



Annual general meeting in Ambu A/S

Report of the Board of Directors and Management

Chairman of the Board Jens Bager

FY 2014/15 was a busy year for Ambu. And one characterised by both expansion and consolidation.

We are still seeing strong growth in the area we call visualisation. In other words, Ambu's single-use videoscopes, whose benefits are becoming increasingly apparent to more and more hospitals around the world.

Ambu has also expanded its visualisation platform and launched a new product within an area which is completely new to Ambu, namely urology. Here, Ambu has added to the technological platform behind Ambu aScope which is used in airway management, and developed a new videoscope for use in the urinary system.

In the past year, Ambu has cemented its solid position in the USA, one of the world's biggest markets for hospital equipment. We have changed and streamlined our supply chain considerably by outsourcing and merging warehouse functions. We are seeing high, stable growth in the USA, and this year we generated almost 50% of our revenue there.

aScope receives much of the attention when we look at Ambu's status, but it is important – and not least very nice – that Ambu has a robust core business. Many reliable Ambu products are in use every single day at hospitals from Slagelse to Singapore. And this year we launched children's sizes of our third-generation laryngeal mask, Ambu AuraGain. This is strategically important, because such products improve our chances of winning tenders and ensuring strong sales across the Anaesthesia portfolio.

We are now two years into the four-year Climbing New Heights strategy period. And I can say that the targets which Ambu set itself for 2017 are within reach. In terms of both revenue and earnings.

Eight quarters ago – in other words in Q1 of the strategy period back in 2013/14 – Ambu posted negative growth of 4% due to changes in the US set-up, but in the past seven quarters Ambu has realised high organic growth of 8-11%. The growth rates for most of our competitors are significantly lower.

I believe that there one main reason for Ambu's success which is that we have not rested on our laurels. Ambu focuses on innovation, and that produces results. Ambu is a 78-year-old business, but the company manages to stay young through its continuous innovation and focus on high-quality products that benefit both doctors and patients.

Ambu has also built up a solid global foothold with its production, its supply chain and its sales channels. In other words, the necessary capacity is there, and there are good opportunities for scaling up further in all significant areas.

Also on the shareholder front, Ambu has become a more global company. During the year, Ambu's Executive Board held many meetings with investors in Denmark, Europe and the USA – both institutional and private investors.

On 30 September 2015, Ambu had 5,223 registered shareholders, up 48% relative to last year. Moreover, the international ownership share has increased from 20% to 25% since last year.

On behalf of the Board of Directors, I can say that it is positive and exciting to be receiving the growing attention which I personally believe that Ambu fully deserves.

I would now like to hand over to Ambu's President and CEO Lars Marcher, who will talk about the financial year in more detail, and how we are working to realise the ambitious goals in Climbing New Heights.

CEO Lars Marcher

We saw growth of 9% in local currencies and 19% in Danish kroner. And we are talking about purely organic growth, and as we have not made any acquisitions in the past year. This resulted in revenue of almost DKK 1.9bn. Thus, the target of DKK 2bn in annual revenue which we said we would realise in the strategy period should be within easy reach.

The gross margin has fallen approx. 2 percentage points from last year and is now 48.5%. The fall can be ascribed to exchange rate effects, and I would therefore like to mention that in fact our gross margin improved each quarter over the year.

The same applies to our EBIT margin, which was 12.5% for the year. It is the same figure as last year, but please note that it includes exchange rate effects of approx. 2 percentage points. In absolute figures, our EBIT was DKK 236m, which is DKK 38m more than last year.

The free cash flow was DKK 107m before special items, and the gearing ended at 2.2.

During the financial year, we continually adjusted our outlook for the year's results. The most recent adjustment was made in the Q3 interim report in August. All the announced outlooks can be seen on page 13 of the annual report.

With a solid performance in Q4, strong momentum in our growth products and a smooth-running supply chain, we have realised or surpassed our latest expectations.

All in all, we are posting solid financial results for 2014/15, and we are ready to continue our journey towards realising the targets for 2017.

If we look at developments over the past five years, it is clear that Ambu is on the right course.

Our organic growth has increased steadily. And even though we had – for Ambu – a weak year in 2011/12, the trend is clear. Ambu is a strong growth case and our rate of cost has been falling over the years. This is because we are making concerted efforts to reduce costs. And our growth drives increased scaling. This means that the more we grow, the lower our costs per earned krone.

And our EBIT, which is, of course, earnings before interest and tax, has increased markedly, particularly in the past two financial years.

Geographically, we see for the first time that the USA is now responsible for the biggest share of revenue. This is because of the historically strong USD, which reduces Europe's share of revenue in favour of North America, and because of the steady and stable growth which we have realised in the USA over the past seven quarters. The general picture is that our two primary regions are both extremely strong. We are posting growth of 11% in Europe and 8% in the USA, which is significantly above market growth.

The segment which we call Rest of the world – and which comprises Asia, Oceania, the Middle East and Latin America – contributes in 2014/15 with 12% of the revenue, which is more than DKK 225m. Growth has not been as high in the Middle East and Latin America, but nevertheless, overall growth for the business area was 7%.

Looking at our business areas, it is clear that our Anaesthesia business dominates, with growth of 16%, and thereby accounts for 59% of our total revenue.

At the same time, the business area Patient Monitoring & Diagnostics is responsible for a solid part of our core business. Here we are seeing 4% growth, which is in line with market growth.

Our smallest business area – Emergency Care – is largely based on project sales, and this year orders have been modest compared with previous years. Therefore, we see negative growth of 9% in this business area.

As we have just seen, Patient Monitoring & Diagnostics is realising growth of 4%. The growth stems from a cardiology segment which is matching market growth, and a neurology segment which is growing by approx. 10%, more than our competitors.

Ambu is still market leader within both cardiology and neurology. I am convinced that we can invest wisely in this business area in the current strategy period and thereby continue to develop the solid foundation we have created over the years. We acquired Unomedical's electrode business in 2012, and we have now divested its production to an Indian partner which was already a subsupplier of finished products to Ambu. We have chosen this strategy in order to simplify our production and focus on our factories in Asia and the USA.

Our core anaesthesiology business – in other words not including videoscopes – grew by 4% in 2014/15. We are continuing to win market share in the USA and Asia. We are enjoying success with our cross-selling, which means that when a customer is interested in a visualisation product, Ambu also offers our other Anaesthesia products. Together, this results in strong growth in our sales of masks, circuits and ventilation bags.

We have talked a lot about aScope this year, and the growth rates show that the attention we give it is well-deserved. The growth in sales of videoscopes was 158% in 2014/15, and aScope 3 has now been launched on all our markets. If we look at the number of scopes sold, then we are close to 100,000, compared to just under 40,000 last year.

We also launched a new urology videoscope. Since 2013, we have been developing a new and unique product together with Coloplast. In a nutshell, we have combined Ambu's technical know-how on single-use videoscopes with Coloplast's expertise within urology. This marks a milestone for Ambu, and demonstrates that our aScope technology platform can be used across different medical areas when developing products which solve specific problems for doctors and patients.

Therefore, I would like to talk briefly about what urologists will use the new single-use videoscope for.

Doctors use ureteral stents to allow the flow of urine between the kidneys and the bladder, for example after an operation. This stent must be removed again at one point. At the moment, multiple-use videoscopes are used together with a so-called grasper, which is a long tool with a crocodile mouth at one end. It requires two hands to manoeuvre the videoscope, so the urologist is usually assisted by a colleague to control the grasper. Our concept is a videoscope with a built-in grasper which will enable the urologist to perform the procedure single-handedly and in addition everything comes sterile and for single use.

The product has received good feedback from urologists during the project's clinical tests, and Coloplast is starting to sell the product to their European customers here in December, and in the New Year the product will also be introduced in the US market.

And precisely because it is a single-use videoscope, the urology product offers exactly the same advantages as aScope.

No matter which medical field our aScope technology is used in, it offers three key advantages: Lower costs, instant availability and zero risk of infection.

A number of studies have been conducted in Europe and the USA which show that aScope helps hospitals to save money.

Looking at what it costs a hospital to use a videoscope each time, we can see that there are expenses associated with purchasing, repairing and preparing the equipment. On average, it costs USD 358 to use a multi-use scope. The cost varies from hospital to hospital, and in one study the cost was as high as USD 575. By comparison, an aScope costs USD 300.

The other advantage is availability, which means that the doctor always has the aScope to hand. A multi-use scope may still be being cleaned after the previous patient, or it may have been sent off for repair, or perhaps it is being used in another operating theatre. aScope on the other hand is sterile and ready for use on being removed from its packaging.

Finally, aScope solves a problem which is becoming increasingly widespread at hospitals all over the world – that patients risk being infected because hospital equipment is reused from patient to patient. An aScope has not been in contact with other patients when it is used on you as it is a single-use device.

In 2015, the US Food and Drug Administration has focused on the risk of infection from multi-use scopes. This is the result of various situations where a number of patients have been exposed to infection.

At the end of the day, aScope helps to solve some of the serious problems which hospitals face today. At Ambu, we therefore see a bright future for single-use videoscopes.

In 2014/15, we have entered into a partnership with Tri-anim Health Services, a North American supplier of medical equipment. The actual agreement took effect on 1 October 2015, and will see Tri-anim's sales organisation distributing four of

our product groups within Anaesthesia – including aScope 3. This is a good agreement for Ambu because it triples our sales resources in the USA and enables us to reach out to more customers.

As Chairman of the Board Jens Bager mentioned, we are now half-way through our 'Climbing New Heights' strategy period. And it is going well in relation to the strategic targets which have been set.

We are in the process of transforming Ambu from a company with growth of 5-6% a year, the level achieved in the previous strategy. Now we are seeing growth of 8-10%.

This growth means that we are well on the way to achieving annual revenue of DKK 2bn, which is one of the targets set out in the strategy.

So much for our revenue. We also have an ambitious target for earnings. We need to achieve a level of 17-18% in two years, and this requires continued focus on keeping our costs in check and making the most of the investments we have made in our organisation in recent years.

I would like to briefly talk about what we have on the programme for 2015/16.

We have set ourselves five overall objectives for the financial year we have just started.

First, we must continue to deliver high organic growth. Second, we must improve our EBIT by 2 percentage points to achieve an EBIT margin of 14-15%. Third, we must continue to develop innovative products which improve medical procedures, cut costs for our customers and improve the quality of patient care. Fourth, we must refine how we use our processes and IT systems to get as much as possible out of our own work. And last, but by no means least, we must remain true to our excellent corporate culture, where we work together towards a common goal with our sleeves rolled up and a smile on our lips.

Thank you for your support in the past year. We will continue our work to help doctors around the world by providing solutions that can make health services even better.

I can assure you that 2015/16 will be an exciting year for Ambu, and I'm looking forward to reporting on our progress.

Chairman of the Board Jens Bager

For a number of years, Ambu has pursued a policy of distributing dividend corresponding to approx. 30% of net profit for the year.

The Board of Directors finds that the company's financial resources are satisfactory, and in anticipation of increasing earnings in the new financial year, the Board of Directors wishes to adhere to this policy for 2014/15. We therefore propose a dividend of DKK 0.95 per share corresponding to total dividend payments of DKK 46m, or 30% of net profit for the year.

The dividend will be paid out to the shareholders within the next two to three business days.

Ambu is developing positively and has posted high organic growth in recent years. Continuing this development and further strengthening Ambu's market position will require focused investments in both innovation and production, while Ambu's growth entails larger funds tied up in inventories and debtors. Ambu's strategy is also to be open to acquisitions as well as investments in new technological platforms. The Board of Directors therefore proposes a slight rewording of the dividend policy which allows greater flexibility if, in future, the company identifies new possibilities for expansion through, for example, acquisitions or large investments in technology for the benefit of the company and its shareholders. I will now read this out loud, and the reworded sentence is highlighted in italics on the screen behind me:

"It is Ambu's intention to continue to pursue a balanced dividend policy, distributing about 30% of the net profit for the year, but also to regularly review the dividend policy should investments or acquisitions significantly impact Ambu's debt structure."

In the course of the financial year, the price of the Ambu share has risen by 71%, and as of 30 September, Ambu's market value was more than DKK 9bn. In addition to the increase in the share price, Ambu paid out dividend of DKK 0.94 per share.

In the previous financial year, approx. 58,000 Ambu shares were traded per business day, and thus a total of 35% of our Class B shares were traded against 30% the year before.

While bearing this in mind, I would now like to look ahead to the future.

We have a strong core business, and expect our visualisation platforms to continue to provide a basis for healthy growth.

For 2015/16, we expect organic growth of 7-9% in local currencies and growth of 9-11% in Danish kroner. It only requires basic mathematics to see that this will take us above the DKK 2bn in revenue mark one year earlier than set out in the strategy plan.

One of our targets is to boost our EBIT margin to 13-14% in local currencies and 14-15% in Danish kroner. As I said previously, we still believe that it is possible and realistic through hard work and intense efforts to achieve our ambitious target of an EBIT margin of 17-18% in 2016/17.

We expect the free cash flows to grow by almost 40%, to a total of DKK 150-175m at the end of 2015/16.

With strong free cash flows, we expect to reduce our net interest-bearing debt so that the gearing – i.e. the relationship between debt and earnings – can be reduced from 2.2 to 2.

All in all, these are ambitious targets for the new financial year. With high-quality products, geographical markets with good growth potential, sound partnerships, a skilled management and motivated employees to execute the plans, we believe that it is possible to meet our targets for the year.

It has been a year characterised by a high level of activity in Ambu. This is also reflected in the Board of Directors' meeting schedule; seven board meetings were held in the course of the year, as well as four meetings in each committee.

The Board of Directors has decided that the Nomination and Remuneration Committee will be divided into two separate committees, because the Board of Directors considers it appropriate that the Nomination Committee be composed of the chairmanship.

The remuneration for the Board of Directors was adjusted at the annual general meeting two years ago, and the Board of Directors therefore sees no need for any further adjustments this year; it recommends to the general meeting that the same remuneration be paid for the financial year 2015/16.

The remuneration of the Board of Directors can be seen on page 21 of the annual report and on the screen behind me.

The basic remuneration for board members constitutes DKK 225,000. The Chairman receives three times the basic remuneration, and the Vice-chairman receives two times the basic remuneration. Furthermore, the chairmen of the board committees receive a remuneration of DKK 125,000, while committee members receive DKK 75,000. However, the Nomination Committee is not remunerated specially for its work. The total remuneration paid to the Board of Directors, including the board committees, constituted DKK 3,250,000.

Ambu has considered the corporate governance recommendations from May 2013. In keeping with previous years, there is still only one recommendation with which Ambu has decided not to comply, and one recommendation with which Ambu partly complies, namely only to disclose the total remuneration paid to each member of the Executive Board. Ambu discloses the combined remuneration paid to the members of the Executive Board. Through Ambu's Remuneration Committee, the Board of Directors considers the development in the remuneration and incentives for executive officers in comparable companies, thereby ensuring that the remuneration paid to members of Ambu's Executive Board is fair, market-conforming and aligned with the results achieved. We believe that the way in which the remuneration is divided between the two members of the Executive Board, Lars Marcher and Michael Højgaard, is a private matter.

Ambu only partly complies with the recommendation about the frequency with which evaluations are carried out of the collaboration between the Board of Directors and the Executive Board. For a number of years, Ambu has carried out an evaluation of the collaboration every other year, whereas the recommendations on corporate governance propose that an annual evaluation be made. We believe that the chosen frequency is suitable for Ambu in the present situation, but consider this issue regularly.

The Board of Directors proposes that the Chairman and Vice-chairman of the Company's Board of Directors be elected by the annual general meeting as of the annual general meeting in 2015. The reason for this proposal is to give the annual general meeting direct influence on the election of the chairmanship which has previously been handled by the Board of Directors.

The Board of Directors has decided to withdraw the proposal that the annual report be presented in English only.

The background for this proposal was that Ambu is becoming an increasingly international company with more and more international partners and customers, and now also an increasing number of foreign shareholders. They are naturally demanding communication in English – also when it comes to the annual report, which is prepared in English. Doing the annual report in English only would therefore simplify the processes and thereby the costs associated with the annual

reporting. Many large Danish companies have already decided to reduce their costs by doing away with the Danish version of the annual report, and we therefore found that it was natural to propose the same to Ambu's shareholders.

We were well aware that many shareholders feel strongly about this, and that the proposal would therefore give rise to some debate. Having had a dialogue with a number of shareholders, it is our impression that some shareholders still want the financial statements to be available in Danish. We are therefore withdrawing the proposal.

We are keen to maintain a positive dialogue with our shareholders. The Board of Directors will therefore reintroduce the proposal at some point in the future, provided that it makes sense – also for our shareholders as the Board of Directors want to maintain a strong focus on initiatives which can improve the company's earnings.

Before proceeding to the specific proposal concerning the election of new members to the Board of Directors, I would like to explain the process which led to the Board proposing the election of Henrik Ehlers Wulff and Oliver Johansen as new members of the Board.

The proposal that new members be elected was based on the Board of Directors' most recent self-evaluation, which pointed to the possibility of strengthening the skills of the Board of Directors within the areas of production and innovation. In the process of identifying the right candidates, the Nomination Committee was assisted by an external search company. The brief was clear – to present the Nomination Committee with a broad selection of suitable applicants, Danish as well as foreign, including at least one highly qualified candidate of each gender for the two seats on the Board.

The Board of Directors unanimously recommends Henrik and Oliver because we believe that these two candidates are – in a class of their own – the best-qualified, irrespective of their gender.

On behalf of the Board of Directors, I would like to take this opportunity to thank Ambu's employees for the excellent results which have been achieved in the past year, and I would like to thank the Executive Board and my colleagues on the Board of Directors for our fruitful cooperation; also I would like to thank all the shareholders who are here today.

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About Ambu

Since 1937, breakthrough ideas have driven our work to bring efficient healthcare solutions to life within our fields of excellence: Anaesthesia, Patient Monitoring & Diagnostics and Emergency Care. Millions of patients and healthcare professionals worldwide depend and rely 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 and the legendary Blue Sensor® electrodes to our latest landmark solutions such as the aScope™ – the world's first single-use videoscope. Our commitment to bringing new ideas and superior service to our customers has made Ambu one of the most recognised medtech companies in the world. Our head office is situated in Ballerup near Copenhagen. Ambu has more than 2,350 employees in Europe, North America, Asia and the Pacific region. You can find more information about Ambu on our website: www.ambu.com.