



# Financial Statement documents 2018



For more than a century, Orion has been building well-being by providing effective medical treatments. Our drugs have been used to eliminate national diseases, prevent heart attacks, cure everyday headaches and save lives in intensive care units. We have developed from a shop founded by three pharmacists into an international company that carries out medical research at the top international level. We develop and produce new, unprecedented treatments that improve the quality of life for people with cancer, central nervous system disorders, asthma or chronic obstructive pulmonary disease, among others. Our self-care products that support well-being help people take care of themselves every day. Orion's products are available in more than 100 countries.



# Contents

<b>ORION IN BRIEF</b> .....	4	13. Deferred tax assets and liabilities .....	65
<b>REPORT BY THE BOARD OF DIRECTORS</b>		14. Other non-current receivables .....	66
<b>FOR THE FINANCIAL YEAR 2018</b> .....	6	15. Inventories .....	66
Basic information on Orion's shares .....	25	16. Trade and other receivables .....	66
Group's key figures .....	29	17. Cash and cash equivalents .....	67
Calculation of the key figures .....	31	18. Equity .....	68
<b>CONSOLIDATED FINANCIAL STATEMENTS (IFRS)</b> ..	32	19. Provisions .....	69
<b>CONSOLIDATED STATEMENT</b>		20. Interest-bearing liabilities .....	70
<b>OF COMPREHENSIVE INCOME</b> .....	32	21. Other non-current liabilities .....	70
<b>CONSOLIDATED STATEMENT</b>		22. Trade payables and other current liabilities .....	71
<b>OF FINANCIAL POSITION</b> .....	34	23. Financial assets and liabilities	
<b>EQUITY ATTRIBUTABLE TO OWNERS</b>		by category .....	72
<b>OF THE PARENT COMPANY</b> .....	35	24. Financial risk management .....	73
<b>CONSOLIDATED STATEMENT OF CASH FLOWS</b> ..	36	25. Derivatives .....	77
<b>NOTES TO THE CONSOLIDATED</b>		26. Contingent liabilities .....	77
<b>FINANCIAL STATEMENTS</b> .....	38	27. Operating leases .....	78
1. Revenue from contracts with customers and		28. Group companies .....	79
operating segments .....	50	29. Related party transactions .....	80
2. Other operating income and expenses .....	53	30. Discontinued operations .....	81
3. Depreciation, amortisation and impairment .....	54	31. Events after the end of the reporting period .....	81
4. Employee benefits and auditor's		<b>PARENT COMPANY ORION CORPORATION'S</b>	
remuneration .....	54	<b>FINANCIAL STATEMENTS (FAS)</b> .....	82
5. Finance income and expenses .....	56	Income Statement .....	82
6. Income taxes .....	57	Balance Sheet .....	83
7. Earnings and dividend per share .....	58	Cash flow statement .....	84
8. Property, plant and equipment .....	59	Parent company notes to the	
9. Intangible assets .....	60	financial statements for 2018 .....	85
10. Investment in associates and affiliates		<b>PROPOSAL BY THE ORION CORPORATION BOARD</b>	
and joint arrangements .....	61	<b>OF DIRECTORS ON USE OF PROFIT FUNDS FROM</b>	
11. Other investments .....	62	<b>THE FINANCIAL YEAR</b> .....	101
12. Pension assets and pension liabilities .....	62	<b>AUDITOR'S REPORT</b> .....	103
		<b>KEY EVENTS IN 2018</b> .....	108

All the figures in the financial statements have been rounded, which is why the total sums of individual figures may differ from the total sums shown.

# Orion in brief

Orion is a globally operating Finnish pharmaceutical company – a builder of well-being. Orion develops, manufactures and markets human and veterinary pharmaceuticals and active pharmaceutical ingredients. The company is continuously developing new drugs and treatment methods. The core therapy areas of Orion’s pharmaceutical R&D are central nervous system (CNS) disorders, oncology and respiratory diseases for which Orion develops inhaled Easyhaler® pulmonary drugs. Orion’s A and B shares are listed on Nasdaq Helsinki.



Net sales in 2018 (2017)

**977 MEUR (1,034)**



R&D investments

**104 MEUR (99)**



Operating profit

**253 MEUR (284)**



**6 production sites in Finland**



Operating profit margin

**26% (27%)**



Shareholders

**72,802 (57,339)**



Personnel at year's end

**3,154 (3,161)**



Own sales unit in **26 European countries**

## Businesses



### Proprietary Products

Drugs developed in-house and other drugs with product protection



### Specialty Products

Generic prescription drugs, self-care products and biosimilars



### Animal Health

Medicine and well-being products for animal



### Fermion

Active pharmaceutical ingredients

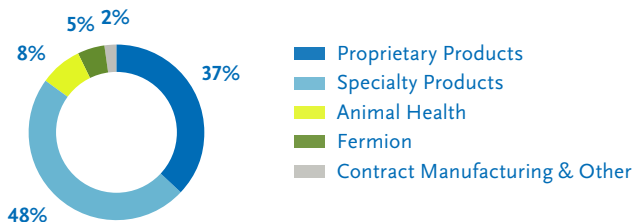


### Contract Manufacturing

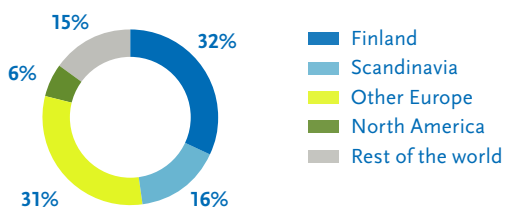
Production for other pharmaceutical companies

## Balanced business model covering both proprietary drugs and generics

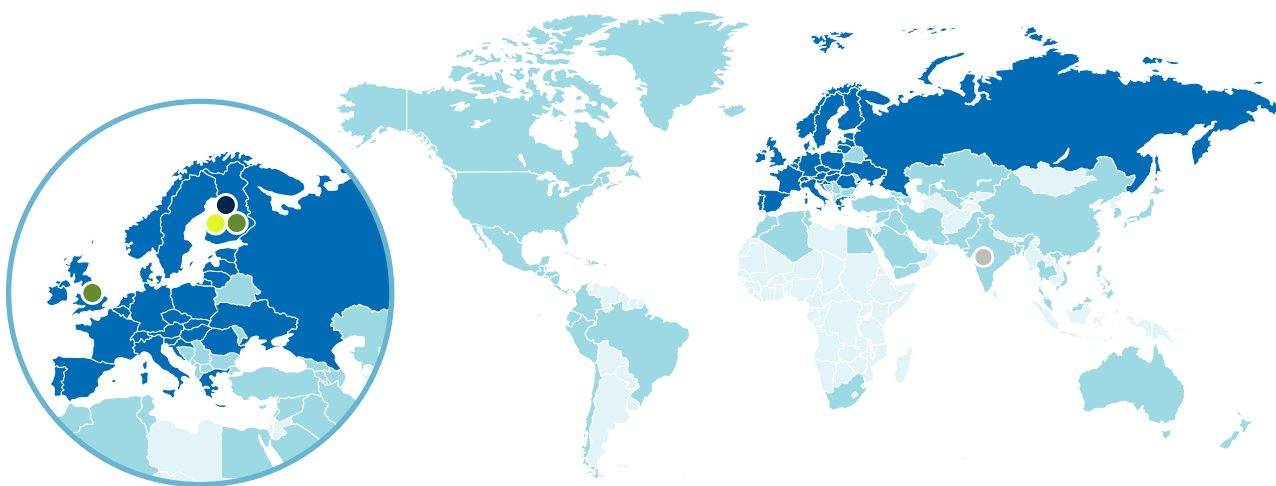
Net sales by business



Net sales by market area



## Orion's products are marketed in over one hundred countries



- Head office in Finland
- R&D: Finland and UK
- Production sites in Finland
- Support functions in India
- Own sales network in Europe
- Products sold outside Europe through partners

Key themes in Orion's sustainability: Patient safety, ensuring reliable supply of medications and manufacturing in an environmentally sustainable way through efficient use of materials, energy efficiency and wastewater management

Customer complaints  
(Pharmaceuticals)

**56**

Ppm (64)

Audits undertaken  
by Orion

**238**

(314)

Energy  
savings

**1,074**

MWh (3,725)

Energy savings target  
set for 2025 achieved

**40%**

(31%)

# Report by the Board of Directors for the financial year 2018

## Events during the period

On 4 January 2018, Orion announced that it will improve the competitiveness of its laboratory operations by renewing their operating model in Finland. The completion of cooperation negotiations was announced on 28 February 2018.

On 1 March 2018, Orion transferred altogether 112,961 Orion Corporation B shares held by the Company as a share reward for earning periods 2015–2017 and 2017 to the key persons employed by the Orion Group and belonging to the Share-Based Incentive Plans of the Orion Group.

On 19 March 2018, Orion announced having received positive conclusions for the salmeterol-fluticasone Easyhaler® combination under the EU's decentralised procedures (DCP). The deliveries to the first countries started in October.

On 20 March 2018, Orion Corporation's Annual General Meeting was held in Helsinki.

On 21 April 2018, Orion signed an agreement on the sale of all shares in Orion Diagnostica Oy (i.e. the Orion Diagnostica business division) to an investment fund managed by Axcel Management A/S. The sale was closed on 30 April 2018. Following the transaction, Orion has only one reporting segment, Pharmaceuticals business. A capital gain of EUR 128 million was booked for the transaction in 2018.

On 14 June 2018, the new manufacturing facility at Fermion's Hanko plant was commissioned. Orion invested more than EUR 30 million in the project.

On 6 July 2018, Orion announced that the first patients had been recruited in the Phase III clinical trial (REFALS), in which orally administered levosimendan (ODM-109) is being evaluated for the treatment of symptoms of amyotrophic lateral sclerosis (ALS).

On 19 September 2018, Orion announced changes in responsibility areas of its Group Executive Management Board members and the establishment of a new Growth Projects function. Mr Markku Huhta-Koivisto, Senior Vice President, Proprietary Products business division, took the responsibility for projects aiming at Orion Group's growth, as Senior Vice President, Growth Projects. Ms Satu Ahomäki, Senior Vice President, Global Sales took responsibility for the Proprietary Products business division in addition to her Global Sales (sales of human pharmaceuticals) line function. The responsibility area of Ms Ahomäki is called Commercial Operations. Dr Liisa Hurme, Senior Vice President, Specialty Products and Fermion took the responsibility for the Supply Chain line function. In addition, Fermion business division will still belong to Hurme's responsibility area. Ms Virve Laitinen, Senior Vice President, Supply Chain took the responsibility for the Specialty Products business division. The changes took effect on 1 October 2018 and 1 January 2019.

On 24 October 2018, Orion announced that it had signed an agreement with Amgen on the marketing and sales of the adalimumab biosimilar Amgevita® in Finland. Amgevita is Orion's first biosimilar for outpatient use. The product's sales started in the last quarter of the year.

On 24 October 2018, Orion and Bayer announced that they had completed the Phase III clinical trial (ARAMIS) of darolutamide, the novel oral androgen receptor antagonist for the treatment of patients with non-metastatic castration-resistant prostate cancer. The primary endpoint of the trial was met: Darolutamide significantly extended metastasis-free survival compared to placebo. The safety profile and the tolerability of darolutamide were consistent with previously published data. An abstract of the study will be published on 11 February 2019, and the full data will be presented at the ASCO GU (Genitourinary Cancers Symposium) on 14 February 2019. Bayer is discussing the data from the trial with health authorities regarding the submission for marketing authorisation application. Darolutamide has been granted Fast Track designation by the U.S. Food and Drug Administration (FDA) for the treatment in men with non-metastatic castration-resistant prostate cancer.

Bayer has covered the majority of the darolutamide development costs. Bayer has the right to commercialise darolutamide globally while Orion has the option of co-promoting the product in Europe. In addition, Orion will manufacture the product for global markets.

Based on the terms of the agreement between Orion and Bayer, Orion is eligible to receive milestone payments from Bayer upon first commercial sale of darolutamide as follows:

- EUR 45 million upon first commercial sale in the United States
- EUR 20 million upon first commercial sale in the EU
- EUR 8 million upon first commercial sale in Japan

Besides milestone payments, Orion will also receive tiered royalties on the product sales, which will be approximately 20 per cent, including production revenue. With sales increase, royalties may increase slightly. Orion also has the possibility to receive one-off payments from Bayer if certain sales targets are met.

In addition to the completed ARAMIS trial, Orion and Bayer have an ongoing Phase III clinical trial (ARASENS) which evaluates the safety and efficacy of darolutamide in patients with metastatic hormone-sensitive prostate cancer. Expected to be completed in 2022, there are no separate milestone payments related to the ARASENS trial.

On 3 December 2018, the sales and distribution rights in certain European countries for the Parkinson's disease drug Stalevo®, developed by Orion, transferred back to Orion from Novartis. Orion paid USD 24.5 million for the transfer of the sales rights and estimates that as a result of the return of the rights, Orion's Stalevo sales may increase initially by about EUR 20 million on annual level.

## Events after the period

On 9 January 2019, the Nomination Committee of Orion Corporation gave its recommendation to the Board of Directors for the proposal to the Annual General Meeting 2019 concerning the composition of the Board of Directors to be elected.

## Financial review

On 21 April 2018, Orion signed an agreement on the sale of all shares in Orion Diagnostica Oy (i.e. the Orion Diagnostica business division) to an investment fund managed by Axcel Management A/S. The transaction was closed on 30 April 2018.

Following the transaction, in the Financial review and the tables of the Financial Statement Release, Orion Diagnostica business is reported as a discontinued operation and as a rule, the report only covers continuing operations. Comments and figures related to discontinued operations are listed separately.

The Group currently only has one segment, the Pharmaceuticals business.

### Net sales

Orion Group's net sales in 2018 totalled EUR 977 (1,034) million, a decrease of 5%. Of the total net sales decrease of EUR 56 million, exchange rate changes accounted for EUR 16 million and lower royalties and milestone payments than in the comparative period for EUR 19 million.

Net sales from product sales also decreased due to lower sales of biosimilars, tightened price competition especially in Finland and generic competition.

### Operating profit

The Orion Group's operating profit was down by 11% at EUR 253 (284) million.

Gross profit from product sales was EUR 4 million lower than in the comparison period. The negative effect of net sales calculated in local currencies on gross profit was EUR 10 million. On the other hand, higher margin level and favourable product mix increased the gross profit by EUR 19 million. Exchange rate changes had a EUR 13 million negative effect on the gross profit.

Milestone payments, royalties and service sales had a negative effect of EUR 22 million.

### Profit impact of the sale of Orion Diagnostica

Items related to the sale of Orion Diagnostica and the profit generated by Orion Diagnostica for the period from 1 January to 30 April 2018 are entered as a discontinued operation. A capital gain of EUR 128 million was booked for the transaction. The departure of Orion Diagnostica from the Orion pension fund caused one-off income of EUR 5 million and the transaction process incurred expenses of approximately EUR one million.

### Operating expenses

The Group's sales and marketing expenses totalled EUR 195 (189) million.

R&D expenses were up by 5% at EUR 104 (99) million and accounted for 11% (10%) of the Group's net sales. Research projects are reported in more detail under 'Business Review'.

Administrative expenses were EUR 43 (49) million, down by 12%.

Other operating income and expenses were EUR 5 (5) million.

## The Group's profit including both continuing and discontinued operations

The profit of the Group's continuing operations was EUR 197 (219) million and the profit of discontinued operations was EUR 133 (7) million.

Basic earnings per share for continuing operations were EUR 1.40 (1.56) and basic earnings per share including continuing and discontinued operations were EUR 2.35 (1.61). Equity per share was EUR 5.50 (4.83).

The return on capital employed before taxes (ROCE) was 44% (36%) and the return on equity after taxes (ROE) 45% (34%).

## Financial position including both continuing and discontinued operations

The Group's gearing was -17% (-2%) and the equity ratio 69% (65%).

The Group's total liabilities at 31 December 2018 were EUR 374 (376) million. At the end of the period, interest-bearing liabilities amounted to EUR 152 (151) million, including EUR 1 (150) million of long-term loans.

The Group had EUR 284 (164) million of cash and cash equivalents and money market investments at the end of the period. The cash and cash equivalents are invested in short-term money market instruments issued by financially solid financial institutions and corporations.

After the period under review, Orion signed a EUR 100 million loan agreement with the European Investment Bank in January 2019. The loan is to be raised in 2019.

## Cash flow including both continuing and discontinued operations

Cash flow from operating activities was EUR 231 (228) million.

The cash flow from investing activities was EUR 95 (-75) million positive following the sale of Orion Diagnostica. Excluding the sale of Orion Diagnostica, cash flow from investing activities was EUR -66 (-75) million, i.e. cash flow before cash flow from financing activities was better than in the comparative period even without proceeds from the sale of Orion Diagnostica.

The cash flow from financing activities was EUR -205 (-220) million.

## Capital expenditure

The Group's capital expenditure in continuing operations totalled EUR 65 (75) million, down by 13%. This comprised EUR 36 (67) million on property, plant and equipment and EUR 29 (9) million on intangible assets. Fermion's significant expansion investment at its Hanko manufacturing plant was completed in June 2018.

## Key business targets for 2019

- Preparing for the launch and commercialisation of the prostate cancer drug darolutamide in collaboration with Bayer, assuming that the marketing authorisation process progresses as planned. Continued research and development collaboration in the ARASENS trial (metastatic prostate cancer) to expand the indication.
- Development of orally administered levosimendan (ODM-109) for ALS in phase III clinical trial and preparation of its possible commercialisation. In research and development, the potential of different projects are reviewed with consideration of the total research portfolio.
- Strengthening Orion's position as the most significant provider of generic drugs in Finland and competitive pricing.
- Development of a competitive product portfolio in Specialty Products and strengthening of product launches.
- Accelerating the growth of the Easyhaler product family and strengthening its market position. The launch of the salmeterol-fluticasone Easyhaler progressing in Europe.
- Evaluation of new in-licensing opportunities in Europe, particularly in the area of hospital care.

Orion regularly monitors the progress of these goals in its financial reports.



## Outlook for 2019

Orion estimates that in 2019 net sales will be slightly higher than in 2018 (net sales in 2018 were EUR 977 million). The estimated net sales include the possible EUR 45 million milestone payment associated with the commercialisation of darolutamide.

Operating profit is estimated to be at the same level as in 2018 (operating profit in 2018 was EUR 253 million). The estimated operating profit includes the possible EUR 45 million milestone payment associated with the commercialisation of darolutamide as well as significant investments in actions to generate growth.

## Basis for outlook in more detail

Orion continues persistent actions to generate growth more rapidly than the growth in the market in the long term. The ongoing projects supporting growth are expected to burden Orion's profit in 2019 by an estimated EUR 30 million. This comprises clearly increased depreciation as well as investments in sales and marketing and research. At the same time, operating profit is burdened by intense price competition in the market and gradually expanding generic competition for Orion's old proprietary drugs.

### Net sales

The sales of the Easyhaler® product family will continue to grow also in 2019 due to combined formulations (budesonide-formoterol and salmeterol-fluticasone) launched in the past few years.

In December 2018, Orion reacquired the European sales and distribution rights for the Parkinson's drug Stalevo® from Novartis. Due to the anticipated additional sales of around EUR 20 million following the transaction, the sales of Orion's branded Parkinson's drugs (Comtess®, Comtan® and Stalevo) are estimated to remain at the same level as in the previous year despite continuously expanding generic competition.

In several European countries, marketing authorisation has been granted for a generic version of Dexdor®. Generic competition commenced in Germany in 2017 and expanded to a few other European countries during 2018. In 2019, generic competition is estimated to further expand in the EU, and the sales of the product to turn to decline. Orion has also been informed that a marketing authorisation application has been filed for a generic version of Simdax® in Europe. It is, however, difficult to estimate the impact of generic competition on the sales of Dexdor and Simdax. The patent for the Simdax molecule expired in September 2015 but this is still not expected to have a material impact on sales of the product in 2019. Orion is continuing actions to defend its rights.

Sales of generic products account for a significant proportion of Orion's total sales. Competition in Finland, the most important generic market for Orion, remains intense in 2019. However, product launches continue to support Orion's position as market leader in Finland. At the beginning of 2017, changes were made to the pricing system for substitutable prescription drugs in Finland by narrowing the so-called price band. The change caused an estimated EUR 15 million yearly sales decline both in 2017 and 2018. Thus the cumulative two-year negative impact was around EUR 30 million. The 2019 outlook assumes that the impact of the system change and its effect in lowering prices will still be significant, but slightly smaller than in the two previous years. The sales of reference priced drugs declined by 7% in the Finnish pharmaceuticals market in 2018 and the sales of Orion's reference priced drugs declined by 9% (Source: IQVIA).

In 2017, the EUR 57 million sales of the biosimilar Remsima® generated a significant portion of the growth in net sales of the Specialty Products business division, but in 2018 Remsima sales were materially lower due to intensified competition and declined price level. Besides Remsima, Orion has launched other biosimilars, such as Ritemvia® (rituximab) and Amgevita® (adalimumab). As a whole, the sales of biosimilars are expected to be at the same level in 2019 as in the previous year.

Collaboration agreements with other pharmaceutical companies are an important component of Orion's business model. Agreements often include payments recorded in net sales that vary greatly from year to year. Forecasting the timing and amount of these payments is difficult. In some cases they are conditional on, for instance, the progress or findings of research projects, which are not known until studies have been completed. On the other hand, the outcome or the schedule of contract negotiations are generally not known before the final signing of the agreement. The possible EUR 45 million milestone payment associated with the commercialisation of the prostate cancer drug darolutamide in the United States is included in the outlook for 2019. However, there is still significant uncertainty regarding its timing.

## Expenditure

The start of production at Fermion's new manufacturing plant in Hanko increases production costs by around EUR 3 million following depreciation. The investment is an important part of Orion's preparation for the future. In the short term, however, increased depreciation has a negative impact on profit since the new plant replaces the one built in the 1970s.

Marketing expenditure will be higher than in the previous year due to additional promotion of sales of the Easyhaler product portfolio in countries where these products have been launched in recent years. In 2019, expenditure will also be increased by a EUR 11 million depreciation related to the acquisition of European sales and distribution rights for the Parkinson's drug Stalevo. Orion paid USD 24.5 million for the transfer of the sales rights in December 2018, and the investment will be depreciated over two years.

Because the registrations and launches of new products are projects that generally take more than a year, the increases in resources and other inputs required in 2019 were mainly planned during the previous year.

Research and development costs are estimated to be higher than in 2018, in particular due to the Phase III REFALS clinical trial evaluating levosimendan (ODM-109) for the treatment of symptoms of ALS. Of the EUR 60 million total investment in the roughly three-year trial, it is estimated that more than EUR 25 million will be spent in 2019. Research and development costs are partly the Company's internal fixed cost items, such as salaries and maintenance of the operating infrastructure, and partly external variable costs. External costs arise from, among other things, long-term clinical trials, which are typically performed in clinics located in several countries. The most important clinical trials scheduled for 2019 are either continuing from the previous year or at an advanced stage of planning, therefore their cost level can be estimated rather accurately. However, the accrued costs are materially affected by collaboration arrangements and how the costs arising are allocated between Orion and its collaboration partners. For instance, Bayer is paying the majority of the darolutamide research costs.

## Investments

The Group's total capital expenditure in 2019 is expected to be lower than in 2018, when capital expenditure was EUR 65 million.

## Near-term risks and uncertainties

The reacquisition of European sales and distribution rights for Stalevo will generate additional sales for Orion's branded Parkinson's drugs in 2019. On the other hand, sales will decline due to continued generic competition. These effects have been taken into account in the outlook estimate for the current year. However, they still entail uncertainty that may materially affect the accuracy of the estimate made at this stage.

The basic Dexdor and Simdax patents have expired. However, the products have other product protection that is still valid. In several European countries, marketing authorisation has been granted for a generic version of Dexdor. Generic competition commenced in Germany in 2017 and expanded to a few other European countries during 2018. In 2019 generic competition is estimated to further expand in the EU, and the sales of the product to turn to decline. Orion has also been informed that a marketing authorisation application has been filed for a generic version of Simdax in Europe. It is, however, difficult to estimate the impact of generic competition on the sales of Dexdor and Simdax. As regards Simdax, the possible generic competition is still not estimated to materially impact its sales in 2019. Orion is continuing actions to defend its rights.

Sales of individual products and also Orion's sales in individual markets may vary, for example depending on the extent to which the ever-tougher price and other competition prevailing in pharmaceuticals markets in recent years will specifically focus on Orion's products. Deliveries of Parkinson's drugs to Novartis, the most important collaboration partner, are based on timetables that are jointly agreed in advance. Nevertheless, they can change, for example as a consequence of decisions by Novartis concerning adjustments of stock levels. In addition, changes in market prices and exchange rates affect the value of deliveries to Novartis.

The structural exchange rate risk due to the US dollar has decreased in recent years because the share of Orion's net sales invoiced in dollars has fallen to below ten per cent and at the same time the value of purchases in dollars has increased. The greatest exchange rate risk at present relates to European currencies such as the Swedish crown and British pound. However, the overall effect of the risk due to currencies of European countries will be abated by the fact that Orion has organisations of its own in most of these countries, which means that in addition to sales income, there are also costs in these currencies. Changes in the Japanese yen exchange rate have become more important as sales of Parkinson's drugs in Japan have increased. The exchange rate effect related to the Russian rouble has increased due to the strong volatility of the currency. However, Russian sales are not a significant portion of Orion's entire net sales.

Orion's broad product range may cause risks to the delivery reliability and make it challenging to maintain the high quality standard required in production. Authorities and key customers in different countries undertake regular and detailed inspections of development and manufacturing of drugs at Orion's production sites. Any remedial actions that may be required may at least temporarily have effects that decrease delivery reliability and increase costs. Orion's product range also

includes products manufactured by other pharmaceutical companies. Possible problems related to the delivery reliability or quality of the products of those manufacturers may cause a risk to Orion's delivery reliability. The single-channel system used for pharmaceuticals distribution in Finland, in which Orion's products have been delivered to customers through only one wholesaler, may also cause risks to delivery reliability. To ensure deliveries, in addition to Oriola Finland Oy, there are also other distributors temporarily distributing certain Orion products.

Research projects always entail uncertainty factors that may either increase or decrease estimated costs. The projects may progress more slowly or faster than assumed, or they may be discontinued. Nonetheless, changes that may occur in ongoing clinical studies are reflected in costs relatively slowly, and they are not expected to have a material impact on earnings in the current year. Owing to the nature of the research process, the timetables and costs of new studies that are being started are known well in advance. They therefore typically do not lead to unexpected changes in the estimated cost structure. Orion often undertakes the last, in other words Phase III, clinical trials in collaboration with other pharmaceutical companies. Commencement of these collaboration relationships and their structure also materially affect the schedule and cost level of research projects.

Collaboration arrangements are an important component of Orion's business model. Possible collaboration and licensing agreements related to these arrangements also often include payments to be recorded in net sales that may materially affect Orion's financial results. In 2014–2018 the annual payments varied from EUR 5 million to EUR 39 million. The payments may be subject to certain conditions relating to the development of research projects or sales, and whether these conditions are triggered and the timing of triggering always entail uncertainties. The possible EUR 45 million milestone payment associated with the commercialisation of the prostate cancer drug darolutamide in the United States is included in the outlook for 2019. However, there is still significant uncertainty regarding its timing.

## Orion's dividend distribution policy

Orion's dividend distribution takes into account the distributable funds and the capital expenditure and other financial requirements in the medium and long term to achieve the financial objectives.

## Proposal by the Board of Directors: dividend EUR 1.50 per share

The parent company's distributable funds are EUR 473,099,971.28, or EUR 3.36 per share. This includes EUR 338,453,364.28, or EUR 2.41 per share, of profit for the financial year. These per share amounts are calculated excluding treasury shares held by the Company.

The Board of Directors proposes payment of a dividend of EUR 1.50 per share from the parent company's distributable funds.

No dividend shall be paid on treasury shares held by the Company on the dividend distribution record date. On the day when the profit distribution was proposed, the number of shares conferring entitlement to receive dividend totalled 140,695,388, on which the total dividend payment would be EUR 211,043,082.00. The Group's payout ratio for the financial year 2018 would be 63.8% (90.1%). The dividend payment date would be 4 April 2019, and shareholders registered in the Company's shareholder register on 28 March 2019 would be entitled to the dividend payment.

The Board of Directors further proposes that EUR 250,000 (250,000) be donated to medical research and other purposes of public interest in accordance with a separate decision by the Board and that EUR 261,806,889.28 remain in equity.

## Strategy

Orion's Board of Directors has confirmed the Company's strategy for 2019–2023.

### Operating environment

Orion's strategy implementation is supported by global healthcare megatrends that have material impact on the consumption and price level of drugs as well as on pharmaceutical research. These megatrends include:

- ageing of population
- advances in science: personalised medicine, increased genetic and epigenetic data and developments in drug dosing and diagnostics
- the increasing cost burden of healthcare, need for cost-effective treatments and drugs
- increased personal responsibility for own health
- digitalisation and value-adding solutions in medication

## Mission

Orion's mission is to build well-being. Orion builds well-being by bringing to markets drugs that give patients help and an effective treatment for their illnesses. An effective drug also creates added value for the patient by improving the quality of life.

## Focus areas

The crucial focus areas for implementing the strategy are:

- **Quality and safety.** High quality, product safety and complying with requirements of authorities are indispensable in the pharmaceutical industry.
- **Competitive product portfolio** requires continuous renewal of the portfolio. Orion invests in product development, manufacturing, acquisition and effective launching of products and management of their life cycle.
- **Strong corporate culture of working together**, the basis of which is valuable and important work for the customer. Orion wants to be an excellent workplace and a responsible and attractive employer that continuously develops the well-being of its personnel at work and their expertise.
- **Partnerships.** Orion's operations are based on utilising worldwide networks. Well-managed partnerships and collaborations are a competitive advantage for the Company.
- **Productivity and flexibility.** Price pressure on drugs requires cost awareness and seamless cooperation between different parts of the Company to achieve the targeted profitability level. Flexibility to react rapidly to changes in the operating environment is also needed. Due to its size, Orion can be more agile than large companies and gain a competitive advantage from this.

## Strategic targets

The following strategic targets and their achievement are monitored in the Company with clearly defined indicators:

- **Growing faster than the markets.** The key objective in the coming years is to persistently strive for growing faster than the markets. The objective is to increase net sales to EUR 1.5 billion by 2025. Growth enables the Company to develop and take manageable risks. The target of growing faster than the markets should be achieved by the Company as a whole and in the geographic and product areas in which Orion operates.

The sale of the Orion Diagnostica division in 2018 and the resulting capital gain will allow Orion to further focus on growth and achieving its financial goals. Orion is currently working on numerous projects that target growth. The Company continues to invest in its own research and development activities, for example by investing in new clinical trials, and actively evaluates in-licensing opportunities of products in the late stage of development. At the same time, the capital gain strengthens Orion's equity position and ability to continue achieving its dividend distribution objective.

The single most important growth project in the next few years is the development of the prostate cancer drug darolutamide and launching the product in cooperation with Bayer. Other than this, growth in the near future will be sought especially from the Easyhaler product family for the treatment of asthma and COPD. Growth will also be supported through various digital projects and tools that ease the daily medical care.

- **Providing new innovative and cost-effective drugs and treatments for patients.** The product development pipeline has balanced numbers of proprietary products and generic projects in different phases. In its research the Company aims for the best input/output ratio in the field.
- **Working together to benefit the customer.** Orion's personnel are committed and understand the needs of customers. The working atmosphere, customer satisfaction and Company image are outstanding.
- **Continuous improvement of performance in sustainability.** Patient safety is the most vital aspect of Orion's corporate responsibility, and managing the environmental responsibilities is an important part of the Company's sustainability. In addition, Orion aims to continuously develop the personnel's occupational safety and ability to cope with their work.
- **Strong development of profitability**

## Financial objectives

Through the financial objectives Orion aims to develop the Group's shareholder value and ensure financial stability and profitable growth. Orion's financial objectives are:

- Growing net sales more rapidly than growth of the pharmaceuticals market. Achievement of this objective requires continuous investment in development of the product portfolio.
- Maintaining profitability at a good level. The aim is operating profit that exceeds 25% of net sales.
- Keeping the equity ratio at least 50%.
- Distributing an annual dividend that in the next few years will be at least EUR 1.30 per share, and increasing the dividend in the long term.

In the short term what actually happens may deviate from the objectives.

R&D projects that have made promising progress will probably somewhat increase the Company's research expenses in the next few years. However, agreements already made relating to research projects and their good progress, and possible new agreements with partners relating to other projects are expected to generate material milestone payments in coming years. Successful projects will have a positive effect on Orion's net sales and especially operating profit even before possible approval of new proprietary drugs and before the actual commencement of product sales.

## Business review

Orion signed an agreement on the sale of all shares in Orion Diagnostica Oy (i.e. the Orion Diagnostica business division) on 21 April 2018. The transaction was closed on 30 April 2018. Following the transaction, Orion Diagnostica business is reported as a discontinued operation. As a result, the Group only has one reporting segment, the Pharmaceuticals business. In the Financial Statement Release, Orion Diagnostica business is reported as a discontinued operation, and as a rule, the report only covers continuing operations.

### Review of human pharmaceuticals market

Finland is the most important individual market for Orion, generating about one-third of the Group's net sales. According to IQVIA statistics, a significant share of Orion's prescription drug sales in the Finnish pharmacy channel, approximately 69%, were reference priced drugs in 2018. The sales of Orion's reference priced prescription drugs decreased slightly more than the market. The decline was mostly due to the change made in the pricing system for substitutable prescription drugs at the beginning of 2017, which has been followed by toughened price competition. The average price of reference priced drugs in the market decreased during 2018 approximately 10% from the comparative period. The impact of price competition on Orion has been significant due to the Company's broad product range and significant market share in Finland. The total sales of Orion's human pharmaceuticals, including both medicinal and non-medicinal products, was clearly behind market trend in 2018. The growth in the Finnish pharmaceuticals market has mostly been generated by proprietary products, while they only account for a small share of Orion's net sales in Finland.

#### Sales of human pharmaceuticals in Finland (medicinal and non-medicinal products)

EUR million	1–12/18	1–12/17	Change %
<b>Reference priced prescription drugs (pharmacy channel)</b>			
Market	490	528	-7%
Orion	126	139	-9%
<b>Self-care products (pharmacy channel)</b>			
Market	384	372	+3%
Orion	96	96	0%
<b>Total sales of human pharmaceuticals (hospital and pharmacy channel)</b>			
Market	2,746	2,545	+8%
Orion	314	341	-8%

Source: IQVIA pharmaceutical sales statistics 1–12/2018

Despite the challenging operating environment, Orion has maintained its position as leader in marketing pharmaceuticals in Finland. There was no major change in its market share compared to the previous year. Orion has a particularly strong position in reference priced prescription drugs and in self-care product sales, with its market share being a quarter of the market in each.

## Orion's market share in the sales of human pharmaceuticals in Finland (medicinal and non-medicinal products)

Orion's market share, %	1-12/18	1-12/17
Reference priced prescription drugs (pharmacy channel)	26%	26%
Self-care products (pharmacy channel)	25%	26%
Human pharmaceuticals in total (hospital and pharmacy channel)	11%	13%

Source: IQVIA pharmaceutical sales statistics 1-12/2018

Orion is a significant player also in the Scandinavian generics market.

The most important individual therapy area for Orion is still the treatment of Parkinson's disease. In 2018, Orion's branded Parkinson's drugs containing entacapone (Stalevo®, Comtess® and Comtan®) accounted for 10% of the Group's net sales.

### Total sales of Orion's branded Parkinson's drugs

EUR or USD million		MAT9/2018	MAT9/2017	Change %
United States	USD	5	7	-28%
Europe TOP 5	EUR	42	56	-25%
Japan	EUR	67	75	-11%

Source: IQVIA pharmaceutical sales statistics MAT9/2018 (10/2017-9/2018)

Europe TOP 5: Germany, United Kingdom, France, Spain and Italy

According to IQVIA pharmaceutical sales statistics, in Europe total sales of the most common intravenous anaesthetics and intensive care sedatives (propofol, midazolam, remifentanyl and dexmedetomidine) in the 12-month period ending in September 2018 were up by 3% at EUR 558 (540) million. According to IQVIA pharmaceutical sales statistics, sales of Orion's Dexdor® intensive care sedative (dexmedetomidine) were up by 5% at EUR 64 (61) million in Europe.

## Net sales and operating profit of the Pharmaceuticals business

Net sales of the Pharmaceuticals business in 2018 were down by 5% at EUR 977 (1,034) million. The Pharmaceuticals business's operating profit was down by 10% at EUR 265 (296) million. Milestone payments accounted for EUR 5 (12) million and royalties for EUR 17 (30) million of net sales and operating profit.

The operating profit of the Pharmaceuticals business was 27% (29%) of the segment's net sales.

Net sales of Orion's top ten pharmaceuticals in 2018 were EUR 457 (475) million. They accounted for 47% (46%) of the total net sales of the Pharmaceuticals business.

## Proprietary Products

The product portfolio of Proprietary Products consists of patented prescription products in three therapy areas: central nervous system diseases, oncology and critical care, and Easyhaler® pulmonary drugs.

Net sales of the Proprietary Products business division in 2018 were up by 2% at EUR 357 (351) million.

Orion's drugs for treatment of Parkinson's disease are Stalevo® (active pharmaceutical ingredients carbidopa, levodopa and entacapone) and Comtess®/Comtan® (entacapone). Their total net sales in 2018 were down by 3% at EUR 100 (104) million. Strong fluctuations between quarters have been a typical feature in product sales due to the timing of deliveries to key partners. However, the decrease in annual sales was significantly slower than long-term average. In the longer term, Orion expects sales of Parkinson's drugs to continue to decrease, as the products have generic competition in practically all markets. In the United States, Orion's Parkinson's drugs have several generic competitors, and competition is increasing in Europe and also in other markets. In Japan Comtan has generic competitors, but generic competition to Stalevo has not yet commenced.

### Breakdown of sales of Parkinson's drugs

EUR million	2018	2017	Change %
Deliveries to key partners	78	76	2%
Orion's own sales	22	28	-19%

The European sales and distribution rights for the Parkinson's drug Stalevo were transferred back from Novartis to Orion in early December. The reacquisition of rights reinforces Orion's growth targets in Europe. Orion estimates that the return of the sales rights will initially increase its Stalevo sales by about EUR 20 million on annual level. Due to additional sales, Orion's branded Parkinson's drugs sales are estimated in 2019 to remain at the same level as in the previous year despite continuously

expanding generic competition. In conjunction with the signing of the agreement Orion paid USD 24.5 million for the transfer of the sales rights, and the investment will be depreciated over two years. Stalevo has been on the market since 2003, and Orion has been responsible for selling and marketing the product in the Nordic and Baltic countries, Germany, Poland, the United Kingdom and Ireland. The sales and marketing rights for Stalevo will transfer back to Orion in another 18 EU countries and also some European countries outside of the EU.

Total net sales of the Easyhaler product family for treatment of asthma and chronic obstructive pulmonary disease were up by 18% in 2018 at EUR 90 (77) million. Orion's Easyhaler is a dry-powder inhaler developed in-house, for which Orion has developed Easyhaler-adapted dry powder formulations of several well-known generic active substances (salbutamol, beclometasone, budesonide, formoterol, salmeterol and fluticasone). The growth of the Easyhaler product family in 2018 was mainly due to the strong sales of the budesonide-formoterol combined formulation, which was up by 29% at EUR 52 (40) million. Launched in 2014, the product is on sale in all key European markets. Besides Orion's sales, co-marketing partner Menarini sells the budesonide-formoterol combined formulation in France and in a few Southern European countries. The first marketing authorisation applications have also been submitted outside Europe. Menarini is the distributor of the budesonide-formoterol combined formulation in the Asia and Pacific region, and Hikma Pharmaceuticals PLC in the Middle East and North Africa.

Orion's market position in budesonide-formoterol product varies considerably by country. For example in Sweden, Orion had a strong position with 40% share of the market volume in November 2018, while in Germany, where Orion's share of the market of this product was 7%, Orion believes it can achieve growth. During the year under review, Orion increased its resources in the sales and marketing of the Easyhaler product family particularly in Germany.

In March 2018, Orion received positive conclusions for the salmeterol-fluticasone Easyhaler under the decentralised EU marketing authorisation procedure, and the national approval procedures of the marketing authorisation applications started in 23 EU countries. Sales started in the first European countries in the last quarter of the year. The salmeterol-fluticasone combined formulation is the sixth product of the Easyhaler product family. In this formulation fluticasone acts as an anti-inflammatory agent and salmeterol acts as a long-acting bronchodilator.

Orion is also currently engaged in developing a seventh Easyhaler product, with tiotropium as the active pharmaceutical ingredient, for the European market. The expansion of Easyhaler production facility at the Espoo pharmaceuticals production plant was completed in the first half of the year, which will allow production volumes to increase as the product family expands.

Net sales of Orion's Dexdor® intensive care sedative (dexmedetomidine) decreased by 2% to EUR 63 (64) million in 2018. Sales continued to grow in almost all European markets, which compensated the decline in the countries where the product has generic competition. In 2018, there was significant generic competition only in Germany. However, marketing authorisation has been granted for generic versions of Dexdor in several European countries, and it is to be assumed that after the patent protection expires in the first quarter of 2019, generic competition will continue to gradually expand in the EU. However, there are country-specific differences in the expansion, which depend on the timing of tendering competitions, among other things. Sales of the Precedex® intensive care sedative were up by 3% at EUR 26 (25) million. The sales comprise both royalties and sales of the pharmaceutical ingredient.

Simdax®, a drug for treatment of acute decompensated heart failure is sold in some 60 countries worldwide. Net sales of the product in 2018 were up by 4% at EUR 59 (57) million. Orion was informed in the first quarter of 2018 that a marketing authorisation application has been filed for a generic version of Simdax in Europe. The patent for the product's molecule expired in 2015, but possible generic competition is still not expected to have a material impact on sales of the product in 2019.

Orion has launched digital development projects in several therapy areas to improve patient well-being and treatment adherence. Project Daisy involves developing a digital service to improve Parkinson's disease patients' overall well-being. The service facilitates the medical practitioner's work and eases the patient's daily life. The aim is, among other things, to optimise the patient's quality ON-time (the period when medication is effective, and symptoms are under control) and medication by gathering data on the patient's condition via a mobile device, for example.

Orion and Fifth Corner Inc., a Finnish company developing digital coaching solutions, have signed an agreement to seek for new solutions to improve the quality of life of prostate cancer patients. The goal of the collaborative research project is to help prostate cancer patients manage the stress caused by the disease.

## Specialty Products

Net sales of the Specialty Products business division's off-patent, i.e. generic prescription drugs, self-care products and biosimilars in 2018 were down by 9% at EUR 473 (519) million.

Finland, Scandinavia and Eastern Europe and Russia are the most important markets for Specialty Products. The business division's sales in Finland in 2018 were EUR 273 (292) million, down by 7%. Sales declined in particular due to continued intensive price competition in generic drugs, mostly resulting from the changing operating environment, in other words the

change made to the pricing system for substitutable prescription drugs in Finland at the beginning of 2017. Price competition reduced Orion's sales in Finland by approximately EUR 15 million annually both in 2017 and 2018. Orion estimates that the impact of the system change and its effect in lowering prices will still be significant in 2019, but slightly smaller than in 2018.

In Scandinavia, sales of Specialty Products totalled EUR 69 (94) million, down by 26%. The decline in sales was in particular due to the decreased sales of the biosimilar Remsima®. In Eastern Europe and Russia, Specialty Products sales were up by 2% at EUR 66 (65) million.

In Specialty Products, 71 (67)% of the net sales came from generic drugs, 24 (22)% from self-care products and 5 (11)% from biosimilars.

The biosimilars net sales totalled EUR 25 (57) million, down by 56%. Net sales of Remsima (infiximab), a biosimilar for the treatment of rheumatoid arthritis among other things, were EUR 17 (57) million. Remsima sales declined by 70% due to intensified competition and the subsequently significantly declined price level. Due to the situation of tendering competitions, Orion had no deliveries to Denmark or Norway in the second half of the year. In late 2018, however, Orion won the Norwegian national tender for Remsima, and deliveries are expected to start in the first quarter of 2019. In Denmark, Orion did not win the tendering competition that took place at the end of 2018. In the first quarter of 2018, Orion launched its second biosimilar, Ritemvia® (rituximab), for treatment of lymphoma, among other things. The launch of the product in countries is proceeding according to the opening of tendering competitions. The timing of the launch of the third biosimilar, trastuzumab, is still open. In October 2018, Orion signed an agreement with Amgen on the marketing and sales of Orion's first biosimilar for outpatient use in Finland, Amgevita® (adalimumab). The sales of Amgevita, which is used to treat chronic inflammatory diseases and psoriasis, among others, started at the end of the year.

In 2018, Orion launched 74 (79) specialty products, of which 57 (60) were prescription drugs and 17 (19) self-care products or non-medicinal products. The products were launched in Finland and Scandinavia. In Finland, Orion launched a new product in the Burana product family for pain. The new product launched, Buranagel, is the first pain gel in Finland with ibuprofen as the active pharmaceutical ingredient. The Burana product family has been in the market for more than 30 years.

## Animal Health

In the Nordic countries and some Eastern European markets Orion itself sells veterinary drugs, and in other markets the Company operates through partners. In addition, in the Nordic countries Orion markets and sells veterinary drugs manufactured by several other companies. Orion's Animal Health business division has a strong market position in the Nordic countries, its home markets.

Net sales of the Animal Health business division in 2018 increased by 6% to EUR 80 (76) million, which means that the net sales grew faster than the market. At EUR 34 (31) million, sales of animal sedative products accounted for 42% (40%) of the Animal Health business division's total net sales. The animal sedative product family comprises Orion's animal sedatives Dexdomitor® (dexmedetomidine), Domitor® (medetomidine) and Domosedan® (detomidine), and antagonist Antisedan® (atipamezole), which reverses the effects of the sedatives.

In February 2018, Orion received positive conclusions under the decentralised EU marketing authorisation procedure for Clevor®. Clevor, with ropinirole as the active ingredient, is an eye-drop formula designed to treat poisoning in dogs. Orion is currently developing an online service, ToxBuddy, to provide veterinary practitioners with information and support for treating poisoning in dogs. The service gives tools for the practitioner to assess the severity of poisoning and receive treatment instructions, among other things.

## Fermion

Fermion manufactures active pharmaceutical ingredients for Orion and other pharmaceutical companies. Its product range comprises nearly 30 pharmaceutical ingredients. Fermion's aim is to captively produce the active pharmaceutical ingredients for Orion's in-house developed proprietary drugs. For other pharmaceutical companies Fermion manufactures generic pharmaceutical ingredients and offers contract manufacturing services for development and manufacturing of new active pharmaceutical ingredients.

Fermion's net sales in 2018 excluding deliveries for Orion's own use were EUR 51 (51) million and accounted for over one-half of Fermion's total net sales. In recent years order cycles in the trade in pharmaceutical raw materials have become ever shorter, and this has led to clearly greater fluctuation in business volume than before within each year and between different years.

Fermion's significant, over EUR 30 million expansion investment at its Hanko manufacturing plant was completed in the second quarter of the year, and production has started. The investment involved preparation for compliance of tightening regulatory requirements and ensures preparedness to meet increasing demand. The objective was also to strengthen Fermion's competitiveness in the global market. Nearly 100% of the plant's production is exported. Around twenty active pharmaceutical ingredients are manufactured in Hanko, including entacapone and azathioprine, in which Fermion is the leading manufacturer globally.



## Research and development

The Group's R&D expenses totalled EUR 104 (99) million in 2018, up by 5%, and accounted for 11% (10%) of the Group's net sales. R&D expenses also include expenses related to development of the current portfolio.

In the first quarter of 2018, Orion started a research project to expand the Easyhaler product family for treatment of asthma and COPD, by developing a tiotropium formulation for European markets. The bioequivalence study with the formulation is ongoing. Tiotropium is a long-acting anticholinergic bronchodilator used in the treatment of chronic obstructive pulmonary disease.

In October 2018 Orion and Bayer completed the Phase III clinical trial (ARAMIS) of darolutamide, the novel oral androgen receptor antagonist for the treatment of patients with non-metastatic castration-resistant prostate cancer (nmCRPC). The primary endpoint of the trial was met: Darolutamide significantly extended metastasis-free survival compared to placebo. The safety profile and the tolerability of darolutamide were consistent with previously published data. The full data from the trial will be presented at the ASCO GU (Genitourinary Cancers Symposium) in San Francisco. An abstract will be published on 11 February 2019 and the data will be presented on 14 February 2019. Bayer is discussing the data from the trial with health authorities regarding the submission for marketing authorisation application. Darolutamide has been granted Fast Track designation by the U.S. Food and Drug Administration (FDA) for the treatment in men with non-metastatic castration-resistant prostate cancer. Commenced in 2014, the ARAMIS trial evaluated the efficacy and safety of darolutamide in patients with non-metastatic castration-resistant prostate cancer who are currently being treated with androgen deprivation therapy (ADT) as standard of care and are at risk of developing metastatic disease. In the double-blind, placebo-controlled trial, more than 1,500 patients were randomised to receive 600 mg of darolutamide or matching placebo twice a day. The primary endpoint was metastasis-free survival, defined as time between randomisation and evidence of metastasis or death from any cause.

In addition to the completed ARAMIS trial, Orion and Bayer also have another ongoing Phase III clinical trial (ARASENS), which evaluates the efficacy and safety of darolutamide in the treatment of patients with newly diagnosed metastatic hormone-sensitive prostate cancer (mHSPC) who are starting hormone therapy. The treatment is darolutamide in combination with hormonal therapy (androgen deprivation therapy) and docetaxel, a chemotherapy drug. The trial, which commenced at the end of 2016, is on track, and patient recruitment was finalised in the second quarter of 2018. The trial is estimated to be completed in 2022.

In the second quarter of 2018, Orion recruited the first patients in the Phase III clinical trial (REFALS) in which orally administered levosimendan (ODM-109) is being evaluated for the treatment of symptoms of amyotrophic lateral sclerosis (ALS). International recruitment is ongoing. The purpose of the trial is to demonstrate that orally administered levosimendan, by enhancing respiratory muscle function, can help maintain breathing capacity and so benefit overall functioning of patients with ALS. Levosimendan does not cure ALS. The aim is to delay the need for ventilation support and thus improve the patient's quality of life. Orion is conducting the trial on its own and is investing around EUR 60 million in the study over approximately three years. If the results of the trial are positive, Orion aims to file for marketing authorisation in the United States and Europe. Orally administered levosimendan has been granted an Orphan Drug Designation in the United States and in the European Union. The trial will involve 450 patients and approximately a hundred clinical sites in the United States, Canada, the EU and Australia. The patients will be treated in the trial for around one year. Levosimendan is a molecule developed by Orion and launched already in 2000 for the treatment of acute decompensated heart failure.

In the second quarter of 2018, Orion completed the Phase II clinical trial with a drug candidate for the treatment of symptoms of Parkinson's disease in which a new levodopa/carbidopa formulation is combined with the COMT inhibitor (ODM-104) developed by Orion. In the trial, the product was compared with a Stalevo product already in the market in which the active pharmaceutical ingredients are the COMT inhibitor entacapone, carbidopa and levodopa. The primary endpoint of the trial was met. Orion is analysing the results and evaluating moving on to Phase III. Decisions will be made with consideration of the totality of Orion's R&D projects as well as alternative investment opportunities in other research projects. Orion is looking for a potential collaboration partner for the trial.

Orion has an ongoing Phase II clinical trial with a new targeted FGFR+VEGFR inhibitor (ODM-203) for the treatment of cancers. The trial will investigate the efficacy of the drug candidate in slowing the growth of solid cancerous tumours in patients with detected FGFR changes in cancerous tumours.

Orion has an ongoing Phase I clinical trial with a BET protein inhibitor (ODM-207) which inhibits transcription of key oncogenes such as Myc in many cancers. In preclinical studies, ODM-207 has shown antiproliferative effects in several solid tumour cell lines. The trial will investigate the safety and tolerability of the drug candidate and provisionally its efficacy in cancer patients.

In the first quarter of 2018, Orion commenced a Phase I clinical trial for the development of a novel selective hormone synthesis inhibitor (CYP11A1 inhibitor) for castration-resistant prostate cancer. Patient recruitment is proceeding as planned. In preclinical studies, the molecule (ODM-208) has shown antitumor activity. It has potential efficacy also for those cancers that have become resistant to the standard hormonal treatments. Orion is the first pharmaceutical company to develop a drug with this

mechanism. The trial will investigate the safety and tolerability of the drug candidate in prostate cancer patients, but Orion also plans to study the potential of the molecule for breast cancer treatment.

Orion also has several projects in the early research phase investigating central nervous system diseases, cancer, neuropathic pain and rare diseases regarded as Finnish heritage diseases, among others.

In 2017, Orion launched its new R&D organisation. With the new organisation, Orion is expanding its drug development competence to include also biological drugs.

## Discontinued operations: Diagnostics

Orion signed an agreement on the sale of all shares in Orion Diagnostica Oy (i.e. the Orion Diagnostica business division) on 21 April 2018. The transaction was closed on 30 April 2018. Following the transaction, the Orion Diagnostica segment is reported as a discontinued operation.

## Shares and shareholders

On 31 December 2018, Orion had a total of 141,257,828 (141,257,828) shares, of which 37,120,346 (37,120,346) were A shares and 104,137,482 (104,137,482) B shares. The Group's share capital is EUR 92,238,541.46 (92,238,541.46). At the end of 2018 Orion held 562,440 (675,401) B shares as treasury shares. On 31 December 2018, the aggregate number of votes conferred by the A and B shares was 845,981,962 (845,869,001) excluding treasury shares.

At the end of 2018, Orion had 72,802 (57,339) registered shareholders.

## Voting rights conferred by shares

Each A share entitles its holder to twenty (20) votes at General Meetings of Shareholders and each B share one (1) vote. However, a shareholder cannot vote more than 1/20 of the aggregate number of votes from the different share classes represented at a General Meeting of Shareholders. The Company itself and Orion Pension Fund do not have the right to vote at an Orion Corporation General Meeting of Shareholders.

Both share classes, A and B, confer equal rights to the Company's assets and dividends.

## Conversion of shares

The Articles of Association entitle shareholders to demand the conversion of their A shares to B shares within the limitation on the maximum number of shares of a class. No shares were converted in January–December 2018.

## Trading in Orion's shares

Orion's A shares and B shares are quoted on Nasdaq Helsinki in the Large Cap group under the Healthcare sector heading under the trading codes ORNAV and ORNBV. Trading in both of the Company's share classes commenced on 3 July 2006, and information on trading in the Company's shares has been available since that date.

On 31 December 2018, the market capitalisation of the Company's shares, excluding treasury shares, was EUR 4,261 million.

In 2018 a total of 2,131,981 A shares and 121,458,874 B shares were traded on Nasdaq Helsinki. The total value of the shares traded was EUR 3,452 million. During the year, 5.7% of the A shares and 116.6% of the B shares were traded. The average turnover in Orion's shares was 87.5%.

The price of Orion's A shares decreased by 6% and the price of its B shares by 3% in 2018. On 31 December 2018 the closing quotation was EUR 30.30 for the A shares and EUR 30.28 for the B shares. The highest quotation for Orion's A shares was EUR 35.70 and the lowest quotation was EUR 24.75. The highest quotation for the B shares in 2018 was EUR 33.50 and the lowest quotation was EUR 22.57.

Orion shares are also traded on various alternative trading platforms in addition to Nasdaq Helsinki. In 2018 Nasdaq Helsinki accounted for about 94% of the entire trading volume in Orion A shares. Nasdaq Helsinki accounted for about 63% of the entire trading volume in Orion B shares (source: Fidessa Fragmentation Index).

## Authorisations of the Board of Directors

Orion's Board of Directors was authorised by the Annual General Meeting on 22 March 2016 to decide on acquisition of shares in the Company and on a share issue in which shares held by the Company can be conveyed. The authorisation to acquire shares was utilised during 2016.

The Board of Directors is authorised to decide on conveyance of no more than 600,000 Orion Corporation B shares held by the Company. The authorisation to issue shares is valid for five years from the decision taken by the Annual General Meeting. The terms and conditions of the authorisation were reported in more detail in a stock exchange release on 22 March 2016.

The Board of Directors is not authorised to increase the share capital or to issue bonds with warrants or convertible bonds or stock options.

## Share-based incentive plans

The Group has one currently operating share-based incentive plan for key persons of the Group: Orion Group's Long-Term Incentive Plan 2016. The plan was announced in a stock exchange release published on 2 February 2016.

On 1 March 2018, Orion transferred altogether 112,961 Orion Corporation B shares held by the Company as a share reward for earning periods 2015–2017 and 2017 to the key persons employed by the Orion Group and belonging to the share-based incentive plans of the Orion Group.

Shares received based on the one-year earning periods under the share-based incentive plan cannot be transferred during the restricted period defined for the plan. For the three-year earning periods, there is no restricted period.

## Share ownership

Orion's shares are in the book-entry system maintained by Euroclear Finland, and Euroclear Finland maintains Orion's official shareholder register.

At the end of 2018, Orion had a total of 72,802 (57,339) registered shareholders, of whom 95% (95%) were private individuals. They held 42% (40%) of the entire share stock and had 62% (62%) of the total votes. There were 45 (56) million nominee-registered and foreign-owned shares, which was 32% (40%) of all shares, and they conferred entitlement to 7% (9%) of the total votes.

At the end of 2018, Orion held 562,440 (675,401) B shares as treasury shares, which is 0.4% (0.5%) of the Company's total share stock and 0.07% (0.08%) of the total votes.

## Notification threshold

There were no threshold notifications during 2018.

## Management's shareholdings

At the end of 2018, the members of the Board of Directors owned a total of 620,574 of the Company's shares, of which 564,228 were A shares and 56,346 B shares. At the end of 2018, the President CEO owned 105,976 of the Company's shares, which were all B shares. The members of the Group's Executive Management Board (excluding the President and CEO) owned a total of 186,161 of the Company's shares, which were all B shares. Thus, the Company's executive management held 0.65% of all of the Company's shares and 1.37% of the total votes.

The Company does not have stock option programmes.

## Corporate Governance

The operations and activities of Orion Corporation and its subsidiaries (the Orion Group) are based on compliance with laws and regulations issued thereunder, as well as with ethically acceptable operating practices. The tasks and duties of the different governance bodies of the Group are determined in accordance with legislation and the corporate governance principles of the Group.

In its governance, Orion Corporation follows the Finnish Corporate Governance Code 2015 for companies listed on Nasdaq Helsinki Ltd. Orion Corporation departs from the Code's recommendation No. 15 concerning the election of members to the Nomination Committee, which can also include persons other than members of the Board. More detailed information on compliance with the Corporate Governance Code and departure from it can be found on Orion's website at [www.orion.fi/en](http://www.orion.fi/en).

The management system of the Orion Group consists of the Group level functions and business divisions. In addition, the system includes the organisation of the administration of the legal entities. For the steering and supervision of operations, the Group has a control system for all levels.

The parent company of the Group is Orion Corporation, whose shareholders exercise their decision-making power at a General Meeting of Shareholders in accordance with the Limited Liability Companies Act and the Articles of Association.

General Meetings of Shareholders elect the Board of Directors and decide on amendments to the Articles of Association, issuance of shares and repurchase of the Company's own shares, among other things.

The Board of Directors of Orion Corporation handles and decides all the most important issues relating to the operations of the whole Group or any units irrespective of whether the issues legally require a decision of the Board of Directors. The Board also ensures that good corporate governance practices are followed in the Orion Group. The Board of Directors of the parent company comprises at least five and at most eight members elected by a General Meeting of Shareholders. The term of the members of the Board of Directors ends at the end of the Annual General Meeting of Shareholders following the election. A General Meeting of Shareholders elects the Chairman of the Board of Directors, and the Board of Directors elects the Vice Chairman of the Board of Directors, both for the same term as the other members.

The President and CEO of the parent company is elected by the Board of Directors. In accordance with the Limited Liability Companies Act, the President and CEO is in charge of the day-to-day management of the Company in accordance with instructions and orders issued by the Board of Directors. In addition, the President and CEO ensures that the bookkeeping of the Company complies with the law and that its asset management is arranged in a reliable way. If the service contract of the President and CEO is terminated on the Company's initiative, the notice period is 6 months. If the service contract is terminated on the initiative of the President and CEO, the notice period is 6 months, unless otherwise agreed. The service ends at the end of the notice period. If the service contract is terminated either on the Company's initiative or on the initiative of the President and CEO because of a breach of contract by the Company, the President and CEO will be compensated with a total sum corresponding to the monetary salary for 18 months, unless otherwise agreed. No such separate compensation will be paid if the President and CEO resigns at his own request for reasons other than a breach of contract by the Company.

Orion publishes its Corporate Governance Statement separately from the Report by the Board of Directors on the Company's website at [www.orion.fi/en](http://www.orion.fi/en).

## Annual General Meeting on 20 March 2018

Orion Corporation's Annual General Meeting was held on 20 March 2018 in Messukeskus Helsinki, Expo and Convention Centre. The meeting dealt with the matters in accordance with Section 10 of the Articles of Association and Chapter 5, Section 3 of the Limited Liability Companies Act.

Distribution of a dividend of EUR 1.45 per share was approved for 2017, in accordance with the Board's proposal.

The decisions taken by the Annual General Meeting and the organising meeting of the Board of Directors were reported in stock exchange releases on 20 March 2018.

## Annual General Meeting on 26 March 2019

Orion Corporation's Annual General Meeting will be held on Tuesday 26 March 2019 in Messukeskus Helsinki, Expo and Convention Centre commencing at 14:00.

## Significant risks and uncertainties

Risk management is an integral part of the day-to-day management processes and the Corporate Governance of the Orion Group, and it is closely related to the Company's responsibility structures and principles of operational control. It is part of the Company's strategy process, operational planning and monitoring, and internal control system.

The purpose of risk management is to identify, measure and manage the risks that may threaten the Company's operations and the achievement of the set goals by using the available resources.

The risk management policy is based on Orion Group's strategies and financial objectives. The aim is to identify, analyse and evaluate the risks threatening the implementation of the Company's strategy and achieving its objectives. Identified risks are responded so that the Company can be hedged against losses or opportunities related to potential risks can be utilised.

Risks are divided into the following main categories:

- Strategic risks
- Operational risks
- Financial risks
- Compliance risks

## Agreements referred to in Ministry of Finance decree 1020/2012, Section 8, Paragraph 1, Subparagraph 11

Orion and its marketing partner Novartis have marketing agreements concerning the Comtess<sup>®</sup>/Comtan<sup>®</sup> and Stalevo<sup>®</sup> drugs. These agreements include terms concerning change of control in the company that entitle a party to terminate the agreement in certain circumstances, as referred to in the Ministry of Finance Decree 1020/2012, Section 8, Paragraph 1, Subparagraph 11.

## Personnel

The average number of employees in the Orion Group in 2018 was 3,179 (3,205). At the end of December 2018, the Group had a total of 3,154 (3,161) employees, of whom 2,485 (2,526) worked in Finland and 669 (635) outside Finland.

Salaries and other personnel expenses in 2018 totalled EUR 201 (204) million.

## Non-financial reporting

Orion is committed to continuously improving its performance in sustainability. The Company strives to achieve the high objectives it has set for managing matters related to the environment, occupational health and safety, and human resources, and ensuring its operations are ethical. In 2018, the company conducted a materiality assessment, on the basis of which it has identified material themes and indicators for its corporate responsibility. They are prioritised in the development of operations, and the Company also regularly reports on the indicators. The key themes of Orion's corporate responsibility are related to patient safety, ensuring reliable supply of medications and manufacturing them in an environmentally sustainable way, ensuring efficient use of materials, energy efficiency and appropriate wastewater management. In the non-financial reporting, the Orion Diagnostica segment is reported as a discontinued operation; the review only covers continuing operations. The comparison figures for 2017 include the Orion Diagnostica segment. A separate Sustainability Report for 2018 will be published in May.

## Environment, social matters and personnel

### Policies

Orion's environmental, health and safety (EHS) policy defines the Group-level commitment on how Orion manages environmental matters and promotes the well-being of its workforce. The environmental management system, for managing and developing environmental matters, is built upon the principles set out in the ISO 14001 environmental standard. In the development of energy efficiency Orion applies the principles of the ETJ+ energy management system and practices consistent with the ISO 50001 standard. In management of occupational health and safety, Orion applies OHSAS 18001 guidelines, and the ISO 45001 standard that will replace the former one. The Company complies with valid legislation, and with other regulations and requirements concerning its operations.

Orion's human resources policy defines the principles adopted in the Orion Group concerning human resources management and attending to human resources matters. There shall be compliance with legislation, collective agreements, occupational health and safety regulations, and other obligations in attending to human resources matters. In its operations, the Company complies with the principles of equality and fairness. The aim of the Group's values, management principles, ethical guidelines and policies is to ensure that the Company operates in a socially responsible manner concerning its personnel and working conditions. The human resources policy defines what well-being at the workplace means in Orion, and the responsibilities for developing the workforce and promoting the working and functional capabilities of its employees.

### Risks and risk management

Risks related to the environment, social matters and personnel are identified and managed as part of the Group's overall risk assessment and management process. Various organisations' expertise and cooperation are utilised in assessing and managing risks with the aim of continuously improving operations. The Group's environmental, health and safety (EHS) guidelines define procedures and responsibilities for predicting, preventing and observing exceptional events and situations causing possible harm. In addition, the guidelines define how to identify, assess, deal with and manage the risks of these situations. Management of EHS matters is monitored through annual internal audits. Operations are continuously being improved by identifying development objectives. Sustainability issues, including the management of EHS risks, are also part of our supplier and partner selection and management practices.

Orion's most significant environmental impacts relate to the consumption of raw materials, energy and water; emissions into air and wastewater; and the amounts of waste arising from the operations. These impacts are monitored among other things

by measuring emissions, monitoring the amount of waste and compiling statistics on the use of resources. All of the Group's production plants are in Finland, and the manufacturing plants have the valid environmental permits required for operations.

The Company's objective is to improve safety at work, keeping in mind that potential safety incidents and injuries are among the key social and personnel risks. The Company works continuously to prevent safety incidents and injuries and to further develop safety culture, for example through comprehensive training and regular audits.

One of the typical impacts associated with the environment, social matters and personnel risks would be a damage to the Company's reputation. Besides risk management, the Company communicates in a way that is reliable, transparent, comprehensive and timely to avoid reputational risk. Systematic communication of both positive and negative matters also enables proactive management and learning from incidents, if they would occur.

## Key figures and results

Orion continuously measures and monitors matters related to the environment, social impacts and personnel, and reports on them annually in its Sustainability Report. The key figures concerning operations relate to energy and the well-being of employees.

### Total energy consumption and energy-savings

Orion systematically reduces its carbon dioxide emissions and engages in energy conservation through an Energy Efficiency Programme. Orion is committed to the extension period of the joint Energy Efficiency Programme for the members of the Confederation of Finnish Industries (EK)<sup>1</sup>. For Orion, this means a saving of slightly over 12,000 MWh.

	2018	2017
<b>Total energy consumption and energy savings</b>		
Total absolute energy consumption (MWh) <sup>2</sup>	155,198	160,818
Energy savings achieved by saving measures and efficiency improvements, (MWh) <sup>3</sup>	1,074	3,725
Energy Efficiency Programme targets achieved	40%	31%

### Occupational well-being of personnel: Workplace injuries and sick leave

By taking care of the occupational health and well-being of the personnel at work, Orion aims to ensure that Orion employees are fit for work and healthy at work, and not exposed to occupational diseases. Achievement of this is shown by the following occupational well-being indicators<sup>4</sup>:

	2018	2017
<b>Occupational well-being of personnel: Workplace injuries and sick leave of the personnel</b>		
Lost time incident frequency LTIF 1 <sup>5</sup>	5.5	6.3
Absence due to illness (hours of absence due to illness as percentage of total theoretical working hours) <sup>6</sup>	3.1%	3.0%

<sup>1</sup> Under the new programme, the savings target for 2025 is 7.5% of energy consumption in 2016, and the intermediate target is 4% for 2020.

<sup>2</sup> The reported energy consumption, including electricity, heating and fuels, covers the Orion Group's properties in Finland except for those that do not contribute significantly to the total and have no production operations. The Group has no production plants outside Finland. Rented offices abroad are excluded from this report.

<sup>3</sup> Energy savings are estimates calculated in compliance with the guidelines of the Energy Authority.

<sup>4</sup> The reporting of injuries and sick leave covers the Orion Group's employees in Finland.

<sup>5</sup> Indicates the workplace injury rate as injuries causing an absence of at least one day per million total actual working hours.

<sup>6</sup> Absences due to illness as percentage of total theoretical working hours for own personnel.

## Respect for human rights, and prevention of corruption and bribery

### Policies

Orion's Code of Conduct defines the Group's ethical practices and commitment to complying with laws, ethically approved practices and respect for human rights. Orion expects all its personnel to comply with the Code of Conduct and practices resulting from it. Correspondingly, the ethical guidelines of the Supplier Code of Conduct applying to Orion's suppliers define the minimum requirements to which Orion expect its partners to be committed. In addition to regulatory requirements, they include key principles for business operations concerning sustainability and ethics.

Orion's aim is to comply with human rights obligations in all its operations. The Company strives to ensure that there are no violations of them in its own and its collaboration partners' operations. Orion complies with and respects the United Nations Universal Declaration of Human Rights and the principles in ILO conventions, and expects the same from its partners.

The principles that are included in the Code of Conduct and the anti-corruption policy require that employees refuse to offer or take a bribe, or any comparable benefit. Orion has zero tolerance of all forms of bribery and corruption in its business operations.

### Risks and risk management

Orion expects the suppliers in its supply chain to comply with Orion's requirements and the Supplier Code of Conduct. In selecting its suppliers, the Company has a critical approach as regards so-called risk countries where there is a risk of human rights or labour rights violations and/or exploitation of child labour, and where national labour legislation is weak or at least poorly monitored. Orion manages risks in its supply chain through its due diligence practices. Suppliers' compliance with regulations and requirements are monitored through regular or random assessment questionnaires and undertaking risk-based audits of their facilities and operations. Persons working for the Orion Group are expected to be familiar with the Code of Conduct.

Identifying and assessing risks relating to corruption is part of the comprehensive overall Group Risk Management. Assessing bribery risks is a standard part of, among other things, preparation of all collaboration agreements. Training and increasing awareness are the most critical actions to mitigate these risks. The Company regularly and systematically educates and trains its personnel to internalise the purpose and importance of these principles. The training is mandatory for the selected personnel.

For reporting any misconduct, Orion has a public whistleblowing channel that complements the usual communications and reporting channels. The channel promotes good governance and ethical operations, and improves processes after any reported incident. Orion encourages the personnel to bring to the attention of the Company's management their experiences, observations and suspicions about behaviour suggesting violation of human rights, as well as any other activity breaching the ethical codes. Orion investigates and deals with cases quickly, confidentially and impartially, and takes appropriate case-specific measures to stop behaviour and activity violating the principles.

### Key figures and results

Orion was not made aware of any human rights violations in its own operations through the whistleblowing channel in 2018. Training on prevention of corruption and bribery is mandatory for the selected personnel. The latest training was arranged in 2017, when the total number of employees attending was 2,808. The Company ensures that the training is completed by all new employees for whom it is mandatory.

	2018	2017
<b>Respect for human rights, and prevention of corruption and bribery</b>		
Human rights violations in own operations reported through the whistleblowing channel	0	0
Anti-corruption and anti-bribery training, number of participants	n/a	2,808

## Product quality and safety

### Policies

Ensuring patient safety is a basic guiding value in all Orion's operations. The Company ensures that the drugs developed, manufactured and marketed are proven to be safe for their users, effective for the indications for which they are approved, and consistent with the quality standards set for them.

Orion continuously monitors the safety of products, manages risks throughout the life cycle of a product and takes timely and appropriate measures to ensure safe use of products and patient safety. Orion maintains the pharmacovigilance system required by legislation and regulatory requirements, and compliance with legislation and regulatory requirements is monitored by internal audits and audits conducted by authorities.

The quality of Orion's products is ensured by rigorous management of the entire supply chain irrespective of the location of raw materials and product manufacture. The Company inspects manufacturing sites regularly to assess the adequacy of the quality system. Orion analyses each raw material and product batch to ensure that quality requirements set in advance for the product are met, undertakes process controls and checks that activities have been appropriately documented. In compliance with EU legislation and the Finnish Medicines Act, the so-called Qualified Person in the quality assurance organisation decides when a product batch is released for sale and is responsible for ensuring that the product meets all the conditions set in the marketing authorisation by the authorities. The shelf life of products and any customer complaints are monitored throughout the entire product life. Immediate action is taken if any deficiency in product quality is detected.

## Risks and risk management

Risks and risk management relating to patient safety in the Orion Group are described in more detail in Orion's Corporate Governance Statement at 9.2.3.1.2. Research and development risks, at 9.2.3.2.2. Risks associated with pharmaceutical production and at 9.2.3.2.4. Product liability risks.

## Key figures and results

Key figures for audits of Orion's operations and audits conducted by the Company include GxP audits and sustainability (i.e. environmental, occupational health and safety, labour and ethics) audits. The number of customer complaints about the Pharmaceuticals business's operations is reported as the number per million packages (ppm).

	2018	2017
<b>Product quality and safety</b>		
Number of audits of Orion's operations, total	61	81
Audits by authorities	13	19
Audits by collaboration partners	48	62
Critical observations	0	0
Number of audits undertaken by Orion	238	314
Critical observations	10	26
Rejections	1	5
Number of customer complaints about the Pharmaceuticals business (ppm)	56	64

## Significant legal proceedings

Companies belonging to the Orion Group are parties to various legal disputes, which are not, however, considered to be significant legal proceedings for the Group.



# Basic information on Orion's shares

31 Dec 2018	A share	B share	Total
Trading code on Nasdaq Helsinki	ORNAV	ORNBV	
Listing day	1 Jul 2006	1 Jul 2006	
ISIN code	FI0009014369	FI0009014377	
ICB code	4500	4500	
Reuters code	ORNAV.HE	ORNBV.HE	
Bloomberg code	ORNAV.FH	ORNBV.FH	
Share capital, EUR million	24.2	68.0	92.2
Counter book value per share, EUR	0.65	0.65	
Total number of shares	37,120,346	104,137,482	141,257,828
% of total share stock	26%	74%	100%
Number of treasury shares		562,440	562,440
Total number of shares excluding treasury shares	37,120,346	103,575,042	140,695,388
Minimum number of shares			1
Maximum number of A and B shares, and maximum number of all shares	500,000,000	1,000,000,000	1,000,000,000
Votes per share	20	1	
Number of votes excluding treasury shares	742,406,920	103,575,042	845,981,962
% of total votes	88%	12%	100%
Total number of shareholders	20,368	58,903	72,802

A shares and B shares confer equal rights to the Company's assets and dividends.

## Ownership base by type of shareholder

31 Dec 2018	Owners	%	A shares	%	B shares	%	Total shares	%	Total votes	%
Non-financial and housing corporations	2,230	3.06	5,277,236	14.22	4,048,748	3.89	9,325,984	6.60	109,593,468	12.95
Financial and insurance institutions	115	0.16	988,231	2.66	6,309,736	6.06	7,297,967	5.17	26,074,356	3.08
Public sector entities	46	0.06	2,231,752	6.01	8,805,102	8.46	11,036,854	7.81	53,440,142	6.31
Households	69,359	95.27	24,319,318	65.51	35,512,668	34.10	59,831,986	42.36	521,899,028	61.65
Non-profit organisations	741	1.02	3,388,293	9.13	4,207,510	4.04	7,595,803	5.38	71,973,370	8.50
Nominee-registered and foreign shareholders	310	0.43	850,850	2.29	44,629,918	42.86	45,480,768	32.20	61,646,918	7.28
Others	0	0.00	64,666	0.17	61,360	0.06	126,026	0.09	1,354,680	0.16
Number of treasury shares	1	0.00	0	0.00	562,440	0.54	562,440	0.40	562,440	0.07
<b>Total</b>	<b>72,802</b>	<b>100.00</b>	<b>37,120,346</b>	<b>100.00</b>	<b>104,137,482</b>	<b>100.00</b>	<b>141,257,828</b>	<b>100.00</b>	<b>846,544,402</b>	<b>100.00</b>

## Ownership base by number of shares

31 Dec 2018	Owners	%	A shares	%	B shares	%	Total shares	%	Total votes	%
1-100	28,733	39.47	361,939	0.98	1,151,977	1.11	1,411,103	1.00	7,319,267	0.86
101-1,000	33,653	46.23	3,256,954	8.77	11,110,506	10.67	12,893,386	9.13	61,186,807	7.23
1,001-10,000	9,482	13.02	8,958,775	24.13	18,649,589	17.91	26,272,315	18.60	182,859,846	21.60
10,001-100,000	843	1.16	8,072,643	21.75	11,566,099	11.11	21,299,195	15.08	189,939,395	22.44
100,001-1,000,000	78	0.11	8,838,225	23.81	10,577,846	10.16	19,514,487	13.81	182,196,933	21.52
1,000,001-	12	0.02	7,567,144	20.39	50,457,665	48.45	59,178,876	41.89	221,125,034	26.12
In joint account	0	0.00	64,666	0.17	61,360	0.06	126,026	0.09	1,354,680	0.16
<b>Total</b>	<b>72,801</b>	<b>100.00</b>	<b>37,120,346</b>	<b>100.00</b>	<b>103,575,042</b>	<b>99.46</b>	<b>140,695,388</b>	<b>99.60</b>	<b>845,981,962</b>	<b>99.93</b>
of which nominee registered	11	0.02	703,108	1.89	43,664,663	42.16	44,367,771	31.53	57,726,823	6.82
Number of treasury shares	1	0.00	0	0.00	562,440	0.54	562,440	0.40	562,440	0.07
<b>Total</b>	<b>72,802</b>	<b>100.00</b>	<b>37,120,346</b>	<b>100.00</b>	<b>104,137,482</b>	<b>100.00</b>	<b>141,257,828</b>	<b>100.00</b>	<b>846,544,402</b>	<b>100.00</b>

## Largest shareholders<sup>1</sup>

31 Dec 2018	A shares	B shares	Total shares	% of total shares	Total votes	% of total votes	Order by number of votes
1. Ilmarinen Mutual Pension Insurance Company	1,936,648	1,628,666	3,565,314	2.52%	40,361,626	4.77%	3.
2. Erkki Etola and companies	2,500,000	525,000	3,025,000	2.14%	50,525,000	5.97%	1.
Etola Erkki	200,000	0			4,000,000		
Etola Oy	2,300,000	0			46,000,000		
Tiiviste-Group Oy		525,000			525,000		
3. Land and Water Technology Foundation and companies	2,083,360	0	2,083,360	1.47%	41,667,200	4.92%	2.
Land and Water Technology Foundation	1,034,860	0			20,697,200		
Tukinvest Oy	1,048,500	0			20,970,000		
4. Varma Mutual Pension Insurance Company	0	1,945,609	1,945,609	1.38%	1,945,609	0.23%	14.
5. The Social Insurance Institution of Finland, Kela	0	1,658,368	1,658,368	1.17%	1,658,368	0.20%	15.
6. Elo Mutual Pension Insurance Company	292,800	1,234,234	1,527,034	1.08%	7,090,234	0.84%	12.
7. Ylppö Jukka	1,247,136	197,729	1,444,865	1.02%	25,140,449	2.97%	4.
8. The State Pension Fund	0	1,275,982	1,275,982	0.90%	1,275,982	0.15%	16.
9. Into Ylppö and commanding votes	785,492	242,848	1,028,340	0.73%	15,952,688	1.88%	6.
Ylppö Into	577,936	240,200			11,798,920		
Ylppö Eeva	110,778	1,324			2,216,884		
Ylppö Aurora	96,778	1,324			1,936,884		
10. OP-Finland Value Fund	0	923,553	923,553	0.65%	923,553	0.11%	17.
11. Aho Group Oy and commanding votes	801,022	2,429	803,451	0.57%	16,022,869	1.89%	5.
Aava Terveyspalvelut Oy	358,230	4			7,164,604		
Juhani Aho Foundation for Medical Research	107,800	0			2,156,000		
Aho Kari Jussi	94,926	0			1,898,520		
Porkkala Miia	51,183	0			1,023,660		
Lappalainen Annakaija	58,034	2,000			1,162,680		
Aho Antti Jussi	65,353	0			1,307,060		
Aho Ville Jussi	65,496	425			1,310,345		
12. The estate of Jouko Brade and companies	597,889	157,808	755,697	0.53%	12,115,588	1.43%	8.
The estate of Jouko Brade	181,000	4,400			3,624,400		
Brade Oy	726	100			14,620		
Medical Investment Trust Oy	414,974	151,573			8,451,053		
Lamy Oy	1,152	235			23,275		
Helsinki Investment Trust Oy	37	1,000			1,740		
Helsinki Securities Oy	0	500			500		
13. Orion Pension Fund <sup>2</sup>	544,000	180,428	724,428	0.51%	11,060,428	1.31%	9.
14. Nordea Pro Finland Fund	0	694,925	694,925	0.49%	694,925	0.08%	18.
15. Saastamoinen Foundation	654,996	0	654,996	0.46%	13,099,920	1.55%	7.
16. EVK-Capital Oy	535,500	16,671	552,171	0.39%	10,726,671	1.27%	10.
17. Swiss National Bank	0	471,941	471,941	0.33%	471,941	0.06%	19.
18. Ingman Finance Oy Ab	445,000	0	445,000	0.32%	8,900,000	1.05%	11.
19. Nordea Nordic Fund	0	420,716	420,716	0.30%	420,716	0.05%	20.
20. Orion Research Fund	132,996	282,514	415,510	0.29%	2,942,434	0.35%	13.
<b>20 largest shareholders total</b>	<b>12,556,839</b>	<b>11,859,421</b>	<b>24,416,260</b>	<b>17.28%</b>	<b>262,996,201</b>	<b>31.07%</b>	
Nominee-registered	703,108	43,664,663	44,367,771	31.41%	57,726,823	6.82%	
Others	23,860,399	48,050,958	71,911,357	50.91%	525,258,938	62.05%	
Orion's treasury shares <sup>2</sup>	0	562,440	562,440	0.40%	562,440	0.07%	
<b>Total</b>	<b>37,120,346</b>	<b>104,137,482</b>	<b>141,257,828</b>	<b>100.00%</b>	<b>846,544,402</b>	<b>100.00%</b>	

<sup>1</sup> The list includes the direct holdings and votes of the Company's major shareholders, corresponding holdings of organisations or foundations controlled by a shareholder in so far as they are known to the issuer, holdings of a pension foundation or pension fund of a shareholder or an organisation controlled by a shareholder, and other holdings the use of which the shareholder, alone or together with a third party, may decide on under a contract or otherwise.

<sup>2</sup> Not entitled to vote at Orion's General Meetings of shareholders.

## Shareholdings of Board of Directors members<sup>1</sup>

31 Dec 2018	A shares	Change since 1 Jan 2018	B shares	Change since 1 Jan 2018	Total shares	% of total shares	% of total votes
Heikki Westerlund, Chairman	5,000	0	7,381	1,394	12,381	0.01	0.01
Timo Maasilta, Vice Chairman	21,928	0	5,054	913	26,982	0.02	0.05
Sirpa Jalkanen	0	0	7,707	697	7,707	0.01	0.00
Ari Lehtoranta	0	0	1,011	697	1,011	0.00	0.00
Hilpi Rautelin	1,800	0	2,011	697	3,811	0.00	0.00
Eija Ronkainen	535,500	524,500	27,682	12,842	563,182	0.40	1.27
Mikael Silvennoinen	0	0	5,500	3,405	5,500	0.00	0.00
<b>Board of Directors total</b>	<b>564,228</b>	<b>524,500</b>	<b>56,346</b>	<b>20,645</b>	<b>620,574</b>	<b>0.44</b>	<b>1.34</b>

<sup>1</sup> The figures include the shares held by organisations and foundations controlled by the person.

## Shareholdings of Executive Management Board members<sup>1</sup>

31 Dec 2018	A shares	Change since 1 Jan 2018	B shares	Change since 1 Jan 2018	Total shares	% of total shares	% of total votes
Timo Lappalainen, President and CEO	0	0	105,976	13,457	105,976	0.08	0.01
Satu Ahomäki	0	0	26,290	6,729	26,290	0.02	0.00
Markku Huhta-Koivisto	0	0	27,264	6,729	27,264	0.02	0.00
Olli Huotari	0	0	54,383	5,383	54,383	0.04	0.01
Liisa Hurme	0	0	26,161	6,729	26,161	0.02	0.00
Jari Karlson	0	0	28,723	5,383	28,723	0.02	0.00
Virve Laitinen	0	0	19,175	5,383	19,175	0.01	0.00
Christer Nordstedt	0	0	4,165	4,165	4,165	0.00	0.00
<b>Executive Management Board total</b>	<b>0</b>	<b>0</b>	<b>292,137</b>	<b>53,958</b>	<b>292,137</b>	<b>0.21</b>	<b>0.03</b>

<sup>1</sup> The figures include the shares held by organisations and foundations controlled by the person.

# Group's key figures

## Key figures relating to financial performance

	2014	2015	2016	2017	2018
Net sales, EUR million <sup>1</sup>	1,015.3	1,015.6	1,073.5	1,033.6	977.5
Operating profit, EUR million <sup>1</sup>	272.4	266.6	314.6	284.1	252.8
% of net sales <sup>1</sup>	26.8%	26.2%	29.3%	27.5%	25.9%
Profit before taxes <sup>1</sup>	267.8	262.3	310.9	277.7	248.4
% of net sales <sup>1</sup>	26.4%	25.8%	29.0%	26.9%	25.4%
Income tax expense, EUR million <sup>1</sup>	56.6	54.2	61.9	58.6	51.0
R&D expenses, EUR million <sup>1</sup>	106.2	108.1	118.2	99.1	104.0
% of net sales <sup>1</sup>	10.5%	10.6%	11.0%	9.6%	10.6%
Capital expenditure, EUR million <sup>1</sup>	57.1	44.5	51.1	75.0	64.8
% of net sales <sup>1</sup>	5.6%	4.4%	4.8%	7.2%	6.6%
Assets total, EUR million	1,001.5	1,047.4	1,062.9	1,055.5	1,146.7
Equity ratio, %	52.3%	57.4%	60.8%	64.6%	68.8%
Gearing, %	-4.7%	-9.6%	-12.4%	-1.9%	-17.1%
Interest-bearing liabilities, EUR million	234.5	187.8	152.5	151.3	151.5
Non-interest-bearing liabilities, EUR million	252.0	264.6	269.0	224.5	222.1
Cash and cash equivalents and money market investments, EUR million	258.5	245.2	231.9	164.1	248.7
ROCE (before taxes), %	36.6%	35.7%	40.9%	36.2%	44.3%
ROE (after taxes), %	41.1%	37.5%	40.3%	34.2%	45.5%
Personnel at the end of the period <sup>1</sup>	3,450	3,401	3,469	3,161	3,154
Average personnel during the period <sup>1</sup>	3,493	3,431	3,446	3,205	3,179
Personnel expenses, EUR million <sup>1</sup>	219.2	220.6	224.4	203.9	200.7

<sup>1</sup> Continuing operations in 2017–2018

## Performance per share (continuing and discontinued operations)

	2014	2015	2016	2017	2018
Basic earnings per share, EUR	1.50	1.48	1.77	1.61	2.35
Diluted earnings per share, EUR	1.50	1.48	1.77	1.61	2.35
Cash flow per share before financial items, EUR	1.72	1.51	1.62	1.09	2.32
Equity per share, EUR	3.66	4.22	4.57	4.83	5.50
Total dividend, EUR million	182.9	183.1	217.7	203.8	211.0 <sup>1</sup>
Payout ratio, %	86.7%	87.8%	87.6%	90.1%	63.8% <sup>1</sup>
Dividend per share, EUR	1.30	1.30	1.55	1.45	1.50
<b>A shares</b>					
Number of shares at 31 Dec	40,412,981	38,906,154	38,294,154	37,120,346	37,120,346
Effective dividend yield, %	5.2%	4.1%	3.7%	4.5%	5.0% <sup>1</sup>
Price/earnings ratio (P/E)	16.69	21.51	23.94	19.92	12.89
Closing quotation at 31 Dec, EUR	25.03	31.83	42.38	32.07	30.30
Lowest quotation during the period, EUR	19.13	24.90	27.70	31.21	24.75
Average quotation during the period, EUR	25.70	31.07	34.37	46.37	29.63
Highest quotation during the period, EUR	31.11	38.69	42.91	58.35	35.70
Shares traded, 1,000 shares	2,595	2,868	1,984	3,198	2,132
% of the total number of shares	6.3%	7.2%	5.1%	8.5%	5.7%
<b>B shares</b>					
Number of shares at 31 Dec excluding treasury shares	100,275,182	101,923,958	102,180,308	103,462,081	103,575,042
Treasury shares at 31 Dec	569,665	427,716	783,366	675,401	562,440
Number of shares at 31 Dec including treasury shares	100,844,847	102,351,674	102,963,674	104,137,482	104,137,482
Effective dividend yield, %	5.0%	4.1%	3.7%	4.7%	5.0% <sup>1</sup>
Price/earnings ratio (P/E)	17.18	21.60	23.89	19.30	12.89
Closing quotation at 31 Dec, EUR	25.77	31.97	42.29	31.08	30.28
Lowest quotation during the period, EUR	19.07	25.47	27.79	29.72	22.57
Average quotation during the period, EUR	25.59	31.08	34.54	43.11	27.90
Highest quotation during the period, EUR	31.33	38.86	43.10	58.50	33.50
Shares traded, 1,000 shares	74,825	67,069	57,063	86,594	121,459
% of the total number of shares	74.9%	66.1%	55.6%	83.5%	116.6%
Total number of shares at 31 Dec	141,257,828	141,257,828	141,257,828	141,257,828	141,257,828
Average number of shares during the period excluding treasury shares	140,667,894	140,806,389	140,670,663	140,564,679	140,676,819
Shares traded, % of all shares	54.8%	49.5%	41.8%	63.6%	87.5%
Market capitalisation at 31 Dec, excluding treasury shares, EUR million	3,595.6	4,496.9	5,944.1	4,406.1	4,261.0

<sup>1</sup> The Board of Directors' proposal for 2018 to the AGM.

# Calculation of the key figures

Return on capital employed (ROCE), %	=	$\frac{\text{Profit before taxes + interest and other finance expenses}}{\text{Total assets - Non-interest-bearing liabilities (average during the period)}} \times 100$
Return on equity (ROE), %	=	$\frac{\text{Profit for the period}}{\text{Total equity (average during the period)}} \times 100$
Equity ratio, %	=	$\frac{\text{Equity}}{\text{Total assets - Advances received}} \times 100$
Gearing, %	=	$\frac{\text{Interest-bearing-liabilities - Cash and cash equivalents} - \text{Money market investments}}{\text{Equity}} \times 100$
Earnings per share, EUR	=	$\frac{\text{Profit available for the owners of the parent company}}{\text{Average number of shares during the period, excluding treasury shares}}$
Cash flow per share before financial items, EUR	=	$\frac{\text{Cash flow from operating activities + Cash flow from investing activities}}{\text{Average number of shares during the period, excluding treasury shares}}$
Equity per share, EUR	=	$\frac{\text{Equity of the owners of the parent company}}{\text{Number of shares at the end of the period, excluding treasury shares}}$
Dividend per share, EUR	=	$\frac{\text{Dividend to be distributed for the period}}{\text{Number of shares at the end of the period, excluding treasury shares}}$
Payout ratio, %	=	$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$
Effective dividend yield, %	=	$\frac{\text{Dividend per share}}{\text{Closing quotation of the period}} \times 100$
Price/earnings ratio (P/E)	=	$\frac{\text{Closing quotation of the period}}{\text{Earnings per share}}$
Average share price, EUR	=	$\frac{\text{Total EUR value of shares traded}}{\text{Average number of traded shares during the period}}$
Market capitalisation, EUR million	=	Number of shares at the end of the period x Closing quotation of the period
EBITDA	=	EBIT + Depreciation + Amortisation + Impairment losses

# Consolidated financial statements (IFRS)

## Consolidated statement of comprehensive income

### Continuing operations

EUR million	Note	2018	Adjusted 2017
<b>Net sales</b>	1	977.5	1,033.6
Cost of goods sold		-387.9	-417.6
<b>Gross profit</b>		589.6	616.0
Other operating income and expenses	2	5.5	4.9
Selling and marketing expenses	3, 4	-195.3	-188.9
R&D expenses	3, 4	-104.0	-99.1
Administrative expenses	3, 4	-43.0	-48.8
<b>Operating profit</b>		252.8	284.1
Finance income	5	0.3	0.2
Finance expenses	5	-4.7	-6.6
<b>Profit before income taxes</b>		248.4	277.7
Income tax expense	6	-51.0	-58.6
<b>Profit for the period for continuing operations</b>		197.3	219.1
<b>Profit for the period for discontinued operations</b>		132.9	7.0
<b>Profit for the period</b>		330.3	226.0
<b>OTHER COMPREHENSIVE INCOME INCLUDING TAX EFFECTS</b>			
Translation differences		-1.7	-1.4
<b>Items that may be reclassified subsequently to profit and loss</b>		-1.7	-1.4
Items due to remeasurement of defined benefit plans (continuing operations)		-21.4	27.4
Items due to remeasurement of defined benefit plans (discontinued operations)		2.9	2.5
<b>Items that will not be reclassified to profit and loss</b>		-18.5	29.9
<b>Other comprehensive income net of tax</b>		-20.1	28.5
<b>Comprehensive income for the period including tax effects</b>		310.1	254.5



EUR million	Note	2018	Adjusted 2017
<b>PROFIT ATTRIBUTABLE TO</b>			
Owners of the parent company		330.3	226.0
Non-controlling interests			-0.0
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO</b>			
Owners of the parent company		310.1	254.5
Non-controlling interests			-0.0
<b>Continuing operations</b>			
<b>Basic earnings per share, EUR<sup>1</sup></b>	7	1.40	1.56
<b>Diluted earnings per share, EUR<sup>1</sup></b>	7	1.40	1.56
Depreciation, amortisation and impairment		41.1	39.5
Personnel expenses		200.7	203.9
<b>Discontinued operations</b>			
<b>Basic earnings per share, EUR<sup>1</sup></b>	7	0.95	0.05
<b>Diluted earnings per share, EUR<sup>1</sup></b>	7	0.95	0.05
Depreciation, amortisation and impairment		0.7	2.8
Personnel expenses		2.1	14.2

<sup>1</sup> Earnings per share has been calculated from the profit attributable to the owners of the parent company.

The notes are an integral part of the consolidated financial statements.

# Consolidated statement of financial position

## Continuing and discontinued operations

### Assets

EUR million, 31 Dec	Note	2018	2017
Property, plant and equipment	8	316.9	323.1
Goodwill	9	13.5	13.5
Intangible rights	9	47.5	36.7
Other intangible assets	9	2.7	2.6
Investments in associates	10	0.1	0.1
Other investments	11	0.3	0.3
Pension asset	12	31.5	55.2
Deferred tax assets	13	5.1	1.3
Other non-current receivables	14	0.9	1.9
<b>Non-current assets total</b>		<b>418.5</b>	<b>434.7</b>
Inventories	15	222.1	225.4
Trade receivables	16	188.8	199.0
Other receivables	16	33.7	32.4
Money market investments	16	35.0	
Cash and cash equivalents	17	248.7	164.1
<b>Current assets total</b>		<b>728.2</b>	<b>620.8</b>
<b>Assets total</b>		<b>1,146.7</b>	<b>1,055.5</b>

### Equity and liabilities

EUR million, 31 Dec	Note	2018	2017
Share capital		92.2	92.2
Expendable fund		0.5	0.5
Other reserves		2.4	2.4
Retained earnings		678.0	584.6
<b>Equity attributable to owners of the parent company</b>		<b>773.1</b>	<b>679.7</b>
Non-controlling interests			-0.0
<b>Equity total</b>	18	<b>773.1</b>	<b>679.7</b>
Deferred tax liabilities	13	37.8	42.3
Pension liability	12	3.6	3.2
Provisions	19	0.3	0.3
Interest-bearing non-current liabilities	20	0.6	150.3
Other non-current liabilities	21	17.4	0.0
<b>Non-current liabilities total</b>		<b>59.8</b>	<b>196.2</b>
Trade payables	22	74.9	83.2
Current tax liabilities	22	1.5	3.0
Other current liabilities	22	86.4	92.4
Interest-bearing current liabilities	20	150.9	1.1
<b>Current liabilities total</b>		<b>313.8</b>	<b>179.7</b>
<b>Liabilities total</b>		<b>373.6</b>	<b>375.8</b>
<b>Equity and liabilities total</b>		<b>1,146.7</b>	<b>1,055.5</b>

The notes are an integral part of the consolidated financial statements.

# Equity attributable to owners of the parent company

## Continuing and discontinued operations

Equity attributable to owners of the parent company									
EUR million	Note	Share capital	Expendable fund	Other reserves	Items due to remeasurement of defined benefit plans	Translation differences	Retained earnings	Non-controlling interests	Equity total
<b>Equity at 1 Jan 2017</b>		92.2	0.5	2.1	2.0	-5.0	549.5	0.0	641.4
Profit for the period							226.0		226.0
<b>Other comprehensive income</b>									
Translation differences						-1.0	-0.4		-1.4
Items due to remeasurement of defined benefit plans					29.9				29.9
<b>Transactions with owners</b>									
Dividend and capital repayment	18						-217.9		-217.9
Share-based incentive plan	4						2.4		2.4
Other adjustments				0.3			-0.9	-0.0	-0.7
<b>Equity at 31 Dec 2017</b>		92.2	0.5	2.4	31.9	-5.9	558.6	-0.0	679.7
Impact of adoption of the IFRS 15 and IFRS 9 standards							-16.5		-16.5
<b>Adjusted equity at 1 Jan 2018</b>		92.2	0.5	2.4	31.9	-5.9	542.1	-0.0	663.2
Profit for the period							330.3		330.3
<b>Other comprehensive income</b>									
Translation differences						-1.8	0.2		-1.7
Items due to remeasurement of defined benefit plans					-21.4		2.9		-18.5
<b>Transactions with owners</b>									
Dividend and capital repayment	18						-203.8		-203.8
Share-based incentive plan	4						3.9		3.9
Other adjustments				0.1			-0.4	0.0	-0.3
<b>Equity at 31 Dec 2018</b>		92.2	0.5	2.4	10.5	-7.7	675.2		773.1

The notes are an integral part of the consolidated financial statements.

# Consolidated statement of cash flows

## Continuing and discontinued operations

EUR million	Note	2018	2017
<b>Operating profit</b>		387.3	293.0
Depreciation, amortisation and impairment	3	41.7	42.3
Gains/losses on sales or disposals of property, plant and equipment and intangible assets		0.0	-0.6
Unrealised foreign exchange gains and losses		0.4	0.5
Change in pension asset and pension obligation	12	-3.7	4.6
Change in provisions	19	0.1	-0.2
Other adjustments		-126.3	2.5
<b>Total adjustments to operating profit</b>		-87.8	49.1
Change in trade and other receivables		4.4	0.6
Change in inventories		-10.6	2.0
Change in trade and other payables		-3.9	-41.6
<b>Total change in working capital</b>		-10.2	-38.9
Interest and other financial expenses paid		-5.9	-6.2
Interest and other financial income received		1.7	1.4
Dividends received		0.0	0.0
Income taxes paid	6	-54.3	-70.0
<b>Total net cash flow from operating activities</b>		230.9	228.4
Investments in property, plant and equipment	8	-38.1	-67.1
Investments in intangible assets	9	-28.7	-9.4
Sales of property, plant and equipment, other investments and associated companies	8, 10	0.9	1.6
Sale of subsidiary	30	161.3	
<b>Total net cash flow from investing activities</b>		95.4	-74.9
Current loans raised	20	1.3	1.3
Repayments of current loans	20	-2.6	-3.5
Dividends paid and other distribution of profits	18	-203.9	-218.0
<b>Total net cash flow from financing activities</b>		-205.3	-220.3
<b>Net change in cash and cash equivalents</b>		121.1	-66.8
Cash and cash equivalents at 1 Jan	17	164.1	231.9
Foreign exchange differences		-1.5	-1.0
Impact of discontinued operations	30	-0.9	
<b>Net change in cash and cash equivalents</b>		121.9	-66.8
Cash and cash equivalents at 31 Dec	17	283.7	164.1

The notes are an integral part of the consolidated financial statements.

## Reconciliation of cash and cash equivalents in statement of financial position

EUR million	2018	2017
Cash and cash equivalents in statement of financial position at the end of the period	248.7	164.1
Money market investments at the end of the period	35.0	
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>283.7</b>	<b>164.1</b>

The notes are an integral part of the consolidated financial statements.

# Notes to the consolidated financial statements

## General information

Orion Corporation is a Finnish public limited company domiciled in Espoo, Finland and registered at Orionintie 1, FI-02200 Espoo. Orion Corporation and its subsidiaries develop and manufacture pharmaceuticals, active pharmaceutical ingredients and diagnostic tests that are marketed globally. The Group announced the sale of the Diagnostics business in the financial year 2018, and consequently, the Diagnostics segment is reported as a discontinued operation in the consolidated financial statements for the financial year 2018. In these consolidated financial statements, information is reported as follows:

- The consolidated income statement and its notes only include continuing operations.
- Other items in the consolidated statement of comprehensive income include both continuing and discontinued operations.
- The consolidated statement of financial position and its notes for the financial year 2018 only include continuing operations.
- The consolidated statement of financial position and its notes for the comparative period 2017 include both continuing and discontinued operations.
- The consolidated statement of changes in equity includes continuing and discontinued operations for both the financial year 2018 and the comparative period 2017.

The Orion Group's first financial year was 1 July–31 December 2006, because the Group came into being on 1 July 2006 following the demerger of its predecessor Orion Group into the pharmaceuticals and diagnostics business and a pharmaceutical wholesale and distribution business. Orion Corporation is listed on Nasdaq Helsinki. Trading in Orion's shares commenced on 3 July 2006.

At its meeting on 6 February 2019, the Company's Board of Directors approved the publication of these consolidated financial statements. Under the Finnish Limited Liability Companies Act, shareholders have the option to accept or reject the financial statements at the Annual General Meeting, which is held after the publication of the financial statements. In addition, the AGM may amend the financial statements. The financial statement documents can be viewed at the website [www.orion.fi/en](http://www.orion.fi/en), and copies of the financial statements are available from Orion Corporation's headquarters, Orionintie 1, FI-02200 Espoo.

## Accounting policies

The Consolidated Financial Statements of the Orion Group have been prepared in accordance with International Financial Reporting Standards (IFRS) applying the IAS and IFRS standards as well as SIC and IFRIC interpretations effective on 31 December 2018. International Financial Reporting Standards refer to the standards and their interpretations approved for application in the EU in accordance with the procedure stipulated in the EU's regulation (EC) No. 1606/2002 and embodied in the Finnish Accounting Act and provisions issued under it. The notes to the consolidated financial statements have also been prepared in accordance with the requirements in Finnish accounting legislation and Community law that complement the IFRS regulations.

The information in the consolidated financial statements is based on historical costs, except for financial assets separately recorded at fair value through profit or loss or items recorded through equity.

Monetary figures in the financial statements are expressed in millions of euros unless otherwise stated.

## New IFRS standards and IFRIC interpretations adopted in financial year 2018

The following new standards, interpretations and amendments to existing standards and interpretations endorsed by the EU and applicable to the Group's operation model have been adopted as of 1 January 2018.

- IFRS 15 (new), *Revenue from Contracts with Customers*
- IFRS 9 (new), *Financial Instruments*
- IFRS 2 (amendment), *Share-Based Payment*
- IFRIC 22 (new), *Foreign Currency Transactions and Advance Consideration*

The adoption of the IFRS 15 and IFRS 9 standards is described in the following paragraphs. The amendment to the IFRS 2 standard and the new IFRIC 22 interpretation have no material effect on the consolidated financial statements.

### Adoption of IFRS 15 (Revenue from Contracts with Customers)

IFRS 15 (Revenue from Contracts with Customers) replaced the previous IAS 18 (Revenue) and IAS 11 (Construction Contracts), which governed revenue recognition. The Group has adopted the new standard for the financial year commencing on 1 January 2018.

Adoption of IFRS 15 affects the timing of recognising revenue from sales of the sales rights to products in the markets and from collaboration with collaboration partners in clinical phases, so that net sales of these revenue flows arising from some performance obligations are recognised at a time that is different from when they have been recognised under IAS 18. Depending on the contents of the agreement, research and development projects may consist of performance obligations that are considered separately, or performance obligations may form larger entities that are considered as units. Agreements typically contain both fixed milestone payments and milestone payments that are processed as variable considerations conditional on reaching specific phases or research results.

The Group has applied the cumulative effect method in the transition and recognised the impact of IFRS 15 on 1 January 2018 in equity as an adjustment to retained earnings. An item of corresponding amount has been recognised as a counterpart entry in other liabilities in the statement of financial position. Adjustments of the opening balance have been made only in respect of contracts that had not been fully fulfilled on 1 January 2018.

The total net sales from the above-mentioned revenue flows on average account for less than five per cent of the Group's annual net sales. For the financial period 2018 net sales recorded from the revenue flows mentioned were EUR 5.2 million (2017: EUR 12.1 million), in other words 0.5 per cent (1.1 per cent) of the total consolidated net sales. In the Group's view, the effect of IFRS 15 in recognising these revenue flows as revenue is not material in proportion to the total consolidated net sales.

The Group determined that, as regards the timing of recognising net sales, IFRS 15 affects agreements that were not fully fulfilled on 1 January 2018. At the end of the financial period 2017, the Group had four agreements for which IFRS 15 had a material effect as regards the timing of recognition of the Group's revenue. Milestone payments under these agreements in previous financial periods were recognised as revenue at a single point of time. Following adoption of IFRS 15, such milestone payments will be regarded as performance obligations satisfied over time and they will be recognised as revenue over the term of the contract. The revenue will be recognised later than when the old IAS 18 was in effect.

Consequently, net sales under these agreements previously recognised in the income statement have been adjusted as of 1 January 2018 by reducing retained earnings in equity in the statement of financial position. The Group has recorded a total reduction of EUR 16.6 million of retained earnings on 1 January 2018. An increase of EUR 18.7 million in the long-term other liabilities and an increase of EUR 1.9 million in the short-term other liabilities have been recorded in the statement of financial position. An increase of EUR 4.1 million has been recorded as deferred tax assets.

The above-mentioned adjustments made to items in the statement of financial position are recognised as revenue over time as the performance obligations are satisfied. The average remaining time for satisfying the performance obligations subject to adjustments on 1 January 2018 was 11 years.

Following adoption of IFRS 15, comparative information reported by the Group have not been adjusted. Information on the impact of the adoption of IFRS 15 on the comparative period figures is provided in a table in the notes to the accounting policies.

## Adoption of IFRS 9 (Financial Instruments)

The new IFRS 9 (Financial Instruments) has replaced IAS 39 (Financial Instruments: Recognition and Measurement) and has brought changes to the classification and measurement of financial assets and liabilities to determining impairment of them and to principles of hedge accounting. The Group has adopted the new standard for the financial year commencing on 1 January 2018.

- Following the adoption of IFRS 9 the recognition and classification of the Group's financial items has changed as presented in the table below. The changes have had no material impact on the measurement of the items.

Reclassification of financial instruments	IAS 39	IFRS 9
Other investments	Available-for-sale financial assets	At fair value through profit or loss
Other non-current assets	Loans and other receivables	Amortised cost
Trade receivables	Loans and other receivables	Amortised cost
Other receivables	Loans and other receivables	Amortised cost
Money market investments in interest rate instruments	Available-for-sale financial assets	Amortised cost / At fair value through profit or loss
Cash and cash equivalents	Loans and other receivables	Amortised cost
Interest-bearing non-current liabilities	Amortised cost	Amortised cost
Other non-current liabilities	Amortised cost	Amortised cost
Trade payables	Amortised cost	Amortised cost
Other current liabilities	Amortised cost	Amortised cost
Interest-bearing current liabilities	Amortised cost	Amortised cost
Derivatives	At fair value through profit or loss	At fair value through profit or loss

- The Group does not currently apply hedge accounting, so the changes to hedge accounting due to IFRS 9 do not affect the Company.
- Measurement of financial assets for any impairment is based on whether there is a significant credit risk related to the receivable or not. The Group evaluates the risk related to a neglected payment on a financial instrument and recognises a provision for credit loss based on the assessment. Impairment of financial instruments is based on an expected credit loss model in which earlier and greater credit losses are recognised than under IAS 39.
- A simplified approach under IFRS 9 is applied for measurement of trade receivables through which impairment of trade receivables with various due dates is entered by reducing their value by a certain percentage allowance, which are determined based on actual credit losses taking into account economic conditions on the reporting day. The allowance percentages shall lead to impairment that corresponds to the expected credit losses of receivables over their lifetime. As regards impairment of trade receivables, the change to IFRS 9 had no material impact.

The new standard will require new more comprehensive information in the Notes; in addition, there will be some changes in presentation. They affect the nature and comprehensiveness of the information presented in the consolidated financial statements.

## Consolidation Principles

### Subsidiaries

The consolidated financial statements cover the parent company Orion Corporation and all companies directly or indirectly owned by it and controlled by the Group. A company is controlled by the Group if the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Internal shareholdings have been eliminated using the acquisition method of accounting. In the consolidated financial statements, acquired subsidiaries are fully consolidated from the date the Group acquires control, and divested subsidiaries are deconsolidated from the date control ceases. All intra-Group transactions, receivables and liabilities, distribution of profit and unrealised internal gains are eliminated in the compilation of the consolidated financial statements. The consolidated profit for the financial year is divided into portions attributable to owners of the parent company and non-controlling interests. The portion of the equity attributable to the non-controlling interests is included in Group equity and specified in the statement of changes in equity.



## Associates, joint ventures and joint operations

Associates are all companies over which the Group has significant influence but not control. Significant influence generally means a shareholding of 20% to 50% of the voting rights.

Joint ventures are joint arrangements in which the parent companies or subsidiaries have joint control of an entity that is not part of the Group and in which a parent company or subsidiary has rights to the net assets of the arrangement. Associates and joint ventures are incorporated into the consolidated financial statements using the equity method of accounting.

Joint operations are joint arrangements that have been implemented without a separate investment instrument or in which the legal form of the arrangement is such that the parties have direct rights to certain assets or obligations for certain liabilities. Joint operations are incorporated into the consolidated financial statements in accordance with the proportional interest in the joint operation.

If the Group's share of the losses of an associate or joint venture exceeds the carrying amount, it is not consolidated unless the Group has made a commitment to fulfil the liabilities of the associate or joint venture.

## Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, is the President and CEO of Orion Corporation, who makes the Group's strategic decisions. The Group has one business area that comprises four business divisions, which are reported as one consolidated segment "Pharmaceuticals".

## Foreign currency translation

### Functional and presentation currency

Items included in the financial statements of each of the Group's companies are measured using the currency of the primary economic environment in which the company operates (the functional currency). The consolidated financial statements are presented in euros, which is the functional currency of the parent company of the Group and the Group's presentation currency for the consolidated financial statements.

### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items in foreign currencies at the end of the reporting period in the statement of financial position are measured using the exchange rates at the end of the reporting period. Foreign exchange gains and losses from translation of the items are recognised in the statement of comprehensive income. Exchange rate gains and losses related to business operations are included in the corresponding items above the operating profit line. Exchange rate differences resulting from hedges made for hedging purposes but for which hedge accounting under IFRS 9 does not apply are included as net amounts within other operating income or expenses. Exchange rate gains and losses related to financial liabilities and receivables in foreign currencies and foreign exchange derivatives related to them are included in financial income and expenses. Non-monetary items in foreign currencies in the statement of financial position which are not measured at fair value are measured using the exchange rate at the date of the transaction.

### Group companies

For all Group companies with a functional currency different from the Group's presentation currency, the income statements are translated into euros using average exchange rates for the reporting period, and the statements of financial position are translated into euros using the exchange rates at the end of the reporting period. Any exchange difference arising from this and translation differences arising from elimination of the acquisition costs of these companies are recognised in equity and changes are disclosed in the items under other comprehensive income. There are no Group companies operating in a country with hyperinflation.

The accumulated translation differences related to divestment of Group companies, which are recognised in equity, are recognised as gains or losses in the statement of comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate at the end of the reporting period.

## Property, plant and equipment

Property, plant and equipment comprise mainly factories, offices and research centres, and machines and equipment for manufacturing, research and development. Property, plant and equipment are measured at their historical cost, less accumulated depreciation and impairment, and are depreciated over their useful life using the straight-line method. The residual value and useful life of property, plant and equipment are reviewed when necessary, but at least at every year end for the financial statements, and adjusted to correspond to probable changes in the expectations of economic benefits. The estimated useful lives are as follows:

- Buildings 20–50 years
- Machinery and equipment 5–10 years
- Other tangible assets 10 years

Land is not depreciated. Repair and maintenance costs are recognised as expenses for the reporting period. Improvement investments are capitalised if they are expected to generate future economic benefits. Gains and losses on disposals of property, plant and equipment are recognised in the statement of comprehensive income.

## Intangible assets

### Research and development costs

Research costs are expensed as incurred in the statement of comprehensive income. Intangible assets generated from development activities are recognised in the statement of financial position only if the expenditure of the development phase can be reliably determined, the product is technically feasible and commercially viable, the product is expected to generate future economic benefits and the Group has the intention and resources to complete the development work. The Group's view is that until an authority has granted marketing authorisation, it could not be demonstrated that an intangible asset would generate future economic benefits. The Group has therefore not capitalised its internal development costs. The same principle for recognition has been applied for externally purchased services. Software, buildings, machinery and equipment used in research and development activities are depreciated and recognised under research and development costs over their useful life.

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired company at the date of acquisition. Goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination. Cash-generating units have been grouped according to operating segment. The goodwill in the consolidated statement of financial position arose prior to the adoption of IFRS, and it corresponds to the carrying amount according to the previous financial reporting standards, which was used as the deemed cost on 1 January 2004 when making the transition to IFRS.

### Intangible rights and other intangible assets

Intangible rights and other intangible assets are measured at their historical cost, less accumulated amortisation and impairment. They are amortised over their useful life, usually five to ten years, using the straight-line method. As a rule, acquired marketing rights are amortised over the remaining term of the contract.

Externally acquired intangible rights, such as product and marketing rights, are recognised in the statement of financial position. For a product under development, the cost bases are assessed. The costs of payments for research and development work undertaken that has not yet generated an intangible right recognisable in the statement of financial position are recognised as research and development costs. However, if an intangible right is considered to have been transferred to the Group, the costs are recognised in the statement of financial position. Amortisations of marketing authorisations, and product and marketing rights included in the intangible rights are disclosed under selling and marketing expenses, and recording of an amortisation expense will commence when an authority has issued authorisation for marketing of the product and selling of it commences.

### Impairment of property, plant, equipment and intangible assets

At the end of each reporting period, the Group assesses whether there are indications that an asset may be impaired. If there are any such indications, the respective recoverable amount is assessed. As regards goodwill and an intangible asset not yet available for use, the assessment is undertaken annually even if no such indications had become apparent. The recoverable amount is the higher of the asset's fair value less selling costs or value in use. The value in use is obtained by discounting

the present value of the future cash flows from that asset. The discount rate is the weighted average cost of capital (WACC) calculated before tax and using Standard & Poor's index for the healthcare industry as the debt-to-equity ratio. The index corresponds to the potential and risks of the asset under review.

An impairment loss is recognised in the statement of comprehensive income for the amount by which the asset's carrying amount exceeds its recoverable amount. An impairment loss other than on goodwill is reversed if there is a change in the circumstances and the asset's recoverable amount exceeds its carrying amount. An impairment loss is not reversed to more than what the carrying amount of the asset would have been had there been no impairment loss.

Impairment of goodwill is recognised in the statement of comprehensive income under Other operating expenses, which include expenses not allocable to specific operations. Intangible assets not yet available for use, comprising mainly marketing authorisations and product rights, are tested for impairment individually for each asset carrying material value in the statement of financial position. Impairment charges are recognised as an expense under the appropriate activity, and for marketing authorisations and product and marketing rights under selling and marketing expenses.

## Leases

### Group as lessee

Lease agreements under which substantially all the risks and rewards of ownership of the assets are transferred to the Group are classified as finance leases. Finance leases are recorded in the statement of financial position under assets and liabilities at the commencement of the lease, either at the fair value of the asset or the present value of the minimum lease payments if lower.

Assets acquired under finance leases are depreciated in the same manner as any property, plant and equipment, either over the useful life of the asset or over a shorter lease term. Each lease payment is allocated between the loan reduction and finance charge during the lease period so that the interest rate on the outstanding loan during each period remains constant. Finance lease liabilities are included under the non-current and current interest-bearing liabilities in the statement of financial position.

If the lessor retains the risks and rewards of ownership, the lease is treated as an operating lease, and payments made under an operating lease are recognised as an expense on a straight-line basis over the period of the lease.

The above principles are applied to separate leases and to leases that are included in other agreements.

## Borrowing costs

Borrowing costs are recognised in the statement of comprehensive income as an expense in the period in which they are incurred. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that requires a substantial period of time to be made ready are capitalised as a part of the cost of that asset.

## Government grants

Government grants related to research activities are recognised as decreases in the research expenses incurred in the corresponding reporting period. If an authority decides to convert an R&D loan into a grant, that is recognised in the statement of comprehensive income under other operating income. Government grants related to the acquisition of property, plant and equipment or intangible assets are recognised as decreases in their acquisition costs. Such grants are recognised as income in the form of reduced depreciation during the useful life of the asset.

## Inventories

Inventories are presented in the statement of financial position using the standard price for self-manufactured products, and for purchased products the weighted average cost method using the value of the purchase and variable conversion costs, or if lower, the net realisable or replacement value. Inventories are valued at the cost of the materials consumed plus the cost of conversion, which comprises costs directly proportional to the amount produced and a systematically allocated share of fixed and variable production overheads.

The net realisable value is the estimated selling price obtainable through normal business, less the estimated expenses incurred in finalising the product and selling it.

# Financial assets and liabilities

## Classification

The Group's financial items are recognised and measured at amortised cost or at fair value through profit or loss. The classification of assets depends on the business models defined by the Company and on the cash flows of the financial assets based on contract. The classification may change following a change in business model. Classification per item in statement of financial position is found in the note concerning financial assets and liabilities.

### 1. Measured at amortised cost

When the target of the business model is to hold financial assets for the purpose of collecting cash flows based on contract and the cash flows are based exclusively on the payment of equity and interests, assets are classified at amortised cost. Of the Group's financial assets trade receivables, other receivables and financial assets are classified at amortised cost. Financial liabilities except for derivatives are classified at amortised cost.

### 2. Recognised at fair value through profit or loss

Financial assets are measured at fair value through profit or loss when it is not held for collecting cash flows based on contract nor for both collecting cash flows and for sale or when it was classified at a given class in the initial classification. The Group's financial assets recognised at fair value through profit or loss comprise derivatives, shares and interests and money market investments. Of financial liabilities, derivatives are measured at fair value.

A financial asset or liability with maturity over 12 months from the reporting date is included in the non-current assets or liabilities in the statement of financial position. If a financial asset is intended to be held for less than 12 months or its maturity is less than 12 months from the reporting date, it is included in the current assets in the statement of financial position. The credit limits of bank accounts to the extent that they are used and commercial paper issued by the Company are included in interest-bearing current liabilities, as are any repayments of capital of non-current interest-bearing liabilities due in the next 12 months.

## Recognition and measurement

Purchases and sales of financial assets are recognised in the accounting through settlement date accounting except for derivatives, which are recognised on the acquisition date. Financial assets measured at amortised cost are also initially recognised at fair value, but transaction costs are taken into account in the value. After initial measurement, the value of these financial assets is measured at amortised cost using the effective interest method less any impairment. Impairment losses are recognised in the statement of comprehensive income.

Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are recognised as expenses in the statement of comprehensive income. Unrealised and realised gains and losses due to changes in the fair value are recognised through profit or loss. Fair value is based on the quoted market price on the end date of the reporting period.

Financial liabilities are initially recognised in accounting at fair value less transaction costs. Subsequently, financial liabilities except derivative liabilities at fair value through profit or loss are measured at amortised cost using the effective interest method.

A financial asset is derecognised in the statement of financial position when the Group no longer has the contractual rights to receive the cash flows or when it has substantially transferred the risks and income from the asset to outside the Group. Liabilities are derecognised in the statement of financial position once the debt has extinguished.

## Impairment

At the end of each reporting period, it is assessed whether there is any objective evidence of expected credit losses regarding an item in the Group's financial assets.

Impairments are estimated in two different ways, either based on the amount of expected credit losses in the next 12 months or based on the amount of expected credit losses over the entire lifetime of the financial asset. As a rule, the used time period is the next 12 months unless there are specific grounds for a significantly increased credit risk of a financial asset.

Criteria applied by the Group in stating that there is significantly increased credit risk:

- issuer's or debtor's considerable financial problems
- breach of contract terms, such as neglecting payments or payments long overdue
- high probability of bankruptcy or other financial restructuring of debtor

For trade receivables, the Company applies a simplified model based on the amount and due date distribution of overdue receivables. Trade receivables do not include a significant financing component, and thus expected credit losses are recognised

over the entire lifetime of the financial asset. Historical credit loss experience is used as the basic information in the provision matrix, and it is adjusted as needed with a future outlook estimate.

Expected credit losses are recognised through profit or loss, with the counter-item reducing the item in financial assets. Recognition takes place at the next reporting date.

## Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank deposits and assets in bank accounts, and liquid debt instruments. Liquid debt instruments are short-term certificates of deposit and commercial paper with maturities initially of no more than three months issued by banks and companies.

Money market investments that are available-for-sale debt instruments with maturities initially of over three months and no more than twelve months and liquid bond funds are regarded as cash and cash equivalents in the statement of cash flows. Money market investments are part of the Group's active cash management.

## Derivative instruments

Derivatives are classified as measured at fair value through profit or loss and are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at their fair value using the closing market prices on the end date of the reporting period. Derivatives are recognised under other receivables and liabilities in the statement of financial position. The Group does not apply hedge accounting to foreign exchange derivatives that hedge items in foreign currencies in the statement of financial position or hedge highly probable forecast cash flows, even though they have been acquired for hedging purposes in accordance with the Group's treasury policy.

Both unrealised and realised gains and losses due to changes in the fair value of derivatives recorded through profit or loss are recognised in the reporting period in which they are incurred through profit or loss under either Other income and expenses or Finance income and expenses, depending on whether operational revenue or finance items have been hedged.

## Equity

Ordinary shares are presented as share capital. Transaction costs directly due to issuance of new shares or options are presented in equity including tax effects as a decrease in payments received. If a Group company purchases shares in the Company, the payment and direct costs relating to the acquisition are deducted from the equity.

The expendable fund and reserve for invested unrestricted equity are included in distributable funds under the Finnish Limited Liability Companies Act.

## Provisions and contingent liabilities

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

A restructuring provision is recognised when the Group has compiled a detailed restructuring plan, launched its implementation or informed the parties concerned.

A contingent liability is a potential liability based on previous events. It depends on the realisation of an uncertain future event beyond the Group's control. Contingent liabilities also include obligations that will most likely not lead to a payment or its size cannot be reliably determined. Contingent liabilities are disclosed in the Notes.

## Employee benefits

### Pension obligations

The Group has pension plans in accordance with each country's local regulations and practices. The Group has both defined contribution and defined benefit plans. In the defined contribution plans, the Group pays fixed contributions to separate entities. The Group has no legal or constructive obligations to pay further contributions if the recipient of the contributions is unable to pay the employee benefits. All the plans that do not fulfil these criteria are defined benefit plans. The payments to the defined contribution plans are recognised as expenses in the statement of comprehensive income in accordance with the contributions payable for the period.

The Group's most important defined benefit pension plans are in Finland, where statutory insurance under the Employees' Pensions Act (TyEL) has been arranged through the Orion Pension Fund for the Group's clerical employees and supplementary pension security for some of the clerical employees. In addition, the Group management has defined benefit pension plans taken out with life assurance companies. The obligations under the defined benefit pension plans have been calculated separately for each plan.

The pension expenses related to the defined benefit pension plans have been calculated using the projected unit credit method. The pension expenses are recognised as expenses by distributing them over the whole estimated period of service of the personnel. The net defined benefit liability to be recorded in the statement of financial position is the present value of the defined benefit obligation at the end date of the reporting period less the fair value of plan assets. The present value of the defined benefit obligation is the present value of the estimated future pensions payable, and the discount rate applied is the interest rate of low-risk bonds issued by companies with a maturity that corresponds to that of the defined benefit obligation as closely as possible. The interest rate is derived from bonds issued in the same currency as the benefits payable.

Items arising from remeasurement of defined benefit plan assets are recognised directly into components of other comprehensive income during the period when they arise. The most substantial items due to remeasurement in the Group are due to actuarial gains and losses and return on the plan assets (excluding net interest items).

The Group applies an accounting procedure in which net interest arising from plan assets is recognised functionally above operating profit as part of defined benefit plan pension expense.

## Share-based payments

The benefits under the share-based incentive plan for key employees approved by the Board of Directors are recognised as an expense in the income statement during the vesting period of the benefit. The equity-settled portion is measured at fair value at the time of granting the benefit, and an increase corresponding to the expense entry in the statement of comprehensive income is recognised in equity. The cash-settled portion is recognised as a liability, which is measured at fair value at the end of the reporting period. The fair value of shares is the closing quotation for B shares on the day of granting the benefit.

Non-market vesting conditions, such as individual goals and result targets, affect the estimate of the final number of shares and amount of associated cash payments. The estimate of the final number of shares and associated cash payments is updated at the end of each reporting period. Changes in estimates are recognised in the statement of comprehensive income.

## Income taxes

The income tax expense in the consolidated statement of comprehensive income includes taxes based on the profit of the Group companies for the financial year, tax adjustments for previous financial years and deferred tax. For items recognised directly in equity, the corresponding tax effect is also recognised in equity. Current tax is calculated on the basis of the tax rate in force in each country.

Deferred tax is computed on all temporary differences between the carrying amount and the taxable value. Deferred tax assets due to confirmed tax losses of Group companies are imputed only to the extent that they can be utilised in the future. Deferred taxes are computed using the tax rates valid or in practice approved at the end of the reporting period.

## Revenue recognition principles

The Group's net sales comprise three different revenue flows, for which the revenue recognition principles are described below.

### Product sales

Consolidated net sales include revenue from product sales adjusted for indirect taxes and currency translation differences on sales in foreign currencies. A delivery to a customer of one batch of product constitutes one distinct performance obligation for which the revenue will be recognised in accordance with the delivery terms when the control is transferred from the Group to the customer. The selling price may include variable consideration, such as various discounts or incentives, among other things. The consideration is recognised as net sales that the Group expects to be entitled to taking into account the effects of discounts and incentives.

The Group has consignment stock arrangements in place with distributors and logistics partners operating in various countries. In these cases the Group owns the products held in the distributors' and logistics partners' consignment stock until they are delivered to the customer, at which point the Group recognises their sale in net sales. In Finland, the arrangement between Orion and Oriola explains a significant part of the Group's total consignment stock arrangements.

Net sales consisting of product sales also comprises royalties, which the Group recognises as revenue based on agreements signed with cooperation partners. The Group has sold the sales rights of certain products to cooperation partners and is entitled to royalties determined by the sales of these products achieved by the partners. The Group recognises the royalties as revenue once the partner has sold the products and the right to royalties has been established.

## Sales of sales rights to products already in the markets

The Group enters into agreements in which it transfers the sales rights to a product already in the markets to an external party outside the Group and agrees to manufacture the product for that external party. For transferring sales rights and manufacturing products, depending on the agreement the Group may receive milestone payments, revenue from manufacture and sales of the products and royalty income. Typically milestone payments are fixed payments made at the time of signing of an agreement with no restitution obligation and payments related to the commercialisation of a product. The Group is deemed to satisfy the performance obligations at a single point of time.

The Group itself has generally been manufacturing the product before the sale of sales rights to the product, so the Group would have know-how related to manufacture that would otherwise not be easily attained by the customer. The transferred sales rights and product manufacture as well as royalty payments that are received later constitute separate performance obligations. Some of the considerations are variable due to conditionality of milestone payments and value adjustments related to the sales price of the products.

The Group may receive under the agreement milestone payments related to commercialisation. They are considered as distinct performance obligations if they are satisfied by a certain volume of sales achieved by the customer. The accrued sales revenue entails value for the customer, so a performance obligation subject to sales volume is considered satisfied when the target for sales has been achieved. Performance obligations related to commercialisation are treated as performance obligations satisfied at a single point of time, because estimating future sales volume entails uncertainty factors.

## Clinical phase research and development work undertaken with collaboration partners

The Group has entered into agreements with collaboration partners that relate to clinical phase research and development projects. Under these agreements milestone payments shall be paid when a certain development phase has been achieved. Milestone payments normally comprise a single upfront payment for Orion's past development work received on signing the agreement and milestone payments conditional on the future achievement of phases or research results of the project. In addition, payments related to commercial rights to the finished product such as royalties may be agreed in the agreements. Depending on the content of the agreement, agreements may consist of performance obligations that are considered separately, or they may form a single service and product package that consists of performance obligations.

Fixed milestone payments on signing an agreement are considered as distinct performance obligations that are satisfied on signing of the agreement. Clinical phase trials may be conducted through many service providers, and the collaboration partner can then utilise in its own business operations the research results conveyed on signing. Research and development work performed during the agreement period is considered a separate performance obligation and milestone payments for this phase are processed as variable considerations because they are conditional on reaching specific phases or research results. Even though Orion satisfies the performance obligations over time, revenue is only recognised on confirmation of the final research results because a reliable evaluation of research results in advance would entail uncertainty factors.

The agreements may also include a decision on arranging manufacture of finished product if it can be commercialised. For each agreement, considerations related to commercialisation are evaluated on the basis of whether the milestone payments and sales of finished products together constitute a performance obligation or whether the milestone payments can be identified as performance obligations distinct from sales of the finished product. Likewise, on the basis of each agreement, it is evaluated whether the performance obligation related to milestone payments will be satisfied at a single point of time or over a period of time. Royalty payments are recognised as revenue when the partner has sold products subject to royalties.

Agreements usually do not include a financing component, because a significant portion of the considerations is variable and their reception will be confirmed in the future.

## Interest and dividends

Interest income is recognised using the effective interest method and dividend income when the right to receive payment is established.

# Contents of the function-based statement of comprehensive income

## Cost of goods sold

The cost of goods sold comprises wages and salaries, materials, procurement and other costs related to manufacturing and procurement.

## Selling and marketing expenses

The expenses of selling and marketing operations comprise costs related to the distribution of products, field sales, marketing, advertising and other promotional activities, including the related wages and salaries.

## Research and development expenses

R&D expenses comprise wages and salaries, materials, procurement of external services and other costs related to R&D. R&D expenses also include expenses for R&D projects that are classified as joint operations. The portion of the expenses that corresponds to the Group's contractual share of a project is recognised as an expense.

## Administrative expenses

Administrative expenses include general administrative and Group management costs.

The functions also bear the depreciation, amortisation and impairment of the assets they use, as well as some administrative overheads in accordance with the cost matching principle.

# Critical accounting estimates and assumptions, and main related uncertainties

When compiling the financial statements, the Company's management had to make certain estimates and assumptions concerning the future that have an impact on the items included in the financial statements. The actual values may differ from these estimates. The estimates are mainly related to recognition of revenue, impairment testing of assets, the measuring of receivables and liabilities related to defined benefit pension plans, the recognition of provisions and income tax. In addition, the application of accounting policies calls for the exercise of judgement.

Within the Group, the principal assumptions concerning the future and the main uncertainties relating to estimates at the end of the reporting period that constitute a significant risk of causing a material change in the carrying values of assets and liabilities within the next financial year are the following:

## Non-current assets

Actual cash flows can differ from estimated discounted future cash flows because changes in the long-term economic life of the Company's assets, the forecast selling prices of products, production costs and the discount rate applied in the calculations can lead to the recognition of impairment losses.

## Employee benefits

The Group has various pension plans to provide for the retirement of its employees or to provide for when the employment ends. Various statistical and other actuarial assumptions are applied in calculating the expenses and liabilities of employee benefits, such as the discount rate, estimated changes in the future level of wages and salaries, and employee turnover. The statistical assumptions made can differ considerably from the actual trend because of, among other things, a changed general economic situation and the length of the period of service. The gains and losses due to changes in actuarial assumptions are recorded into components of other comprehensive income during the period in which they arise. The changes affect the comprehensive income for the period.

## Income taxes

In preparing the financial statements, the Group estimates, in particular, the basis for recording deferred tax assets. For this purpose, an estimate is made of how probable it is that the subsidiaries will generate sufficient taxable income against which unused tax losses or unused tax assets can be utilised. The factors applied in making the forecasts can differ from the actual figures, and this can lead to expense entries for tax assets in the income statement.



## Revenue

The Group has contracts with customers that may include transfer of sales rights to products, product manufacturing, clinical phase research and development work and terms related to commercialisation. The Group exercises judgement especially regarding the specification of distinct performance obligations, whether the performance obligations are recognised over time or at a single point of time and regarding the recognition time of variable considerations. The Group takes into account the limitation to revenue recognition and recognises revenue only to the extent that it is very likely that a significant reversal to accrued recognised revenue will not be needed. Management judgement related to revenue recognition exercised in the reporting period has been described in section Revenue recognition principles of these accounting policies and in the note Revenue from contracts with customers and operating segments

There is more detailed information in the Notes about the effects of the key uncertainty factors and the estimates made by the Company's management on the above-mentioned financial statements items.

## New IFRS standards and IFRIC interpretations to be applied in future financial periods

The following new standards, interpretations and amendments to existing standards are adopted by the Group as of 1 January 2019:

- IFRS 16 (new standard), Leases. Information on the impact of the standard on the consolidated financial reporting is provided in a separate section below.
- IFRIC 23 (new interpretation), Uncertainty over Income Tax Treatments. The interpretation concerns treatment of uncertain income tax positions in accounting and financial statements reporting. An uncertain tax position is defined as matters relating to taxation for which there is not certainty whether the tax authority will approve the matter in line with the company's view. According to the Group's estimate, the new interpretation is not expected to change materially the Group's current recognition principles relating to uncertain tax positions. According to the Group's estimate, the amendment is not expected to have an impact on the consolidated financial reporting.

Other upcoming standard amendments are not expected to have a material effect on Orion's consolidated financial statements.

## Adoption of IFRS 16 (Leases)

IFRS 16 will replace IAS 17, which previously regulated the accounting treatment of leases. The Group will adopt the new standard on 1 January 2019. The Group will apply IFRS 16 retrospectively by the cumulative effect method permitted by the standard.

The Group recognises as lease liability under IFRS 16 the present value of remaining lease payments, discounted using the Group's incremental borrowing rate. The right-of-use asset is measured at carrying amount as if the standard had been applied since the commencement date of the lease. The right-of-use asset is measured by discounting future lease payments using the Group's incremental borrowing rate. The difference in value of the lease liability and the right-of-use assets is recognised in equity as adjustment to retained earnings.

The Group applies the modified retrospective transition option and practical expedients permitted under IFRS 16. The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics. In the transition, leases previously classified as finance leases have been recognised at the carrying amounts of the right-of-use assets and lease liabilities measured applying IAS 17. In addition, the Group applies the exemption permitted by the standard and accounts for leases for which the term ends within 12 months or fewer of the date of initial application as short-term leases, and recognises the expense arising from them through profit or loss in the accounting period beginning on 1 January 2019. The Group will assess details such as the accuracy of lease terms after the date of initial application and revise these later if mandated by facts.

The Group has assessed the impact of IFRS 16 on the consolidated balance sheet with regard to all leases identified by the Group as well as with regard to any arrangements that may involve leases. The Group identified a total of around 400 leases in different operating countries. The weighted average of the Group's incremental borrowing rate, or its discounting rate, is based on IRS market rates plus a country risk based premium.

Following the adoption of IFRS 16, the Group recognises an increase of EUR 8.7 million in right-of-use assets. EUR 8.7 million is recognised as increase in lease liabilities on the balance sheet. EUR 0.1 million is recognised as increase in retained earnings in equity. An increase of EUR 0.0 million is recorded as deferred tax assets. The difference between the liabilities presented in

the financial statement (EUR 14.5 million) and the liabilities recorded in the opening statement of financial position on 1 January 2019 (EUR 8.7 million) is EUR 5.8 million and comprises short-term leases of minor values (EUR 3.5 million) and the lease of new premises in Germany starting at the end of 2019 (EUR 2.2 million) that have not been taken into account in liabilities.

## Adjusted consolidated statement of comprehensive income, consolidated statement of financial position and other key figures for the financial year 2017

	Previously reported comparative information <sup>1</sup>	Previously reported comparative information under IFRS 15 <sup>2</sup>	Reported adjusted comparative information <sup>3</sup>	Reported adjusted comparative information under IFRS 15 <sup>4</sup>
Net sales, EUR million	1,084.6	1,077.2	1,033.6	1,026.2
Operating profit, EUR million	293.0	285.6	284.1	276.7
% of net sales	27.0%	26.5%	27.5%	27.0%
Profit before taxes, EUR million	286.5	279.1	277.7	270.3
% of net sales	26.4%	25.9%	26.9%	26.3%
Income tax expense, EUR million	60.5	59.0	58.6	57.1
Profit for the period, EUR million	226.0	220.1	219.1	213.1
Other comprehensive income net of tax, EUR million	28.5	28.5	26.0	26.0
Deferred tax assets, EUR million	1.3	5.4	1.3	5.4
Other non-current liabilities, EUR million	0.0	18.7	0.0	18.7
Other current liabilities, EUR million	92.4	94.3	92.4	94.3
Non-interest-bearing liabilities, EUR million	224.5	245.1	224.5	245.1
Equity total, EUR million	679.7	655.9	679.7	655.9
Assets total, EUR million	1,055.5	1,052.4	1,055.5	1,052.4
Equity ratio, %	64.6%	62.5%	64.6%	62.5%
Gearing, %	-1.9%	-1.9%	-1.9%	-1.9%
ROCE (before taxes), %	36.2%	36.4%	35.5%	35.1%
ROE (after taxes), %	34.2%	34.4%	33.2%	33.3%
Basic earnings per share, EUR	1.61	1.57	1.56	1.52
Diluted earnings per share, EUR	1.61	1.57	1.56	1.52
Equity per share, EUR	4.83	4.67	4.77	4.67

<sup>1</sup> Comparative information previously reported in the consolidated financial statements

<sup>2</sup> Comparative information previously reported in the consolidated financial statements, if impact of IFRS 15 is taken into account

<sup>3</sup> Adjusted comparative information reported in these consolidated financial statements. Orion Diagnostica is reported as a discontinued operation

<sup>4</sup> Adjusted comparative information reported in these consolidated financial statements, if impact of IFRS 15 is taken into account.

Orion Diagnostica is reported as a discontinued operation

## 1. Revenue from contracts with customers and operating segments

### Revenue from contracts with customers

The Group's net sales comprise three different revenue flows: product sales, transfer of sales rights to products already in the market, and clinical phase research and development work undertaken with collaboration partners. Product sales comprise both revenue from sales of goods and royalty income, and they form the majority of the Group's net sales. Revenue from transfer of sales rights to products already in the market and revenue from clinical phase R&D collaboration with collaboration partners are reported under Milestone payments in the table below. The Group's net sales only includes revenue from contracts with customers. The revenue recognition principles related to revenue flows are described in the accounting policies for the consolidated financial statements.

## Revenue by revenue flows

EUR million	2018	2017
Sale of goods	953.7	988.9
Royalty income	17.4	29.8
<b>Total product sales</b>	<b>971.0</b>	<b>1,018.7</b>
Milestone payments	5.3	12.2
<b>Total sales of revenue flows</b>	<b>976.3</b>	<b>1,030.8</b>
Sales for discontinued operations	1.2	2.7
<b>Group total</b>	<b>977.5</b>	<b>1,033.6</b>

Revenue from clinical phase R&D collaboration with collaboration partners was EUR 0.5 million and is included in Milestone payments. For the financial year 2018, EUR 2.0 million of sales revenue for performance obligations to be transferred to customers were entered as income over time. During the financial year 2018, the Group has recorded EUR -0.0 million of sales revenue for performance obligations satisfied during previous financial periods.

## Net sales by business division

EUR million	2018	2017
Pharmaceuticals	977.5	1,033.6
Proprietary products	356.9	351.4
Specialty products	473.1	519.0
Animal Health	80.4	75.9
Fermion	50.7	51.0
Contract manufacturing and other	16.3	36.2
<b>Group total</b>	<b>977.5</b>	<b>1,033.6</b>

## Assets and liabilities based on contract

EUR million	2018	
	Asset	Liability
<b>1 Jan</b>	0.1	20.6
Revenue recognised during the financial period that was included in liabilities based on contract at the start of the period		-1.9
Increase of considerations received less revenue recognised during the financial period		0.7
Actual billing during the financial period and transfer to liabilities	-0.1	0.0
Increase of assets and liabilities based on contract due to new business operations	1.7	2.6
<b>31 Dec</b>	<b>1.7</b>	<b>22.0</b>

## Transaction price allocated to remaining performance obligations

The total transaction price allocated to contracts that were partly or entirely unsatisfied at the end of the financial year 2018 and were related to the revenue flows “Revenue from transfer of sales rights to products already in the market” and “Revenue from clinical phase R&D collaboration with collaboration partners” was EUR 91.7 million. The Group expects to recognise EUR 78.8 million as revenue for this transaction price allocated to unsatisfied contracts during the financial years 2019 to 2021. The remaining EUR 12.8 million is expected to be recognised as revenue starting from the beginning of the financial year 2022. The Group applies the practical expedient of not reporting the transaction price allocated to remaining performance obligations for contracts that are in effect for less than 12 months.

## Significant judgements related to recognition of revenue

The Phase III trial of darolutamide carried out by the Group in cooperation with Bayer includes significant judgements related to revenue recognition that are related to specifying performance obligations and the recognition time of variable considerations.

Through the Bayer contract, Orion has licensed darolutamide-related rights to Bayer and the parties have agreed on cooperation related to carrying out the Phase III trial and the commercialisation of the product. The granted license is considered as a separate performance obligation, the consideration for which comprise the single upfront payment of EUR 23 million for Orion's past research work received on signing the agreement and recognised as net sales; milestone payments to be received in connection with commercialisation and processed as variable considerations; and royalty payments based on sales. The performance obligation will be satisfied over time, but because of uncertainties related to the progressing of the research as planned and to the commercialisation of the product in the various markets, later milestone payments are processed as variable considerations. They will be recognised as net sales when it has become very unlikely that a significant reversal to accrued recognised revenue might be needed. Milestone payments for commercialisation will be recognised as net sales as follows:

- EUR 45 million upon first commercial sale in the United States
- EUR 20 million upon first commercial sale in the EU
- EUR 8 million upon first commercial sale in Japan

Orion will additionally receive royalties on darolutamide sales that will be recognised as net sales once Bayer has sold the products and the right to royalties has been established.

Orion will manufacture darolutamide for global markets. The manufacture is a separate performance obligation that comprises both building the production capacity and the manufacture and sales of darolutamide to Bayer. The consideration related to building the production capacity will be satisfied over time. It will be recognised as net sales over the term of the contract, because Bayer will receive the benefit from the milestone payments for building production capacity as it receives finished darolutamide tablets manufactured using the production capacity. Milestone payments related to building production capacity and payments for darolutamide sales are fixed payments by nature.

## Other information related to recognition of revenue

The Group applies the practical expedient under IFRS 15 to not adjust consideration amounts by the effect of a financing component when a customer pays a product to the Group within a year from the delivery of the product or when a significant portion of the consideration promised by the customer is variable and the amount or timing of such consideration varies based on a future event that is not essentially controlled by the customer.

Information on assets based on customer contracts and expected credit losses are given in note 16. Trade and other receivables. Information on liabilities based on customer contracts are given in note 21. Other non-current liabilities and 22. Trade payables and other current liabilities.

## Operating segments

In the financial statements for the financial year 2018, the Group reports two segments, Pharmaceuticals business and Diagnostics business. The Diagnostics business is reported as a discontinued operation. The segments are the Group's strategic business areas. The operating segments are based on the Group's internal organisation structure and internal financial reporting. The Pharmaceuticals business develops, manufactures and markets pharmaceuticals and active pharmaceutical ingredients. The Diagnostics business develops, manufactures and markets diagnostic tests. Orion announced it had signed an agreement on the sale of all shares in Orion Diagnostica Oy (i.e. the Diagnostics segment) on 21 April 2018. Following the transaction, the Diagnostics segment is reported as a discontinued operation for the financial year 2018. After the sale of the Diagnostics segment, which is reported as a discontinued operation, the Group has one segment, the Pharmaceuticals business.

A segment's assets and liabilities include items attributable or allocable on a reasonable basis to the segment. The Group items include tax and financial items, items shared by the whole Group and eliminations of intersegment transactions. Capital expenditure consists of increases in property, plant and equipment and intangible assets.

EUR million	Pharmaceuticals		Diagnostics business (discontinued operations)		Group items		Group	
	2018	2017	2018	2017	2018	2017	2018	2017
Net sales	977.5	1,033.6					977.5	1,033.6
Operating profit	265.3	296.3			-12.5	-12.2	252.8	284.1
Assets	840.7	832.1		52.0	306.0	171.4	1,146.7	1,055.5
Liabilities	176.2	165.2		16.8	197.4	193.8	373.6	375.8
Capital expenditure	64.6	74.6			0.2	0.3	64.8	75.0
Depreciation and amortisation	40.2	38.1			0.5	0.5	40.7	38.6
Impairment	0.3	0.9					0.3	0.9
Cash flow from operating activities	296.9	309.3	-8.5	8.9	-57.4	-89.8	230.9	228.4
Cash flow from investing activities	-65.1	-73.8	149.1	-1.3	11.5	0.3	95.4	-74.9
Cash flow from financing activities							-205.3	-220.3
Average number of personnel	3,153	3,202		287	25	25	3,179	3,513

The Diagnostics business is reported as a discontinued operation and its profit or loss information is presented in note 30. Discontinued operations.

The Group items include the following Group eliminations: net sales EUR 0.0 (2017: 2.7) million, operating profit EUR 0.0 (2017: 0.0) million, assets and liabilities EUR 0.0 (2017: 16.7) million. Other Group items relate to the Group's administrative expenses, and finance and other items not allocated to segments.

## Data relating to geographical regions

These geographical regions correspond to the Group's main markets. Net sales are presented according to the customer's location. Assets and capital expenditure are presented according to their location.

EUR million	Finland		Scandinavia		Other Europe		North America		Other countries		Group total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Sales to external customers	312.1	328.6	154.9	173.5	304.1	311.7	58.3	78.8	148.0	141.0	977.5	1,033.6
Assets	1,026.7	939.3	27.6	28.0	90.0	86.5			2.4	1.8	1,146.7	1,055.5
Capital expenditure	64.3	74.5	0.1	0.2	0.3	0.2			0.1	0.1	64.8	75.0

## 2. Other operating income and expenses

EUR million	2018	2017
Gains on sales of property, plant and equipment, intangible assets and other investments	0.7	0.8
Rental income	1.8	0.6
Exchange rate gains and losses	-0.7	-1.0
Service charges received from discontinued operations	1.0	2.9
Other operating income	2.8	1.8
Other operating expenses	-0.1	-0.2
<b>Total</b>	<b>5.5</b>	<b>4.9</b>

### 3. Depreciation, amortisation and impairment

#### Depreciation, amortisation and impairment by function

EUR million	2018	2017
Cost of goods sold	22.6	21.9
Selling and marketing	8.2	7.3
Research and development	3.4	3.9
Administration	7.0	6.4
<b>Total</b>	<b>41.1</b>	<b>39.5</b>

#### Depreciation, amortisation and impairment by type of asset

EUR million	2018	2017
Buildings and constructions	10.2	8.9
Machinery and equipment	20.7	21.1
Other tangible assets	0.2	0.2
<b>Property, plant and equipment, total</b>	<b>31.1</b>	<b>30.2</b>
Intangible rights	9.1	8.5
Other intangible assets	0.8	0.8
<b>Intangible assets, total</b>	<b>10.0</b>	<b>9.3</b>

During the period, an impairment charge of EUR 0.3 (2017: 0.7) million was recognised in selling and marketing expenses on intangible rights and EUR 0.0 (2017: 0.2) million in cost of goods sold on machinery and equipment. The basis for depreciation and amortisation is described in the accounting policies for the financial statements.

### 4. Employee benefits and auditor's remuneration

EUR million	2018	2017
Wages and salaries	161.7	163.1
<b>PENSION COSTS</b>		
Defined contribution plans	20.1	21.1
Defined benefit plans	2.9	4.3
<b>SHARE-BASED INCENTIVE PLAN</b>		
Equity-settled	3.3	2.6
Cash-settled	2.3	1.5
Other social security expenses	10.4	11.2
<b>Total</b>	<b>200.7</b>	<b>203.9</b>
<b>Average number of personnel</b>	<b>3,179</b>	<b>3,205</b>

The number of personnel in each segment is presented in Note 1, Revenue from contracts with customers and operating segments. Defined benefit pension obligations are presented in Note 12, Pension assets and pension liabilities. The management's employee benefits are presented in Note 29, Related party transactions.

## Share-based incentive plans

The Group has share-based incentive plan in force, which commenced in 2016, for key persons of the Group. The plan includes earning periods and the Board of Directors has annually decided on the beginning and duration of the earning periods in 2016, 2017 and 2018. The Board of Directors has decided on the earning criteria and targets to be established for them at the beginning of each earning period. Two earning periods, calendar year 2016 and calendar years 2016–2018, commenced upon implementation of the plan. Two earnings periods, calendar year 2017 and calendar years 2017–2019, commenced in 2017. Two earning periods, calendar year 2018 and calendar years 2018–2020, commenced in 2018. The reward under the plan for the earning periods 2016, 2017 and 2018 is based on the Orion Group's operating profit and for the earning periods 2016–2018, 2017–2019 and 2018–2020 on the total return on Orion Corporation B shares.

The target group of the plan consists of no more than 50 people. The total maximum amount of rewards to be paid based on the plan is 500,000 Orion Corporation B Shares and a cash payment corresponding to the value of the shares. By 31 December 2018, a total of 133,724 Orion Corporation B shares had been paid as rewards under this plan.

The plan that commenced in 2013 is no longer valid and the last rewards were paid in 2018. The plan included earning periods and the Board of Directors annually decided on the beginning and duration of the earning periods in 2013, 2014 and 2015. The Board of Directors decided on the earning criteria and targets to be established for them at the beginning of each earning period. Two earning periods, calendar year 2013 and calendar years 2013–2015, commenced upon implementation of the plan. Two earning periods, calendar year 2014 and calendar years 2014–2016, commenced in 2014. Two earning periods, calendar year 2015 and calendar years 2015–2017, commenced in 2015. The reward under the plan for the earning periods 2013, 2014 and 2015 was based on the Orion Group's operating profit. The reward under the plan for the earning periods 2013–2015, 2014–2016 and 2015–2017 was based on the total return on Orion Corporation B share.

The target group of the plan consisted of approximately 35 people. A total of 407,677 Orion Corporation B shares were paid as rewards under this plan.

The rewards under the plan shall be paid partly in the form of the Company's B shares and partly in cash. Rewards, under the plans commenced in 2013 and 2016, have been paid and potential future rewards, under the plan commenced in 2016, shall be paid as follows:

Earning period	Reward paid on / potential reward to be paid in
2013	3 Mar 2014
2014	2 Mar 2015
2013–2015	1 Mar 2016
2015	1 Mar 2016
2014–2016	1 Mar 2017
2016	1 Mar 2017
2015–2017	1 Mar 2018
2017	1 Mar 2018
2016–2018	2019
2018	2019
2017–2019	2020
2018–2020	2021

Under the plan, shares received based on one-year earning periods cannot be transferred during the restricted period determined in the plans. There is no restricted period for the three-year earning periods. The value of reward to be paid based on the plan during one calendar year is a key person's gross salary multiplied by 1.75, in the maximum, at the date of the reward payment.

The costs due to the plan are recorded as expenses during the restricted period. The anticipated dividends have not been taken into account separately because they are taken into account in determining the share-based rewards. The fair values of the rewards granted based on the total return on Orion Corporation B shares for the earning periods are shown in the table below. The fair values have been determined using the binary asset-or-nothing call option method.

## Earning periods currently in effect

	2018	2018–2020	2017–2019	2016–2018
Start date of earning period	1 Jan 2018	1 Jan 2018	1 Jan 2017	1 Jan 2016
End date of earning period	31 Dec 2018	31 Dec 2020	31 Dec 2019	31 Dec 2018
End date of restricted period	31 Dec 2020			
Grant date of share rewards	14 Mar 2018	14 Mar 2018	30 Mar 2017	23 Mar 2016
Fair value of shares at granting, EUR <sup>1</sup>	26.73	26.73	48.83	29.16
Fair value of reward at grant date, EUR <sup>1</sup>		4.45	14.82	8.67

<sup>1</sup> The fair value of the rewards per share on the granting date has been determined with the Binary "asset or nothing call" evaluation method.

## Transferred shares

	2018	2017	2016
Number of shares transferred during period	112,961	107,965	144,350
Price per transferred share, EUR <sup>1</sup>	26.52	47.10	31.08
Total price of transferred shares, EUR million	3.0	5.1	4.5
End date of restricted period <sup>2</sup>	31 Dec 2019	31 Dec 2018	31 Dec 2017

<sup>1</sup> Average price of B share on transfer date.

<sup>2</sup> Concerns only shares which are granted based on earning period term of calendar year.

## Auditor's remuneration

EUR million	2018	2017
Auditing	0.2	0.3
Assignments in accordance with the Auditing Act		0.0
Advice on taxation		0.1
Other services	0.0	
<b>Total</b>	<b>0.3</b>	<b>0.4</b>

Non-audit services provided by KPMG OY AB for the Orion Group's companies in the financial period 2018 totalled EUR 0.0 million. Non-audit services provided by PricewaterhouseCoopers Oy for the Orion Group's companies in the financial period 2017 totalled EUR 0.1 million. The services auditor's reports (EUR 0.0 million) and advice on taxation (EUR 0.1 million).

## 5. Finance income and expenses

EUR million	2018	2017
Interest income on market money investments	0.0	0.0
Dividend income on other investments	0.0	0.0
Other interest income	0.3	0.2
Other finance income	0.0	0.0
<b>Finance income, total</b>	<b>0.3</b>	<b>0.2</b>
Interest expenses on financial liabilities measured at amortised cost	4.5	4.5
Foreign exchange gains and losses, net	0.1	0.4
Other finance expenses	0.1	1.7
<b>Finance expenses, total</b>	<b>4.7</b>	<b>6.6</b>
<b>Finance income and expenses, total</b>	<b>-4.4</b>	<b>-6.4</b>

During the period the Group did not acquire any assets requiring a substantial completion time, and therefore no borrowing costs have been capitalised during the period.

A write-down of EUR 1.6 million debt payable by a former subsidiary is included in other finance expenses in 2017.



### Foreign exchange gains (+) and losses (-) included in finance income and expenses

EUR million	2018	2017
Foreign exchange rate gains	1.3	1.2
Foreign exchange rate losses	-1.4	-1.6
<b>Net</b>	<b>-0.1</b>	<b>-0.4</b>

### Foreign exchange gains (+) and losses (-) above the operating profit line

EUR million	2018	2017
In net sales	-0.8	-2.5
In cost of goods sold	-0.5	3.5
In other income and expenses	-0.7	-1.0
In functions' expenses	-0.1	0.3

## 6. Income taxes

EUR million	2018	2017
Current taxes	48.6	59.1
Adjustments in respect of prior periods	-0.5	1.0
Deferred taxes	2.9	-1.6
<b>Total</b>	<b>51.0</b>	<b>58.6</b>

### Taxes recognised in other comprehensive income

EUR million	2018	2017
Items due to remeasurement of defined benefit plans (income -/ expense +)	-9.2	7.4

### Reconciliation between tax expense in statement of comprehensive income and taxes calculated from Group's 20.0% domestic tax rate

EUR million	2018	2017
Profit before taxes	248.4	277.7
Consolidated income taxes at Group's domestic tax rate	49.7	55.5
Impact of different tax rates of foreign subsidiaries	0.6	0.6
Tax-exempt income	-0.1	-0.1
Non-deductible expenses	0.9	1.6
Utilisation of deductible losses	-0.5	
Tax adjustments for previous financial years	-0.5	1.0
Items due to IFRS adjustments	0.9	-0.3
Other items	-0.1	0.3
<b>Income tax expense recognised in consolidated income statement</b>	<b>51.0</b>	<b>58.6</b>
<b>Effective tax rate</b>	<b>20.5%</b>	<b>21.1%</b>

## 7. Earnings and dividend per share

### Basic earnings per share, continuing operations

	2018	2017
Profit for the period attributable to owners of the parent company, EUR million	197.3	219.1
Weighted average number of shares during the period (1,000 shares)	140,677	140,565
<b>Basic earnings per share, EUR</b>	<b>1.40</b>	<b>1.56</b>

### Diluted earnings per share, continuing operations

	2018	2017
Profit used to determine diluted earnings per share, EUR million	197.3	219.1
Weighted average number of shares for diluted earnings per share (1,000 shares)	140,677	140,565
<b>Diluted earnings per share, EUR</b>	<b>1.40</b>	<b>1.56</b>

### Basic earnings per share, discontinued operations

	2018	2017
Profit for the period attributable to owners of the parent company, EUR million	132.9	7.0
Weighted average number of shares during the period (1,000 shares)	140,677	140,565
<b>Basic earnings per share, EUR</b>	<b>0.95</b>	<b>0.05</b>

### Diluted earnings per share, discontinued operations

	2018	2017
Profit used to determine diluted earnings per share, EUR million	132.9	7.0
Weighted average number of shares for diluted earnings per share (1,000 shares)	140,677	140,565
<b>Diluted earnings per share, EUR</b>	<b>0.95</b>	<b>0.05</b>

Earnings per share are calculated by dividing the profit for the period attributable to owners by the weighted average number of shares outstanding during the period. The weighted average number of shares has been adjusted for the number of treasury shares held by the Group during 2018.

### Dividend per share

	2018	2017
Dividend paid during the period, EUR million	204.0	217.9
Number of shares at 31 Dec, (1,000 shares)	140,695	140,582
<b>Dividend per share paid during the period, EUR</b>	<b>1.45</b>	<b>1.55</b>

Dividend per share is calculated by dividing the dividend distributed during the period by the number of shares outstanding at 31 December. The Group held 562,440 Company's B shares as treasury shares at 31 December 2018.

For the financial year 2018 a dividend of EUR 1.50 per share, in total EUR 211.0 million is proposed to the Annual General Meeting on 26 March 2019. These financial statements do not reflect the proposed dividend.

## 8. Property, plant and equipment

EUR million	Land and water		Buildings and constructions		Machinery and equipment		Other property, plant and equipment <sup>1</sup>		Advance payments and construction in progress		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Historical cost at 1 Jan	6.6	5.9	348.1	332.1	402.5	394.6	5.1	4.6	61.2	30.9	823.5	768.3
Additions		0.6	4.3	12.0	13.2	14.3	0.1	0.3	18.6	40.1	36.1	67.4
Discontinued operations			-8.4		-21.6		-0.1		-2.9		-32.9	
Disposals			-0.8	-0.0	-17.9	-11.7	-0.0	-0.0	-0.0	-0.2	-18.8	-11.9
Transfers between statement of financial position items			9.3	4.0	11.2	5.4	0.0	0.2	-20.6	-9.7	-0.1	-0.2
Translation differences					-0.1	-0.1	-0.0	-0.0			-0.1	-0.1
<b>Historical cost at 31 Dec</b>	<b>6.6</b>	<b>6.6</b>	<b>352.4</b>	<b>348.1</b>	<b>387.3</b>	<b>402.5</b>	<b>5.0</b>	<b>5.1</b>	<b>56.3</b>	<b>61.2</b>	<b>807.7</b>	<b>823.5</b>
Accumulated depreciation and impairment at 1 Jan	0.2	0.2	-199.9	-190.3	-297.3	-285.8	-3.4	-3.3			-500.4	-479.2
Discontinued operations			8.4		14.6		0.0				23.0	
Accumulated depreciation on disposals and transfers			0.6	0.0	17.1	10.8	0.1	0.0			17.7	10.8
Depreciation for the period			-10.2	-9.6	-20.7	-22.2	-0.2	-0.2			-31.1	-31.9
Impairment						-0.2						-0.2
Translation differences					0.1	0.1	0.0	0.0			0.1	0.1
<b>Accumulated depreciation and impairment at 31 Dec</b>	<b>0.2</b>	<b>0.2</b>	<b>-201.1</b>	<b>-199.9</b>	<b>-286.3</b>	<b>-297.3</b>	<b>-3.5</b>	<b>-3.4</b>			<b>-490.7</b>	<b>-500.4</b>
<b>Carrying amount at 1 Jan</b>	<b>6.8</b>	<b>6.1</b>	<b>148.3</b>	<b>141.8</b>	<b>105.2</b>	<b>108.9</b>	<b>1.6</b>	<b>1.3</b>	<b>61.2</b>	<b>30.9</b>	<b>323.1</b>	<b>289.1</b>
<b>Carrying amount at 31 Dec</b>	<b>6.8</b>	<b>6.8</b>	<b>151.3</b>	<b>148.3</b>	<b>101.0</b>	<b>105.2</b>	<b>1.5</b>	<b>1.6</b>	<b>56.3</b>	<b>61.2</b>	<b>316.9</b>	<b>323.1</b>

<sup>1</sup> Other tangible assets mainly comprise basic improvements to rented apartments, asphaltting, environmental works and art objects.

### Finance leases

#### Assets leased through finance lease agreements included in machinery and equipment

EUR million, 31 Dec	2018	2017
Historical cost	17.8	16.6
Accumulated depreciation	-16.2	-15.0
<b>Carrying amount</b>	<b>1.6</b>	<b>1.6</b>

The additions to the historical cost of machinery and equipment include EUR 1.2 (2017: 1.1) million of assets leased through finance lease agreements.

## 9. Intangible assets

EUR million	Goodwill		Intangible rights <sup>1</sup>		Other intangible assets <sup>2</sup>		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
<b>Historical cost at 1 Jan</b>	13.5	13.5	145.8	138.3	58.1	57.5	217.4	209.3
Additions			27.7	8.1	0.9	1.0	28.7	9.1
Discontinued operations			-13.4		-1.3		-14.7	
Disposals			-3.0	-0.8		-0.3	-3.0	-1.1
Transfers between statement of financial position items			0.1	0.1		0.0	0.1	0.2
Translation differences			-0.0			-0.0	-0.0	-0.0
<b>Historical cost at 31 Dec</b>	13.5	13.5	157.2	145.8	57.8	58.1	228.5	217.4
<b>Accumulated amortisation and impairments at 1 Jan</b>			-109.0	-100.4	-55.5	-55.0	-164.5	-155.4
Discontinued operations			5.4		1.3		6.7	
Accumulated amortisation on disposals			3.0	0.8		0.2	3.0	1.0
Amortisation for the period			-8.8	-8.7	-0.8	-0.8	-9.6	-9.5
Impairment			-0.3	-0.7			-0.3	-0.7
<b>Accumulated amortisation and impairment at 31 Dec</b>			-109.8	-109.0	-55.1	-55.5	-164.9	-164.5
<b>Carrying amount at 1 Jan</b>	13.5	13.5	36.7	37.9	2.6	2.5	52.9	53.9
<b>Carrying amount at 31 Dec</b>	13.5	13.5	47.5	36.7	2.7	2.6	63.7	52.9

<sup>1</sup> Intangible rights comprise mainly product rights and marketing authorisations with carrying amount EUR 39.6 (2017: 21.5) million, and also software, trademarks, patents and paid-up policies.

<sup>2</sup> Other intangible assets include development costs for software paid to external parties and entry fees.

Besides goodwill, the Group has no other intangible assets with indefinite useful life. The Group has no internally produced intangible assets. All intangible assets have been obtained through acquisition.

### Impairment testing of goodwill, property, plant and equipment and intangible assets

#### Goodwill

The goodwill of EUR 13.5 million originated from the acquisition of Farnos-Group Ltd. in 1990. In impairment testing, the goodwill is allocated to the cash generating units that form the Pharmaceuticals business.

In the impairment tests, the recoverable amount is determined on the basis of the value-in-use calculation. The cash flow forecasts are based on the detailed five-year plans adopted by the management. The cash flows beyond the forecast period adopted by the management have been calculated cautiously assuming zero per cent growth. The management's forecasts are based on the growth of global pharmaceutical markets, market shares in sales of pharmaceuticals, and the trends expected in pharmaceutical markets and sales.

The discount rate used is the weighted average cost of capital (WACC), in which the special risks related to the cash generating unit have been taken into account. The discount rate is defined before taxes. The discount rate for the period is 6.90% (2017: 6.02%).

Based on impairment testing, there was no need to recognise any impairment of goodwill during the period.

A change in any of the main variables used would, reasonably judged, not lead to a situation in which the recoverable amounts of a group of cash-generating units were lower than their carrying amount.

### Intangible assets not yet available for use

Intangible assets not yet available for use are tested for impairment annually. The recoverable amount is based on the value in use. Cash flow forecasts adopted by the management cover a 5–15 year period from taking asset into use. The use of forecasts for periods of over five years is based on the estimated useful life of products. Beyond the five-year period, the cash flow growth rate does not exceed the average growth rates of markets for the Company's products and the pharmaceutical industry. The discount rates for the period varied from 10% to 12%, and they are defined separately for each unit taking into account its risks.

The carrying amount of intangible assets not yet available for use was EUR 10.7 (2017: 10.7) million.

### Impairment charges recognised in the period

During the period impairment charges totalling EUR 0.3 (2017: 0.7) million were recognised on the intangible rights of the Pharmaceuticals business. Intangible rights not yet available for use accounted for EUR 0.2 (2017: 0.7) million of the impairments. The most significant impairment charges relate to acquired rights to products the development of which has ceased, and to products that are already in markets, but for which the forecast recoverable cash flows were less than the carrying amount. The full carrying amount of rights to products the development of which has ceased has been recognised as an expense.

There were no other indications that the value of intangible assets might have been impaired during the period.

## 10. Investments in associates, affiliates and joint arrangements

EUR million	2018	2017
Carrying amount at 1 Jan	0.1	0.1
Share of associated companies' results		
Sale of associated companies	-0.0	
<b>Carrying amount at 31 Dec</b>	<b>0.1</b>	<b>0.1</b>

### Associates and affiliates of the Group

Holding at 31 Dec, %	Domicile	2018	2017
Hangon Puhdistamo Oy	Hanko	50.0%	50.0%
Regattalämpö Oy	Hanko		42.6%

Hangon Puhdistamo Oy engages in wastewater treatment for the companies that own it. Regattalämpö Oy provides real estate services for the residential buildings of the companies that own it. The companies operate at cost, by covering their own expenses and without making any profit, so their impact on the consolidated statement of comprehensive income and statement of financial position is minimal. Regattalämpö Oy was sold on June 2018.

### Summarised financial information of associates

EUR million	2018	2017
Assets	5.7	5.9
Liabilities	5.0	5.1
Revenues	2.8	2.8
Profit (+) or loss (-) for the period	0.0	0.0

The most recent available financial statements of the associates are for the years 2017 and 2016.

### Joint arrangements

In the 2018 financial year, total cost of joint operations amounted to EUR 6.2 (2017: 8.0) million. At the end of the financial year 2018, Orion had EUR 2.4 (2017: 2.1) million of the upfront payments related to the joint operations in the consolidated statement of financial position.

## Licensing, development and commercialisation agreement between Orion and Bayer

In June 2014, Orion commenced global collaboration with Bayer in the development and commercialisation of the novel androgen receptor antagonist darolutamide (ODM-201 drug candidate). Darolutamide is in clinical development for the treatment of patients with prostate cancer. A Phase III trial was started in 2014 for further evaluation of the efficacy and safety of darolutamide in patients with non-metastatic castration-resistant prostate cancer (nm-CRPC) and another trial was started in 2016 in patients with metastatic hormone-sensitive prostate cancer (mHSPC).

Orion and Bayer set up a steering group for the darolutamide Phase III project. They are considered to have joint control over the project. The agreement does not involve a separate investment instrument, so the project is considered a joint operation under IFRS 11. Bayer takes main responsibility for the darolutamide research project costs, irrespective of the outcome of the research. The primary endpoint of the ARAMIS trial was met in October 2018.

Under the agreement, Bayer has the right to commercialise the product globally while Orion has the option of co-promoting the product in Europe. In addition, Orion will manufacture the product for global markets. Orion is eligible to receive milestone payments from Bayer upon first commercial sales of darolutamide in the United States, EU, and Japanese markets. Besides milestone payments, Orion will also receive tiered royalties on darolutamide sales. Orion also has the possibility to receive one-off payments from Bayer if certain sales targets are met.

## Licensing, development and commercialisation agreement between Orion and Janssen

During the 2013 financial year Orion entered into an agreement with Janssen Pharmaceuticals for further development and commercialisation of alpha-2c adrenoceptor antagonists for treatment of symptoms of Alzheimer's disease, including the ORM-12741 molecule in clinical trials. Orion completed Phase IIa clinical trials with the ORM-12741 molecule before the cooperation and Orion and Janssen jointly funded further trials. The further trials did not meet the efficacy objectives set for the product.

Orion and Janssen had a joint steering group related to the agreement, and the parties were considered to have joint control over the project. The agreement did not involve a separate investment instrument, so the project was considered a joint operation under IFRS 11. Orion spent a major part of the upfront payment on additional Phase IIa clinical trials. Orion retained exclusive rights for commercialisation of the products in Europe, and granted Janssen a global exclusive license to develop ORM-12741 and other molecules in the alpha-2c platform. Janssen had exclusive rights for commercialisation of the molecules outside Europe.

## 11. Other investments

Other investments, with asset value of EUR 0.3 (2017: 0.3) million at 31 December 2018, include mainly shares and investments in unlisted companies. They are stated at cost, because their fair value cannot be determined reliably.

## 12. Pension assets and pension liabilities

The Orion Group has defined benefit pension plans in Finland and Norway. The regulation of these pension plans is quite similar. The most significant individual pension plan in Finland is the Orion Pension Fund, through which pension plans are provided for white-collar staff working in Finland. The Pension Fund includes statutory pension insurance to which all white-collar staff are entitled (Department B), only part of which is treated as defined benefit based under IAS 19, and supplementary insurance for some white-collar staff (Department A), which is entirely defined benefit based. Assets of the Orion Pension Fund are invested in accordance with Finnish legislation. The management and Board of Directors of the Pension Fund are responsible for management of the assets of the Fund. The Group also has other defined benefit pension plans in Finland and Norway for which a party outside the Group provides asset management.

### Defined benefit plans – amounts recognised in the statement of financial position

EUR million, 31 Dec	Pension fund	Other	Pension fund	Other
	2018	2018	2017	2017
Present value of funded obligations	299.7	14.4	298.1	14.5
Fair value of plan assets	-331.2	-11.4	-353.2	-12.0
Surplus (-) / deficit (+)	-31.5	2.9	-55.2	2.5
Present value of unfunded obligations		0.7		0.7
<b>Net asset (-) / liability (+) recognised in the statement of financial position</b>	<b>-31.5</b>	<b>3.6</b>	<b>-55.2</b>	<b>3.2</b>

## Amounts in consolidated statement of financial position

EUR million, 31 Dec	Pension fund		Other	
	2018	2018	2017	2017
Liabilities		3.6		3.2
Asset	-31.5		-55.2	
<b>Net asset (-) / liability (+) recognised in the statement of financial position</b>	<b>-31.5</b>	<b>3.6</b>	<b>-55.2</b>	<b>3.2</b>

## Defined benefit plan pension expenses in consolidated statement of comprehensive income

EUR million	Pension fund		Other	
	2018	2018	2017	2017
Current service cost	3.5	0.6	3.8	0.5
Interest expense and income, total	-1.2	0.1	-0.5	0.1
<b>Pension expense (+) / income (-) in income statement</b>	<b>2.3</b>	<b>0.6</b>	<b>3.4</b>	<b>0.6</b>
Items due to remeasurement	27.3	0.7	-37.0	0.1
<b>Pension expense (+) / income (-) in statement of comprehensive income</b>	<b>29.6</b>	<b>1.3</b>	<b>-33.7</b>	<b>0.7</b>

On the table above the figures of 2018 include only continuing operations. Due to sale of Diagnostics business the Group has posted a decrease of EUR 4,5 million to discontinued operations, which relates to defined benefit plans of Pension Fund to period 2018.

## Defined benefit plan pension expenses by function

EUR million	Pension fund		Other	
	2018	2018	2017	2017
Cost of goods sold	0.8		1.3	
Selling and marketing	0.3	0.2	0.5	0.2
Research and development	0.6		1.0	
Administration	0.6	0.4	0.5	0.4
<b>Pension expense (+) / income (-) in the income statement</b>	<b>2.3</b>	<b>0.6</b>	<b>3.4</b>	<b>0.6</b>

The figures of 2018 on the table above include only continuing operations.

## Changes in present value of obligation

EUR million	Pension fund		Other	
	2018	2018	2017	2017
Defined benefit plan obligation at 1 Jan	298.1	15.2	308.7	14.5
Current service cost	3.5	0.6	3.8	0.5
Interest expense	6.3	0.3	6.3	0.3
Discontinued operations	-15.4			
Items due to remeasurement:				
Gains (-) or losses (+) due to change in economic assumptions	-6.6	0.1	-16.2	0.2
Experienced gains (-) or losses (+)	21.5	-0.4	2.6	0.3
<b>Total</b>	<b>14.9</b>	<b>-0.2</b>	<b>-13.6</b>	<b>0.5</b>
Foreign exchange differences		-0.0		-0.4
Benefits paid	-7.7	-0.8	-7.1	-0.3
<b>Obligation at 31 Dec</b>	<b>299.7</b>	<b>15.0</b>	<b>298.1</b>	<b>15.2</b>

## Changes in fair value of plan assets

EUR million	Pension fund	Other	Pension fund	Other
	2018	2018	2017	2017
Fair value of plan assets at 1 Jan	353.2	12.0	331.5	11.2
Interest income	7.6	0.3	6.7	0.2
Discontinued operations	-10.8			
Items due to remeasurement:				
Return on plan assets excluding items in interest expense and income	-12.4	-0.9	23.5	0.4
<b>Total</b>	-12.4	-0.9	23.5	0.4
Foreign exchange differences		-0.0		-0.3
Employer contributions	1.3	1.0	-1.3	0.6
Benefits paid	-7.7	-0.8	-7.1	-0.2
<b>Fair value of plan assets at 31 Dec</b>	<b>331.2</b>	<b>11.4</b>	<b>353.2</b>	<b>12.0</b>

## Fair values of assets of benefit plan arranged through the Orion Pension Fund by asset category as percentages of fair value of all plan assets

%	2018	2017
Equity in developed markets	41%	44%
Equity in emerging markets	7%	7%
Bonds	19%	19%
Cash and money market investments	9%	9%
Properties	16%	14%
Other	8%	7%
<b>Total</b>	<b>100%</b>	<b>100%</b>

In other benefit plans the insurance companies are responsible for the plan assets, so it is not possible to present a breakdown of those assets.

The Pension Fund plan assets in 2018 include shares issued by the parent company Orion Corporation with fair value EUR 21.9 (2017: 20.6) million that account for 6.4% (2017: 5.6%) of the plan assets.

The objective of the Orion Pension Fund is a distribution of investments that spreads risk between different types of asset over the long term. Most of the assets are invested in shares and bonds.

## Actuarial assumptions used by the Orion Pension Fund

%	2018	2017
Discount rate	2.25	2.20
Inflation rate	1.50	1.50
Future pension increases	0.60–2.10	0.60–2.70
Future salary increases	1.30	1.30

In 2018 the Group expects to contribute EUR 15 (2018: 17) million to its pension plans.

The EUR 299.7 (2017: 298.1) million liability of the Orion Pension Fund has been discounted at a discount rate of 2.25% (2.20%). The impact on the liability of a change in the discount rate of +/- 0.50 percentage points would be EUR -24.7/+28.3 (2017: -25.6/+29.4) million, when other assumptions unchanged.

The weighted average duration of the defined benefit liability is 18 (2017: 15) years.



The defined benefit plans expose the Group to risks, the most significant of which are described in more detail below.

### Volatility related to assets and liability

The discount rate applied in calculating the net liability due to the plans is based on the return of low-risk bonds issued by companies. The Group's target over the long-term for defined benefit plan assets is to achieve a return exceeding the discount rate because some of the assets are equity instruments for which the return over the long term is expected to be higher than the return of bonds on which the discount rate is based. The value of defined benefit assets changes as the return rises above or decreases below the discount rate. This may generate a surplus or deficit of plan assets. The solidity of the Orion Pension Fund is good, so the Orion Pension Fund can withstand quite a heavy fall in stock markets.

### Changes in returns of bonds

The Group may have to change the discount rate if the return on bonds changes. That would alter the liabilities of the defined benefit plans and the components relating to defined benefit plans to be recorded in the statement of comprehensive income. However, some of the assets of the plans are invested in bonds, and the change in their value may partly compensate for the effect of the change in the liability on the value of the net debt.

### Inflation risk

The liability of the defined benefit plans would increase if inflation increased. Some of the plan assets are invested in equity instruments that are affected only a little by inflation. Acceleration of inflation would therefore increase the deficit of the defined benefit plans.

### Anticipated life expectancy

Defined benefit plan liabilities to a large extent relate to the generation of life-long benefits for members. A rise in anticipated life expectancy would therefore increase the defined benefit liability.

## 13. Deferred tax assets and liabilities

### Deferred tax assets

EUR million, 31 Dec	2018	2017
Pension liability	0.8	0.7
Impact of adoption of IFRS 15 standard	3.9	
Internal inventory margin	0.3	0.4
Other deductible temporary differences	0.2	0.2
<b>Total</b>	<b>5.1</b>	<b>1.3</b>

### Deferred tax liabilities

EUR million, 31 Dec	2018	2017
Depreciation difference and untaxed reserves	25.1	24.1
Pension assets	6.3	11.0
Capitalised cost of inventory	4.3	5.1
Effects of consolidation and elimination	1.7	0.1
Other taxable temporary differences	0.4	1.9
<b>Total</b>	<b>37.8</b>	<b>42.3</b>

## Change in deferred tax arises from

EUR million	2018	2017
Pension assets/liabilities	4.8	-6.5
Impact of adoption of IFRS 15 standard	3.9	
Capitalised cost of inventory	0.9	0.3
Internal inventory margin	-0.1	-0.2
Depreciation difference and untaxed reserves	-1.0	1.2
Deductible losses and other timing differences	-0.1	-0.2
<b>Total</b>	<b>8.3</b>	<b>-5.4</b>

During the period, an increase in equity of EUR 9.2 (2017: a decrease of 7.4) million due to income taxes was recognised. The recognised taxes increased at 31 Dec 2018 the equity EUR 1.3 (2017: decreased EUR 7.9) million.

## 14. Other non-current receivables

EUR million, 31 Dec	2018	2017
Loan receivables from associates	0.5	0.6
Other loan receivables	0.1	0.2
Other non-current receivables	0.3	1.1
<b>Total</b>	<b>0.9</b>	<b>1.9</b>

Loan receivables include interest-bearing receivables. The carrying amounts do not materially differ from fair values.

## 15. Inventories

EUR million, 31 Dec	2018	2017
Raw materials and consumables	40.5	36.1
Work in progress	34.3	42.1
Finished products and goods	147.2	147.2
<b>Total</b>	<b>222.1</b>	<b>225.4</b>

The value of inventories has been impaired by EUR 16.5 (2017: 15.7) million for the period so it corresponds to net realisable value.

## 16. Trade and other receivables

EUR million, 31 Dec	Carrying amount	Fair value	Carrying amount	Fair value
	2018	2018	2017	2017
Trade receivables	188.8	188.8	199.0	199.0
Current tax assets	6.5	6.5	2.2	2.2
Receivables due from associates	0.1	0.1	0.1	0.1
Prepaid expenses and accrued income	21.5	21.5	17.3	17.3
Receivables on derivative contracts	0.4	0.4	0.3	0.3
Other receivables	5.1	5.1	12.5	12.5
Money market investments	35.0	35.0		
<b>Total</b>	<b>257.4</b>	<b>257.4</b>	<b>231.4</b>	<b>231.4</b>

The most substantial item in other receivables is VAT receivables EUR 1.8 (2017: 3.2) million.

The maturities of the money market investments on their acquisition dates were over three months but no more than twelve months. The carrying amount of trade receivables and other current receivables is a reasonable estimate of their fair value.

## Ageing analysis of trade receivables

EUR million, 31 Dec	Carrying amount	Default rate	Expected credit loss	Carrying amount
	2018	2018	2018	2017
Not yet due	171.7	0.04%	0.1	173.5
1 to 30 days past due	12.4	0.34%	0.0	21.5
31 to 60 days past due	1.7	0.51%	0.0	1.2
61 to 90 days past due	0.6	0.69%	0.0	0.5
Over 90 days overdue	2.5	0.97%	0.0	2.3
<b>Total</b>	<b>188.8</b>		<b>0.1</b>	<b>199.0</b>

Impairment allowance on trade and other receivables for the period was net EUR 0.1 (2017: 0.1) million.

## Material items included in prepaid expenses and accrued income

EUR million, 31 Dec	2018	2017
Prepayments for R&D costs	5.9	2.3
Receivables from royalties	3.8	4.5
Prepayments for service and maintenance	2.1	2.0
Contract assets	1.7	
Share remunerations for restricted period	1.5	2.4
Price correction of receipt of purchase order	1.3	
Consideration related to transfer of sales right not received	1.0	0.5
Pending compensations	0.8	0.9
Pending R&D contributions	0.8	1.0
Price differential payments	0.7	0.8
Other prepaid expenses and accrued income	1.9	2.8
<b>Total</b>	<b>21.5</b>	<b>17.3</b>

Due to the short-term character of the prepaid expenses and accrued income, the carrying amounts do not differ from fair value.

## 17. Cash and cash equivalents

EUR million, 31 Dec	Carrying amount	Fair value	Carrying amount	Fair value
	2018	2018	2017	2017
Cash and bank balances	234.7	234.7	163.9	163.9
Money market investments	14.0	14.0	0.1	0.1
<b>Total</b>	<b>248.7</b>	<b>248.7</b>	<b>164.1</b>	<b>164.1</b>

Money market investments included in cash and cash equivalents are bank deposits, certificates of deposit and commercial paper with maturities of no more than three months on acquisition issued by banks and companies.

## 18. Equity

### Changes in share capital

	A shares	B shares	Total	Share capital EUR million
<b>Total number of shares at 1 Jan 2017</b>	<b>38,294,154</b>	<b>102,963,674</b>	<b>141,257,828</b>	<b>92.2</b>
Conversions of A shares to B shares in 1 Jan–31 Dec 2017	-1,173,808	1,173,808		
Total number of shares at 31 Dec 2017	37,120,346	104,137,482	141,257,828	92.2
Conversions of A shares to B shares in 1 Jan–31 Dec 2018				
<b>Total number of shares at 31 Dec 2018</b>	<b>37,120,346</b>	<b>104,137,482</b>	<b>141,257,828</b>	<b>92.2</b>
Number of treasury shares at 31 Dec 2018		562,440	562,440	
<b>Total number of shares at 31 Dec 2018, excluding treasury shares</b>	<b>37,120,346</b>	<b>103,575,042</b>	<b>140,695,388</b>	
<b>Total number of votes at 31 Dec 2018 excluding treasury shares</b>	<b>742,406,920</b>	<b>103,575,042</b>	<b>845,981,962</b>	

On 31 December 2018 Orion had a total of 141,257,828 (141,257,828) shares, of which 37,120,346 (37,120,346) were A shares and 104,137,482 (104,137,482) B shares. The Group's share capital was EUR 92,238,541.46 (92,238,541.46). At the end of 2018 Orion held 562,440 (675,401) B shares as treasury shares. On 31 December 2018 the aggregate number of votes conferred by the A and B shares was 845,981,962 (845,869,001) excluding treasury shares.

All shares issued have been paid in full.

Orion's shares have no nominal value. The counter book value of the A and B shares is about EUR 0.65 per share.

Each A share entitles its holder to twenty (20) votes at General Meetings of Shareholders and each B share one (1) vote. However, a shareholder cannot vote more than 1/20 of the aggregate number of votes from the different share classes represented at the General Meetings of Shareholders. In addition, Orion and Orion Pension Fund do not have the right to vote at Orion Corporation's General Meetings of Shareholders.

Both share classes, A and B, confer equal rights to the Company's assets and dividends.

The Articles of Association entitle shareholders to demand the conversion of their A shares to B shares within the limitation on the maximum number of shares of a class. In 2018 no shares were converted.

According to Orion's Articles of Association, the minimum number of all shares in the Company is one (1) and the maximum number is 1,000,000,000. A maximum number of 500,000,000 of the shares shall be A shares and a maximum number of 1,000,000,000 shares shall be B shares.

Orion's Board of Directors was authorised by the Annual General Meeting on 22 March 2016 to decide on acquisition of shares in the Company and on a share issue in which shares held by the Company can be conveyed.

The Board of Directors is authorised to decide on conveyance of no more than 600,000 Orion Corporation B shares held by the Company. Their authorisation to issue shares is valid for five years from the decision taken by the Annual General Meeting. The authorisation to be exercised is described in Note 4 under "Share-based payments".

The Board of Directors is not authorised to increase the share capital or to issue bonds with warrants or convertible bonds or stock options.

After the end of the period, the Board of Directors proposed a dividend of EUR 1.50 per share to be distributed.

## Expendable fund

EUR million	2018	2017
Expendable fund at 1 Jan	0.5	0.5
Expendable fund at 31 Dec	0.5	0.5

## Other reserves

EUR million	2018	2017
Reserve for invested unrestricted equity	0.9	0.9
Reserve funds	1.6	1.5
<b>Total</b>	<b>2.4</b>	<b>2.4</b>

## Translation differences

Translation differences include those arising from translation of the financial statements of foreign entities.

## Dividends and other distribution of profits

A dividend of EUR 1.45 (2017: 1.55) per share was distributed in the 2018 financial year. In addition, donations of EUR 0.3 (2017: 0.3) million were distributed from profit funds.

## 19. Provisions

EUR million	Pension provisions	Restructuring provisions	Other provisions	Total
<b>1.1.2018</b>	0.1	0.1	0.1	0.3
Exchange rate differences		-0.0		-0.0
Utilised during the period			-0.0	-0.0
Discontinued operations	-0.1			-0.1
Additions to provisions	0.1		0.0	0.1
<b>31 Dec 2018</b>	0.1	0.1	0.2	0.3

EUR million, 31 Dec	2018	2017
Non-current provisions	0.3	0.3
<b>Total</b>	<b>0.3</b>	<b>0.3</b>

## Pension provision

Pension provisions include provisions for costs of additional days relating to unemployment pension. Restructuring provision relates to redundancies in Sweden in 2013. Other provisions include mainly provision in Italy, which relates to compensation paid to the employee when leaving the company and allowance for bad debts in Russia. The provisions are expected to materialise in the next 2–5 years.

## 20. Interest-bearing liabilities

EUR million, 31 Dec	Carrying amount	Fair value	Carrying amount	Fair value
	2018	2018	2017	2017
Bonds			149.7	155.0
Finance lease liabilities	0.6	0.6	0.6	0.6
<b>Non-current liabilities total</b>	<b>0.6</b>	<b>0.6</b>	<b>150.3</b>	<b>155.6</b>

EUR million, 31 Dec	Carrying amount	Fair value	Carrying amount	Fair value
	2018	2018	2017	2017
Bonds	149.9	151.7		
Finance lease liabilities	1.0	1.0	1.1	1.1
<b>Current liabilities total</b>	<b>150.9</b>	<b>152.7</b>	<b>1.1</b>	<b>1.1</b>

The fair value of a bond is based on the estimated market value received from the bank. The carrying value can be considered as the fair value of finance lease liabilities because of the short-term nature of the agreements.

The bond issued in 2013 with nominal amount of 150,000,000 maturing 2019 has interest rate of 2.75% and original effective interest 2.854%.

### Maturities of finance lease liabilities

#### Minimum lease payments

EUR million, 31 Dec	2018	2017
No later than 1 year	1.1	1.1
Later than 1 year but no later than 5 years	0.6	0.6
<b>Total</b>	<b>1.7</b>	<b>1.7</b>

#### Present value of minimum lease payments

EUR million, 31 Dec	2018	2017
No later than 1 year	1.0	1.1
Later than 1 year but no later than 5 years	0.6	0.6
Present value of minimum lease payments	1.6	1.7
Future finance charges	0.0	0.0
<b>Minimum lease payments, total</b>	<b>1.7</b>	<b>1.7</b>

## 21. Other non-current liabilities

EUR million, 31 Dec	2018	2017
Contract liabilities	17.4	
Other non-current liabilities	0.0	0.0
<b>Total</b>	<b>17.4</b>	<b>0.0</b>

Contract liabilities have been recognised when adopting IFRS 15 standard in the beginning of fiscal year 2018.

## 22. Trade payables and other current liabilities

EUR million, 31 Dec	2018	2017
Trade payables	74.9	83.2
Current tax liabilities	1.5	3.0
Liabilities on derivative contracts	0.1	0.2
Other current liabilities to associates	0.1	0.1
Accrued liabilities and deferred income	68.4	74.3
Other current liabilities	17.8	17.8
<b>Total</b>	<b>162.9</b>	<b>178.6</b>

The most substantial items in other liabilities are EUR 5.4 (2017: 6.1) million of VAT liabilities and EUR 2.4 (2017: 2.1) million of upfront payments relating to joint operations.

### Material items included in accrued liabilities and deferred income

EUR million, 31 Dec	2018	2017
Liabilities from share-based incentive plans	2.7	4.1
Liabilities from other incentive plans	8.0	11.1
Other accrued salary, wage and social security payments	24.0	25.6
Accrued R&D expenses	6.2	2.5
Accrued price adjustments	5.0	8.1
Contract liabilities	4.6	
Accrued price reductions	4.1	4.3
Accrued royalties	2.5	2.2
Accrued interest	2.3	2.3
Accrued litigation costs	2.1	2.1
Accrued sales compensation	1.8	1.5
Accrued purchases related to inventory in China		2.7
Other accrued liabilities and deferred income	5.2	7.7
<b>Total</b>	<b>68.4</b>	<b>74.3</b>

Due to the short-term character of the trade payables and other current liabilities, the carrying amounts do not materially differ from fair value.

## 23. Financial assets and liabilities by category

EUR million, 31 Dec	2018			2017	
	Amortised cost	Fair value through profit and loss	Carrying amount of financial items	Fair value	Carrying amount
Other investments		0.3	0.3	0.3	0.3
Other non-current receivables	0.9		0.9	0.9	1.9
<b>Non-current assets total</b>	<b>0.9</b>	<b>0.3</b>	<b>1.2</b>	<b>1.2</b>	<b>2.2</b>
Trade receivables	188.8		188.8	188.8	199.0
Other receivables	5.6		5.6	5.6	6.7
Money market investments		35.0	35.0	35.0	
Cash and cash equivalents	248.7		248.7	248.7	164.1
Derivatives		0.4	0.4	0.4	0.3
<b>Current assets total</b>	<b>443.1</b>	<b>35.4</b>	<b>478.5</b>	<b>478.5</b>	<b>370.1</b>
<b>Financial assets total</b>	<b>444.0</b>	<b>35.6</b>	<b>479.6</b>	<b>479.6</b>	<b>372.3</b>
Non-current interest-bearing liabilities	0.6		0.6	0.6	150.3
Other non-current liabilities	0.0		0.0	0.0	0.0
<b>Non-current liabilities total</b>	<b>0.6</b>		<b>0.6</b>	<b>0.6</b>	<b>150.3</b>
Trade payables	74.9		74.9	74.9	83.2
Other current liabilities	13.9		13.9	13.9	17.0
Current interest-bearing liabilities	1.0		1.0	1.0	1.1
Bonds	149.9		149.9	151.7	
Derivatives		0.1	0.1	0.1	0.2
<b>Current liabilities total</b>	<b>239.8</b>	<b>0.1</b>	<b>240.0</b>	<b>241.8</b>	<b>101.4</b>
<b>Financial liabilities total</b>	<b>240.5</b>	<b>0.1</b>	<b>240.6</b>	<b>242.4</b>	<b>251.8</b>

Derivative contracts are included in other receivables and other liabilities in the statement of financial position.

### Specification of financial liabilities included in cash flow from financing activities

EUR million, 31 Dec	Cash flows	Other changes with no related payment	2018	2017
Interest-bearing non-current liabilities		-149.7	0.6	150.3
Interest-bearing current liabilities	-1.3	151.2	150.9	1.1



## Fair value measurement and hierarchy

Financial instruments measured at fair value in the statement of financial position are grouped as follows into three hierarchy levels depending on the valuation technique

EUR million, 31 Dec 2018	Level 1	Level 2	Level 3	Total
Derivatives				
Currency derivatives		0.4		0.4
Money market investments	35.0			35.0
Other investments				
Shares and investments			0.3	0.3
<b>Assets total</b>	<b>35.0</b>	<b>0.4</b>	<b>0.3</b>	<b>35.6</b>
Derivatives				
Currency derivatives		-0.1		-0.1
<b>Liabilities total</b>		<b>-0.1</b>		<b>-0.1</b>
EUR million, 31 Dec 2017	Level 1	Level 2	Level 3	Total
Derivatives				
Currency derivatives		0.3		0.3
Other investments				
Shares and investments			0.3	0.3
<b>Assets total</b>		<b>0.3</b>	<b>0.3</b>	<b>0.6</b>
Derivatives				
Currency derivatives		-0.2		-0.2
<b>Liabilities total</b>		<b>-0.2</b>		<b>-0.2</b>

The fair value of level 1 financial instruments is based on quotations available in active markets. The fair value of level 2 derivatives is based on data feeds available in the markets. The fair value of level 3 financial instruments cannot be estimated on the basis of data available in the markets.

The Group applies the principle of recognising transfers between levels of fair value hierarchy on the date on which the event triggering the transfer occurred.

## 24. Financial risk management

The objective of the Group's financial risk management is to decrease the negative effects of market and counterparty risks on the Group's profits and cash flows and to ensure sufficient liquidity.

The main principles for financial risk management are defined in the Group Treasury Policy approved by the Board of Directors of the parent company, and the Group Treasury is responsible for its implementation. Treasury activities are centralised in the Group Treasury.

### 24.1. Market risk

The Group is exposed to market risks related to foreign currency exchange rate, market interest rate and electricity price.

#### 24.1.1. Foreign currency exchange rate risk

The Group's foreign currency exchange rate risk consists of transaction risk and translation risk.

### Transaction risk

Transaction risk arises from operational items (such as sales and purchases) and financial items (such as loans, deposits and interest flows) in foreign currency in the statement of financial position, and from forecast cash flows over the upcoming 12 months. Transaction risk is monitored and hedged actively. In accordance with the Treasury Policy, items based on significant currencies in the statement of financial position are normally hedged 90–105% and the forecast cash flows over the upcoming 12 months 0–50%. Currency derivatives with maturities up to 12 months are used as hedging instruments.

The most significant currencies for the Group's operational items are the US dollar, Swedish krona, Polish zloty, Norwegian krona, Russian rouble, Japanese yen and British pound. As regards these currencies, no individual currency accounts for a significant portion of the overall position. The position as regards these currencies is presented below.

EUR million, 31 Dec	Significant currencies	
	2018	2017
Net position in statement of financial position	38.5	38.6
Forecast net position (12 months)	130.2	150.0
<b>Net position, total</b>	<b>168.7</b>	<b>188.5</b>
Currency derivatives for hedging	-40.5	-46.9
<b>Net open position total</b>	<b>128.2</b>	<b>141.6</b>

The Group's internal loans and deposits are denominated in the local currency of the subsidiary and the most significant ones have been fully hedged with currency swaps.

The fair value changes of the currency derivatives are recognised through profit and loss in either other operating income and expenses or finance income and expenses depending on whether, from an operational perspective, sales revenues or financial assets and liabilities have been hedged.

### Translation risk

Translation risk arises from the equity of subsidiaries outside the eurozone. At 31 December 2018 the equity in these subsidiaries totalled EUR 64.8 (2017: 72.3) million. The most significant translation risk arises from the British pound. This translation position has not been hedged.

### Sensitivity analysis

The effect of changes in foreign currency exchange rates on the Group's results (before taxes) and equity at the reporting date is presented below for the significant currencies. The assumption used in the sensitivity analysis is a +/- 10% change in the exchange rates (foreign currency depreciates/appreciates by 10%) while other factors remain unchanged. In accordance with IFRS 7, the sensitivity analysis includes only the financial assets and liabilities in the statement of financial position, and so the analysis does not take into account the forecast upcoming 12-month foreign currency cash flow included in the position. The potential translation position is not taken into account in the sensitivity analysis.

EUR million, 31 Dec	Impact on profit		Impact on equity	
	2018	2017	2018	2017
+/- 10% change in exchange rates	0.2/-0.2	0.8/-0.9	0	0

#### 24.1.2. Electricity price risk

The price risk refers to the risk resulting from changes in electricity market prices. The market price of electricity fluctuates greatly due to weather conditions, hydrology and emissions trading, for example. The Group obtains its electricity through deliveries that are partly fixed-price contracts and partly tied to the spot price of the price area of Finland, and in the latter case is therefore exposed to electricity price fluctuation. This price risk is not hedged.

#### 24.1.3. Interest rate risk

Changes in interest rates affect the Group's cash flow and results. At 31 December 2018, the Group's interest-bearing liabilities totalled EUR 151.5 (2017: 151.3) million. Most of the Group's interest-bearing liabilities are tied to a fixed interest rate, so the impact of changes in interest rates on the Group is minor. Interest rate derivatives were not used in 2018.

The effect of an interest rate rise on net interest expenses has been estimated through a sensitivity analysis in which interest rates are assumed to rise in 2019 in parallel by one percentage point (1%) compared with market interest rates at the end of the reporting period while other factors (including liabilities) remain unchanged. The estimated interest expenses of the Group would then rise by EUR 0.0 million in 2019 (before taxes) (2018: EUR 0.0 million).

## 24.2. Counterparty risk

Counterparty risk is realised when a counterparty to the Group does not fulfil its contractual obligations, resulting in non-payment of funds to the Group. The maximum credit risk exposure at 31 December 2018 is the total of financial assets less carrying amounts of derivatives in financial liabilities, which totalled EUR 479.5 (2017: 372.1) million (Note 23). The main risks relate to trade receivables, cash and cash equivalents, and money market investments.

The Group Treasury Policy defines the requirements for the creditworthiness of the financial institutions acting as counterparties to Group companies. Limits have been set for counterparties on the basis of creditworthiness and solidity, and they are regularly monitored and updated. The duration of money market investments is less than 12 months.

The Group Customer Credit Policy defines the basis for classifying customers and setting limits for them, and the ways through which the credit risk is managed. Payment performance and the financial situation of customers are monitored, and effective collection is regularly undertaken. Credit risk can be reduced by requiring advance payment as a payment term or a letter of credit or a bank guarantee to secure the payment, or by using credit insurance. In the pharmaceutical industry, trade receivables are typically generated by distributors representing different geographical areas. In certain countries, the Group also sells directly to local hospitals. The 25 largest customers accounted for 81.8% of the trade receivables at 31 December 2018 (2017: 77.5%). The trade receivables are not considered to involve significant risk (note 16). Credit losses for the period recognised through profit and loss were EUR 0.0 (2017: 0.1) million.

## 24.3. Liquidity risk

The Group seeks to maintain a good liquidity position in all conditions. In addition to cash flows from operating activities and cash and cash equivalents and other money market investments, the liquidity is ensured by EUR 100 million of binding undrawn bilateral credit limits that will mature in 2022. In addition to this, the Group has undrawn bank overdraft limits and a EUR 100 million unconfirmed commercial paper programme from which no commercial papers had been issued on the reporting date. After the end of the reporting period, the company signed a EUR 100 million loan agreement with the European Investment Bank.

The Group's interest-bearing liabilities at 31 December 2018 were EUR 151.5 (2017: 151.3) million. The average maturity for interest-bearing liabilities excluding finance lease liabilities is 5 months (2017: one year and five months). At 31 December 2018, the Group's cash and cash equivalents and money market investments, which decrease liquidity risk, totalled EUR 283.7 (2017: 164.1) million. To ensure the Group's liquidity, any surplus cash is invested mainly in short-term euro-denominated interest-bearing instruments with good creditworthiness. An investment-specific limit is determined for each investment.

## Forecasted undiscounted cash flows of financial liabilities, interest payments and derivatives

EUR million, 31 Dec 2018	2019	2020	2021	2022	2023–	Total
Repayments of bonds	150.0					150.0
Repayments of finance lease loans	1.0	0.6				1.6
Interest payments	4.1					4.1
<b>Cash flow total, interest-bearing financial liabilities</b>	<b>155.2</b>	<b>0.6</b>				<b>155.8</b>
Trade payables	74.9					74.9
Other non-interest-bearing financial liabilities	13.9				0.0	14.0
<b>Cash flow total, non-interest-bearing financial liabilities</b>	<b>88.9</b>				<b>0.0</b>	<b>88.9</b>
Derivative contracts, inflow	0.4					0.4
Derivative contracts, outflow	-0.1					-0.1
<b>Cash flow total, derivative contracts</b>	<b>0.2</b>					<b>0.2</b>
<b>Cash flow total, all</b>	<b>244.3</b>	<b>0.6</b>			<b>0.0</b>	<b>244.9</b>

EUR million, 31 Dec 2017	2018	2019	2020	2021	2022–	Total
Repayments of bonds		150.0				150.0
Repayments of finance lease loans	1.1	0.6				1.7
Interest payments	4.2	4.1				8.3
<b>Cash flow total, interest-bearing financial liabilities</b>	<b>5.2</b>	<b>154.7</b>				<b>160.0</b>
Trade payables	83.2					83.2
Other non-interest-bearing financial liabilities	17.0				0.0	17.0
<b>Cash flow total, non-interest-bearing financial liabilities</b>	<b>100.2</b>				<b>0.0</b>	<b>100.3</b>
Derivative contracts, inflow	0.3					0.3
Derivative contracts, outflow	-0.2					-0.2
<b>Cash flow total, derivative contracts</b>	<b>0.2</b>					<b>0.2</b>
<b>Cash flow total, all</b>	<b>105.6</b>	<b>154.7</b>			<b>0.0</b>	<b>260.4</b>

Forward rates or the average reference rate per contract are used for forecasts of interest payments on floating-rate loans.

### 24.4. Management of capital structure

The financial objectives of the Group include a capital structure related goal to maintain the equity ratio, i.e. equity in proportion to total assets, at a level of at least 50%. This equity ratio is not the Company's opinion of an optimal capital structure, but rather part of an aggregate consideration of the Company's growth and profitability targets and dividend policy.

The terms of credit limit agreements of the Company include covenants that specify that if the covenants are breached, the lender optionally has the right to demand early repayment of the loan. The following tables show the levels of financial covenants specified in the terms of the loans and the corresponding values at 31 December 2018.

FINANCIAL COVENANTS	Requirements
Group equity ratio	>30%
Group interest-bearing net liabilities / EBITDA	<3.0

### Group equity ratio

31 Dec	2018	2017
Equity, EUR million	773.1	679.7
Equity and liabilities total minus advances received, EUR million	1,124.2	1,052.5
<b>Equity ratio, %</b>	<b>68.8%</b>	<b>64.6%</b>

## Group interest-bearing net liabilities / Group EBITDA

EUR million, 31 Dec	2018	2017
Interest-bearing net liabilities	-132.1	-12.7
EBITDA	293.9	323.6
Interest-bearing net liabilities / EBITDA	-0.45	-0.04

## 25. Derivatives

### Nominal values and maturity of derivatives

EUR million, 31 Dec	2018	2017
<b>Currency derivatives</b>		
Currency forward contracts and currency swaps	32.6	32.4
Currency options	31.8	45.4

All derivatives have a maturity less than one year.

### Fair values of derivatives

EUR million, 31 Dec	2018			2017
	Positive	Negative	Net	Net
<b>Non-hedge-accounting derivatives</b>				
Currency forward contracts and currency swaps	0.3	-0.1	0.2	0.1
Currency options	0.1	-0.1	0.0	0.1

All derivatives are OTC derivatives, and market quotations at the end of the reporting period have been used for determining their fair value. Derivatives measured at fair value have been reported in the consolidated statement of financial position on a gross basis. Derivative contract terms agreed with banks allow netting in the event of payment default or bankruptcy, among other things. At the end of the reporting period, after netting the counterparty risk to Orion was EUR 0.2 (2017: 0.2) million and to counterparties EUR 0.0 (2017: 0.0) million.

## 26. Contingent liabilities

### Commitments and contingencies

EUR million, 31 Dec	2018	2017
<b>Contingencies for own liabilities</b>		
Guarantees	4.5	3.6
Other	0.3	0.3

### Significant legal proceedings

Companies belonging to the Orion Group are parties to various legal disputes, which are not, however, considered to be significant legal proceedings for the Group.

## 27. Operating leases

### Group as lessee

#### Minimum lease payments payable on the basis of other non-cancellable leases

EUR million, 31 Dec	2018	2017
No later than 1 year	4.5	4.4
Later than 1 year but no later than 5 years	5.7	5.7
Over 5 years	1.5	0.4
<b>Total</b>	<b>11.7</b>	<b>10.5</b>
<b>Rents paid on the basis of other operating leases during the period</b>	<b>2.8</b>	<b>2.8</b>

Other lease expenses comprise mainly expenses for business premises abroad and other non-financial lease items.

### Group as lessor

Rental income is presented in Note 2, Other operating income and expenses. The rental income comprises mainly rents from personnel and others for real estate owned by the Group.

The Group does not have any finance leases under which the Group is a lessor.

## 28. Group companies

### Group companies at 31 December 2018

	Group		Parent company	
	Ownership %	Share of votes %	Ownership %	Share of votes %
<b>Pharmaceuticals</b>				
Parent company Orion Corporation, Espoo				
Fermion Oy, Espoo	100.00	100.00	100.00	100.00
Kiinteistö Oy Harmaaparta, Espoo	100.00	100.00	100.00	100.00
Kiinteistö Oy Kalkkipellontie 2, Espoo	100.00	100.00	100.00	100.00
Kiinteistö Oy Tonttuvainio, Espoo	100.00	100.00	100.00	100.00
Orion Export Oy, Espoo <sup>1</sup>	100.00	100.00	100.00	100.00
Saiph Therapeutics Oy, Espoo <sup>1</sup>	100.00	100.00	100.00	100.00
FinOrion Pharma India Pvt. Ltd., India	100.00	100.00	95.00	95.00
OOO Orion Pharma, Russia	100.00	100.00		
Orion Pharma (Austria) GmbH, Austria	100.00	100.00	100.00	100.00
Orion Pharma (Ireland) Ltd., Ireland	100.00	100.00	100.00	100.00
Orion Pharma (UK) Ltd., United Kingdom	100.00	100.00	100.00	100.00
Orion Pharma A/S, Denmark	100.00	100.00	100.00	100.00
Orion Pharma AB, Sweden	100.00	100.00	100.00	100.00
Orion Pharma AG, Switzerland	100.00	100.00	100.00	100.00
Orion Pharma AS, Norway	100.00	100.00	100.00	100.00
Orion Pharma BVBA, Belgium	100.00	100.00	100.00	100.00
Orion Pharma d.o.o., Slovenia	100.00	100.00	100.00	100.00
Orion Pharma East LLP, Kazakstan	100.00	100.00	100.00	100.00
Orion Pharma GmbH, Germany	100.00	100.00	100.00	100.00
Orion Pharma Hellas, Pharmakeftiki Mepe, Greece	100.00	100.00	100.00	100.00
Orion Pharma Kft., Hungary	100.00	100.00	100.00	100.00
Orion Pharma Poland Sp.z.o.o., Poland	100.00	100.00	100.00	100.00
Orion Pharma Romania S.R.L., Romania	100.00	100.00	100.00	100.00
Orion Pharma S.L., Spain	100.00	100.00	100.00	100.00
Orion Pharma S.r.l., Italy	100.00	100.00	100.00	100.00
Orion Pharma s.r.o., Czech	100.00	100.00	100.00	100.00
Orion Pharma s.r.o., Slovakia	100.00	100.00	100.00	100.00
Orion Pharma SA, France	100.00	100.00	100.00	100.00
Orion Pharma Ukraine LLC, Ukraine	100.00	100.00	100.00	100.00
Orion Pharma, Inc., USA <sup>1</sup>	100.00	100.00	95.00	95.00
Orionfin Unipessoal Lda, Portugal	100.00	100.00	100.00	100.00
OÜ Orion Pharma Eesti, Estonia	100.00	100.00	100.00	100.00
UAB Orion Pharma, Lithuania	100.00	100.00	100.00	100.00

<sup>1</sup> These companies are not engaged in business activities.

There are no companies in which the Group's ownership is 1/5 or more that have not been consolidated as associated companies or subsidiaries.

## 29. Related party transactions

In the Orion Group, the related parties are deemed to include the parent company Orion Corporation, the subsidiaries and associated and affiliated companies, the members of the Board of Directors of Orion Corporation, the members of the Executive Management Board of the Orion Group, the immediate family members of these persons, the companies controlled by these persons, and the Orion Pension Fund.

### Related party transactions

The Group has no significant business transactions with the related parties, except for the pension expenses resulting from the defined benefit plans with Orion Pension Fund.

#### Management's employment benefits

EUR million	2018	2017
Salaries and other short-term employment benefits	5.9	7.1
Post-employment benefits	0.4	0.4

#### Salaries and remuneration<sup>1</sup>

EUR million	2018	2017
<b>Timo Lappalainen, President and CEO</b>	1.3	1.6
Heikki Westerlund, Chairman	0.1	0.1
Timo Maasilta, Vice chairman	0.1	0.1
Sirpa Jalkanen	0.1	0.1
Ari Lehtoranta	0.1	0.1
Hilpi Rautelin	0.1	0.1
Eija Ronkainen	0.1	0.1
Mikael Silvennoinen	0.1	0.1
Hannu Syrjänen		0.0
Jukka Ylppö		0.0
<b>Board of Directors, total</b>	0.5	0.5

<sup>1</sup> Exact figures are available in the Corporate Governance Statement, under Remuneration Statement.

The retirement age of the parent company's President and CEO is agreed to be 60 years and the pension level 60% of the agreed pensionable salary. During the period EUR 0.1 (2017: 0.1) million was recorded as expenses for the statutory pension and EUR 0.4 (2017: 0.5) million for the supplementary pension of the parent company's President and CEO.

#### Loans, guarantees and other commitments to or on behalf of the related parties

Orion Corporation is the lender of an interest-bearing loan of EUR 0.5 million to Hangon Puhdistamo Oy.



## 30. Discontinued operations

On 23 January 2018, Orion announced that it had decided to investigate the possible sale of Orion Diagnostica or other transaction that would result in transfer of Orion Diagnostica outside the Orion Group. As a result of the investigation, an agreement on the sale of all shares in Orion Diagnostica Oy (i.e. the Orion Diagnostica business) was signed with an investment fund managed by Axcel Management A/S (Axcel) on 21 April 2018. The transaction was closed on 30 April 2018. In the Financial Review and the tables of the Financial Statement Release, Orion Diagnostica business is reported as a discontinued operation. The profit of discontinued operations in 2018 was EUR 132.9 (7.0) million.

The selling price of Orion Diagnostica was EUR 161.7 million and Orion booked in the review period a EUR 128.4 million capital gain included in the comprehensive income statement as part of discontinued operations. In addition, Orion has the possibility to receive an additional selling price of EUR 60 million maximum. The payment of this component is based on the return on investment for Axcel at the time of their exit. Due to the uncertainty relating to the euro value and timing of the additional price, the capital gain does not include any part of the additional price component.

### Profit for the period for discontinued operations

EUR million	2018	2017
Net sales	18.7	53.8
Capital gain from sale of discontinued operations	128.4	
Expenses related to sales of discontinued operations	-0.8	
Item related to fulfilment of an obligation under IAS 19	4.5	
Other operating expenses	-16.2	-44.9
<b>Operating profit</b>	<b>134.6</b>	<b>8.9</b>
Income tax expense	-1.6	-1.9
<b>Profit for the period</b>	<b>132.9</b>	<b>7.0</b>

### Cash flow from discontinued operations

EUR million	2018	2017
Cash flow from operating activities	-8.5	8.9
Cash flow from investing activities	149.1	-1.3

Orion Diagnostica employees will no longer be insured under the Orion Pension Fund. The transfer of insurance portfolio to the new insurer chosen by Orion Diagnostica involved a transfer of assets of Orion Pension Fund corresponding to the amount of pension liability of employees insured within the fund. The transfer of portfolio constituted a fulfilment of an obligation under IAS 19, as the employer companies continuing operations after the sale have no obligations with regard to the pension cover of Orion Diagnostica employees. Orion Diagnostica's share of the pension asset to the Orion Pension Fund in the consolidated balance at the closing date of the transaction on 30 April 2018 was EUR 4.5 million. This share is presented as part of the income statement of discontinued operations and it improves the operating profit of discontinued operations.

## 31. Events after the end of the reporting period

There have been no other known significant events after the reporting period that would have had an impact on the financial statements.

# Parent company Orion Corporation's financial statements (FAS)

## Income Statement

EUR million	Note	2018	2017
<b>Net sales</b>	1	856.7	908.1
Other operating income	2	155.6	8.7
Operating expenses	3, 4	-608.2	-636.5
Depreciation, amortisation and impairment	4	-33.2	-31.6
<b>Operating profit</b>		370.9	248.7
Finance income and expenses	5	10.4	11.2
<b>Profit before extraordinary items, appropriations and taxes</b>		381.3	259.9
Appropriations	6	1.4	26.0
Income tax expense	7	-44.2	-56.1
<b>Profit for the period</b>		338.5	229.8

# Balance Sheet

## Assets

EUR million, 31 Dec	Note	2018	2017
Intangible rights		47.1	28.3
Other long-term expenditure		2.6	2.4
<b>Intangible assets total</b>	8	49.7	30.7
Land		4.2	4.2
Buildings and constructions		146.4	134.3
Machinery and equipment		77.3	73.8
Other tangible assets		1.3	1.5
Advance payments and construction in progress		15.3	25.6
<b>Tangible assets total</b>	9	244.5	239.3
Holdings in Group companies		68.8	83.2
Other investments		0.5	0.4
<b>Investments total</b>	10	69.2	83.6
<b>Non-current assets total</b>		363.4	353.6
Inventories	11	168.9	162.5
Non-current receivables	12	0.6	1.7
Trade receivables	13	159.9	161.6
Other current receivables	13	57.1	48.3
Investments	14	49.0	
Cash and bank		175.1	116.3
<b>Current assets total</b>		610.5	490.4
<b>Assets total</b>		973.9	844.0

## Liabilities

EUR million, 31 Dec	Note	2018	2017
Share capital		92.2	92.2
Expendable fund		0.5	0.5
Reserve for invested unrestricted equity		0.9	0.9
Retained earnings		133.3	104.3
Profit for the period		338.5	229.8
<b>Shareholders' equity</b>	15	565.3	427.7
<b>Appropriations</b>	16	104.7	92.0
<b>Provisions</b>	17	0.6	0.5
Bonds			149.7
<b>Non-current liabilities total</b>	18		149.7
Trade payables		75.7	75.3
Bonds		149.9	
Other current liabilities		77.7	98.7
<b>Current liabilities total</b>	19	303.3	174.0
<b>Liabilities total</b>		973.9	844.0

## Cash flow statement

EUR million	2018	2017
<b>Operating profit</b>	370.9	248.7
Depreciation, amortisation and impairment	33.2	31.6
Other adjustments	-147.2	-0.3
<b>Total adjustments to operating profit</b>	-114.0	31.3
Change in non-interest-bearing current receivables	-23.9	22.3
Change in inventories	-6.4	7.2
Change in non-interest-bearing current liabilities	-33.0	-86.5
<b>Total change in working capital<sup>1</sup></b>	-63.3	-57.0
Interest paid	-5.7	-5.7
Dividends received <sup>2</sup>	15.0	17.5
Interest received <sup>2</sup>	1.4	1.2
Income tax paid	-49.2	-63.0
<b>Total net cash flow from operating activities</b>	155.0	172.9
Investments in intangible assets	-28.5	-9.3
Investments in tangible assets	-29.7	-38.4
Sales of intangible assets	0.0	0.0
Sales of tangible assets	2.0	0.9
Sale of subsidiary	161.7	
Investment in other investments		-0.0
Sales of other investments		0.6
Loans granted		-0.2
Repayments of loan receivables	0.4	
<b>Total net cash flow from investing activities</b>	105.9	-46.4
Current loans raised	31.8	14.9
Repayments of current loans	-40.4	-12.2
Dividends paid and other distribution of profits	-201.4	-213.1
Group contributions received	22.0	21.0
<b>Total cash flow from financing activities</b>	-188.1	-189.5
<b>Net change in cash and cash equivalents</b>	72.8	-63.0
Cash and cash equivalents at 1 Jan <sup>3</sup>	116.3	179.3
Net change in cash and cash equivalents	72.8	-63.0
Cash and cash equivalents at 31 Dec <sup>3</sup>	189.1	116.3

<sup>1</sup> The change of the short-term loans and receivables between the parent company and the Finnish subsidiaries are recorded in the change of the parent company's working capital at their gross value.

<sup>2</sup> The dividends and interest paid by the subsidiaries are included in the cash flow from operating activities of the parent company.

<sup>3</sup> Cash and cash equivalents include liquid securities with a very low fluctuation-in-value risk, as well as cash in hand and at bank.

# Parent company notes to the financial statements for 2018

The parent company of the Orion Group is Orion Corporation, business ID 1999212-6, domiciled in Espoo.

The Orion Group's first financial year was 1 July–31 December 2006, because the Group came into being on 1 July 2006 following the demerger of its predecessor Orion Group into a pharmaceuticals and diagnostics business and a pharmaceutical wholesale and distribution business. Orion Corporation was listed on the Helsinki stock exchange on 3 July 2006.

## Accounting policies

The Financial Statements of Orion Corporation are prepared in accordance with the Finnish Accounting Act, as well as other provisions and regulations related to compilation of financial statements.

### Non-current assets

The Balance Sheet values of intangible and tangible assets are based on their historical costs, depreciated according to plan. The depreciation according to plan is based on the economic life of the assets, following the straight-line depreciation method.

The historical cost of the intangible and tangible assets includes assets with remaining economic life, as well as fully depreciated non-current asset items that are still in operative use. The corresponding policies are applied to the accumulated depreciation.

The economic lives of various asset categories are as follows:

- intangible rights and other capitalised expenditure 5–10 years
- goodwill 5–20 years
- buildings 20–40 years
- machinery, equipment and furniture 5–10 years
- vehicles 6 years
- other tangible assets 10 years

As a rule, goodwill is amortised over five years. In certain cases, however, the estimated economic life of the goodwill is longer, but at maximum twenty years. Other long-term expenditure items that generate or maintain income for three years or longer are capitalised and are normally depreciated over five years.

Land areas and revaluations are not depreciated according to plan. The production and office facilities were revalued in the Orion Group in the 1970s and 1980s. The revaluations are based on valuation of each asset separately.

### Research and development expenses

R&D expenses are entered as expenses during the financial year in which they are incurred.

### Inventories

Inventories are presented in the Balance Sheet using the standard price for self-manufactured products, and for purchased products the weighted average cost method using the value of the purchase and variable conversion costs, or if lower, the net realisable or replacement value.

### Foreign currency transactions

The valuation of the receivables and liabilities denominated in foreign currencies is based on the exchange rates quoted by the European Central Bank on the reporting date. The resulting translation gains and losses are recognised through profit or loss. Translation gains and losses related to business operations are recorded as adjustments of sales and purchases, whereas those related to financial items are recognised under financial income or expenses.

## Financial assets and liabilities and derivative financial instruments

Other investments, derivatives and some financial instruments are measured at fair value using an alternative treatment allowed under the Finnish Accounting Act Chapter 5, Section 2a. Other loans and receivables and other financial liabilities included in financial instruments are measured at amortised cost.

Other investments include shares and equity, investments include debt instruments, which are included mainly in current assets. The fair value is considered as the price quoted on active markets on the reporting date. Investments in unquoted shares are measured at acquisition cost because their fair value cannot be measured using the fair value method.

Loans and receivables comprise cash and cash equivalents, loans granted, and trade and other receivables. Other financial liabilities include interest-bearing liabilities and trade and other payables.

Foreign exchange derivatives for hedging currency risk are measured at fair value using market prices on the reporting date. The fair value of foreign exchange derivatives that hedge operative items is recorded in other operating income and expenses, whereas the fair value of foreign exchange derivatives that hedge loans and receivables denominated in foreign currencies is recorded in translation differences in the financial items.

## Provisions

Commitments by the Company to future expenses that are unlikely to generate corresponding revenue are deducted from income as provisions. Similarly, future losses that are likely to materialise are deducted from income.

## Net sales

Net sales include revenue from sales of goods and services adjusted for indirect taxes, discounts and currency translation differences on sales in foreign currencies. Net sales also include milestone payments under contracts with marketing partners, which are paid by the partner as a contribution to cover the R&D expenses of a product during the development phase and are tied to certain milestones in research projects. In addition, net sales include royalties from the products licensed out by the Group.

Revenue from sales of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer. Revenue from services is recognised when the service has been provided. Milestone payments are recognised when the R&D project has progressed to a phase that, in accordance with an advance agreement with the partner, triggers the partner's obligation to pay its share. Royalties are recorded on an accrual basis in accordance with the licensing agreements.

## Share-based payment

The benefits under the share-based incentive plan for key employees approved by the Board of Directors are valued at fair value on the reporting date and recognised as an expense in the income statement during the vesting period of the benefit. The estimate of the final number of shares and associated cash payments is updated at each reporting date.

## Pension arrangements

The pension security of the Company's employees has been arranged through the Orion Pension Fund and pension insurance companies. Supplementary pension security has been arranged through the pension fund for employees whose employment began prior to 25 June 1990 and continues until retirement. Supplementary pensions for some executives have also been arranged through pension insurance companies. The pension liability of the Orion Pension Fund is covered in full.

## Income taxes

Income taxes comprise the taxes based on taxable profit and tax adjustments to previous financial periods. The financial statements do not itemise the deferred tax liabilities and assets, but the notes record the deferred tax liabilities and assets recognised in the balance sheet. These deferred tax liabilities or assets are calculated from material differences due to timing between the tax assessment and the financial statements, using the tax rate confirmed at the time of the financial statements for subsequent years.

# 1. Net sales

## Net sales by business area

EUR million	2018	2017
Pharmaceuticals business	856.7	908.1
<b>Total</b>	<b>856.7</b>	<b>908.1</b>

## Net sales by market area

EUR million	2018	2017
Finland	310.7	328.6
Scandinavia	136.7	148.9
Other Europe	240.1	255.5
North America	46.1	61.5
Other countries	123.0	113.8
<b>Total</b>	<b>856.7</b>	<b>908.1</b>

# 2. Other operating income

EUR million	2018	2017
Service charges received from Group companies	4.0	5.6
Rental income	1.8	0.6
Gains on sales of shares	147.6	0.5
Gains on sales of property, plant and equipment and intangible assets	0.2	0.3
Other operating income	2.0	1.7
<b>Total</b>	<b>155.6</b>	<b>8.7</b>

# 3. Change in provisions

EUR million	2018	2017
Change in provisions	-0.1	0.3
<b>Total, increase (-), decrease (+)</b>	<b>-0.1</b>	<b>0.3</b>

## 4. Operating expenses, depreciation, amortisation and impairment

### Operating expenses

EUR million	2018	2017
Increase (-) or decrease (+) in stocks of finished goods or work in progress	-2.6	8.3
Production for own use	-2.8	-3.5
Raw materials and services		
Purchases during the financial year	230.0	244.0
Increase (-) or decrease (+) in stocks	-3.8	-1.1
External services	28.0	29.1
<b>Total</b>	<b>254.3</b>	<b>272.0</b>
Personnel expenses		
Wages and salaries	109.9	111.9
Pension expenses	16.5	15.3
Share-based incentive plan	4.5	3.0
Other social security expenses	4.7	5.8
<b>Total</b>	<b>135.6</b>	<b>135.9</b>
Other operating expenses	223.7	223.8
<b>Total</b>	<b>608.2</b>	<b>636.5</b>

Voluntary social security expenses are included in other operating expenses.

### Auditor's remuneration

EUR million	2018	2017
Auditing fee	0.1	0.1
Assignments under Auditing Act Section 1 Subsection 1 Paragraph 2		0.0
Consultation on taxation		0.1
Other services	0.0	
<b>Total</b>	<b>0.1</b>	<b>0.2</b>

### Depreciation, amortisation and impairment

EUR million	2018	2017
Impairment	0.3	0.7
Other depreciation and amortisation	32.9	30.9
<b>Total</b>	<b>33.2</b>	<b>31.6</b>

See Balance Sheet Notes 8–9 for depreciation and amortisation by Balance Sheet item for the financial year.

See Accounting Policies for the financial statements of the parent company for basis of provisions according to plan.

### Average number of employees

	2018	2017
Average number of employees during the financial year	2,203	2,238



## Share-based payments

The Group has share-based incentive plan in force, which commenced in 2016, for key persons of the Group. The plan includes earning periods and the Board of Directors has annually decided on the beginning and duration of the earning periods in 2016, 2017 and 2018. The Board of Directors has decided on the earning criteria and targets to be established for them at the beginning of each earning period. Two earning periods, calendar year 2016 and calendar years 2016–2018, commenced upon implementation of the plan. Two earnings periods, calendar year 2017 and calendar years 2017–2019, commenced in 2017. Two earning periods, calendar year 2018 and calendar years 2018–2020, commenced in 2018. The reward under the plan for the earning periods 2016, 2017 and 2018 is based on the Orion Group's operating profit and for the earning periods 2016–2018, 2017–2019 and 2018–2020 on the total return on Orion Corporation B shares.

The target group of the plan consists of no more than 50 people. The total maximum amount of rewards to be paid based on the plan is 500,000 Orion Corporation B Shares and a cash payment corresponding to the value of the shares. By 31 December 2018, a total of 133,724 Orion Corporation B shares had been paid as rewards under this plan.

The plan that commenced in 2013 is no longer valid and the last rewards were paid in 2018. The plan included earning periods and the Board of Directors annually decided on the beginning and duration of the earning periods in 2013, 2014 and 2015. The Board of Directors decided on the earning criteria and targets to be established for them at the beginning of each earning period. Two earning periods, calendar year 2013 and calendar years 2013–2015, commenced upon implementation of the plan. Two earning periods, calendar year 2014 and calendar years 2014–2016, commenced in 2014. Two earning periods, calendar year 2015 and calendar years 2015–2017, commenced in 2015. The reward under the plan for the earning periods 2013, 2014 and 2015 was based on the Orion Group's operating profit. The reward under the plan for the earning periods 2013–2015, 2014–2016 and 2015–2017 was based on the total return on Orion Corporation B share.

The target group of the plan consisted of approximately 35 people. A total of 407,677 Orion Corporation B shares were paid as rewards under this plan.

The rewards under the plan shall be paid partly in the form of the Company's B shares and partly in cash. Rewards, under the plans commenced in 2013 and 2016, have been paid and potential future rewards, under the plan commenced in 2016, shall be paid as follows:

Earning period	Reward paid on / potential reward to be paid in
2013	3 Mar 2014
2014	2 Mar 2015
2013–2015	1 Mar 2016
2015	1 Mar 2016
2014–2016	1 Mar 2017
2016	1 Mar 2017
2015–2017	1 Mar 2018
2017	1 Mar 2018
2016–2018	2019
2018	2019
2017–2019	2020
2018–2020	2021

Under the plan, shares received based on one-year earning periods cannot be transferred during the restricted period determined in the plans. There is no restricted period for the three-year earning periods. The value of reward to be paid based on the plan during one calendar year is a key person's gross salary multiplied by 1.75, in the maximum, at the date of the reward payment.

## 5. Finance income and expenses

EUR million	2018	2017
Income from Group companies	14.9	17.5
Income from other non-current investments		
Dividend income from other shares and equity	0.0	0.0
Interest income from Group companies	0.0	0.0
Interest income from other companies	0.0	0.0
Other interest and finance income		
Interest income from Group companies	0.0	0.0
Interest income from other companies	0.1	0.1
Change in value	0.0	
Other finance income	1.2	1.1
Interest expenses and other finance expenses		
Interest expenses to Group companies	-0.0	
Interest expenses to others	-4.4	-4.4
Impairment	-0.0	-1.6
Other finance expenses	-1.4	-1.5
<b>Total</b>	<b>10.4</b>	<b>11.2</b>

### Finance income and expenses include

EUR million	2018	2017
Income from equity in other companies	15.0	17.5
Interest income	0.1	0.1
Interest expenses	-4.5	-4.4

## 6. Appropriations

EUR million	2018	2017
Change in cumulative accelerated depreciation	-12.6	4.0
Group contribution received	14.0	22.0
<b>Total</b>	<b>1.4</b>	<b>26.0</b>

## 7. Income taxes

EUR million	2018	2017
Income tax on ordinary activities	44.7	55.0
Tax adjustments for previous financial years	-0.5	1.1
<b>Total</b>	<b>44.2</b>	<b>56.1</b>

### Deferred tax liability and deferred tax asset

No deferred tax liability or deferred tax asset of the Parent company has been recorded in the Company's Balance sheet.

#### Deferred tax asset

EUR million	2018	2017
Provisions	0.1	0.1
<b>Total</b>	<b>0.1</b>	<b>0.1</b>

#### Deferred tax liability

EUR million	2018	2017
Appropriations	20.9	18.4
Revaluations	3.3	3.3
<b>Total</b>	<b>24.2</b>	<b>21.7</b>

## 8. Intangible assets

EUR million	Intangible rights		Goodwill		Other capitalised expenditure		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Acquisition cost at 1 Jan <sup>1</sup>	127.7	120.5	68.3	68.3	56.8	56.1	252.8	244.9
Additions	27.7	8.0			0.9	0.9	28.6	8.9
Disposals	-3.0	-0.7			-3.1	-0.3	-6.0	-1.0
Transfers between Balance Sheet items	0.1	0.0				0.0	0.1	0.1
<b>Acquisition cost at 31 Dec</b>	<b>152.5</b>	<b>127.7</b>	<b>68.3</b>	<b>68.3</b>	<b>54.7</b>	<b>56.8</b>	<b>275.5</b>	<b>252.8</b>
Accumulated amortisation and impairment at 1 Jan <sup>1</sup>	-99.4	-91.8	-68.3	-68.3	-54.4	-53.8	-222.1	-213.9
Accumulated amortisation on disposals	3.0	0.7			3.1	0.2	6.0	1.0
Amortisation for the financial year	-8.6	-7.7			-0.8	-0.8	-9.4	-8.4
Impairment	-0.3	-0.7					-0.3	-0.7
<b>Accumulated amortisation and impairment at 31 Dec</b>	<b>-105.4</b>	<b>-99.4</b>	<b>-68.3</b>	<b>-68.3</b>	<b>-52.1</b>	<b>-54.4</b>	<b>-225.8</b>	<b>-222.1</b>
<b>Book value at 1 Jan</b>	<b>28.3</b>	<b>28.7</b>			<b>2.4</b>	<b>2.3</b>	<b>30.7</b>	<b>31.0</b>
<b>Book value at 31 Dec</b>	<b>47.1</b>	<b>28.3</b>			<b>2.6</b>	<b>2.4</b>	<b>49.7</b>	<b>30.7</b>
Accumulated difference between total and planned amortisation at 1 Jan	3.0	3.0			0.3	0.2	3.2	3.3
Change in cumulative accelerated amortisation, increase (+) / decrease (-)	10.0	-0.1			0.0	0.0	10.1	-0.1
<b>Accumulated difference at 31 Dec</b>	<b>13.0</b>	<b>3.0</b>			<b>0.3</b>	<b>0.3</b>	<b>13.3</b>	<b>3.2</b>

<sup>1</sup> Initial values include fixed asset items with remaining useful life and fully depreciated asset items still in operational use. Accumulated depreciation is calculated in the corresponding way.

## 9. Tangible assets

EUR million	Land and water		Buildings and structures		Machinery and equipment		Other tangible assets		Advance payments and construction in progress		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Acquisition cost at 1 Jan <sup>1</sup>	4.2	3.5	266.7	253.8	262.5	256.0	3.0	2.6	25.6	14.9	562.0	530.8
Additions		0.6	11.2	9.4	9.7	8.0		0.3	10.2	19.1	31.1	37.4
Disposals			-0.0		-15.5	-6.0		-0.0	-0.4	-0.2	-15.9	-6.1
Transfers between Balance Sheet items			9.3	3.6	10.8	4.4	0.0	0.2	-20.1	-8.3	-0.1	-0.1
<b>Acquisition cost at 31 Dec</b>	<b>4.2</b>	<b>4.2</b>	<b>287.1</b>	<b>266.7</b>	<b>267.5</b>	<b>262.5</b>	<b>3.0</b>	<b>3.0</b>	<b>15.3</b>	<b>25.6</b>	<b>577.1</b>	<b>562.0</b>
Accumulated depreciation at 1 Jan <sup>1</sup>			-132.5	-125.5	-188.7	-178.7	-1.6	-1.4			-322.8	-305.6
Accumulated depreciation on disposals and transfers			0.0		13.5	5.3					13.6	5.3
Depreciation for the financial year			-8.3	-7.0	-15.0	-15.1	-0.1	-0.1			-23.4	-22.2
Impairment						-0.2						-0.2
<b>Accumulated depreciation at 31 Dec</b>			<b>-140.7</b>	<b>-132.5</b>	<b>-190.2</b>	<b>-188.7</b>	<b>-1.7</b>	<b>-1.6</b>			<b>-332.6</b>	<b>-322.8</b>
<b>Book value at 1 Jan</b>	<b>4.2</b>	<b>3.5</b>	<b>134.3</b>	<b>128.3</b>	<b>73.8</b>	<b>77.2</b>	<b>1.5</b>	<b>1.1</b>	<b>25.6</b>	<b>14.9</b>	<b>239.3</b>	<b>225.2</b>
<b>Book value at 31 Dec</b>	<b>4.2</b>	<b>4.2</b>	<b>146.4</b>	<b>134.3</b>	<b>77.3</b>	<b>73.8</b>	<b>1.3</b>	<b>1.5</b>	<b>15.3</b>	<b>25.6</b>	<b>244.5</b>	<b>239.3</b>
Accumulated difference between total and planned depreciation at 1 Jan			43.5	43.1	45.3	49.6	0.1	0.1			88.8	92.8
Change in cumulative accelerated depreciation, increase (+) / decrease (-)			0.9	0.4	1.7	-4.4	-0.0	0.0			2.5	-3.9
<b>Accumulated difference at 31 Dec</b>			<b>44.4</b>	<b>43.5</b>	<b>46.9</b>	<b>45.3</b>	<b>0.1</b>	<b>0.1</b>			<b>91.4</b>	<b>88.8</b>

<sup>1</sup> Initial values include fixed asset items with remaining useful life and fully depreciated asset items still in operational use. Accumulated depreciation is calculated in the corresponding way.

The book value of production machines and equipment at 31 December 2018 was EUR 56.5 (2017: 56.5) million. The revaluation included in the acquisition cost of land was EUR 0.1 (2017: 0.1) million and in the acquisition cost of buildings EUR 16.5 (2017: 16.5) million.

## 10. Investments

EUR million	Shares in Group companies		Receivables from Group companies		Other shares and equity		Loan receivables <sup>1</sup>		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Acquisition cost at 1 Jan	121.8	121.8	4.3	4.3	0.3	0.4	0.1	1.6	126.5	128.1
Additions					0.0	0.0	0.1	0.1	0.1	0.1
Disposals	-14.1		-0.4		-0.0	-0.1		-1.6	-14.4	-1.7
<b>Acquisition cost at 31 Dec</b>	<b>107.7</b>	<b>121.8</b>	<b>3.9</b>	<b>4.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.2</b>	<b>0.1</b>	<b>112.1</b>	<b>126.5</b>
Accumulated impairment at 1 Jan	-40.0	-40.0	-2.9	-2.9					-42.9	-42.9
Change during the period										
<b>Accumulated impairment at 31 Dec</b>	<b>-40.0</b>	<b>-40.0</b>	<b>-2.9</b>	<b>-2.9</b>					<b>-42.9</b>	<b>-42.9</b>
<b>Book value at 1 Jan</b>	<b>81.8</b>	<b>81.8</b>	<b>1.4</b>	<b>1.4</b>	<b>0.3</b>	<b>0.4</b>	<b>0.1</b>	<b>1.6</b>	<b>83.6</b>	<b>85.2</b>
<b>Book value at 31 Dec</b>	<b>67.7</b>	<b>81.8</b>	<b>1.0</b>	<b>1.4</b>	<b>0.3</b>	<b>0.3</b>	<b>0.2</b>	<b>0.1</b>	<b>69.2</b>	<b>83.6</b>

<sup>1</sup> Loan receivables are equity loan receivables under the Companies Act.

## 11. Inventories

EUR million, 31 Dec	2018	2017
Raw materials and consumables	31.1	27.0
Work in progress	13.7	13.3
Finished products/goods	119.7	117.5
Other inventories	4.4	4.7
<b>Total</b>	<b>168.9</b>	<b>162.5</b>

## 12. Non-current receivables

EUR million, 31 Dec	2018	2017
Other receivables from Group companies	0.0	0.0
Loan receivables from associated companies	0.5	0.6
Other loan receivables	0.1	0.1
Other non-current receivables		1.0
<b>Total</b>	<b>0.6</b>	<b>1.7</b>

## 13. Current receivables

EUR million, 31 Dec	2018	2017
Trade receivables	130.0	131.3
Receivables from Group companies		
Trade receivables	29.9	30.3
Loan receivables	16.7	3.7
Prepayments and accrued income	14.0	22.0
<b>Total</b>	<b>60.6</b>	<b>56.0</b>
Loan receivables from associated companies	0.1	0.1
Other loan receivables	0.2	0.1
Other receivables	1.3	6.5
Prepayments and accrued income	24.9	15.9
<b>Total</b>	<b>217.0</b>	<b>209.9</b>

### Material items included in prepayments and accrued income

EUR million, 31 Dec	2018	2017
Prepayments for R&D costs	5.9	2.3
Receivables from royalties	3.8	4.5
Income tax receivable	3.5	
Prepayments for services and maintenance	2.1	2.0
Prepaid remunerations under incentive plan	1.4	2.2
Pending price difference payments	2.2	0.8
Price correction of receipt of purchase order	1.3	
Consideration related to transfer of sales right not received	1.0	0.5
Pending contributions	0.8	0.9
Pending compensations	0.7	0.7
Receivables based on derivative contracts	0.4	0.3
Other prepayments and accrued income	1.8	1.6
<b>Total</b>	<b>24.9</b>	<b>15.9</b>

## 14. Investments

EUR million, 31 Dec	2018	2017
Other securities: interest instruments	49.0	
<b>Total</b>	<b>49.0</b>	

### Difference between market value and book value

EUR million, 31 Dec	2018	2017
Market value	49.0	
Corresponding book value	-49.0	
Accrued interest from interest instruments included in prepayments and accrued income	-0.0	
<b>Difference</b>	<b>0.0</b>	

## 15. Shareholder's equity

### Share capital

EUR million	2018	2017
Share capital at 1 Jan	92.2	92.2
<b>Share capital at 31 Dec</b>	<b>92.2</b>	<b>92.2</b>

### Expendable fund

EUR million	2018	2017
Expendable fund at 1 Jan	0.5	0.5
<b>Expendable fund at 31 Dec</b>	<b>0.5</b>	<b>0.5</b>

### Reserve for invested unrestricted equity

EUR million	2018	2017
Reserve for invested unrestricted equity at 1 Jan	0.9	0.9
<b>Reserve for invested unrestricted equity at 31 Dec</b>	<b>0.9</b>	<b>0.9</b>

### Retained earnings

EUR million	2018	2017
Retained earnings at 1 Jan	334.1	317.3
By decision of Annual General Meeting		
dividends distributed	-204.0	-217.9
donations made	-0.3	-0.3
share rewards paid	3.0	5.1
Unpaid dividends	0.5	0.2
Profit for the financial year	338.5	229.8
<b>Retained earnings at 31 Dec</b>	<b>471.7</b>	<b>334.1</b>

### Parent company share capital by share class

31 Dec	2018		2017	
	number	EUR	number	EUR
A shares (20 votes/share)	37,120,346		37,120,346	
B shares (1 vote/share)	104,137,482		104,137,482	
<b>Total</b>	<b>141,257,828</b>	<b>92,238,541.46</b>	<b>141,257,828</b>	<b>92,238,541.46</b>

During the financial year 1 January to 31 December 2018 no A shares were converted into B shares.

## 16. Appropriations

EUR million, 31 Dec	2018	2017
Cumulative accelerated depreciation	104.7	92.0
<b>Total</b>	<b>104.7</b>	<b>92.0</b>

## 17. Provisions

EUR million, 31 Dec	2018	2017
Pension provisions	0.6	0.5
<b>Total</b>	<b>0.6</b>	<b>0.5</b>

## 18. Non-current liabilities

EUR million, 31 Dec	2018	2017
Bonds		149.7
<b>Total</b>		149.7

## 19. Current liabilities

EUR million, 31 Dec	2018	2017
Advances received	2.4	2.1
Trade payables	62.3	64.3
Liabilities to Group companies		
Trade payables	13.4	11.0
Accrued liabilities and deferred income	0.0	
Other liabilities	12.7	27.3
<b>Total</b>	26.1	38.4
Bonds	149.9	
Other liabilities	8.1	9.9
Accruals and deferred income	54.5	59.4
<b>Total</b>	303.3	174.0

The bond issued in 2013 with nominal amount of 150,000,000 maturing 2019 has interest rate of 2.75% and original effective interest 2.854%.

### Material items included in accruals and deferred income

EUR million, 31 Dec	2018	2017
Accrued incentive plans	9.3	13.7
Other accrued salary, wage and social security payments	17.8	17.7
Accrued price adjustments	7.2	8.1
Accrued R&D expenses	6.2	2.5
Accrued price reductions	4.1	4.3
Accrued royalties and commissions	2.5	2.2
Accrued interest	2.3	2.3
Accrued litigation costs	2.1	2.1
Accrued sales compensations	1.8	1.5
Accrued purchases related to inventory in China		2.7
Accrued tax		1.5
Liabilities on derivative contracts	0.1	0.2
Other accrued liabilities and deferred income	1.2	0.5
<b>Total</b>	54.5	59.4

### Liabilities include

EUR million, 31 Dec	2018	2017
Non-current interest-bearing liabilities		149.7
Current interest-bearing liabilities	162.6	27.3
Current non-interest-bearing liabilities	140.7	146.7
<b>Total</b>	303.3	323.7



## 20. Notes relating to members of administrative bodies

### Salaries and remuneration paid to members of administrative bodies of the Company

EUR million	2018	2017
President and CEO and members of Board of Directors	1.8	2.0

No partial remuneration has been paid.

No loans have been granted to the members of administrative bodies.

### Management pension commitments

The retirement age of the Company's President and CEO is agreed to be 60 years and the pension level 60% of the agreed pensionable salary.

## 21. Contingencies

### Contingencies for own liabilities

EUR million, 31 Dec	2018	2017
Guarantees given	4.3	3.2

### Total guarantees

EUR million, 31 Dec	2018	2017
Total guarantees	4.3	3.2

## 22. Liabilities and commitments

### Lease agreements

EUR million, 31 Dec	2018	2017
Payments payable under lease agreements		
within next 12 months	2.0	2.0
later than 12 months	2.2	2.2
<b>Total</b>	<b>4.2</b>	<b>4.3</b>

The terms of lease agreements are normal.

### Other liabilities

EUR million, 31 Dec	2018	2017
Drug damage liability	0.3	0.3

### VAT liability for real estate investments

The company is liable to review VAT deductions made for real estate investments completed in 2010–2018 if the use subject to VAT decreases during the review period. The maximum liability is EUR 16.4 million and the last review year is 2027.

## 23. Financial risks

The objective of the financial risk management is to decrease the negative effects of market and counterparty risks on the Group's profits and cash flows and to ensure sufficient liquidity.

The main principles for financial risk management are defined in the Group Treasury Policy approved by the Board of Directors of the parent company, and the Group Treasury is responsible for its implementation. Treasury activities are centralised in the Group Treasury.

There is more information about the financial risks in the Group's Financial Statements. The main difference between company's and Group's risk position is in the reported currency position, because (parent) company centrally hedges the Group's currency risk without implementing internal hedges separately with the subsidiaries.

## 24. Derivatives

### Nominal values and maturity of derivatives

EUR million, 31 Dec	2018	2017
<b>Currency derivatives</b>		
Currency forward contracts and currency swaps	32.6	32.4
Currency options	31.8	45.4

All derivatives have a maturity less than one year.

### Fair values of derivatives

EUR million, 31 Dec	2018			2017
	Positive	Negative	Net	Net
<b>Non-hedge-accounting derivatives</b>				
Currency forward contracts and currency swaps	0.3	-0.1	0.2	0.1
Currency options	0.1	-0.1	0.0	0.1

## Fair value measurement and hierarchy

Financial instruments measured at fair value in the statement of financial position are grouped as follows into three hierarchy levels depending on the valuation technique

EUR million, 31 Dec 2018	Level 1	Level 2	Level 3	Total
Derivatives				
Currency derivatives		0.4		0.4
Money market investments	35.0			35.0
Other investments				
Shares and investments			0.3	0.3
<b>Assets total</b>	<b>35.0</b>	<b>0.4</b>	<b>0.3</b>	<b>35.6</b>
Derivatives				
Currency derivatives		-0.1		-0.1
<b>Liabilities total</b>		<b>-0.1</b>		<b>-0.1</b>
EUR million, 31 Dec 2017	Level 1	Level 2	Level 3	Total
Derivatives				
Currency derivatives		0.3		0.3
Other investments				
Shares and investments			0.3	0.3
<b>Assets total</b>		<b>0.3</b>	<b>0.3</b>	<b>0.6</b>
Derivatives				
Currency derivatives		-0.2		-0.2
<b>Liabilities total</b>		<b>-0.2</b>		<b>-0.2</b>

The fair value of level 1 financial instruments is based on quotations available in active markets. The fair value of level 2 derivatives is based on data feeds available in the markets. The fair value of level 3 financial instruments cannot be estimated on the basis of data available in the markets.

The Group applies the principle of recognising transfers between levels of fair value hierarchy on the date on which the event triggering the transfer occurred.

## 25. Holdings in other companies

See Note 28 Group companies in the Notes to the Consolidated financial statements for the Parent Company's holdings in other companies.

# Account books and document types

## 1 January–31 December 2018

### Account books

Journal	electronic filing	10 years
General ledger	electronic filing	10 years

### Types of accounting record

	Document number	Document type		
Fixed asset entries	0400000000 - 0499999999	AA	paper record/electronic filing	6 years
Catering interface	0700000000 - 0799999999	07	paper record/electronic filing	6 years
Winpos interface	0800000000 - 0899999999	08	paper record/electronic filing	6 years
Accounts receivables, manual posting	1100000000 - 1199999999	DA, DG, DR	paper record/electronic filing	6 years
Rent invoicing	1100000000 - 1199999999	ZB	paper record/electronic filing	6 years
Purchase invoices	1300000000 - 1399999999	KA, KG, KR, KF	paper record/electronic filing/ CD_ROM	6 years
Inventory price differences	1500000000 - 1599999999	PR	paper record/electronic filing	6 years
Purchase invoices, orders	1600000000 - 1699999999	RE, RA, RZ	paper record/electronic filing	6 years
Payroll interface, salaries and wages	1700000000 - 1799999999	01	paper record/electronic filing	6 years
Manual corrections to salaries and wages	1700000000 - 1799999999	Z1	paper record/electronic filing	6 years
Depreciation on fixed asset disposals	1700000000 - 1799999999	AG	paper record/electronic filing	6 years
Foreign exchange rate setting	1700000000 - 1799999999	SA	paper record/electronic filing	6 years
Representative offices	1800000000 - 1899999999	ZR	paper record/electronic filing	6 years
Inventory entries	1900000000 - 1999999999	WA, WE, WI, WL	electronic filing	6 years
Travel interface	2000000000 - 2099999999	04	paper record/electronic filing	6 years
Accounts payable allocations	2200000000 - 2299999999	ZP	paper record/electronic filing	6 years
Interest invoices	3100000000 - 3199999999	II	paper record/electronic filing	6 years
Accounts receivables, automatic posting	3200000000 - 3299999999	RV	paper record/electronic filing	6 years
Clearing	3300000000 - 3399999999	AB	paper record/electronic filing	6 years
GR / IR corrections	3600000000 - 3699999999	RN	paper record/electronic filing	6 years
Self invoicing	3700000000 - 3799999999	ZN	paper record/electronic filing	6 years
Group invoicing	3800000000 - 3899999999	IC	paper record/electronic filing	6 years
Banking days, money coming in	5500000000 - 5599999999	DZ	paper record/electronic filing	6 years
Banking days, money going out	5500000000 - 5599999999	KZ	paper record/electronic filing	6 years
Memo vouchers	6100000000 - 6199999999	ZM	paper record/electronic filing	6 years
Memo vouchers, regular accruals	8100000000 - 8199999999	ZI	paper record/electronic filing	6 years
Memo vouchers, accruals	8100000000 - 8199999999	ZJ	paper record/electronic filing	6 years
Payroll interface, holiday pay accrual	8200000000 - 8299999999	03	paper record/electronic filing	6 years
Holiday pay accrual, manual correction	8200000000 - 8299999999	Z3	paper record/electronic filing	6 years
Payroll interface, bonus accrual	8300000000 - 8399999999	05	paper record/electronic filing	6 years
IFRS records	9100000000 - 9199999999	ZX	paper record/electronic filing	6 years
Depreciation and amortisation, plus depreciation difference	9300000000 - 9399999999	AF	paper record/electronic filing	6 years

# Proposal by the Orion Corporation Board of Directors on use of profit funds from the financial year

The parent company's distributable funds are EUR 473,099,971.28, including EUR 338,453,364.28 of profit for the financial year.

The Board of Directors proposes that the distributable funds of the parent company be used as follows:



There have been no material changes in the Company's financial position since the end of the financial year. The liquidity of the Company is good and, in the opinion of the Board of Directors, the proposed profit distribution would not compromise the liquidity of the Company.

# Signatures for the Financial Statements and Report by the Board of Directors

The Board of Directors submits these Financial Statements and the Report by the Board of Directors to the Annual General Meeting of Shareholders for approval.

Espoo, 6 February 2019

Heikki Westerlund  
Chairman

Timo Maasilta  
Vice Chairman

Sirpa Jalkanen

Ari Lehtoranta

Hilpi Rautelin

Eija Ronkainen

Mikael Silvennoinen

Timo Lappalainen  
President and CEO

On auditor's report has been issued today.

Espoo, 6 February 2019

KPMG OY AB

Kimmo Antonen  
Authorised Public Accountant, KHT

# Auditor's Report

To the Annual General Meeting of Orion Corporation

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Orion Corporation (business identity code 1999212-6) for the year ended 31 December 2018. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, cash flow statement and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

### Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 4 to the consolidated financial statements.

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

### Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

The key audit matter	How the matter was addressed in the audit
<p><b>Revenue recognition</b></p> <p><i>Refer to Accounting policies and note 1</i></p> <p>Both parent company's net sales and consolidated net sales comprise different revenue flows: sales of goods, transfers of sales rights to products already in the market as well as revenue based on clinical phase research and development work undertaken with collaboration partners.</p> <p>Net sales include both fixed and variable considerations. Variable considerations relate to various discounts or incentives in sales of goods or to conditional milestone payments in collaboration agreements, among other things. Thus, revenue recognition involves management judgement.</p> <p>The Group has adopted the new accounting standard IFRS 15 Revenue from Contracts with Customers on 1 January, 2018.</p> <p>Due to the adoption of the new accounting standard IFRS 15, analyses of different contract terms and conditions associated with the choice of a revenue recognition method and high level of management judgement involved, revenue recognition is considered a key audit matter.</p>	<p>Our audit procedures included evaluation of the revenue recognition principles applied by the Group and assessment of their appropriateness by reference to IFRS standards.</p> <p>We assessed the effectiveness of control environment and application controls in respect of the main sales software and the related user rights management and information security.</p> <p>We identified and assessed internal controls over invoicing as well as tested their effectiveness. In addition we performed substantive testing and analytical procedures based on data analytics in order to assess the appropriateness of revenue recognition and the accounting treatment of recording revenue and the related expenses in the correct period.</p> <p>We discussed with the management the revenue recognition practices applied and decisions involving management judgement which had a significant impact on revenue recognition.</p> <p>Furthermore, we considered the appropriateness of the Group's disclosures in respect of revenue recognition principles and net sales, including the impact of adopting IFRS 15.</p>



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## Inventories

*Refer to Accounting policies and note 1*

The inventories account for a significant amount (approximately 20%) of the total consolidated assets.

Pricing of individual inventory items is based on the functionality of information systems and the accuracy of product-specific calculations.

Inventories are valued at cost or, if lower, at net realisable or replacement value.

Management judgement is used in determining the need for impairment and assessing aged items in the inventories.

Due to the significance of the inventories and management judgement relating to the valuation, inventories are considered a key audit matter.

Our audit procedures included consideration of the valuation principles applied by the Group and assessment of their appropriateness based on IFRS standards.

We assessed the effectiveness of control environment and application controls in respect of the main inventory management software and the related user rights management and information security.

We participated in physical stock counts in selected locations and assessed the appropriateness of stock count processes.

We performed data analysis to test the appropriateness of pricing and the reliability of valuation calculations.

We assessed the sufficiency of impairment entries relating to the inventories.

We considered the sufficiency of the Group's disclosures in respect of inventories and assessed their appropriateness.

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## Sale of Orion Diagnostica subgroup

*Refer to Profit for the period for discontinued operations in the consolidated statement of comprehensive income and note 30*

Orion Corporation sold all the shares in Orion Diagnostica Oy in April.

As a consequence, Diagnostics business segment has been reported as a discontinued operation. Thus, the post-tax result of the segment as well as the post-tax gain on sale less sales-related expenses has been presented on one line in the statement of comprehensive income.

In connection with the sale, changes were also made to the employees' pension insurance arrangements and some employees were transferred outside the Orion Pension Fund coverage.

The sales agreement also determines a contingent consideration, the accounting treatment of which involves management judgement.

Our audit procedures included assessing the documentation relating to the sale and the terms and conditions of the sales agreement.

We derived the data in the sales gain calculation from the underlying documents and assessed the appropriateness of the accounting treatment of the gain on sale based on IFRS standards.

We involved KPMG actuaries that obtained an understanding of the actuarial calculations prepared at the time of the sale and assessed the accounting treatment of the related entries based on IAS 19 Employee Benefits.

Finally, we considered the sufficiency of the Group's disclosures in respect of the sale and assessed their appropriateness.

## Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

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

## Other Reporting Requirements

### Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 20 March 2018, and our appointment represents a total period of uninterrupted engagement of one year.

### Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

### Other statements

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director should be discharged from liability for the financial period audited by us.

Espoo 6 February 2019

**KPMG OY AB**

Kimmo Antonen  
Authorised Public Accountant, KHT

# Key events in 2018

**March**

Orion received positive conclusions for the salmeterol-fluticasone Easyhaler® combination under the EU's decentralised procedures.



The new manufacturing facility at Fermion's Hanko plant was commissioned.

**April**

Orion signed an agreement on the sale of all shares in Orion Diagnostica Oy (i.e. the Orion Diagnostica business division) to an investment fund managed by Axcel Management A/S. The sale was closed on 30 April 2018. A capital gain of EUR 128 million was booked for the transaction in 2018.

**June**

**July**


The first patients were recruited in the Phase III clinical trial (REFALS) for ALS.

**September**

Orion announced changes in responsibility areas of its Group Executive Management Board members and the establishment of the new Growth Projects function.

→ **October** →

Orion and Amgen to collaborate on the commercialisation of Amgevita® (biosimilar adalimumab) in Finland.



The sales of salmeterol-fluticasone Easyhaler® combination started in the first European countries.



Orion and Bayer completed the Phase III clinical trial (ARAMIS) of darolutamide for the treatment of patients with non-metastatic castration-resistant prostate cancer. The primary endpoint was met.

Orion Research Foundation distributed EUR one million in research grants for 2019.

← **November** ←

The sales rights in certain European countries for the Parkinson's disease drug Stalevo® transferred back to Orion from Novartis.

→ **December** →



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