in which the control over the goods is transferred to the customer and not as previously in the country to which the invoice is issued. Comparative figures for revenue and organic growth in the geographic markets Europe and Rest of World have been restated. The effect of this is minimal.

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 2018/19, Ambu reported EBIT before special items of DKK 480m corresponding to a margin of 17% down 4.6 percentage points from last year's margin of 21.6 (DKK 563m).

This year's absolute EBIT before special items decrease of 15% to DKK 480m is primarily attributable to one-off write-downs related to the discontinuation of SC210. Unlike prior years, gross profit margin was only affected positively to a small extent by Visualization mix. Total capacity costs relative to revenue were up 3 percentage points at 41% due to significant investments in commercial infrastructure among other things.

Special items resulting from change of CEO and transition of US distributor amounted to a cost of DKK 174m.

Net financials were a net income of DKK 107m, impacted by non-cash fair value adjustments of deferred contingent payments relating to the acquisition of Invendo Medical GmbH in the amount of DKK 121m.

The effective tax rate was 23.2%, and profit for the year was DKK 317m, corresponding to a profit margin of 11% (13%).

Organic growth	Gross margin	Rate of cost
4%	58.0%	41%
DKK 2,820m	-1.4 percentage points	+3 percentage points

EBITDA before s. i.	EBIT before s. i.	Special items
DKK 589m	DKK 480m	DKK 174m
-13%	-15%	

Net financials	Effective tax rate	Profit for the year
DKK 107m	23.2%	DKK 317m
DKK +205m	-4.3 percentage points	-6%

DKKm

2.1 Segment information

Segment reporting
Ambu is a supplier of medtech products for the global market. Except for the sales of the various products, no structural or organizational aspects allow for a division of earnings from individual products, as sales channels, customer types and sales organizations are identical for all important markets. Furthermore, production processes and internal controls and reporting are identical, which means that, with the exception of revenue, everything else is unsegmented. Ambu has thus identified one segment.

The Group operates in three geographical regions: Europe (including Denmark), North America and Rest of World. From a revenue perspective, the US is the single largest market, contributing approx. 43% of the Group's revenue (FY 2017/18: Approx. 46%). The geographical distribution of revenue is based on the country in which the goods are delivered. Reference is made to note 2.2 for breakdown of revenue on geography. The majority of the Group's intangible and tangible assets are located in Denmark as the parent company owns the Group's intellectual property rights. Employed assets shown below in North America and Rest of World primarily relates to the Group's production facilities. The management monitors goodwill as a whole, and goodwill is thus not allocated to geographical areas.

	2018/19	2017/18
Intangible and tangible assets less goodwill by geography:		
Denmark	1,317	1,185
North America	169	177
Europe	8	8
Rest of World	269	220
Total tangible and intangible assets less goodwill	**1,763**	**1,590**

2.2 Revenue

	2018/19	2017/18
Visualization	941	836
Anaesthesia	991	926
Patient Monitoring & Diagnostics	888	844
Total revenue by activities	**2,820**	**2,606**
North America[1]	1,266	1,208
Europe[2]	1,176	1,083
Rest of World	378	315
Total revenue by markets	**2,820**	**2,606**

[1]North America essentially covers sales to customers in the USA. [2]Denmark is included in Europe by DKK 43m (2017/18: DKK 51m).

Delivery and payment terms
The Group's primary performance obligation is the sale and delivery of medico products to customers. The performance obligation is fulfilled when the risk of the goods is passed to the buyer, which most often occurs at delivery at the customer's address. Due to the Group's focus on disposable devices, the Group is not subject to any material guarantee obligations and customers are not entitled to return unused goods.

The Group's customers have payment terms that reflect the market in which the sale takes place, which varies from 15 to 360 days. For the majority of sales payment terms are 15-60 days. Historically, the Group has not experienced any major losses on trade receivables. Reference is made to note 3.5.

§ Accounting policies
Revenue from the sale of goods is recognized in the income statement when all performance obligations have been fulfilled. 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, a number of price adjustments are also estimated. These are recognized as a reduction to revenue.

! 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 price adjustment 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 in the amount of DKK 41m (2018: DKK 42m) were recognized.

DKKm

2.3 Staff costs

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

	2018/19	2017/18
Production costs	269	237
Selling and distribution costs	392	335
Development costs	24	23
Management and administration	149	144
Special items	27	0
Total staff expenses	**861**	**739**
Staff costs included in intangible assets	69	53
Staff costs included in property, plant and equipment	10	6
Total staff costs	**940**	**798**

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

	2018/19	2017/18
Remuneration, Executive Board	17	14
Share-based payment	-3	12
Termination costs cf. note 2.6	25	0
Staff costs, Executive Board	**39**	**26**
Wages and salaries	794	676
Pension contributions	28	19
Social security costs	66	58
Share-based payment	9	14
Remuneration, Board of Directors	4	5
Total staff costs	**940**	**798**
Average number of employees	2,957	2,712
Number of full-time employees at the end of the year	3,108	2,795

Remuneration and termination costs to the Executive Board and the Board of Directors totalled DKK 43m (2017/18: DKK 31m).

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

DKKm

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

	2018/19	2017/18
Amortization of intangible assets identified in connection with business combinations	16	18
Amortization of intangible development projects and rights	42	48
Depreciation of property, plant and equipment	47	48
Impairment losses on property, plant and equipment	4	1
Total depreciation, amortization and impairment losses	**109**	**115**

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

	2018/19	2017/18
Production costs	35	32
Selling and distribution costs	2	3
Development costs	58	66
Management and administration	14	14
Total depreciation, amortization and impairment losses	**109**	**115**

§ Accounting policies
For a description of accounting policies, reference is made to notes 3.1, 3.2 and 3.3.

2.5 Development costs

	2018/19	2017/18
EBIT impact for development costs	**103**	**111**
÷ Amortization of assets recognized in connection with business combination	-16	-16
÷ Amortization of development projects, rights and other non-current assets	-42	-50
EBITDA impact for development costs	**45**	**45**
+ Investments in development projects	159	104
+ Investments in rights	1	1
+ Investments in property, plant and equipment	21	16
Investments	**181**	**121**
Cash flow for the year related to development activities	**226**	**166**
Ratio for development costs in the income statement relative to cash flow for the year	0.5	0.7

DKKm

2.6 Special items

	2018/19	2017/18
Termination costs CEO, remuneration	18	0
Termination costs CEO, share-based payments	7	0
Compensation distributor	136	0
Other severance and strategy related costs	13	0
Total special items	**174**	**0**

§ Accounting policies
Special items comprise items that in nature are special and non-recurring in relation to the Group's ordinary operating activities, including significant termination costs to members of the Executive Board and compensation to distributors for transitioning of contracts.

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's net profit in the event of a 10% fluctuation in the main currencies relative to the recognized 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 trade receivables, cash, payables, trade payables and intercompany balances.

	Decrease of 10% in main currencies		Increase of 10% in main currencies	
	2018/19	2017/18	2018/19	2017/18
Income statement	-76	-50	76	50
Other comprehensive income	0	0	0	0
	-76	**-50**	**76**	**50**

Hedging of expected future transactions
Interest rate swaps have been entered into to hedge the group's partial debt to credit institutions, converting floating-rate debt into fixed-rate debt.

	Contract value		Fair value	
Fair value of financial instruments	**2018/19**	**2017/18**	**2018/19**	**2017/18**
Interest rate swaps:				
Interest rate swap, DKK 500m, floating to fixed rate, maturity 1 March 2022	500	500	-13	-7
Total financial liabilities	**500**	**500**	**-13**	**-7**

DKKm

2.8 Income taxes

Ambu develops, manufactures and sells devices to hospitals and rescue services all over the world through its own companies or in collaboration with third parties. This naturally leads to cross-border transactions. In order to counter the inherent tax risk associated with being a multinational company, Ambu follows the OECD's transfer pricing principles and general guidelines. Even though Ambu operates in OECD member countries, a tax risk still exists given the fact that applicable principles and guidelines are, to some extent, subject to interpretation by the member countries and that applicable case law is not always clear and changes over time.

Tax risks
To counter any future tax disputes and disagreements with the authorities, the management makes estimates and assessments of the group's tax exposure and, on the basis thereof, makes a provision for uncertain tax positions. Even though the management considers this provision to be sufficient, future liabilities may deviate therefrom.

	2018/19	2017/18
Tax for the year comprises:		
Current tax on profit for the year	73	102
Deferred tax on profit for the year	24	6
Adjustment, change in tax rates	0	19
Adjustment, previous years	-1	1
Tax on profit for the year	**96**	**128**
Tax on other comprehensive income and entries on equity for the year	36	-73
Total income taxes for the year	**132**	**55**

	2018/19	2017/18
Tax on profit for the year comprises (%):		
Calculated 22.0% (2017/18: 22.0%) tax on profit for the year	22.0	22.0
Effect of tax rate in foreign subsidiaries	2.4	1.5
Income not subject to tax	-0.5	-0.1
Non-deductible costs	1.9	1.9
Adjustment, change in tax rates	0.0	4.4
Value adjustment of contingent consideration	-1.5	0.2
Tax adjustment in respect of previous years	-0.2	0.1
Utilization of tax assets not previously recognized	-0.9	-9.7
Impairment of tax asset	0.0	7.2
Effective tax rate	**23.2**	**27.5**

§ Accounting policies
The tax for the year, which consists of current tax and changes in deferred tax, is recognized in the income statement with the portion attributable to the profit for the year, and in equity with the portion attributable to amounts recognized directly in other comprehensive income. The tax effect of share-based payment is included in tax on profit for the year with the portion attributable to the group's deductible share of the Black-Scholes cost, and the remaining tax effect being included in equity. Tax is provided on the basis of the tax rules and tax rates applicable in the individual countries.

DKKm

2.9 Deferred tax

	30.09.19	30.09.18
Deferred tax, beginning of year	-114	-96
Additions on acquisition	0	20
Translation adjustment	-4	-2
Deferred tax on share-based payment recognized in equity	77	-59
Deferred tax for the year recognized in the income statement	24	6
Adjustment, change in tax rates	0	19
Change in respect of previous years	-4	-2
Deferred tax at end of year	**-21**	**-114**
Deferred tax relates to:		
Intangible assets	239	251
Property, plant and equipment	15	7
Current assets	-58	-24
Deferred tax on share-based payment recognized in equity	-16	-109
Provisions	-2	-2
Contingent consideration	0	-26
Payables	-5	-5
Tax loss carry-forwards	-194	-206
	-21	**-114**
Classified in the balance sheet as follows:		
Deferred tax asset	-87	-154
Deferred tax	66	40
	-21	**-114**
Deferred tax falling due within 12 months	-65	-31

Tax losses in the group
At the date of acquisition of Invendo Medical GmbH, a deferred tax asset of DKK 20m net was recognized, consisting of a deferred tax liability from net assets revalued to fair value in the amount of DKK 186m, tax assets from tax loss carry-forwards of DKK 144m and deferred deductible differences on parts of the purchase price calculated at DKK 22m. Tax losses in Germany were utilised at the end of 2017/18 in connection with an intercompany transfer of acquired technologies.

In recognising tax loss carry-forwards in USA, the management has assessed whether convincing evidence was present as the Group has a history of recent losses in USA, which is due to timing differences and expected one-off effects in FY 2018/19 that are unlikely to occur again.

As shown in the table below, tax loss carry-forwards of DKK 194m were recognized in 2018/19 (2018: DKK 206m) of which DKK 75m is tax loss carry-forwards in USA. The tax loss carry-forwards are recognized on the basis of budgets, strategy plans for the individual activities approved by the management incl. tax planning opportunities that will advance the taxable profit. Estimates and assessments of future taxable income are thus consistent with the basis for the impairment tests and the measurement of contingent consideration carried out.

	30.09.19	30.09.18
Recognized tax loss carry-forwards, by jurisdiction:		
Denmark	119	145
USA	75	61
	194	**206**

Unrecognized temporary differences
All temporary deductible differences in the USA are recognized in the group’s tax position (2018: Unrecognized differences amounted to DKK 0m). In Germany, unrecognized temporary deductible differences amounted to DKK 19m (2018: DKK 21m).

2.9 Deferred tax (continued)

§ Accounting policies
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 recognized on temporary differences resulting from the initial recognition of goodwill. Deferred tax assets, including the tax base of tax loss carry-forwards, are recognized 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.

The value of deductible temporary differences is recognized to the extent that the management, on the basis of budgets, business plans etc., is able to render probable that the value can be offset against temporary deferred tax liabilities or against future taxable income. Tax losses are recognized to the extent that the management can render probable that these can be offset against future taxable income.

Deferred tax is calculated on share-based payments to the extent that the individual scheme is 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 higher. Deferred tax assets from share-based payment schemes are recognized proportionately over the vesting period. The tax asset is recognized in the income statement at a value corresponding to the tax deduction for the scheme-related costs recognized in the income statement. Any additional values are recognized directly in equity.

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 recognized in the income statement.

Section 3:
Invested capital and net working capital

This section provides explanatory notes concerning Ambu's total cash flow from investing activities of DKK 261m (DKK 1,161m) for the year, including investments made in development projects and production capacity. The section also contains notes describing the group's net working capital of DKK 387m (DKK 535m) at the end of the financial year.

Together with other components, total investments and net working capital are included in the average invested capital available to the management – in 2018/19 DKK 3,172m (DKK 2,587m).

Invested capital
At the end of 2018/19, the invested capital totalled DKK 3,217m (2018: DKK 3,127m).

The increase is primarily driven by investments in development projects and property plant and equipment. A full distribution can be seen in the table to the right.

	%	30.09.19	%	30.09.18
Intangible assets	87	2,789	84	2,640
Property, plant and equipment	16	521	15	455
Other non-current assets	3	87	5	154
Current assets excl. cash	32	1,041	29	922
Liabilities excluding interest-bearing debt	-38	-1,221	-33	-1,044
Invested capital end of year	**100**	**3,217**	**100**	**3,127**
Average invested capital		3,172		2,587

Net working capital
At the end of September 2019, inventories had increased by DKK 124m over last year. The significant increase was due to a higher level of raw materials in Malaysia to mitigate safety stock shortage, the transition of the US distributor that led to inventory buy-backs as well as cancellation of orders in Q4.

The physical location of our factories in Asia entails transport times of up to eight weeks from the factories to the regional warehouses in Europe and the USA. A significant proportion of our inventories is therefore in transit at any one time and thus not available for sale.

Trade receivables are 17% of revenue or an absolute DKK 474m (2018: DKK 478m). The decline in trade receivables in % of revenue is due to the distribution of sales within the year and effects from the transition of the US distributor.

Trade credits obtained in connection with the purchase of goods and services and other payables increased by 71% in total or DKK 269m – primarily stemming from accrued special items.

	%	30.09.19	%	30.09.18
Inventories	18	506	15	382
Trade receivables	17	474	18	478
Other operating assets	2	56	2	55
Trade payables	-9	-266	-7	-194
Other payables	-14	-383	-7	-186
Net working capital end of year	**14**	**387**	**21**	**535**

Average invested capital

DKK **3,172**m

DKK 2,587m

Total investments for the year

DKK **261**m

DKK -900m

Net working capital, % of revenue

14%

-7 percentage points

DKKm

3.1 Intangible assets

2018/19	Acquired technologies, trademarks and cust. relations	Acquired technologies in progress	Completed development projects	Development projects in progress	Rights	Goodwill	Total
Acquisition price, primo	256	661	376	131	129	1,505	3,058
Translation adjustment	10	0	3	0	0	42	55
Additions during the year	0	0	0	159	0	0	159
Additions in connection with business combinations	0	0	0	0	0	0	0
Disposals during the year	0	0	0	0	0	0	0
Transferred during the year	0	0	61	-61	0	0	0
Acquisition price, ultimo	**266**	**661**	**440**	**229**	**129**	**1,547**	**3,272**
Amortization, primo	110	0	246	0	62	0	418
Translation adjustment	6	0	1	0	0	0	7
Disposals during the year	0	0	0	0	0	0	0
Impairment losses	0	0	0	0	0	0	0
Amortization for the year	16	0	32	0	10	0	58
Amortization, ultimo	**132**	**0**	**279**	**0**	**72**	**0**	**483**
Carrying amount, ultimo	**134**	**661**	**161**	**229**	**57**	**1,547**	**2,789**

2017/18	Acquired technologies, trademarks and cust. relations	Acquired technologies in progress	Completed development projects	Development projects in progress	Rights	Goodwill	Total
Acquisition price, primo	253	0	357	45	129	781	1,565
Translation adjustment	3	1	1	0	0	13	18
Additions during the year	0	0	0	104	0	0	104
Additions in connection with business combinations	0	660	0	0	0	711	1,371
Disposals during the year	0	0	0	0	0	0	0
Transferred during the year	0	0	18	-18	0	0	0
Acquisition price, ultimo	**256**	**661**	**376**	**131**	**129**	**1,505**	**3,058**
Amortization, primo	90	0	210	0	50	0	350
Translation adjustment	2	0	0	0	0	0	2
Disposals during the year	0	0	0	0	0	0	0
Impairment losses	0	0	0	0	0	0	0
Amortization for the year	18	0	36	0	12	0	66
Amortization, ultimo	**110**	**0**	**246**	**0**	**62**	**0**	**418**
Carrying amount, ultimo	**146**	**661**	**130**	**131**	**67**	**1,505**	**2,640**

3.1 Intangible assets (continued)

§ Accounting policies
On initial recognition, goodwill is recognized at cost in the balance sheet as described under 'Business combinations'. Subsequently, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized.

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 one operating segment being the whole group to which goodwill is allocated.

Acquired technologies, trademarks and customer relations primarily comprise identified technologies. Acquired technologies in progress are recognized in connection with the acquisition of Invendo. Acquired technologies in progress are amortized individually from the time the management finds that the technology is fit for use.

Development projects that are clearly defined and identifiable and where the technical utilization 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 recognized 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 recognized in the income statement as incurred.

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

Upon completion of the development activity, development projects are amortized 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 amortization 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 amortization and impairment losses. Rights are amortized 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 amortization and impairment losses. Other intangible assets are amortized according to the straight-line method over the expected useful lives of the assets.

Intangible assets are amortized 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 amortized.

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 accounting 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 and acquired technologies in progress
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 (being the whole group) and is impaired to the recoverable amount in the income statement if the carrying amount is higher. Impairment of goodwill is recognized 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 recognized 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 recognized in the income statement under production costs, selling and distribution costs, development costs or 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 amortization, had the asset not been impaired.

! Material accounting estimates
Indication of impairment of acquired intangible assets in connection with business combinations as well as subsequent impairment test thereof
The management performs an annual assessment of whether internal or external indications of impairment of the identified intangible assets exist. 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 operating profit (EBIT) and financial position if the planned events deviate from the management's best estimate.

DKKm

3.3 Property, plant and equipment

2018/19	Land and buildings	Plant and machinery	Other plant, fixtures and fittings, tools and equipment	Prepay-ments and plant under construction	Total
Acquisition price, beginning of year	353	331	136	29	849
Translation adjustment	12	12	6	1	31
Additions during the year	1	6	5	92	104
Disposals during the year	0	-5	-2	0	-7
Transferred during the year	2	41	20	-63	0
Acquisition price, end of year	**368**	**385**	**165**	**59**	**977**
Depreciation and impairment losses, beginning of year	67	238	89	0	394
Translation adjustment	3	11	4	0	18
Disposals during the year	0	-5	-2	0	-7
Impairment losses for the year	0	4	0	0	4
Depreciation for the year	8	23	16	0	47
Depreciation and impairment losses at end of year	**78**	**271**	**107**	**0**	**456**
Carrying amount, end of year	**290**	**114**	**58**	**59**	**521**

There are no contractual obligations concerning the purchase of property, plant and equipment. The carrying amount of assets held under finance leases is DKK 110m (2017/18: DKK 113m), primarily recognized under land and buildings.

2017/18	Land and buildings	Plant and machinery	Other plant, fixtures and fittings, tools and equipment	Prepay-ments and plant under construction	Total
Acquisition price, beginning of year	240	303	115	62	720
Translation adjustment	2	3	1	4	10
Additions during the year	0	7	3	119	129
Disposals during the year	-1	-4	-5	0	-10
Transferred during the year	112	22	22	-156	0
Acquisition price, end of year	**353**	**331**	**136**	**29**	**849**
Depreciation and impairment losses, beginning of year	57	217	79	0	353
Translation adjustment	1	1	0	0	2
Disposals during the year	-1	-4	-5	0	-10
Impairment losses for the year	0	1	0	0	1
Depreciation for the year	10	23	15	0	48
Depreciation and impairment losses at end of year	**67**	**238**	**89**	**0**	**394**
Carrying amount, end of year	**286**	**93**	**47**	**29**	**455**

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 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	10-40 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 recognized in future as a change in the accounting estimate.

Depreciation is recognized in the income statement under production costs, selling and distribution costs, development costs or management and administrative expenses, as appropriate. Reference is made to note 2.4.

3.4 Inventories

	30.09.19	**30.09.18**
Raw materials and consumables	157	122
Finished goods	349	260
	506	**382**
Cost of sales for the year	934	849
Write-down of inventories included in production costs for the year	34	3

§ 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.

DKKm

3.5 Trade receivables

	30.09.19	30.09.18
Not due	382	376
1-90 days	69	75
91-180 days	12	12
> 180 days	11	15
Trade receivables	**474**	**478**
At end of year, trade receivables were written down by:		
Not due	-1	-1
1-90 days	0	0
91-180 days	0	0
> 180 days	-5	-8
Provision for bad debts	**-6**	**-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 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 amortized cost net of any write-down for expected impairment over the life of the claim. The loss is recognized 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

	2018/19	2017/18
Depreciation, amortization and impairment losses	109	115
Share-based payment	12	26
	121	**141**

3.7 Changes in net working capital

	2018/19	2017/18
Changes in inventories	-102	-62
Changes in receivables	18	-44
Changes in trade payables etc.	254	40
	170	**-66**

DKKm

3.8 Cash flows from financial liabilities classified as financing activities

	30.09.18	Cash flows	Value adjust-ments[1]	Raising of finance leases[1]	30.09.19
Credit institutions	1,200	-150	0	0	1,050
Finance leases	108	-8	0	5	105
	1,308	**-158**	**0**	**5**	**1,155**

	30.09.17	Cash flows	Value adjust-ments[1]	Raising of finance leases[1]	30.09.18
Derivative financial instruments[2]	29	-12	-10	0	7
Corporate bonds	700	-701	1	0	0
Credit institutions	0	1,200	0	0	1,200
Finance leases	86	22	0	0	108
	815	**509**	**-9**	**0**	**1,315**

[1]Non-cash transactions.

[2]Only some of the balance under derivative financial instruments can potentially be realised as cash flows from financing activities.

3.9 Business combinations

Ambu did not make any business combinations in 2018/19. In 2017/18 Ambu acquired Invendo Medical GmbH (now: Ambu Innovation GmbH), which is described below.

On 25 October 2017, Ambu acquired the entire share capital and voting rights in the German company Invendo Medical GmbH ('Invendo'). Before the purchase, Ambu had no ownership interest in the company. Transaction-related costs of DKK 6m have been paid, of which an amount of DKK 1m was recognized in Q1 2017/18 and an amount of DKK 5m was recognized in Q4 2016/17. All costs have been recognized in the income statement under management and administration.

At the acquisition date, Invendo had no fully developed product approved for sale which was actively being marketed. In spite of this, the management is of the opinion that Invendo was so close to the commercialization of the acquired development projects in progress that Invendo must be regarded as a business in accordance with IFRS 3. Accordingly, the accounting rules on business combinations have been applied.

Invendo Medical GmbH	**2017/18**
Acquired technologies in progress	660
Inventories	3
Other receivables	1
Cash	9
Deferred tax	-20
Payables	-3
Fair value of net assets acquired	**650**
Goodwill	711
Consideration transferred	**1,361**
Cash and cash equivalents in acquired businesses	-9
Cash consideration transferred	**1,352**
Fair value of contingent and deferred consideration	-501
Subsequent milestone payment	75
Acquisition of businesses (cash flow)	**926**

3.9 Business combinations (continued)

Description of the acquired activities
Invendo is a leading developer of sterile, single-use endoscopy products for gastroenterological procedures, which are comprised by Ambu's existing Visualization business area. The management sees the acquisition as a good strategic match.

The most important asset for which a fair value on acquisition has been identified are development projects in progress. The fair value of the individual development projects is measured using the relief-from-royalty model and is amortized over an expected useful life of 15 years as from the time when the development project is deemed to be ready for sale. Deferred tax on these development projects contributes DKK 192m to the fair value on acquisition.

The total net deferred tax of DKK 20m on the fair value on acquisition of Invendo consists of a deferred tax liability from net assets revalued to fair value by DKK 186m, tax assets from deductible tax losses of DKK 144m and a future tax deductible on parts of the purchase price of DKK 22m.

Goodwill
Goodwill is recognized at the amount by which the calculated purchase price exceeds the fair value of identifiable net assets. The estimated goodwill can be attributed to 1) Invendo's know-how in the field of gastrointestinal endoscopy, 2) cost and revenue synergies, 3) synergies from future product development and 4) assessed first-mover benefits within gastrointestinal single-use endoscopy. Of the reported components of goodwill, the management attaches the greatest importance to nos 3 and 4. The recognized goodwill is not deductible for tax purposes.

Contingent consideration
The total purchase price comprises contingent consideration of up to DKK 819m, which was recognized at a fair value of DKK 501m as at the acquisition date. Assumptions have been applied in the management's fair value measurement which are not observable in the market, corresponding to a level 3 measurement in the fair value hierarchy.

The development in the fair value of contingent consideration from the acquisition date is described in note 5.2.

The key assumptions in the valuation of the contingent consideration include future revenue from the acquired technologies, FDA approval of each endoscope as well as the discount rate of 18% applied.

Contingent consideration	Condition	Undiscounted payment[1]
Milestone payment	FDA approval of colonoscope	DKK 0m or DKK 74m[2]
Milestone payment	FDA approval of gastroscope	DKK 0m or DKK 149m
Milestone payment	FDA approval of duodenoscope	DKK 0m or DKK 298m
Cumulative earn-out	Revenue of DKK 558m	DKK 0m or DKK 56m
Cumulative earn-out	26% of revenue in the range DKK 558-1,488m	DKK 0m to DKK 242m
		Maximum DKK 819m

[1]The undiscounted payments were calculated at the acquisition date, and later outcomes have therefore not been adjusted in the payment intervals stated.
[2]Milestone payment related to FDA approval of colonoscope was paid to the seller in early April 2018.

Impact on the group's income statement
In the period from the acquisition date and until 30 September 2018, Invendo contributed DKK 0m to consolidated revenue and DKK -27m to the operating profit for the year (EBIT). Had Invendo been consolidated as from 1 October 2017, Invendo would have contributed DKK 0m to revenue and DKK -28m to the operating profit (EBIT).

Section 4:
Financial risk management, capital structure and net financials

This section provides an overview of Ambu's capital structure and 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.

Ambu realized a debt multiple of 1.8 (1.8) composed from EBITDA before special items of DKK 589m (DKK 678m) and net interest-bearing debt (NIBD) of 1,035m, down DKK 210m from last year's DKK 1,245m. The decrease in NIBD is primarily ascribable to the free cash flow of DKK 274m less transactions with the owners, including the distribution of dividends of DKK 101m.

At the end of September 2019, interest-bearing debt corresponded to a weighted cost of capital of 1.4% (1.4%), which is partially fixed-interest. Read more in note 4.1.

Net financials were increased by DKK 205m as a consequence of non-cash value adjustments of contingent consideration in the amount of DKK 121m (DKK -71m).

Debt multiple	Net interest-bearing debt	Cost of capital
1.8 of EBITDA before s. i.	DKK 1,035m	1.4%
+0.0	DKK -210m	+0.0 percentage points

Net financials
DKK 107m
DKK +205m

4.1 Financial risk management

Ambu is exposed to certain market risks, including foreign exchange and interest rate fluctuations as well as fluctuations in prices of raw materials. Furthermore, the group is exposed to liquidity and financing risks as well as credit risks. A more detailed description of relevant financial risks is given below.

Foreign currency risks
Fluctuations in foreign exchange rates and the effect of foreign exchange fluctuations on the group's financial targets 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 group's credit facilities carry floating interest rate. The development in interest rates is linked to CIBOR 3 months.

For the purpose of partially hedging the group's interest rate risk, the management has entered into a DKK 500m interest rate swap involving receipt of CIBOR 3 months and payment of a fixed interest rate. 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.

In the course of the FY 2017/18, the hedge accounting has been reset following the refinancing of the secured debt. As at the balance sheet date, the hedging instrument has a negative fair value of DKK 13m. The entire value has been recognized in the income statement, with an impact of DKK 10m in FY 2018/19.

A likely decline in interest rates of 0.25 percentage points will result in an expense of DKK 3m in the income statement, whereas a likely increase in interest rates of 0.50 percentage points will result in income of DKK 6m, of which all will be recognized in the income statement.

Liquidity and financing risks
Financing and sufficient liquidity are fundamental to Ambu's continued operation and growth. Liquidity is managed centrally from Ambu's head office. Cash-pool solutions are applied to a small extent and 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.

To cover the group's liquidity needs, an agreement on credit facilities for a total of DKK 2,300m has been entered into. The facilities carry floating interest, the minimum interest rate being 0.8-1.3%, depending on the group's gearing. To hedge the interest rate risk, DKK 500m of the debt has been hedged through an interest rate swap up until 1 March 2022 at a fixed interest rate of between 1.28% and 1.83%, depending on gearing. The credit facilities are bullet loans which expire on 31 March 2023.

The cash resources consist of unutilised credit facilities in banks of DKK 1,395m (2018: DKK 1,188m).

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.

DKKm

4.2 Financial instruments

2018/19	Contractual cash flows 0-1 year	1-5 years	> 5 years	Total	Carrying amount
Trade receivables	474	0	0	474	474
Other receivables	16	0	0	16	16
Cash	120	0	0	120	120
Financial assets measured at amortized cost	**610**	**0**	**0**	**610**	**610**
Provisions	14	31	0	45	43
Credit institutions	10	1,075	0	1,085	1,050
Finance leases	7	27	97	131	105
Trade payables	266	0	0	266	266
Other payables	377	5	1	383	383
Financial liabilities measured at amortized cost	**674**	**1,138**	**98**	**1,910**	**1,847**
Contingent consideration (level 3)[1]	299	149	0	448	378
Financial liabilities stated at fair value in the income statement	**299**	**149**	**0**	**448**	**378**
Derivative financial instruments (level 2)[1]	5	7	0	12	13
Financial liabilities stated at fair value in other comprehensive income	**5**	**7**	**0**	**12**	**13**

2017/18	0-1 year	1-5 years	> 5 years	Total	Carrying amount
Trade receivables	478	0	0	478	478
Other receivables	19	0	0	19	19
Cash	63	0	0	63	63
Financial assets measured at amortized cost	**560**	**0**	**0**	**560**	**560**
Provisions	4	43	0	47	40
Credit institutions	11	1,239	0	1,250	1,200
Finance leases	6	26	103	135	108
Trade payables	194	0	0	194	194
Other payables	180	5	1	186	186
Financial liabilities measured at amortized cost	**395**	**1,313**	**104**	**1,812**	**1,728**
Contingent consideration (level 3)[1]	0	746	0	746	498
Financial liabilities stated at fair value in the income statement	**0**	**746**	**0**	**746**	**498**
Derivative financial instruments (level 2)[1]	4	10	0	14	7
Financial liabilities stated at fair value in other comprehensive income	**4**	**10**	**0**	**14**	**7**

[1]Level 1: The fair value of financial instruments traded on 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.

4.2 Financial instruments (continued)

Financial instruments measured at fair value

At the end of the financial year, it is assessed whether an instrument has moved between the levels of the fair value hierarchy. There have been no movements between the various levels this year or the year before.

For an overview of this year's movements in financial instruments at level 3 of the fair value hierarchy, see note 5.2.

Methods and assumptions for the determination of fair value

Derivative financial instruments

Derivative financial instruments are recognized at fair value based on a valuation report prepared by an external party who valuates the instruments based on discounted cash flows.

Contingent consideration

Contingent consideration is recognized at fair value by discounting expected cash flows based on contractual conditions and unobservable inputs such as the expected performance of the acquired assets.

Contingent consideration recognized at fair value

Ambu's contingent consideration is recognized and measured at fair value using unobservable data (level 3) and includes the contingent consideration from the acquisition of Invendo Medical GmbH. The contingent consideration relates to the commercialization of the technologies acquired from Invendo Medical GmbH in October 2017. The key assumptions in the valuation of the contingent consideration include future revenue from the acquired technologies, FDA approval of each endoscope as well as the discount rate applied.

§ Accounting policies

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

Derivative financial instruments are recognized 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 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 recognized 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 recognized 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 recognized on an ongoing basis in the income statement. The capitalised remaining lease obligation in respect of finance leases, measured at amortized cost, is also recognized under financial liabilities.

Contingent consideration arising as a result of business combinations is recognized at fair value at the time of acquisition. The liability is subsequently adjusted to fair value on an ongoing basis.

Other liabilities are measured at amortized cost.

DKKm

4.3 Net financials

	2018/19	2017/18
Other financial income:		
Foreign exchange gains, net	19	5
Fair value adjustment, contingent consideration	121	0
Fair value adjustment, swap	0	7
Financial income	**140**	**12**

	2018/19	2017/18
Interest expenses:		
Interest expenses, banks	18	18
Interest expenses, leases	2	2
Interest expenses, bonds	0	11
Other financial expenses:		
Fair value adjustment, contingent consideration	0	71
Effect of shorter discount period, acquisition of technology	3	3
Fair value adjustment, swap	10	0
Ineffectiveness of interest rate swap	0	5
Financial expenses	**33**	**110**

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

4.4 Net interest-bearing debt

	2018/19	2017/18
Credit institutions	1,050	1,200
Finance leases	101	104
Long-term interest-bearing debt	**1,151**	**1,304**
Finance leases	4	4
Short-term interest-bearing debt	**4**	**4**
Weighted average effective rate of interest	**1.4%**	**1.4%**

The table below shows the composition of the group's net interest-bearing debt.

	2018/19	2017/18
Interest-bearing debt	1,155	1,308
Cash	-120	-63
Net interest-bearing debt	**1,035**	**1,245**

DKKm

4.5 Share capital and treasury shares

Share split
At Ambu's annual general meeting on 13 December 2017, it was decided to carry out a 1:5 share split with effect from January 2018. After the split, Ambu's shares have a nominal value of DKK 0.50 each. All relevant ratios have been restated to reflect the share split.

Share capital
Ambu's share capital is divided into two classes of shares with a nominal share value of DKK 0.50. 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		Number of shares	
	2018/19	**2017/18**	**2018/19**	**2017/18**	**2018/19**	**2017/18**
Number of shares issued, beginning of year	34,320,000	6,864,000	216,954,600	41,843,920	251,274,600	48,707,920
Capital increase, private placement	0	0	0	1,255,000	0	1,255,000
Capital increase, warrants	0	0	0	2,000	0	2,000
1:5 share split	0	27,456,000	0	172,403,680	0	199,859,680
Capital increase, warrants	0	0	535,000	1,450,000	535,000	1,450,000
Number of shares issued at end of year	**34,320,000**	**34,320,000**	**217,489,600**	**216,954,600**	**251,809,600**	**251,274,600**

Capital increases
Four times in the course of FY 2018/19, capital increases were effected in connection with the exercise by employees of warrants allocated in 2013, 2014 and 2015. In consequence thereof, Ambu's share capital was increased by a nominal amount of DKK 267,500 through the issue of 535,000 Class B shares.

The total capital increase for the year consisting of 535,000 Class B shares has been paid at a weighted price of DKK 30.94 per share with a nominal share value of DKK 0.50.

Treasury shares

	No.		Nominal value		In % of share capital	
	2018/19	**2017/18**	**2018/19**	**2017/18**	**2018/19**	**2017/18**
Treasury shares, beginning of year	7,738,419	1,206,888	3.9	3.0	3.1%	2.5%
Disposals	-	-75,699	-	-0.1	-	-0.1%
1:5 share split	-	4,524,756	-	-	-	-
Additions, share buy-back programme	-	3,850,000	-	1.9	-	1.5%
Disposals	-1,295,780	-1,767,526	-0.7	-0.9	-0.5%	-0.7%
Dilutive effect of capital increases	-	-	-	-	-	-0.1%
Treasury shares, end of year	**6,442,639**	**7,738,419**	**3.2**	**3.9**	**2.6%**	**3.1%**

Disposals of treasury shares during the year can be ascribed to the exercise of allocated option schemes by employees as well as employee share programmes. The total selling price in 2018/19 amounted to DKK 24m (FY 2017/18: DKK 25m), corresponding to a weighted price of DKK 18.35 (DKK 9.43) per share based on a nominal share value of DKK 0.50.

§ Accounting policies
Acquisition costs and consideration as well as dividend on treasury shares are recognized 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, and from the sale of employee shares or warrants are taken directly to equity.

DKKm

4.6 Earnings per share

	2018/19	2017/18
Net profit for the year	317	337
Average number of Class A and Class B shares in circulation ('000)	244,447	242,997
Dilutive effect of outstanding share option, warrant and employee share programmes ('000)	3,013	4,704
Average number of outstanding Class A and Class B shares including the dilutive effect of share options, warrants and employee shares ('000)	**247,460**	**247,701**
Earnings per DKK 0.50 share (EPS) in DKK	1.30	1.39
Diluted earnings per DKK 0.50 share (EPS-D) in DKK	1.28	1.36

§ 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 recognized.

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	Treasury shares (no.)
DKK 0.38/share	7.7 million
-5%	-1.3 million

Provisions, other liabilities etc.

Notes on the consolidated financial statements – Section 5

DKKm

5.1 Provisions

	2018/19	2017/18
Provisions as at 1 October	40	39
Used during the year	-2	-3
Value adjustment	3	3
Foreign currency translation adjustment	2	1
Provisions as at 30 September	**43**	**40**
Provisions expected to fall due:		
Non-current liabilities	38	36
Current liabilities	5	4
Provisions as at 30 September	**43**	**40**

Provisions at the balance sheet date concern the deferred purchase price relating to the acquisition of technology in previous years.

During the financial year, Ambu settled provisions in the amount of DKK 2m (DKK 3m). The value adjustment for the year, which can be ascribed to the shorter discount period, amounted to DKK 3m (DKK 3m).

§ Accounting policies
Provisions are recognized 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 recognized as a finance cost.

5.2 Contingent consideration

	2018/19	2017/18
Contingent consideration as at 1 October	498	0
Additions in connection with acquisition	0	501
Used during the year	0	-75
Adjustments made through the income statement under financial expenses:		
Value adjustment	-121	71
Foreign currency translation adjustment	1	1
Contingent consideration as at 30 September	**378**	**498**
Contingent consideration expected to fall due:		
Non-current liabilities	114	498
Current liabilities	264	0
Contingent consideration as at 30 September	**378**	**498**

Contingent consideration as at the balance sheet date concerns outstanding liabilities relating to the acquisition of Invendo in October 2017. For more information about the expected realization of the liabilities and any associated uncertainties, reference is made to note 4.2.

During the fiscal year management remeasured the fair value of the contingent consideration based on revised expectations to the short-term revenue generated from the technologies acquired. The remeasurement led to a financial income of DKK 202m. The effect of a shorter discount period for the contingent consideration is recognized as a financial cost of DKK 81m.

Used amounts in 2017/18 concern the payment of the first milestone from the Invendo acquisition. The value adjustment for the year covers the effect of the shorter discount period amounting to DKK 71m.

§ Accounting policies
Contingent consideration is recognized at fair value at the date of acquisition by discounting expected cash flows based on contractual conditions and unobservable inputs, corresponding to level 3 of the fair value hierarchy. Adjustments to fair value are recognized in the income statement under net financials.

DKKm

5.3 Operating leases

	2018/19	2017/18
Payments due within 0-1 year	33	30
Payments due within 1-5 years	33	27
Payments due after 5 years	1	1
Total operating leases	**67**	**58**
Operating leases expensed in the income statement	35	33

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.

5.4 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.

Ambu is involved from time to time in disputes with customers and patients about Ambu's products. Appropriate provisions are made on an ongoing basis, and product liability insurance has been taken out. The management believes that the likely outcomes of these disputes can be covered by the provisions made and recognized in the balance sheet as at 30 September 2019. For a more detailed description of the group's risks, see the 'Risk management' section on pages 32-33.

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

5.5 Share-based payment

The Group's incentive-based remuneration to the Executive Board and other levels of management personnel is describes in the 'Remuneration Policy' and specific information pertaining to 2018/19 is available in the 'Remuneration report 2018/19'. Please refer to www.ambu.com. The company's Board of Directors does not participate in the Group's share-based payment schemes. For all share-based payment schemes, vesting is preconditional upon employment during the entire period of service.

Appointment of new CEO
At the time of appointment, the CEO was granted two performance stock units schemes (PSU). Both schemes comprise a number of phantom Ambu B-shares calculated at the average price quoted on Nasdaq Copenhagen on the grant date and settled in cash corresponding to the average quoted price on vesting. Under the first scheme, a sign-on bonus, 14,045 PSUs were allocated corresponding to a fair value of DKK 1,750,000. In the second scheme, vesting is subject to the achievement of KPIs to be agreed at a later point in time, 14,567 PSUs were allocated corresponding to a fair value of DKK 1,815,000. Both schemes vest three years after the grant date and are subject to approval by the AGM.

The portion of the former CEO's share options that was not vested at the time of resignation has been expensed to 'Special items' with the Black-Scholes value of the expected number of options to be vested in the remaining vesting period. In total DKK 7m.

The total costs for the share-based payment in the income statement amounts to DKK 13m (DKK 26m) stemming from PSUs DKK 1m, (DKK 0m), share options DKK 5m (DKK 18m), warrants DKK 2m (DKK 3m) and employee shares DKK 5m (DKK 5m).

Share options
For all share options, final vesting is preconditional upon full or partial realization of predetermined targets for organic growth and EBIT margin. Share options may be exercised for up to three years after the three-year vesting period, with the exception of the share options allocated under the 'Big Five' scheme, where the exercise period is postponed by 12 months to be counted from the date of maturation on 1 October 2020.

The CFO has two LTI plans related to performance targets in the current strategy period: 'Strategy 2020' and 'Big Five'. Other members of the company's Executive Management Team excl. the CEO participate in both LTI plans. Other managers and key employees participate on equal terms with members of the Executive Management Team in the 'Strategy 2020' LTI plan. In FY 2018/19, share options were conditionally allocated to selected employees not already included in the LTI plans on a permanent annual basis all of which were subsequently cancelled.

Under the 'Strategy 2020' LTI plan, the maximum allocation is vested if the financial outlook for organic growth and EBIT margin for the year announced at the beginning of the year is exceeded to a significant degree 'Maximum'. If the financial performance corresponds to the outlook announced, 50% of the maximum 'On-target' allocation is vested, and if this target is not reached, allocation will be further reduced or lapse 'Threshold'. For FY 2018/19, financial performance below 'Threshold' was realised, resulting in no allocation of options.

Under the 'Big Five' programme, the maximum allocation is vested in full if the financial targets for organic growth for the 'Big Five' strategy period and the EBIT margin for FY 2019/20 are exceeded to a significant degree, 50% of allocation is vested if announced targets for the strategy period are realised and if the 'On-target' allocation is not reached, allocation will be further reduced or lapse 'Threshold'. Due to recent strategic events, the management expects financial targets to be realised below 'Threshold' resulting in no allocation.

The table below shows the number of outstanding share options, weighted on the basis of exercise prices and changes during the year:

	Executive Board		**Other and former employees**		**Total**	
(Exercise price (avg.) stated in DKK)	No.	Exercise price (avg.)	No.	Exercise price (avg.)	No.	Exercise price (avg.)
Outstanding share options as at 1 Oct. 2017	**4,428,970**	**18.23**	**1,423,935**	**18.27**	**5,852,905**	**18.24**
Allocated during the year	2,598,619	130.73	1,241,437	125.13	3,840,056	128.92
Exercised during the year	-1,371,461 [1]	9.11	-720,970 [2]	9.75	-2,092,431	9.33
Cancelled during the year	-18,720	114.90	-232,782	98.39	-251,502	99.62
Outstanding share options as at 30 Sept. 2018	**5,637,408**	**71.99**	**1,711,620**	**88.47**	**7,349,028**	**75.83**
Allocated during the year	0	0.00	53,075 [3]	175.17	53,075	175.17
Transferred during the year	-3,886,942	78.67	3,886,942	78.67	0	-
Exercised during the year	-913,339 [1]	13.59	-253,690 [2]	16.21	-1,167,029	14.16
Cancelled during the year	-83,272	124.10	-653,010	125.61	-736,282	125.44
Outstanding share options as at 30 Sept. 2019	**753,855**	**102.56**	**4,744,937**	**80.16**	**5,498,792**	**83.23**
Of which are vested	0	-	1,587,330	15.81	1,587,330	15.81

[1] The average market price on the date of exercise by the Executive Board was DKK 149.06 (2017/18: DKK 140.88).

[2] The average market price on the date of exercise by other and former employees was DKK 99.67 (2017/18: DKK 132.70).

[3] Allocated stock options during the year are granted to new employees within current LTI policies and terms.

Outstanding share options for Executive Board have on average 4.6 years until contract expiry at a market value of DKK 20m and on average 3.6 years for 'Other and former employees' at a market value of DKK 218m. Market value is based on quoted stock price on Nasdaq.

5.5 Share-based payment (continued)

General terms and conditions for share option programmes allocated in the current and the previous financial year:

Programme	LTI plan 2015	2017/18, spot	Strategy 2020	Big Five	2018/19, spot
Year of allocation	2017/18	2017/18	2017/18	2017/18	2018/19
Original number of conditionally allocated options	439,780	40,721	2,039,769	1,795,391	17,250
Number of options expected to vest	439,780	35,081	1,244,927	0	0
Fair value per option at grant date (DKK)	21.68	22.50	22.49	15.12	43.28
Fair value at grant date of original number of conditionally allocated options (DKKm)	10	1	46	27	1
Service period in which the fair value, calculated at the time of conditional allocation, is amortized	Nov. 2015 to Oct. 2020	Oct. 2017 to Sep. 2020	Oct. 2017 to Sep. 2022	Oct. 2017 to Sep 2020	Oct. 2018 to Sep. 2021

Black-Scholes assumptions used to calculate the fair value at the time of allocation:

Exercise price	DKK 45.80	DKK 124.10	DKK 124.10-DKK 134.10	DKK 134.10	DKK 167.60
Volatility	30%	30%	30%	30%	41%
Risk-free interest rate	-0.1%	-0.3%	-0.2%	-0.2%	-0.3%
Dividend per share	DKK 0.30	DKK 0.53	DKK 0.53	DKK 0.53	DKK 0.39
Period	5.5 years	3.5 years	3.5-5.5 years	4.5 years	3.5 years
Probability	100%	100%	100%	75%	100%

Warrants

Warrant-based LTI plans are no longer allocated. A warrant entitles the holder to buy a newly issued Class B share in Ambu A/S.

	Other employees	
	No.	Exercise price (avg.)
Outstanding as at 1 October 2017	**3,377,000**	**32.38 kr.**
Exercised during the year	-1,460,000 [1]	21.99 kr.
Cancelled during the year	-5,000	77.12 kr.
Outstanding as at 30 September 2018	**1,912,000**	**40.20 kr.**
Exercised during the year	-535,000 [1]	30.94 kr.
Cancelled during the year	-2,500	77.12 kr.
Outstanding as at 30 September 2019	**1,374,500**	**43.73 kr.**
Of which are vested	970,000	29.81 kr.

[1] The average market price on the date of exercise was DKK 151.54 (2017/18: DKK 151.03).

Outstanding warrants have on average 2.0 years until contract expiry at a market value of DKK 105m based on quoted stock price on Nasdaq.

Employee shares

Ambu has offered all its employees, excluding the Board of Directors, the opportunity to participate by purchasing treasury shares with a fixed percentage of their annual base salary. The number of shares with which an employee participates are matched free of charge after two years. The Executive Board participate with 979 shares in the current employee share programmes currently under vesting.

	2018/19	2017/18
Employee shares allocated (no. of shares)	53,991	53,590
Total market value at the time of allocation (DKKm)	6	6
Service period in which the Black-Scholes value is amortized	Oct. 2018 to Sep. 2020	Oct. 2017 to Sep. 2019
Fair value per matching share at grant date (DKK)	134.20	107.98

§ Accounting policies

The fair value Ambu's share-based payment are expensed on an accrual basis. Fair value of equity-based schemes at the time of allocation is calculated according to the Black-Scholes model. This value is expensed over the service period for each of the respective schemes and is taken to equity. On recognition of the fair value during the service 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 recognized. Adjustments relating to previous periods are recognized in the period in which the adjustment is made. PSUs are settled in cash and taken to liabilities with the fair value adjustment end of the period expensed to P/L.

DKKm

5.6 Fee to auditors appointed by the annual general meeting

	2018/19	2017/18
Audit fee	2	2
Other assurance engagements	0	0
Tax consultancy services	0	0
Other services	0	0
Total fees	**2**	**2**

5.7 Companies in the Ambu group

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

				Activity			
Company	**Reg. office**	**Currency**	**Ownership interest**	Sales[1]	Production[2]	Develop-ment	Other
Parent company:							
Ambu A/S	Denmark	DKK	100%	x	x	x	x
Subsidiaries:							
Ambu Australia Pty. Ltd.	Australia	AUD	100%	x			
Ambu Nordic A/S	Denmark	DKK	100%	x			
Ambu Rusland Holding ApS	Denmark	DKK	100%				x
Ambu Ltd.	UK	GBP	100%	x			
Ambu Sarl	France	EUR	100%	x			
Ambu B.V.	Netherlands	EUR	100%	x			
Ambu LLC	Russia	RUB	100%	x			
Ambu India Private Limited	India	INR	100%	x			
ETView Medical Ltd.	Israel	NIS	100%				x
ETView Ltd.	Israel	NIS	100%		x	x	
Ambu s.r.l.	Italy	EUR	100%	x			
Ambu KK	Japan	JPY	100%	x			
Ambu Ltd.	China	CNY	100%		x	x	
Ambu (Xiamen) Trading Co., Ltd.	China	CNY	100%	x			
Ambu Sdn. Bhd.	Malaysia	MYR	100%		x	x	
Ambu Mexico, S.A. DE C.V.	Mexico	MXN	100%				x
Firma Ambu, S.L.[3]	Spain	EUR	100%	x			
Ambu GmbH	Germany	EUR	100%	x			
Ambu Innovation GmbH	Germany	EUR	100%			x	
Ambu Inc.	USA	USD	100%	x			
King Systems Holding Inc.	USA	USD	100%				x
King Systems Corp.	USA	USD	100%		x	x	

[1]Sales include promotional activities.

[2]Production includes the purchase of goods for resale and the coordination thereof.

[3]Firma Ambu, S.L. has sales and marketing activities in Spain, Portugal and Latin America.

5.8 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 (notes 2.3 and 5.5), have been carried out with the Board of Directors, Executive Board, major shareholders or other related parties.

DKKm

5.9 Subsequent events

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.

5.10 Adoption of the annual report and distribution of profit

At the board meeting on 13 November 2019, 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 17 December 2019. The Board of Directors proposes that dividend of DKK 0.38 per share be paid. In 2017/18, the Board of Directors proposed a dividend payment of DKK 0.40 per share, which was later distributed to Ambu A/S's shareholders.

	2018/19	**2017/18**
Proposed dividend for the year	96	101
Transferred to distributable reserves	221	236
	317	**337**

§ Accounting policies
Proposed dividend is recognized as a liability at the time of adoption by the general meeting. Expected dividend payable for the year is shown as a separate reserve under equity.

5.11 Key figure and ratio definitions

Income statement	
Gross margin, %	Gross profit in % of revenue.
EBITDA before special items	Operating profit before special items, depreciation, amortization and impairment losses.
Operating profit (EBIT) before special items	Profit for the year before special items, net financials and tax
Operating profit (EBIT)	Profit for the year before net financials and tax
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.
Interest-bearing debt	Debt on which interest is paid, including bank debt, debt to credit institutions, lease debt and corporate bonds, but not trade payables.
Net interest-bearing debt (NIBD)	Interest-bearing debt less cash.
Cash flows	
Cash flow from operating activities	Cash flow from operating activities as defined in IAS 7.
Cash flow from investing activities before acquisitions of enterprises and technology	Cash flow from investing activities as defined in IAS 7 excluding cash flow for the acquisition of technologies and enterprises.
Free cash flow before acquisitions of enterprises and technology	The sum of cash flow from operating activities and cash flow from investing activities before acquisitions of enterprises and technology.
Acquisitions of enterprises and technology	Cash flow from the acquisition of enterprises and technologies, including payment to the seller and payment of earn-outs less cash in acquired enterprises.

5.11 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 the past 12 months in % of revenue in the period of comparison.
Endoscopes	Single-use endoscopes. Currently, endoscopes comprise the following product groups: Ambu® aScope™, Isiris™, VivaSight™ and Ambu® vScope™.
Growth in endoscopes sold	The development in the number of endoscopes sold in % of the number of endoscopes sold in the period of comparison.
Rate of cost	Capacity costs in % of revenue.
Tax rate	Tax for the year relative to the profit before tax.
EBITDA margin before special items	EBITDA before special items in % of revenue.
EBIT margin	EBIT in % of revenue.
EBIT margin before special items	EBIT before special items in % of revenue.
Ratio for development costs in the income statement relative to cash flow for the year	Development costs for the year in the income statement before related amortization and depreciation with the subsequent addition of investments in development projects for the year, cash flow 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 before special items	Net interest-bearing debt/EBITDA before special items.
Equity ratio	Equity’s share of total assets at end of year.
Investments, % of revenue	Cash flow 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 the group’s expected long-term tax rate relative to the average equity plus the average net 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 flow 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

Ambu's single-use endoscopes are sterile and ready to use right out of the pack. Remove the protective tube, plug into the Ambu® aView™ monitor, and you are all set for the procedure.

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 2018 to 30 September 2019.

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 2019, and of the results of the group's and the company's operations and cash flows for the financial year 1 October 2018 to 30 September 2019.

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, 13 November 2019

Executive Board

Juan Jose Gonzalez CEO	Michael Højgaard CFO

Board of Directors

Jens Bager Chairman	Mikael Worning Vice-Chairman	Oliver Johansen
Christian Sagild	Henrik Ehlers Wulff	Thomas Lykke Henriksen Elected by the employees
Jakob Koch Elected by the employees	Jakob Bønnelykke Kristensen Elected by the employees	

Independent auditor's report

To the shareholders of Ambu A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Ambu A/S for the financial year 1 October 2018 – 30 September 2019, pages 49-89 and pages 96-108, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies, for the group and the parent company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the group and the parent company at 30 September 2019 and of the results of the group's and the parent company's operations and cash flows for the financial year 1 October 2018 – 30 September 2019 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 consolidated financial statements and the parent company financial statements' (hereinafter collectively referred to as '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 opinion.

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

To the best of our knowledge, we have not provided any prohibited non-audit services as described in article 5(1) of Regulation (EU) no. 537/2014

Appointment of auditor
We were appointed as auditor of Ambu A/S on 13 December 2017 for the 2017/18 financial year. We have been reappointed by resolution of the general meeting for a total consecutive period of two years up until the 2018/19 financial year.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the 2018/19 financial year. These matters were addressed during our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the 'Auditor's responsibilities for the audit of the financial statements' section, including in relation to the key audit matters below. Accordingly, our audit included the design and performance of procedures to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Recognition of revenue via distributors for the US market
In the US market, a significant portion of Ambu's sales flow through distributors (third-party warehouses or dealers) who sell the products to public and private hospitals and clinics (the end-customers). Ambu's sales price to the distributor depends on the pricing arrangement Ambu has agreed with the end-customer.

As Ambu's sales to end-customers deviate in amounts and timing from the amounts invoiced to the distributor, Ambu subsequently adjusts the price stated in the preliminary invoice. Price adjustments are recognized on an ongoing basis, and price adjustments which have not been settled at the balance sheet date are recognized as a reduction in trade receivables in the balance sheet.

We focus on this area, as the assessment of non-settled price adjustments to distributors is complex and includes management estimates and judgements.

Reference is made to note 2.2 Revenue to the consolidated financial statements.

How our audit addressed the key audit matter
We have identified, tested and assessed key internal controls and related systems which are used to process and calculate discounts for distributors.

We assessed and reviewed 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.

We further made an assessment of the most significant parameters included in the calculation of the non-settled price adjustments as at 30 September 2019 based on historical data, accounting records and the terms of existing contracts.

Valuation of intangible assets
In connection with prior years' acquisitions including the acquisition of Invendo Medical GmbH in the 2017/18 financial year, the Ambu group has recognized acquired technologies, trademarks and customer relations and acquired technologies in progress totalling DKK 795 as at 30 September 2019.

The value of intangible assets is determined in connection with the purchase price allocation. In case of indications of impairment, an impairment test is prepared, based on management's estimates of the future value based on an assessment of future cash flows on the basis of strategic plans, long-term growth and discount rate.

Due to the inherent uncertainty involved in determining the net present value of future cash flows, we considered these impairment tests to be a key audit matter.

Reference is made to note 3.2 Impairment test to the consolidated financial statements.

How our audit addressed the key audit matter
Our audit procedures included testing the mathematical accuracy of the discounted cash flow model and comparing forecasted profitability to internally approved budgets.

We evaluated the assumptions and methodologies used in the discounted cash flow model, in particular those relating to the forecast revenue growth and EBIT margin, including comparing with historical growth rates.

Further, we evaluated the sensitivity analysis on the assumptions applied in the valuations prepared by management.

Statement on the management's review

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 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

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

In preparing the financial statements, management is responsible for assessing the group's and the parent 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 management either intends to liquidate the group or the parent 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 as to 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 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 the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement 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 parent company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of 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 parent 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 parent company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note 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 the requirement to 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 consolidated financial statements and the parent company 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, 13 November 2019
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Søren Skov Larsen State Authorised Public Accountant mne26797	Henrik Pedersen State Authorised Public Accountant mne35456

Financial statements 2018/19 – Parent company

Clinical research is a key part of Ambu's business as we engage in studies to assess the clinical value of our solutions including the health-economic effects.

Income statement and statement of comprehensive income – Parent company

Ambu A/S Financial statements

DKKm

Income statement	Note	2018/19	2017/18
Revenue		2,004	1,714
Production costs	2.1, 2.2	-1,019	-936
Gross profit		**985**	**778**
Selling and distribution costs	2.1, 2.2	-139	-121
Development costs	2.1, 2.2	-116	-68
Management and administration	2.1, 2.2	-181	-161
Operating profit (EBIT) before special items		**549**	**428**
Special items	2.1, 2.3	-172	0
Operating profit (EBIT)		**377**	**428**
Financial income	4.2	160	101
Financial expenses	4.2	-39	-107
Profit before tax		**498**	**422**
Tax on profit for the year	2.4	-98	-109
Net profit for the year		**400**	**313**

Statement of comprehensive income	2018/19	2017/18
Net profit for the year	400	313
Other comprehensive income:		
Adjustment to fair value for the year:		
Cash flow hedging, realization of previous years' deferred gains/losses	0	1
Cash flow hedging, reclassification to the income statement	0	5
Tax on hedging transactions	0	-1
Other comprehensive income after tax	**0**	**5**
Comprehensive income for the year	**400**	**318**

Balance sheet – Parent company

Ambu A/S Financial statements

DKKm

Assets	Note	30.09.19	30.09.18
Completed development projects	3.1	140	105
Rights	3.1	803	820
Goodwill	3.1	147	147
Development projects in progress	3.1	226	127
Intangible assets		**1,316**	**1,199**
Property, plant and equipment	3.2	**148**	**133**
Investments in subsidiaries	3.3	2,281	2,285
Deferred tax asset	2.5	0	2
Other non-current assets		**2,281**	**2,287**
Total non-current assets		**3,745**	**3,619**
Inventories	3.4, 4.1	111	85
Trade receivables	3.5, 4.1	111	85
Receivables from subsidiaries	4.1	680	499
Income tax receivable		6	5
Other receivables	4.1	4	6
Prepayments		16	15
Cash	4.1	87	12
Total current assets		**1,015**	**707**
Total assets		**4,760**	**4,326**

Equity and liabilities	Note	30.09.19	30.09.18
Share capital		126	126
Other reserves		1,872	1,544
Equity		**1,998**	**1,670**
Deferred tax	2.5	104	0
Provisions	4.1, 5.1	38	36
Contingent consideration	4.1, 5.2	108	473
Interest-bearing debt	4.1	1,152	1,305
Payables to subsidiaries		609	600
Non-current liabilities		**2,011**	**2,414**
Provisions	4.1, 5.1	5	4
Contingent consideration	4.1, 5.2	251	0
Interest-bearing debt	4.1	4	3
Trade payables	4.1	68	59
Payables to subsidiaries	4.1	195	128
Income tax		4	1
Other payables	4.1	211	40
Derivative financial instruments	4.1	13	7
Current liabilities		**751**	**242**
Total liabilities		**2,762**	**2,656**
Total equity and liabilities		**4,760**	**4,326**

Cash flow statement – Parent company

Ambu A/S Financial statements

DKKm

	Note	2018/19	2017/18
Operating profit (EBIT)		377	428
Adjustment of items with no cash flow effect	3.6	58	73
Changes in net working capital	3.7	30	469
Interest income and similar items		45	94
Interest expenses and similar items		-26	-31
Income tax paid		-13	-17
Cash flow from operating activities		**471**	**1,016**
Investments in non-current assets		-179	-796
Divestment of subsidiary in respect of previous years		0	1
Cash flow from investing activities before acquisitions of enterprises and technology		-179	-795
Free cash flow before acquisitions of enterprises and technology		**292**	**221**
Acquisition of technology		-2	-2
Acquisitions of enterprises		0	-859
Cash flow from acquisitions of enterprises and technology		-2	-861
Cash flow from investing activities		**-181**	**-1,656**
Free cash flow after acquisitions of enterprises and technology		**290**	**-640**
Redemption of corporate bonds		0	-701
Raising of long-term debt		75	1,960
Repayment of debt to credit institutions		-225	-760
Refund received in connection with the raising of lease debt		0	25
Repayment in respect of finance leases		-8	-3
Redemption of derivative financial instruments		0	-12
Exercise of options		17	20
Purchase of treasury shares		0	-493
Sale of treasury shares, employee share programme		7	6
Dividend paid		-101	-92
Dividend, treasury shares		3	2
Capital increase, Class B share capital		16	699
Cash flow from financing activities		**-216**	**651**
Changes in cash and cash equivalents		**74**	**11**
Cash and cash equivalents, beginning of year		12	1
Translation adjustment of cash and cash equivalents		1	0
Cash and cash equivalents, end of year		**87**	**12**
Cash and cash equivalents, end of year, are composed as follows:			
Cash and cash equivalents		87	12
Bank debt		0	0
Cash and cash equivalents, end of year		**87**	**12**

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 2018	**126**	**0**	**0**	**0**	**113**	**1,330**	**101**	**1,670**
Net profit for the year						304	96	400
Transferred to reserves					121	-121		0
Other comprehensive income for the year						0		0
Total comprehensive income	**0**	**0**	**0**	**0**	**121**	**183**	**96**	**400**
Transactions with the owners:								
Share-based payment						10		10
Tax deduction relating to share options						-24		-24
Exercise of options						17		17
Sale of treasury shares, employee share programme						7		7
Distributed dividend							-98	-98
Dividend, treasury shares						3	-3	0
Share capital increase						16		16
Equity 30 September 2019	**126**	**0**	**0**	**0**	**234**	**1,542**	**96**	**1,998**
Equity 1 October 2017	**122**	**57**	**-5**	**5**	**51**	**785**	**90**	**1,105**
Net profit for the year						212	101	313
Transferred to reserves					62	-62		0
Other comprehensive income for the year			5	-5		5		5
Total comprehensive income	**0**	**0**	**5**	**-5**	**62**	**155**	**101**	**318**
Transactions with the owners:								
Termination of reserve		-752				752		0
Share-based payment						17		17
Tax deduction relating to share options						88		88
Exercise of options						20		20
Purchase of treasury shares						-493		-493
Sale of treasury shares, employee share programme						6		6
Distributed dividend						-2	-88	-90
Dividend, treasury shares						2	-2	0
Share capital increase	4	695						699
Equity 30 September 2018	**126**	**0**	**0**	**0**	**113**	**1,330**	**101**	**1,670**

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 1,872m (2018: DKK 1,544m). Other reserves are free for distribution with the exception of the reserve for development costs.

As at 30 September 2018, the reserve for share premium not required by the Articles of Association has been dissolved through transfer to the reserve for retained earnings.

§ 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.

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 as well as 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 – Parent company
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:

3.2 Impairment test
4.5 Share capital and treasury shares
5.4 Contingent liabilities
5.5 Share-based payment
5.9 Subsequent events
5.10 Adoption of the annual report etc.

The accounting policies have been applied consistently in the preparation of the financial statements of the Parent company in the years presented as well as being consistent with previous years except for the adoption of IFRS 15. Please refer to note 1.2 to the consolidated financial statement.

2.1 Staff costs

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

	2018/19	**2017/18**
Production costs	4	3
Selling and distribution costs	54	47
Development costs	48	38
Management and administration	105	98
Special items	25	0
Total staff costs	**236**	**186**

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

	2018/19	**2017/18**
Remuneration, Executive Board	17	14
Share-based payment	-3	12
Termination costs cf. note 2.3	25	0
Staff costs, Executive Board	**39**	**26**
Wages and salaries	169	138
Pension contributions	14	10
Social security costs	3	2
Share-based payment	7	5
Remuneration, Board of Directors	4	5
Total staff costs	**236**	**186**
Average number of employees	237	207
Number of full-time employees at the end of the year	266	233

DKKm

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

	2018/19	2017/18
Amortization of intangible development projects and rights	39	48
Depreciation of property, plant and equipment	9	8
Impairment losses on property, plant and equipment	0	0
Total depreciation, amortization and impairment losses	**48**	**56**

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

	2018/19	2017/18
Selling and distribution costs	1	1
Development costs	39	48
Management and administration	8	7
Total depreciation, amortization and impairment losses	**48**	**56**

2.3 Special items

	2018/19	2017/18
Termination costs CEO, remuneration	18	0
Termination costs CEO, share-based payments	7	0
Compensation distributor	136	0
Other severance and strategy related costs	11	0
Total special items	**172**	**0**

2.4 Tax on profit for the year

	2018/19	2017/18
Current tax on profit for the year	55	-5
Deferred tax on profit for the year	45	115
Adjustment of deferred tax in respect of previous years	-2	-1
Total tax on profit for the year	**98**	**109**
Tax on profit for the year comprises (%):		
Calculated 22.0% (2017/18: 22.0%) tax on profit for the year	22.0	22.0
Income not subject to tax	-0.3	-0.1
Non-deductible costs	0.4	4.3
Value adjustment of contingent consideration	-2.0	0.0
Effect of shorter discount period	0.0	-0.1
Tax adjustment in respect of previous years	-0.4	-0.3
Effective tax rate	**19.7**	**25.8**

The group's transfer pricing setup is based on the widely used principal/agent model according to which Ambu A/S in its capacity of principal through financial ownership of the group's intangible assets etc. repatriates most of the group's profit for income taxation in Denmark.

Current tax on profit for the year amounted to DKK 55m (DKK -5m), corresponding to 11% (FY 2017/18: -1%) of the profit before tax, taking into account Ambu A/S's tax deduction relating to the intercompany purchase of rights. Furthermore, income tax payable is reduced by Ambu A/S's tax deduction resulting from the employees' gains from called warrants and share options. Such gains are subject to personal tax.

DKKm

2.5 Deferred tax

	30.09.19	30.09.18
Deferred tax, beginning of year	-2	-27
Deferred tax on share-based payment recognized in equity	64	-89
Deferred tax for the year recognized in the income statement	45	115
Change in respect of previous years	-3	-1
Deferred tax at end of year	**104**	**-2**
Deferred tax relates to:		
Intangible assets	238	237
Property, plant and equipment	-1	2
Current assets	2	3
Deferred tax on share-based payment recognized in equity	-14	-81
Provisions	-2	-2
Contingent consideration	0	-15
Payables	0	-1
Tax loss carry-forwards	-119	-145
	104	**-2**

3.1 Intangible assets

2018/19	Completed development projects	Rights	Goodwill	Develop-ment projects in progress	Total
Acquisition price, beginning of year	323	921	147	127	1,518
Additions during the year	0	0	0	156	156
Disposals during the year	0	0	0	0	0
Transferred during the year	57	0	0	-57	0
Acquisition price, end of year	**380**	**921**	**147**	**226**	**1,674**
Amortization, beginning of year	218	101	0	0	319
Disposals during the year	0	0	0	0	0
Impairment losses for the year	0	0	0	0	0
Amortization for the year	22	17	0	0	39
Amortization, end of year	**240**	**118**	**0**	**0**	**358**
Carrying amount, end of year	**140**	**803**	**147**	**226**	**1,316**

2017/18	Completed development projects	Rights	Goodwill	Develop-ment projects in progress	Total
Acquisition price, beginning of year	316	260	147	32	755
Additions during the year	0	661	0	102	763
Disposals during the year	0	0	0	0	0
Transferred during the year	7	0	0	-7	0
Acquisition price, end of year	**323**	**921**	**147**	**127**	**1,518**
Amortization, beginning of year	194	77	0	0	271
Disposals during the year	0	0	0	0	0
Impairment losses for the year	0	0	0	0	0
Amortization for the year	24	24	0	0	48
Amortization, end of year	**218**	**101**	**0**	**0**	**319**
Carrying amount, end of year	**105**	**820**	**147**	**127**	**1,199**

DKKm

3.2 Property, plant and equipment

2018/19	Land and buildings	Plant and machinery	Other plant, fixtures and fittings, tools and equipm't	Prepay-ments and plant under construction	Total
Acquisition price, beginning of year	117	1	68	4	190
Additions during the year	0	0	0	24	24
Disposals during the year	0	-1	-2	0	-3
Transferred during the year	1	0	11	-12	0
Acquisition price, end of year	**118**	**0**	**77**	**16**	**211**
Depreciation and impairment losses, beginning of year	4	1	52	0	57
Disposals during the year	0	-1	-2	0	-3
Impairment losses for the year	0	0	0	0	0
Depreciation for the year	2	0	7	0	9
Depreciation and impairment losses at end of year	**6**	**0**	**57**	**0**	**63**
Carrying amount, end of year	**112**	**0**	**20**	**16**	**148**

2017/18	Land and buildings	Plant and machinery	Other plant, fixtures and fittings, tools and equipm't	Prepay-ments and plant under construction	Total
Acquisition price, beginning of year	92	1	62	4	159
Additions during the year	0	0	0	34	34
Disposals during the year	-1	0	-2	0	-3
Transferred during the year	26	0	8	-34	0
Acquisition price, end of year	**117**	**1**	**68**	**4**	**190**
Depreciation and impairment losses, beginning of year	3	1	47	0	51
Disposals during the year	-1	0	-1	0	-2
Impairment losses for the year	0	0	0	0	0
Depreciation for the year	2	0	6	0	8
Depreciation and impairment losses at end of year	**4**	**1**	**52**	**0**	**57**
Carrying amount, end of year	**113**	**0**	**16**	**4**	**133**

3.3 Investments in subsidiaries

	2018/19	2017/18
Acquisition price, beginning of year	2,285	975
Additions	0	1,404
Disposals	-4	-94
Acquisition price, end of year	**2,281**	**2,285**
Carrying amount, end of year	2,281	2,285

Disposals last year concern dividends from subsidiaries.

Reference is made to note 5.7 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.

DKKm

3.4 Inventories

	30.09.19	30.09.18
Raw materials and consumables	0	0
Finished goods	111	85
	111	**85**
Cost of sales for the year	1,005	933
Write-down of inventories included in production costs for the year	6	1

3.5 Trade receivables

	30.09.19	30.09.18
Not due	102	74
1-90 days	4	6
91-180 days	1	1
> 180 days	4	4
Trade receivables	**111**	**85**
At end of year, trade receivables were written down by	0	3

3.6 Adjustment of items with no cash flow effect

	2018/19	2017/18
Depreciation, amortization and impairment losses	48	56
Share-based payment	10	17
	58	**73**

3.7 Changes in net working capital

	2018/19	2017/18
Changes in inventories	-26	-1
Changes in receivables	-25	-12
Changes in balances with group companies	-101	484
Changes in trade payables etc.	182	-2
	30	**469**

DKKm

4.1 Categories of financial instruments

The parent company has recognized the following financial instruments:

	30.09.19	30.09.18
Receivables from subsidiaries	680	499
Trade receivables	111	85
Other receivables	4	6
Cash	87	12
Receivables and cash and cash equivalents	**882**	**602**
Credit institutions	1,051	1,200
Provisions	43	40
Finance leases	105	108
Trade payables	68	59
Payables to subsidiaries	804	728
Other payables	211	40
Financial liabilities recognized at amortized cost	**2,282**	**2,175**
Contingent consideration (level 3)	359	473
Financial liabilities stated at fair value in the income statement	**359**	**473**
Derivative financial instruments (level 2)	13	7
Financial liabilities stated at fair value in other comprehensive income	**13**	**7**

The parent company's payables fall due as follows:

2018/19	**0-1 year**	**1-5 years**	**> 5 years**	**Total**
Credit institutions	0	1,051	0	1,051
Provisions	5	38	0	43
Contingent consideration	251	108	0	359
Finance leases	4	15	86	105
Other financial liabilities	482	601	0	1,083
Derivative financial instruments	13	0	0	13
	755	**1,813**	**86**	**2,654**

2017/18	**0-1 year**	**1-5 years**	**> 5 years**	**Total**
Credit institutions	0	1,200	0	1,200
Provisions	4	36	0	40
Contingent consideration	0	473	0	473
Finance leases	3	15	90	108
Other financial liabilities	228	599	0	827
Derivative financial instruments	7	0	0	7
	242	**2,323**	**90**	**2,655**

DKKm

4.2 Net financials

	2018/19	2017/18
Interest income:		
Interest income, subsidiaries	0	1
Other financial income:		
Foreign exchange gains, net	17	13
Dividend from subsidiaries	28	80
Fair value adjustment, contingent consideration	115	0
Fair value adjustment, swap	0	7
Financial income	**160**	**101**

	2018/19	2017/18
Interest expenses:		
Interest expenses, subsidiaries	7	0
Interest expenses, banks	17	18
Interest expenses, leases	2	2
Interest expenses, bonds	0	11
Other financial expenses:		
Fair value adjustment, contingent consideration	0	68
Effect of shorter discount period, acquisition of technology	3	3
Fair value adjustment, swap	10	0
Ineffectiveness of interest rate swap	0	5
Financial expenses	**39**	**107**

§ Accounting policies

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

5.1 Provisions

	2018/19	2017/18
Provisions as at 1 October	40	39
Used during the year	-2	-3
Value adjustment	3	3
Foreign currency translation adjustment	2	1
Provisions as at 30 September	**43**	**40**
Provisions expected to fall due:		
Non-current liabilities	38	36
Current liabilities	5	4
Provisions as at 30 September	**43**	**40**

DKKm

5.2 Contingent consideration

	2018/19	2017/18
Contingent consideration as at 1 October	473	0
Additions in connection with acquisition	0	475
Used during the year	0	-71
Adjustments made through the income statement under financial expenses:		
Reversal of unused amounts	0	0
Value adjustment	-115	68
Foreign currency translation adjustment	1	1
Contingent consideration as at 30 September	**359**	**473**
Contingent consideration expected to fall due:		
Non-current liabilities	108	473
Current liabilities	251	0
Contingent consideration as at 30 September	**359**	**473**

5.3 Operating leases

	2018/19	2017/18
Payments due within 0-1 year	1	1
Payments due within 1-5 years	1	1
Payments due after 5 years	0	0
Total operating leases	**2**	**2**
Operating leases expensed in the income statement	2	2

5.4 Fee to auditors appointed by the annual general meeting

	2018/19	2017/18
Audit fee	1	1
Other assurance engagements	0	0
Tax consultancy services	0	0
Other services	0	0
Total fees	**1**	**1**

DKKm

5.5 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:

	2018/19	2017/18
Sale of goods and services to subsidiaries	1,738	1,481
Licences granted to subsidiary	6	7
Purchase of goods and services from subsidiaries	1,078	883
Transfer of rights from subsidiary	0	661

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.

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

	2018/19	2017/18
Guarantees and security furnished on behalf of subsidiaries	26	25

Company announcements in 2018/19

No. 1	Ambu updates 2020 strategy and upgrades financial targets in connection with capital markets day 2018
No. 2	Annual report 2017/18 (Earnings release)
No. 3	Capital increase in connection with exercise of warrants
No. 4	Annual General Meeting in Ambu A/S
No. 5	Interim report Q1 2018/19
No. 6	Allan Søgaard Larsen withdraws from Ambu's Board of Directors
No. 7	Capital increase in connection with exercise of warrants
No. 8	Interim report for Q2 2018/19 and for the half-year
No. 9	Capital increase in connection with exercise of warrants
No. 10	Ambu appoints new CEO
No. 11	Cook Medical and Ambu announce collaboration to address endoscope-related infections
No. 12	Review of the Big Five 2020 Strategy
No. 13	Ambu invests into a 100% direct sales organisation for pulmonology in the US
No. 14	Interim report for Q3 2018/19
No. 15	Capital increase in connection with exercise of warrants
No. 16	Financial Diary

Financial calendar 2019 and 2020

17.12.2019	Annual general meeting
07.01.2020	Quiet period ending 4 February 2020
04.02.2020	Interim report Q1 2019/20
07.04.2020	Quiet period ending 5 May 2020
05.05.2020	Interim report Q2 2019/20
29.07.2020	Quiet period ending 26 August 2020
26.08.2020	Interim report Q3 2019/20
30.09.2020	End of FY 2019/20
14.10.2020	Quiet period ending 11 November 2020
11.11.2020	Annual report 2019/20
09.12.2020	Annual general meeting

About Ambu

Since 1937, breakthrough ideas have fuelled our work to bring efficient healthcare solutions to life. This is what we create within our fields of excellence – Visualization, Anaesthesia, and Patient Monitoring & Diagnostics. Millions of patients and healthcare professionals worldwide depend on the functionality and performance of our products. We are dedicated to improving 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 Ambu aScope™ – the world's first single-use flexible endoscope. Our commitment to bringing new ideas and superior service to our customers has made Ambu one of the most recognized medtech companies in the world. Headquartered near Copenhagen in Denmark, Ambu employs approx. 3,000 people in Europe, North America and Asia-Pacific. For more information, please visit www.ambu.com.

Ambu

Ideas that work for life