2020 Annual report

Mölnlycke®

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We are Mölnlycke® – a market-leading supplier of wound care and surgical products, and partners to healthcare professionals around the world.

Our goal is to equip everyone in healthcare – from clinicians to procurement managers – to perform at their best. We do it through innovation, education and building strong and lasting relationships with our customers.

We have come a long way since we started out. Building on our Swedish heritage since 1849, we have evolved as true pioneers in healthcare. Owned by Investor AB and headquartered in Gothenburg, today we are trusted partners to professionals who use our products in healthcare settings all over the world.

We are proud of our heritage, but what keeps us moving forward is continuous innovation and our belief that no matter how successful we are, we can always do better.

Now more than ever, hospitals and healthcare systems are under pressure to do more with less. We work alongside our partners to discover new and better ways to treat patients; driving up standards of care and helping our customers deliver better results.

2020 in brief

We launched our NPWT system
We increased our investments in innovation and launched Avance® Solo, our new solution for NPWT (negative pressure wound therapy).

Vital protection provided to clinicians during the pandemic
We delivered almost 300 million extra face masks, isolation gowns and other items of staff clothing and protection to healthcare professionals around the world.

Our Commercial engagement went online
We moved our professional education programme online, both globally and in local markets. Our sales representatives also shifted to digital engagement platforms in order to support customers.

We were ready for MDR early
We continued to prepare for the MDR (Medical Device Regulation) in Europe, and are now MDR-ready.

Zlatko Rihter joined as new CEO
At the end of the year, Zlatko Rihter joined as new CEO of Mölnlycke.

Where we are present
+100
countries

7,900
employees worldwide

99%
owned by Investor AB

14
manufacturing sites

1,793
annual global sales, million EUR

17.7%
organic sales growth

536
EBITDA, million EUR

30%
EBITDA margin

COMMENT FROM THE CEO

Strong performance despite a turbulent year

2020 was dominated by COVID-19. To provide healthcare professionals and patients with vital face masks, isolation gowns and other protection, Mölnlycke employees worked around the clock, supported by our network of contract manufacturers and raw materials suppliers.
In spite of COVID-19, our base business grew year on year and we managed to keep close to customers by engaging digitally and offering professional education online.

As a healthcare business operating during a pandemic, we have a duty to support clinicians to deliver the best possible care to patients. Our mission of equipping healthcare professionals to perform at their best has never been more important. In joining Mölnlycke towards the end of this turbulent year, I am very proud of the way our employees moved so quickly to change their way of operating. Their passion and commitment to supporting our customers in their great challenges is nothing short of astonishing.

Sales grew organically by 17.7%, corresponding to total revenues of EUR 1,793 million and there was an increase in EBITDA from EUR 451 million to EUR 536 million. The growth was driven by one-off orders for staff clothing and protection, which balanced COVID-19 related falls in other areas of our business. Excluding the effects from one-off PPE orders, sales grew organically by 2.4%.

Growth was very strong in Western Europe, Latin America and APAC due to sales of products related to the pandemic. We delivered significant orders for staff clothing and protection in the UK and for gloves in Japan. Also excluding products related to the pandemic, our emerging markets continued to grow, but at a slower pace than expected. The same is true of our performance in the US and several European markets.

Maintaining momentum in Wound Care

We maintained the momentum of our established wound care products, although sales in the chronic wound segment were slightly down and there was a decrease in sales of Mepilex Post-Op linked to the drop in elective surgeries. We launched Avance® Solo, our negative pressure wound therapy (NPWT) solution in several pilot markets. We further rolled out Exufiber® Ag in new countries and our oxygen therapy solutions, Granulox® and Granudacyn®, made good progress.

To ensure clinicians remained supported during the pandemic, we quickly moved to providing professional education online. With some nurse visits impacted by COVID-19, we introduced easy ways of accessing product use information for patients. We also continued to develop the next generation of solutions for the 2020s and finalised the development of new clinical evidence for 2021. Despite the challenges that the pandemic brought, wound care sales grew organically by 2.1%.

Supporting customers with surgical solutions

We did our utmost during the year to support clinicians with the vital protection they need to do their jobs. Strong supply chains, enhanced capacity in some factories and good customer relationships meant we were in a position to serve our customers and deliver millions of items of staff clothing and protection around the world.

We faced a downturn worldwide in our Mölnlycke procedure tray business, which is largely driven by the demand for elective surgeries. At the same time, tray production dipped briefly due to absences caused by COVID-19 and the closure of international borders, but has since recovered. As vaccines become available in 2021, we expect the number of elective surgeries to increase, and with it, the demand for procedure trays. During the year, we extended our offer with new surgical instruments, a value range of drapes and a new sustainably-sourced universal drape. We also added new functionality to the Mölnlycke portal and further developed our logistics services.

In our Gloves franchise, we maximised our manufacturing capacity in order to meet the global demand for gloves. We also decided to invest in a new factory in Malaysia, which will come on stream in 2022.

Despite material challenges due to COVID-19, our Antiseptics business performed well, and we are investing to achieve critical mass. In the US, we made the first shipments to a new strategic partner in the hand hygiene segment.

Within Surgical as a whole, organic growth was 36.2%. Excluding the effects of one-off orders for PPE, organic growth was 2.8%.

Ensuring our future business

We continued to invest in people, processes and documentation to make sure our business is fit for the future. We developed our commercial capabilities in both new and traditional markets and overhauled our product lifecycle management tool. Resources within our R&D teams were split between preparing for the European Medical Device Regulation, and customer and product innovation. We also continued to invest in professional education and in clinical evidence, where trials were still able to run and strengthened our sustainability approach with a updated Sustainability Policy and an ongoing update of the materiality analysis.

2021 and beyond

With the pandemic expected to recede during 2021, we will move towards a new normal. Our ambition is to grow by increasing sales of bordered foams, trays and single-packed staff clothing and protection. Channel and market expansion will also enable our growth. 2020 has seen us strengthen our relationships with all our stakeholders. These relationships, coupled with our product portfolio, pipeline planning and internal investments, give us a solid platform for the future.

As our competitors evolve, we will work hard to further strengthen our innovation and quality advantage, and we will develop additional evidence to support our premium product offering.

Around the world, we have exciting plans in all our key markets and look forward to another inspiring year in 2021. Many thanks to all our employees and customers for their extraordinary efforts during 2020.

Zlatko Rihter
CEO

Sustainable, profitable growth

Mölnlycke's ultimate purpose is to advance performance in healthcare by improving both clinical and health economic outcomes. Our core business is in two areas: Wound Care and Surgical Solutions. Our goal is to equip everyone in healthcare – from clinicians to procurement managers – to perform at their best. We do it through innovation, education and building strong and lasting relationships with our customers.

We are building on our strong heritage and global presence to support our strategic ambition to be the global market leader in all product segments and all territories where we operate. We will grow by innovating and developing our existing products, expanding into new product areas and technologies, demonstrating positive clinical and health economic outcomes and continuous investment in sales and marketing capabilities to meet the changing needs of our customers.

Our strategy sets the direction for the coming years with the ambition to generate profitable growth while serving the needs of our customers around the world.

Wound Care initiatives

In Wound Care, Mölnlycke has a portfolio of solutions designed to help wounds heal effectively and efficiently. Over the coming years, we will expand our focus on key therapy areas, such as pressure ulcers and skin tears, and develop existing and new product platforms based on customer needs. We will also continue to invest in professional education and in clinical and healthcare economic evidence for our products and solutions.

Surgical Solutions initiatives

The key drivers for growth are the global focus on staff protection and infection prevention, and improving healthcare economics to meet customers' need for increased efficiency in the operating room. Over the next few years, we will expand our staff clothing and protection business. We will also grow our procedure tray business in Europe, and continue to expand into emerging markets, such as the Middle East. We will enhance our portfolio with new products and continue to support sales force efficiency, increasingly engaging customers through digital tools. Within Gloves and Antiseptics, we will drive sales with line extensions, channel expansion and development in existing and new geographies.

Market initiatives

The US remains Mölnlycke's most important market. We will enable growth in the US and other mature markets through an emphasis on clinical performance and through channel expansion. Mölnlycke will also continue to develop sales and marketing capabilities in markets with high potential, such as China, the Middle East and Brazil.

Supply chain initiatives

We are adapting our manufacturing footprint to changes in the market. Where we can, we modify our operations to drive efficiencies or increase production capacity to better meet customer needs. We will develop new supply chain solutions that improve efficiency and reduce costs for customers, such as direct shipments and assembly to order. Our focus will be on activities that add value to customers.

OUR SOLUTIONS

Wound Care

Chronic wounds associated with an ageing population and conditions such as pressure ulcers are an increasing burden on health systems around the world, while acute wounds, such as surgical wounds, can be costly to manage if they become infected. Mölnlycke's portfolio of wound care products promotes both healing and prevention, raising the standard of patient care and improving health economic outcomes.

We differentiate ourselves by proving the value-adding features of our products through clinical studies. We also add value by taking therapy-based approaches in areas such as pressure ulcer prevention and skin tears and with digital services to support our offer.

This year, patients and their families took on more responsibility for wound care as community nurses were unable to make home visits. As a result, we started to see more serious chronic wounds, and we expect this pattern to continue in the first half of 2021. In 2022, we also expect a continued emphasis on cost containment among many large healthcare providers.

Our wound care business grew by 2.1% in 2020. Despite COVID-19, performance was solid in western Europe, and we continued to grow most of Mölnlycke's emerging markets.

Advanced wound care

Our advanced wound care dressings create great conditions for healing of acute and chronic wounds, staying on for longer and causing less pain for patients at dressing removal. All of our foam dressings include Safetac®, our gentle silicone adhesive technology that reduces the pain and distress of dressing changes. Mepilex® Border Flex and Mepilex® Border Post-Op use both Safetac and Flex Technology to stay on and uniquely conform to the body for undisturbed healing. We also extended the availability of our anti-microbial gelling-fibre dressing, Exufiber Ag, which reduces the risk of bacterial infection.

Negative pressure

Avance® Solo, our new negative pressure wound therapy (NPWT) solution transports exudate from the wound to a dressing and canister. It is powerful, but small and comfortable to use for patients, and uses Safetac® technology, meaning less pain at dressing changes. We launched Avance Solo in several pilot markets in 2020, with more to follow in 2021.

Preventing pressure ulcers

Pressure ulcers are one of the most common hospital-acquired conditions – and almost entirely preventable. Mölnlycke's therapy-based solutions include prophylactic dressings, such as Mepilex® Border Sacrum and Mepilex® Border Heel, as well as efficient patient turning and positioning systems. In 2020 we grew the pressure ulcers business in the important US market, driven by investment in clinical and health economic evidence for the efficacy of our solutions. We also invested in training for our sales force.

Managing skin tears

Elderly people with fragile skin are particularly susceptible to skin tears – very painful and distressing injuries, where a flap of skin comes loose. During 2020, we built on the launch of the new version of our Mepitel® One dressing, and we continued to raise awareness around skin tears and improved patient care, supported by new and robust clinical evidence.

Oxygen therapy

Granulox® delivers oxygen to the base of a wound through a unique haemoglobin spray, accelerating wound healing, while Granudacyn® is an irrigation solution that reduces the risk of infection when combined with our advanced antimicrobial dressings. In 2020, we gained approvals for Granulox and Granudacyn in countries across Latin America, the Middle East and APAC, and continued to raise awareness of oxygen therapy.

Healthcare intelligence

We accelerated the development of the Mölnlycke wound imaging app for clinicians, which enhances their capacity to measure, monitor and manage chronic wounds. We have continued our partnership with Tissue Analytics, although pilots in most markets have been on hold because of COVID-19.

Wound Care

Advanced wound care

Pressure ulcer therapy

Oxygen therapy

Post-operative dressings

Surgical Solutions

Procedure trays

Surgical instruments

Antiseptic products

Surgical drapes

Staff clothing

Biogel gloves

OUR SOLUTIONS

Surgical Solutions

With healthcare systems under pressure to deliver more with fewer resources, Mölnlycke strives to continuously improve safety and efficiency. Our offering includes staff clothing and protection, procedure trays, antiseptics and surgical gloves.

Surgical Solutions grew 36.2% organically in 2020, mainly driven by one-off orders for personal protective equipment (PPE) during the pandemic. Excluding these one-off orders, sales grew by 2.8%. Across Surgical, we have invested to bring our solutions in line with the new European Medical Device Regulation.

Operating Room Solutions

Staff protection and clothing. A range of facemasks, isolation gowns, surgical gowns, scrubs, drapes and headwear designed to protect clinicians and patients and enhance hospital infection control. Mölnlycke's staff protection and clothing can be supplied single-packed or included in procedure trays.

Mölnlycke procedure trays. Sterile packs that include all the equipment needed for specific surgeries and to enhance efficiency in the operating room, with a particular focus on orthopaedics, laparoscopy and minimally invasive surgery. Our innovative online tool, the Mölnlycke® tray portal, gives customers control and transparency over all their trays and the items within them.

Surgical instruments and components. A wide range of surgical instruments and components to equip clinicians with tools to support good clinical outcomes. Surgical instruments can be included in the customised procedure trays or bought separately.

COVID-19 triggered a seven-fold increase in the global demand for staff clothing and protection. Despite this, our scale and the strength of our supply chain meant we were able to equip thousands of healthcare professionals around the world with vital face masks, isolation gowns and headwear.

The pandemic led to a downturn in elective surgeries in all markets, which affected our tray and surgical instrument businesses. We expect these to recover during 2021, when hospitals will face a significant backlog. During 2020, we developed our digital tools and logistics services further. We also launched new surgical instruments, a value range of drapes and a new sustainably-sourced Universal drape.

Antiseptic products

The use of antiseptic products is increasing as healthcare providers strive to protect staff and patients and reduce the prevalence of healthcare-acquired conditions. In Europe, Hibiscrub® supports the whole body washing of patients before surgery, while in the US, our Hibiclens® and Hibi® Universal Bathing System (HUBS) have been used for in-patient daily bathing for many years. This year, we re-established our presence in the US in the hand hygiene segment with a new strategic partnership with a health hygiene distributor.

Gloves

Our Biogel® surgical gloves are known for their comfortable fit and precise feeling, supporting precision at every touch. As COVID-19 increased worldwide demand for gloves, we took steps to increase capacity with a new production line and were able to serve additional customers. Due to a change in our land agreement for one of our manufacturing plants – and to meet future demand – we took a strategic decision to invest in a new factory in Malaysia. The new manufacturing plant is set to start operating in 2022. We have continued to invest in clinical evidence for the quality of our gloves in the operating room, and we launched Biogel in Canada and Chile.

Global effort to get PPE to the frontline

Getting an extra 300 million items of personal protective equipment (PPE) to healthcare professionals worldwide during the pandemic was an extraordinary feat of logistics under pressure. Niklas Jakobson, Global Control Tower Director at Mölnlycke, explains how we achieved it.

'All Mölnlycke's strengths came into play during the pandemic. First, we already had significant supplies of PPE in our warehouses. So when the pandemic hit in the first quarter of 2020, we were able to supply hospitals almost immediately with the vital PPE they needed.

Strong supplier relationships and scale

'Secondly, our scale and good relationships with suppliers meant they were willing to go the extra mile for us once we knew our existing stock was not enough to meet the rapidly rising demand.

'Mölnlycke's scale also meant we were able to support the supply chain in ways that would be unexpected in a normal year. When manufacturers had huge problems getting the raw materials for PPE, we used our buying power and logistics infrastructure to secure supplies and deliver them to our contract manufacturers so that they would not run short.

Communicating with customers

'Another strength was our relationships with customers. Our Commercial teams were constantly in touch with healthcare providers and governments, updating them on orders and listening to their needs. That meant we could prioritise face masks and gowns to where they were most needed. Our relationships are even stronger as a result.

Teamwork across the business

'The fourth factor – and I believe the most significant – was teamwork. Multifunctional teams across the business pulled together to get things done. For example, sourcing masks from a new factory in the Far East took a huge coordinated effort from colleagues in Logistics, Quality, Regulatory, Customer Care, IT and Commercial. We frequently had late-night phone calls with a team of 10 – at five minutes' notice.

Problem-solving

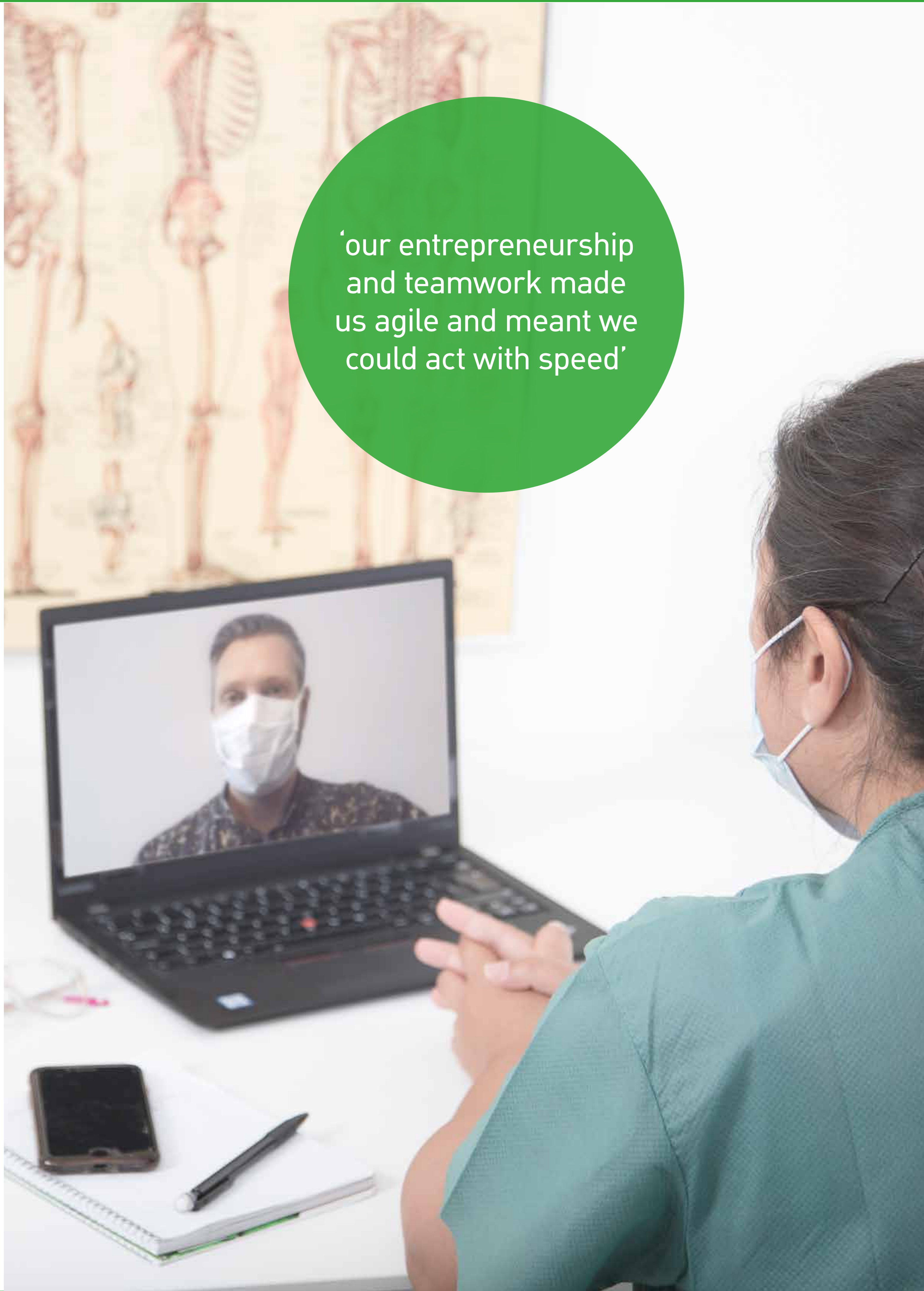
'The fifth factor was our problem-solving approach. Every day, big and small issues came up. In March, for example, we had huge problems finding trucks that were willing to deliver to northern Italy when the pandemic was raging. We issued the drivers with full gowns and face masks so they felt safe.

'There were also export bans and border closures in some markets, which could have meant we failed to supply other countries with the PPE they had ordered. Our Commercial, Legal and Communications teams negotiated with governments to keep borders open, while our Logistics colleagues found new warehouses and new routes that would avoid the hotspots.

Balancing speed, cost and environmental impact

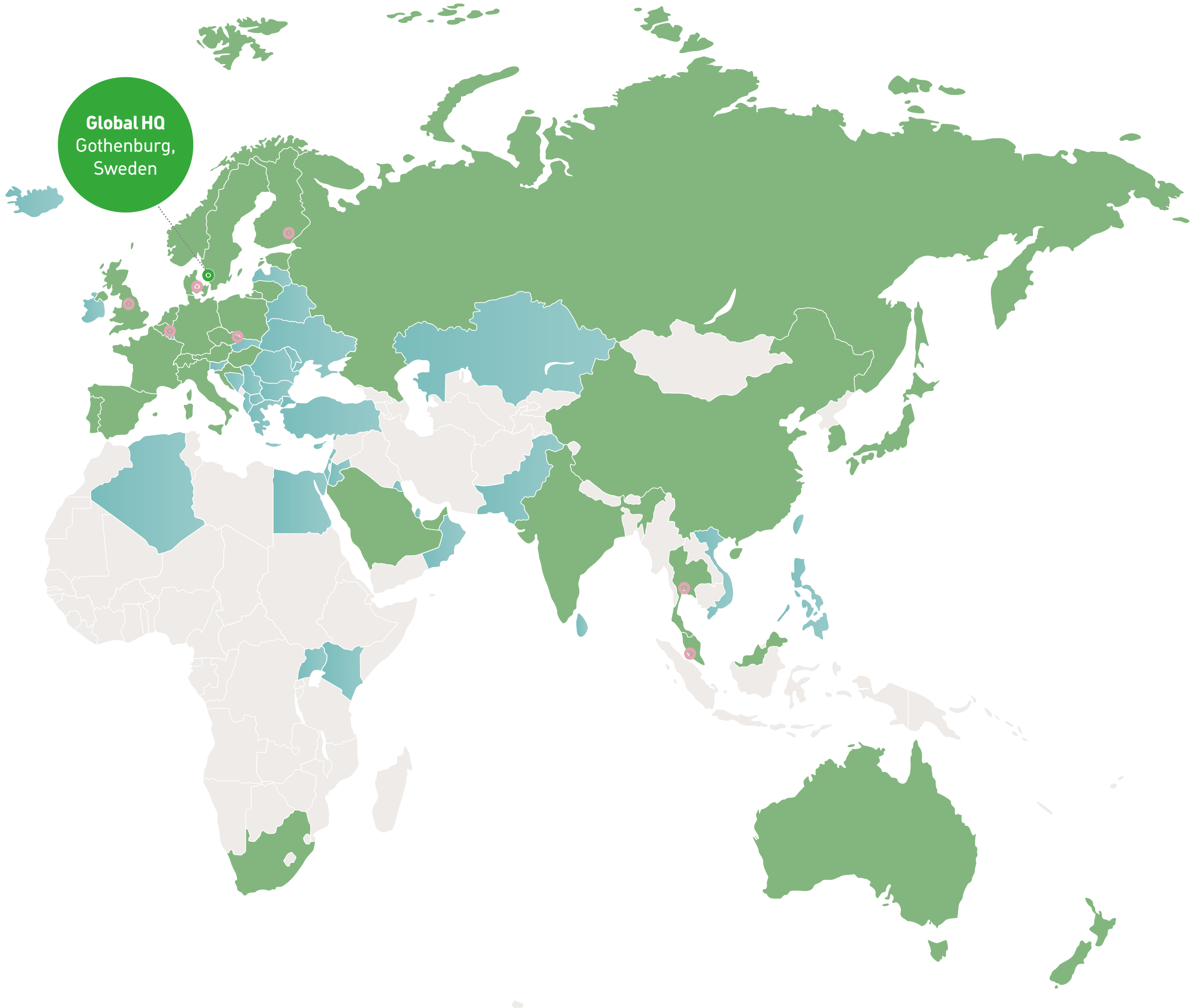
'Throughout, we were balancing the environmental impact and cost of freight with the urgent need to deliver life-saving PPE to where it was needed. Transporting items by sea can take six to eight weeks so we brought more items to Europe by air than we would have done normally. But then we started delivering by train. One full train with 50 containers can carry 75 million face masks – so it's very efficient.

'Our response to the pandemic has shown us that we can continue to deliver for customers even in the most difficult circumstances. As we move into 2021, I'm confident that we can draw on these strengths to meet whatever new challenges we face.'



'our entrepreneurship and teamwork made us agile and meant we could act with speed'

Our global footprint



38
countries with sales and marketing offices

Countries with sales through distributors

Mölnlycke is present in more than 100 countries. While it is part of the company's strategy to grow, the firm ambition is to do so in a sustainable way. This means investing in improved manufacturing facilities, product innovation and sustainable solutions, and optimising transport routes to create efficiencies, while ensuring quality for customers and patients.

1 global HQ
in Gothenburg, Sweden

14 manufacturing sites in eight countries

Activities 2020

Following a strategic review, we discontinued manufacturing in Indianapolis, US and transferred production to Wiscasset, US.

Sustainable business

Our goal is to promote sustainable healthcare with better outcomes for customers, patients and society, while acting in a socially and environmentally responsible way. Sustainability is central to our whole business approach. We aim to be a long-term partner in society. That means acting in a socially responsible and ethical way, not just with our customers and patients, but also towards the environment, our people and the communities we serve. In our Sustainability Policy, we outline our vision for a long-term sustainable future, based on good economic management and social and environmental responsibility.

UN Sustainable development goals

The UN set out 17 sustainable development goals for members to work together to achieve by 2030. Companies are taking responsibility for their people, suppliers, the environment and the communities where they operate.

While we can impact all 17 global sustainable development goals, **there are six where we believe we can make the biggest difference** under the four areas outlined in our sustainability policy.

PEOPLE

Better healthcare outcomes
As a supplier of wound care and surgical products, we know that we have a major impact on people´s health and well-being. Through advances in our wound management, surgical and prevention solutions, we help providers to deliver better care for more people in a way that's sustainable over the long term.

Diversity and inclusion
At Mölnlycke, every employee is treated with respect and no employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse.

We have a gender diversity charter, with the ambition for women to make up 40 percent of our senior leaders by 2023. During 2020, the proportion of women in senior roles increased by three percentage points to 38%.

We also set an aspirational target to promote internal talent to senior positions – our aim is for 70 percent of director level and above positions to be recruited internally by 2023. In 2020, 33% of director-level positions recruited were filled with internal candidates.

Health and safety
We follow regulations, local best practice and have a Code of Conduct and other policies in place to ensure we support and respect the human rights of our employees, no matter where in the world they work. To help ensure that human and social rights are respected, we have a whistleblowing helpline available to our employees in local languages. None of our operations was subject to a human rights review or impact assessment.

We seek to provide a safe, accident-free and healthy environment characterised by respect and trust for our employees, suppliers and visitors at all of our sites around the world. We proactively assess health and safety risks as well as opportunities for improvement in each of our locations and work with local teams to implement suitable actions. We continuously monitor and evaluate our safety performance and comply with relevant local rules and obligations wherever we operate. Mölnlycke achieved a global multi-site certificate for ISO 45001 in 2020.

We continued our Safety Excellence Programme. This programme includes several activities to align and improve safety standards, leadership and communication. The increased focus has resulted in a halving of Lost Time Accidents from 2.1 per million working hours in 2018 to 1.1 in 2020.

Product quality
We continuously strive for industry-leading reliability and quality in our products and services. Our high standards are underpinned by rigorous compliance with the laws and regulations applicable to the regions where our products are sold. We hold ISO9001 for quality management and ISO13485 for quality management systems for medical devices. We seek to continuously improve our performance.

BUSINESS ETHICS

Anti-corruption
We have interactions on a daily basis with public hospitals, government authorities and healthcare professionals, who are typically considered as government or public employees; it is an intrinsic part of our work at various levels and all across the globe. It is vital that we protect Mölnlycke, its employees and our stakeholders from being implicated in any conflict of interest.

We are committed to conducting business around the world in an ethical way. Mölnlycke and our employees are subject to various anti-bribery and anti-corruption laws around the world. Mölnlycke prohibits all forms of bribery and corruption at our business or the business of third parties that work on our behalf or for us. At the end of 2020, 98% of our employees had completed the online training in anti-corruption. In December, we also launched our updated compliance programmes, including our updated Avoiding Bribery & Corruption Policy.

Sustainable supply chains
As a significant user of suppliers, we require our primary suppliers to sign up to our Supplier Code of Conduct and Supplier Standard, which includes the protection of human rights, and to set similar standards among their supply chains. If we identify risks, we carry out supplier assessments to check if any incidents have taken place and put corrective actions in place if necessary. During the year we have passed several customer audits in the areas of labour standards, sustainable supply chain and supplier Code of Conduct.

ENVIRONMENT

Sustainable solutions
We have taken a clear position to invest in sustainable solutions. For us, this means focusing on our carbon footprint and moving towards a circular economy.
We consider sustainability at every stage of the product lifecycle, including raw materials, packaging and transportation. One focus area is to reduce the amount of fossil-based plastic in our products. In 2020, we introduced bio-based plastic as a raw material, beginning with products where we can have the most significant impact.

Minimising environmental impact
We continuously work to prevent harm to the environment by adopting and implementing best practice in our manufacturing sites.

We constantly seek to reduce emissions from our product-related transportation by optimising truck fill rates and transport routes and reducing air freight. We also try to use raw materials more efficiently, by committing to waste reduction and good recycling practices in our factories as well as optimising the use of raw materials right from product design phase. We strive to reduce energy consumption and since 2002, we have held global ISO14001 certification for environmental management. In 2020 we reduced our CO_{2e} emissions per tonne of finished product by 3.4% and reduced waste in our manufacturing facilities by 6.4% per tonne of finished product.

FINANCIALS

Sustainable profitable growth
For Mölnlycke to continue to deliver our purpose of advancing performance in healthcare across the world, we must generate a solid and sustainable financial performance and invest in the people, products and processes of tomorrow. By careful management of all our resources, we secure Mölnlycke's long-term viable future.

Administration report

Operation and structure

Mölnlycke is a global company with sales and marketing offices in 38 countries and 14 manufacturing sites in 8 countries. We operate in two business areas, Wound Care and Surgical Solutions. The company aspires to advance performance in healthcare and equip everybody with solutions to achieve the best outcomes.

Organisation

Our core functions include Commercial, Operations, Marketing and Research and Development. These are backed by a wide range of support functions including Regulatory, Quality Assurance, Environment, Health and Safety, Finance, IT, Legal & Compliance, HR, Corporate Communications, Corporate Strategy and Business Development, Medical and Economic Affairs.

Financial overview

Revenues. Consolidated net sales grew by 16.2% to EUR 1,793 million (EUR 1,542 million[1]). Wound Care sales amounted to EUR 840 million (EUR 836 million) and Surgical Solutions sales amounted to EUR 953 million (EUR 707 million). In Wound Care organic sales grew by 2.1% in constant currency. Many of our markets reported a solid sales growth however temporarily affected by lower sales primarily in the second quarter caused by postponed or canceled elective procedures and restricted access to hospitals. In Surgical Solutions organic sales grew by 36.2% in constant currency, mainly driven by strong sales of personal protective equipment as an effect of COVID-19. This was partly offset by lower sales of procedure trays, largely driven by lower demand for elective surgeries. In total, one-off orders for staff clothing and protection amounted to EUR 231 million. Excluding the effects from these one-off orders organic sales grew by 2.8% in constant currency for Surgical Solutions. In both segments net sales were negatively affected by currency fluctuations, mainly related to depreciation of the US dollar compared to the euro, which had a negative impact on net sales of EUR 13.6 million for Wound Care and EUR 9.5 million for Surgical Solutions compared to prior year.

Operating profit. Gross profit increased 10.5% to EUR 928 million (EUR 839 million), which corresponds to 51.7% (54.4%) of net sales. The drop in margin compared to last year is mainly a mix effect caused by the added sales in 2020 of personal protective equipment. The negative impact on net sales from currency fluctuations compared to prior year was partly offset by positive currency fluctuations affecting production cost. Operating expenses was in line with prior year as a result of good cost control. In total this resulted in operating profit increasing 23.2% to EUR 455 million (EUR 369 million), which corresponds to 25.4% (24.0%) of net sales.

Financial position and equity/assets ratio. Shareholder equity at year-end amounted to EUR 1,825 million (EUR 1,948 million), corresponding to an equity/assets ratio of 40% (45%). The decrease in shareholder equity is a result of EUR 499 million of dividend and group contribution to the Group's parent company Mölnlycke AB in 2020. The dividend and the Group contribution have both reduced the reported parent company receivable on the Group's balance sheet, hence no cash flow effect in 2020.

Net debt and cash flows. The Group's net debt totaled EUR 1,492 million (EUR 1,471 million), corresponding to a net debt/equity ratio of 0.82 (0.75). In 2020, the Group issued a new EUR 400 million 10-year bond and repurchased EUR 128 million of its outstanding bond due in 2022. Further, in 2020 Mölnlycke distributed EUR 350 (425) million to its shareholders and paid taxes of EUR 101 (67) million.

Innovation and product development

Innovation and product development are cornerstones of Mölnlycke's strategy to strengthen our customer offering and ensure future organic growth. In 2020, Mölnlycke's research and development expenditure amounted to EUR 42 (39) million which is slightly above the expenditure in the previous year.

Employees

With 7,900 employees spread across the world in a wide variety of jobs, Mölnlycke is a diverse, multi-cultural organisation. The company values a good mix of employees with different characteristics, experiences, backgrounds and mindsets. This diversity enables the company to truly understand and deliver what healthcare professionals and patients need around the world.

Environmental impact

Managing environmental impact is a priority for Mölnlycke. The company continuously works to prevent harm to the environment by adopting and implementing best practice at all of our sites worldwide. Mölnlycke holds a global multi-site ISO 14001 certification for environmental management. In 2021, we will continue the process of including our US sites into this certification.

Our environmental objectives. Our policy is to minimise our environmental impact seen from a life cycle perspective, while continuing to deliver reliable high-quality products and services for our customers and their patients. In order to achieve this, Mölnlycke:

- establishes environmental targets and monitors them continually, analysing the outcomes and taking additional actions if needed; and
- always aims to improve our environmental performance to exceed expectations and always abides by all applicable environmental compliance obligations.

[1] Figures in brackets are for the previous year.

Environmental management. As defined in our corporate sustainability policy and our environmental and quality management system, Mölnlycke develops environmental strategies, objectives and targets to ensure continual improvement and fulfilment of our environmental compliance obligations. Progress on these are regularly followed up by the management team and publicly reported on in the Mölnlycke Sustainability Report.

Risk management

Macro-economic environment. A significant economic downturn and/or disruption in the credit and financial markets could have a negative impact on demand for Mölnlycke's products, availability of supply and the ability to collect account receivables on a timely basis. Because Mölnlycke is a global company active in a large number of geographical areas, this risk is reduced for the company as a whole.

Healthcare reimbursement system. Political decisions represent the single greatest market risk to Mölnlycke. Changes to the healthcare reimbursement system can have a major impact on individual markets and products by reducing or deferring reimbursements. Since Mölnlycke is active in a large number of geographical areas, this risk is reduced for the company as a whole.

Customers. Activities conducted by Mölnlycke's customers are generally financed directly or indirectly by public funds. The ability to pay is usually very solid, although payment behaviour can vary between different countries. All transactions outside the OECD area are covered by payment guarantees, unless the customer's ability to pay is well documented.

Authorities and control bodies. Parts of Mölnlycke's product range are covered by legislation stipulating rigorous assessments, quality control and documentation. It cannot be ruled out that Mölnlycke's operations, financial position and earnings may be negatively impacted in the future by new and ongoing efforts to comply with current regulations and requirements of authorities and control bodies, or changes to such regulations and requirements. To limit risks relating to compliance, Mölnlycke has an extensive focus on quality and regulatory improvements. Our quality management system is certified to the standards applicable to the products the company manufactures.

Research and development. Mölnlycke's future success also depends on the company's ability to develop new and successful products and solutions. Research and development efforts are costly and there is no guarantee that developed products will be commercially successful. As a means of maximising the return on research and development efforts, Mölnlycke has a structured selection and planning process to ensure that the company prioritises correctly when choosing which potential projects to pursue.

Manufacturing and key suppliers. With sites in 8 countries, Mölnlycke runs a risk of failure in manufacturing capabilities, including a major disruption at one or more of its facilities or a failure to secure future capacity, and this may have a material adverse effect on its business. Additionally, Mölnlycke is reliant on certain key suppliers of raw materials and finished products. Mölnlycke manages this risk with dual manufacturing and sourcing, alongside a solid insurance programme.

Competitors. The wound care and the surgical product industries are highly competitive and a risk is that Mölnlycke may not be able to compete effectively. Significant product innovations, technical advances or the intensification of price competition by competitors could adversely affect Mölnlycke's business. In order to prevent this. Mölnlycke continuously works to differentiate itself through clinical evidence, continuous innovation and professional education.

IT security. Mölnlycke's day-to-day operations are dependent on reliable, secure information systems and infrastructure. Together with our partners, we follow defined processes to ensure our IT systems are stable and secure, including measures to prevent cyber incidents.

Product liability and damage claims. As a healthcare supplier, Mölnlycke runs a risk, like other businesses in the healthcare industry, of being subject to claims relating to product liability and associated legal claims. Mölnlycke cannot provide any guarantees that its operations will not be subject to claims from third parties. A comprehensive insurance programme is in place to cover any property or liability risks (e.g. product liability) to which the company is exposed.

Protection of intellectual property. Mölnlycke is a market leader in some of the areas in which it operates and invests significant amounts in product development and intellectual property. To secure returns on these investments, Mölnlycke actively upholds its rights and monitors competitors' activities closely. If required, Mölnlycke will protect and defend its intellectual property rights through legal processes.

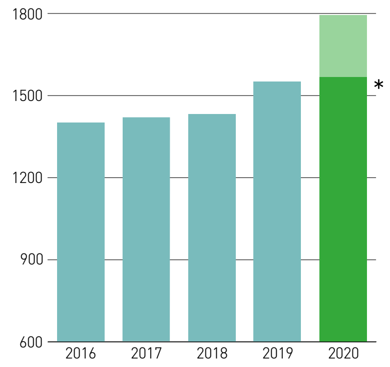
Financial risks. Mölnlycke is exposed to a number of financial risks. Our main financial risks are currency risk from transaction and balance sheet exposure, refinancing risk and credit risk. Risk management is regulated by the finance policy adopted by the Board. The ultimate responsibility for managing Mölnlycke's financial risks and developing methods and principles of financial risk management lies with the Mölnlycke board and the executive leadership team.

Five-year overview

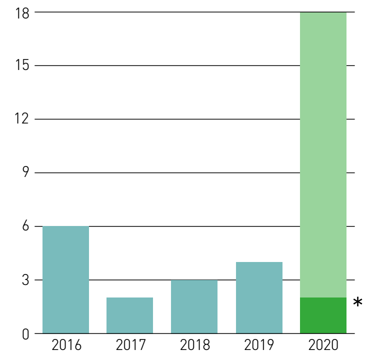
EUR million (unless otherwise stated)	2020	2019	2018	2017	2016
INCOME STATEMENT					
Revenue[1]	1,793	1,542	1,452	1,443	1,429
EBITDA[2]	536	451	418	400	428
Depreciation, amortisation and impairment charges[2]	-81	-82	-60	-58	-48
Operating profit	455	369	359	342	380
Net interest expenses	-29	-33	-18	-25	-17
Profit before tax	432	339	337	303	358
Profit for the year	338	261	272	233	282
FFO (Funds from operations)	390	332	324	313	333
BALANCE SHEET					
Goodwill and other intangible assets	2,843	2,854	2,800	2,794	2,807
Other non-current assets	350	343	280	281	298
Current assets excluding cash	786	816	1,135	776	441
Cash, cash equivalents and short-term investments	597	339	312	418	98
Total assets	**4,575**	**4,351**	**4,527**	**4,269**	**3,644**
Equity	1,825	1,949	2,456	2,220	2,074
Interest-bearing liabilities, incl. lease liabilities	2,089	1,810	1,504	1,502	1,007
Other liabilities	661	593	567	546	563
Total equity and liabilities	**4,575**	**4,351**	**4,527**	**4,269**	**3,644**
Working capital	193	190	174	177	151
Net interest-bearing debt	1,492	1,471	1,193	1,084	909
CASH FLOW					
EBITDA[2]	536	451	418	400	428
Change in working capital	-8	-8	0	-26	7
Capital expenditures - PPE and Intangible Assets	-38	-41	-44	-48	-89
Operating cash flow	**490**	**402**	**374**	**326**	**346**
Acquisitions and divestments of subsidiaries	-11	-67	-24	-6	-50
Paid taxes	-101	-67	-79	-29	-29
Distributions to the owners of the Group	-350	-425	-350	-450	-300
Adjustment for change in accounting policy[2]	–	-58	–	–	–
Other	-49	-64	-30	-16	-21
Increase (-)/decrease (+) in Net Debt	**-21**	**-278**	**-109**	**-175**	**-54**
FINANCIAL INDICATORS					
Organic sales growth[1]	18%	4%	3%	2%	6%
Operating margin	25%	24%	25%	24%	27%
EBITDA margin	30%	29%	29%	28%	30%
Net debt/EBITDA ratio	2.8	3.3	2.9	2.7	2.1
Cash conversion	91%	89%	89%	81%	81%
Net debt/Equity ratio	0.82	0.75	0.49	0.49	0.44
Equity/Assets ratio	40%	45%	54%	52%	57%
PERSONNEL					
Number of employees, FTE (full time equivalents)	7,910	7,790	7,895	7,570	7,505

[1] Revenue for 2020 was positively impacted by one-off orders for staff clothing and protection. Excluding these one-off orders revenue amounted to EUR 1,562 million and the organic sales growth was 2%.
[2] EBITDA is positively impacted from the adoption of IFRS16 by MEUR 19 in 2020 and MEUR 20 in 2019. Net debt increased MEUR 58 from this adoption.

Revenue
EUR million

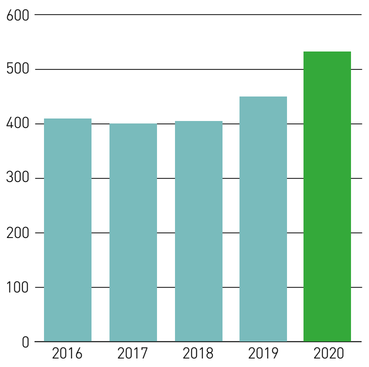


Organic sales growth
Constant currency, %

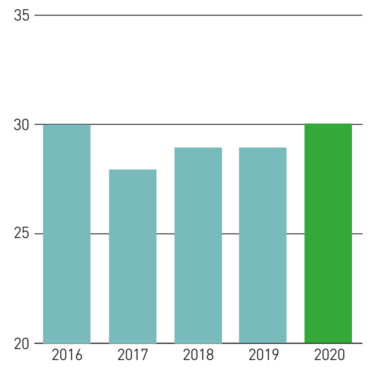


* Excluding the impact from the one-off orders for PPE sales

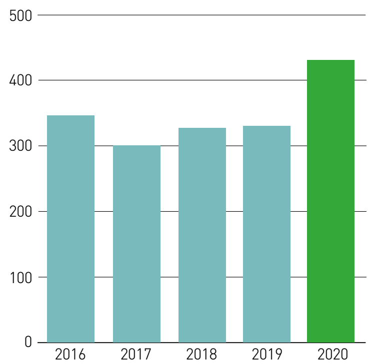
EBITDA
EUR million



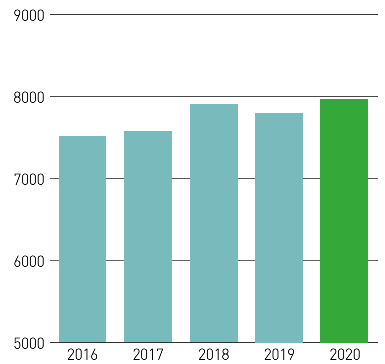
EBITDA margin
%



Profit before tax
EUR million



Number of employees
Full-time equivalent



Board of Directors

Gunnar Brock
Chairman of the Board
Born 1950
Nationality: Swedish

Gunnar is Chairman of Stena AB, and a director on the boards of ABB, Investor and Patricia Industries. He is also a member of the Royal Academy of Engineering Sciences. Previously he has served as CEO of Alfa Laval, Tetra Pak, Thule and Atlas Copco.

Zlatko Rihter
Board Member
Born 1970
Nationality: Swedish

Zlatko took over the role of CEO of Mölnlycke in 2020. Previously he was CEO at CellaVision AB and also held a number of senior positions within divisions of Gambro/Baxter, Getinge/Arjo and Cooper Companies. Zlatko also sits on the boards of ETAC AB and Malmö FF.

Christian Cederholm
Board Member
Born 1978
Nationality: Swedish

Christian has been Co-head of Patricia Industries since 2017. Christian serves on the board of Hi3G Scandinavia and Permobil as well as the Advisory Committee to Nasdaq European Markets. He holds an M.Sc. in Finance from the Stockholm School of Economics.

John Hepburn
Board Member
Born 1949
Nationality: Canadian

John is a senior advisor to Morgan Stanley having been the Vice Chairman and a Managing Director of the Firm. He is Chairman of Gelato A/S in Norway, Chairman of Sportsfact Ltd in the UK and an industrial advisor to EQT Partners.

Clare Hollingsworth
Board Member
Born 1960
Nationality: British

Clare is a seasoned non executive board member with extensive experience in the healthcare sector. She has been CEO and Deputy Chairman of Spire Healthcare Ltd, and a non executive director for Virgin Healthcare Holdings Ltd. She is currently Chairman of The Go-Ahead Group plc and a non executive director for UK Government Investments and The LTA.

Sharon James
Board Member
Born 1961
Nationality: British

Sharon, who holds a Ph.D. in Neurobiology is a highly experienced Research & Development (R&D) leader who, for more than 25 years has been heading and transforming large global R&D teams. Her extensive executive experience includes R&D leadership roles with Bayer Consumer Health, Reckitt Benckiser, PepsiCo and GlaxoSmithKline. She also serves on the board of Novozymes and is a senior advisor to Bain & Company.

Johan Malmquist
Board Member
Born 1961
Nationality: Swedish

Johan was President and CEO of Getinge Group for 18 years. He is the Chairman of the board of Getinge AB, Arjo AB and member of the boards of Chalmer's Foundation, Elekta AB, Dunkerstiftelserna, Stena Adactum and Trelleborg AB.

David Perez
Board Member
Born 1959
Nationality: American

David has spent his entire career in healthcare. He was President & CEO of Terumo BCT (and its predecessor companies Cobe BCT, Gambro BCT, and Caridian BCT) for 18 years and previously served on the Terumo Corporation Board of Directors, headquartered in Tokyo, Japan. He serves on the board of directors of Laborie, Sarnova, Advanced Instruments (Chairman), Ortho Clinical Diagnostics as well as Book Trust and Nurse Family Partnership.

Karl-Henrik Sundström
Board Member
Born 1960
Nationality: Swedish

Karl-Henrik was the CEO of Stora Enso for five years until 2019 and has held several other leadership positions, including as the CFO of NXP Semiconductors and as the CFO at Ericsson. He is also a board member of the following organisations: NXP Semiconducters, Vestas A/S, Sustainable Energy Angels AB, Marcus Wallenberg Foundation and Chairman of Baffin Bay Networks AB, TrackLib AB and of the tax delegation for Swedish Business and Commerce.

Carolin Jakobsen
Employee representative
Born 1983
Nationality: Swedish

Elected by Akademikerföreningen, which is a part of the Swedish confederation of Professional Associations, SACO, Carolin has been a member of the Mölnlycke board since September 2017. She is a Senior Product Developer, R&D Wound Care.

David Valham
Employee representative
Born 1974
Nationality: Swedish

Elected by Unionen, David has been a member of the Mölnlycke board since April 2018. David is an Industrial Designer in R&D.

Executive Leadership Team

Zlatko Rihter
CEO
Born 1970
Nationality: Swedish

Zlatko took over the role of CEO of Mölnlycke in 2020. Previously he was CEO at CellaVision AB and also held a number of senior positions within divisions of Gambro/Baxter, Getinge/Arjo and Cooper Companies. Zlatko also sits on the boards of ETAC AB and Malmö FF.

Anders Andersson
EVP OR Solutions
Born 1971
Nationality: Swedish

Anders is responsible for our focused OR (Operating Room) Solutions organisation within the Mölnlycke procedure trays, staff clothing and drapes product ranges. Anders has been with the company since 2000 and held the position of EVP OR Solutions since 2017. During his years with Mölnlycke he has held various senior roles in Operations, Commercial and R&D.

Rob Claypoole
EVP Commercial US
Born 1971
Nationality: American

Rob joined Mölnlycke in March 2017 as President US and joined the Executive Leadership Team in 2019. During his 16 years in healthcare, Rob has led and transformed US and global businesses. He was previously at Medtronic where he held various leadership roles including Global GM, Soft Tissue Repair and Global GM, Obesity & Metabolic Health. Before Medtronic, Rob held several leadership roles at Johnson & Johnson.

Kristin Hedlund
EVP Legal, General Counsel
Born 1968
Nationality: Swedish

Kristin joined the Executive Leadership Team in 2018. Before taking on her current role at Mölnlycke she held a number of positions within DB Schenker. Most recently she served as General Counsel and member of the board at Schenker AB. Kristin has more than twenty years of experience in Legal affairs.

Eric de Kesel
EVP Operations & RQA
Born 1965
Nationality: Belgian

Eric has been with the company since 2002 during which time he has been GM of the factory in Waremme, Belgium, and has held senior roles in R&D, Supply Chain and Commercial. Before taking on his current role, he was President of the former Surgical Division.

Susanne Larsson
Group CFO, EVP Finance, IT, Strategy & Business Development
Born 1968
Nationality: Swedish

Susanne joined Mölnlycke in 2020. Prior to this she spent five years as Group CFO for Gunnebo AB listed on NASDAQ Stockholm. Before that she spent more than 20 years at the SKF Group in various financial and strategic leadership positions. Susanne has board experience from Mercuri Urval and chairman for two foundations at the University of Gothenburg.

Martin Lexa
EVP HR & Corporate Communications
Born 1965
Nationality: German

Martin joined Mölnlycke in 2016. He has many years of experience in the healthcare industry in both mature and emerging markets. Before joining, he spent four years within Novartis, first as Head of HR Europe at Consumer Health and then as Head of HR for EMEA at Alcon. Prior to Novartis he worked for five years at Medtronic as VP HR EMEA & Canada and eight years at Bristol-Myers Squibb in different national and international HR leadership roles

Barry McBride
EVP Antiseptics, Gloves, Global R&D
Born 1965
Nationality: Irish

Barry joined Mölnlycke in 2014 and leads our R&D and Medical teams as well as the Gloves and Antiseptics teams. He has a broad global experience in medical devices and has held senior positions in R&D, general management, marketing and operations in the US, Asia and Europe. Prior to joining Mölnlycke Barry was CTO and a divisional President of Teleflex. He has also founded a successful medical device start-up company.

Raphael Pascaud
EVP Commercial International
Born 1971
Nationality: French

Raphael joined the Mölnlycke in October 2019, bringing extensive general management, commercial leadership, marketing, corporate strategy and M&A experience, from nine years in global senior executive roles at Align Technology and 15 years in Johnson & Johnson's Orthopaedics business.

Financial statements 2020

Consolidated income statement, MEUR

	Notes	2020	2019
Revenue	6	1,792.7	1,542.4
Cost of sales	7	-865.1	-703.0
Gross profit		**927.6**	**839.4**
Selling costs	7	-308.9	-317.6
Administrative costs	7	-122.3	-113.7
Research and development costs	7	-43.1	-38.8
Other operating income and expenses	7	1.7	–
Operating profit		**455.0**	**369.3**
Finance income	8	16.8	13.2
Finance costs	8	-40.3	-43.8
Profit before tax		**431.5**	**338.7**
Income tax expense	9	-93.5	-77.7
Profit for the year		**338.0**	**261.0**
Attributable to:			
Owners of the Company		338.0	261.0
Non-controlling interests		–	–
		338.0	**261.0**

Consolidated statement of comprehensive income, MEUR

	2020	2019
Profit for the year	**338.0**	**261.0**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising during the year on translation of foreign operations (net of tax of MEUR -3.0 (2019: MEUR 3.8)	1.1	10.4
Revaluation of cash flow hedges (net of tax of MEUR -0.1 (2019: -))	0.4	–
Hedge result reclassified to profit or loss (net of tax of MEUR 0.2 (2019: -))	-0.7	–
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gains/(losses) on defined benefit pension plans (net of tax of MEUR 1.8 (2019: MEUR 2.8))	-5.9	-9.1
Total comprehensive income for the year	**332.9**	**262.3**
Attributable to:		
Owners of the Company	332.9	262.3
Non-controlling interests	–	–
	332.9	**262.3**

Consolidated statement of financial position, MEUR

	Notes	12/31/2020	12/31/2019
ASSETS			
Non-current assets			
Property, plant and equipment	10	227.2	242.7
Right of use assets	18	77.8	69.0
Goodwill	11	2,191.8	2,188.4
Other intangible assets	12	651.2	665.6
Other non-current assets		2.2	3.3
Deferred tax assets	9	42.3	27.7
		3,192.5	**3,196.7**
Current assets			
Inventories	13	251.9	216.1
Trade and other receivables	14	312.3	263.5
Receivables, parent company		178.7	295.6
Current tax receivables		41.1	40.3
Derivative financial instruments	22	1.6	0.0
Cash and cash equivalents	15	597.0	338.9
		1,382.6	**1,154.4**
Total assets		**4,575.1**	**4,351.1**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		0.1	0.1
Share premium		999.9	999.9
Cash flow hedging reserve		-0.3	–
Foreign currency translation reserve		38.4	37.3
Retained earnings		787.0	911.5
Equity attributable to the Company	16	**1,825.1**	**1,948.8**
Non-current liabilities			
Bond notes	22	2,011.2	1,738.5
Retirement benefit obligations	19	96.4	82.7
Deferred tax liabilities	9	138.2	150.3
Lease liabilities	18	60.1	51.2
Long term provisions	20	0.9	0.9
Other non-current liabilities		2.8	9.7
Bank loans	22	-	2.1
		2,309.6	**2,035.4**
Current liabilities			
Trade and other payables	21	389.7	318.2
Current tax liabilities		31.0	28.9
Lease liabilities	18	17.9	17.8
Bank overdrafts	22	–	0.2
Provisions	20	0.3	1.8
Derivative financial instruments	22	1.5	0.0
		440.4	**366.9**
Total liabilities		**2,750.0**	**2,402.3**
Total equity and liabilities		**4,575.1**	**4,351.1**

Consolidated statement of changes in equity, MEUR

	Share capital	Share premium	Hedging reserve	Foreign currency translation reserve	Retained earnings	Total equity
Balance at 1 January 2019	0.1	999.9	–	26.9	1,428.9	2,455.8
Profit or loss for the year	–	–	–	–	261.0	261.0
Other comprehensive income for the year	–	–	–	10.4	-9.1	1.3
Total comprehensive income for the year	–	–	–	10.4	251.9	262.3
Group contribution	–	–	–	–	-109.3	-109.3
Dividend	–	–	–	–	-660.0	-660.0
Total transactions with owners	–	–	–	–	-769.3	-769.3
Balance at 31 December 2019	0.1	999.9	–	37.3	911.5	1,948.8
Profit or loss for the year	–	–		–	338.0	338.0
Other comprehensive income for the year	–	–	-0.3	1.1	-5.9	-5.1
Total comprehensive income for the year	–	–	-0.3	1.1	332.1	332.9
Group contribution	–	–	–	–	-156.6	-156.6
Dividend	–	–	–	–	-300.0	-300.0
Total transactions with owners	–	–	–	–	-456.6	-456.6
Balance at 31 December 2020	0.1	999.9	-0.3	38.4	787.0	1,825.1

Consolidated statement of cash flows, MEUR

	Notes	2020	2019
Cash flow from operating activities			
Operating profit		455.0	369.3
Adjustments for:			
Depreciation, amortisation and impairment charges		81.4	81.6
Other items		-1.8	–
Operating cash flow before movements in working capital		*534.6*	*450.9*
Decrease / (increase) in inventories		-43.6	-9.5
Decrease / (increase) in trade and other receivables		-55.7	-12.6
Increase / (decrease) in trade and other payables		90.9	14.0
Cash generated from operations		*526.2*	*442.8*
Tax paid		-100.9	-66.7
Cash flow from operating activities		425.3	376.1
Cash flow from investing activities			
Interest received		0.3	1.0
Investments in intangible assets		-13.7	-14.7
Acquisition of businesses	3	-11.3	-66.9
Investments in property, plant and equipment		-24.3	-25.9
Proceed from sale of investments		1.9	–
Cash flow from investing activities		-47.1	-106.5
Cash flow from financing activities			
Interest paid		-30.0	-30.3
Changes in bank overdrafts	17	-0.2	-1.2
Principal elements of lease payments	17	-20.3	-19.9
Proceeds from bonds issued	17	398.5	494.4
Repurchase of bonds	17	-130.6	-261.4
Distribution to the owners of the Group	16	-350.0	-424.8
Cash flow from financing activities		-132.6	-243.2
Cash flow for the year		245.6	26.4
Cash and cash equivalents at the beginning of the year		338.9	311.6
Effect of foreign exchange rate differences		12.5	0.9
Cash and cash equivalents at the end of the year	15	597.0	338.9

Notes to the Consolidated Financial Statements

1. SUMMARY OF SIGINIFICANT ACCOUNTING POLICIES

GENERAL INFORMATION

Mölnlycke Holding AB (publ) is a public limited company incorporated in Sweden with its registered office in Gothenburg. The Company was first registered on 13 December 2005 and undertook no significant activities until it acquired MHC UK Ltd and its subsidiaries on 30 March 2007.

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 16 March 2021.

BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), which includes interpretations from the IFRS Interpretations Committee (IFRIC).

The consolidated financial statements are presented in millions of Euro rounded to the nearest hundred thousand, and are prepared on the historical cost basis modified by the revaluation of certain financial instruments.

The consolidated financial statements of Mölnlycke Holding AB (publ) and its subsidiaries (the 'Group') cover the year ended 31 December 2020. The comparative information covers the year ended 31 December 2019. There were no material discontinued operations in either period and all of the results presented refer to continuing operations.

The Company is not required to prepare consolidated financial statements under Swedish Law and these consolidated financial statements are not the Company's Swedish statutory accounts.

The Company's immediate parent company is Mölnlycke AB, a company incorporated in Sweden, and its ultimate parent company is Investor AB, a company incorporated in Sweden and listed on Nasdaq OMX Stockholm.

PRINCIPAL ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

All acquisitions that meet the definition in IFRS 3 of a business combination are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date (see 3.16.2); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised as a financial income or expense in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Foreign currencies

All foreign subsidiaries report in their functional currency being the currency of the primary economic environment in which the subsidiary operates (its functional currency). Transactions denominated in foreign currencies during the year have been translated at the exchange rate prevailing at the respective transaction date. Trade receivables and trade payables and other receivables and payables denominated in foreign currency have been translated at the exchange rates prevailing at the balance sheet date. Such exchange rate gains and losses are included in operating profit. Exchange rate gains and losses on translation of intra-group receivables from, or liabilities to, a foreign operation that in substance is part of the net investment in the foreign operation are reported in 'Other comprehensive income'. Other foreign currency items have been included in financial income and financial expense.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Company's foreign subsidiaries are expressed in EUR, the functional currency of the parent company, using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as other comprehensive income and transferred to the translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Revenue recognition

The Group's revenue from contracts with customers relates entirely to sale of surgical and wound care products. For all products revenue is recognized at a point in time when products are shipped to the customer and the customer obtains control of the assets. The sales contracts can, to a limited extent, also include various forms of services. These services have however been concluded to not be material in relation to the overall cost of the product to the customer. As a result, no separate performance obligation for services are accounted for.

The evaluations made by the Group in order to identify when a customer obtains control of promised goods is to a large extent based on the shipping terms. This is because shipping terms typically specifies when title passes and will also affect when risk and rewards of ownership transfer to the customer – both mentioned by IASB as indicators of the transfer of control.

For the majority of the Group´s sale, control is transferred when goods are delivered to the customer since, at that point of time, the customer has legal title to the asset and the significant risks and rewards have been transferred to the customer based on the shipping terms used.

The Group is determining the transaction price based on the consideration the Group expects to be entitled in exchange for transferring promised goods to a customer, excluding sales tax. Where a contract contains elements of variable consideration such as rebates, discounts and bonuses revenue is reported net after reporting a liability for such variable considerations. The liability is calculated based on contractual agreements and historical experience for the respective customer. When sales are made to a distributor the transaction price is reported net after considerations payable to the customer such as distributor fees.

The Group´s payment terms varies normally from 30–60 days and could in some instances be up to 90 days. Hence, the contracts does not involve any significant financing component. The Group has elected to use the practical expedient to not adjust the amount of consideration for the effects of financing components since the period between when the Group transfer a promised good to a customer and when the customer pays for that good is expected to be one year or less at contract inception. For certain countries and customers, when deemed appropriate from a credit risk perspective, payment in advance is requested before delivery of goods. When payment in advance is requested the time from when payment is received until goods are shipped is normally short. As of 31 December 2020 the Group had MEUR 27.6 in contract liabilities reported for prepayments from customers (2019: -). The majority of these prepayments relates to the sale of personal protective equipment in the UK.

The Group only has very limited performance obligations for right of returns, refunds, warranties and similar obligations. As a result, the Group has not reported any liabilities for performance obligations that are not satisfied at the end of the reporting period. This is unchanged compared to prior year. Neither have there been any material revenue recognised in the period from performance obligations satisfied in previous periods.

The Group pays some sales commissions that meet the definition for a cost of obtaining a contract. The Group has elected to use the practical expedient to recognise these costs as an expense when incurred if the amortisation period of the asset that the Group otherwise would have recognised is one year or less. Since all sales commissions paid would have been amortised within one year, no costs to obtain or fulfil a contract with a customer has been capitalised as an asset in the Group´s balance sheet.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income is recognised when the shareholders' rights to receive payment have been established.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for recognition.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants
Government grants towards staff re-training costs are recognised in profit or loss over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Government grants that relate to the acquisition of an asset are recognised as a reduction in the cost of the asset.

Retirement benefit costs
Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administrated funds. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement. A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with in the same way as payments to defined contribution plans where the obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out once a year. Remeasurement, comprising actuarial gains and losses, the effect of changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest) is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Past service cost is recognised in profit or loss in the period of a plan amendment.

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Defined benefit costs are categorised as follows:

- Service cost (including current service costs, past service costs, as well as gains and losses on curtailments and settlements) – included as a cost in arriving at operating profit.
- Net interest cost or income – included as a net finance cost or income.
- Remeasurement – included as part of other comprehensive income.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans. Refer to note 19, Retirement benefit obligations, for further details.

Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises the termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value, if material.

Profit-sharing and bonus plans
The Group recognises a liability and an expense for bonuses when it is contractually obliged to pay a bonus or where there is a past practice that has created a constructive obligation.

Taxation
Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, other comprehensive income or directly to equity depending on where the item that the deferred tax relates to is recognised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. Refer to note 9 Income taxes.

Group contributions
Group contributions are accounted for directly against equity together with the Group contribution's tax effect.

Leasing
The Group has leasing agreements for company cars, office rentals, warehouses and certain factory buildings. Company cars normally have lease terms of around three years while the leasing contracts for offices, warehouses and factories have varying terms for up to 15 years. Leasing contracts for company cars do normally not include any extension options. Outstanding leasing agreements for offices, warehouses and factories include various extension and termination options as well as contracts that are automatically extended for a certain period if not actively being cancelled.

In accordance with IFRS 16, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Lease liabilities are initially measured at the net present value of the fixed payments during the contract period and periods under extension options that are deemed reasonably certain to be utilized. The Group does not have any leases involving residual value guarantees or variable lease payments. The determination of the lease term for contracts with an extension option is based on the current business plan for each location and all facts and circumstances that create an economic incentive to exercise an extension option such as the cost for moving to a new facility. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the Group´s incremental borrowing rate in a similar economic environment with similar terms, security and conditions is used.

Right-of-use assets are initially measured at the amount of initial measurement of the lease liability plus any lease payments made at or before the commencement date and depreciated over the shorter of the asset´s useful life and the lease term on a straight-line basis.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not to exercise) it. The assessment of reasonable certainty is only revised if a significant event or a change in circumstances occurs, which affects this assessment, and that is within the control of the Group.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short term leases are leases with a lease term of 12 months or less while all leases of office equipment are considered as being of low-value.

Property, plant and equipment

Property, plant and equipment (land, buildings, and fixed installations as well as machinery and equipment) are measured at cost less accumulated depreciation and accumulated impairment losses. No depreciation is effected for land.

Cost includes the acquisition price, costs directly related to the acquisition, and expenses of making ready the asset until the time when it is ready to be put into operation. Subsequent costs are included in the property, plant and equipment's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs for repairs and maintenance are charged to the income statement in the period in which they are incurred.

Depreciation is charged so as to write off the cost, other than land and properties under construction, over its expected useful life using the straight line method. In case where items of property, plant and equipment is comprised of different components each having a cost and expected useful life significantly different than the total item, such components are depreciated separately over each components useful life.

Depreciation commences when the assets are ready for their intended use. Useful lives are reviewed annually. The expected useful lives of the major categories of property, plant and equipment are:

Properties	25–40 years
Land improvements	30–40 years
Heavy machines	7–15 years
Smaller machines and transport equipment	3–5 years
IT-equipment and other equipment	3–10 years

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss but is not included in revenue.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see 'Business combinations' above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Internally-generated intangible assets

Research and development expenditure:

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's development projects is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of directly attributable expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Capitalized development projects are amortised on a straight-line basis over their estimated useful lives, which normally is between 3 to 8 years.

Computer software:

Computer software intangible assets are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over the expected useful lives, being 3–10 years.

Costs associated with maintaining computer software assets are recognised as an expense as incurred.

Other Intangible assets

Intangible assets separately acquired are initially measured at purchase cost. Intangible assets acquired as part of a business combination are initially measured at fair value.

Proprietary technologies:

Proprietary technologies are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives from the time they are available for use. The expected useful lives are reviewed annually and the amortisation period is between 15 and 20 years.

Customer contracts:

Customer contracts are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life. The estimated useful lives for customer contracts are based on the expected cash flow regarding the customer contracts acquired and are between 4 and 10 years.

Trademarks and brands:

Trademarks and brands are valued independently as part of the fair value of the business acquired from third parties where the trademark has a value which is substantial and long-term and where the trademark can be sold separately from the rest of the business acquired or where it arises from contractual or legal rights. One important element of the strong development of the Group has been the long-term brand building efforts. The trademarks and brands of the Group have a very strong position in the market and several of the Group´s trademarks and brands are therefore considered to have an indefinite useful life. Trademarks and brands that are considered to have an indefinite useful life are subject to an impairment test annually or more often if there is an indication that their value might be impaired. The expected useful lives for trademarks and brands that are not considered to have an indefinite useful life are reviewed annually and the amortisation period is between 5 and 15 years.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets which are not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale and the sale should be expected to be completed within one year from the date of classification as held for sale.

Non-current assets (and disposal groups when applicable) classified as held for sale are measured at the lower of the asset's previous carrying amount the fair value less cost to sell. Non-current assets held for sale are not depreciated.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is generally determined on a first in, first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Trade receivables
Trade receivables are held in a hold to collect business and are at initial recognition measured at fair value and subsequently at amortised cost using the effective interest rate method. The Group applies the IFRS 9 simplified approach to measure credit losses which uses a lifetime expected loss allowance for all trade receivables. All overdue receivables are assessed on an individual basis and a loss allowance is reported for the difference between the asset's carrying amount and the present value of estimated future cash flows for all receivables that are considered doubtful. The same principle is applied to all non-overdue receivables for which other lagging borrower-specific factors are observed. For all receivables not considered doubtful a loss allowance is reported based on an expected loss rate calculated from the historical credit losses experienced over a period of 36 months before the balance sheet day. As of 31 December 2020 this expected loss rate amounts to 0,0243%. In addition, separate calculations and provisions are made for markets for which the expected credit losses expects do deviate significantly from the Group average. Assets for which there is no reasonable expectation of recovery is written off through profit and loss to the extent of expected loss.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. In order to be classified as cash and cash equivalents, the maturity of the cash and cash equivalents instruments is three months or less at the time of acquisition. The Group´s Cash and cash equivalents are considered to be held in a hold to collect business and are valued at amortised cost. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Bank and other borrowings
Interest-bearing bank loans, overdrafts and other loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see above).

Trade payables
Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when it is extinguished, i.e. when the debt has been paid off or the primary obligation specified in the contract is cancelled or has expired.

Derivative financial instruments
Derivatives are only used for economic hedging purposes and not as speculative investments. Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at sub-sequent reporting dates. All derivatives with a positive fair value are recognised in derivative financial instruments on the assets side and all derivatives with a negative fair value are recognised in derivative financial instruments on the liabilities side of the balance sheet.

Changes in the fair value of derivative financial instruments that are not designated as part of a hedging relationship are recognised as operating profit or financial gain, operating loss or financial loss, depending on the objective of using the derivative and whether the derivative is attributable to operational or financial items.

In 2020 the Group has entered into fx forward contracts and fx-swaps in order to hedge the currency risk in certain specific sales orders entered with customers during the year. The Group has designated these derivatives as cash flow hedges. As a result, the effective portion of the changes in the fair value of these derivatives is recognised in the cash flow hedge reserve within equity. There were no ineffectiveness to be recorded from these hedges during the year. Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

Provisions
Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS'S)
New accounting policies for 2020
In 2020 no new or revised IFRSs or interpretations from the IFRS Interpretations Committee have had any effect on the profit or loss financial position or disclosures for the Group. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective in the EU.

New accounting policies for 2021 and later
Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods. None of these standards that are not yet effective have been early adopted by the Group or would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Inherent in the application of many of the accounting policies used in the preparation of the financial statements is the need for management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the reporting period. Actual outcomes could differ from the estimates and assumptions used. The following summary provides further information about the critical accounting judgments and key sources of estimation uncertainty that could have a significant impact on the results of the Group.

Recoverability of the carrying values of goodwill and indefinite-lived intangible assets
Significant judgment is required to determine the extent to which goodwill and indefinite-lived intangible assets have a value that will benefit the Group over future periods. To assist in making this judgment, the Group undertakes an assessment, at least annually, of their carrying values. Goodwill and indefinite-lived intangible assets are allocated to the Group's Surgical Solutions and Wound Care segments which are also considered to be cash-generating units (CGU's), being the lowest level of assets (or groups of assets) for which there are separately identifiable cash flows.

The impairment testing is based on a calculation of value in use in which assumptions of future growth and operating margins are important components. The growth rates and margins used to estimate future performance are based on and is consistent with past performance and experience of growth rates and margins achievable in the Group's key markets. The estimated values for the first 5 years are taken directly from the Group's annual budgeting and strategic planning process. A growth rate of 2% (2%) have been used to extrapolate the cash flows for the years beyond this 5 year period, which is considered reasonable given historical growth, geographical positioning and industry fundamentals. Estimated cash flows have been discounted using a pre-tax discount rate of 9.8% (9.3%) for Surgical Solutions and 8.7% (9.3%) for Wound Care. No impairment requirement has been identified since the carrying values are lower than calculated value in use. The assessment is that no reasonable possible change in any key assumption will lead to a calculated recoverable amount that is lower than the carrying amount.

Taxation – unrecognised temporary differences
The Group has recognised deferred tax assets in respect of unutilised losses and other timing differences. The Group also have losses for which no value has been recognised for deferred tax purposes in these financial statements. These relates to loss-making subsidiaries where the future economic benefit of these timing differences is not deemed to be probable or subsidiaries where the timing differences are of such a nature that their value is dependent only on certain types of profit being earned, such as capital profits. If trading or other appropriate profits are earned in future in these companies, the timing differences may yield benefit to the Group in the form of a reduced tax charge.

In accordance with IAS 12 Income taxes an entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries except to the extent that 1) the entity is able to control the timing of the reversal of the temporary difference and 2) it is probable that the temporary difference will not reverse in the foreseeable future. The accounting for such temporary differences therefore involves management´s intention in regards to the reversal of these temporary differences. Management's assessment is that these criteria to not report a deferred tax liability are fulfilled in relation to two temporary differences associated with investments in subsidiaries. If these intentions are changed in the future this could result in an increased current or deferred income tax expense for the Group in the period when this occurs.

Please refer to note 9 for further information on the Group´s unrecognised temporary differences and the assessments made in relation to these temporary differences.

Retirement benefits
Retirement benefit accounting requires a number of key assumptions to be made in order to value the Group's obligations and to determine the liabilities to be recognised and the charge to be recognised in the income statement. It is managements responsibility to set the assumptions used in determining the key elements of the costs of meeting the Group's retirement benefit obligations. These assumptions are set after consultation with qualified actuaries. Details of the assumptions used are given in note 19. Whilst management believe that the assumptions used are appropriate, a change in the assumptions used would affect Group profit or loss and financial position.

Inventory obsolescence
In accordance with IAS 2 Inventories the Group´s inventory is stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution. During 2020 the global market for personal protective equipment experienced significant price fluctuation with large price increases during the first half of the year due to an increased demand driven by the pandemic and a return to a more normal price level during the second half of the year as a result of an increased global production capacity. The assessment of the net realisable value of the Group´s inventory of personal protective equipment as of the balance sheet day is based on management´s current best estimate of the net realisable value of these products. In this assessment management has primarily utilised historical average selling prices for corresponding products from before the pandemic less estimated costs to be incurred in marketing, selling and distribution. These values could vary from the values that will be realised based on the future development in the market for these products.

3. ACQUISITIONS AND DISPOSALS

Purchase consideration - cash outflow, MEUR	2020	2019
M&J Airlaid Products A/S		
Cash paid	–	67.7
Less cash acquired	–	-2.4
Release of retention amount and earn-out payments	9.1	1.5
	9.1	**66.8**
SastoMed GmbH		
Release of holdback account and earn-out payments	2.2	0.1
	2.2	**0.1**
Net outflow of cash - investments in subsidiaries	11.3	66.9

4. PRINCIPAL SUBSIDIARIES

The Company's only directly held subsidiaries are MHC UK Ltd, (Reg. No. 5886297), Great Britain and MHC Sweden AB (Reg. No. 556716-2150), Sweden. MHC UK Ltd, Great Britain and MHC Sweden AB, Sweden owns, direct and indirect, 100% of the following companies:

Mölnlycke Health Care Pty Ltd., Australia
Mölnlycke Health Care GmbH, Austria
Mölnlycke Health Care N.V./S.A., Belgium
Mölnlycke Health Care Brazil Ltda., Brazil
Molnlycke Health Care Vends de Prod. Médicos Ltda., Brazil
Mölnlycke Health Care Inc., Canada
Mölnlycke Health Care Chile SpA., Chile
Molnlycke Healthcare (Shanghai) Co. Ltd., China
Mölnlycke Health Care Adria d.o.o, Croatia
Mölnlycke Health Care Klinipro s.r.o., Czech Republic
Mölnlycke Health Care s.r.o., Czech Republic
Mölnlycke Health Care ProcedurePak s.r.o., Czech Republic
Mölnlycke Health Care A/S, Denmark
M&J Airlaid Products A/S, Denmark
Mölnlycke Health Care OÜ , Estonia
Mölnlycke Health Care Oy, Finland
Mölnlycke Health Care SAS, France
Mölnlycke Health Care GmbH, Germany
SastoMed GmbH, Germany
Medlock Medical Ltd, Great Britain
Mölnlycke Health Care Ltd., Great Britain
Regent Medical Holdings America Ltd, Great Britain
Regent Medical Ltd, Great Britain
Regent Medical Overseas Ltd, Great Britain
Mölnlycke Health Care Ltd./Kft., Hungary
Molnlycke Health Care Hong Kong Limited, Hong Kong
Molnlycke Health Care India Pvt Ltd, India
Mölnlycke Health Care S.r.l., Italy
Mölnlycke Health Care K.K., Japan
Mölnlycke Health Care Korea Co, Ltd., Korea
Molnlycke Health Care UAB, Lithuania
Mölnlycke Health Care Sdn Bhd., Malaysia
Mölnlycke Health Care Sales Sdn Bhd., Malaysia
Mölnlycke Health Care B.V., Netherlands
Mölnlycke Health Care AS, Norway
Mölnlycke Health Care Polska Sp. z o.o., Poland
Mölnlycke Health Care LDA., Portugal
Mölnlycke Health Care Asia Pacific Pte. Ltd, Singapore
Mölnlycke Health Care S.L., Spain
Mölnlycke Health Care South Africa (Pty) Ltd, South Africa
Mölnlycke Health Care AB, Sweden
Mölnlycke IP AB, Sweden
Sälöknapp AB, Sweden
Mölnlycke Health Care S.A., Switzerland
Mölnlycke Health Care (Thailand) Ltd., Thailand
Mölnlycke Health Care Sales (Thailand) Co., Ltd., Thailand
Mölnlycke Health Care US LLC, USA
Mölnlycke Manufacturing US LLC, USA
Mölnlycke US Funding, LLC, USA
Sundance Enterprises, Inc, USA

5. SEGMENT INFORMATION

Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is focused on the Group's two product segments – Surgical Solutions and Wound Care. These two product segments are the Group's reportable segments under IFRS 8.

The Surgical Solutions product segment specialises in providing single-use surgical products serving customer needs for operating room efficiency, infection control and the protection of patients and health care workers. Products include drapes (patient and equipment drapes), staff clothing (gowns, caps, facemasks, and scrub suits), surgical instruments and components, surgical gloves, custom procedure trays, and antiseptics. The segment sells its product range exclusively to hospitals and clinics, under the Barrier®, ProcedurePak® and Hibi® brands. The segment's Biogel® gloves brand has a long standing reputation for quality and reliability in the surgical community.

The Wound Care product segment specialises in providing products for the treatment of acute wounds, caused by burns, trauma and surgery, and the treatment of chronic wounds, including diabetic foot ulcers and venous leg ulcers – as well as the treatment and prevention of pressure sores. Our product range includes Mepitel®, Mepilex®, Mepiform®, Mepitac®, Mepore®, Mepore Pro®, Mesorb®, Tubifast®, Tubigrip®, Epaderm® and Granulox®.

Information regarding the Group's reportable segments is presented in the following tables.

	2020			2019		
	Surgical Solutions	Wound Care	Total	Surgical Solutions	Wound Care	Total
Segment revenue	953.2	839.5	**1,792.7**	706.7	835.6	**1,542.4**
Segment profit	203.8	335.7	**539.5**	113.6	339.4	**453.0**
Exceptional items			-3.1			-2.1
EBITDA			**536.4**			**450.9**
Depreciation, amortisation and impairment charges	-29.1	-52.3	-81.4	-28.7	-52.9	-81.6
Operating profit			**455.0**			**369.3**
Net finance costs			-23.5			-30.6
Profit before tax			**431.5**			**338.7**
Segment assets	182.0	69.9	**251.9**	142.7	73.4	**216.1**

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year (2019: Nil).

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1. Segment profit represents the earnings before interest, tax, depreciation, amortisation and impairment charges earned by each segment excluding exceptional items. This is the principal measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

In 2020 Exceptional items of negative MEUR 3.1 relates to closing or relocating the production of certain Wound care products and cost related to the CEO transition. In 2019 Exceptional items of negative MEUR 2.1 relates to a reorganisation of the commercial organisation within a few markets and closing the production of certain legacy Wound care products.

The only asset that is provided on a regular basis to the chief operating decision maker on a segment level is inventory. The total of the reportable segments' assets does equal the total inventory reported in the Group's balance sheet.

Geographical information non-current assets, MEUR	12/31/2020	12/31/2019
Sweden	74.4	72.2
Czech Republic	72.3	78.9
Finland	54.8	56.0
Malaysia	39.0	35.9
U.S.	63.3	60.4
Other countries	57.1	65.1
Total	**360.9**	**368.5**

Non-current assets included in the table above comprise property, plant and equipment, right of use assets, capitalised development expenditure and computer software. Goodwill and other intangible assets that have been recognised as a result of the acquisition of geographically diverse subsidiaries (trademarks and brands, proprietary technologies and customer contracts) have not been allocated to different geographical areas and are not included in non-current assets in the above table.

6. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group's revenue from contracts with customers relates entirely to sale of surgical- and wound care products. For all products, control is transferred and revenue is recognized at a point in time when products are shipped to the customer and the customer obtains control of the assets. The Group derives revenue in the following reportable segments, geographical regions and sales channels. Revenue from external customers is allocated to geographical area by the location of the legal entity in which the revenue is recorded. There were no inter-segment sales in the year (2019: -).

MEUR	2020	2019
Reportable segments		
Surgical Solutions	953.2	706.7
Wound Care	839.5	835.6
Total	**1,792.7**	**1,542.4**
Geographical information		
Sweden	67.7	52.8
France	184.7	165.6
UK	221.0	129.1
Europe (excl. Sweden, France and UK), Middle East and Africa	656.1	559.0
U.S.	473.0	453.7
Americas (excl U.S.)	45.4	53.1
Asia Pacific	144.8	129.1
Total	**1,792.7**	**1,542.4**
Sales channels		
Through distributors	1,156.0	1,009.4
Directly to customers	636.7	533.0
Total	**1,792.7**	**1,542.4**

7. OPERATING COSTS BY NATURE

The Group classifies operating costs in its income statement according to function. The Group's operating costs can be analysed by their nature as follows:

Operating cost, MEUR	2020	2019
Raw materials and finished goods	-588.2	-478.7
Personnel costs	-422.8	-417.2
Depreciation, amortisation and impairment charges	-81.4	-81.6
Other operating expenses	-247.0	-195.6
	-1,339.4	**-1,173.1**

Other operating income and expenses, MEUR	2020	2019
Realised gain, unlisted equity securities	1.8	–
Revaluation, listed equity secutities	-0.1	–
	1.7	**–**

8. FINANCE INCOME AND FINANCE COSTS

Finance income, MEUR	2020	2019
Interest income		
Financial assets at amortized cost		
Cash and cash equivalents	0.3	0.8
Receivables parent company	6.4	10.5
	6.7	**11.3**
Revaluation gain		
Financial assets and financial liabilities at Fair value through profit and loss		
Deferred consideration	8.4	–
Derivative financial instruments – Currency derivatives	1.7	1.9
	10.1	**1.9**
Total finance income	**16.8**	**13.2**

Finance costs, MEUR	2020	2019
Interest expenses		
Financial liabilities at amortized cost		
Borrowings 1)	-31.5	-39.9
Current interest bearing liabilities	-0.2	-0.3
Other interest cost	-4.2	-4.1
	-35.9	**-44.3**
Revaluation loss		
Financial assets and financial liabilities at Fair value through profit and loss		
Deferred consideration	–	-0.1
Derivative financial instruments – Currency derivatives	–	-0.0
	–	**-0.1**
Other financial items		
Currency gain/loss	-5.9	0.9
Other financial items	1.5	-0.5
	-4.4	**0.4**
Total finance costs	**-40.3**	**-43.8**

1) In 2020, the Group repurchased MEUR 127.7 of its outstanding bond due in 2022. The repurchase of the bond had a negative one-time effect on the Group's income statement for 2020 of MEUR 3.1, reported as interest expenses from borrowings. In 2019, the Group repurchased MEUR 249.9 of its outstanding bond due in 2022 which had a negative one-time effect on the Group's income statement for 2019 of MEUR 12.2.

9. INCOME TAX

MEUR	2020	2019
Income tax expense for the period		
Current tax	-117.3	-85.8
Deferred tax	23.8	8.1
	-93.5	**-77.7**
Income tax recognised in other comprehensive income		
Current tax: Exchange difference on foreign operations	-3.0	-0.4
Deferred tax: Exchange difference on foreign operations	–	4.2
Deferred tax: Actuarial gains/losses on defined benefit pension plans	1.8	2.8
Deferred tax: Financial derivatives	0.1	–
	-1.1	**6.6**
Income tax recognised directly in equity		
Current tax: Group contribution	42.6	29.7
	42.6	**29.7**
Total tax for the period		
Total current tax	-77.7	-56.5
Total deferred tax	25.7	15.1
Total	**-52.0**	**-41.4**

Numerical reconciliation of income tax expense, MEUR	2020	2019
Profit before tax	431.5	338.7
Tax at the Swedish domestic income tax rate of 21.4% (21.4%)	-92.3	-72.5
Tax effect of expenses that are not tax deductible	-1.7	-3.0
Tax effect of income that is not taxable	1.8	0.1
Difference in tax rates in foreign subsidiaries	-2.0	-2.0
Adjustments to taxes for previous periods	3.3	-0.2
Change of tax rates	-3.0	-1.4
Other	0.4	1.3
Income tax expense for the period	**-93.5**	**-77.7**

Movements in net deferred tax balance, MEUR	2020	2019
Net liability at the beginning of the year	**122.6**	**132.6**
Charged / (credited) to profit or loss for the year	-23.8	-8.1
Charged / (credited) to other comprehensive income	-1.9	-7.0
Acquisitions	–	2.7
Exchange rate differences	-1.1	2.4
Net liability at the end of the year	**95.8**	**122.6**

Deferred tax assets and liabilities attributable to, MEUR	12/31/2020	12/31/2019
Deferred tax assets		
Goodwill	14.9	0.3
Other intangible assets	3.5	1.2
Property, plant and equipment	0.7	0.4
Inventories	16.0	15.6
Accounts receivables	1.3	1.0
Retirement benefit obligations	17.4	12.1
Other accruals, provisions and liabilities	9.4	5.1
Tax loss carry forward	0.4	0.6
Gross total	**63.6**	**36.3**
Net of deferred tax liabilities	-21.3	-8.6
Net total	**42.3**	**27.7**
Deferred tax liabilities		
Goodwill	28.3	26.7
Other intangible assets	113.8	113.3
Property, plant and equipment	16.9	16.8
Other	0.5	2.1
Gross total	**159.5**	**158.9**
Net of deferred tax assets	-21.3	-8.6
Net total	**138.2**	**150.3**

Tax losses, MEUR	12/31/2020	12/31/2019
Unused tax losses fo which no deferred tax asset has been recognised	29.3	31.3
Potential tax benefit	6.3	6.3

The unused tax losses are related to two different subsidiaries. No deferred tax asset has been recognised due to 1) the uncertainty around if the Group will have the specific type of income in the jurisdiction of origin that is needed to utilize these losses and 2) the unused tax losses being incurred by a dormant subsidiary that is not likely to generate taxable income in the foreseeable future. The unused tax losses for both entities can be carried forward indefinitely.

Unrecognised temporary differences, MEUR	12/31/2020	12/31/2019
Temporary differences relating to investments in subsidiaries for which deferred tax liabilities have not been recognised:		
Foreign currency translation 1)	150.5	197.8
Undistributed earnings 2)	56.8	57.1
	207.3	**254.9**
Unrecognised deferred tax liability relating to the above temporary differences	36.7	46.5

1) The Swedish Council for Advance Tax Rulings has in 2019 interpreted Swedish tax law in relation to exchange differences on EUR denominated financial assets in Swedish entities with EUR as presentation currency. Within the Group´s holding structure, external funding denominated in EUR is raised in one of the holding companies and distributed to the Group´s operating entities through a EUR denominated intercompany loan. According to the interpretation in the advanced tax ruling, an unrealized taxable foreign exchange gain exists on this intercompany loan that however will be taxable, triggering a negative cash flow effect, only when the loan is close to fully repaid. The Group has the full decisive power to decide if and when to have this loan repaid and the Group has no intention to do so within a foreseeable future. In accordance with IAS 12 Income taxes the Group has therefore not reported any deferred tax liability for this temporary difference.

2) The Groups production entity in Thailand has undistributed earnings which, if paid out as dividends, would be subject to a 10% withholding tax. An assessable temporary difference exists, but no deferred tax liability has been recognised as the Group is able to control the timing of distributions from this subsidiary and is not expected to distribute these profits in the foreseeable future.

10. PROPERTY, PLANT AND EQUIPMENT

MEUR	Properties	Land	Machinery	Equipment	Total
At 1 January 2019					
Acquisition cost	93.0	4.9	236.4	65.1	399.4
Accumulated depreciation and impairment	-21.8	–	-103.8	-32.1	-157.7
Net book amount	**71.2**	**4.9**	**132.6**	**33.0**	**241.7**
Year ended 31 December 2019					
Opening net book amount	**71.2**	**4.9**	**132.6**	**33.0**	**241.7**
Acquisition of subsidiary	0.5	0.2	2.4	–	3.1
Additions	1.5	–	10.1	14.7	26.3
Disposals	-0.1	–	-0.4	-0.1	-0.6
Depreciations	-4.5	–	-17.0	-6.9	-28.4
Reclassifications	-2.8	–	8.9	-10.7	-4.6
Exchange differences	2.0	0.3	2.7	0.2	5.2
Closing net book amount	**67.8**	**5.4**	**139.3**	**30.2**	**242.7**
At 31 December 2019					
Acquisition cost	94.1	5.4	260.1	69.2	428.8
Accumulated depreciation and impairment	-26.3	–	-120.8	-39.0	-186.1
Net book amount	**67.8**	**5.4**	**139.3**	**30.2**	**242.7**
Year ended 31 December 2020					
Opening net book amount	**67.8**	**5.4**	**139.3**	**30.2**	**242.7**
Additions	2.7	–	6.3	15.3	24.3
Disposals	–	–	-0.4	-0.1	-0.5
Depreciations	-5.0	–	-18.3	-6.7	-30.0
Reclassifications	0.2	–	5.1	-5.6	-0.3
Exchange differences	-2.9	-0.3	-5.0	-0.8	-9.0
Closing net book amount	**62.8**	**5.1**	**127.0**	**32.3**	**227.2**
At 31 December 2020					
Acquisition cost	94.1	5.1	266.1	78.0	443.3
Accumulated depreciation and impairment	-31.3	–	-139.1	-45.7	-216.1
Net book amount	**62.8**	**5.1**	**127.0**	**32.3**	**227.2**

11. GOODWILL

MEUR	2020	2019
At the beginning of the year	**2,188.5**	**2,131.0**
Recognised on the acquisition of subsidiaries (note 3)	–	57.4
Exchange differences	3.3	0.1
At the end of the year	**2,191.8**	**2,188.5**

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The Group's CGUs are the two product segments, Surgical Solutions and Wound Care. Goodwill has been allocated to the Surgical Solutions and Wound Care segments as follows:

MEUR	12/31/2020	12/31/2019
Surgical Solutions	723.2	723.2
Wound Care	1,468.6	1,465.3
	2,191.8	**2,188.5**

12. OTHER INTANGIBLE ASSETS

MEUR	Trademarks and brands	Proprietary technology	Customer contracts	Capitalised development expenditure	Computer software	Total
At 1 January 2019						
Acquisition cost	499.1	218.3	5.5	46.8	58.3	828.0
Accumulated amortisation and impairment	–	-96.0	-3.4	-23.0	-36.4	-158.8
Net book amount	499.1	122.3	2.1	23.8	21.9	669.2
Year ended 31 December 2019						
Opening net book amount	499.1	122.3	2.1	23.8	21.9	669.2
Acquisition of subsidiary	–	8.7	3.5	–	–	12.2
Additions	–	–	–	6.5	7.9	14.4
Amortisations	-0.8	-12.9	-1.1	-6.1	-5.9	-26.8
Impairment charges	-3.5	-3.4	–	–	–	-6.9
Reclassifications	–	–	–	0.1	4.5	4.6
Exchange differences	–	-0.7	–	-0.3	-0.1	-1.1
Closing net book amount	494.8	114.0	4.5	24.0	28.3	665.6
At 31 December 2019						
Acquisition cost	499.1	226.3	9.0	53.1	70.6	858.1
Accumulated amortisation and impairment	-4.3	-112.3	-4.5	-29.1	-42.3	-192.5
Net book amount	494.8	114.0	4.5	24.0	28.3	665.6
Year ended 31 December 2020						
Opening net book amount	494.8	114.0	4.5	24.0	28.3	665.6
Additions	–	–	–	5.3	8.4	13.7
Disposals	–	–	–	–	-0.1	-0.1
Amortisations	-3.1	-15.0	-1.0	-5.5	-5.8	-30.4
Impairment charges	-1.3	–	–	–	–	-1.3
Reclassifications	–	–	–	0.1	0.2	0.3
Exchange differences	0.1	1.8	–	1.0	0.5	3.4
Closing net book amount	490.5	100.8	3.5	24.9	31.5	651.2
At 31 December 2020						
Acquisition cost	499.2	228.1	9.0	59.5	79.6	875.4
Accumulated amortisation and impairment	-8.7	-127.3	-5.5	-34.6	-48.1	-224.2
Net book amount	490.5	100.8	3.5	24.9	31.5	651.2

Amortisation and impairment charges are included in the following line items in the Group´s Income Statement:

MEUR	Trademarks and brands	Proprietary technology	Customer contracts	Capitalised development expenditure	Computer software	Total
2020						
Cost of sales	–	–	–	–	-1.4	-1.4
Selling costs	-4.4	-14.9	-1.1	–	-1.2	-21.6
Administrative costs	–	–	–	–	-3.0	-3.0
Research and development costs	–	–	–	-5.5	-0.2	-5.7
Total	-4.4	-14.9	-1.1	-5.5	-5.8	-31.7
2019						
Cost of sales	–	–	–	–	-1.0	-1.0
Selling costs	-2.8	-18.3	-0.7	–	-0.1	-21.9
Administrative costs	–	–	–	–	-4.8	-4.8
Research and development costs	–	–	–	-6.0	–	-6.0
Total	-2.8	-18.3	-0.7	-6.0	-5.9	-33.7

Trademarks and brands assessed as having an indefinite useful life are allocated to the Group´s cash generating units (CGUs) as follows:

MEUR	12/31/2020	12/31/2019
Surgical Solutions	177.4	177.4
Wound Care	290.0	290.0
	467.4	467.4

13. INVENTORIES

MEUR	12/31/2020	12/31/2019
Raw materials	58.1	58.8
Work-in-progress	18.3	10.8
Finished goods	196.3	146.8
Consumables	5.4	5.3
Inventories, gross amount	278.1	221.7
Provision for obsolescence	-26.2	-5.6
Inventories, net after provision for obsolescence	251.9	216.1

The increase in inventory obsolescence provision compared to prior year is primarily related to writing down the value of the inventory of certain product codes of personal protective equipment to its net realisable value. Please refer to note 2 for further information regarding the assessments made in regard to assessing the net realisable value of these products.

14. TRADE AND OTHER RECEIVABLES

MEUR	12/31/2020	12/31/2019
Trade accounts receivable		
Accounts receivable, gross	294.4	243.3
Allowance for doubtful debts	-6.0	-4.6
	288.4	238.7
Other financial receivables		
Customer invoices to be issued	2.7	2.0
Deposits	0.9	1.5
Other current receivables	4.7	5.0
	8.3	8.5
Financial trade and other receivables	296.7	247.2
Other current receivables		
VAT	3.5	6.8
Prepaid rent	1.2	0.9
Other prepaid expenses	10.9	8.6
	15.6	16.3
Trade and other receivables	312.3	263.5

Trade accounts receivable does not include any debtors that have been transferred to a financial institution.

Ageing of trade receivables, MEUR:	12/31/2020			12/31/2019		
	Gross amount	Reported allowance	Net amount	Gross amount	Reported allowance	Net amount
Not past due	219.0	-0.0	219.0	184.4	-0.0	184.4
Past due 0–30 days	15.9	-0.0	15.9	28.8	-0.0	28.8
Past due 31–90 days	35.5	-0.0	35.5	14.5	-0.1	14.4
Past due 91–180 days	12.3	-0.4	11.9	7.6	-1.2	6.4
More than 180 days	11.7	-5.6	6.1	8.0	-3.3	4.7
	294.4	-6.0	288.4	243.3	-4.6	238.7

Movement in the allowance for doubtful debts, MEUR	2020	2019
At 1 January	-4.6	-4.4
Impairment losses recognised	-1.7	-0.2
Impairment losses reversed	0.3	0.0
Exchange differences	0.0	0.0
At 31 December	-6.0	-4.6

15. CASH, CASH EQUIVALENTS AND SHORT TERM INVESTMENTS

MEUR	12/31/2020	12/31/2019
Bank balances	312.0	204.4
Short term bank deposits	285.0	134.5
Cash and cash equivalents	597.0	338.9

Cash and cash equivalents is cash and short-term bank deposits held by the Group with a maturity of less than three months at the time of acquisition.

Cash and cash equivalents as of 31 December 2020, include MEUR - (2.0) that is not available for use by the Group and MEUR 30.1 (30.4) in countries where exchange controls or other legal restrictions apply. Therefore it is not possible to immediately use these liquid funds in other parts of the Group. However, there is normally no limitation to use them for the Group's operation in the respective country.

16. CAPITAL MANAGEMENT

The Group considers the capital that it manages to be the equity attributable to equity holders of the parent as shown in the Group's Consolidated statement of financial position.

The Group's objectives when managing capital are to ensure that the Group has adequate funds to continue as a going concern and sufficient flexibility within the capital structure to fund the ongoing growth of the business and to take advantage of business development opportunities including acquisitions. The Group determines the amount of capital in conjunction with its borrowing requirements, taking into account changes in business risks, future funding requirements and any restrictions contained its borrowing facilities (see note 23). The Group's overall strategy remains unchanged from prior year.

In 2020 a dividend of MEUR 300.0 for the year ended 31 December 2019 has been made to the parent company Mölnlycke AB. The dividend has been settled against the short term receivable, parent company that was reported by the Group as of 31 December 2019.
In 2019 a corresponding dividend of MEUR 660.0 was made for the year ended 31 December 2018. Reported group contribution for 2020 to the parent company Mölnlycke AB amounts to MEUR 199.2 (139.0).

In 2020 distributions of MEUR 350.0 have been made by the Group to the Group´s parent company Mölnlycke AB's shareholders. From the Group´s perspective this payment partly settle group contribution from the Group to Mölnlycke AB. The remaining part reflects an interest bearing receivable on Mölnlycke AB reported on the Group's balance sheet as short term receivables, parent company. Corresponding distributions were made in 2019, amounting to MEUR 424.8.

17. CASH FLOW INFORMATION

The tables below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes.

			Non-cash changes				
MEUR	01/01/2020	Cash flows	Acquisitions	Amortisation	Exchange differences	Other changes	31/12/2020
Bond notes	1,738.5	267.9	–	1.7	–	3.1	2,011.2
Bank loans	2.1	–	–	–	–	-2.1	–
Bank overdrafts	0.2	-0.2	–	–	–	–	–
Lease liabilities	69.0	-20.3	28.2	–	1.1	–	78.0
	1,809.8	247.4	28.2	1.7	1.1	1.0	2,089.2

In 2020, the Group issued a new MEUR 400 10-year bond and repurchased MEUR 127.7 of its outstanding bond due in 2022. The repurchase price of the 2022 bond exceeded book value by MEUR 3.1 which is reported as interest expenses from borrowings in 2020 and in the column 'Other changes' in the above roll-forward.

			Non-cash changes				
MEUR	01/01/2019	Cash flows	Acquisitions	Amortisation	Exchange differences	Other changes	31/12/2019
Bond notes	1,491.4	233.0	–	1.9	–	12.2	1,738.5
Bank loans	2.0	–	–	–	0.1	–	2.1
Bank overdrafts	0.8	-1.2	0.7	–	-0.1	–	0.2
Lease liabilities	68.1	-19.9	20.0	–	0.8	–	69.0
	1,562.3	211.9	20.7	1.9	0.8	12.2	1,809.8

In 2019, the Group issued a new MEUR 500 10-year bond and repurchased MEUR 249.9 of its outstanding bond due in 2022. The repurchase price of the 2022 bond exceeded book value by MEUR 12.2 which is reported as interest expenses from borrowings in 2019 and in the column 'Other changes' in the above roll-forward.

18. LEASES

MEUR	12/31/2020	12/31/2019
Balance sheet items		
Right-of-use assets		
Buildings	60.7	54.6
Land	2.1	1.7
Vehicles	15.0	12.7
	77.8	69.0
Lease liabilities		
Current	17.9	17.8
Non-current	60.1	51.2
	78.0	69.0

MEUR	2020	2019
Additions to the right-of use assets during the year	28.2	20.0
Amounts included in the consolidated income statement		
Depreciation charge of right-of-use assets		
Buildings	12.1	12.6
Land	0.1	0.1
Vehicles	7.2	7.1
	19.4	19.8
Interest expense on lease liabilities	1.7	1.7
Expense relating to short-term leases	0.5	0.3
Expense relating to low-value leases	0.5	0.6
Total cash outflow for leases	23.0	22.5
Future cash outflows for committed leases not yet commenced	–	12.0

Please refer to Note 1 for the accounting policies followed and information about the nature of the Group´s leasing activities and Note 23 for a maturity analysis of lease liabilities.

19. RETIREMENT BENEFIT OBLIGATIONS

Defined contribution plans

In many countries, the Group's employees are covered by defined contribution pension plans. The pension plans primarily entail retirement pensions. The premiums are paid continuously throughout the year by each Group company to separate legal entities, such as insurance companies. The employer's obligation is limited to the premiums the company has undertaken to pay. Under this type of plan, no liability is recognised in the balance sheet, except for accrued contributions.

In Sweden, the total retirement benefit package is a mixed solution, with some parts being defined contribution pension plans and others defined benefit pension plans. The part of the Swedish ITP2 plan (supplementary pensions for salaried employees) concerning family pension, disability pension, and employment group life insurance financed by insurance with Alecta is a defined benefit pension multi-employer plan. The Swedish Financial Accounting Standards Council's Interpretations Committee has however concluded that the information provided by Alecta is not sufficient to be able to account for the Alecta plan as a defined benefit plan. Therefore, the Alecta plan has been reported as a defined contribution plan and this means that premiums paid to Alecta will also be recognized on an ongoing basis as expenses in the period to which they pertain. Alecta's surplus can be distributed to the insurers and/or the insured. At year-end 2020, Alecta's surplus in the form of the collective consolidation level was 148% (148%). For 2021, the Group expects to pay MEUR 0.6 for premiums to Alecta.

During the period the Group expensed MEUR 22.8 (21.9) of contributions to defined contribution plans.

Defined benefit plans

Defined benefit plans are those where the Group's obligation is to provide pension and other post-retirement benefits that participating employees will receive on or after retirement, usually dependent on one or more factors such as age, years of service and compensation. The Group operates defined benefit pension plans for qualifying employees in Sweden, USA, Belgium, Germany, the Netherlands, Thailand, Italy and France. The defined benefit plans in Belgium, USA and the Netherlands are funded, the remainder are unfunded.

The Swedish plan is the most significant defined benefit plan for the Group, representing 54% of the defined benefit obligation and 69% of the net liability at 31 December 2020 (52% and 68% respectively).

The major risks associated with the defined benefit plans are as follows:

– Investment risk: The defined benefit obligation is calculated using discount rates set with reference to corporate bond yields. If assets in funded plans underperform this yield it will increase the amount of any deficit.
– Interest risk: A decrease in corporate bond yields will increase the value of the defined benefit obligation for accounting purposes, although this would be partially offset by an increase in the value of corporate bonds held as assets.
– Longevity risk: The majority of the obligations are to provide benefits for the life of the plan member so increases in life expectancy will result in an increase in the defined benefit obligation.
– Salary risk: The majority of the obligations are to provide benefits for plan member based on annual salaries during the last few years of employment. If salaries increase faster than has been assumed this will result in an increase in the defined benefit obligation.

The principal assumptions used for the purpose of the actuarial valuations used in preparing the financial statements were as follows:

	Sweden		Others (weighted average)	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Discount rate	1.20%	1.50%	0.70%	1.10%
Expected rate of salary increases	2.20%	2.20%	2.10%	2.10%
Inflation rate	1.50%	1.70%	2.00%	1.90%

The discount rate is set separately for each country and is determined, in consultation with our local actuaries, by reference to market rates on high quality corporate bonds with a duration and currency that is consistent with the duration and currency of the defined benefit obligation. This may involve interpolation of bond yield curves where there is no direct match for duration or the market is not deep for matching bond durations. Other assumptions are based on market conditions in each country.

The amounts recognised in profit or loss in respect of defined benefit plans are as follows:

MEUR	2020	2019
Current service cost	5.1	5.4
Past service cost and (gain) or loss from settlements	–	-1.4
Net interest cost	1.1	1.4
	6.2	**5.4**

The total costs above are shown under selling costs MEUR 1.4 (-0.4), administrative costs MEUR 2.9 (2.6), cost of goods sold MEUR 0.8 (1.8) and finance costs MEUR 1.1 (1.4).

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit plans is as follows:

MEUR	12/31/2020	12/31/2019
Present value of funded defined benefit obligations	31.6	29.8
Fair value of plan assets	-26.6	-24.8
Deficit	**5.0**	**5.0**
Present value of unfunded defined benefit obligations	91.4	77.7
Net liability arising from defined benefit obligations	**96.4**	**82.7**

Movements in the present value of the defined benefit obligation in the period were as follows:

MEUR	2020	2019
Opening defined benefit obligation	107.5	88.2
Current service cost	5.1	5.4
Interest cost	1.3	1.8
Contributions from plan participants	0.1	0.1
Past service costs and settlements	–	-1.4
Actuarial losses / (gains):		
– Arising from changes in demographic assumptions	-0.1	0.0
– Arising from changes in financial assumptions	6.3	15.9
– Arising from experience differences	2.9	-0.5
Benefits paid	-1.6	-1.6
Exchange differences	1.5	-0.4
Closing defined benefit obligation	**123.0**	**107.5**

Movements in the present value of the plan assets in the period were as follows:

MEUR	2020	2019
Opening fair value of plan assets	24.8	20.7
Interest income	0.2	0.4
Return on plan assets, excluding interest income	1.4	3.5
Contributions from plan sponsors	0.6	0.6
Contributions from plan participants	0.1	0.1
Settlements	–	0.0
Benefits paid	-0.2	-0.5
Exchange differences	-0.3	0.0
Closing fair value of plan assets	**26.6**	**24.8**

The major categories of plan assets, are as follows:

MEUR	12/31/2020	12/31/2019
Equity investments	2.4	2.3
Fixed income investments	1.1	1.1
Others investments, principally insurance contracts	23.1	21.4
Closing fair value of plan assets	**26.6**	**24.8**

In Belgium and The Netherlands the liabilities are insured. No split of assets underlying the related insurance contracts is available for Belgium or The Netherlands and all of the plan assets for those countries are included against the 'other investments' caption. USA plan assets are included against the relevant caption.

The actual return on plan assets was MEUR 1.6 (3.9).

Sensitivity Analysis

The sensitivity analysis relating to the main actuarial assumptions used to assess the defined benefit obligation for the Group's most significant defined benefit plan (Sweden) is as follows:

	Change in DBO
Discount Rate	
1% increase in the discount rate	-20%
1% decrease in the discount rate	27%
Rate of salary increase	
1% increase in the rate of salary increases	9%
1% decrease in the rate of salary increases	-7%
Inflation rate	
1% increase in the rate of inflation	18%
1% decrease in the rate of inflation	-15%
Longevity	
Plus or minus one year	+/- 4%

These sensitivities have been calculated individually whilst holding the other assumptions constant.

Maturity of the defined benefit obligation and cash flows expected in 2021

At 31 December 2020 the average maturity of the defined benefit obligations under the Swedish plan is 24 years and the weighted average maturity of the defined benefit obligations under the Group's other plans is estimated at 20 years.

It is estimated that Group company contributions to funded defined benefit plans in 2021 will be MEUR 0.8 (0.7) and that benefit payments from unfunded plans in 2021 will be MEUR 1.5 (1.2).

20. PROVISIONS

MEUR	Restructuring provision 2020	Restructuring provision 2019	Provision for legal cases 2020	Provision for legal cases 2019	Total 2020	Total 2019
Balance at the beginning of the year	**1.8**	**0.8**	**0.9**	**3.1**	**2.7**	**3.9**
Provision made	0.3	1.6	–	–	0.3	1.6
Utilisation of provision	-1.6	-0.2	–	–	-1.6	-0.2
Reversals	-0.2	-0.4	–	–	-0.2	-0.4
Reclassifications	–	–	–	-2.2	–	-2.2
Exchange rate differences	0.0	0.0	–	0.0	0.0	0.0
Balance at the end of the year	**0.3**	**1.8**	**0.9**	**0.9**	**1.2**	**2.7**
Included in the balance sheet as:						
Current	0.3	1.8	–	–	0.3	1.8
Non-current	–	–	0.9	0.9	0.9	0.9
Total	**0.3**	**1.8**	**0.9**	**0.9**	**1.2**	**2.7**

21. TRADE AND OTHER PAYABLES

MEUR	12/31/2020	12/31/2019
Trade accounts payable	**125.4**	**109.8**
Other financial payables		
Accrued interest expense	18.5	19.9
Deferred consideration	0.4	8.6
Goods received not invoiced	9.2	5.1
Withholding personnel tax liabilities	5.1	4.5
Other liabilities	4.0	10.5
	37.2	**48.6**
Financial trade and other payables	**162.6**	**158.4**
Other current liabilities		
Personnel related liabilities	106.5	76.6
Accrued customer rebates	28.4	26.6
VAT	30.6	15.9
Prepayments from customers	27.6	–
Other accrued expenses	34.0	40.7
	227.1	**159.8**
Trade and other payables	**389.7**	**318.2**

22. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The group holds the following financial instruments:

MEUR	Notes	12/31/2020	12/31/2019
Financial assets			
Financial assets at amortised cost:			
Trade and other receivables	14	296.7	247.2
Receivables, parent company	16	178.7	295.6
Cash and cash equivalents	15	597.0	338.9
Other non-current assets		1.8	2.3
Financial assets at fair value through profit or loss (FVPL):			
Other non-current assets		0.4	1.0
Derivative financial instruments held for trading at FVPL	23	0.1	0.0
Derivative financial instruments – cash flow hedges	23	1.5	–
Total financial assets		**1,076.2**	**885.0**
Financial liabilities			
Financial liabilities at amortised cost:			
Bond notes	23	2,011.2	1,738.5
Trade and other payables	21	162.2	149.8
Bank loans and bank overdrafts		–	2.3
Other non-current liabilities		1.2	0.7
Financial liabilities at FVPL:			
Other non-current liabilities		1.6	9.0
Trade and other payables	21	0.4	8.6
Derivative financial instruments held for trading at FVPL	23	0.0	0.0
Derivative financial instruments – cash flow hedges	23	1.5	–
Total financial liabilities		**2,178.1**	**1,908.9**

Fair value of outstanding bond notes amounts to MEUR 2,102.8 (1,801.0) as of 31 December 2020 considering changes in credit margins and interest rates in the market from drawdown until the balance sheet date. For all financial instruments except bond notes fair value corresponds to book value as of 31 December 2020 and 31 December 2019.

The following section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table. There were no transfers between the levels for recurring fair value measurements during the year.

At 31 December 2020, MEUR	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss (FVPL):				
Listed equity securities	0.1	–	–	0.1
Unlisted equity securities	–	–	0.3	0.3
Derivative financial instruments held for trading at FVPL	–	0.1	–	0.1
Derivative financial instruments – cash flow hedges	–	1.5	–	1.5
Total financial assets	**0.1**	**1.6**	**0.3**	**2.0**
Financial liabilities				
Financial liabilities at FVPL:				
Deferred consideration	–	–	2.0	2.0
Derivative financial instruments held for trading at FVPL	–	0.0	–	0.0
Derivative financial instruments – cash flow hedges	–	1.5	–	1.5
Total financial liabilities	–	**1.5**	**2.0**	**3.5**

At 31 December 2019, MEUR	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss (FVPL):				
Listed equity securities	0.2	–	–	0.2
Unlisted equity securities	–	–	0.8	0.8
Derivative financial instruments held for trading at FVPL	–	0.0	–	0.0
Total financial assets	**0.2**	**0.0**	**0.8**	**1.0**
Financial liabilities				
Financial liabilities at FVPL:				
Deferred consideration	–	–	17.6	17.6
Derivative financial instruments held for trading at FVPL	–	0.0	–	0.0
Total financial liabilities	–	**0.0**	**17.6**	**17.6**

Level 1:
The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Level 2:
The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The fair value of the groups foreign exchange contracts is calculated as the present value of future cash flows based on the forward exchange rates at the balance sheet date. Hence, these instruments are included in level 2.

Level 3:
If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for the Group's holding of unlisted equity securities and deferred consideration liabilities related to business combinations. The following table presents the changes in level 3 items for the periods ended 31 December, 2020 and 31 December, 2019:

MEUR	Unlisted equity securities	Deferred consideration
Opening balance 1 January 2019	**0.8**	**10.3**
Acquisitions/Additions	–	7.1
Revaluation loss reported in line Finance income	–	0.1
Payment	–	-0.1
Currency revaluation	–	0.2
Closing balance 31 December 2019	**0.8**	**17.6**
Revaluation gain/loss reported in other operating income and expenses	1.8	–
Revaluation gain reported in line Finance income	–	-8.4
Divestments, cash recieved	-1.9	–
Divestments, holdback reported as Other current receivables	-0.3	–
Payment	–	-7.2
Currency revaluation	-0.1	0.0
Closing balance 31 December 2020	**0.3**	**2.0**

The valuation of unlisted equity securities is based on the most resent shares issue adjusted for significant development in the company and in the market.

Deferred considerations are valued based on expected cash outflows originating from earn-out clauses in share purchase agreements. The expected cash flows are determined based on the most recent prognosis of the basis for the earn-outs, discounted with a risk-adjusted discount rate. A majority of the outstanding earn-outs are calculated based on sales for certain products/markets/time periods.

23. FINANCIAL RISK MANAGEMENT

The Group is exposed to financial risks such as currency risk, interest rate risk, liquidity- and refinancing risk as well as credit- and counterparty risk. The financial policy of the Group, adopted by the Board, outlines the rules for management and reduction of the financial risks that are generated by the Group's commercial activities. This includes written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group does not use derivative financial instruments for speculative purposes.

Organisation and activities

The Group's treasury activities are centralised in order to capitalise on economies of scale, consolidate risk exposures and facilitate follow-up and control. Financial activities are managed from Group Treasury, a function within Mölnlycke Health Care AB, which acts as the Group's in-house bank. All financial transactions in the Group are managed and coordinated by the in-house bank that transacts with external counterparties in the foreign currency and interest rate markets.

The Group's executive forum for treasury matters is the Treasury Committee, which includes CFO, Group Treasurer and Treasury Manager. The Treasury Committee proposes changes to the Group's financial policy which is adopted annually by the Board. The Treasury Committee meets on a monthly basis to follow up treasury activities versus the financial policy. Any deviation to Finance Policy is reported to the Board by the CFO.

Currency risk

Through its international activities, the Group is exposed to currency risk. Exchange rate fluctuations could affect the Group's cash flow, income statement and balance sheet negatively. Currency exposure arises from payment flows (transaction exposure), from valuation of balance sheet items in foreign currencies (balance sheet exposure) and from translation upon consolidation of foreign subsidiaries' income statements and balance sheets into EUR (translation exposure).

Currency exposure in EBITDA

The Group´s EBITDA is affected by both transaction and translation currency exposure.

Transaction exposure from commercial flows in foreign currency is generated from internal purchases and sales between manufacturing units and market companies and external sales and purchases in foreign currency. A majority of the Group´s internal transactions flows through Mölnlycke Health Care AB, a company with functional currency SEK. As a result, there is a transactional surplus in this entity of the currencies the Group has it largest sales in (EUR, USD, GBP, CHF etc.) and a transactional deficit of currencies the Group has expenses for production facilities and head quarter functions in (SEK, MYR, CZK, THB etc.).

In 2020 the Group has entered into fx forward contracts in order to hedge the currency risk in certain specific sales orders in GBP entered during the year and related purchase of goods in USD. The Group has designated these derivatives as cash flow hedges. As of 31 December 2020 the nominal amount of the Group's outstanding forward contracts amounted to MGBP 26.3 with maturity dates up until May 2021. Of the contracts, MGBP 6.5 were GBP/SEK contracts with an average contractual fx rate of 12.26 and MGBP 19.8 were GBP/USD contracts with an average contractual fx rate of 1.26. Please refer to note 22 for reported values of outstanding derivative instruments.

Also the Groups translation exposure from the consolidation of operating income in foreign subsidiaries affects reported earnings. A large portion of the Group´s EBITDA is generated in Mölnlycke Health Care AB with functional currency SEK. As a result, there is a large EUR/SEK translation exposure from consolidating this entity. This exposure to a large extent offsets the SEK/EUR exposure the net transaction exposure in this entity represents.

The tables below shows the net effect on the Group´s EBITDA from a depreciation(-)/appreciation(+) of 10% of EUR against all other currencies, including both transaction and translation currency exposure.

2020, MEUR	Translation effect EBITDA	Transaction effect EBITDA	Total	EUR -10% vs. Other currencies	EUR +10% vs. Other currencies
USD	26.2	-14.9	11.3	1.1	-1.1
GBP	8.6	164.9	173.5	17.4	-17.4
SEK	412.5	-436.3	-23.5	-2.4	2.4
Other	48.4	78.4	126.8	12.7	-12.7
EUR	40.7	207.4	248.1		
Total	**536.4**	**–**	**536.4**	**28.8**	**-28.8**

2019, MEUR	Translation effect EBITDA	Transaction effect EBITDA	Total	EUR -10% vs. Other currencies	EUR +10% vs. Other currencies
USD	32.7	131.2	163.9	16.4	-16.4
GBP	9.0	51.0	60.0	6.0	-6.0
SEK	307.6	-334.3	-26.7	-2.7	2.7
Other	65.2	21.4	86.6	8.7	-8.7
EUR	36.4	130.7	167.1		
Total	**450.9**	**–**	**450.9**	**28.4**	**-28.4**

Balance sheet exposure affecting the consolidated income statement

Balance sheet exposure consists of financial and operational receivables and liabilities in foreign currency, which may affect the result due to exchange rate fluctuations when valuated at local currency. The balance sheet exposure is not hedged except for larger net exposure in currencies such as USD and GBP that are expected to result in a cash transaction in the following month.

The tables below shows the net effect on the Group´s consolidated income statement from a depreciation(-)/appreciation(+) of 10% of EUR against all other currencies based on the balance sheet exposure and the nominal amount of outstanding derivative instruments on the balance sheet day.

At 31 December 2020, MEUR	Balance sheet exposure	Outstanding derivative instruments	Total	EUR -10% vs. Other currencies	EUR +10% vs. Other currencies
USD	18.5	8.2	26.7	2.7	-2.7
GBP	13.2	-19.9	-6.7	-0.7	0.7
SEK	167.8	67.8	235.6	23.6	-23.6
Other	-1.9	–	-1.9	-0.2	0.2
EUR	-197.6	-56.1	-253.7		
Total	**–**	**–**	**–**	**25.4**	**-25.4**

At 31 December 2019, MEUR	Balance sheet exposure	Outstanding derivative instruments	Total	EUR -10% vs. Other currencies	EUR +10% vs. Other currencies
USD	26.6	-2.1	24.5	2.5	-2.5
GBP	13.9	-2.9	11.0	1.1	-1.1
SEK	270.8	5.0	275.8	27.6	-27.6
Other	-21.9	–	-21.9	-2.2	2.2
EUR	-289.3	–	-289.3		
Total	**–**	**–**	**–**	**28.9**	**-28.9**

Currency exposure in equity

Translation exposure arises when the balance sheets of foreign subsidiaries with other functional currencies are translated into EUR. The below table shows net effect on the Group´s equity on the balance sheet day from a depreciation(-)/appreciation(+) of 10% of EUR against all other currencies. The calculation is based on the equity of each legal entity in the Group split by functional currency and includes the effects from intra-group receivables and liabilities that in substance is part of the net investment in the foreign operation. In accordance with IAS 21, the exchange rate gains or losses on such receivables and liabilities are reported in Other comprehensive income.

	31 December 2020			31 December 2019		
MEUR	Balance sheet Shareholders' Equity	EUR -10% vs. Other currencies	EUR +10% vs. Other currencies	Balance sheet Shareholders' Equity	EUR -10% vs. Other currencies	EUR +10% vs. Other currencies
USD	91.1	9.1	-9.1	127.2	12.7	-12.7
SEK	44.2	4.4	-4.4	-122.6	-12.3	12.3
CZK	104.5	10.5	-10.5	115.6	11.6	-11.6
Other	204.3	20.4	-20.4	224.4	22.4	-22.4
EUR	1,381.0			1,604.2		
Total	**1,825.1**	**44.4**	**-44.4**	**1,948.8**	**34.4**	**-34.4**

Refinancing and liquidity risk

Refinancing risk and liquidity risk is referred to as the risk of being unable to meet payment obligations as a result of insufficient liquidity or difficulties in obtaining adequate financing. To manage the refinancing risk the average duration of the gross interest-bearing debt shall, according to the Group´s finance policy, exceed 3 years. As at 31 December 2020 the average duration was 6.0 years (5.8 years).

The liquidity reserve, according to the Group´s finance policy, shall at all times exceed MEUR 150 on a consolidated level, consisting of cash, short term investments, committed undrawn overdraft facilities and other committed credit facilities excluding trapped cash (refer to note 15). The liquidity reserve amounted to MEUR 916.9 (658.5) as at 31 December 2020.

The Group's main source of financing is bond notes issues in the European capital markets. Since 2020 the Group has a European Medium Term Note (EMTN) program, which is a loan program intended for long-term financing. The Group´s outstanding bond notes are outlined in the below table. All outstanding bond notes are denominated in EUR, has a fixed interest, are raked senior and are unsecured.

MEUR	Maturity date	Original facility amount	Outstanding facility amount 12/31/2020	12/31/2019
Bond 2022	2/28/2022	500.0	122.4	250.1
Bond 2024	2/28/2024	500.0	500.0	500.0
Bond 2025	2/28/2025	500.0	500.0	500.0
Bond 2029	9/05/2029	500.0	500.0	500.0
Bond 2031	1/15/2031	400.0	400.0	–
Total			**2,022.4**	**1,750.1**

The Group also has a revolving credit facility with a syndicate of banks. The facility amounts to MEUR 350 with an option to increase the facility with MEUR 100 to a total of MEUR 450 and a maturity date of 14 July 2024. The facility is ranked senior, is unsecured and can be drawn in several optional currencies and would bear interest at IBOR plus a margin. The terms of the facility include loan market standard restrictions on the Group's ability to, among other things, create security over its assets, sell or otherwise dispose assets or incur subsidiary financial debt. The facility is not subject to any financial covenants. As of the balance sheet day the facility is undrawn.

The tables below analyse the Group´s financial liabilities and lease liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed are the contractual undiscounted cash flows including interest.

At 31 December 2020, MEUR	0 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total contractual cash flows	Carrying amount
Bond notes	21.5	4.4	149.4	1,066.2	932.5	2,174.0	2,011.2
Financial trade and other payables	162.6	–	–	–	2.8	165.4	165.4
Lease liabilities	9.6	9.6	29.4	15.7	20.2	84.5	77.7
Total	**193.7**	**14.0**	**178.8**	**1,081.9**	**955.5**	**2,423.9**	**2,254.3**

At 31 December 2019, MEUR	0 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total contractual cash flows	Carrying amount
Bond notes	21.9	4.7	26.3	821.4	1,031.0	1,905.1	1,738.5
Bank loans and bank overdrafts	0.2	2.1	–	–	–	2.3	2.3
Financial trade and other payables	158.4	–	9.0	–	0.7	168.1	168.1
Lease liabilities	9.7	9.7	13.9	25.6	17.7	76.6	69.0
Total	**190.2**	**16.5**	**49.2**	**847.0**	**1,049.4**	**2,152.1**	**1,977.9**

Interest rate risk

Interest rate risk is the risk of a negative impact on the Group's income statement and cash flow due to changes in the market interest rates. To limit the effects of interest rate fluctuations, the average fixed interest term per currency, according to the Group's finance policy, shall be between 0,5 and 7 years.

The Group's main source of financing is bond notes issued as listed in the above section. All outstanding bond notes are denominated in EUR and has a fixed interest. The average duration of fixed interest as at 31 December 2020 was 6.0 years (5.8 years) and the average interest rate was 1.33% (1.50%). Since the Group has chosen to have all of its financing to a fixed interest rate the Group is not exposed to any interest rate risk on its financing at the end of the reporting period.

The Group has interest bearing financial assets in the form of cash and cash equivalents and receivables, parent company. Based on the average outstanding balances during the year, a one percentage point parallel movement upward of the yield curve would have increased the Group´s interest income for the year by MEUR 6.8 (7.4).

Credit and counterpart risk

Credit and counterparty risk refers to the risk that a counterpart in a transaction will be unable to fulfil its obligations and that this will create a loss for the Group. The Group is exposed to credit risks primarily through it´s balance of cash and cash equivalents, derivative instruments and through outstanding trade accounts receivables.

In order to manage credit risks, the Group's finance policy states that financial transactions may only be conducted with approved counterparties having high credit worthiness. Counterparties shall have a rating equivalent to A- by Standard & Poor's, A2 by Moody's Investors Service, or better. The finance policy also puts limits for amounts at risk per counterparty which are monitored daily. The following table shows the credit risk exposure in cash and cash equivalents by Standard & Poor´s rating category as of the balance sheet day.

MEUR	12/31/2020	12/31/2019
AAA	26.0	26.8
AA	185.0	73.5
A	377.0	224.6
Lower than A	9.0	14.0
	597.0	338.9

When trading with derivative instruments, the Group has entered into ISDA (International Swap and Derivative Association) netting agreements with its counterparties in order to further limit the counterparty risk. ISDA agreements contain enforceable master netting arrangements which allow assets and liabilities arising on separate derivative financial instruments to be set off and settled net in certain circumstances. No derivative balances have been set off in the balance sheet. If existing ISDA agreements would have been used as a basis to set off derivative assets and derivative liabilities, reported net derivative assets in the balance sheet would have amounted to MEUR 1.3 (0.0).

The commercial credit risk is limited since the main part of the Group's sales is directed towards public hospitals/institutions. Regarding sales to private hospitals/institutions, no individual customer is considered to represent a significant part of the Group's sales. The maximum exposure regarding commercial credit risk equals the book value of the trade account receivables. Please refer to note 14 for the ageing of trade receivables including a specification of reported allowance.

24. CONTINGENT LIABILITIES AND ASSETS PLEDGED

Within the Group a number of companies have local facilities which could constitute a liability to pay. In cases when these liabilities are not shown in the statement of financial position they are considered as contingent liabilities. At 31 December 2020 these contingent liabilities amounted to MEUR 22.8 (22.4).

The Group is involved in various legal proceedings of non-material magnitude. The Group's assessment is that none of the ongoing legal proceedings are likely to entail any risk of having a material negative effect on the Group's financial position. At 31 December 2020 the Group assess outstanding legal proceedings to represent a contingent liability of MEUR 2.0 (2019: Nil)

In one of the Group´s retirement benefit plans the Group has a mutual funding responsibility representing a contingent liability of MEUR 0.5 (0.4) as of 31 December 2020.

The tax contingency disclosed in the 2019 Annual Report has been reassessed in 2020 and is as of 31 December 2020 disclosed as a temporary differences relating to investments in subsidiaries for which deferred tax liabilities have not been recognised. Please refer to note 9 for further information.

Commitments

Commitments for the acquisition of property, plant and equipment not recognised as liabilities amounts to MEUR 5.2 (1.1) as of 31 December 2020.

Assets pledged

The Group has no assets pledged as of 31 December 2020 (2019: Nil).

25. RELATED PARTY TRANSACTIONS

The Company´s immediate parent company is Mölnlycke AB. Mölnlycke AB is to 98.9% owned by Rotca AB (a company controlled by Investor AB, the Company's ultimate parent company) and 1.1% by entities facilitating management's ownership. The Company has been a subsidiary of Investor AB since 1 December 2010. Investor AB is listed on Nasdaq OMX Stockholm.

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Trading transactions

During the year, Group entities entered into the following transactions with related parties that are not members of the Group:

	Sales of goods		Finance income	
MEUR	2020	2019	2020	2019
Parent company	–	–	6.4	10.5
Other subsidiaries of Investor AB	0.1	1.9	–	–
Associates of Investor AB	–	–	–	0.0

The following balances were outstanding at the end of the reporting period:

	Receivables from related parties		Liabilities to related parties	
MEUR	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Parent company	178.7	295.6	–	–
Other subsidiaries of Investor AB	–	–	–	–
Associates of Investor AB	–	37.9	–	–

SEB is an Associated Company of Investor AB and is one of nine relationship banks participating in the financing of Mölnlycke Holding AB (publ) Group. See note 23 for further information about the Group's financing.

Please see note 16 for an explanation to the decrease in Receivables from parent company compared to prior year.

Other transactions

There have been no material transactions with related parties other than those disclosed elsewhere in these financial statements.

Compensation of key management personnel, MEUR	2020	2019
Short-term benefits	6.6	5.7
Post-employment benefits	0.7	0.8
Termination benefits	2.2	0.0
	9.5	6.5

Key management personnel comprise the members of the Group's Executive leadership team.

26. EVENTS AFTER THE BALANCE SHEET DATE

In February 2021, EVP Commercial International Raphael Pascaud left the company. His responsibilities have been taken over by EVP Commercial Rob Claypoole. No other significant events have occurred after the balance sheet date that require further disclosures in these financial statements.

Signatures

Gothenburg, 16 March 2021

Gunnar Brock
Chairman of the Board

Zlatko Rihter	Christian Cederholm	John Hepburn
CEO and Board member	Board member	Board member
Clare Hollingsworth	Sharon James	Johan Malmquist
Board member	Board member	Board member
David Perez	Karl-Henrik Sundström	Carolin Jakobsen
Board member	Board member	Employee representative

David Valham
Employee representative

Our audit report was submitted on 16 March 2021

Deloitte AB

Fredrik Jonsson
Authorized Public Accountant

Independent Auditor's Report

To the Board of Directors of Mölnlycke Holding AB, Corporate identity number 556693-6729

Opinion
We have audited the non-statutory consolidated financial statements of Mölnlycke Holding AB (the Company), which comprise the consolidated statement of financial position as at 31 December, 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. The annual accounts of the Company are included on pages 28–60 in this document.

In our opinion, the accompanying non-statutory consolidated financial statements present a true and fair view, in all material respects, of the financial position of the Company as at 31 December, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Sweden and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors and the Managing Director
The Board of Directors and the Managing Director are responsible for the preparation of the consolidated financial statements and that they give a fair presentation in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated 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 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 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 and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 Company to cease to continue as a going concern.

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.

Gothenburg, 16 March 2021

DELOITTE AB

Fredrik Jonsson
Authorized Public Accountant

Definitions

Cash conversion, %
Operating cash flow in relation to EBITDA.

EBITDA
Operating profit before depreciation, amortizations and write-downs.

EBITDA margin, %
EBITDA in relation to revenue.

Equity/Assets ratio, %
Shareholders' equity in relation to total assets.

Interest-coverage ratio
EBITDA in relation to Net interest expenses.

Net Debt/EBITDA ratio
Net interest-bearing debt in relation to EBITDA.

Net Debt/Equity ratio
Net interest-bearing debt in relation to equity.

Net interest-bearing debt
Interest-bearing liabilities including lease liabilities less Cash, cash equivalents and short-term investments (receivables, parent company is excluded from the calculation of net interest-bearing debt).

Net interest expenses
Interest expenses less interest income.

Operating cash flow
EBITDA adjusted for changes in working capital and capital expenditures in PPE and Intangible Assets.

Operating margin, %
Operating profit in relation to revenue.

Organic sales growth, %
Net sales compared to prior year adjusted for changes in currency rates and acquired or divested businesses.

Working capital
Net balance of Inventory, Trade and other receivebles and Trade and other payables excluding Accrued interest expenses and deferred considerations.

Above all, our job is to provide the best products, people, tools and training to continue the great work our customers do; to equip them to take healthcare to the next level and face the challenges of the future with confidence.

Find out more at www.molnlycke.com
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