

# INTERIM REPORT

JANUARY – DECEMBER 2017

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## INTERIM REPORT

### OCTOBER – DECEMBER 2017

- Net sales amounted to SEK 1,403 million (1,333), an increase of 5.3%
- EBITDA amounted to SEK 226 million (229) corresponding to an EBITDA margin of 16.1% (17.2)
- Operating profit (EBIT) amounted to -160 million (121). Adjusted for non-recurring items EBIT amounted to SEK 80 million
- Profit after tax amounted to SEK -183 million (76) corresponding to a net margin of -13.0% (5.7)
- Earnings per share amounted to SEK -2.96 (1.09) before dilution and SEK -2.96 (1.09) after dilution. Adjusted for non-recurring items earnings per share amounted to SEK 0.83.
- Recipharm announced the intention to end operations in two facilities in Sweden. As a consequence, non-recurring items had a SEK 240 million negative impact on EBIT and earnings before tax

5%

Sales increase

226

MSEK EBITDA

16%

EBITDA margin

### JANUARY – DECEMBER 2017

- Net sales amounted to SEK 5,332 million (4,678), an increase of 14.0%
- EBITDA amounted to SEK 730 million (749) corresponding to an EBITDA margin of 13.7% (16.0)
- Operating profit (EBIT) amounted to -9 million (384). Adjusted for non-recurring items EBIT amounted to SEK 231 million
- Profit after tax amounted to SEK -160 million (196) corresponding to a net margin of -3.0% (4.2)
- Earnings per share amounted to SEK -2.70 (3.32) before dilution and SEK -2.70 (3.32) after dilution. Adjusted for non-recurring items earnings per share amounted to SEK 1.10.
- Net debt to Equity was 0.7 (0.4)
- Non-recurring items had a SEK 240 million negative impact on EBIT and earnings before tax
- The Board proposes no dividend for 2017 (1.50)

For information on adjustments for non-recurring items, see page 10.

### KEY FIGURES

SEK million	Oct – Dec			Jan – Dec		
	2017	2016	Change in %	2017	2016	Change in %
Net sales	1,403	1,333	+5.3	5 332	4,678	+14.0
EBITDA <sup>1/</sup>	226	229	-1.5	730	749	-2.6
EBIT adjusted <sup>1/</sup>	80	121	-34.2	231	384	-39.8
EBIT <sup>1/</sup>	-160	121	-231.3	-9	384	-102.5
EBITDA margin (%) <sup>1/</sup>	16.1	17.2		13.7	16.0	
Earnings per share adj. <sup>1/</sup>	0.83	1.09		1.10	3.32	
Earnings per share	-2.96	1.09		-2.70	3.32	
Return on equity, adj. (%) <sup>1/</sup>				1.6	5.0	
Return on equity (%) <sup>1/</sup>				-3.2	5.0	
Equity per share, adj. <sup>1/</sup>				75.7	75.7	
Equity per share <sup>1/</sup>				71.9	75.7	
Equity/assets ratio, adj. (%) <sup>1/</sup>				43.4	52.2	
Equity/assets ratio (%) <sup>1/</sup>				41.5	52.2	
Net debt <sup>1/</sup>				3,422	1,894	
Net debt to Equity <sup>1/</sup>				0.7	0.4	
Net debt to EBITDA <sup>1/</sup>				4.7	2.5	

1/ APM: Alternative Performance Measures, see financial definitions on page 24.

## COMMENTS BY THOMAS ELDERED, CEO

### Positive ending of eventful year

We had a positive finish of the year, a year characterized by solid underlying demand but also delays in important projects and other issues. In the fourth quarter we recorded all-time high sales at SEK 1 403 million. While sales excluding currency and acquisition effects were flat, Development & Technology showed double-digit organic growth. All our major capex projects progressed without significant issues during the quarter. Our financial performance, excluding non-recurring items, stabilized through the quarter and the EBITDA-margin at 16.1 per cent was in line with our long-term overall financial target.

In the Sterile Liquids segment, we saw expected effects from ongoing capacity expansion projects as well as continued short supply of an important raw material. Despite this we managed to achieve flat sales and only a minor negative effect on EBITDA compared to last year, to some extent due to positive phasing effects.

Within the Solids and Others segment we have recorded several new contracts during the quarter, including the new supply agreement with Roche from our new facility in Leganés, Spain. The decision to end operations in two Swedish facilities in this segment caused an accrual of SEK 240 million for related non-recurring costs. This amount includes a provision for onerous contracts of SEK 64 million, excess leases of SEK 47 million and fixed asset impairment of SEK 35 million. Sales from these two units have gradually decreased and caused the negative organic growth for the quarter of 5 per cent in the Solids and Others segment. Also, EBITDA was negatively affected by the performance in these units.

In the Development & Technology segment we saw organic growth of 15 per cent as we continue to focus on supporting sales from our IP and product rights as well increasing our efforts in development services. We delivered an organic increase in EBITDA of 69 per cent and the EBITDA margin was 26 per cent. Part of the improvement was due to temporary supply shortages for competitors.

Operating cash flow was good but decreased SEK 10 million due to year-end increases in working capital. Capital expenditures was SEK 199 million with a significant part being expansion in lyophilisation and blow-fill-seal capacity and serialisation capability. These expansion projects progressed well during the quarter, and all have yet to deliver sales. Our net debt to equity ratio, now at 0.7, is still below our target of maximum 0.8.

The Board will propose no dividend to the AGM. The Board believes that it is prudent to follow our dividend policy. However, the Board expresses confidence in our ongoing activities, and has the ambition to return to dividends in line with increased profit going forward.

We have made heavy investments to take leadership in selected markets and we continue to work hard to deliver on our strategies to meet our targets. The customer response we see to our value proposition is increasingly positive and entering 2018 we are positioned to benefit from attractive trends in the market as well as opportunities in the industry.

Our expansion projects will start to deliver towards the end of the first quarter and we will see a gradual ramp-up during the next 4-6 quarters. As projects finish we will see less capex and supported by increased profit, leverage will gradually decrease. Ending operations in the two Swedish facilities is painful. However, with the addition of a modern well invested facility in Spain and competitive operations in India we will get a streamlined and efficient structure, well suited to support our demanding customers' needs globally. I am confident that we will reach our SEK 8 billion sales target by 2020 and have an EBITDA-margin target of at least 16 per cent.



The company invites investors, analysts and media to a telephone conference with a web presentation (in English) on 22 February at 10:00 am CET where CEO Thomas Eldered and CFO Henrik Stenqvist will present and comment on the interim report and answer questions. Information about the conference can be found on the company website: [www.recipharm.com](http://www.recipharm.com)

## REVENUES

### NET SALES PER SEGMENT

SEK million	Oct – Dec		Jan – Dec	
	2017	2016	2017	2016
Sterile Liquids	546	548	2,126	1,930
Solids & Others	674	635	2,480	2,166
Development & Technology	222	185	874	750
Eliminations and others	-39	-35	-148	-168
<b>Total</b>	<b>1,403</b>	<b>1,333</b>	<b>5,332</b>	<b>4,678</b>

### OCTOBER – DECEMBER 2017

#### Net sales

Net sales increased by SEK 70 million and amounted to SEK 1,403 million, an increase by 5.3 percent. The impact from currency effects was SEK -3 million. Acquisitions contributed with SEK 78 million. Sales, excluding acquisitions and the currency effect above, decreased by SEK -5 million.

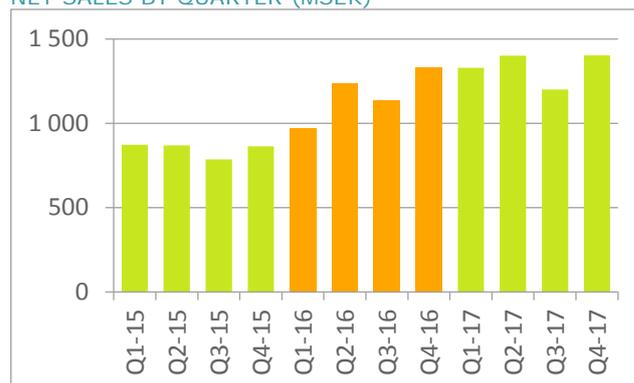
#### Other operating revenue

Other operating revenue amounted to SEK 62 million (46), mainly consisting of royalty income, pass-through costs and currency gains on operating receivables and liabilities.

### SALES BRIDGE, OCTOBER – DECEMBER

	Sales, SEK million	Sales, %
<b>2016</b>	1,333	
Currency	-3	-0.2
Acquisitions	78	5.9
Organic	-5	-0.4
<b>Total</b>	<b>70</b>	<b>5.3</b>
<b>2017</b>	<b>1,403</b>	

### NET SALES BY QUARTER (MSEK)



### JANUARY - DECEMBER 2017

#### Net sales

Net sales increased by SEK 655 million and amounted to SEK 5,332 million, an increase by 14.0 percent. Adjusted for acquisitions, SEK 603 million and SEK 52 million currency translation effect, sales were on the same level as last year.

#### Other operating revenue

Other operating revenue amounted to SEK 183 million (155), mainly consisting of royalty income, pass-through costs and currency gains on operating receivables and liabilities.

### SALES BRIDGE, JANUARY – DECEMBER

	Sales, SEK million	Sales, %
<b>2016</b>	4,678	
Currency	52	1.1
Acquisitions	602	12.9
Organic	0	0.0
<b>Total</b>	<b>654</b>	<b>14.0</b>
<b>2017</b>	<b>5,332</b>	

## RESULTS

### EBITDA<sup>1/</sup> PER SEGMENT

SEK million	Oct – Dec		Jan – Dec	
	2017	2016	2017	2016
Sterile Liquids	121	125	391	402
Solids and Others	75	97	229	277
Development & Technology	56	33	192	143
Eliminations and others	-27	-26	-82	-73
<b>Total</b>	<b>226</b>	<b>229</b>	<b>730</b>	<b>749</b>

### OCTOBER – DECEMBER 2017

#### EBITDA<sup>1/</sup>

EBITDA<sup>1/</sup> amounted to SEK 226 million (229), a decrease of 1.5 percent. The EBITDA margin to sales decreased from 17.2 percent to 16.1 percent. The acquisition effect was SEK 13 million and the currency effect was negative SEK 1 million. EBITDA excluding acquisitions decreased by SEK 16 million mainly due to volume effects in Solids segment, offset by improving efficiencies and margins in the Development and Technology segment.

#### Raw materials and consumables

Adjusted for non-recurring items<sup>1/</sup>, raw materials and consumable costs was SEK 381 million (385). The material cost ratio to net sales decreased 2 percentage points to 27 percent (29) mainly due to better gross margins for Recipharm's own products, and improving demand for services and products with a lower share of raw materials.

#### Other external costs

Adjusted for non-recurring items<sup>1/</sup>, other external costs amounted to SEK 325 million (309). The cost to sales ratio remained steady at 23 percent (23).

#### Employee benefits expense

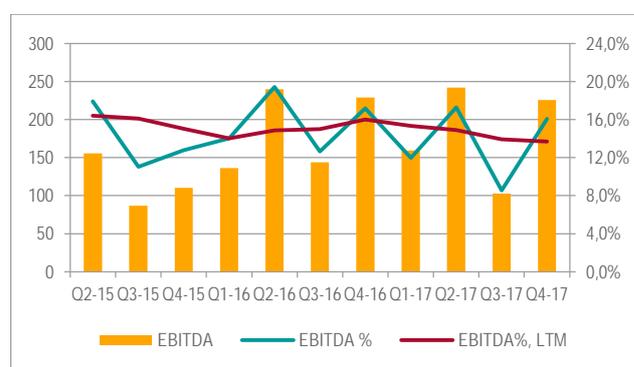
Adjusted for non-recurring items<sup>1/</sup>, employee benefits expense amounted to SEK 511 million (437). The expense to sales ratio amounted to 36 percent (33). The increase was mainly related to staffing and training costs related to the ramp up of new manufacturing capacity.

#### Depreciation and amortisation

Adjusted for non-recurring items<sup>1/</sup>, depreciation and amortisation costs amounted to SEK 146 million (107). It included 26 million amortization effect from changes in purchase price allocation for the Bengaluru acquisition earlier in 2017. Otherwise, depreciations increased mainly from acquisitions and recent investments.

1/ APM: Alternative Performance Measures, see financial definitions on page 24. For information on adjustments for non-recurring items, see also page 10.

### EBITDA (SEK MILLION), EBITDA MARGIN PER QUARTER AND LTM EBITDA MARGIN



### EBITDA BRIDGE, OCTOBER – DECEMBER

SEK million	EBITDA adjusted
<b>2016</b>	<b>229</b>
Currency	-1
Acquisitions	13
Other	-16
Total	-3
<b>2017</b>	<b>226</b>

### Financial Net

Financial Net amounted to SEK -14.7 million (-25.2). Interest income and similar revenues amounted to SEK 17.4 million (5.4) and interest expenses and similar costs amounted to SEK -32.1 million (-30.5). Financial net for Q4 was positively impacted by exchange rate effects.

### Tax

The income tax amounted to SEK -8.7 million (-20.4) corresponding to a tax rate adjusted for non-recurring items of 13.3 percent. The relatively low tax rate in Q4 is mainly a phasing effect due to uneven distribution of results from operating units in different countries between quarters.

### Profit after tax

Profit after tax amounted to SEK -183.1 million (76.0) and on an adjusted basis SEK 56.7 million.

## JANUARY - DECEMBER 2017

### EBITDA<sup>1/</sup>

EBITDA<sup>1/</sup> amounted to SEK 730 million (749), a decrease of 2.6 percent. The EBITDA margin to sales decreased from 16.0 percent to 13.7 percent. The acquisition effect was SEK 88 million and the currency effect was positive by SEK 14 million. EBITDA adjusted for acquisitions and currency translation effects decreased by SEK 121 million. The lower EBITDA was mainly due to costs related to the capacity expansion in Sterile Liquids and lower capacity utilization in Swedish operations.

### Raw materials and consumables

Adjusted for non-recurring items<sup>1/</sup>, raw materials and consumables amounted to SEK 1,641 million (1,398). Cost to sales ratio increased 1 percentage points to 31 percent (30) and was mainly related to higher share of materials to sales from the acquisitions, offset by sales growth and margin improvement for Recipharm's own products.

### Other external costs

Adjusted for non-recurring items<sup>1/</sup>, other external costs amounted to SEK 1,250 million (1,060). The increase related to the acquisitions was SEK 130 million. The ratio to sales increased 1 percentage points to 23 percent (22) mainly due to expenses related to new customer projects, construction, maintenance and similar costs.

### Employee benefits expense

Adjusted for non-recurring items<sup>1/</sup>, employee benefits expense amounted to SEK 1,824 million (1,551). The ratio of employee expenses to sales increased 1 percentage point to 34 percent (33), mainly related to staffing and training costs related to the new lyophilisation capacity.

### Depreciation and amortisation

Adjusted for non-recurring items<sup>1/</sup>, depreciation and amortisation amounted to SEK 498 million (365). Amortization of intangibles increased SEK 61 million mainly related to the recently acquired sites in India and Sweden. The depreciation costs increased SEK 74 million, which was also mainly an acquisition effect in addition to the finalized Lyophilisation expansion in Germany.

## EBITDA BRIDGE, JANUARY - DECEMBER

SEK million	EBITDA
<b>2016</b>	<b>749</b>
Currency	14
Acquisitions	88
Other	-121
Total	-19
<b>2017</b>	<b>730</b>

### Financial items

Financial Net amounted to SEK -112.7 million (-87.4). Interest income and similar revenues amounted to SEK 26.0 million (8.5) and interest expenses and similar costs amounted to SEK -138.7 million (-95.9).

### Tax

The income tax amounted to SEK 38.6 million (100.3), corresponding to an tax rate adjusted for non-recurring items of 33 percent.

### Profit after tax

Profit after tax amounted to SEK -160.0 million (196.6) and on an adjusted basis SEK 79.8 million.

## ACQUISITIONS

The acquisition completed during the last 12 months was Kemwell India (February 20, 2017).

Kemwell India contributed SEK 82 million to Net Sales and SEK 11 million to EBITDA during the 4<sup>th</sup> quarter, split between the two segments Manufacturing Services - Solids & Other and Development & Technology.

For additional information related to the acquisitions, please refer to note 2.

1/ APM: Alternative Performance Measures, see financial definitions on page 24. For information on adjustments for non-recurring items, see also page 10.

## MANUFACTURING SERVICES – STERILE LIQUIDS

The business segment *Sterile Liquids* consists of manufacturing of products on behalf of pharmaceutical companies and covers sterile technologies including liquid vials and ampoules, lyophilisation and blow-fill-seal products.

### Q4:

- Sales decreased by 0.4%
- EBITDA decreased by SEK 4 million
- EBITDA margin of 22.2% (22.7)



### OCTOBER – DECEMBER 2017

#### Net sales

Sales for Sterile Liquids decreased by SEK 2 million to SEK 546 million, a decrease of 0.4 percent. The currency effect was negative SEK -2 million. Sales in local currency were flat versus last year.

#### EBITDA

EBITDA for Sterile Liquids decreased by SEK 4 million to SEK 121 million, and the EBITDA margin was reduced by 0.5 percentage points to 22.2 percent to sales. The currency effect to EBITDA was insignificant. The change in EBITDA was mainly due to ramp up activities for the new capacities within lyophilisation and Blow-Fill-Seal.

### SALES BRIDGE, OCTOBER – DECEMBER

	Sales, SEK million	Sales, %
<b>2016</b>	548	
Currency	-2	-0.4
Acquisitions	0	0.0
Organic growth	0	0.0
Total	-2	-0.4
<b>2017</b>	<b>546</b>	

### EBITDA BRIDGE, OCTOBER – DECEMBER

SEK million	EBITDA
<b>2016</b>	125
Currency	0
Acquisitions	0
Other	-4
Total	-4
<b>2017</b>	<b>121</b>

### JANUARY - DECEMBER 2017

#### Net sales

Sales for Sterile Liquids increased by SEK 196 million to SEK 2,126 million, an increase of 10.1 percent. The currency translation effect was SEK 34 million. The acquisitions contributed with SEK 141 million and increased sales by 7.3 percent. Sales excluding acquisitions and currency effects increased by SEK 21 million, 1.1 percent, mainly due to an increased demand for injectable penicillin products.

#### EBITDA

EBITDA for Sterile Liquids decreased by SEK 11 million to SEK 391 million, which gave an EBITDA margin of 18.4 percent (20.8). The acquisitions contributed with SEK 26 million and the currency effect was SEK 6 million. EBITDA in local currency, excluding acquisitions, decreased by SEK 44 million which was mainly related to the start up costs for the capacity expansion within the segment.

## MANUFACTURING SERVICES – SOLIDS & OTHERS

The business segment *Solids & Others* consists of manufacturing of products on behalf of pharmaceutical companies and covers tablets, capsules, semi-solids and non-sterile liquids.

### Q4:

- Sales increased by 6.2%
- EBITDA<sup>1/</sup> decreased by SEK 21 million
- EBITDA<sup>1/</sup> margin of 11.1% (15.2)



### OCTOBER – DECEMBER 2017

#### Net sales

Solids & Others increased sales by SEK 40 million to SEK 674 million, an increase of 6.2 percent. The currency effect was insignificant. The acquisitions contributed with SEK 73 million of sales, which generated a growth of 11.5 percent. Sales, excluding acquisitions and currency effects, decreased by SEK 33 million compared to the same quarter last year. The decrease was mainly due to lower demand in the segment.

#### EBITDA<sup>1/</sup>

EBITDA<sup>1/</sup> for Solids & Others decreased by SEK 21 million to SEK 75 million, corresponding to an EBITDA margin of 11.2 percent (15.2). Acquisitions contributed with SEK 13 million while the currency effect was insignificant. EBITDA excluding acquisitions and currency effects was SEK 34 million lower than last year mainly due to lower demand and changes in some older accruals.

### JANUARY - DECEMBER 2017

#### Net sales

Solids & Others increased sales by SEK 314 million to SEK 2,480 million, an increase of 14.5 percent. The currency effect was SEK 8 million. The acquisitions contributed with SEK 421 million or 19.4 percent increase of sales. Excluding acquisitions and currency effects, sales decreased by SEK 115 million compared to the same period last year. The decrease is mainly due to demand and discontinued contracts.

### SALES BRIDGE, OCTOBER – DECEMBER

	Sales, SEK million	Sales, %
<b>2016</b>	<b>634</b>	
Currency	0	0.1
Acquisitions	73	11.5
Organic	-33	-5.4
Total	40	6.2
<b>2017</b>	<b>674</b>	

### EBITDA BRIDGE, OCTOBER – DECEMBER

SEK million	EBITDA
2016	97
Currency	0
Acquisitions	13
Other	-34
Total	-21
<b>2017</b>	<b>75</b>

#### EBITDA<sup>1/</sup>

EBITDA<sup>1/</sup> for Solids & Others decreased by SEK 48 million to SEK 229 million, corresponding to an EBITDA margin of 9.2 percent (12.8). The acquisitions contributed with SEK 51 million and the currency effect was SEK 3 million. EBITDA excluding acquisitions and currency translation was SEK 96 million lower than in the previous year. The decrease was mainly related to the lower volumes, discontinued contracts and to costs related to new customer projects.

1/ APM: Alternative Performance Measures, see financial definitions on page 24. For information on adjustments for non-recurring items, see also page 10.

## DEVELOPMENT & TECHNOLOGY

The business segment *Development & Technology* provides pharmaceutical development services. It also includes a register of patents, technologies and product rights, and sales of own products to distributors and partners.

### Q4:

- Sales increased by 20.4%
- EBITDA increased by SEK 24 million
- EBITDA margin of 25.0% (17.6)



### OCTOBER – DECEMBER 2017

#### Net sales

Development & Technology increased its sales by SEK 37 million to SEK 222 million, an increase by 20.4 percent. The acquisitions contributed with SEK 11 million and the currency translation effect was negative by SEK -1 million. The growth was driven by trending demand for erdosteine and an increase in development service assignments.

#### EBITDA

EBITDA for Development & Technology increased by SEK 24 million to SEK 56 million, equivalent to an EBITDA margin of 25.0 percent (17.6). The acquisitions effect was zero, and the currency translation effect was SEK 1 million. EBITDA, excluding acquisitions and currency effects, increased by SEK 23 million versus last year mainly due to sales and gross margin effects for Recipharm's own products.

### JANUARY - DECEMBER 2017

#### Net sales

Development & Technology sales increased by SEK 124 million to SEK 874 million, an increase of 16.6 percent. The acquisitions contributed with SEK 57 million and the currency translation effect was SEK 8 million. The growth was driven mainly by strong demand for erdosteine and other APIs, as well as 14.7 percent increase of development services.

### SALES BRIDGE, OCTOBER– DECEMBER

	Sales, SEK million	Sales, %
<b>2016</b>	185	
Currency	-1	-0.5
Acquisitions	11	6.2
Organic	27	14.7
Total	37	20.4
<b>2017</b>	<b>222</b>	

### EBITDA BRIDGE, OCTOBER–DECEMBER

	EBITDA
<b>2016</b>	<b>32</b>
Currency	1
Acquisitions	0
Organic	22
Total	24
<b>2017</b>	<b>56</b>

#### EBITDA

EBITDA for Development & Technology increased by SEK 49 million to SEK 192 million, equivalent to an EBITDA margin of 21.9 percent (19.0). The acquisition effect was zero and the currency translation effect was SEK 3 million. EBITDA, excluding acquisitions and currency effects, increased by SEK 46 million versus last year mainly due to strong erdosteine demand and favorable product mix changes.

## EARNINGS EXCLUDING NON-RECURRING ITEMS

SEK million	Oct – Dec			Jan – Dec		
	2017	Non-recurring items	2017 excluding non-recurring items	2017	Non-recurring items	2017 excluding non-recurring items
<b>Operating income</b>						
Net sales	1,402.9	-	1,402.9	5,331.9	-	5,331.9
Other operating revenue	62.1	-	62.1	182.7	-	182.7
	<b>1,465.0</b>	<b>-</b>	<b>1,465.0</b>	<b>5,514.6</b>	<b>-</b>	<b>5,514.6</b>
<b>Operating expenses</b>						
Raw materials and consumables	-400.6	-19.1 <sup>1/</sup>	-381.5	-1,660.4	-19.1 <sup>1/</sup>	-1,641.3
Other external costs	-425.3	-100.5 <sup>1/</sup>	-324.8	-1,350.3	-100.5 <sup>1/</sup>	-1,249.8
Employee benefits expense	-597.0	-85.7 <sup>1/</sup>	-511.3	-1,909.5	-85.7 <sup>1/</sup>	-1,823.8
Depreciation and amortisation	-180.0	-34.6 <sup>1/</sup>	-145.4	-533.1	-34.6 <sup>1/</sup>	-498.5
Other operating expenses	-24.5	-	-24.5	-69.7	-	-69.7
Share of result in participations	2.7	-	2.7	-0.3	-	-0.3
	<b>-1,624.7</b>	<b>-239.9</b>	<b>-1,384.8</b>	<b>-5,523.3</b>	<b>-239.9</b>	<b>5,283.4</b>
<b>Operating profit</b>	<b>-159.7</b>	<b>-239.9</b>	<b>80.1</b>	<b>-8.7</b>	<b>-239.9</b>	<b>231.2</b>
Interest income and similar revenues	17.4	-	17.4	26.0	-	26.0
Interest expenses and similar costs	-32.1	-	-32.1	-138.7	-	-138.7
<b>Net financial income/expense</b>	<b>-14.7</b>	<b>-</b>	<b>-14.7</b>	<b>-112.7</b>	<b>-</b>	<b>-112.7</b>
<b>Profit before tax</b>	<b>-174.4</b>	<b>-239.9</b>	<b>65.4</b>	<b>-121.4</b>	<b>-239.9</b>	<b>118.4</b>
Income tax	-8.7	-	-8.7	-38.6	-	-38.6
<b>Profit for the period</b>	<b>-183.1</b>	<b>-239.9</b>	<b>56.7</b>	<b>-160.0</b>	<b>-239.9</b>	<b>79.8</b>

<sup>1/</sup> Refers to restructuring costs of SEK 176 million from the discontinuing of manufacturing operations in Stockholm and Höganäs that was announced on 9 November. In addition, the company has made a provision for onerous contracts of 64 million for the period 2018-2019 until plant closure in Recipharm Stockholm. For additional details refer to section Significant events during the period on page 12.

## CASH FLOW

SEK million	Oct – Dec		Jan – Dec	
	2017	2016	2017	2016
CF from oper. activities before changes in WC	179.9	151.5	455.7	488.2
CF from changes in working capital (WC)	-106.3	-68.1	-104.3	-146.1
CF from investing activities	-198.6	-190.5	-1,585.4	-2,033.1
CF from financing activities	156.5	237.0	1,306.3	1,834.4
<b>Total</b>	<b>31.5</b>	<b>129.8</b>	<b>72.3</b>	<b>143.5</b>

### OCTOBER – DECEMBER 2017

Cash flow from operating activities before changes in working capital was to SEK 179.9 million (151.5) while changes in working capital was SEK -106.3 million (-68.1).

Cash flow from investing activities was SEK -198.6 million (-190.5). SEK -151.9 million (-166.5) was investments in property, plant and equipment. The increase is mainly due to new equipment for serialisation, expansion of blow-fill-seal capacity in Kaysersberg and capacity investments in Wasserburg (new freeze drying and packaging capacity).

Cash flow from financing activities was SEK 156.5 million (237.0), mainly related to new loans.

### JANUARY - DECEMBER 2017

Cash flow from operating activities before changes in working capital was SEK 455.7 million (488.2) while changes in working capital was SEK -104.3 million (-146.1).

Cash flow from investing activities was SEK -1,585.4 million (-2,033.1) of which SEK -974.7 million (-1,520.0) was acquisition of subsidiaries and SEK -548.2 million (-470.8) was investments in property, plant and equipment. The increase is mainly due to new equipment for serialisation, expansion of blow-fill-seal capacity in Kaysersberg and capacity investments in Wasserburg (new freeze drying and packaging capacity).

## FINANCING AND RETURN

### KEY FIGURES FINANCING AND RETURN

SEK million	Jan – Dec		Jan - Dec	
	2017, adjusted	2017	2016	2016
Return on operating capital (%)	3.0	-0.1	7.0	7.0
Return on equity	1.6	-3.2	5.0	5.0
Net debt to EBITDA	4.7	6.5	2.5	2.5
Net debt to equity	0.7	0.7	0.4	0.4
Equity/assets ratio (%)	43.4	41.5	52.2	52.2

Adjusted for non-recurring items, the return on operating capital decreased to 3.0 from 7.0 last year. The decrease is due to the increase in operating capital from the acquisitions made in 2017.

Adjusted for non-recurring items, return on equity decreased to 1.6 from 5.0 at the end of 2016. The decrease is mainly due to a lower net profit in the period.

Adjusted for non-recurring items, the net debt to EBITDA ratio increased to 4.7 from 2.5 at the end of 2016. The increase in net debt is mainly due to the increase of debt from acquisitions and other investments.

Net debt in relation to equity was 0.7 (0.4), below the target of maximum 0.8.

The equity to assets ratio decreased compared to last year due to an increase of assets mainly from the acquisition of Kemwell India.

## PARENT COMPANY

Recipharm AB (publ) includes Group management and functions that provide services to the business. The parent company's net sales was SEK 118.6 million (113.0) and operating result was SEK -87.9 million (-66.8) during the period January to December 2017. Investments amounted to SEK 124.4 million (58.1), mainly due to the serialisation project.

## EMPLOYEES

The average number of employees (equivalent to full-time employees "FTE") during the period was 4,572 (2,927), of which 1,168 FTEs were an effect of acquisitions.

## SIGNIFICANT EVENTS DURING THE PERIOD

### **Recipharm to end operations in two facilities in Sweden**

Recipharm has decided to discontinue the manufacturing operations at its facilities in Stockholm and Höganäs, Sweden.

Recipharm's operations in the greater Stockholm area employ approximately 180 people and are specialised in the manufacturing of tablets. The company intend to close the facilities during the second half of 2019.

Recipharm's operations in Höganäs employ approximately 40 people and are specialised in sachet and stick pack filling, primarily for powders and granules. As part of the process, the company will evaluate different options for the facility. This will include divestment of the manufacturing site, with the intention to have discontinued its involvement in operations by the end of 2018.

Negotiations with representatives of the employees were conducted during the quarter. As part of this activity, Recipharm has offered some clients the opportunity to transfer manufacturing to other facilities in the network to minimise any potential impact on patients. In cases where transfer is not suitable, client contracts have been terminated. A dedicated project to manage these network changes has been established and is progressing according to plan.

The operations in Stockholm and Höganäs currently generate a negative annualised run rate EBITDA of approximately SEK 25 million. Discontinuing operations in Höganäs and Stockholm will lead to an EBITDA margin and profitability improvement in the strategic business segment Solids and Others. Estimated non-recurring costs associated with the decision to discontinue operations consist of restructuring costs and provisions for onerous contracts. These costs amount to SEK 240 million and are charged to the Q4 2017 results.

## SIGNIFICANT EVENTS AFTER THE PERIOD END

### **Recipharm acquires remaining shares in Nitin Lifesciences Ltd**

Recipharm AB (publ) announced on January 2 that it has reached an agreement to acquire the remaining 26 per cent of the shares of Nitin Lifesciences Limited which were owned by members of the founding Sobti family. The consideration was INR 2,800 million (SEK 351 million) on a cash and debt free basis whereof INR 600 million (SEK 75 million) will be paid in newly issued Recipharm shares (RECI-B). The acquisition will be completed in two steps; the cash part was paid on January 2 and the part paid in Recipharm shares will be settled later during the first half of 2018.

### **Recipharm appoints President Development Services to drive end to end offering**

Recipharm announced on February 14 the appointment of Bernard Pluta to lead its new global development organisation. The newly established position forms part of the ongoing transformation of Recipharm's Development Services, in which a total of 400 employees across six countries are united to deliver a comprehensive development offering.

### **Share dividend proposal**

The Board proposes no dividend for 2017 (1.50).

## SHARES

Recipharm's class B shares were first available for trading on Nasdaq Stockholm on April 3 2014.

### THE LARGEST SHAREHOLDERS (31 DECEMBER)

Shareholder	Capital (%)	Capital (%)	Votes (%)	Votes (%)
	2017	2016	2017	2016
Flerie Participation AB <sup>1/</sup>	19.4	19.4	40.3	40.3
Cajelo Invest AB <sup>1/</sup>	12.1	12.1	38.0	38.0
Lannebo fonder	8.9	12.2	2.8	3.8
Fjärde AP-fonden	6.2	5.4	1.9	1.7
Första AP-fonden	6.1	6.1	1.9	1.9

<sup>1/</sup> Flerie Participation AB is controlled by CEO Thomas Eldered and Cajelo Invest AB is controlled by Chairman Lars Backsell.

### FINANCIAL CALENDAR

Interim report January – March 2018	April 27, 2018
Interim report January – June 2018	July 25, 2018
Annual Report 2017	April 23, 2018
Annual General Meeting 2018	May 14, 2018
Interim report January – September 2018	November 8, 2018

### CONTACT INFORMATION:

Thomas Eldered, CEO, tel +46 8 602 52 00  
Henrik Stenqvist, CFO, tel +46 8 602 52 00  
ir@recipharm.com

The undersigned Board members assure that this Interim report provides a true and fair view of the development of the Group's and Parent Company's operations, position and performance as well as describing material risks and uncertainties faced by the companies being part of the Group.

Stockholm, February 22 2018

Thomas Eldered (CEO)

Lars Backsell (Chairman)

Carlos von Bonhorst

Anders G. Carlberg

Olle Christenson

Marianne Dicander Alexandersson

Helena Levander

Wenche Rolfsen

Tony Sandell

This information is information that Recipharm AB is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication at 07:45 CET on February 22, 2018. This interim report and other financial information about Recipharm AB (publ) are available at [www.recipharm.com](http://www.recipharm.com). This report is prepared in Swedish and thereafter translated into English. Should any differences occur between the Swedish and the English version, the Swedish version shall prevail. This report has not been reviewed by the company's auditors.

## FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF PROFIT AND LOSS

SEK million	Oct – Dec		Jan – Dec	
	2017	2016	2017	2016
<b>Operating income</b>				
Net sales	1,402.9	1,332.6	5,331.9	4,678.3
Other operating revenue	62.1	46.2	182.7	154.8
	<b>1,465.0</b>	<b>1,378.8</b>	<b>5,514.6</b>	<b>4,833.1</b>
<b>Operating expenses</b>				
Raw materials and consumables	-400.6	-384.7	-1,660.4	-1,398.2
Other external costs	-425.3	-309.2	-1,350.3	-1,060.3
Employee benefits expense	-597.0	-436.8	-1,909.5	-1,550.8
Depreciation and amortisation	-180.0	-107.5	-533.1	-365.0
Other operating expenses	-24.5	-18.1	-69.7	-70.8
Share of result in participations	2.7	-1.0	-0.3	-3.7
	<b>-1,624.7</b>	<b>-1,257.2</b>	<b>-5,523.3</b>	<b>-4,448.8</b>
<b>Operating profit</b>	<b>-159.7</b>	<b>121.6</b>	<b>-8.7</b>	<b>384.3</b>
Interest income and similar revenues	17.4	5.3	26.0	8.5
Interest expenses and similar costs	-32.1	-30.5	-138.7	-95.9
<b>Net financial income/expense</b>	<b>-14.7</b>	<b>-25.2</b>	<b>-112.7</b>	<b>-87.4</b>
<b>Profit before tax</b>	<b>-174.4</b>	<b>96.4</b>	<b>-121.4</b>	<b>296.9</b>
Income tax	-8.7	-20.4	-38.6	-100.3
<b>Profit for the period</b>	<b>-183.1</b>	<b>76.0</b>	<b>-160.0</b>	<b>196.6</b>

### OTHER COMPREHENSIVE INCOME:

SEK million	Oct – Dec		Jan – Dec	
	2017	2016	2017	2016
<b>Items that may be reclassified subsequently to profit or loss</b>				
Translation differences	149.0	24.4	-35.9	223.7
Gains/losses from fair value valuation of financial instruments	12.9	-0.9	35.6	-3.4
Deferred tax relating to items that may be reclassified	-2.8	0.2	-7.8	0.6
<b>Total</b>	<b>159.1</b>	<b>23.8</b>	<b>-8.1</b>	<b>220.9</b>
<b>Items that will not be reclassified to profit or loss</b>				
Actuarial gains/losses on pensions	7.4	10.2	3.1	-22.4
Deferred tax relating to items that will not be reclassified	1.2	-3.3	0.9	5.9
<b>Total</b>	<b>8.7</b>	<b>7.0</b>	<b>4.0</b>	<b>-16.5</b>
<b>Other comprehensive income for the period</b>	<b>167.8</b>	<b>30.7</b>	<b>-4.1</b>	<b>204.4</b>
<b>Comprehensive income for the period</b>	<b>-15.3</b>	<b>106.7</b>	<b>-164.1</b>	<b>401.0</b>
<b>Net profit attributable to:</b>				
Parent company's shareholders	-187.2	68.7	-170.5	188.7
Non-controlling interest	4.2	7.3	10.5	7.9
	<b>-183.1</b>	<b>76.0</b>	<b>-160.0</b>	<b>196.6</b>
<b>Group comprehensive income attributable to:</b>				
Parent company's shareholders	-30.0	73.8	-160.1	361.1
Non-controlling interest	14.7	32.9	-4.0	39.9
	<b>-15.3</b>	<b>106.7</b>	<b>-164.1</b>	<b>401.0</b>
Earnings per share before dilution (SEK)	-2.96	1.09	-2.70	3.32
Earnings per share after dilution (SEK)	-2.96	1.09	-2.70	3.32
Adjusted earnings per share before dilution (SEK) <sup>1/</sup>	0.83	1.09	1.10	3.32
Adjusted earnings per share after dilution (SEK) <sup>1/</sup>	0.83	1.09	1.10	3.32

1/ APM: Alternative Performance Measures, see financial definitions on page 24.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION,  
CONDENSED

SEK million	Note	Dec 31	
		2017	2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Product rights		295.0	321.4
Goodwill		2,486.4	2,063.9
Customer relations		2,360.7	2,059.4
Other intangible assets		212.0	184.3
Property, plant and equipment		2,884.3	2,281.1
Non-current financial assets		266.9	197.6
<b>Total non-current assets</b>		<b>8,505.2</b>	<b>7,107.6</b>
<b>Current assets</b>			
Inventories		1,006.4	894.8
Accounts receivable		1,054.7	863.8
Other receivables		291.2	179.5
Prepaid expenses and accrued income		102.6	88.9
Cash and cash equivalents		770.9	695.8
<b>Total currents assets</b>		<b>3,225.8</b>	<b>2,722.8</b>
<b>TOTAL ASSETS</b>		<b>11,731.0</b>	<b>9,830.4</b>
<b>SHAREHOLDERS EQUITY AND LIABILITIES</b>			
Share capital		31.6	31.6
Other paid-in capital		4,026.5	4,026.5
Reserves		68.4	62.2
Retained earnings (including net profit)		422.0	666.9
<b>Equity attributable to Parent Company shareholders</b>		<b>4,548.4</b>	<b>4,787.0</b>
<b>Equity attributable to Non-Controlling interest</b>		<b>325.5</b>	<b>343.1</b>
<b>Total equity</b>		<b>4,874.0</b>	<b>5,130.1</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities		4,154.5	2,550.8
Provisions		508.2	301.1
Deferred tax liability		920.5	782.9
Other non-current liabilities		21.6	13.5
<b>Total non-current liabilities</b>		<b>5,604.8</b>	<b>3,648.3</b>
<b>Current liabilities</b>			
Interest-bearing liabilities		16.9	13.1
Overdraft facility		21.8	25.8
Accounts payable		614.4	526.5
Tax liabilities		72.5	68.4
Other liabilities		99.9	74.4
Accrued expenses and prepaid income		426.8	343.9
<b>Total current liabilities</b>		<b>1,252.2</b>	<b>1,052.1</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>11,731.0</b>	<b>9,830.4</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SEK million	Share capital	Other paid-in capital	Reserves	Retained earnings incl. net profit	Equity attr. to parent company share-holders	Non-contr. interest	Total equity
<b>Equity at 1 January 2016</b>	<b>23.2</b>	<b>2,287.5</b>	<b>-126.8</b>	<b>556.6</b>	<b>2,740.3</b>	<b>0.2</b>	<b>2,740.5</b>
Profit January-December 2016				188.7	188.7	7.9	<b>196.6</b>
Other comprehensive income			189.0	-16.5	172.5	31.9	<b>204.4</b>
Non-controlling interest						303.0	<b>303.0</b>
Transactions with owners:							
New share issue	8.4	1,693.0			1,701.4		<b>1,701.4</b>
Share-based incentive program				11.7	11.7		<b>11.7</b>
Dividend				-73.6	-73.6		<b>-73.6</b>
Convertible bond, equity share		46.0			46.0		<b>46.0</b>
<b>Equity at 31 December 2016</b>	<b>31.6</b>	<b>4,026.5</b>	<b>62.2</b>	<b>666.9</b>	<b>4,787.0</b>	<b>343.1</b>	<b>5,130.1</b>
Profit for January-December 2017				-170.5	-170.5	10.5	<b>-160.0</b>
Other comprehensive income			6.4	4.0	10.4	-14.5	<b>-4.1</b>
Non-controlling interest						-13.6	<b>-13.6</b>
Transactions with owners:							
Share-based incentive program				15.6	15.6		<b>15.6</b>
Dividend				-94.0	-94.0		<b>-94.0</b>
<b>Equity at 31 December 2017</b>	<b>31.6</b>	<b>4,026.5</b>	<b>68.4</b>	<b>422.0</b>	<b>4,548.4</b>	<b>325.5</b>	<b>4,874.0</b>

## CONSOLIDATED CASH FLOW STATEMENT

SEK million	Note	Oct – Dec		Jan – Dec	
		2017	2016	2017	2016
<b>Operating activities</b>					
Profit before tax		-174.4	96.4	-121.4	296.9
Adjustments for items not affecting cash					
- Depreciation, amortization and impairment of assets		180.0	107.5	533.1	365.0
- Changes in provisions		213.5	-15.4	194.8	-21.9
- Gains from disposal of non-current assets		-0.5	-0.2	-0.5	-1.8
- Share of result of associated companies		-3.8	0.9	-1.1	3.4
- Other		-9.6	-13.7	1.5	15.4
		<b>205.1</b>	<b>175.5</b>	<b>606.3</b>	<b>657.0</b>
Income taxes paid		-25.2	-24.0	-150.6	-168.8
<b>Operating cash flow before changes in working capital</b>		<b>179.9</b>	<b>151.5</b>	<b>455.7</b>	<b>488.2</b>
<i>Cash flow from changes in working capital</i>					
Change in inventories		-57.6	-12.4	-39.8	-50.4
Change in operating receivables		-154.7	-150.6	-150.7	-194.2
Change in operating liabilities		106.0	94.9	86.1	98.5
<b>Operating cash flow</b>		<b>73.6</b>	<b>83.4</b>	<b>351.4</b>	<b>342.1</b>
<b>Investing activities</b>					
Acquisition of property, plant and equipment		-151.9	-166.5	-548.2	-470.8
Disposal of property, plant and equipment		5.3	0.8	5.8	4.6
Acquisition of intangible assets		-35.1	-13.3	-48.1	-27.7
Acquisition of subsidiaries/operations, net of cash acquired		-	-	-974.7	-1,520.0
Acquisition of financial assets		-14.8	-10.1	-20.2	-22.0
Disposal of short-term investment		-2.1	-1.4	-	2.8
<b>Cash flow from investing activities</b>		<b>-198.6</b>	<b>-190.5</b>	<b>-1,585.4</b>	<b>-2,033.1</b>
<b>Financing activities</b>					
Dividend paid to Parent Company shareholders		-	-	-94.0	-73.6
New share issue		-	-	-	1,258.7
Issue of convertible bonds		-	980.8	-	980.8
Change in overdraft facility		21.8	3.0	-4.0	10.0
Loans raised		339.2	20.5	1,790.6	1,349.7
Repayment of borrowings		-204.4	-767.3	-386.2	-1,691.2
<b>Cash flow from financing activities</b>		<b>156.5</b>	<b>-237.0</b>	<b>1,306.3</b>	<b>1,834.4</b>
<b>Total cash flow for the period</b>		<b>31.5</b>	<b>129.8</b>	<b>72.3</b>	<b>143.4</b>
Cash and cash equivalents at beginning of period		731.1	565.9	695.8	534.2
Translation difference on cash and cash equivalents		8.3	0.1	2.7	18.2
<b>Cash and cash equivalents at end of period</b>		<b>770.9</b>	<b>695.9</b>	<b>770.9</b>	<b>695.8</b>
Interest received		1.4	1.1	5.5	1.8
Interest paid		-35.3	-8.9	-94.2	-33.4

## PARENT COMPANY STATEMENT OF PROFIT AND LOSS

SEK million	Oct – Dec		Jan – Dec	
	2017	2016	2017	2016
<b>Operating Income</b>				
Net sales	28.9	30.1	118.6	113.0
Other operating revenue	3.4	1.7	6.8	5.1
	<b>32.3</b>	<b>31.7</b>	<b>125.4</b>	<b>118.1</b>
<b>Operating expenses</b>				
Other external costs	-29.6	-28.6	-108.8	-94.9
Employee benefits expense	-26.4	-24.5	-93.1	-81.7
Depreciation and amortisation	-1.7	-1.8	-8.1	-5.8
Other operating expenses	-0.7	-0.9	-3.3	-2.5
	<b>-58.4</b>	<b>-55.8</b>	<b>-213.3</b>	<b>-184.9</b>
<b>Operating profit/loss</b>	<b>-26.1</b>	<b>-24.1</b>	<b>-87.9</b>	<b>-66.8</b>
Financial items	-184.8	64.6	-160.7	160.7
<b>Profit/loss after financial items</b>	<b>-210.9</b>	<b>40.5</b>	<b>-248.6</b>	<b>93.7</b>
Appropriations and tax	-21.0	-12.2	0.5	-0.9
<b>Profit/loss for the period</b>	<b>-231.9</b>	<b>28.3</b>	<b>-248.1</b>	<b>92.8</b>

## OTHER COMPREHENSIVE INCOME

SEK million	Oct – Dec		Jan – Dec	
	2017	2016	2017	2016
<b>Items that may be reclassified subsequently to profit or loss</b>				
Translation differences	-1.3	0.2	0.2	-2.3
<b>Other comprehensive income for the period</b>	<b>-1.3</b>	<b>0.2</b>	<b>0.2</b>	<b>-2.3</b>
<b>Total comprehensive income for the period</b>	<b>-233.2</b>	<b>28.5</b>	<b>-247.9</b>	<b>90.5</b>

PARENT COMPANY STATEMENT OF FINANCIAL POSITION,  
CONDENSED

SEK million	Dec 31	
	2017	2016
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	12.0	18.6
Property, plant and equipment	169.0	52.4
Non-current financial assets	6,559.9	5,307.2
Current assets	1,295.0	1,079.9
<b>TOTAL ASSETS</b>	<b>8,036.0</b>	<b>6,458.1</b>
<b>SHAREHOLDERS EQUITY AND LIABILITIES</b>		
Equity	3,449.3	3,775.4
Liabilities	4,586.7	2,682.7
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>8,036.0</b>	<b>6,458.1</b>

## ACCOUNTING PRINCIPLES, RISKS, NOTES AND DEFINITIONS

### Accounting principles

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) which have been approved by the European Commission for application within the EU. This interim report was prepared in accordance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act. The Parent Company applies the Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR2, Accounting for Legal Entities.

The accounting principles and calculations in this report are the same as those used for the 2016 Annual Report. New or amended standards or interpretations of standards effective as of 1 January 2017 have not had any significant impact on Recipharm's financial statements.

### New accounting principles from 1 January 2018 IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 on 1 January, 2018. The accounting standard introduces new principles for the classification of financial assets, for hedge accounting and for credit loss provisions. Recipharm has analyzed the effects of the introduction of the new standard. The new principles for classification of financial assets are based on an analysis of both the business model in which the asset is managed and of the asset's cash-flow character. Our analysis shows that the new principles do not have any significant impact on Recipharm's accounts. IFRS 9 further implies that the principles for credit loss provision are made in a model based on expected credit losses. The analysis and Recipharm's application of the model show that the effect of the transition will not have any significant effect on the reported values due to the risk character of the receivables.

Recipharm will apply the retroactive transition method, meaning that the accumulated effect of the transition to IFRS 9 will be reported in retained earnings on 1 January 2018 and that the comparative numbers will not be recalculated.

### IFRS 15 Revenue from contracts with customers

The standard comes into effect on January 1, 2018 and is designed according to a control-based five-step model framework. The standard regulates commercial agreements (contracts) with customers in which delivery of goods and services is divided into separately identifiable performance obligations that are recognized independently. The standard establishes rules for calculating the transaction price for delivery of goods and services and the manner in which this can be allocated among the various performance obligations. Revenue is recognized when control has passed to the customer by the customer being able to use or benefit from the good or service, at which point it is deemed to have been transferred. Control may be passed at a given point in

time, which is usually the case for sales of products. In other cases, a performance obligation may be satisfied over time, which is common for services.

The majority of Recipharm's contracts with customers relates to contract manufacturing of pharmaceutical products with no additional services, where revenue is recognised in conjunction with delivery when the risk and ownership are transferred to the buyer. This means after internal analysis, approval and delivery from inventory. Recipharm also provides development services which are recognised as revenue in the period in which they are performed. For these contracts the transition to IFRS 15 will have no effect. On one of our markets there are contracts where the customer controls the asset at all times during the production process, and for which the asset value is enhanced during the manufacturing process. For these contracts the conclusion is that revenue is to be reported over time, meaning revenue is reported slightly earlier than according to the current accounting principles. This change in principle is not estimated to have a significant effect on either net sales or operating profit.

No significant effects have been identified from the transition to IFRS 15. Recipharm will apply the standard retroactively on all contracts not terminated on 1 January 2018, meaning that the accumulated effect of the transition to IFRS 15 will be reported in retained earnings on 1 January 2018 and that the comparative numbers will not be recalculated.

### New accounting principles from 1 January 2019 IFRS 16 Leasing

The assessment of effect from IFRS 16 has been initiated. IFRS 16 will have some effect on Recipharm's accounts, primarily in terms of non-current assets and liabilities, but the full extent has yet to be determined.

### Significant risks and uncertainties

A detailed description of risks is provided in the 2016 Annual Report, on page 32. No new significant risks are considered to have arisen since the publication of the annual report.

## NOTE 1 NUMBER OF SHARES AND POTENTIAL SHARES

	A-shares	B-shares	D-shares	Total
<b>Number of shares as of 31 December 2016</b>	<b>15,222, 858</b>	<b>47,494,674</b>	<b>500,000</b>	<b>63,217,532</b>
Conversion of shares		130,000	-130,000	-
<b>Number of shares as of 31 December 2017</b>	<b>15,222,858</b>	<b>47,624,674</b>	<b>370,000</b>	<b>63,217,532</b>

Potential shares, 1,358,156 (426,974), are related to Recipharm's share-based incentive program as well as the convertible bond issued in October 2016. Of total number of shares the company holds 120,661 B-shares and 370,000 D-shares. This is to secure delivery of shares to participants in the Share-based incentive program. 66,285 shares were delivered in August to participants in the first Share-based incentive program that ended in June.

The Annual General Meeting on 10 May 2017 resolved on a dividend of SEK 1.50 per share. The dividend was paid in May.

## NOTE 2 BUSINESS COMBINATIONS

**Kemwell India**

On April 18 2016 Recipharm announced the signing of two separate agreements to acquire Kemwell's pharmaceutical CDMO-businesses. The first acquisition, comprising US and Swedish operations, was completed on May 23 2016. The second, comprising operations in India, was conditional on governmental approvals and was closed on February 20 2017.

The acquired Indian business employed around 1,400 people at closing of the acquisition and comprises both development services as well as commercial manufacturing of solid, semi-solid, liquid and topical dose products. The solid dosage plant was commissioned in 2008 and has approvals from US FDA and EU amongst many other regulatory bodies. The oral liquids production plant was commissioned in 2011 and is specialized in automated high throughput large volume manufacturing, mainly for the Indian subcontinent. The development business is a rapidly growing business with a comprehensive service offering including formulation development, small scale manufacturing for clinical trials and a large analytical service business.

For the 12-month period ending on December 31 2016, the Indian business generated revenues of approximately INR 2,263 million (SEK 288 million) and EBITDA of INR 280 million (SEK 36 million).

The purchase price for the shares was SEK 996.0 million (including cash and cash equivalents of SEK 20.0 million) and was paid in cash. Transaction costs amount to SEK 4.7 million of which SEK 1.1 million is reported in 2017 and SEK 3.6 million was reported in 2016. The consolidated statement of profit and loss for the period includes net sales of SEK 260.0 million and operating profit of SEK -33.4 million attributable to Kemwell India. Recipharm net sales for the year, calculated as if the company was acquired at the beginning of the financial year, would have been SEK 5,355.5 million and operating profit SEK -11.8 million.

<b>Assets and liabilities in the acquired company were:<sup>1)</sup></b>	<b>Carrying amount</b>	<b>Fair value Adjustment<sup>2)</sup></b>	<b>Fair Value in the group</b>
Intangible assets	317.0	504.9	821.9
Property, plant and equipment	296.5		296.5
Financial non-current assets	2.7		2.7
Accounts receivable and other operating assets	150.3		150.3
Cash and cash equivalents	20.0		20.0
Deferred tax liability	28.9	174.7	203.7
Interest-bearing liabilities	134.9		134.9
Provisions	8.2		8.2
Accounts payable and other operating liabilities	84.3		84.3
<b>Net identifiable assets and liabilities</b>	<b>530.2</b>	<b>330.1</b>	<b>860.3</b>
<b>Group goodwill<sup>2)</sup></b>		<b>135.7</b>	<b>135.7</b>
<b>Purchase consideration</b>			<b>996.0</b>

<sup>1)</sup> The purchase price allocation has not been finalized and consequently the fair value adjustment presented above is preliminary.

<sup>2)</sup> Fair value adjustment consist of customer relations, SEK 504.9 million.

The recognized value of goodwill represents the combined value of synergies, employee competence and experience.

## NOTE 3 SEGMENT ANALYSIS

For control purposes Recipharm is separated into three segments: Manufacturing Services Sterile Liquids (MFG-SL), Manufacturing Services Solids & Others (MFG-SO) and Development & Technology (D&T). The business segment MFG-SL includes manufacturing of products on behalf of pharmaceutical companies and covers sterile technologies including liquid vials and ampoules, lyophilisates and blow-fill-seal products. The business segment MFG-SO includes manufacturing of products on behalf of pharmaceutical companies and covers tablets, capsules, semi-solids and non-sterile liquids. The business segment D&T provides pharmaceutical development services. It also includes a register of patents, technologies and product rights, and sales of own products through distributors. The segment reporting is based on the structure the management follow the business. Transactions between segments are based on same conditions as for external customers.

## Okt – Dec 2017

SEK million	MFG-SL	MFG-SO	D&T	Eliminations & Other	Total	Non-recurring items	Total
Net sales, external	535.5	651.9	215.5	-	1,402.9	-	1,402.9
Net sales, internal	10.2	22.1	6.6	-39.0	-	-	-
EBITDA	121.0	75.4	55.5	-26.4	225.5	-205.3	20.2
EBITDA %	22.2	11.2	25.0		16.1		1.4
Depreciations	-60.0	-55.2	-25.2	-0.6	-141.0	-	-141.0
Impairments	-	-2.4	-1.9	-	-4.3	-34.6	-39.0
EBIT	61.0	17.8	28.3	-27.0	80.1	-239.9	-159.7

## Okt – Dec 2016

SEK million	MFG-SL	MFG-SO	D&T	Eliminations & Other	Total	Non-recurring items	Total
Net sales, external	537.6	604.3	190.7	-	1,332.6	-	1,332.6
Net sales, internal	10.6	30.2	-6.1	-34.7	-	-	-
EBITDA	124.5	96.6	32.5	-24.6	229.0	-	229.0
EBITDA %	22.7	15.2	17.6		17.2		17.2
Depreciations	-44.9	-45.2	-15.6	-1.8	-107.5	-	-107.5
Impairments	-	-	-	-	-	-	-
EBIT	79.6	51.4	16.9	-26.3	121.6	-	121.6

## Jan – Dec 2017

SEK million	MFG-SL	MFG-SO	D&T	Eliminations & Other	Total	Non-recurring items	Total
Net sales, external	2,095.6	2,383.2	853.0	-	5,331.9	-	5,331.9
Net sales, internal	30.1	97.2	20.9	-148.3	-	-	-
EBITDA	390.8	229.2	191.7	-82.1	729.6	-205.3	524.3
EBITDA %	18.4	9.2	21.9		13.7		9.8
Depreciations	-226.0	-181.6	-82.9	-3.6	-494.1	-	-494.1
Impairments	-	-2.4	-1.9	-	-4.3	-34.6	-39.0
EBIT	164.8	45.2	106.8	-85.7	231.2	-239.9	-8.7
Goodwill	1,278.1	661.6	546.6	-	2,486.4	-	2,486.4
Non-current assets	2,606.4	2,144.5	1,585.0	2,169.3	8,505.2	-	8,505.2
Total assets	4,028.8	3,742.1	2,184.1	1,775.9	11,731.0	-	11,731.0

## Jan – Dec 2016

SEK million	MFG-SL	MFG-SO	D&T	Eliminations & Other	Total	Non-recurring items	Total
Net sales, external	1,906.1	2,029.7	742.6	-	<b>4,678.3</b>	-	<b>4,678.3</b>
Net sales, internal	24.2	136.3	7.0	-167.5	-	-	-
EBITDA	402.1	276.9	142.8	-72.5	<b>749.3</b>	-	<b>749.3</b>
EBITDA %	20.8	12.8	19.1		<b>16.0</b>		<b>16.0</b>
Depreciations	174.3	123.2	61.9	5.7	<b>365.0</b>	-	<b>365.0</b>
Impairments	-	-	-	-	-	-	-
EBIT	227.8	153.7	80.9	-78.1	<b>384.3</b>	-	<b>384.3</b>
Goodwill	1,302.5	420.0	341.4	-	<b>2,063.9</b>	-	<b>2,063.9</b>
Non-current assets	3,817.9	1,916.3	1,294.4	79.1	<b>7,107.6</b>	-	<b>7,107.6</b>
Total assets	4,784.4	2,991.1	1,798.4	256.5	<b>9,830.4</b>	-	<b>9,830.4</b>

## Geographical area

## Net sales

## Non-current assets

Geographical area	Net sales		Non-current assets	
	Jan-Dec 2017	Jan-Dec 2016	Dec 31 2017	Dec 31 2016
Sweden	1,456.9	1,350.6	1,398.7	1,236.7
Italy	1,079.1	918.6	1,927.4	1,917.3
France	975.0	967.9	765.1	586.5
India	617.9	277.6	2,412.1	1,361.1
Portugal	530.8	480.5	1,004.0	1,057.8
Germany	334.8	348.8	785.2	769.6
Spain	220.8	213.2	142.1	107.3
Other	116.5	121.0	70.6	71.4
<b>Total</b>	<b>5,331.9</b>	<b>4,678.3</b>	<b>8,505.2</b>	<b>7,107.6</b>

## NOTE 4 EARNINGS PER SHARE

SEK million	Note	Oct – Dec		Jan – Dec	
		2017	2016	2017	2016
<b>Parent company's shareholders:</b>					
Earnings per share before dilution (SEK)		-2.96	1.09	-2.70	3.32
Earnings per share after dilution (SEK)		-2.96	1.09	-2.70	3.32
Adjusted earnings per share before dilution (SEK)		0.83	1.09	1.10	3.32
Adjusted earnings per share after dilution (SEK)		0.83	1.09	1.10	3.32
Profit before dilution (SEK thousand)		-187,221	68,699	-170,492	188,682
Effect from potential shares (SEK thousand)		15,265	8,338	40,774	8,338
Profit after dilution (SEK thousand)		-171,955	77,037	-129,718	197,019
Adjusted profit before dilution (SEK thousand)		52,679	68,699	69,408	188,682
Effect from potential shares (SEK thousand)		15,265	8,338	40,774	8,338
Adjusted profit after dilution (SEK thousand)		67,945	77,037	110,182	197,019
Average number of shares before dilution (thousand)	1	63,218	63,218	63,218	56,875
Potential shares (thousand)	1	1,358	273	1,358	427
Average number of shares after dilution (thousand)		64,576	63,491	64,576	57,302

## GLOSSARY

CDMO	Contract, Development and Manufacturing Organisation
CER	Constant Exchange Rate
CMO	Contract Manufacturing Organisation
LTM	Latest Twelve (12) Months

FINANCIAL DEFINITIONS  
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<b>Adjusted for non-recurring items</b>	Ratio or amount adjusted for costs related to the discontinuing of manufacturing operations in Stockholm and Höganäs, as explained on page 10.
<b>Adjusted earnings per share before dilution</b>	Profit for the period attributable to parent company shareholders adjusted for non-recurring items divided by average number of shares before dilution <i>Measures earnings per share adjusted for non-recurring items, before dilution</i>
<b>Adjusted earnings per share after dilution</b>	Profit for the period attributable to parent company shareholders adjusted for non-recurring items divided by average number of shares after dilution <i>Measures earnings per share adjusted for non-recurring items, after dilution</i>
<b>Adjusted profit before dilution</b>	Profit for the period attributable to parent company shareholders adjusted for non-recurring items <i>Measures net profit for the ordinary ongoing operations</i>
<b>Adjusted profit after dilution</b>	Profit for the period attributable to parent company shareholders adjusted for non-recurring items and for the dilution effect of all potential ordinary shares <i>Measures net profit had there been no potential shares and adjusted for non-recurring items</i>
<b>Debt/equity ratio</b>	Interest-bearing liabilities divided by total equity <i>The debt/equity ratio is an indication of financial strength, relationship between debt and equity</i>
<b>EBIT adjusted</b>	Profit before financial items and taxes, adjusted for non-recurring items <i>EBIT adjusted measures operating profit adjusted for non-recurring items</i>
<b>EBITDA</b>	Profit before financial items, taxes, depreciation and amortization, adjusted for non-recurring items <i>EBITDA shows operating profit, which is also used in combination with other data for measurement purposes</i>
<b>EBITDA margin</b>	EBITDA divided by net sales <i>The EBITDA margin shows operating profit in relation to net sales</i>
<b>Equity per share</b>	Shareholders' equity on the balance-sheet date divided by the number of shares (balance-sheet date) <i>Equity per share shows the equity generated to the shareholders per share</i>
<b>Equity per share, adjusted</b>	Shareholders' equity on the balance-sheet date adjusted for non-recurring items divided by the number of shares (balance-sheet date) <i>Equity per share, adjusted shows the equity generated to the shareholders, adjusted for non-recurring items, per share</i>
<b>Equity/assets ratio</b>	Total equity divided by total assets <i>The equity/assets ratio shows how much of total assets are financed using total equity</i>
<b>Equity/assets ratio, adjusted</b>	Total equity adjusted for non-recurring items divided by total assets adjusted for non-recurring items <i>The adjusted equity/assets ratio shows how much of total assets are financed using total equity</i>
<b>Interest-coverage ratio</b>	Operating profit plus financial income divided by financial expenses <i>Measures the company's ability to cover its interest expenses</i>
<b>Net debt</b>	Interest-bearing liabilities less cash and cash equivalents <i>Net debt is calculated to show the net of interest-bearing liabilities and cash</i>
<b>Net debt/equity ratio</b>	Net debt divided by total equity <i>The debt/equity ratio is an indication of financial strength, relationship between net debt and equity</i>
<b>Net debt in relation to EBITDA</b>	Net debt divided by EBITDA (rolling 12-month basis) <i>Net debt in relation to EBITDA shows the impact of and risk level for liabilities</i>
<b>Net margin</b>	Profit for the period divided by net sales <i>Net margin shows net profit for the period in relation to net sales for the period</i>
<b>Net sales (CER)</b>	CER: Constant Exchange Rates <i>Net sales (CER) shows net sales without the impact of currency exchange rates and, in many cases, this comparison is a fairer measure</i>
<b>Operating capital (average)</b>	Net debt plus total equity (average opening and closing balance for the period) <i>Measures the use and efficiency of capital</i>
<b>Operating capital (average), adjusted</b>	Net debt plus total equity adjusted for non-recurring items (average opening and closing balance for the period) <i>Measures the use and efficiency of capital</i>
<b>Operating cash flow per share</b>	Cash flow from operating activities (12 months) divided by the weighted average number of shares (12-month rolling basis) <i>Cash flow per share provides an indication of value; how much cash and cash equivalents each share generates</i>
<b>Operating margin</b>	Operating profit divided by net sales <i>Measures the profitability of operations</i>
<b>Operating profit</b>	Operating profit before financial items and tax <i>Operating profit shows the earnings from operations, including depreciation/amortisation and impairment losses</i>
<b>Return on equity</b>	Net profit for the year (12-month period) divided by average total equity <i>Return on equity shows the return on the company's equity</i>
<b>Return on equity, adjusted</b>	Net profit for the year (12-month period) adjusted for non-recurring items divided by average total equity also adjusted for non-recurring items <i>Return on equity, adjusted, shows the return on the company's equity adjusted for non-recurring items</i>
<b>Return on operating capital</b>	Operating profit (12-month period) divided by average operating capital <i>Return on operating capital shows the return disregarding financial assets and financing</i>
<b>Return on operating capital, adjusted</b>	Operating profit adjusted for non-recurring items (12-month period) divided by average operating capital adjusted for non-recurring items. <i>Return on operating capital shows the return disregarding financial assets and financing</i>

### THE PHARMACEUTICAL CDMO MARKET

CDMOs, such as Recipharm, provide pharmaceutical companies with diverse manufacturing and development services – from managing a product's transition from laboratory to full-scale commercialisation. Outsourcing development and manufacturing services enables pharmaceutical companies to focus on their core business, such as R&D and marketing, and can crucially reduce costs, time-to-market, and risk.

In addition, CDMOs can provide access to technology due to their highly specialised knowledge. In a world of increasingly technological and supply chain complexity, CDMOs with their focussed operations are typically well equipped to assimilate, develop and master the latest technologies.

### ABOUT RECIPHARM

Recipharm is a leading Contract Development and Manufacturing Organisation (CDMO) in the pharmaceutical industry employing around 5 000 employees. Recipharm offers manufacturing services of pharmaceuticals in various dosage forms, production of clinical trial material and APIs, and pharmaceutical product development. Recipharm manufactures several hundred different products to customers ranging from big pharma to smaller research and development companies. Recipharm's turnover is approximately SEK 5.3 billion and the company operates development and manufacturing facilities in France, Germany, India, Israel, Italy, Portugal, Spain, Sweden, the UK and the US and is headquartered in Stockholm, Sweden. The Recipharm B-share (RECI B) is listed on Nasdaq Stockholm.

For more information on Recipharm and our services, please visit [www.recipharm.com](http://www.recipharm.com)