Interim report Q1 2017/18

Ambu has had a good start to the year with organic growth of 14%, an almost 4 percentage point improvement in the EBIT margin to 16.5% and free cash flows of DKK 36m. Our outlook on earnings and free cash flows for the year are raised.

"We've had a good start to the year and to the first quarter of our 'Big Five 2020' strategy with 14% organic growth, which testifies to a continued strong momentum in Ambu's business. Significant economies of scale impacted our EBIT margin which increased by almost 4 percentage points and 40% improvement of our earnings compared to same period last year. With that in mind, we raise our EBIT margin and free cash flow outlook for the full financial year," says President and CEO Lars Marcher.

Highlights for Q1 2017/18

- Revenue of DKK 553m was posted, representing growth of 14% in local currencies and 8% in Danish kroner. The difference in growth is due to an 8% drop in the USD/DKK exchange rate.
- When measured in local currencies, Anaesthesia contributed growth of 0%, Visualisation contributed 58%, and PMD (Patient Monitoring & Diagnostics) delivered growth of 4%. Anaesthesia received a large number of one-off orders in Q1 2016/17, which have resulted in timing differences. Adjusted for this, growth in Anaesthesia was 4%.
- When measured in local currencies, Europe contributed growth of 12%, North America 16% and the Rest of the world 11%.
- Sales of endoscopes reached 104,000 units, up 76% relative to Q1 last year. On 2 January, production of aScopes started up in our new factory in Malaysia. Our available capacity has thereby been increased to up to one million units per year.
- The gross margin was 58.0% (53.7%), equating to an improvement of 4.3 percentage points.
- Total capacity costs were DKK 230m (DKK 210m), corresponding to a 10% increase including operating expenses in Invendo Medical as well as an increase in the sales force in the USA.
- EBIT was DKK 91m (DKK 65m) with an EBIT margin of 16.5% (12.7%), corresponding to a 40% improvement.
- Net working capital relative to revenue improved and now equates to 19% (23%).
- Free cash flows before acquisitions of enterprises were DKK 36m (DKK 43m).

- The acquisition of Invendo Medical GmbH was completed on 25 October 2017, and the integration with Ambu is progressing as planned. On 9 January, the first Invendo product under Ambu's ownership received FDA approval.
- In Q1, Ambu carried out a capital increase of 3% of the share capital.
- Outlook for 2017/18 is raised. Organic growth in local currencies is still expected to be approx. 13%, while our EBIT margin outlook is raised from "approx. 20%" to "the interval 20-21%", and our outlook for free cash flows is raised from "approx. DKK 275m" to "approx. DKK 300m".

A **conference call** is being held today, 31 January 2018, at 11.00 (CET). Please call the following number five minutes before the start of the conference: +45 3544 5580. The conference can be followed via www.ambu.com/webcastQ12018 and is held in English. The presentation can be downloaded immediately before the conference call via the same link.

Contact

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About Ambu

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

Financial highlights

DKKm	Q1 2017/18	Q1 2016/17	FY 2016/17
Income statement			
Revenue	553	512	2,355
Gross margin, %	58.0	53.7	56.5
EBITDA	118	91	555
Depreciation	-11	-11	-45
Amortisation	-16	-15	-60
EBIT	91	65	450
Net financials	-41	-3	-57
Profit before tax	50	62	393
Net profit for the period	19	48	301
Balance sheet			
Assets	4,122	2,529	2,500
Net working capital	460	491	457
Equity	1,909	1,000	1,279
Net interest-bearing debt	981	1,061	767
Cash flows			
Cash flows from operating activities	87	73	462
Cash flows from investing activities before acquisitions of enterprises and technology	-51	-30	-141
Free cash flows before acquisitions of enterprises and technology	36	43	321
Acquisitions of enterprises and technology	-851	0	0
Cash flows from operating activities, % of revenue	16	14	20
Investments, % of revenue	-9	-6	-6
Free cash flows before acquisitions of enterprises, % of revenue	7	8	14
Key figures and ratios			
Organic growth, %	14	11	14
Rate of cost, %	42	41	37
EBITDA margin, %	21.3	17.8	23.6
EBIT margin, %	16.5	12.7	19.1
Tax rate, %	62	23	23
Return on equity, %	19	27	27
NIBD/EBITDA	1.7	2.2	1.4
Equity ratio, %	46	40	51
Net working capital, % of revenue	19	23	19
Return on invested capital (ROIC), %	15	20	22
Average no. of employees	2,644	2,447	2,503
Share-related ratios			
Market price per share (DKK)[1]	111	57	97
Earnings per share (EPS) (DKK)[1]	0.08	0.19	1.27
Diluted earnings per share (EPS-D) (DKK)[1]	0.08	0.19	1.24

[1)] Consequential change to a nominal value of DKK 0.50 per share as a result of the share split carried out in January 2018.

Management's review

Q1 2017/18

PRODUCT AREAS

(Comparative figures are stated in brackets. Unless otherwise indicated, growth is stated in local currencies.)

Anaesthesia

In Q1, growth in Anaesthesia was 0% in local currencies, and -6% in Danish kroner. Anaesthesia accounted for 37% (43%) of revenue in Q1.

Within Anaesthesia, the product lines laryngeal masks and resuscitators posted strong growth of 7% and 8%, respectively, and together account for approx. 50% of sales in Anaesthesia.

The breathing circuits product line constitutes close to 35% of sales in Anaesthesia and had a weak Q1 with 6% negative growth due to timing differences in the markets in Latin America. Adjusted for this, growth in Anaesthesia totalled 4%. Against this background, growth in Anaesthesia is in line with expectations, and growth of approx. 5% is still expected for Anaesthesia for the financial year.

Visualisation

In Q1, sales in Visualisation increased by 58% in local currencies, and 50% in Danish kroner. Visualisation accounted for 29% (21%) of revenue in Q1.

Sales of single-use endoscopy products continued to grow, reaching sales of 104,000 units, equating to an increase of 76% (85%) relative to Q1 last year. The target for the year is sales of 500,000 scopes by the end of 2017/18.

As planned, commercial production of aScope at our new factory in Malaysia started up on 2 January 2018, and consequently, our available capacity is now around 1,000,000 scopes a year, with the possibility of increasing production to 4,000,000 scopes at short notice.

At the beginning of Q1, Ambu acquired Invendo Medical GmbH and thereby a product platform which, together with Ambu's existing visualisation products, will be able to supply much of the endoscope market with single-use products. The establishment of a scalable production and supply chain in Malaysia has commenced, with a view to start in the next financial year.

On 9 January 2018, Ambu obtained FDA approval of the single-use colonoscope developed by Invendo. The approval was expected, and in the course of the second half of this financial year the evaluation and test phase of the product will be initiated in collaboration with selected hospitals in the USA.

Invendo products are still not expected to generate revenue in the current financial year.

Patient Monitoring & Diagnostics

In Q1, PMD sales were up 4% in local currencies, and 1% in Danish kroner. This represents an increase in organic growth relative to Q1 last year, where growth was 0%.

The two largest product areas in PMD are electrodes for cardiology and electrodes for neurology, which contributed growth of 5% and 6%, respectively, in the quarter. Total growth in PMD ended up at 4% due to negative growth for a small number of niche products.

PMD accounted for 34% of Ambu's total revenue in Q1 against 36% in the prior-year quarter.

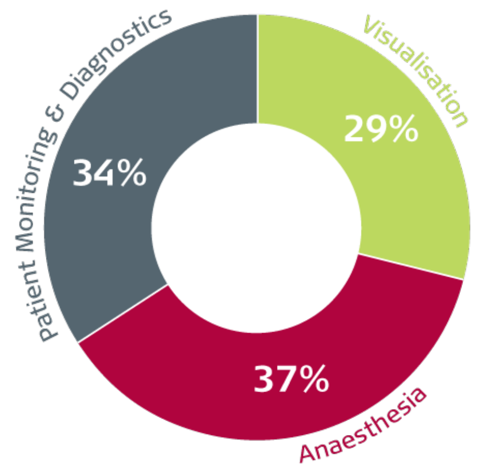
PMD is still expected to generate growth of approx. 3-4% for the financial year.

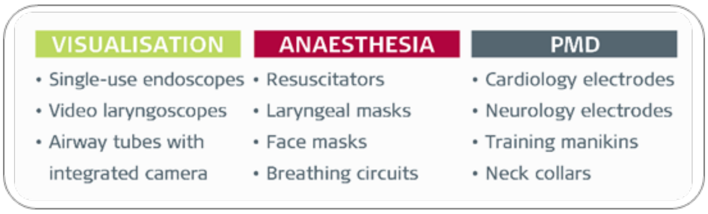
Revenue – business areas

	Q1			Composition of growth		
	2017/18	**Distribution**	**2016/17**	**Organic***	**Currencies**	**Reported**
Anaesthesia	207	37%	221	0%	-6%	-6%
Visualisation	158	29%	105	58%	-8%	50%
PMD	188	34%	186	4%	-3%	1%
Revenue	**553**	**100%**	**512**	**14%**	**-6%**	**8%**

**Local currencies*

Breakdown of Q1 revenue by business area





FINANCIAL RESULTS
INCOME STATEMENT

Revenue

Revenue of DKK 553m was posted for Q1, representing growth of 14% in local currencies and 8% in Danish kroner. The lower growth in local currencies is mainly due to the USD/DKK exchange rate having dropped by more than 8% over the past 12 months.

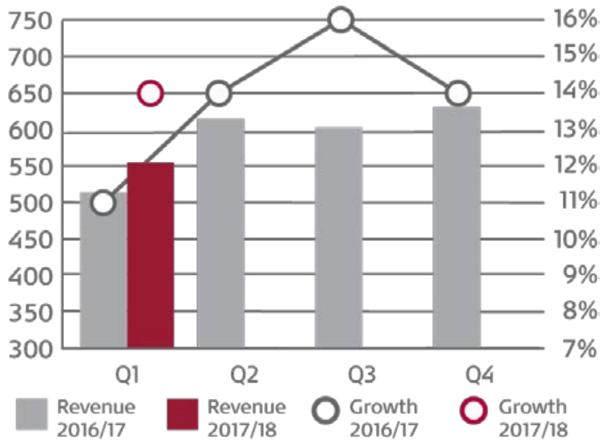
As the PMD business area is traditionally driven by Europe, and thus traded in EUR, while Anaesthesia and Visualisation are more geographically diversified, the significant drop in the USD/DKK exchange rate has resulted in a shift in the relative significance of the individual business areas. Anaesthesia's share of total revenue was thus reduced from 43% to 37%, while we saw a shift in PMD from 36% to 34%, as a substantial portion of PMD transactions are invoiced in EUR.

In Europe, growth stood at 12% (5%) both in local currencies and in Danish kroner, and high growth was seen in all markets. Anaesthesia was low for the quarter due to timing differences while the sales of endoscopes contributed with high double-digit growth.

Growth in North America was 16% (12%) in local currencies, and 6% in Danish kroner. A particularly positive development in sales of endoscopes is seen in the USA, which is reporting the highest growth for all markets.

In Q1, growth in the Rest of the world was up 11% (36%) in local currencies, and 3% in Danish kroner. The growth was impacted by timing differences from sales of breathing circuits to Latin America, and adjusted for this, growth in the Rest of the world stood at 26%. The growth is distributed evenly with double-digit growth on all major product groups except breathing circuits.

Revenue (DKKm) and growth (%) per quarter



Currency exposure

As concerns revenue, Ambu is particularly exposed to USD, as approx. 50% of revenue is invoiced in USD. As a result of the significant drop in the USD/DKK exchange rate, which in Q1 took place in December 2017, the reported growth is 6 percentage points below the organic growth. However, the low USD exchange rate has a minimal impact on earnings, as cost of sales and operating expenses in USD are reduced correspondingly.

Moreover, EBIT is exposed to developments in the Chinese currency CNY and the Malaysian currency MYR, as a significant share of the value of Ambu's production in the Far East is settled in CNY and MYR.

Revenue – markets

	Q1			Composition of growth		
	2017/18	Distribution	2016/17	Organic*	Currencies	Reported
Europe	244	44%	218	12%	0%	12%
North America	247	45%	234	16%	-10%	6%
Rest of the world	62	11%	60	11%	-8%	3%
Revenue	**553**	**100%**	**512**	**14%**	**-6%**	**8%**

**Local currencies*

The foreign currency sensitivity of revenue and EBIT, respectively, can be summarised over a 12-month period as follows, based on a 10% increase in exchange rates against DKK:

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

The total impact of changes in exchange rates on EBIT was minimal in Q1.

Gross profit

Gross profit for Q1 was DKK 321m (DKK 275m), and the gross margin increased by 4.3 percentage points to 58% (53.7%).

The improved gross margin is ascribable to the increased economies of scale created by revenue growth in so far as the factories' overheads are concerned. In addition, we are continuously working to optimise our production and our supply chain, which also contribute to the improvements achieved.

Costs

Total capacity costs for the quarter were DKK 230m (DKK 210m), up 10%.

Capacity costs include two months of operating expenses in Invendo and expenses incurred in connection with the expansion of the sales force in the USA, coming to a total of approx. DKK 10m and thus accounting for approx. half of the increase in costs when measured in Danish kroner.

The rate of cost for Q1 was 42% (41%) and was impacted by the DKK 10m in costs described above.

Selling and distribution costs for the quarter totalled DKK 141m (DKK 132m), corresponding to an increase of 7%, including DKK 5m from costs relating to the expansion of the sales force in the USA.

A Medical Device Excise Tax (MDET) was introduced in the USA in 2013 which, for Ambu, resulted in additional tax of 2.3% on the revenue generated in the USA, determined with some adjustments. The MDET tax was subsequently suspended with effect for 2016 and 2017, but was expected to come back into force from 1 January 2018. On 22 January 2018, however, the suspension was extended for an additional two years until the end of 2019.

Development costs for the quarter totalled DKK 24m (DKK 18m), including operating expenses of DKK 5m relating to Invendo.

The correlation between capitalisation of development costs and the recognition of amortisation in the income statement is shown in the table below. Year to date, amortisation of DKK 14m and investments of DKK 16m have been recognised, resulting in cash development costs for the quarter of DKK 26m, corresponding to an increase of 18%.

DKKm	YTD	
	17/18	**16/17**
Development costs	24	18
÷ Amortisation	-14	-13
+ Investments	16	17
= Cash flows	**26**	**22**

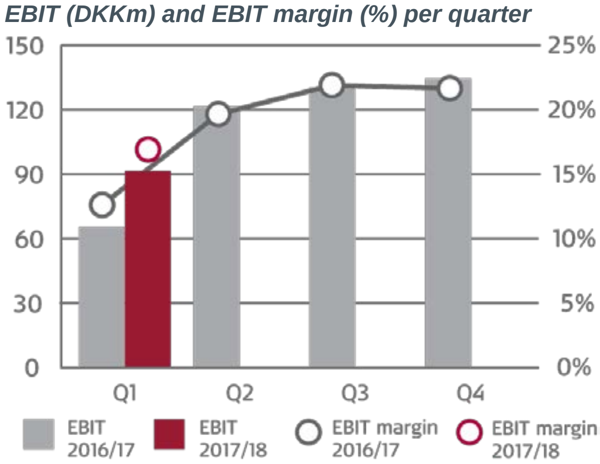
In Q1, management and administrative expenses totalled DKK 65m (DKK 60m), up 8%.

EBIT

EBIT for Q1 was then DKK 91m (DKK 65m) with an EBIT margin of 16.5% (12.7%), corresponding to an increase of 3.8 percentage points. In absolute values, EBIT for the quarter increased by 40%.

The impact of exchange rates on EBIT for the quarter was very limited.

EBIT (DKKm) and EBIT margin (%) per quarter



Net financials

Net financials amounted to net expenses of DKK 41m (net expenses of DKK 3m) for the quarter and are composed as follows:

- Foreign exchange losses totalled DKK 6m (income of DKK 20m)

- Interest expenses on bank, lease and bond debt totalled DKK 10m (DKK 8m)
- Fair value adjustments constituted an expense of DKK 24m (an expense of DKK 14m)
- The interest element from liabilities stated at present amortised value is recognised as a net expense of DKK 1m (DKK 1m).

Tax

Tax on profit for the period amounted to DKK -31m (DKK -14m) and was impacted by the federal part of the income tax in the USA being reduced from 35% to 21% with effect from 1 January 2018. At the end of FY 2016/17, Ambu had capitalised tax losses with a total value of DKK 47m, and the income tax reduction is expected to reduce the value of this asset by DKK 19m, which has been recognised in the income statement as a non-recurring expense in the quarter.

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

Net profit

Net profit totalled DKK 19m (DKK 48m) for the quarter.

Balance sheet

At the end of December 2017, Ambu had total assets of DKK 4,122m (DKK 2,529m).

The acquisition of Invendo Medical GmbH was completed on 25 October 2017, and at the end of Q1 2017/18, Invendo had been consolidated on the basis of a preliminary distribution of the purchase price. The total purchase price came to DKK 1,679m (EUR 225m), of which DKK 860m (EUR 115m) was paid in cash, and the remaining DKK 819m (EUR 110m) is made up of contingent payments which fall due in instalments in the period up until 2023, when and if FDA approval is obtained of the colonoscope, gastroscope and duodenoscope, and provided that total sales of these products towards 2021 exceed EUR 200m. Reference is made to note 9 for a more detailed description of the contingent payments.

The fair value of the purchase price before cash and cash equivalents acquired is DKK 1,415m. Less the value of the net assets acquired – preliminarily calculated at DKK 511m, including deferred tax of DKK 194m relating to reassessed assets – the calculated value of goodwill acquired is DKK 904m. A risk-weighted cost of capital (WACC) of 18% p.a. has been applied in connection with the determination of the deferred contingent purchase price. The final distribution of the purchase price is expected to have been completed before the presentation of the interim financial statements for H1 2017/18.

At the acquisition date, the deferred payments were recognised at fair value at DKK 555m (EUR 75m). The difference between this value and the maximum liability of DKK 819m (EUR 110m) comes to DKK 264m (EUR 35m), which will be recognised in the income statement under net financials up until Q2 of FY 2022/23, or earlier to the extent that the conditions regarding the contingent payments are met.

FDA approval of the colonoscope will trigger a milestone payment of DKK 74m (EUR 10m) payable in March 2018.

Net working capital at the end of the quarter was DKK 460m (DKK 491m), corresponding to 19% (23%) of 12 months of revenue. The lower level of funds tied up in net working capital relative to revenue is due primarily to a reduction of trade receivables.

Trade receivables totalled DKK 358m at the end of the quarter against DKK 357m at the same time last year, and the average number of credit days was 52 days against 56 days at the end of Q1 2016/17.

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

Total net interest-bearing debt at the end of the quarter was DKK 981m (DKK 1,061m), corresponding to 1.7 (2.2) of rolling 12-month EBITDA.

At the end of Q1, Ambu's unutilised credit facilities totalled DKK 2,000m (DKK 1,100m).

Cash flow statement

Cash flows from operating activities totalled DKK 87m (DKK 73m). As expected, cash flows were positively affected by a lower level of funds tied up in receivables and negatively impacted by increasing funds tied up in inventories based on the high sales in Q4 2016/17. In addition, cash flows from operating activities were positively affected by lower tax payments as a result of timing differences.

Investments in non-current assets totalled DKK 51m (DKK 30m) for the quarter, which is in line with expectations. As concerns the new factory for the production of scopes and the acquisition of the factory which has been leased since 2009, a total of DKK 11m was paid in Q1, and the remaining payments totalling DKK 42m fall due in the current financial year. The building investments for these two projects, including the amounts paid in FY 2016/17, are then expected to come to a total of DKK 94m.

Year to date, total investments equate to 9% of revenue, of which 2 percentage points can be ascribed to investments in buildings.

The free cash flows before acquisitions of enterprises then totalled DKK 36m (DKK 43m).

Acquisitions of businesses totalled DKK 851m for the quarter and only comprised Invendo Medical GmbH.

Cash flows from financing activities amounted to DKK 851m (DKK 13m). This includes a 2.91% increase of the Class B share capital, which took place on 20 November 2017, and a dividend payment of DKK 74m (DKK 60m).

Equity

Equity totalled DKK 1,909m (DKK 1,000m) at the end of Q1, and the equity ratio was 46% (40%).

Other comprehensive income

Other comprehensive income includes a translation adjustment arising from the translation of foreign subsidiaries of DKK -5m (DKK 46m) as a consequence of the weakened USD/DKK exchange rate.

Other equity

In December, a dividend of DKK 90m was declared, of which DKK 76m has been paid out to the company's shareholders, with DKK 2m pertaining to Ambu's portfolio of treasury shares.

At the end of Q1, Ambu employees had exercised a total of 325,000 options in Ambu A/S, and the general employee share programme for 2017/18 announced in the annual report for 2016/17 had been established. This means that a total of 378,495 Class B shares in Ambu A/S were distributed in Q1 and thus have been deducted from the portfolio of treasury shares, and at the end of Q1, the portfolio of Class B treasury shares stood at 5,655,945 (6,827,360) shares, corresponding to 2.26% (2.82%) of the total share capital.

In addition, at the end of Q1, Ambu employees had exercised a total of 10,000 warrants to subscribe for shares in Ambu A/S.

Outlook 2017/18

The outlook for 2017/18 is raised in connection with the presentation of the interim report for Q1 2017/18. Organic growth in local currencies is still expected to be approx. 13%, while our EBIT margin outlook is raised from “approx. 20%” to “the interval 20-21%”, and our outlook for free cash flows is raised from “approx. DKK 275m” to “approx. DKK 300m”.

	Local currencies	
	31 January 2018	**9 November 2017**
Organic growth	Approx. 13%	Approx. 13%

	Danish kroner	
	31 January 2018	**9 November 2017**
EBIT margin	Approx. 20-21%	Approx. 20%
Free cash flows*	Approx. DKK 300m	Approx. DKK 275m

* Before acquisitions

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

	Exchange rate assumptions for 2017/18	
	31 January 2018	**9 November 2017**
USD/DKK	605	635
CNY/DKK	95	95
MYR/DKK	150	150
GBP/DKK	830	830

Forward-looking statements

Forward-looking statements, especially such as relate to future sales and operating profit, are subject to risks and uncertainties. Various factors, many of which are outside Ambu’s control, may cause the actual development to differ materially from the expectations contained in this report. Factors that might affect such expectations include, among others, changes in health care, in the world economy, in interest rate levels and in exchange rates.

Financial calendar 2017/18

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

Financial calendar 2018/19

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

Quarterly results

DKKm	Q1 2017/18	Q4 2016/17	Q3 2016/17	Q2 2016/17	Q1 2016/17
Revenue	553	629	601	613	512
Composition of reported growth:					
Organic growth in local currencies, %	14	14	16	14	11
Exchange rate effects on reported growth, %	-6	-4	0	1	0
Reported revenue growth, %	**8**	**10**	**16**	**15**	**11**
Organic growth, products:					
Anaesthesia, %	0	-1	9	-2	8
Visualisation, %	58	73	50	77	50
PMD, %	4	1	5	4	0
Organic growth in local currencies, %	**14**	**14**	**16**	**14**	**11**
Organic growth, markets:					
Europe, %	12	18	13	16	5
North America, %	16	11	13	10	12
Rest of the world, %	11	10	40	19	36
Organic growth in local currencies, %	**14**	**14**	**16**	**14**	**11**
Gross profit	**321**	**372**	**343**	**341**	**275**
Gross margin, %	*58.0*	*59.1*	*57.1*	*55.6*	*53.7*
Selling and distribution costs	-141	-144	-131	-132	-132
Development costs	-24	-20	-20	-18	-18
Management and administration	-65	-74	-62	-60	-60
Other operating expenses	0	0	0	-10	0
Total capacity costs	*-230*	*-238*	*-213*	*-220*	*-210*
Operating profit (EBIT)	**91**	**134**	**130**	**121**	**65**
EBIT margin, %	*16.5*	*21.3*	*21.6*	*19.7*	*12.7*
Financial income	3	8	-13	-5	23
Financial expenses	-44	-29	-9	-6	-26
Profit before tax (PBT)	**50**	**113**	**108**	**110**	**62**
Tax on profit for the period	-31	-26	-26	-26	-14
Net profit for the period	**19**	**87**	**82**	**84**	**48**

Quarterly results (continued)

DKKm	Q1 2017/18	Q4 2016/17	Q3 2016/17	Q2 2016/17	Q1 2016/17
Balance sheet:					
Assets	4,122	2,500	2,501	2,507	2,529
Net working capital	460	457	483	506	491
Equity	1,909	1,279	1,157	1,105	1,000
Net interest-bearing debt	981	767	896	997	1,061
Cash flows:					
Cash flows from operating activities	87	160	139	90	73
Cash flows from investing activities before acquisitions of enterprises and technology	-51	-32	-40	-39	-30
Free cash flows before acquisitions of enterprises and technology	36	128	99	51	43
Acquisitions of enterprises and technology	-851	0	0	0	0
Cash flows from operating activities, % of revenue	16	25	23	14	14
Investments, % of revenue	-9	-5	-7	-6	-6
Free cash flows before acquisitions of enterprises and technology, % of revenue	7	20	16	8	8
Key figures and ratios:					
Capacity costs	230	238	213	220	210
Rate of cost, %	42	38	35	36	41
EBITDA	118	161	156	147	91
EBITDA margin, %	21.3	25.6	26.0	24.0	17.8
Depreciation	-11	-12	-11	-11	-11
Amortisation	-16	-15	-15	-15	-15
EBIT	91	134	130	121	65
EBIT margin, %	16.5	21.3	21.6	19.7	12.7
NIBD/EBITDA	1.7	1.4	1.6	1.9	2.2
Net working capital, % of revenue	19	19	21	23	23
Share-related ratios:					
Market price per share (DKK)	111	97	84	60	57
Earnings per share (EPS) (DKK)	0.08	0.37	0.35	0.36	0.19
Diluted earnings per share (EPS-D) (DKK)	0.08	0.36	0.34	0.35	0.19

Management's statement

The Board of Directors and the Executive Board have considered and approved the interim report of Ambu A/S for the period 1 October 2017 to 31 December 2017. The interim report has not been audited or reviewed by the company's independent auditors.

The interim report is presented in accordance with IAS 34 – Interim Financial Reporting as adopted by the EU and additional Danish disclosure requirements for the interim reporting of listed companies.

We consider the accounting policies applied to be expedient, the group's internal controls relevant to preparing and presenting the interim report to be adequate and the interim report to give a true and fair view of the group's assets, liabilities, results and financial position as at 31 December 2017 and of the results of the group's operations and cash flows for the period 1 October 2017 to 31 December 2017.

We further consider that the management's review gives a true and fair view of the development in the group's activities and financial affairs, the profit for the period and the group's financial position as a whole as well as a description of the most significant risks and uncertainties to which the group is subject.

Ballerup, 31 January 2018

Executive Board

Lars Marcher President & CEO	Michael Højgaard CFO

Board of Directors

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

Consolidated financial statements

Interim report Q1 2017/18

Contents

Ambu® aScope™ 4 Broncho is a sterile single-use endoscope. The monitor (Ambu® aView™) is used multiple times.

Income statement and statement of comprehensive income – Group

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DKKm

Income statement	Note	Q1 2017/18	Q1 2016/17	FY 2016/17
Revenue		553	512	2,355
Production costs		-232	-237	-1,024
Gross profit		**321**	**275**	**1,331**
Selling and distribution costs		-141	-132	-539
Development costs		-24	-18	-76
Management and administration		-65	-60	-256
Other operating expenses		0	0	-10
Operating profit (EBIT)		**91**	**65**	**450**
Financial income	11	3	23	13
Financial expenses	11	-44	-26	-70
Profit before tax		**50**	**62**	**393**
Tax on profit for the period	5	-31	-14	-92
Net profit for the period		**19**	**48**	**301**
Earnings per share in DKK				
Earnings per share (EPS)		0.08	0.19	1.27
Diluted earnings per share (EPS-D)		0.08	0.19	1.24

Statement of comprehensive income	Q1 2017/18	Q1 2016/17	FY 2016/17
Net profit for the period	19	48	301
Other comprehensive income:			
Items which are moved to the income statement under certain conditions:			
Translation adjustment in foreign subsidiaries	-5	46	-54
Adjustment to fair value for the period:			
Cash flow hedging, realisation of deferred gains/losses	0	-1	-3
Cash flow hedging, deferred gains/losses for the period	0	0	-6
Tax on hedging transactions	0	0	2
Other comprehensive income after tax	**-5**	**45**	**-61**
Comprehensive income for the period	**14**	**93**	**240**

Balance sheet – Group

Interim report Q1 2017/18

DKKm

Assets	Note	31.12.17	31.12.16	30.09.17
Acquired technologies, trademarks and customer relations		155	187	163
Acquired technologies in progress	9	683	0	0
Completed development projects		142	98	147
Rights		76	89	79
Goodwill		1,676	856	781
Development projects in progress		59	58	45
Intangible assets		**2,791**	**1,288**	**1,215**
Land and buildings		182	210	183
Plant and machinery		82	97	86
Other plant, fixtures and fittings, tools and equipment		46	30	36
Prepayments and plant under construction		95	29	62
Property, plant and equipment		**405**	**366**	**367**
Deferred tax asset		96	49	98
Other receivables		4	6	4
Other non-current assets		**100**	**55**	**102**
Total non-current assets		**3,296**	**1,709**	**1,684**
Inventories		356	339	313
Trade receivables		358	357	437
Other receivables		18	16	14
Income tax receivable		2	2	2
Prepayments		30	29	31
Cash		62	77	19
Total current assets		**826**	**820**	**816**
Total assets		**4,122**	**2,529**	**2,500**

Equity and liabilities	Note	31.12.17	31.12.16	30.09.17
Share capital		125	121	122
Other reserves		1,784	879	1,157
Equity		**1,909**	**1,000**	**1,279**
Provision for deferred tax		194	4	2
Other provisions		545	40	36
Interest-bearing debt	12	332	1,084	83
Non-current liabilities		**1,071**	**1,128**	**121**
Other provisions		76	2	3
Interest-bearing debt	12	711	54	703
Trade payables		161	117	160
Income tax		7	25	23
Other payables		161	152	182
Derivative financial instruments		26	51	29
Current liabilities		**1,142**	**401**	**1,100**
Total liabilities		**2,213**	**1,529**	**1,221**
Total equity and liabilities		**4,122**	**2,529**	**2,500**

Cash flow statement – Group

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	Note	31.12.17	31.12.16	30.09.17
Net profit for the period		19	48	301
Adjustment of items with no cash flow effect	7	105	46	265
Income tax paid		-21	-55	-91
Interest expenses and similar items		-4	-2	-32
Changes in net working capital	8	-12	36	19
Cash flows from operating activities		**87**	**73**	**462**
Purchase of non-current assets		-51	-30	-159
Sale of non-current assets		0	0	16
Divestment of subsidiary in respect of previous years		0	0	2
Cash flows from investing activities before acquisitions of enterprises and technology		-51	-30	-141
Free cash flows before acquisitions of enterprises and technology		**36**	**43**	**321**
Acquisition of technology		0	0	0
Acquisitions of enterprises	9	-851	0	0
Cash flows from acquisitions of enterprises and technology		-851	0	0
Cash flows from investing activities		**-902**	**-30**	**-141**
Free cash flows after acquisitions of enterprises and technology		**-815**	**43**	**321**
Raising of long-term debt		860	74	0
Repayment of debt to credit institutions		-610	0	-275
Repayment in respect of finance leases		-1	-2	-4
Capital increase, Class B share capital		667	0	21
Exercise of options		3	1	8
Sale of treasury shares, employee share programme		6	0	0
Dividend paid		-76	-62	-75
Dividend, treasury shares		2	2	2
Cash flows from financing activities		**851**	**13**	**-323**
Changes in cash and cash equivalents		**36**	**56**	**-2**
Cash and cash equivalents, beginning of period		19	21	21
Translation adjustment of cash and cash equivalents		-1	0	0
Cash and cash equivalents, end of period		**54**	**77**	**19**
Cash and cash equivalents, end of period, are composed as follows:				
Cash		62	77	19
Bank debt		-8	0	0
		54	**77**	**19**

Statement of changes in equity – Group

Interim report Q1 2017/18

DKKm

	Share capital	Share premium	Reserve for hedging transactions	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 period					19		19
Other comprehensive income for the period			0	-5			-5
Total comprehensive income	**0**	**0**	**0**	**-5**	**19**	**0**	**14**
Transactions with the owners:							
Exercise of options					3		3
Share-based payment					6		6
Tax deduction relating to share options					24		24
Purchase of treasury shares					0		0
Sale of treasury shares, employee share programme					6		6
Distributed dividend					-2	-88	-90
Dividend, treasury shares					2	-2	0
Capital increase, share capital, warrants	0	0					0
Capital increase, share capital, ordinary	3	664					667
Equity 31 December 2017	**125**	**721**	**-5**	**65**	**1,003**	**0**	**1,909**

Equity 1 October 2016	**121**	**37**	**2**	**124**	**631**	**75**	**990**
Net profit for the period					48		48
Other comprehensive income for the period			-1	46			45
Total comprehensive income	**0**	**0**	**-1**	**46**	**48**	**0**	**93**
Transactions with the owners:							
Exercise of options					0		0
Cash settlement, options					0		0
Share-based payment					3		3
Tax deduction relating to share options					-13		-13
Purchase of treasury shares					0		0
Distributed dividend						-73	-73
Dividend, treasury shares					2	-2	0
Capital increase, share capital, warrants	0	0					0
Equity 31 December 2016	**121**	**37**	**1**	**170**	**671**	**0**	**1,000**

Other reserves are made up of share premium, reserve for hedging transactions, reserve for foreign currency translation adjustment, retained earnings and proposed dividend and total DKK 1,784m (31.12.2016: DKK 879m).

Notes to the interim report

Interim report Q1 2017/18

Section 1: Basis of preparation of interim report

Section 2: Operating activities and cash flows

Section 3: Invested capital and net working capital

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

Section 5: Provisions, other liabilities etc.

Note 1 – Basis of preparation of the interim report

The interim report for the period 1 October 2017 to 31 December 2017 is presented in accordance with IAS 34 – Interim Financial Reporting as adopted by the EU and additional Danish disclosure requirements for the interim reporting of listed companies. The accounting principles applied are consistent with the principles applied in the annual report for 2016/17. For definitions of ratios, reference is made to note 5.9 in the annual report for 2016/17.

Note 2 – Material accounting estimates

In connection with the preparation of the interim report, 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. There are no significant changes in the material estimates or assessments presented in note 1.1 to the annual report for 2016/17.

Note 3 – Seasonal fluctuations

Gross margin
Historically, the gross margin is lower in H1 than in H2 due to higher activity levels in H2. The lowest gross margin is usually seen in Q1, where revenue relative to other quarters is the lowest.

Cash flows from operating activities
Cash flows from operating activities have historically been lower in Q1 as a result of bonuses paid, income tax as well as a lower earnings level and increased net working capital. Cash flows from operating activities tend to increase gradually in Q2 and Q3, peaking in Q4. The increased level of cash flows from operating activities in Q4 is due to the collection of revenue from Q3 as well as a reduction of net working capital.

Note 4 – Segment information

Ambu is a supplier of medtech products for the global market. Except for the sales of the various products, no structural or organisational aspects allow for a division of earnings from individual products, as sales channels, customer types and sales organisations 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 only.

Note 5 – Tax on profit for the period

In December 2017, the US president signed a tax reform which cuts the federal income tax rate in the USA from 35% to 21%. In addition to the tax cut, the tax reform introduces a large number of changes which might affect multinationals operating in the USA. Based on the current legal framework, the management has assessed that Ambu will not be affected by the tax reform, other than by the effect of the reduced tax rate.

At the end of September 2017, the management had recognised a tax asset of DKK 47m stemming from the company's operating activities in the USA. As a consequence of the reduced tax rate, the valuation of this asset has been reassessed at DKK 28m, and the effect of DKK 19m negatively affects tax on profit for Q1 2017/18.

DKKm

Note 6 – Development in balance sheet since 30 September 2017

The Group's balance sheet is impacted extensively by the acquisition of Invendo Medical GmbH. Reference is made to note 9 for a more detailed description of the acquisition.

Since the beginning of the financial year, non-current assets have increased by a net amount of DKK 1,612m to DKK 3,296m. The increase has been driven by the recognition of assets following the acquisition of Invendo and investments in new production facilities in Malaysia.

Inventories are up DKK 43m in readiness of higher activity levels in the coming quarter relative to Q1. Trade receivables have been reduced by DKK 79m, which is due to lower activity levels relative to Q4 2016/17.

Interest-bearing debt increased by DKK 257m to DKK 1,043m. The increase is due to the partial financing of the Invendo acquisition through loan capital.

Other provisions under current and non-current liabilities totalled DKK 621m, up DKK 582m. The increase is attributable to the recognition of contingent consideration relating to the acquisition of Invendo.

During the period, the provision for deferred tax increased to DKK 194m as a result of the recognition of deferred tax on the fair value on acquisition of Invendo.

Other payables have decreased by DKK 21m to DKK 161m, which is in line with expectations.

Note 7 – Adjustment of items with no cash flow effect

	YTD 2017/18	YTD 2016/17	30.09.17
Depreciation, amortisation and impairment losses	27	26	105
Share-based payment	6	3	11
Net financials and similar items	41	3	57
Tax on profit for the period	31	14	92
	105	**46**	**265**

Note 8 – Changes in net working capital

	YTD 2017/18	YTD 2016/17	30.09.17
Changes in inventories	-44	-43	-40
Changes in receivables	80	74	-29
Changes in trade payables etc.	-48	5	88
	-12	**36**	**19**

DKKm

Note 9 – Business combinations

On 25 October 2017, Ambu acquired the all equity interests in the German company Invendo Medical GmbH ('Invendo'). Ambu had no ownership interests in the company prior to the acquisition. Transaction-related costs of DKK 6m have been paid, of which DKK 1m was recognised in Q1 2017/18 and DKK 5m was recognised in Q4 2016/17. All costs have been recognised in the income statement under 'Management and administration'.

At the acquisition date, Invendo had no fully developed product approved for sale on the market. In spite of this, the management has assessed that Invendo is so close to the commercialisation 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.

Work on identifying and measuring the value of assets acquired and liabilities assumed has been performed during the period leading up to the publication of the interim report for Q1 2017/18. The determination of the fair value on acquisition of the assets acquired and liabilities assumed is still ongoing and, as stated in the annual report for 2016/17, is expected to be completed in the interim report for H1 2017/18. As a consequence thereof, the stated fair values on acquisition are preliminary.

	Invendo Medical GmbH
Acquired technologies in progress	683
Plant and machinery	9
Other receivables	7
Cash	9
Deferred tax	-194
Payables	-3
Fair value of net assets acquired	**511**
Goodwill	904
Consideration transferred	**1,415**
Cash and cash equivalents in acquired businesses	-9
Cash consideration transferred	**1,406**
Fair value of contingent and deferred consideration	-555
Acquisition of businesses (cash flow)	**851**

Description of the acquired activities
The company is a leading developer of sterile, single-use endoscopy products in the fields of gastroenterology and GI surgery, which are comprised by Ambu's existing Visualisation business area. The management sees the acquisition as a good strategic match given Ambu's Big Five strategy and the group's long-term value creation. Invendo has 35 employees.

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 amortised from the time when the development project is deemed to be ready for sale over an expected useful life of 15 years.

Goodwill
Goodwill is recognised at the amount by which the calculated purchase price exceeds the fair value of identifiable net assets. The calculated goodwill can be ascribed to 1) Invendo's know-how within the field of gastrointestinal endoscopy, (2) cost and revenue synergies and (3) synergies in connection with future product development. The recognised goodwill is not expected to be deductible for tax purposes.

Note 9 – Business combinations (continued)

Contingent consideration
The total purchase price comprises contingent consideration of up to DKK 819m, which was recognised at a fair value of DKK 555m 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 management expects the agreed terms and conditions to be met, which means that the entire amount of DKK 819m must be paid to the seller. If a condition has not been met within four years of the acquisition date, Ambu's obligation in respect of the contingent payment will lapse.

The contingent consideration relates to the commercialisation of the acquired technologies. Ambu's obligation to settle the contingent payments is recognised as a provision. The difference between the fair value and the future payments of contingent consideration will be recognised in the income statement under net financials. As a result of the shorter discount period, the fair value of the contingent consideration had increased by DKK 27m to DKK 582m as at 31 December 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 of 18% applied.

Contingent payment	Condition	Undiscounted payment*
Milestone payment	FDA approval of colonoscope	DKK 0m or DKK 74m
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

**The undiscounted payments were calculated at the acquisition date, and later outcomes have therefore not been adjusted in the payment intervals stated.*

Impact on the group's income statement
In the period from the acquisition date and until 31 December 2017, Invendo contributed DKK 0m to consolidated revenue and DKK -5m 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 -7m to the operating profit (EBIT).

Note 10 – Risks

For a description of Ambu's risks, see the 'Risk management' section in the annual report for 2016/17, pages 23-24.

DKKm

Note 11 – Net financials

	Q1 2017/18	Q1 2016/17	FY 2016/17
Other financial income:			
Foreign exchange gains, net	0	20	0
Fair value adjustment, earn-out	0	3	10
Fair value adjustment, swap	3	0	3
Financial income	**3**	**23**	**13**

	Q1 2017/18	Q1 2016/17	FY 2016/17
Interest expenses:			
Interest expenses, banks	3	1	7
Interest expenses, leases	1	1	2
Interest expenses, bonds	6	6	24
Other financial expenses:			
Foreign exchange loss, net	6	0	33
Fair value adjustment, earn-out	27	0	0
Effect of shorter discount period, acquisition of technology	1	1	3
Ineffectiveness of interest rate swap	0	0	1
Fair value adjustment, swap	0	17	0
Financial expenses	**44**	**26**	**70**

Note 12 – Interest-bearing debt

	31.12.17	31.12.16	30.09.17
Corporate bonds	0	699	0
Credit institutions	250	300	0
Finance leases	82	85	83
Long-term interest-bearing debt	**332**	**1,084**	**83**

	31.12.17	31.12.16	30.09.17
Corporate bonds	700	0	700
Credit institutions	0	50	0
Bank debt	8	0	0
Finance leases	3	4	3
Short-term interest-bearing debt	**711**	**54**	**703**

Note 13 – Share split, capital increases, treasury shares and dividend paid

Share split 1:5

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.

Capital increases

In November 2017, a capital increase was carried out as a result of a direct placement to partially finance the acquisition of Invendo Medical GmbH. As a consequence hereof, Ambu's share capital was increased by a nominal amount of DKK 3m through the issue of 1,255,000 Class B shares with a nominal value of DKK 2.50 each at a price of 537.00, which, less consultancy costs of DKK 7m, resulted in proceeds for the company of DKK 667m.

A capital increase was also implemented in November 2017 in connection with the exercise by employees of warrants allocated in 2013. In consequence hereof, Ambu's share capital was increased by a nominal amount of DKK 5,000 through the issue of 2,000 Class B shares with a nominal value of DKK 2.50 each at a price of 66.30.

Changes in number of shares and share capital for the period:

	30.09.17	Change	Share split	31.12.17
No. of Class A shares	6,864,000	0	27,456,000	34,320,000
No. of Class B shares	41,843,920	1,257,000	172,403,680	215,504,600
	48,707,920	**1,257,000**	**199,859,680**	**249,824,600**
Share capital	121,769,800	3,142,500		124,912,300

Treasury shares

As at 30 September 2017, Ambu's holding of treasury shares totalled 6,034,440 Class B shares with a nominal value of DKK 0.50 each. As at 31 December 2017, it had been reduced to 5,655,945 shares. The reduction is due to exercise by the employee of options granted and the employees' purchase of shares under the employee share programme.

Dividend paid

The Board of Directors' proposal for the distribution of dividend of DKK 1.85 per share with a nominal value of DKK 2.50 was adopted at the company's annual general meeting on 13 December 2017. Dividend of DKK 76m was paid to the company's shareholders as at 31 December 2017. The related taxes withheld will be paid to the Danish tax authorities in January 2018. The dividend declared totals DKK 92m.

Note 14 – 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.

Note 15 – Subsequent events

In addition to the matters described in this interim report, the management is not aware of any events subsequent to 31 December 2017 which could be expected to have a significant impact on the group's financial position.