

HIGHLY SUCCESSFUL YEAR DELIVERS ON OUR PROMISES

It is pleasing to report on a very positive year for Recipharm. We benefited from our major expansion investments in previous years and achieved positive developments throughout the business to deliver on our promises. In summary – Recipharm created substantial economic value for its shareholders, customers and employees.

Our financial performance

By all accounts, 2018 was a great year – with every quarter setting new records in terms of sales and EBITDA. Our net sales increased by 20 per cent to SEK 6.4 billion, which puts our revenue target of at least SEK 8 billion by 2020 within reach. Organic growth of 11.6% per cent, an EBITDA margin of 15.5% per cent and a strengthening of our balance sheet creates a sound platform for continued profitable growth. I am particularly pleased with our double-digit organic growth, which is fantastic in the tough CDMO market.

Recipharm's strong financial position is due to improved profitability and cash flow, and reduced debt. Our position opens up new and exciting opportunities going forward.

Positive developments around the world

We saw strong growth in India during the year as we overcame market volatility and focused on integrating our latest acquisition from 2017. We continued to increase the use of our Indian development and analytical services for the benefit of European and US customers and are well on the way to fully consolidating our Indian operations into the rest of our business.

In Europe, our material expansion in the Steriles & Inhalation segment with new lyophilisation and blow-fill-seal capacities in Germany, France and Italy, were completed, and commercial deliveries began in all three countries.

The US remains a huge potential market for us. We are still interested in the right kind of acquisitions but are increasingly looking at expanding our sales presence in the country by drawing on our existing capacities in India and Europe, which are already

FDA-approved for the US market. Such a sales focus would involve lower risk than establishing new capabilities in the US.

Acquisitions and supply arrangements

During the year, we acquired a UK commercial scale inhalation contract manufacturing business and facility from Sanofi with over 450 specialist employees. The acquisition complements our existing US development capabilities in the area to ensure a full-service inhalation development and manufacturing offering. This is an excellent combination that draws on niche technological capabilities to offer customers novel respiratory products.

In 2018, we fully implemented the supply arrangement with Roche that began at the end of 2017. The arrangement is a model for how to seamlessly implement and integrate such agreements into our business. The associated facility in Spain is now a profitable independent unit and an important part of the Group in terms of our capabilities.

I think we can expect to enter into more conventional acquisitions and customer supply arrangements in the future – to add new technologies and unique offerings based on customer need. There are plenty of good opportunities out there and we intend to continue to be a consolidator in the CDMO industry.

Streamlining our operations

We continued to streamline our operations, as we increasingly draw on our global presence and value-creating synergies. This includes initiatives aimed at efficiency and continuous improvement, such as Operational Excellence as well as initiatives designed to extend compliance or promote sustainability.

We took the difficult decision to close our facility in Ashton-under-Lyne in the UK at the end of the year. Despite our best efforts to make the unit profitable in recent years, it was still under-performing which left us with no other option than closure. The decision is obviously regrettable, particularly for the 140 employees affected, but we will do what we can to find good solutions for the affected employees, including opportunities at other Recipharm companies or elsewhere. An unexpected positive development was the reversal of our decision to close the Höganäs facility during the year following increased customer demand for specific services provided by the unit. I wish to express my gratitude for the commitment our Höganäs employees have shown during this period. It is excellent news that we can retain the facility's highly skilled employees within the company.

A global Development Services offering

During the year, we have reorganised our global development business with Centres of Excellences. Our new development organisation is enabling us to better combine our resources in Europe, the US, India and Israel, identifying value-creating synergies to manage complex development projects for our customers. This is a clear example of how Recipharm draws on its position as a leading global CDMO to strengthen its business and unique customer offering. We still have work to do, but our team has made great progress during the year and the work will be completed in 2019. Importantly, I expect our development business to provide an increasing stream of new business to our manufacturing services.

Continuing to develop our sustainability work

A number of our facilities were certified to the ISO 14001 environmental management system during the year – including our facilities in Brescia and Masate in Italy as well as in Uppsala, Sweden. Our aim is to certify all operations within two years of being acquired.

A notable sustainability achievement included securing a 100 per cent renewable energy supply for our operations in Bengaluru, India. Half of the unit's energy is now sourced from off-site solar power and half from an on-site biomass boiler that is fuelled by waste rice husks. I believe that Bengaluru can be a sustainability role model for our other facilities to show how we can mitigate our environmental impacts and exceed stakeholder expectations.

We continued to enhance our sustainability reporting during the year, which is reflected in the greater detail we provide in this Annual Report. I see this as an ongoing process as sustainability continues to become an increasingly natural part of our work at all levels – from top management and throughout Recipharm.

The principles of the UN Global Compact continue to be the foundation of our sustainability work, and we have been active in the Swedish UN Global Compact committee during the year. The sustainability challenges we face include applying the same standards to our units around the world.

Looking forward to further success in 2019

Recipharm is in a very strong position and I see many exciting opportunities to further develop as we continue the same strategic course. We will further benefit from growth in India and our new capacities in Europe, and we will continue to refine our operations and evaluate acquisition opportunities. Our new end-to-end inhalation service offering has already attracted



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interest from customers and I believe this area will provide significant new opportunities going forward.

Of course, there are challenges ahead in the form of uncertainty surrounding Brexit and international trade wars. But I believe we are well-positioned to support our customers and cope with such challenges.

Our current situation is quite a turnaround from last year following improvements throughout the business. I greatly appreciate the contributions of our individual employees and I am incredibly proud of the dedication and hard work that has been shown throughout the Group. This really highlights the importance of our strategy to 'Employ excellent people' as our employees are fundamental to Recipharm's success. I look forward to continuing our success together.

Thomas Eldered, CEO