Financial Statement documents 2019

ORION
Building well-being

ORION

Building well-being

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 can 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

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, Finnish heritage rare diseases and respiratory diseases for which Orion develops inhaled Easyhaler® pulmonary drugs.

Net sales in 2019 (2018)
1,051 MEUR (977)

R&D investments
119 MEUR (104)

Operating profit
253 MEUR (253)

6 production sites in Finland

Operating profit margin
24% (26%)

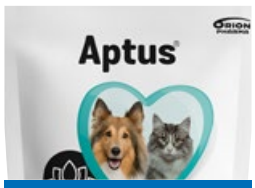
Shareholders (on 31 December 2019)
66,595 (72,802)

Personnel at year's end
3,265 (3,154)

Businesses

Proprietary Products
Drugs developed in-house and other drugs with product protection

Specialty Products
Generic prescription drugs, self-care products and biosimilars



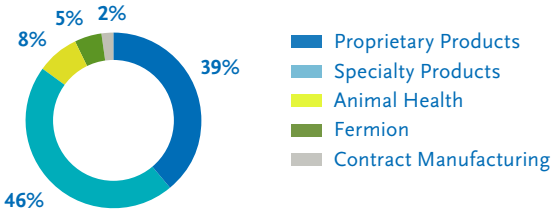
Animal Health
Medicine and well-being products for animals

Fermion
Active pharmaceutical ingredients

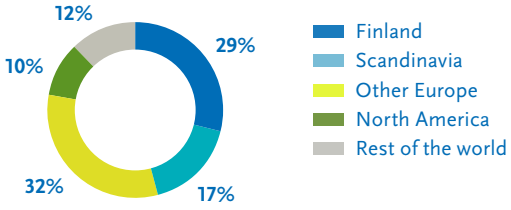
Contract Manufacturing
Production for other pharmaceutical companies

Balanced business model covering both proprietary drugs and generics

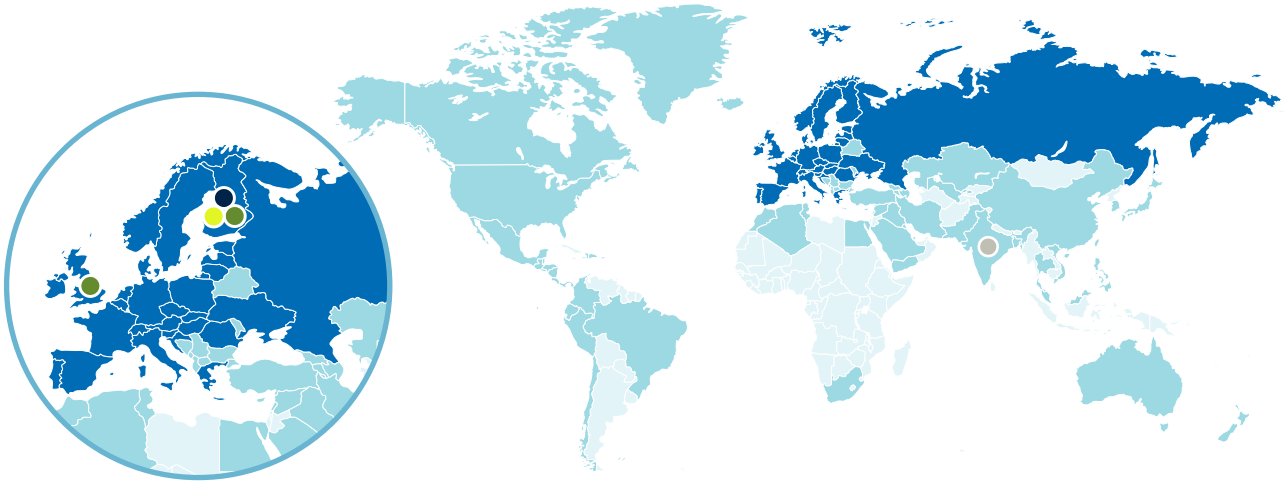
Net sales by business



Net sales by market area



Orion's products are marketed in over one hundred countries



The key themes of Orion's corporate responsibility are ensuring patient safety and reliable supply of medications, in addition to which the Company has a responsibility for the environment, its employees, business ethics and transparency.

Customer complaints (pharmaceuticals)
76
Ppm (56)

Audits undertaken by Orion
251
(238)

Greenhouse gas emissions (scope 1 & 2)
20,123
tCO_2e (39,581)

Injury rate LTIF 1
6.3
(5.5)

Energy savings target set for 2025 achieved
51%
(40%)

Report by the Board of Directors for the financial year 2019

Events during the period

4 Feb 2019	Orion announced the intention to start an open label extension study to the REFALS Phase III clinical trial, studying the effect of oral levosimendan in patients with amyotrophic lateral sclerosis (ALS).
14 Feb 2019	The findings of the ARAMIS clinical trial were presented at the American Society of Clinical Oncology Genitourinary Cancers Symposium (ASCO GU) 2019.
27 Feb 2019	The rolling submission to FDA for darolutamide in the United States completed.
5 Mar 2019	Marketing authorisation application for darolutamide was submitted in Japan.
8 Mar 2019	Marketing authorisation application for darolutamide was submitted in Europe.
26 Mar 2019	Orion Corporation's Annual General Meeting was held in Helsinki.
1 Apr 2019	The sales and distribution rights in certain European countries for the Parkinson's disease drug Comtan®, developed by Orion, transferred back to Orion from Novartis. Orion estimates that the return of the sales rights will initially increase its Comtan sales by several million euros on annual level.
29 Apr 2019	The United States Food and Drug Administration (FDA) accepted the marketing authorisation application for darolutamide for review and granted it Priority Review status.
31 May 2019	New findings on darolutamide were presented at the American Society of Clinical Oncology (ASCO) annual meeting 2019.
15 Jul 2019	Patient recruitment for Orion's REFALS Phase III clinical trial studying the effect of orally administered levosimendan in patients with amyotrophic lateral sclerosis (ALS) was completed.
30 Jul 2019	The United States Food and Drug Administration granted marketing authorisation to darolutamide, a new drug for the treatment of non-metastatic castration-resistant prostate cancer (nmCRPC).
7 Aug 2019	Orion announced the start of darolutamide sales in the United States and that the company will enter the EUR 45 million milestone payment from Bayer for the successful commercialisation of the product in the United States in its third quarter profits.
30 Dec 2019	Orion announced signing an agreement with Lotus Pharmaceutical Co., Ltd for the marketing and distribution of Orion's Stalevo® and Comtan® drugs for the treatment of Parkinson's disease in parts of Asia.

Events after the period

23 Jan 2020	Japan's Ministry of Health granted marketing authorisation to darolutamide for the treatment of non-metastatic castration-resistant prostate cancer (nmCRPC).
30 Jan 2020	Orion and Bayer told that new results from ARAMIS trial demonstrate that darolutamide plus androgen deprivation therapy show statistically significant improvement in overall survival (OS) in men with non-metastatic castration-resistant prostate cancer compared to placebo plus androgen deprivation therapy. Detailed data on the updated OS and other additional endpoints as well as an update on longer term safety will be presented at an upcoming scientific meeting.
31 Jan 2020	The Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) issued a positive statement and recommended that marketing authorisation be granted to darolutamide.

Financial review

Net sales

Orion Group's net sales in 2019 totalled EUR 1,051 (977) million, an increase of 8%. The net sales include the EUR 45 million milestone payment received from Bayer. Exchange rates impacted net sales positively by EUR 5 million. Net sales of Orion's top ten pharmaceuticals in 2019 amounted to EUR 474 (444) million. They accounted for 45% (45%) of the total net sales.

Operating profit

Orion Group's operating profit was EUR 253 (253) million. EBITDA was up by 5% at EUR 309 (294) million. Operating profit and EBITDA include the EUR 45 million milestone payment received from Bayer.

The positive effect of the increase in product and service sales calculated in local currencies on gross profit was EUR 19 million. On the other hand, the combined effect of changes in prices, costs and product mix was EUR 18 million negative and the impact of changes in exchange rates EUR 3 million positive. Taken together, these items resulted in total EUR 4 million higher gross profit from product and service sales than in the comparative period.

Milestone payments accounted for EUR 51 (5) million and royalties for EUR 11 (17) million of net sales and operating profit. The decline in other operating income had a EUR 3 million negative impact on the operating profit.

Operating expenses increased by EUR 41 million. Majority of the growth was due to planned sales and marketing as well as in research and development costs.

Operating expenses

The Group's sales and marketing expenses totalled EUR 216 (195) million. The growth was mostly due to depreciation associated with the reacquisition of European rights for Stalevo® and Comtan®, which in 2019 was approximately EUR 12 million, as well as investments in the sales of the Easyhaler® product portfolio in particular.

R&D expenses were EUR 119 (104) million. They accounted for 11% (11%) of the Group's net sales. Research projects are reported in more detail under the 'Research and development' section of this review.

Administrative expenses were EUR 48 (43) million.

Other operating income and expenses amounted to EUR 2 (5) million (positive).

Group's profit

Profit for the period was EUR 200 (197) million.

Basic earnings per share were EUR 1.43 (1.40). Equity per share was EUR 5.55 (5.50).

The return on capital employed before taxes (ROCE) was 30% (44%) and the return on equity after taxes (ROE) 26% (45%). The high figures in the comparative period are explained by the EUR 128 million capital gain recognised for the sale of Orion Diagnostica.

Financial position

The Group's gearing was -18% (-17%) and the equity ratio 77% (69%).

The Group's total liabilities at 31 December 2019 were EUR 256 (374) million. At the end of the period, interest-bearing liabilities amounted to EUR 10 (152) million, including EUR 7 (1) million of long-term loans. The change in interest-bearing liabilities was mostly due to the fact that the EUR 150 million bond loan issued by Orion in 2013 matured in June 2019.

After the matured bond was paid off, the Group had EUR 149 (284) 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.

Orion signed a EUR 100 million loan agreement with the European Investment Bank in January 2019. The loan has not yet been raised.

Cash flow

Cash flow from operating activities was EUR 271 (231) million. Cash flow improved both due to increased EBITDA and decrease in working capital.

The cash flow from investing activities was EUR -34 (95) million. The cash flow from investing activities was positive in the comparative period due to the sale of Orion Diagnostica.

The cash flow from financing activities was EUR -371 (-205) million. The difference to the comparative period is mostly due to the repayment of the bond that matured in June 2019. Orion also bought back its own shares by EUR 7 million in the course of the year.

Capital expenditure

The Group's capital expenditure totalled EUR 43 (65) million. This comprised EUR 35 (36) million on property, plant and equipment and EUR 7 (29) million on intangible assets.

Key business targets for 2019–2020

TARGET	DEVELOPMENT 1–12/2019
Launch and commercialisation of the prostate cancer drug darolutamide jointly with Bayer. Continued research and development collaboration in the ARASENS trial (metastatic prostate cancer) to expand the indication.	• In the United States, the FDA granted marketing authorisation under the Priority Review designation. • Marketing authorisation was also acquired in Brazil and, after the review period, in Japan. • The recommendation for darolutamide by the Committee for Medicinal Products for Human Use of the European Medicines Agency after the review period. • With recruitment completed, the ARASENS trial continues as planned.
Development of orally administered levosimendan (ODM-109) for the treatment of symptoms of ALS in Phase III clinical trial (REFALS) and preparation for its possible commercialisation. In research and development, the potential of different projects are reviewed with consideration of the total research portfolio.	• Patient recruitment was finalized for REFALS trial in July 2019. • Orion has initiated an assessment on the prospects of launching the product in the United States on its own. • Partners are being sought for the development of ODM-203 and ODM-207.
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.	• Orion was clear market leader in reference-priced prescription drugs in Finland in 2019. • In self-care products Orion grew faster than the market.
Accelerating the growth of the Easyhaler® product family and strengthening its market position. Progress on the launch of the salmeterol-fluticasone Easyhaler® product in Europe.	• Easyhaler® product family sales increased by 16%. • Sales of salmeterol-fluticasone have increased more slowly than anticipated.
Evaluation of new in-licensing opportunities in Europe, particularly in the area of hospital care.	• The work continues.

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

Business review

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 Pharmarket 2019 statistics, the total sales of Orion's human pharmaceuticals, including both medicinal and non-medicinal products, was behind market trend. 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.

Orion's biggest product group in Finland are reference-priced prescription drugs in the pharmacy channel. The sales of Orion's reference-priced prescription drugs declined from the comparative period due to continuing tough price competition and availability disruptions. However, sales volume still continued to increase, albeit slightly more slowly than the market. The average price of reference-priced drugs in the market declined in 2019 by approximately 8% from the comparative period (Source: Pharmarket). The impact of price competition on Orion has been significant due to the Company's broad product range and significant market share in Finland.

Despite the challenging operating environment, Orion has maintained its position as leader in marketing pharmaceuticals in Finland. 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.

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

EUR million	1–12/19	1–12/18	Change %
Total sales of human pharmaceuticals (hospital and pharmacy channel)			
Market	2,859	2,715	+5%
Orion	314	314	-0%
Prescription drugs total (pharmacy channel)			
Market	1,602	1,533	+4%
Orion	178	183	-3%
Reference priced prescription drugs (pharmacy channel)			
Market	436	455	-4%
Orion	116	123	-6%
Self-care products (pharmacy channel)			
Market	399	389	+2%
Orion	100	96	+5%

Source: Pharmarket sales statistics 1–12/2019

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

Orion's market share, %	1–12/19	1–12/18
Human pharmaceuticals in total (hospital and pharmacy channel)	11%	12%
Prescription drugs total (pharmacy channel)	11%	12%
Reference priced prescription drugs (pharmacy channel)	27%	27%
Self-care products (pharmacy channel)	25%	25%

Source: Pharmarket sales statistics 1–12/2019

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

According to IQVIA pharmaceutical sales statistics, in Europe total sales of the most common intravenous anaesthetics and intensive care sedatives (propofol, midazolam, remifentanil and dexmedetomidine) in the 12-month period ending in September 2019 were up by 4% at EUR 595 (570) million. The active ingredient in Orion's Dexdor® intensive care sedative is dexmedetomidine. The total sales of dexmedetomidine was EUR 72 (69) million in Europe, according to IQVIA pharmaceutical sales statistics.

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 division in 2019 were EUR 406 (357) million. The increase in net sales is mainly explained by the EUR 45 million milestone payment from Bayer, but product sales grew as well.

Net sales by product

EUR million	1–12/19	1–12/18	Change %
Easyhaler® product family	104	90	+16%
Stalevo®, Comtess®, Comtan® (Parkinson's disease)	98	100	-3%
Simdax®	68	59	+14%
Dexdor®	57	63	-10%
Other*	80	44	+82%
TOTAL	406	357	+14%

* 1–12/19 figure includes EUR 45 million milestone from Bayer and several products such as Enanton®, Nubeqa® and Precedex®

Total net sales of the Easyhaler® product family for treatment of asthma and chronic obstructive pulmonary disease were up by 16% in 2019 at EUR 104 (90) million. The good development was mainly due to the strong sales of the budesonide-formoterol combined formulation, up by 21% at EUR 62 (52) million. The growth was supported by increased resources in the sales and marketing of the product family. 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.

The sales of salmeterol-fluticasone combined formulation have also started in several European countries, but they have initially developed more slowly than anticipated and for the time being, the product has no material impact on the net sales of the product family.

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 pharmaceutical ingredients (salbutamol, beclometasone, budesonide, formoterol, salmeterol and fluticasone).

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 2019 were down by 3% at EUR 98 (100) million. In 2019, Orion reacquired the European sales and distribution rights to Stalevo® and Comtan®, which resulted in a sharp decline in deliveries to key partners and doubled Orion's own sales.

Except for Japan, Orion's arrangements with Novartis in other markets will expire during 2020 and in most of these markets, Orion is transferring the distribution to new partners. In the end of 2019, Orion and Lotus Pharmaceutical Co., Ltd. ("Lotus") made a marketing and distribution agreement according to which Lotus will, starting Q3 2020 and depending on transfer of the regulatory approvals, have the right to sell and market Stalevo® in Bangladesh, Hong Kong, Indonesia, Philippines, South Korea, Taiwan and Vietnam and Comtan® in Hong Kong, Philippines, South Korea and Taiwan. In a few Southeast Asian markets, Orion is planning to sell these products through its own sales organisations, which are being set up.

Breakdown of sales of Parkinson's drugs:

EUR million	1–12/2019	1–12/2018	Change %
Deliveries to key partners	52	78	-33%
Orion's own sales	46	22	+104%

Net sales of Orion's Dexdor® intensive care sedative (dexmedetomidine) decreased by 10% to EUR 57 (63) million. The decline in sales followed directly from the onset of generic competition and its expansion in Europe. Sales of the Precedex® intensive care sedative were down by 50% at EUR 13 (26) million. The sales comprise both royalties and sales of the pharmaceutical ingredient.

Simdax® (levosimendan), a drug for treatment of acute decompensated heart failure is sold in some 60 countries worldwide. Net sales of the product in 2019 were up by 14% at EUR 68 (59) million. Orion has been informed that marketing authorisation applications have been filed for generic versions of Simdax® in Europe. The formulation patent of the product will expire in September 2020, but the timing of possible generic competition in the market is still difficult to predict.

Nubeqa® (darolutamide) for the treatment of non-metastatic castration-resistant prostate cancer received marketing authorisation in July 2019 in the United States, where it is being sold by Orion's partner Bayer. Orion received a EUR 45 million milestone payment from Bayer for the successful commercialisation of darolutamide in the United States. Marketing authorisation has also been acquired in Brazil and, after the review period, in Japan. Likewise after the review period, the Committee for Medicinal Products for Human Use of the European Medicines Agency has issued a positive opinion and recommended that marketing authorisation be granted to darolutamide. The European Commission is expected to make the final decision regarding the granting of a marketing authorisation in the next few months. Orion is entitled to EUR 20 million milestone payment upon first commercial sales of darolutamide in the EU and to EUR 8 million upon first commercial sales in Japan.

Bayer holds global commercial rights to darolutamide. In Europe, however, Orion and Bayer have agreed on co-promotion. In addition, Orion will manufacture the product for global markets. Besides milestone payments, Orion will also receive tiered royalties on global darolutamide sales, which will be approximately 20% including production revenue. With sales increase, royalties may increase slightly. Orion also has the possibility to receive one-off payments from Bayer when certain global annual sales targets are met for the first time.

Specialty Products

Net sales of the Specialty Products division's off-patent, i.e. generic prescription drugs, self-care products and biosimilars amounted to EUR 486 (473) million in 2019.

Breakdown of Specialty Products' net sales by product group 1–12/2019:

EUR million	1–12/2019	1–12/2018	Change %	Share of business unit net sales 1–12/2019	Share of business unit net sales 1–12/2018
Generic prescription drugs	331	334	-1%	68%	71%
Self-care (OTC)	118	114	+3%	24%	24%
Biosimilars	38	25	+52%	8%	5%
Total	486	473	+3%		

Finland, Scandinavia and Eastern Europe and Russia are the most important markets for Specialty Products. In Finland, the business division's sales in 2019 totalled EUR 272 (273) million. Continued tough price competition in generic drugs and availability disruptions negatively affected net sales, but due to increased sales in self-care products and biosimilars overall net sales remained at previous year's level. Price competition in generic drugs has decreased Orion's sales in Finland by around EUR 15 million annually both in 2017 and 2018. In 2019, the system change and related price decrease had an impact of around EUR 10 million. In 2019, the decline in prices appears to have levelled off for the time being. At the same time, availability disruptions have increasingly affected net sales. Their negative impact in 2019 was roughly equal to that of the price decreases.

In Scandinavia the sales of Specialty Products totalled EUR 89 (69) million, up 28%. The growth was due to generic prescription drugs and biosimilars. In Eastern Europe and Russia, Specialty Products sales amounted to EUR 68 (66) million.

In Specialty Products, 68 (71)% of the net sales came from generic prescription drugs, 24 (24)% from self-care products and 8 (5)% from biosimilars. The biosimilars net sales totalled EUR 38 (25) million, up by 52%. The solid growth is explained by success in national or regional tendering competitions, which generated additional sales in 2019. However, Orion faced challenges in tendering competitions for this year, which is estimated to substantially decrease biosimilars net sales in 2020. Biosimilars distributed by Orion include Remsima® (infliximab), Ritemvia® (rituximab) and Amgevita® (adalimumab).

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.

The Animal Health division had a robust year, with the division's net sales in 2019 reaching their peak so far at EUR 86 (80) million. At EUR 36 (34) million, sales of animal sedative products accounted for 42% (42%) 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 pharmaceutical ingredient, is an eye-drop formula designed to treat poisoning in dogs. The product is expected to be launched during 2020. In June 2019 Orion launched the ToxBuddy® online service in Finland 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. The plan is to launch the service in other markets later.

Fermion

Fermion manufactures active pharmaceutical ingredients for Orion and other pharmaceutical companies. Its product range comprises nearly 30 pharmaceutical ingredients. Fermion produces 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 excluding deliveries for Orion's own use were up 8% at EUR 55 (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.

Research and development

The Group's R&D expenses in 2019 totalled EUR 119 (104) million, up 15%. They accounted for 11% (11%) of the Group's net sales. R&D expenses also include expenses related to development of the current portfolio. In 2019 Orion strengthened its early phase research by recruiting new talent.

Key clinical development projects

Project	Indication	PHASE			Registration
Easyhaler® tiotropium	COPD	Bioequivalence study			
Darolutamide[1]	Prostate cancer (nmCRPC)	I	II	III	Registration
Darolutamide[1]	Prostate cancer (mHSPC)	I	II	III	
ODM-109 (oral levosimendan)	ALS	I	II	III	
ODM-203 (FGFR+VEGFR inhibitor)[2]	Solid tumours	I	II		
ODM-207 (BET protein inhibitor)[2]	Cancer	I			
ODM-208 (CYP11A1 inhibitor)	Prostate cancer (CRPC)	I			
ODM-209 (CYP11A1 inhibitor)	Breast cancer, prostate cancer (CRPC)	I			

1 In collaboration with Bayer
2 Search for partner ongoing for the next possible phase

= Phase ready
= Phase ongoing
= Status changed

Orion is working on a project to expand the Easyhaler product family for the 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.

Darolutamide, developed jointly by Orion and Bayer, was granted marketing authorisation in the United States in July 2019 for the treatment of non-metastatic castration-resistant prostate cancer (nmCRPC). After the review period in January 2020, Japan granted a marketing authorisation and the Committee for Medicinal Products for Human Use of the European Medicines Agency issued a positive statement and recommended that marketing authorisation be granted to darolutamide. The European Commission is expected to make the final decision regarding the granting of a marketing authorisation in the next few months. The product has also been approved in Brazil, and marketing authorisation applications have been submitted in other markets as well.

New results from ARAMIS trial, published in January 2020, demonstrate that darolutamide plus androgen deprivation therapy show statistically significant improvement in overall survival (OS) in men with non-metastatic castration-resistant prostate cancer compared to placebo plus androgen deprivation therapy. Detailed data on the updated OS and other additional endpoints as well as an update on longer term safety will be presented at an upcoming scientific meeting.

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 finalized in the second quarter of 2018. The trial is estimated to be completed in 2022.

Orion has an ongoing the Phase III clinical trial (REFALS) evaluating orally administered levosimendan (ODM-109) in the treatment of symptoms of amyotrophic lateral sclerosis (ALS). Patient recruitment for the REFALS trial was completed in July, and the trial is expected to be completed in the summer of 2020. The trial involves 496 patients and 104 clinical sites in the United States, Canada, the EU and Australia.

The purpose of the REFALS 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 investing in it around EUR 60 million in 2018–2020. 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. Levosimendan is a molecule developed by Orion and launched already in 2000 for the i.v. treatment of acute decompensated heart failure.

Orion has carried out a Phase II clinical trial with a new targeted FGFR+VEGFR inhibitor (ODM-203) for the treatment of cancers. The trial has investigated the efficacy of the drug candidate in slowing the growth of solid cancerous tumours in patients with detected FGFR changes in cancerous tumours. Orion is looking for a partner to the possible next development phase.

Orion has carried out a 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 has investigated the safety and tolerability of the drug candidate and provisionally its efficacy in cancer patients. Orion is looking for a partner to the possible next development phase.

Orion has an ongoing Phase I clinical trial for the development of a novel selective hormone synthesis inhibitor (CYP11A1 inhibitor) for castration-resistant prostate cancer. A decision has been made to expand the trial to ensure sufficient research data for making informed decisions regarding subsequent development phases. 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 that works 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 has an ongoing Phase I clinical trial on the ODM-209 molecule. This molecule is a selective hormone synthesis inhibitor (CYP11A1 inhibitor) much like the ODM-208. A decision has been made to expand this trial as well to ensure sufficient data for making informed decisions regarding subsequent research phases. In preclinical studies, the molecule (ODM-209) has shown antitumor activity. Like ODM-208, it has potential efficacy also for those hormone-dependent cancers that have become resistant to the standard hormonal treatments. The trial will investigate the safety and tolerability of the drug candidate in breast cancer and prostate cancer patients.

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.

Personnel

The average number of employees in the Orion Group in 2019 was 3,251 (3,179). At the end of December 2019, the Group had a total of 3,265 (3,154) employees, of whom 2,594 (2,485) worked in Finland and 671 (669) outside Finland.

Salaries and other personnel expenses in 2019 totalled EUR 217 (201) million.

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.

Shares and shareholders

On 31 December 2019 Orion had a total of 141,257,828 (141,257,828) shares, of which 36,335,463 (37,120,346) were A shares and 104,922,365 (104,137,482) B shares. The Group's share capital is EUR 92,238,541.46 (92,238,541.46). At the end of 2019 Orion held 765,399 (562,440) B shares as treasury shares. On 31 December 2019, the aggregate number of votes conferred by the A and B shares was 830,866,226 (845,981,962) excluding treasury shares.

At the end of December 2019, Orion had 66,595 (72,802) 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. A total of 784,883 A shares were converted into B shares in 2019.

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 2019, the market capitalisation of the Company's shares, excluding treasury shares, was EUR 5,786 million.

In 2019 a total of 2,149,046 A shares and 85,303,946 B shares were traded on Nasdaq Helsinki. The total value of the shares traded was EUR 2,920 million. During the year, 5.9% of the A shares and 81.3% of the B shares were traded. The average turnover in Orion's shares was 61.9%.

The price of Orion's A share increased by 35,1% and the price of its B share by 36,3% in 2019. On 31 December 2019 the closing quotation was EUR 40.95 for the A shares and EUR 41.27 for the B shares. The highest quotation for Orion's A shares was EUR 42.00 and the lowest quotation was EUR 28.20. The highest quotation for the B shares in 2019 was EUR 42.52 and the lowest quotation was EUR 28.19.

Orion shares are also traded on various alternative trading platforms in addition to Nasdaq Helsinki. In 2019, 18% of all trading in Orion's A share and 62% of all trading in its B share took place outside Nasdaq Helsinki Oy (Source: Fidessa Fragmentation Index).

Authorisations of the Board of Directors

On 26 March 2019, the Annual General Meeting of Orion Corporation authorised the Board of Directors to decide on an acquisition of no more than 350,000 Orion Corporation B shares. Based on this authorisation and a decision by the Board of Directors on 25 April 2019, Orion acquired a total of 250,000 B shares between 2 and 13 May 2019. The Board of Directors was authorised by Orion Corporation's Annual General Meeting on 26 March 2019 to decide on a share issue in which shares held by the Company can be conveyed. The Board of Directors is authorised to decide on a share issue in which no more than 850,000 B shares held by the Company can be conveyed. 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 authorisations are reported in more detail in a stock exchange release on 26 March 2019.

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 two currently operating share-based incentive plans for key persons of the Group: Orion Group's Long-Term Incentive Plan 2016, announced in a stock exchange release published on 2 February 2016 and Orion Group's Long-Term Incentive Plan 2019, announced in a stock exchange release published on 6 February 2019.

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 2019, Orion had a total of 66,595 (72,802) registered shareholders, of whom 96% (95%) were private individuals. They held 40% (43%) of the entire share stock and had 60% (62%) of the total votes. There were 53 (46) million nominee-registered and foreign-owned shares, which was 38% (32%) of all shares, and they conferred entitlement to 9% (7%) of the total votes.

At the end of December 2019, Orion held 765,399 (562,440) B shares as treasury shares, which is 0.5% (0.4%) of the Company's total share stock and 0.09% (0.07%) of the total votes.

Notification threshold

On 28 November 2019 Orion received a notification under Chapter 5, Section 9 of the Securities Market Act stating that the total share of voting rights of Orion shares owned by Maa- ja vesitekniikan tuki ry and a company controlled by it, Tukinvest Oy, exceeded 5% following the share conversion under the Articles of Association of Orion Corporation executed on 28 November 2019.

According to the notification, the total share of voting rights of Maa- ja vesitekniikan tuki ry and Tukinvest Oy was 5.01%.

Management's shareholdings

At the end of 2019, the members of the Board of Directors owned a total of 627,584 of the Company's shares, of which 564,228 were A shares and 63,356 B shares. At the end of 2019, the President and CEO owned 61,491 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 198,932 of the Company's shares, which were all B shares. Thus, the Company's executive management held 0.62% of all of the Company's shares and 1.39% of the total votes. These shareholdings include holdings by controlled corporations. The Company does not have stock option programmes.

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 468,363,703.16 or EUR 3.33 per share. This includes EUR 211,377,323.85 or EUR 1.50 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 (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 140,492,429, on which the total dividend payment would be EUR 210,738,643.50. The Group's payout ratio for the financial year 2019 would be 105.2% (63.8%). The dividend payment date would be 3 April 2020, and shareholders registered in the Company's shareholder register on 27 March 2020 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 257,375,059.66 remain in equity.

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.

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.

Annual General Meeting on 26 March 2019

Orion Corporation's Annual General Meeting was held on 26 March 2019 in Messukeskus Helsinki, Expo and Convention Centre. In addition to matters in accordance with Section 10 of the Articles of Association and Chapter 5, Section 3 of the Limited Liability Companies Act, the meeting dealt with proposals concerning authorisation of the Board of Directors to decide on acquisition and conveyance of shares in the Company.

Distribution of a dividend of EUR 1.50 per share was approved for 2018, 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 26 March 2019.

Annual General Meeting on 25 March 2020

Orion Corporation's Annual General Meeting will be held on Wednesday 25 March 2020 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 utilized.

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 co-operation partner Bayer (Bayer Consumer Care AG) have licensing, commercialisation, manufacturing and supply agreements concerning the Nubeqa® drug. 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.

Non-financial reporting

Orion is a globally operating Finnish pharmaceutical company. Orion develops, manufactures and markets human and veterinary pharmaceuticals and active pharmaceutical ingredients. The company operates in the global pharmaceuticals market as part of a global supply chain. Orion procures final products and raw materials from others, while others also purchase them from Orion. All Group production facilities and pharmaceutical research centres, with the exception of the Nottingham site, are located in Finland. Orion employed a total of 3,265 employees at the end of 2019, of them 2,594 in Finland and 671 outside Finland.

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. Based on a materiality assessment the Company has identified material themes and indicators for its sustainability. They are prioritised in the development of operations, and the Company also regularly reports on the indicators. Orion's key sustainability themes are ensuring patient safety and reliable supply of medications, in addition to which the Company has a responsibility for the environment, its employees, business ethics and transparency. In 2019, the Company progressed in integrating sustainability into key processes, created a Sustainability Agenda and invested in increasing awareness of sustainability in-house and among stakeholders. A separate Sustainability Report for 2019 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 applicable to its operations. Orion manufactures human and veterinary pharmaceuticals and active pharmaceutical ingredients in an environmentally sustainable way, ensuring efficient use of materials and energy and appropriate wastewater management.

Orion's human resources policy defines the principles adopted in the Orion Group concerning human resources management and attending to human resources matters. Compliance with legislation, collective agreements, occupational health and safety regulations, and other obligations shall be ensured in attending to human resources matters. In its operations, the Company complies with the principles of non-discrimination, 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 work 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 co-operation 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 improved by identifying development objectives. The management of sustainability issues is also part of 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 waste volumes arising from the operations. These impacts are monitored, for example, 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, regular audits and by encouraging people to make observations that promote safety.

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, greenhouse gas emissions and the well-being of employees.

Total energy consumption, energy savings and greenhouse gas emissions

Orion systematically reduces its greenhouse gas 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).[1] For Orion, this means a saving of slightly over 12,000 MWh. In 2019, the Company achieved energy savings by investing in LED lighting at several locations and in the recovery of flash steam released from process condensate at the Oulu plant, among other things. After passing through a heat exchanger, the flash steam is utilised in heating the premises and process water. Of Energy Efficiency Programme target for 2025, 51% is now achieved.

The Company's target is a 75% reduction in greenhouse gas emissions caused by its own operations for 2025 compared with 2016. In 2019, the Company switched to the sole use of electricity generated from renewable sources. The greenhouse gas emissions have decreased following the Energy Efficiency Programme and the switch to electricity from renewable sources by 55% compared with 2016.

	2019	2018
Total energy consumption, energy savings and greenhouse gas emissions		
Total absolute energy consumption (MWh)[2]	158,442	155,198
Energy savings achieved by saving measures and efficiency improvements (MWh)[3]	1,422	1,074
Energy Efficiency Programme targets achieved	51%	40%
Greenhouse gas emissions, scope 1 (tCO_2e)	2,838	2,788
Greenhouse gas emissions, scope 2 (tCO_2e)	17,285	36,793

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

By taking care of occupational health and well-being 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 occupational well-being indicators[4] lost time incident frequency and absence due to illness rate. In 2019, the Company made efforts to further develop its safety culture by investing in Skills to care -managerial trainings. It is the Company's aim, through continuous work to prevent injuries and safety incidents and by improving the safety culture, to achieve a zero incident rate. The lost time incident frequency target for 2019, LTIF 1 ≤ 3.5, was not achieved. The Company continues sustained work to achieve its zero incident goal.

1 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.

2 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.

3 Energy savings are estimates calculated in compliance with the guidelines of the Energy Authority.

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

	2019	2018
Occupational well-being of personnel: Workplace injuries and sick leave of the personnel		
Lost time incident frequency, LTIF 1[5]	6.3	5.5
Absence due to illness (hours of absence due to illness as percentage of total theoretical working hours)[6]	3.3%	3.1%

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

6 Absences due to illness as percentage of total theoretical working hours of Company 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 Third Party 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 in its own or 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 Third Party 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 and comply 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, the 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 and impartially and, to the extent possible, confidentially. The Company takes appropriate case-specific measures to end the conduct and activity violating the principles.

Key figures and results

In 2019, the Company updated its Code of Conduct, which is now available in 14 languages. During the year, the management of sustainable procurement has been further reinforced, and focus has been on ensuring the active use of sustainable procurement processes.

Orion was not made aware of any human rights violations in its own operations through the whistleblowing channel in 2019. Overall the number of reported cases through the whistleblowing channel has been small. The Company has taken all cases seriously and handled them quickly and impartially. The cases reported and handled have not given rise to action.

Training on prevention of corruption and bribery is mandatory for the selected personnel. The Company provides regular training, and the last comprehensive targeted personnel 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.

	2019	2018
Respect for human rights and prevention of corruption and bribery		
Human rights violations in own operations reported through the whistleblowing channel	0	0
Anti-corruption and anti-bribery training, number of participants	443	318

Product quality and safety

Policies

Patient safety is a basic guiding value in all Orion's operations, for which the Company works to ensure throughout the product life cycle. Ensuring the availability of medications by preventing supply disruptions and by communicating through appropriate channels constitutes part of ensuring patient safety. As a pharmaceutical company, Orion is legally obligated to monitor the safety and quality of its products. 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 ensures continuous monitoring of 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 defined 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

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. The Company cooperates with the authorities and reports and communicates on product quality and safety operations in a manner that is appropriate for its stakeholders.

The launch of a new proprietary product in the market is preceded by extensive phased research that delineate the drug's pharmacological properties, such as its efficacy and safety. Clinical trials involving human subjects can only be conducted with approval of the regulatory drug authorities. The pharmacology and safety of a drug candidate are extensively studied using preclinical laboratory models and by monitoring tolerability and adverse effects throughout the clinical trials. For the marketing authorisation application and the summary of products characteristics (SPC), each research phase and its results are carefully documented for regulatory approval. Marketing authorisation issued by drug authorities is required to start sales and marketing of a drug. In accordance with the statutory requirements, the drug's adverse effects continue to be monitored even after product has been launched. Orion ensures continuous safety monitoring of the safety of products, collects feedback from customers and carries out benefit-risk assessments throughout the product life cycle.

Through the trials and pharmaceutical production methods described above, Orion strives to ensure that its products have no such adverse effects that might lead to liability or withdrawal of an established product from the market. To cover for the financial impact of product liability risk, the Orion Group's products and operations are insured through operational and product liability insurance.

The manufacturing of pharmaceutical products is subject to regular inspections by the authorities. Pharmaceutical products must be safe, efficacious and compliant with all quality requirements. To comply with statutory requirements, in pharmaceutical production close attention must be paid to various safety and quality risks.

Adequate quality of pharmaceuticals is ensured through systematic, comprehensive management of operations covering all factors with direct and indirect impact on the quality of the drugs. The operations are managed by comprehensive instructions and adequate control of materials and products before and after production.

Orion's broad product range may cause risks to the delivery reliability and make it challenging to maintain the very 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. Carrying out 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 contains products manufactured by other pharmaceutical companies and products that Orion manufactures on its own but for which other companies deliver active pharmaceutical or other ingredients. Possible problems related to the delivery reliability or quality of the products of those manufacturers may cause a risk to Orion's delivery reliability.

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

The Company carries out annual audits at the facilities and operations of suppliers and partners to ensure compliance with Good Practices (GxP) specified for pharmaceutical industry and with sustainable operations. The 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).

	2019	2018
Product quality and safety		
Number of audits of Orion's operations, total	88	61
Audits by authorities	29	13
Audits by collaboration partners	59	48
Critical observations	1	0
Number of audits undertaken by Orion	251	238
Critical observations	9	10
Rejections	5	1
Number of customer complaints about the Pharmaceuticals business (ppm)	76	56

Strategy

Orion's Board of Directors has confirmed the Company's strategy for 2020–2024.

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
- sustainability

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 more rapidly than the growth in the market**. 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.

  In the next few years, the most crucial individual growth projects will be the commercialisation of the prostate cancer drug darolutamide in cooperation with Bayer as well as finalising the development of orally administered levosimendan for the treatment of symptoms of amyotrophic lateral sclerosis (ALS) and getting the drug into market. Other than this, growth in the near future will be sought especially from the Easyhaler® product family and possibly through product acquisitions.

- **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 at a high level.
- **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.

Outlook for 2020

Orion estimates that in 2020 net sales will be at a similar level as in 2019 (net sales in 2019 were EUR 1,051 million).

Operating profit is estimated to be lower than in 2019 (in 2019 operating profit was EUR 253 million).

Basis for outlook in more detail

Orion continues persistent actions to generate growth more rapidly than growth of the market in the long term. However, significant growth investments to be made in research and development and sales and marketing in 2020–2021 will affect annual profitability.

At the same time, operating profit is burdened by intense price competition in the market and gradually expanding generic competition for certain proprietary products. It is estimated that this impact cannot be fully compensated by growing proprietary products in 2020. For example, sales of Nubeqa® is expected to start generating more revenue only from 2021 onwards.

The outlook does not include any income or expenses associated with possible product or company acquisitions.

Net sales

The sales of the Easyhaler® product family will continue to grow also in 2020 due to combined formulations (budesonide-formoterol and salmeterol-fluticasone) launched in the past few years.

Orion reacquired from Novartis the European sales and distribution rights for the Parkinson's drugs Stalevo® and Comtan® in December 2018 and April 2019, respectively. Except for Japan, Orion's arrangements with Novartis in other markets will expire during 2020 and in most of these markets, Orion is transferring the distribution to new partners. In a few Southeast Asian markets, Orion is planning to sell these products through its own sales organisations, which are being set up. After these changes, 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.

Generic competition for Dexdor® started in Germany in 2017 and has since expanded to most countries in the European Union, turning down sales of the product. Orion has also been informed that marketing authorisation applications have been filed for a generic version of Simdax® in Europe. It is, however, difficult to predict the impact of generic competition on the sales of

Dexdor® and Simdax® in particular with any precision. The patent for the Simdax® molecule expired in September 2015 and its other product protection will expire in September 2020. The expiry of product protection is not estimated to materially affect Simdax® sales in 2020.

Sales of generic products account for a significant proportion of Orion's total sales. Disruptions in product availability and tougher price competition in generic drugs have had and will continue to have a negative effect on the business division's net sales in all markets. The prices of reference-priced prescription drugs in Finland, which is our biggest individual market, continued to decline in 2019 compared with 2018, but over the course of the year, the price decline levelled off. At the same time, the impact of availability disruptions on our net sales has intensified, and in 2019 their negative impact was roughly equal to that of the price decreases, at approximately EUR 10 million. The combined negative impact of price decline and product shortages is estimated to be slightly smaller in 2020 than in the previous year.

Net sales of Orion's biosimilars (Remsima®, Ritemvia® and Amgevita®) have fluctuated heavily in the past few years. Their net sales were EUR 57 million in 2017, EUR 25 million in 2018 and EUR 38 million in 2019. The changes are due to varying success in national or regional tendering competitions. Tendering competitions for this year have been challenging for Orion, and therefore the net sales of biosimilars are estimated to decline significantly in 2020.

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, neither the outcome nor the schedule of contract negotiations is generally known before the final signing of the agreement. In 2019, milestone payments amounted to EUR 51 million, including the EUR 45 million milestone payment from Bayer for the commercialisation of the prostate cancer drug darolutamide in the United States. The outlook for 2020 includes milestone payments worth around EUR 35 million, the largest single payments among which are EUR 20 million for the commercialisation of darolutamide in the EU and EUR 8 million for its commercialisation in Japan.

Expenditure

Sales and marketing expenditure for 2019–2020 includes a EUR 12 million annual depreciation related to the acquisition of the European sales and distribution rights for the Parkinson's drugs Stalevo® and Comtan®. Orion paid a total of USD 28 million for the transfer of the sales rights in December 2018 and in April 2019, and the investment will be depreciated over two years. The outlook also includes an estimated expenditure of EUR 5 million for preparing the launch of the ALS drug as well as costs associated with Orion's potential branching out to the United States. Most of these costs will only materialise in the second half of the year, provided that upon completion, the results of the ongoing Phase III REFALS clinical trial are considered sufficiently positive for obtaining marketing authorisation in the United States.

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 2020 were mainly planned during the previous year.

Research and development costs are estimated to be roughly equal to those in 2019. The expenses from the Phase III REFALS clinical trial investigating levosimendan (ODM-109) for the treatment of symptoms of amyotrophic lateral sclerosis (ALS) will slightly decline from previous year, since the trial will come to an end in 2020. However, investments in earlier research phases are set to increase. Research and development expenses 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 2020 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 2020 is expected to be higher than in 2019, when capital expenditure was EUR 43 million.

Near-term risks and uncertainties

The reacquisition of European sales and distribution rights for Stalevo® and Comtan® has generated additional sales for Orion's branded Parkinson's drugs since 2019. With the expiration of the Novartis contract in 2020, the distribution of these products will be handed over to new partners in most non-European markets, with the exception of Japan. In a few Southeast Asian markets, Orion is also taking over sales on its own. Sales will continue to be negatively affected by continued generic

competition. All these changes and impacts have been taken into account in the outlook 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 and Dexdor®'s indication patent expired at the end of March 2019. The last product protection for Simdax® will expire in 2020. Generic competition for Dexdor® started in Germany in 2017 and has since expanded to most countries in the European Union, turning down sales of the product. Orion has also been informed that marketing authorisation applications have been filed for a generic version of Simdax® in Europe. It is, however, difficult to predict the impact of generic competition on the sales of Dexdor® and Simdax® in particular with any precision. The expiry of product protection is not estimated to materially affect Simdax® sales in 2020.

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. Product deliveries to key partners are based on timetables that are jointly agreed in advance. Nevertheless, they can change, for example as a consequence of decisions concerning adjustments of stock levels. In addition, changes in market prices and exchange rates affect the value of deliveries.

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. The impact of availability disruptions on our net sales has increased in the past few years. 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 contains products manufactured by other pharmaceutical companies and products that Orion manufactures on its own but for which other companies deliver active pharmaceutical or other ingredients. 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. In 2020, there is a heightened risk of strikes or other industrial action in Finland. If strikes or industrial action do occur, they may place Orion's delivery reliability at risk. Potential production and financial impacts will depend on the extent and duration of the action, which are difficult to predict.

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 2014–2019 the annual payments varied from EUR 5 million to EUR 51 million. The payments may be subject to conditions relating to the progress of research projects or sales or to new contracts to be signed, and whether these conditions or contracts materialise and what their timing is will always entail uncertainties. The outlook for 2020 includes milestone payments worth around EUR 35 million, the largest single payments among which are EUR 20 million for the commercialisation of darolutamide in the EU and EUR 8 million for its commercialisation in Japan.

The spread of a new coronavirus creates uncertainty that can affect, among others, the supply and logistics chains.

Basic information on Orion's shares

31 Dec 2019	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	23.7	68.5	92.2
Counter book value per share, EUR	0.65	0.65	
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	

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

Ownership base by type of shareholder

31 Dec 2019	Owners	%	A shares	%	B shares	%	Total shares	%	Total votes	%
Non-financial and housing companies	1,733	2.60	5,242,330	14.43	2,869,871	2.74	8,112,201	5.74	107,716,471	12.95
Financial and insurance institutions	88	0.13	750,670	2.07	3,877,422	3.70	4,628,092	3.28	18,890,822	2.27
Public sector entities	38	0.06	2,233,242	6.15	8,418,443	8.02	10,651,685	7.54	53,083,283	6.38
Households	63,759	95.74	23,516,376	64.72	32,669,541	31.14	56,185,917	39.78	502,997,061	60.48
Non-profit organisations	702	1.05	3,354,467	9.23	4,076,934	3.89	7,431,401	5.26	71,166,274	8.56
Nominee-registered and foreign shareholders	274	0.41	1,173,900	3.23	52,183,559	49.74	53,357,459	37.77	75,661,559	9.10
Others	0	0.00	64,478	0.18	61,196	0.06	125,674	0.09	1,350,756	0.16
Number of treasury shares	1	0.00	0	0.00	765,399	0.73	765,399	0.54	765,399	0.09
Total	**66,595**	**100.00**	**36,335,463**	**100.00**	**104,922,365**	**100.00**	**141,257,828**	**100.00**	**831,631,625**	**100.00**

Ownership base by number of shares

31 Dec 2019	Owners	%	A shares	%	B shares	%	Total shares	%	Total votes	%
1–100	27,040	40.60	350,435	0.96	1,033,904	0.99	1,283,658	0.91	6,989,586	0.84
101–1,000	29,887	44.88	3,161,548	8.70	9,827,971	9.37	11,544,814	8.17	58,379,054	7.02
1,001–10,000	8,794	13.21	8,689,141	23.91	17,058,275	16.26	24,508,094	17.35	176,898,088	21.27
10,001–100,000	796	1.20	7,909,807	21.77	10,810,386	10.30	20,186,358	14.29	182,632,140	21.96
100,001–1,000,000	66	0.10	8,592,910	23.65	8,831,254	8.42	17,255,129	12.22	170,745,033	20.53
1,000,001–	11	0.02	7,567,144	20.83	56,533,980	53.88	65,588,702	46.43	233,871,569	28.12
In joint account	0	0.00	64,478	0.18	61,196	0.06	125,674	0.09	1,350,756	0.16
Total	**66,594**	**100.00**	**36,335,463**	**100.00**	**104,156,966**	**99.27**	**140,492,429**	**99.46**	**830,866,226**	**99.91**
of which nominee-registered	12	0.02	1,031,910	2.84	51,203,556	49.16	52,235,466	37.18	71,841,756	8.65
Number of treasury shares	1	0.00	0	0.00	765,399	0.73	765,399	0.54	765,399	0.09
Total	**66,595**	**100.00**	**36,335,463**	**100.00**	**104,922,365**	**100.00**	**141,257,828**	**100.00**	**831,631,625**	**100.00**

Largest shareholders by number of shares[1]

31 Dec 2019		A shares	B shares	Total shares	% of total shares	Total votes	% of total votes
1.	Ilmarinen Mutual Pension Insurance Company	1,936,648	1,802,629	3,739,277	2.65%	40,535,589	4.87%
2.	Erkki Etola and companies	2,500,000	500,000	3,000,000	2.12%	50,500,000	6.07%
	Etola Erkki	200,000	0			4,000,000	
	Etola Oy	2,300,000	0			46,000,000	
	Tiiviste-Group Oy		500,000			500,000	
3.	Land and Water Technology Foundation and companies	2,083,360	0	2,083,360	1.47%	41,667,200	5.01%
	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%
5.	The Social Security Institution of Finland, Kela	0	1,658,368	1,658,368	1.17%	1,658,368	0.20%
6.	Ylppö Jukka	1,247,136	197,729	1,444,865	1.02%	25,140,449	3.02%
7.	Elo Mutual Pension Insurance Company	292,800	1,139,234	1,432,034	1.01%	6,995,234	0.84%
8.	Into Ylppö and commanding votes	785,492	242,848	1,028,340	0.73%	15,952,688	1.92%
	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	
9.	The State Pension Fund	0	1,000,000	1,000,000	0.71%	1,000,000	0.12%
10.	Orion Corporation[2]	0	765,399	765,399	0.54%	765,399	0.09%
10 largest total		**8,845,436**	**9,251,816**	**18,097,252**	**12.81%**	**186,160,536**	**22.38%**

[1] 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.

[2] Not entitled to vote at Orion's General Meetings of shareholders.

Largest shareholders by number of votes[1]

31 Dec 2019	A shares	B shares	Total shares	% of total shares	Total votes	% of total votes
1. Erkki Etola and companies	2,500,000	500,000	3,000,000	2.12%	50,500,000	6.07%
Etola Erkki	200,000	0			4,000,000	
Etola Oy	2,300,000	0			46,000,000	
Tiiviste-Group Oy		500,000			500,000	
3. Land and Water Technology Foundation and companies	2,083,360	0	2,083,360	1.47%	41,667,200	5.01%
Land and Water Technology Foundation	1,034,860	0			20,697,200	
Tukinvest Oy	1,048,500	0			20,970,000	
3. Ilmarinen Mutual Pension Insurance Company	1,936,648	1,802,629	3,739,277	2.65%	40,535,589	4.87%
4. Ylppö Jukka	1,247,136	197,729	1,444,865	1.02%	25,140,449	3.02%
5. Into Ylppö and commanding votes	785,492	242,848	1,028,340	0.73%	15,952,688	1.92%
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	
6. Aho Group Oy's commanding votes	707,859	2,429	710,288	0.50%	14,159,609	1.70%
Aava Terveyspalvelut Oy	358,230	4			7,164,604	
Juhani Aho Foundation for Medical Research	107,800	0			2,156,000	
Aho Kari Jussi	44,763	0			895,260	
Porkkala Miia	46,183	0			923,660	
Lappalainen Annakaija	58,034	2,000			1,162,680	
Aho Antti Jussi	42,353	0			847,060	
Aho Ville Jussi	50,496	425			1,010,345	
7. Saastamoinen Foundation	654,996	0	654,996	0.46%	13,099,920	1.58%
8. Orion Pension Fund[2]	544,188	180,592	724,780	0.51%	11,064,352	1.33%
9. Eija Ronkainen and companies	535,500	38,250	573,750	0.41%	10,748,250	1.29%
EVK-Capital Oy	535,500	16,671			10,726,671	
Eija Ronkainen	0	21,579			21,579	
10. The estate of Jouko Brade and companies	464,805	4,400	469,205	0.33%	9,300,500	1.12%
The estate of Jouko Brade	54,805	4,400			1,100,500	
Brade Oy	0	0			0	
Medical Investment Trust Oy	410,000	0			8,200,000	
Lamy Oy	0	0			0	
Helsinki Investment Trust Oy	0	0			0	
Helsinki Securities Oy	0	0			0	
10 largest total	**11,459,984**	**2,968,877**	**14,428,861**	**10.21%**	**232,168,557**	**27.92%**

[1] 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.

[2] Not entitled to vote at Orion's General Meetings of shareholders.

Shareholdings in Orion Corporation of the Members elected to the Board of Directors on 26 March 2019[1]

31 Dec 2019	A shares	Change from 1 Jan	B shares	Change from 1 Jan	A and B total	% of total shares	% of total votes
Heikki Westerlund, Chairman	5,000	0	8,515	1,134	13,515	0.01	0.01
Timo Maasilta, Vice Chairman	21,928	0	5,797	743	27,725	0.02	0.05
Pia Kalsta	0	0	568	568	568	0.00	0.00
Ari Lehtoranta	0	0	1,579	568	1,579	0.00	0.00
Hilpi Rautelin	1,800	0	2,579	568	4,379	0.00	0.00
Eija Ronkainen	535,500	0	38,250	10,568	573,750	0.41	1.29
Mikael Silvennoinen	0	0	6,068	568	6,068	0.00	0.00
Board of Directors total	**564,228**	**0**	**63,356**	**14,717**	**627,584**	**0.44**	**1.36**

[1] The figures include the shares held by organisations and foundations controlled by the person.

Shareholdings in Orion Corporation of the Members of the Executive Management Board[1]

31 Dec 2019	A shares	Change from 1 Jan	B shares	Change from 1 Jan	A and B total	% of total shares	% of total votes
Timo Lappalainen, President and CEO	0	0	61,491	-44,485	61,491	0.04	0.01
Satu Ahomäki	0	0	29,048	2,758	29,048	0.02	0.00
Markku Huhta-Koivisto	0	0	30,022	2,758	30,022	0.02	0.00
Olli Huotari	0	0	56,589	2,206	56,589	0.04	0.01
Liisa Hurme	0	0	28,919	2,758	28,919	0.02	0.00
Jari Karlson	0	0	30,929	2,206	30,929	0.02	0.00
Virve Laitinen	0	0	16,881	-2,294	16,881	0.01	0.00
Christer Nordstedt	0	0	6,544	2,379	6,544	0.00	0.00
Executive Management Board total	**0**	**0**	**260,423**	**-31,714**	**260,423**	**0.18**	**0.03**

[1] The figures include the shares held by organisations and foundations controlled by the person.

Group's key figures

Key figures relating to financial performance

	2015	2016	2017	2018	2019
Net sales, EUR million[1]	1,015.6	1,073.5	1,033.6	977.5	1,051.0
EBITDA, EUR million[1]	308.3	355.2	323.6	293.9	308.9
% of net sales[1]	30.4%	33.1%	31.3%	30.1%	29.4%
Operating profit, EUR million[1]	266.6	314.6	284.1	252.8	252.8
% of net sales[1]	26.2%	29.3%	27.5%	25.9%	24.1%
Profit for the period, EUR million[1]	208.2	249.0	226.0	197.3	200.4
% of net sales[1]	20.5%	23.2%	21.9%	20.2%	19.1%
R&D expenses, EUR million[1]	108.1	118.2	99.1	104.0	119.3
% of net sales[1]	10.6%	11.0%	9.6%	10.6%	11.3%
Capital expenditure, EUR million[1]	44.5	51.1	75.0	64.8	42.6
% of net sales[1]	4.4%	4.8%	7.2%	6.6%	4.0%
Depreciation, amortisation and impairment, EUR million[1]	41.8	40.6	39.5	41.1	56.1
Personnel expenses, EUR million[1]	220.6	224.4	203.9	200.7	217.1
Equity total, EUR million	594.9	641.4	679.7	773.1	779.4
Interest-bearing net liabilities, EUR million	-57.4	-79.4	-12.7	-132.1	-139.1
Assets total, EUR million	1,047.4	1,062.9	1,055.5	1,146.7	1,035.7
Cash flow from operating activities, EUR million	254.9	249.1	228.4	230.9	270.8
Equity ratio, %	57.4%	60.8%	64.6%	68.8%	76.7%
Gearing, %	-9.6%	-12.4%	-1.9%	-17.1%	-17.8%
ROCE (before taxes), %	35.7%	40.9%	36.2%	44.3%	29.9%
ROE (after taxes), %	37.5%	40.3%	34.2%	45.5%	25.8%
Personnel at the end of the period[1]	3,401	3,469	3,161	3,154	3,265
Average personnel during the period[1]	3,431	3,446	3,205	3,179	3,251

[1] Continuing operations since 2017

Performance per share

	2015	2016	2017	2018	2019
Basic earnings per share, EUR	1.48	1.77	1.61	2.35	1.43
Diluted earnings per share, EUR	1.48	1.77	1.61	2.35	1.43
Cash flow per share before financial items, EUR	1.51	1.62	1.09	2.32	1.68
Equity per share, EUR	4.22	4.57	4.83	5.50	5.55
Total dividend, EUR million	183.1	217.7	203.8	211.0	210.7[1]
Payout ratio, %	87.8%	87.6%	90.1%	63.8%	105.2%[1]
Dividend per share, EUR	1.30	1.55	1.45	1.50	1.50[1]
A shares					
Number of shares at 31 Dec	38,906,154	38,294,154	37,120,346	37,120,346	36,335,463
Effective dividend yield, %	4.1%	3.7%	4.5%	5.0%	3.7%[1]
Price/earnings ratio (P/E)	21.51	23.94	19.92	12.89	28.64
Closing quotation at 31 Dec, EUR	31.83	42.38	32.07	30.30	40.95
Lowest quotation during the period, EUR	24.90	27.70	31.21	24.75	28.20
Average quotation during the period, EUR	31.07	34.37	46.37	29.63	34.26
Highest quotation during the period, EUR	38.69	42.91	58.35	35.70	42.00
Shares traded, 1,000 shares	2,868	1,984	3,198	2,132	2,149
% of the total number of shares	7.2%	5.1%	8.5%	5.7%	5.9%
B shares					
Number of shares at 31 Dec excluding treasury shares	101,923,958	102,180,308	103,462,081	103,575,042	104,156,966
Treasury shares at 31 Dec	427,716	783,366	675,401	562,440	765,399
Number of shares at 31 Dec including treasury shares	102,351,674	102,963,674	104,137,482	104,137,482	104,922,365
Effective dividend yield, %	4.1%	3.7%	4.7%	5.0%	3.6%[1]
Price/earnings ratio (P/E)	21.60	23.89	19.30	12.89	28.86
Closing quotation at 31 Dec, EUR	31.97	42.29	31.08	30.28	41.27
Lowest quotation during the period, EUR	25.47	27.79	29.72	22.57	28.19
Average quotation during the period, EUR	31.08	34.54	43.11	27.90	33.48
Highest quotation during the period, EUR	38.86	43.10	58.50	33.50	42.52
Shares traded, 1,000 shares	67,069	57,063	86,594	121,459	85,304
% of the total number of shares	66.1%	55.6%	83.5%	116.6%	81.3%
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	140,806,389	140,670,663	140,564,679	140,676,819	140,571,373
Shares traded, % of all shares	49.5%	41.8%	63.6%	87.5%	61.9%
Market capitalisation at 31 Dec, excluding treasury shares, EUR million	4,496.9	5,944.1	4,406.1	4,261.0	5,786.5

[1] The Board of Directors' proposal for 2019 to the AGM.

The data in table includes Continuing and Discontinued operations.

Calculation of the key figures

EBITDA = Operating profit + Depreciation + Amortisation + Impairment losses

Interest-bearing net liabilities = Interest-bearing liabilities - Cash and cash equivalents - Money market investments

$$\text{Return on capital employed (ROCE), \%} = \frac{\text{Profit before taxes + interest and other finance expenses}}{\text{Total assets - Non-interest-bearing liabilities (average during the period)}} \times 100$$

$$\text{Return on equity (ROE), \%} = \frac{\text{Profit for the period}}{\text{Total equity (average during the period)}} \times 100$$

$$\text{Equity ratio, \%} = \frac{\text{Equity}}{\text{Total assets - Advances received}} \times 100$$

$$\text{Gearing, \%} = \frac{\text{Interest-bearing liabilities - Cash and cash equivalents - Money market investments}}{\text{Equity}} \times 100$$

$$\text{Earnings per share, EUR} = \frac{\text{Profit available for the owners of the parent company}}{\text{Average number of shares during the period, excluding treasury shares}}$$

$$\text{Cash flow per share before financial items, EUR} = \frac{\text{Cash flow from operating activities + Cash flow from investing activities}}{\text{Average number of shares, excluding treasury shares}}$$

$$\text{Equity per share, EUR} = \frac{\text{Equity attributable to owners of the parent company}}{\text{Number of shares at the end of the period, excluding treasury shares}}$$

$$\text{Dividend per share, EUR} = \frac{\text{Dividend to be distributed for the period}}{\text{Number of shares at the end of the period, excluding treasury shares}}$$

$$\text{Payout ratio, \%} = \frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$$

$$\text{Effective dividend yield, \%} = \frac{\text{Dividend per share}}{\text{Closing quotation of the period}} \times 100$$

$$\text{Price/earnings ratio (P/E)} = \frac{\text{Closing quotation of the period}}{\text{Earnings per share}}$$

$$\text{Average share price, EUR} = \frac{\text{Total EUR value of shares traded}}{\text{Average number of traded shares during the period}}$$

Market capitalisation, EUR million = Number of shares at the end of the period x Closing quotation of the period

Consolidated financial statements (IFRS)

Consolidated statement of comprehensive income

EUR million	Note	2019	2018
Net sales	1	1,051.0	977.5
Cost of goods sold		-417.6	-387.9
Gross profit		633.4	589.6
Other operating income and expenses	2	2.2	5.5
Selling and marketing expenses	3, 4	-215.7	-195.3
R&D expenses	3, 4	-119.3	-104.0
Administrative expenses	3, 4	-47.8	-43.0
Operating profit		252.8	252.8
Finance income	5	0.7	0.3
Finance expenses	5	-2.6	-4.7
Profit before income taxes		250.8	248.4
Income tax expense	6	-50.5	-51.0
Profit for the period for continuing operations		200.4	197.3
Profit for the period for discontinued operations	29		132.9
Profit for the period		200.4	330.3
OTHER COMPREHENSIVE INCOME INCLUDING TAX EFFECTS			
Translation differences		0.9	-1.7
Items that may be reclassified subsequently to profit and loss		0.9	-1.7
Remeasurement of pension plans (continuing operations)	12	19.9	-21.4
Remeasurement of pension plans (discontinued operations)			2.9
Items that will not be reclassified to profit and loss		19.9	-18.5
Other comprehensive income net of tax		20.9	-20.1
Comprehensive income for the period including tax effects		221.2	310.1
PROFIT ATTRIBUTABLE TO			
Owners of the parent company		200.4	330.3
COMPREHENSIVE INCOME ATTRIBUTABLE TO			
Owners of the parent company		221.2	310.1

EUR million	Note	2019	2018
Continuing operations			
Basic earnings per share, EUR[1]	7	1.43	1.40
Diluted earnings per share, EUR[1]	7	1.43	1.40
Depreciation, amortisation and impairment		56.1	41.1
Personnel expenses		217.1	200.7
Discontinued operations			
Basic earnings per share, EUR[1]	7		0.95
Diluted earnings per share, EUR[1]	7		0.95
Depreciation, amortisation and impairment			0.7
Personnel expenses			2.1

[1] Earnings per share has been calculated from the profit attributable to the owners of the parent company.

The Diagnostics business, sold on 30 April 2018, has been reported as a discontinued operation in the period 2018.

IFRS 16 has been adopted by using the simplified retrospective method, and therefore figures of the comparative period have not been adjusted.

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

Consolidated statement of financial position

Assets

EUR million, 31 Dec	Note	2019	2018
Property, plant and equipment	8	320.9	316.9
Goodwill	9	13.5	13.5
Intangible rights	9	34.8	47.5
Other intangible assets	9	2.8	2.7
Investments in associates	10	0.1	0.1
Other investments	11	0.2	0.3
Pension asset	12	55.8	31.5
Deferred tax assets	13	6.8	5.1
Other non-current receivables	14	0.8	0.9
Non-current assets total		435.6	418.5
Inventories	15	230.3	222.1
Trade receivables	16	196.5	188.8
Other receivables	16	24.3	33.7
Money market investments	16	35.0	35.0
Cash and cash equivalents	17	114.0	248.7
Current assets total		600.1	728.2
Assets total		1,035.7	1,146.7

Equity and liabilities

EUR million, 31 Dec	Note	2019	2018
Share capital		92.2	92.2
Other reserves		3.0	2.9
Retained earnings		684.2	678.0
Equity attributable to owners of the parent company		779.4	773.1
Equity total	18	779.4	773.1
Deferred tax liabilities	13	41.2	37.8
Pension liability	12	3.4	3.6
Provisions	19	0.4	0.3
Interest-bearing non-current liabilities	20	6.7	0.6
Other non-current liabilities	21	17.1	17.4
Non-current liabilities total		68.8	59.8
Trade payables	22	79.0	74.9
Current tax liabilities	22	2.6	1.5
Other current liabilities	22	102.6	86.4
Interest-bearing current liabilities	20	3.3	150.9
Current liabilities total		187.5	313.8
Liabilities total		256.3	373.6
Equity and liabilities total		1,035.7	1,146.7

The Group has combined the previously separately presented "Expendable fund" item under the item "Other reserves".

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

Consolidated statement of changes in equity

		Equity attributable to owners of the parent company						
EUR million	Note	Share capital	Other reserves	Remeasurement of pension plans	Treasury shares	Translation differences	Retained earnings	Equity total
Equity at 1 January 2018		92.2	2.8	31.9	-20.1	-5.9	578.7	679.7
Impact of adoption of the IFRS 15 and IFRS 9 standards							-16.5	-16.5
Adjusted equity at 1 January 2018		92.2	2.8	31.9	-20.1	-5.9	562.2	663.2
Profit for the period							330.3	330.3
Other comprehensive income								
Translation differences						-1.8	0.2	-1.6
Remeasurement of pension plans				-21.4			2.9	-18.5
Transactions with owners								
Dividend and capital repayment	18						-203.8	-203.8
Share-based incentive plan	4				2.1		1.8	3.9
Other adjustments			0.1				-0.4	-0.3
Equity at 31 December 2018		92.2	2.9	10.5	-18.0	-7.7	693.2	773.1
Impact of adoption of the IFRS 16 standard							-0.2	-0.2
Adjusted equity at 1 January 2019		92.2	2.9	10.5	-18.0	-7.7	693.0	772.9
Profit for the period							200.4	200.4
Other comprehensive income								
Translation differences						0.7	0.2	0.9
Remeasurement of pension plans				19.9				19.9
Transactions with owners								
Dividend and capital repayment	18						-211.4	-211.4
Repurchase of treasury shares					-7.4			-7.4
Share-based incentive plan	4				0.9		1.6	2.5
Other adjustments			0.0				1.5	1.5
Equity at 31 December 2019		92.2	3.0	30.5	-24.5	-7.0	685.2	779.4

The Group did not have portions attributable to non-controlling interest at 12/2019 and 12/2018.

The Group has combined the previously separately presented “Expendable fund” item under the item “Other reserves”.

The share of expendable fund of other reserves at 31 December 2019 was EUR 0.5 million. There have been no changes in the expendable fund since 1 January 2018.

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

Consolidated statement of cash flows

EUR million	Note	2019	2018
Operating profit		252.8	387.3
Depreciation, amortisation and impairment	3	56.1	41.7
Gains/losses on sales or disposals of property, plant and equipment and intangible assets		-0.1	0.0
Unrealised foreign exchange gains and losses		-0.4	0.4
Change in pension asset and pension obligation	12	0.5	-3.7
Change in provisions	19	0.0	0.1
Other adjustments		0.6	-126.3
Total adjustments to operating profit		56.7	-87.8
Change in trade and other receivables		-0.2	4.4
Change in inventories		-8.0	-10.6
Change in trade and other payables		22.7	-3.9
Total change in working capital		14.5	-10.2
Interest and other financial expenses paid		-7.0	-5.9
Interest and other financial income received		3.1	1.7
Dividends received		0.0	0.0
Income taxes paid	6	-49.3	-54.3
Total net cash flow from operating activities		270.8	230.9
Investments in property, plant and equipment	8	-28.7	-38.1
Investments in intangible assets	9	-7.5	-28.7
Sales of property, plant and equipment, other investments and associated companies	8, 10	0.8	0.9
Sale of subsidiary	30	1.4	161.3
Total net cash flow from investing activities		-34.0	95.4
Current loans raised	20	1.4	1.3
Repayments of current loans	8, 20	-154.2	-2.6
Repurchase of treasury shares	18	-7.4	
Dividends paid and other distribution of profits	18	-211.2	-203.9
Total net cash flow from financing activities		-371.4	-205.3
Net change in cash and cash equivalents		-134.5	121.1
Cash and cash equivalents at 1 Jan	17	283.7	164.1
Foreign exchange differences		-0.1	-1.5
Cash and cash equivalents at 31 Dec	17	149.0	283.7

The Diagnostics business, sold on 30 April 2018, has been reported as a discontinued operation in year 2018.

The cash flow statement for the comparative period contain the assets and liabilities of the discontinued operation.

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

Reconciliation of cash and cash equivalents in statement of financial position

EUR million	2019	2018
Cash and cash equivalents in statement of financial position at the end of the period	114.0	248.7
Money market investments at the end of the period	35.0	35.0
Cash and cash equivalents in the statement of cash flows	149.0	283.7

The Diagnostics business, sold on 30 April 2018, has been reported as a discontinued operation in year 2018.

The cash flow statement for the comparative period contain the assets and liabilities of the discontinued operation.

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 human and veterinary pharmaceuticals and active pharmaceutical ingredients that are marketed globally.

The Group announced the sale of Orion Diagnostica in the financial year 2018. In these financial statements the comparison figures for 2018 show Orion Diagnostica as a discontinued operation in the following statements:

- Other comprehensive income in the consolidated statement of income
- Consolidated statement of cash flows

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 5 February 2020, 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, 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 at 31 December 2019. 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 2019

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 2019.

- IFRS 16 (new), Leases
- IAS 19 (amended), Employee benefits
- IFRIC 23 (new), Uncertainty over income tax treatments

The adoption of the IFRS 16 standard is described in the following paragraph. The amendment to the IAS 19 standard and the new IFRIC 23 interpretation have no material effect on the consolidated financial statements.

Adoption of IFRS 16 (Leases) on 1 January 2019

IFRS 16 (Leases) has replaced IAS 17 and related interpretations, which previously regulated the accounting treatment of leases, as of 1 January 2019. The Group has applied the simplified method permitted by IFRS 16 in the transition and recognised the cumulative effect in the opening balance sheet on 1 January 2019 as retained earnings and does not present comparative information.

The Group has recognised 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 has been 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 from the adoption date. The difference in value of the lease liability and the right-of-use assets has been recognised in equity as adjustment to retained earnings.

The Group has applied the following practical expedients permitted under IFRS 16 in its adoption of the standard. The Group has applied 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 has applied the exemptions permitted by the standard and accounted for leases for which the term ends within 12 months of the date of initial application as short-term leases and for leases of low-value assets as low-value asset leases. The expense arising from these have been recognised 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 the discounting rate used in transition, is based on IRS market rates plus a country risk based premium.

Following the adoption of IFRS 16, the Group has recognised an increase of EUR 8.6 million in right-of-use assets. EUR 8.9 million has been recognised as increase in lease liabilities on the balance sheet. EUR 0.2 million has been recognised as decrease of retained earnings in equity. EUR 0.0 million has been recognised as an increase in deferred tax assets.

BALANCING LEASE COMMITMENTS ON 31 DECEMBER 2018 TO LEASE LIABILITIES ON 1 JANUARY 2019

EUR million	
Lease commitments on 31 December 2018	**14.5**
Discounted value on 1 January 2019	13.8
Finance lease liabilities on 31 December 2018	1.6
Short-term and low-value leases	-4.5
Leases commencing in 2019 not yet included in the lease liability	-2.0
Lease liabilities on 1 January 2019	**8.9**

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 consists of one business area, "Pharmaceuticals business", which comprises five business divisions. Due to the nature of the business model and corporate governance, the entire Group is reported as a single operating segment.

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

Determining whether an arrangement contains a lease

The Group will assess at the time of inception whether a contract is, or contains, a lease. A contract contains a lease when it contains an identified asset and it conveys the right to direct the use of that asset for a specific period of time. The precondition is that the Group pays a consideration to the contracting party in exchange for this right.

The asset can be identified either explicitly, for example, based on a specific identification code, or implicitly, when the asset is not specified in the contract but in practice the contract can only be performed using a specific asset. The identified asset may also be a physically separable part of a larger asset, if it represents a substantial part of the total capacity of the asset. If the contracting party may substitute the asset with another one and gain financially in the process, the contract does not involve an identified asset and thus does not constitute a lease.

A contract conveys control to the Group when the Group gains substantially all the economic benefits from using the asset and has the right to direct the use of the identified asset during its useful life. Determination of the Group's right to direct the use of an asset involves considering its right to change things such as:

- what type of output is generated;
- when the output is generated;
- where the output is generated; and
- how much output is generated

Separating components of a contract

In some cases, contracts may contain lease components, which is due to the fact that the contract obligates the contracting party to provide various obligations to the Group. In such multi-component arrangements, the Group will specify each lease component and process them separately in accounting. The right to use the underlying asset is a separate lease component when the Group is able to benefit from the use of the asset either as such or jointly with other easily accessible resources and the asset is not highly dependent on other assets stipulated by the contract or it is not strongly attached to them. The Group allocates the contractual consideration to each lease component in proportion to their relative individual prices.

Lease term

The lease term is the period during which the lease cannot be cancelled. The lease term is extended by the period covered by an extension or termination option, if the Group is reasonably certain to exercise the extension option or not to exercise the termination option.

Leases with a term of 12 months or less and leases of low-value assets are classified as operating leases. For these leases, the lease payable to the lessor is recorded as an expense on an accrual basis. The underlying assets are not capitalised in the balance sheet.

Recognition at the inception of the lease

At the commencement of a lease, the Group recognises a lease liability and a corresponding right-of-use asset.

The lease liability is measured at the present value of the lease payments payable over the lease term that have not yet been paid. The leases are discounted at the rate implicit in the lease or the Group's incremental borrowing rate. In practice, the Group discounts the leases using the Group's incremental borrowing rate, since the rates implicit in the Group's leases typically cannot be readily determined. The incremental borrowing rate is based on market rates plus a country risk associated premium.

The right-of-use asset is initially measured at acquisition cost, which includes the original amount of the lease liability plus any initial direct costs incurred by the Group, estimated restoration costs and any lease payments made at or prior to commencement, less lease incentives obtained.

Leases paid by the Group consist of fixed payments, variable leases, amounts payable based under residual value guarantees, purchase option exercise prices, if it is reasonably certain that the option will be exercised as well as of payments associated with termination sanctions if it has been taken into account in the lease term that the Group will exercise its lease termination option.

When a variable lease depends on an index or a rate, these are taken into consideration when determining lease liability. Variable lease payments are initially measured using the index or rate as at the commencement date. Other variable leases, such as leases to be payable based on asset performance, are not included in the lease liability. Factually fixed payments, which are dependent on the functioning of an asset, for example, are taken into consideration when measuring the lease liability.

Subsequent measuring of a lease

After lease commencement, the Group measures the right-of-use asset using the acquisition cost model. The right-of-use asset is measured at acquisition cost less accumulated depreciation and accumulated impairment, adjusted by any cost of remeasurement of the lease liability. Depreciation is recognised in accordance with IAS 16 (Property, plant and equipment). The residual value and useful life of the right-of-use asset is reviewed when necessary, but at least at every year end for the financial statements, and an impairment is recognised if expected economic benefits change.

The Group values the lease liability in subsequent periods using the effective interest method.

The lease liability is remeasured if actual lease payments materially differ from lease payments contained in the original measurement and if the change in lease payments is based on clauses of the lease agreement that were in force at the inception of the lease. The lease is subsequently remeasured, for example, when there is a change in future lease payments due to a change in the index or rate used to determine those payments, or if there is a change in the amounts expected to be payable under a residual value guarantee. Changes in the assessment of a purchase option of an underlying asset or an extension or termination option may also lead to a remeasurement of the lease liability. The carrying amount of the right-of-use asset is adjusted by the lease liability amount following a remeasurement, or if the right-of-use asset has a carrying amount of zero, it is recognised through profit or loss.

The Group may re-negotiate leases during the lease term. Changes may lead to a revision of the duration of the lease term or to changing the underlying asset. The Group processes lease modifications in accordance with IFRS 16 as modifications of the scope of the lease or of the consideration payable, which were not part of the original terms agreed at the inception of the lease.

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 they are not held for collecting cash flows based on contract nor for both collecting cash flows and for sale or when they were classified at this 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 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 sales of goods 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 distributor's 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 later sold the products to its own customers and the right to royalties has been established.

Revenue from sales rights to products

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 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, and royalty payments received later constitute two 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.

Revenue from 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 based on the completion of subsequent phases or research results of the project later on. 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 note 1. Revenue from contracts with customers.

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 2020:

- *Conceptual framework* (amendment). The revised conceptual framework sets out the fundamental concepts that guide the IASB in developing standards adopted in previous years. The framework does not reverse the requirements of individual IFRS standards.
- IFRS 3 (amendment)[1], *Business combinations*. The amendment narrows down and clarifies the definition of business. Following this amendment, a simplified assessment is allowed on whether an acquired entity constitutes an asset group or a business.
- IAS 1, *Presentation of financial statements* and IAS 8, *Accounting policies, changes in accounting estimates and errors* (amendment). The amendments clarify the definition of materiality and improve the possibility for consistent application of the concept throughout IFRS standards.

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

[1] The standard amendment has not yet been endorsed for adoption in the EU.

1. Revenue from contracts with customers

The Group's net sales comprise three different revenue flows: product sales, revenue from sales rights to products, and revenue from clinical phase research and development work undertaken with collaboration partners. Product sales comprise both revenue from sales of goods and royalty income. Product sales form the majority of the Group's net sales. Revenue from sales rights to products 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	2019	2018
Sale of goods	988.6	953.7
Royalty income	11.5	17.4
Total product sales	1,000.1	971.0
Milestone payments	50.8	5.3
Total sales of revenue flows	1,051.0	976.3
Sales for discontinued operations		1.2
Group total	1,051.0	977.5

Revenue from clinical phase R&D collaboration undertaken with collaboration partners was EUR 0.6 (2018: 0.5). EUR 2.0 (2018: 2.0) million of sales revenue for performance obligations to be transferred to customers were entered as income over time. The Group has recorded EUR 0.7 (2018: -0.0) million of sales revenue for performance obligations satisfied during previous financial periods.

Net sales by business division

EUR million	2019	2018
Pharmaceuticals	1,051.0	977.5
Proprietary products	406.1	356.9
Specialty products	486.1	473.1
Animal Health	85.8	80.4
Fermion	55.0	50.7
Contract manufacturing and other	18.0	16.3
Group total	1,051.0	977.5

Assets and liabilities based on contract

	2019		2018	
EUR million	**Asset**	**Liability**	**Asset**	**Liability**
1 Jan	1.7	22.0	0.1	20.6
Revenue recognised during the financial period that was included in liabilities based on contract at the start of the period		-2.8		-1.9
Increase of considerations received less revenue recognised during the financial period		0.8		0.7
Actual billing during the financial period and transfer to liabilities	-1.5		-0.1	0.0
Change of assets and liabilities based on contract due to new business operations	2.6	-1.6	1.7	2.6
31 Dec	2.8	18.4	1.7	22.0

Assets based on contract consist mainly of products and services transferred to customers, but which are not yet invoiced. Liabilities based on contract consist mainly of advance payments received.

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 2019 and were related to the revenue flows "Revenue from sales rights to products" and "Revenue from clinical phase R&D collaboration with collaboration partners" was EUR 46.1 million. The Group expects to recognise EUR 34.2 million as revenue for this transaction price allocated to unsatisfied contracts during the financial years 2020 to 2022. The remaining EUR 11.9 million is expected to be recognised as revenue starting from the beginning of the financial year 2023. 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 Group's significant judgements related to recognition of revenue concern the contract with Bayer on the licensing, development and commercialisation of darolutamide.

Darolutamide, developed by Orion in collaboration with Bayer, was granted marketing authorisation by the United States Food and Drug Administration (FDA) under the brand name Nubeqa in July 2019. The first Nubeqa product sales in the United States materialised in August 2019. The Phase III clinical trial (ARAMIS) on the product was concluded in 2018. Significant judgement is required with regard to recognition of the sales revenue resulting from the research project and commercialisation of the product; these judgements are related to specifying performance obligations and the recognition time of variable considerations.

Through the Bayer contract, Orion licensed darolutamide-related rights to Bayer. In this context the parties agreed on cooperation related to carrying out the Phase III clinical trial and the commercialisation of the product. The license granted to Bayer has been considered as a separate performance obligation. The consideration for this comprises the single upfront payment for Orion's past research work received on signing the agreement, milestone payments to be received in connection with commercialisation and royalty payments based on sales. The performance obligation will be satisfied over time, and related considerations are variable payments by nature. The considerations will be recognised as net sales once it is highly likely that a significant reversal to accrued recognised revenue will not 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. First commercial sale in the United States took place in August 2019, at which time the milestone payment was recognised in net sales.
- EUR 20 million upon first commercial sale in the EU
- EUR 8 million upon first commercial sale in Japan

Orion will manufacture darolutamide for global markets. The manufacture is a separate performance obligation that comprises the manufacture, packaging and sales of darolutamide to Bayer as well as building production capacity. 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 products manufactured using the production capacity. Milestone payments related to building production capacity and payments for the manufacture and packaging of darolutamide are fixed payments by nature.

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.

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.

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.

	Finland		Scandinavia		Other Europe		North America		Other countries		Group total	
EUR million	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Sales to external customers	308.9	312.1	176.7	154.9	334.1	304.1	103.0	58.3	128.4	148.0	1,051.0	977.5
Assets	876.6	1,026.7	36.2	27.6	119.3	90.0			3.6	2.4	1,035.7	1,146.7
Capital expenditure	37.4	64.3	0.3	0.1	4.8	0.3			0.1	0.1	42.6	64.8

2. Other operating income and expenses

EUR million	**2019**	**2018**
Gains on sales of property, plant and equipment, intangible assets and other investments	0.2	0.7
Rental income	2.2	1.8
Exchange rate gains and losses	-1.3	-0.7
Service charges received from discontinued operations	0.7	1.0
Other operating income	0.6	2.8
Other operating expenses	-0.2	-0.1
Total	2.2	5.5

3. Depreciation, amortisation and impairment

Depreciation, amortisation and impairment by function

EUR million	**2019**	**2018**
Cost of goods sold	25.3	22.6
Selling and marketing	20.6	8.2
Research and development	3.3	3.4
Administration	6.9	7.0
Total	56.1	41.1

Depreciation, amortisation and impairment by type of asset

EUR million	**2019**	**2018**
Buildings and constructions	13.1	10.2
Machinery and equipment	23.0	20.7
Other tangible assets	0.2	0.2
Property, plant and equipment, total	36.3	31.1
Intangible rights	18.9	9.1
Other intangible assets	0.9	0.8
Intangible assets, total	19.8	10.0

During the period, an impairment charge of EUR 0.0 (2018: 0.3) million was recognised in selling and marketing expenses on intangible rights. 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	2019	2018
Wages and salaries	173.9	161.7
PENSION COSTS		
Defined contribution plans	20.9	20.1
Defined benefit plans	3.2	2.9
SHARE-BASED INCENTIVE PLAN		
Equity-settled	3.5	3.3
Cash-settled	4.9	2.3
Other social security expenses	10.7	10.4
Total	217.1	200.7
Average number of personnel	3,251	3,179

Defined benefit pension obligations are presented in Note 12, Pension assets and pension liabilities. The management's employee benefits are presented in Note 28, Related party transactions.

Share-based incentive plans

The Group has two share-based incentive plans in force for key persons of the Group.

The plan that commenced in 2016 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 earning 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 2019, a total of 181,003 Orion Corporation B shares had been paid as rewards under this plan.

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

The plan than commenced in 2019 includes five earning periods, which are the calendar years 2019, 2019–2020, 2019–2021, 2020–2022 and 2021–2023. The Board of Directors decides on the earnings criteria and on targets to be established for them at the beginning of each earning period. Three earning periods, calendar year 2019, calendar years 2019–2020 and 2019–2021, commenced upon implementation of the plan. The potential reward of the plan for the earning periods commencing in 2019 is based on achieving the Orion Group's operating profit and net sales targets.

The target group of the plan consists of approximately 50 people. The total maximum amount of rewards to be paid on the basis of the plan is 700,000 Orion Corporation B shares and a cash payment corresponding to the value of the shares. The total maximum amount includes a separate, so called reward for commitment part that the Board of Directors can use by a separate decision during the years 2019–2023. The maximum amount of the reward for commitment is no more than 100,000 shares and a cash payment corresponding to the value of the shares. By 31 December 2019, no Orion Corporation B shares had been paid as rewards under this plan.

Under the plan, shares received based on one-year and two-year earning periods cannot be transferred during the restricted period determined in the plan. There is no restriction period for the three year earning periods.

The rewards under the plans shall be paid partly in the form of the Company's B shares and partly in cash. Rewards, under the plan that commenced in 2016, have been paid and potential future rewards, under the plan that commenced in 2016 and 2019, shall be paid as follows:

Earning period	Reward paid on / potential reward to be paid in
2016	1 Mar 2017
2017	1 Mar 2018
2016–2018	1 Mar 2019
2018	1 Mar 2019
2017–2019	2020
2018–2020	2021
2019	2020
2019–2020	2021
2019–2021	2022
2020–2022	2023
2021–2023	2024

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 the 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 evaluation method.

Earning periods currently in effect

	2019	2019–2020	2019–2021	2018–2020	2017–2019
Start date of earning period	1 Jan 2019	1 Jan 2019	1 Jan 2019	1 Jan 2018	1 Jan 2017
End date of earning period	31 Dec 2019	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2019
End date of restricted period	31 Dec 2021	31 Dec 2021			
Grant date of share rewards	27 Mar 2019	27 Mar 2019	27 Mar 2019	14 Mar 2018	30 Mar 2017
Fair value of shares at granting, EUR[1]	32.99	32.99	32.99	26.73	48.83
Fair value of reward at grant date, EUR[1]				4.45	14.82

[1] The fair value of the rewards per share on the granting date has been determined with the Binary "asset or nothing call" option evaluation method.

Transferred shares

	2019	2018	2017	2016
Number of shares transferred during period	47,279	112,961	107,965	144,350
Price per transferred share, EUR[1]	32.26	26.52	47.10	31.08
Total price of transferred shares, EUR million	1.5	3.0	5.1	4.5
End date of restricted period[2]	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017

[1] Average price of B share on tranfer date.

[2] Concerns only shares which are granted based on earning period term of calendar year

Auditor's remuneration

EUR million	2019	2018
Auditing	0.2	0.2
Assingments in accordance with the Auditing Act	0.0	
Advice on taxation		
Other services	0.0	0.0
Total	0.3	0.3

5. Finance income and expenses

EUR million	2019	2018
Interest income on money market investments	0.2	0.0
Dividend income on other investments	0.0	0.0
Other interest income	0.2	0.3
Foreign exchange gains and losses, net	0.3	
Other finance income	0.0	0.0
Finance income, total	0.7	0.3
Interest expenses	2.3	4.5
Foreign exchange gains and losses, net		0.1
Other finance expenses	0.4	0.1
Finance expenses, total	2.6	4.7
Finance income and expenses, total	-2.0	-4.4

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.

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

EUR million	2019	2018
Foreign exchange rate gains	2.7	1.3
Foreign exchange rate losses	-2.5	-1.4
Net	0.3	-0.1

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

EUR million	2019	2018
In net sales	1.6	-0.8
In cost of goods sold	-0.0	-0.5
In other income and expenses	-1.3	-0.7
In functions' expenses	-0.2	-0.1

6. Income taxes

EUR million	2019	2018
Current taxes	53.0	48.6
Adjustments in respect of prior periods	0.7	-0.5
Deferred taxes	-3.3	2.9
Total	50.5	51.0

Taxes recognised in other comprehensive income

EUR million	2019	2018
Remeasurement of pension plans (income -/ expense +)	5.0	-9.2

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

EUR million	2019	2018
Profit before taxes	250.8	248.4
Consolidated income taxes at Group's domestic tax rate	50.2	49.7
Impact of different tax rates of foreign subsidiaries	0.5	0.6
Tax-exempt income	-0.1	-0.1
Non-deductible expenses	1.2	0.9
Utilisation of deductible losses	-0.4	-0.5
Tax adjustments for previous financial years	0.7	-0.5
Items due to IFRS adjustments	-1.0	0.9
Disposal of acquisition due to sold subsidiary	-0.6	
Other items	-0.1	-0.1
Income tax expense recognised in consolidated income statement	50.5	51.0
Effective tax rate	20.1%	20.5%

7. Earnings and dividend per share

Basic earnings per share, continuing operations

	2019	2018
Profit for the period attributable to owners of the parent company, EUR million	200.4	197.3
Weighted average number of shares during the period (1,000 shares)	140,571	140,677
Basic earnings per share, EUR	1.43	1.40

Diluted earnings per share, continuing operations

	2019	2018
Profit used to determine diluted earnings per share, EUR million	200.4	197.3
Weighted average number of shares for diluted earnings per share (1,000 shares)	140,571	140,677
Diluted earnings per share, EUR	1.43	1.40

Basic earnings per share, discontinued operations

	2019	2018
Profit for the period attributable to owners of the parent company, EUR million		132.9
Weighted average number of shares during the period (1,000 shares)		140,677
Basic earnings per share, EUR		0.95

Diluted earnings per share, discontinued operations

	2019	2018
Profit used to determine diluted earnings per share, EUR million		132.9
Weighted average number of shares for diluted earnings per share (1,000 shares)		140,677
Diluted earnings per share, EUR		0.95

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 2019.

Dividend per share

	2019	2018
Dividend paid during the period, EUR million	211.1	204.0
Number of shares at 31 Dec, (1,000 shares)	140,492	140,695
Dividend per share paid during the period, EUR	1.50	1.45

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 765,399 Company's B shares as treasury shares at 31 December 2019.

For the financial year 2019 a dividend of EUR 1.50 per share, in total EUR 210.7 million is proposed to the Annual General Meeting on 25 March 2020. These financial statements do not reflect the proposed dividend.

8. Property, plant and equipment

2019	Owned by Orion											
	Land and water		Buildings and constructions		Machinery and equipment		Other property, pland and equipment[1]		Advance payments and construction in progress		Total	
EUR million	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Historical cost at 1 Jan	6.6	6.6	352.4	348.1	387.3	402.5	5.0	5.1	56.3	61.2	807.7	823.5
Additions			6.7	4.3	13.9	13.2	0.1	0.1	10.0	18.6	30.8	36.1
Discontinued operations				-8.4		-21.6		-0.1		-2.9		-32.9
Disposals	-0.8		-4.2	-0.8	-24.5	-17.9	-0.0	-0.0	-0.2	-0.0	-29.7	-18.8
Transfers between statement of financial position items			21.3	9.3	26.1	11.2	0.0	0.0	-47.3	-20.6	0.1	-0.1
Translation differences					0.1	-0.1	0.0	-0.0			0.1	-0.1
Historical cost at 31 Dec	5.8	6.6	376.2	352.4	403.0	387.3	5.1	5.0	18.9	56.3	809.1	807.7
Accumulated depreciation and impairment at 1 Jan	0.2	0.2	-201.1	-199.9	-286.3	-297.3	-3.5	-3.4			-490.7	-500.4
Discontinued operations				8.4		14.6		0.0				23.0
Accumulated depreciation on disposals and transfers			3.5	0.6	22.4	17.1	0.0	0.1			25.8	17.7
Depreciation for the period			-11.4	-10.2	-21.3	-20.7	-0.2	-0.2			-32.9	-31.1
Translation differences					-0.1	0.1	-0.0	0.0			-0.1	0.1
Accumulated depreciations and impairment at 31 Dec	0.2	0.2	-209.1	-201.1	-285.3	-286.3	-3.7	-3.5			-498.0	-490.7
Carrying amount at 1 Jan	6.8	6.8	151.3	148.3	101.0	105.2	1.5	1.6	56.3	61.2	316.9	323.1
Carrying amount at 31 Dec	6.0	6.8	167.1	151.3	117.6	101.0	1.5	1.5	18.9	56.3	311.1	316.9

[1] Other tangible assets mainly comprise basic improvements to rented apartments, asphalting, environmental works and art objects.

2019	Right-of-use assets											
	Leased premises		Cars		Others		Total		Owned by Orion		Total	
EUR million	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Historical cost at 1 Jan									807.7	823.5	807.7	823.5
Impact of adoption of the IFRS 16 standard	10.7		4.2		1.4		16.4				16.4	
Additions	2.8		1.8				4.6		30.8	36.1	35.4	36.1
Discontinued operations										-32.9		-32.9
Disposals	-0.5		-0.4				-0.9		-29.7	-18.8	-30.5	-18.8
Transfers between statement of financial position items									0.1	-0.1	0.1	-0.1
Translation differences	0.3		0.1				0.4		0.1	-0.1	0.6	-0.1
Historical cost at 31 Dec	13.4		5.7		1.4		20.5		809.1	807.7	829.6	807.7
Accumulated depreciation and impairment at 1 Jan									-490.7	-500.4	-490.7	-500.4
Impact of adoption of the IFRS 16 standard	-5.3		-1.7		-0.7		-7.7				-7.7	
Discontinued operations										23.0		23.0
Accumulated depreciation on disposals and transfers	0.3		0.2				0.5		25.8	17.7	26.4	17.7
Depreciation for the period	-1.6		-1.4		-0.3		-3.3		-32.9	-31.1	-36.3	-31.1
Translation differences	-0.2		-0.1				-0.3		-0.1	0.1	-0.4	0.1
Accumulated depreciations and impairment at 31 Dec	-6.8		-3.0		-1.0		-10.8		-498.0	-490.7	-508.7	-490.7
Carrying amount at 1 Jan									316.9	323.1	316.9	323.1
Carrying amount at 31 Dec	6.5		2.8		0.5		9.8		311.1	316.9	320.9	316.9

Leases

Items arising from leases in the consolidated income statement

EUR million	**2019**
Depreciation from right-of-use assets	3.3
Interest expense from lease liabilities	0.2
Expense from short-term lease	0.6
Expense from leases of low-value assets	1.5
Lease income from third parties	-2.2
Total	3.4

Lease liabilities

The reconciliation of lease liabilities under current and non-current interest-bearing liabilities on the Group's consolidated balance sheet and undiscounted maturity spread of lease liabilities are presented in note 20. Interest-bearing liabilities.

Lease-related items entered in the consolidated cash flow statement

The consolidated cash flow statement item "Repayments of current loans" contains EUR 3.0 million of lease payments to lessors.

Information on Group leases

The Group has roughly 400 leases involving a right-of-use asset under IFRS 16. The nature of these leases is described below.

Leases of business premises

Outside Finland, the Group typically operates in leased premises. The premises are mainly office premises with fixed-term or open-end leases. The Group has estimated that its open-end leases will run for an average duration of 7–10 years. The estimate is based on previous experience on the duration of similar leases. The leases do not contain extension options with material impact on the consolidated financial statements. Some leases are subject to annual raises based on an index stated on the lease contract.

Lease of vehicles

Measured by numbers, car leases are the predominant lease type signed by the Group. Cars are mostly leased by Group offices outside Finland. Vehicles for employees working in the Group's non-Finnish subsidiaries are typically on lease. The leases typically run for 3–5 years and are signed without extension or purchase options.

Other leases

The Group's other leases are mostly associated with factory operations. The Group has contracts with various service providers involving a lease. The Group has assessed its IT systems contracts, and these have not been found to involve components that should be classified as leases under IFRS 16.

The Group as lessor

The Group has one business facility that it has leased out to a third party. The Group treats this lease as an operational contract, since it does not grant the lessee any gains or risks essentially associated with the leased facility that arise from the ownership of an asset. The Group also has other low-value leases in which it operates as the lessor.

9. Intangible assets

	Goodwill		Intangible rights[1]		Other intangible assets[2]		Total	
EUR million	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Historical cost at 1 Jan	13.5	13.5	157.2	145.8	57.8	58.1	228.5	217.4
Additions			6.2	27.7	0.9	0.9	7.2	28.7
Discontinued operations				-13.4		-1.3		-14.7
Disposals			-0.1	-3.0			-0.1	-3.0
Transfers between statement of financial position items			0.0	0.1			0.0	0.1
Translation differences			0.0	-0.0			0.0	-0.0
Historical cost at 31 Dec	13.5	13.5	163.4	157.2	58.8	57.8	235.7	228.5
Accumulated amortisation and impairments at 1 Jan			-109.8	-109.0	-55.1	-55.5	-164.9	-164.5
Discontinued operations				5.4		1.3		6.7
Accumulated amortisation on disposals			0.1	3.0			0.1	3.0
Amortisation for the period			-18.9	-8.8	-0.9	-0.8	-19.8	-9.6
Impairment			-0.0	-0.3			-0.0	-0.3
Accumulated amortisation and impairment at 31 Dec			-128.6	-109.8	-56.0	-55.1	-184.6	-164.9
Carrying amount at 1 Jan	13.5	13.5	47.5	36.7	2.7	2.6	63.7	52.9
Carrying amount at 31 Dec	13.5	13.5	34.8	47.5	2.8	2.7	51.1	63.7

[1] Intangible rights comprise mainly product rights and marketing authorisations with carrying amount EUR 27.0 (2018: 39.6) million, and also software, trademarks, patents and paid-up policies.

[2] 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 Farmos-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 4.7% (2018: 6.9%).

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 5.1 (2018: 10.7) million.

Impairment charges recognised in the period

During the period impairment charges totalling EUR 0.0 (2018: 0.3) million were recognised on the intangible rights of the Pharmaceuticals business. Intangible rights not yet available for use accounted for EUR 0.0 (2018: 0.2) 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	2019	2018
Carrying amount at 1 Jan	0.1	0.1
Share of associated companies' results		
Sale of associated companies		-0.0
Carrying amount at 31 Dec	0.1	0.1

Associates and affiliates of the Group

Holding at 31 Dec, %	Domicile	2019	2018
Hangon Puhdistamo Oy	Hanko	50.0%	50.0%

Hangon Puhdistamo Oy engages in wastewater treatment for the companies that own it. The company operates at cost, by covering its own expenses and without making any profit, so its impact on the consolidated statement of comprehensive income and statement of financial position is minimal.

Summarised financial information of associates

EUR million	2019	2018
Assets	5.2	5.7
Liabilities	4.5	5.0
Revenues	3.3	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 2018 and 2017.

Joint arrangements

In the 2018 financial year, total cost of joint operations amounted to EUR 9.5 (2018: 6.2) million. At the end of the financial year 2018, Orion had EUR 0.5 (2018: 2.4) 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 clinical trial (ARAMIS) started in 2014 further evaluated the efficacy and safety of darolutamide in patients with non-metastatic castration resistant prostate cancer (nmCRPC) and another trial (ARASENS) was started in 2016 on patients with metastatic hormone-sensitive prostate cancer (mHSPC).

Orion and Bayer set up a steering group for the darolutamide Phase III clinical trial. 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. The United States Food and Drug Administration (FDA) granted marketing authorisation to darolutamide in July 2019, and sales commenced in August 2019 in the United States under the brand name Nubeqa. The ARASENS trial is estimated to be completed in 2022.

Under the agreement, Bayer will commercialise the product globally while Orion has the option of co-promoting the product in Europe. In addition, Orion will manufacture and package 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.

11. Other investments

Other investments, with asset value of EUR 0.2 (2018: 0.3) million at 31 December 2019, 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, 31.12.	Pension fund 2019	Other 2019	Pension fund 2018	Other 2018
Present value of funded obligations	324.9	14.9	299.7	14.4
Fair value of plan assets	-380.7	-12.1	-331.2	-11.4
Surplus (-) / deficit (+)	-55.8	2.8	-31.5	2.9
Present value of unfunded obligations		0.7		0.7
Net asset (-) / liability (+) recognised in the statement of financial position	-55.8	3.4	-31.5	3.6

Amounts in consolidated statement of financial position

EUR million, 31.12.	Pension fund 2019	Other 2019	Pension fund 2018	Other 2018
Liabilities		3.4		3.6
Asset	-55.8		-31.5	
Net asset (-) / liability (+) recognised in the statement of financial position	-55.8	3.4	-31.5	3.6

Defined benefit plan pension expenses in consolidated statement of comprehensive income

EUR million	Pension fund 2019	Other 2019	Pension fund 2018	Other 2018
Current service cost	3.3	0.6	3.5	0.6
Interest expense and income, total	-0.7	0.1	-1.2	0.1
Pension expense (+) / income (-) in income statement	2.6	0.7	2.3	0.6
Items due to remeasurement	-25.1	0.2	27.3	0.7
Pension expense (+) / income (-) in statement of comprehensive income	-22.6	0.9	29.6	1.3

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 2019	Other 2019	Pension fund 2018	Other 2018
Cost of goods sold	0.9		0.8	
Selling and marketing	0.3	0.2	0.3	0.2
Research and development	0.7		0.6	
Administration	0.6	0.5	0.6	0.4
Pension expense (+) / income (-) in the income statement	2.6	0.7	2.3	0.6

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

Changes in present value of obligation

EUR million	Pension fund 2019	Other 2019	Pension fund 2018	Other 2018
Defined benefit plan obligation at 1 Jan	299.7	15.0	298.1	15.2
Current service cost	3.3	0.6	3.5	0.6
Interest expense	6.6	0.3	6.3	0.3
Discontinued operations			-15.4	
Items due to remeasurement:				
Gains (-) or losses (+) due to change in economic assumptions	19.2	0.4	-6.6	0.1
Experienced gains (-) or losses (+)	4.4	-0.1	21.5	-0.4
Total	23.6	0.3	14.9	-0.2
Foreign exchange differences		0.0		-0.0
Benefits paid	-8.3	-0.8	-7.7	-0.8
Obligation at 31 Dec	324.9	15.5	299.7	15.0

Changes in fair value of plan assets

EUR million	Pension fund 2019	Other 2019	Pension fund 2018	Other 2018
Fair value of plan assets at 1 Jan	331.2	11.4	353.2	12.0
Interest income	7.4	0.3	7.6	0.3
Discontinued operations			-10.8	
Items due to remeasurement:				
Return on plan assets excluding items in interest expense and income	48.7	0.1	-12.4	-0.9
Total	48.7	0.1	-12.4	-0.9
Foreign exchange differences		0.0		-0.0
Employer contributions	1.7	1.0	1.3	1.0
Benefits paid	-8.3	-0.8	-7.7	-0.8
Fair value of plan assets at 31 Dec	380.7	12.1	331.2	11.4

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

%	2019	2018
Equity in developed markets	44%	41%
Equity in emerging markets	7%	7%
Bonds	15%	19%
Cash and money market investments	11%	9%
Properties	17%	16%
Other	6%	8%
Total	100%	100%

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 29.7 (2018: 21.9) million that account for 7.7% (2018: 6.4%) 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

%	2019	2018
Discount rate	1.65	2.25
Inflation rate	1.20	1.50
Future pension increases	0.50–1.50	0.60–2.10
Future salary increases	1.30	1.30

In 2020 the Group expects to contribute EUR 16 (2019: 15) million to its pension plans.

The EUR 324.9 (2018: 299.7) million liability of the Orion Pension Fund has been discounted at a discount rate of 1.65% (2.25%). The impact on the liability of a change in the discount rate of +/- 0.50 percentage points would be EUR -27.7/+31.9 (2018: -24.7/+28.3) million, when other assumptions unchanged.

The weighted average duration of the defined benefit liability is 16 (2018: 18) 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	2019	2018
Pension liability	0.7	0.8
Accruals of sales revenue	3.6	3.9
Internal inventory margin	2.1	0.3
Other deductible temporary differences	0.3	0.2
Total	6.8	5.1

Deferred tax liabilities

EUR million, 31 Dec	2019	2018
Depreciation difference and untaxed reserves	24.9	25.1
Pension assets	11.2	6.3
Capitalised cost of inventory	3.3	4.3
Effects of consolidation and elimination	1.9	1.7
Other taxable temporary differences	0.0	0.4
Total	41.2	37.8

Change in deferred tax arises from

EUR million	2019	2018
Pension assets/liabilities	-4.9	4.8
Accruals of sales revenue	-0.2	3.9
Capitalised cost of inventory	1.0	0.9
Internal inventory margin	1.9	-0.1
Depreciation difference and untaxed reserves	0.2	-1.0
Deductible losses and other timing differences	0.4	-0.1
Total	-1.7	8.3

During the period, a decrease in equity of EUR 5.3 (2018: an increase of 9.2) million due to income taxes was recognised. The recognised taxes decreased at 31 Dec 2019 the equity EUR 4.0 (2018: increased EUR 1.3) million.

14. Other non-current receivables

EUR million, 31 Dec	2019	2018
Loan receivables from associates	0.4	0.5
Other loan receivables	0.1	0.1
Other non-current receivables	0.2	0.3
Total	0.8	0.9

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

15. Inventories

EUR million, 31 Dec	2019	2018
Raw materials and consumables	45.9	40.5
Work in progress	39.1	34.3
Finished products and goods	145.2	147.2
Total	230.3	222.1

The value of inventories has been impaired by EUR 12.5 (2018: 16.5) million for the period so it corresponds to net realisable value.

16. Trade and other receivables

EUR million, 31 Dec	Carrying amount 2019	Fair value 2019	Carrying amount 2018	Fair value 2018
Trade receivables	196.5	196.5	188.8	188.8
Current tax assets	3.1	3.1	6.5	6.5
Receivables from associates	0.1	0.1	0.1	0.1
Prepaid expenses and accrued income	12.2	12.2	21.5	21.5
Receivables on derivative contracts	0.1	0.1	0.4	0.4
Other receivables	8.8	8.8	5.1	5.1
Money market investments	35.0	35.0	35.0	35.0
Total	255.9	255.9	257.4	257.4

The most substantial item in other receivables is VAT receivables EUR 3.4 (2018: 1.8) million.

The maturities of the money market investments on their acquisition dates were over three months but no more than six 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 2019	Default rate 2019	Expected credit loss 2019	Carrying amount 2018
Not yet due	171.0	0.04%	0.1	171.7
1 to 30 days past due	18.6	0.34%	0.0	12.4
31 to 60 days past due	2.2	0.51%	0.0	1.7
61 to 90 days past due	0.9	0.69%	0.0	0.6
Over 90 days overdue	3.8	0.97%	0.0	2.5
Total	196.5		0.1	188.8

Impairment allowance on trade and other receivables for the period was net EUR 0.0 (2018: 0.1) million.

Material items included in prepaid expenses and accrued income

EUR million, 31 Dec	2019	2018
Assets based on contract	2.6	1.7
Prepayments for service and maintenance	2.2	2.1
Price differential payments	1.5	0.7
Share remunerations for restricted period	0.9	1.5
Pending compensations	0.8	0.8
Pending R&D contributions	0.7	0.8
Pending compensation due to inventory write-down	0.7	
Prepayments for R&D costs		5.9
Receivables from royalties		3.8
Price correction of purchase order acceptance		1.3
Consideration related to transfer of sales right not received		1.0
Other prepaid expenses and accrued income	2.7	1.9
Total	12.2	21.5

Assets based on contract include royalties since period 2019.

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 2019	Fair value 2019	Carrying amount 2018	Fair value 2018
Cash and bank balances	113.0	113.0	234.7	234.7
Money market investments	1.0	1.0	14.0	14.0
Total	114.0	114.0	248.7	248.7

Money market investments included in cash and cash equivalents are band 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
Total number of shares at 1 Jan 2018	**37,120,346**	**104,137,482**	**141,257,828**	**92.2**
Conversions of A shares to B shares in 1 Jan–31 Dec 2018				
Total number of shares at 31 Dec 2018	37,120,346	104,137,482	141,257,828	92.2
Conversions of A shares to B shares in 1 Jan–31 Dec 2019	-784,883	784,883		
Total number of shares at 31 Dec 2019	**36,335,463**	**104,922,365**	**141,257,828**	**92.2**
Number of treasury shares at 31 Dec 2019		765,399	765,399	
Total number of shares at 31 Dec 2019, excluding treasury shares	**36,335,463**	**104,156,966**	**140,492,429**	
Total number of votes at 31 Dec 2019 excluding treasury shares	**726,709,260**	**104,156,966**	**830,866,226**	

On 31 December 2019 Orion had a total of 141,257,828 (141,257,828) shares, of which 36,335,463 (37,120,346) were A shares and 104,922,365 (104,137,482) B shares. The Group's share capital was EUR 92,238,541.46 (92,238,541.46). At the end of 2019 Orion held 765,399 (562,440) B shares as treasury shares. On 31 December 2019 the aggregate number of votes conferred by the A and B shares was 830,866,226 (845,981,962) 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 2019 a number of 784,883 A shares were converted to B shares.

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 26 March 2019 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. They 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.

Other reserves

EUR million	2019	2018
Expendable fund	0.5	0.5
Reserve for invested unrestricted equity	0.9	0.9
Reserve funds	1.6	1.6
Total	3.0	2.9

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 1.50 (2018: 1.45) per share were distributed in the 2019 financial year. In addition, donations of EUR 0.3 (2018: 0.3) million were distributed from profit funds.

19. Provisions

EUR million	Pension provisions	Restructuring provisions	Other provisions	Total
1 Jan 2019	0.1	0.1	0.2	0.3
Exchange rate differences		-0.0	0.0	-0.0
Utilised during the period			-0.0	-0.0
Additions to provisions		0.0	0.0	0.1
31 Dec 2019	0.1	0.1	0.2	0.4

EUR million, 31 Dec	2019	2018
Non-current provisions	0.4	0.3
Total	0.4	0.3

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 2019	Fair value 2019	Carrying amount 2018	Fair value 2018
Lease liabilities	6.7	6.7	0.6	0.6
Non-current liabilities total	6.7	6.7	0.6	0.6

EUR million, 31 Dec	Carrying amount 2019	Fair value 2019	Carrying amount 2018	Fair value 2018
Bonds			149.9	151.7
Lease liabilities	3.3	3.3	1.0	1.0
Current liabilities total	3.3	3.3	150.9	152.7

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

The bond issued in 2013 with nominal amount of 150 000 000, which matured 2019 had interest rate of 2.75% and effective interest 2.854%.

Maturities of lease liabilities

Minimum lease payments

EUR million, 31 Dec	2019	2018
No later than 1 year	3.4	1.1
Later than 1 year but no later than 5 years	7.0	0.6
Total	10.5	1.7

Present value of minimum lease payments

EUR million, 31 Dec	2019	2018
No later than 1 year	3.3	1.0
Later than 1 year but no later than 5 years	6.7	0.6
Present value of minimum lease payments	10.0	1.6
Future finance charges	0.5	0.0
Minimum lease payments, total	10.5	1.7

21. Other non-current liabilities

EUR million, 31 Dec	2019	2018
Liabilities based on contract	16.1	17.4
Other liabilities	1.0	0.0
Total	17.1	17.4

Liabilities based on contract include items from accruals of sales income, which have been described in Note 1. Revenue from contracts with customers.

22. Trade payables and other current liabilities

EUR million, 31 Dec	2019	2018
Trade payables	79.0	74.9
Current tax liabilities	2.6	1.5
Liabilities on derivative contracts	0.7	0.1
Other current liabilities to associates	0.0	0.1
Accrued liabilities and deferred income	83.7	68.4
Other current liabilities	18.2	17.8
Total	184.2	162.9

The most substantial item in other liabilities is EUR 4.1 (2018: 5.4) million of VAT liabilities.

Material items included in accrued liabilities and deferred income

EUR million, 31 Dec	2019	2018
Liabilities from share-based incentive plans	19.4	2.7
Liabilities from other incentive plans	12.3	8.0
Other accrued salary, wage and social security payments	11.8	24.0
Accrued price adjustments	8.9	5.0
Accrued price reductions	8.3	4.1
Accrued R&D expenses	4.4	6.2
Liabilities based on contract	2.3	4.6
Accrued expert fees	2.0	
Accrued litigation costs	1.9	2.1
Accrued royalties	1.9	2.5
Accrued sales compensation	0.8	1.8
Accrued interest		2.3
Other accrued liabilities and deferred income	9.7	5.2
Total	83.7	68.4

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

	2019				2018
EUR million, 31 Dec	Amortised cost	Fair value through profit and loss	Carrying amount of financial items	Fair value	Carrying amount
Other investments		0.2	0.2	0.2	0.3
Other non-current receivables	0.8		0.8	0.8	0.9
Non-current assets total	0.8	0.2	1.0	1.0	1.2
Trade receivables	196.5		196.5	196.5	188.8
Other receivables	2.6		2.6	2.6	5.6
Money market investments		35.0	35.0	35.0	35.0
Cash and cash equivalents	114.0		114.0	114.0	248.7
Derivatives		0.1	0.1	0.1	0.4
Current assets total	313.1	35.1	348.3	348.3	478.5
Financial assets total	313.9	35.4	349.3	349.3	479.6
Non-current interest-bearing liabilities	6.7		6.7	6.7	0.6
Other non-current liabilities	0.1		0.1	0.1	0.0
Non-current liabilities total	6.8		6.8	6.8	0.6
Trade payables	79.0		79.0	79.0	74.9
Other current liabilities	19.1		19.1	19.1	13.9
Current interest-bearing liabilities	3.3		3.3	3.3	1.0
Bonds					149.9
Derivatives		0.7	0.7	0.7	0.1
Current liabilities total	101.4	0.7	102.1	102.1	240.0
Financial liabilities total	108.2	0.7	108.9	108.9	240.6

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	2019	2018
Interest-bearing non-current liabilities		6.1	6.7	0.6
Interest-bearing current liabilities	-154.2	6.6	3.3	150.9

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 2019	Level 1	Level 2	Level 3	Total
Derivatives				
Currency derivatives		0.1		0.1
Money market investments	35.0			35.0
Other investments				
Shares and investments			0.2	0.2
Assets total	35.0	0.1	0.2	35.4
Derivatives				
Currency derivatives		-0.7		-0.7
Liabilities total		-0.7		-0.7

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
Assets total	35.0	0.4	0.3	35.6
Derivatives				
Currency derivatives		-0.1		-0.1
Liabilities total		-0.1		-0.1

The fair value of level 1 financial instrument 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.

					Total	
EUR million, 31 Dec	**USD**	**SEK**	**PLN**	**Other significant currencies**	**2019**	**2018**
Net position in statement of financial position	6.2	5.5	8.1	29.0	48.8	38.5
Forecast net position (12 months)	35.5	34.5	25.5	31.7	127.2	130.2
Net position, total	41.7	40.0	33.6	60.7	175.9	168.7
Currency derivatives for hedging	-10.9	-9.3	-5.3	-15.0	-40.5	-40.5
Net open position total	30.7	30.7	28.3	45.6	135.4	128.2

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 2019 the equity in these subsidiaries totalled EUR 59.8 (2018: 64.8) 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. In case the Group is not adapting hedge accounting, the changes of exchange rates are recorded directly to profit or loss.

	Impact on profit	
EUR million, 31 Dec	**2019**	**2018**
+/- 10% change in exchange rates	-0.7/0.9	0.2/-0.2

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 2019, the Group's interest-bearing liabilities totalled EUR 10.0 (2018: 151.5) million, all from lease liabilities.

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 2019 is the total of financial assets less carrying amounts of derivatives in financial liabilities, which totalled EUR 348.6 (2018: 479.5) 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 78.1% of the trade receivables at 31 December 2019 (2018: 81.8%). 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 (2018: 0.0) million.

24.3. Liquidity risk

The Group seeks to maintain a good liquidity position in all conditions. This is ensured by cash flows from operating activities and cash and cash equivalents and other money market investments. Also the company has a EUR 100 million loan agreement with European Investment Bank, withdrawable in 2020, as well as EUR 100 million of binding undrawn bilateral credit limits that will mature in 2024. In addition to this, the Group has undrawn bank overdraft limits and a EUR 100 million unconfirmed commercial paper program from which no commercial papers had been issued on the reporting date.

The Group's interest-bearing liabilities at 31 December 2019 were EUR 10.0 (2018: 151.5) million, all from lease liabilities. The average maturity for interest-bearing liabilities excluding lease liabilities is 0 months (2018: five months). At 31 December 2019, the Group's cash and cash equivalents and money market investments totalled EUR 149.0 (2018: 283.7) 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.

Forecast undiscounted cash flows of financial liabilities, interest payments and derivatives

EUR million, 31 Dec	2020	2021	2022	2023	2024–	Total
Repayments of lease liabilities	3.3	2.4	1.6	1.3	1.3	10.0
Cash flow total, interest-bearing financial liabilities	3.3	2.4	1.6	1.3	1.3	10.0
Trade payables	79.0					79.0
Other non-interest-bearing financial liabilities	19.2				0.0	19.2
Cash flow total, non-interest-bearing financial liabilities	98.2				0.0	98.2
Derivative contracts, inflow	0.1					0.1
Derivative contracts, outflow	-0.7					-0.7
Cash flow total, derivative contracts	-0.6					-0.6
Cash flow total, all	100.9	2.4	1.6	1.3	1.4	107.6

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

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 2019.

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

Group equity ratio

31 Dec	2019	2018
Equity, EUR million	779.4	773.1
Equity and liabilities total minus advances received, EUR million	1,016.0	1,124.2
Equity ratio, %	76.7%	68.8%

Group interest-bearing net liabilities / Group EBITDA

EUR million, 31 Dec	2019	2018
Interest-bearing net liabilities	-139.1	-132.1
EBITDA	308.9	293.9
Interest-bearing net liabilities / EBITDA	-0.45	-0.45

25. Derivatives

Nominal values and maturity of derivatives

EUR million, 31 Dec	2019	2018
Currency derivatives		
Currency forward contracts and currency swaps	56.2	32.6
Currency options	44.6	31.8

All derivatives have a maturity less than one year.

Fair values of derivatives

	2019			2018
EUR million, 31 Dec	Positive	Negative	Net	Net
Non-hedge-accounting derivatives				
Currency forward contracts and currency swaps	0.1	-0.6	-0.5	0.2
Currency options	0.1	-0.1	-0.1	0.0

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 0.0 (2018: 0.2) million and to counterparties EUR 0.6 (2018: 0.0) million.

26. Contingent liabilities

Commitments and contingencies

EUR million, 31 Dec	2019	2018
Contingencies for own liabilities		
Guarantees	6.5	4.5
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. Group companies

Group companies at 31 December 2019

	Group		Parent company	
	Ownership %	Share of votes %	Ownership %	Share of votes %
Pharmaceuticals				
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 Tonttuvainio, Espoo	100.00	100.00	100.00	100.00
Orion Export Oy, Espoo[1]	100.00	100.00	100.00	100.00
Saiph Therapeutics Oy, Espoo[1]	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[1]	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

[1] 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.

28. 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	2019	2018
Salaries and other short-term employment benefits	4.9	5.9
Post-employment benefits	0.5	0.4

Salaries and remuneration[1]

EUR million	2019	2018
Timo Lappalainen, President and CEO	1.1	1.3
Heikki Westerlund, Chairman	0.1	0.1
Timo Maasilta, Vice chairman	0.1	0.1
Pia Kalsta	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
Sirpa Jalkanen	0.0	0.1
Board of Directors, total	0.5	0.5

[1] 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 (2018: 0.1) million was recorded as expenses for the statutory pension and EUR 0.5 (2018: 0.4) 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.

29. Discontinued operations

There are no discontinued operations during the financial year 2019.

As the outset of 2018 financial year, Orion announced that it had decided to investigate the possible sale of Orion Diagnostica or other arrangement. 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. In the comparative data the Orion Diagnostica segment is treated as discontinued operation. The profit of discontinued operations in the comparative period, January-December 2018, was EUR 132.9 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 the variable 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. The management's evaluation on the realisation of the additional selling price has not changed during the financial period of 2019.

Profit for the period for discontinued operations

EUR million	2019	2018
Net sales		18.7
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
Operating profit		134.6
Income tax expense		-1.6
Profit for the period		132.9

Cash flow from discontinued operations

EUR million	2019	2018
Cash flow from operating activities		-8.5
Cash flow from investing activities		149.1

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.

30. Events after the end of the reporting period

There have been no other events after the reporting period.

Parent company Orion Corporation's financial statements (FAS)

Income Statement

EUR million	Note	2019	2018
Net sales	1	931.1	856.7
Other operating income	2	7.1	155.6
Operating expenses	3, 4	-660.5	-608.2
Depreciation, amortisation and impairment	4	-43.7	-33.2
Operating profit		233.9	370.9
Finance income and expenses	5	17.8	10.4
Profit before extraordinary items, appropriations and taxes		251.7	381.3
Appropriations	6	8.9	1.4
Income tax expense	7	-49.2	-44.2
Profit for the period		211.4	338.5

Balance Sheet

Assets

EUR million, 31 Dec	Note	2019	2018
Intangible rights		34.5	47.1
Other long-term expenditure		2.6	2.6
Intangible assets total	8	37.1	49.7
Land		4.2	4.2
Buildings and constructions		148.6	146.4
Machinery and equipment		76.5	77.3
Other tangible assets		1.3	1.3
Advance payments and construction in progress		13.6	15.3
Tangible assets total	9	244.2	244.5
Holdings in Group companies		64.0	68.8
Other investments		0.3	0.5
Investments total	10	64.3	69.2
Non-current assets total		345.6	363.4
Inventories	11	165.2	168.9
Non-current receivables	12	0.5	0.6
Trade receivables	13	180.3	159.9
Other current receivables	13	43.3	57.1
Investments	14	36.0	49.0
Cash and bank		81.5	175.1
Current assets total		506.9	610.5
Assets total		852.5	973.9

Liabilities

EUR million, 31 Dec	Note	2019	2018
Share capital		92.2	92.2
Expendable fund		0.5	0.5
Reserve for invested unrestricted equity		0.9	0.9
Retained earnings		255.6	133.3
Profit for the period		211.4	338.5
Shareholders' equity	15	560.6	565.3
Appropriations	16	99.8	104.7
Provisions	17	0.6	0.6
Trade payables		77.2	75.7
Bonds			149.9
Other current liabilities		114.4	77.7
Current liabilities total	18	191.5	303.3
Liabilities total		852.5	973.9

Cash flow statement

EUR million	2019	2018
Operating profit	233.9	370.9
Depreciation, amortisation and impairment	43.7	33.2
Other adjustments	5.0	-147.2
Total adjustments to operating profit	48.7	-114.0
Change in non-interest-bearing current receivables	-5.6	-23.9
Change in inventories	3.7	-6.4
Change in non-interest-bearing current liabilities	2.8	-33.0
Total change in working capital[1]	0.8	-63.3
Interest paid	-6.9	-5.7
Dividends received[2]	19.8	15.0
Interest received[2]	2.9	1.4
Income tax paid	-45.3	-49.2
Total net cash flow from operating activities	253.9	155.0
Investments in intangible assets	-7.2	-28.5
Investments in tangible assets	-23.1	-29.7
Sales of intangible assets		0.0
Sales of tangible assets	0.6	2.0
Sale of subsidiary	0.7	161.7
Repayments of loan receivables	1.3	0.4
Total net cash flow from investing activities	-27.6	105.9
Repurchase of treasury shares	-7.4	
Current loans raised	33.0	31.8
Repayments of current loans	-161.2	-40.4
Dividends paid and other distribution of profits	-211.3	-201.4
Group contributions received	14.0	22.0
Total cash flow from financing activities	-333.0	-188.1
Net change in cash and cash equivalents	-106.6	72.8
Cash and cash equivalents at 1 Jan[3]	189.1	116.3
Net change in cash and cash equivalents	-106.6	72.8
Cash and cash equivalents at 31 Dec[3]	82.5	189.1

[1] 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.

[2] The dividends and interest paid by the subsidiaries are included in the cash flow from operating activities of the parent company.

[3] 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 2019 (FAS)

General information

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 part of securities 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 investments, securities include interest instruments, which are included in current assets. Other investments are measured at fair value using the price quoted in 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	2019	2018
Pharmaceuticals business	931.1	856.7
Total	931.1	856.7

Net sales by market area

EUR million	2019	2018
Finland	307.5	310.7
Scandinavia	158.8	136.7
Other Europe	275.5	240.1
North America	88.2	46.1
Other countries	101.2	123.0
Total	931.1	856.7

2. Other operating income

EUR million	2019	2018
Service charges received from Group companies	3.6	4.0
Rental income	2.3	1.8
Gains on sales of property, plant and equipment and intangible assets	0.1	0.2
Gains on sales of shares	0.0	147.6
Other operating income	1.1	2.0
Total	7.1	155.6

3. Change in provisions

EUR million	2019	2018
Change in provisions	0.0	-0.1
Total, increase (-), decrease (+)	0.0	-0.1

4. Operating expenses, depreciation, amortisation and impairment

Operating expenses

EUR million	2019	2018
Increase (-) or decrease (+) in stocks of finished goods or work in progress	11.7	-2.6
Production for own use	-3.3	-2.8
Raw materials and services		
Purchases during the financial year	238.2	230.0
Increase (-) or decrease (+) in stocks	-8.1	-3.8
External services	28.6	28.0
Total	258.8	254.3
Personnel expenses		
Wages and salaries	120.3	109.9
Pension expenses	17.7	16.5
Share-based incentive plan	8.9	4.5
Other social security expenses	4.6	4.7
Total	151.5	135.6
Other operating expenses	241.7	223.7
Total	660.5	608.2

Voluntary social security expenses are included in other operating expenses.

Auditor's remuneration

EUR million	2019	2018
Auditing fee	0.1	0.1
Assignments under Auditing Act Section 1 Subsection 1 Paragraph 2	0.0	
Consultation on taxation		
Other services	0.0	0.0
Total	0.1	0.1

Depreciation, amortisation and impairment

EUR million	2019	2018
Impairment	0.0	0.3
Other depreciation and amortisation	43.7	32.9
Total	43.7	33.2

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

	2019	2018
Average number of employees during the financial year	2,261	2,203

Share-based payments

The Group has two share-based incentive plans in force for key persons of the Group.

The plan that commenced in 2016 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 earning 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 2019, a total of 181,003 Orion Corporation B shares had been paid as rewards under this plan.

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

The plan than commenced in 2019 includes five earning periods, which are the calendar years 2019, 2019–2020, 2019–2021, 2020–2022 and 2021–2023. The Board of Directors decides on the earnings criteria and on targets to be established for them at the beginning of each earning period. Three earning periods, calendar year 2019, calendar years 2019–2020 and 2019–2021, commenced upon implementation of the plan. The potential reward of the plan for the earning periods commencing in 2019 is based on achieving the Orion Group's operating profit and net sales targets.

The target group of the plan consists of approximately 50 people. The total maximum amount of rewards to be paid on the basis of the plan is 700,000 Orion Corporation B shares and a cash payment corresponding to the value of the shares. The total maximum amount includes a separate, so called reward for commitment part that the Board of Directors can use by a separate decision during the years 2019–2023. The maximum amount of the reward for commitment is no more than 100,000 shares and a cash payment corresponding to the value of the shares. By 31 December 2019, no B shares had been paid as rewards under this plan.

Under the plan, shares received based on one-year and two-year earning periods cannot be transferred during the restricted period determined in the plan. There is no restriction period for the three year earning periods.

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 plan that commenced in 2016, have been paid and potential future rewards, under the plan that commenced in 2016 and 2019, shall be paid as follows:

Earning period	Reward paid on / potential reward to be paid in
2016	1 Mar 2017
2017	1 Mar 2018
2016–2018	1 Mar 2019
2018	1 Mar 2019
2017–2019	2020
2018–2020	2021
2019	2020
2019–2020	2021
2019–2021	2022
2020–2022	2023
2021–2023	2024

5. Finance income and expenses

EUR million	2019	2018
Income from Group companies	19.8	14.9
Income from other non-current investments		
Dividend income from other shares and equity	0.0	0.0
Interest income from Group companies		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 values	0.2	0.0
Other finance income	2.6	1.2
Interest expenses and other finance expenses		
Interest expenses to Group companies	-0.1	-0.0
Interest expenses to others	-2.1	-4.4
Change in values		-0.0
Other finance expenses	-2.7	-1.4
Total	17.8	10.4

Finance income and expenses include

EUR million	2019	2018
Income from equity in other companies	19.8	15.0
Interest income	0.2	0.1
Interest expenses	-2.2	-4.5

6. Appropriations

EUR million	2019	2018
Change in cumulative accelerated depreciation	4.9	-12.6
Group contribution received	4.0	14.0
Total	8.9	1.4

7. Income taxes

EUR million	2019	2018
Income tax on ordinary activities	48.5	44.7
Tax adjustments for previous financial years	0.7	-0.5
Total	49.2	44.2

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	2019	2018
Provisions	0.1	0.1
Total	0.1	0.1

Deferred tax liability

EUR million	2019	2018
Appropriations	20.0	20.9
Revaluations	3.3	3.3
Total	23.3	24.2

8. Intangible assets

	Intangible rights		Goodwill		Other capitalised expenditure		Total	
EUR million	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Acquisition cost at 1 Jan[1]	152.5	127.7	68.3	68.3	54.7	56.8	275.5	252.8
Additions	6.2	27.7			0.9	0.9	7.1	28.6
Disposals	-0.1	-3.0				-3.1	-0.1	-6.0
Transfers between Balance Sheet items	-0.0	0.1			0.0		-0.0	0.1
Acquisition cost at 31 Dec	158.6	152.5	68.3	68.3	55.6	54.7	282.5	275.5
Accumulated amortisation and impairment at 1 Jan[1]	-105.4	-99.4	-68.3	-68.3	-52.1	-54.4	-225.8	-222.1
Accumulated amortisation on disposals	0.1	3.0				3.1	0.1	6.0
Amortisation for the financial year	-18.8	-8.6			-0.9	-0.8	-19.6	-9.4
Impairment	-0.0	-0.3					-0.0	-0.3
Accumulated amortisation and impairment at 31 Dec	-124.1	-105.4	-68.3	-68.3	-53.0	-52.1	-245.4	-225.8
Book value at 1 Jan	47.1	28.3			2.6	2.4	49.7	30.7
Book value at 31 Dec	34.5	47.1			2.6	2.6	37.1	49.7
Accumulated difference between total and planned amortisation at 1 Jan	13.0	3.0			0.3	0.3	13.3	3.2
Change in cumulative accelerated amortisation, increase (+) / decrease (-)	-4.4	10.0			0.1	0.0	-4.3	10.1
Accumulated difference at 31 Dec	8.6	13.0			0.4	0.3	9.1	13.3

[1] 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

	Land and water		Buildings and structures		Machinery and equipment		Other tangible assets		Advance payments and construction in progress		Total	
EUR million	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Acquisition cost at 1 Jan[1]	4.2	4.2	287.1	266.7	267.5	262.5	3.0	3.0	15.3	25.6	577.1	562.0
Additions			6.5	11.2	9.3	9.7	0.1		8.5	10.2	24.3	31.1
Disposals				-0.0	-6.0	-15.5			-0.1	-0.4	-6.1	-15.9
Transfers between Balance Sheet items			4.7	9.3	5.4	10.8	0.0	0.0	-10.1	-20.1	0.0	-0.1
Acquisition cost at 31 Dec	4.2	4.2	298.3	287.1	276.1	267.5	3.1	3.0	13.6	15.3	595.4	577.1
Accumulated depreciation at 1 Jan[1]			-140.7	-132.5	-190.2	-188.7	-1.7	-1.6			-332.6	-322.8
Accumulated depreciation on disposals and transfers				0.0	5.5	13.5					5.5	13.6
Depreciation for the financial year			-8.9	-8.3	-15.0	-15.0	-0.1	-0.1			-24.1	-23.4
Accumulated depreciation at 31 Dec			-149.7	-140.7	-199.7	-190.2	-1.8	-1.7			-351.2	-332.6
Book value at 1 Jan	4.2	4.2	146.4	134.3	77.3	73.8	1.3	1.5	15.3	25.6	244.5	239.3
Book value at 31 Dec	4.2	4.2	148.6	146.4	76.5	77.3	1.3	1.3	13.6	15.3	244.2	244.5
Accumulated difference between total and planned depreciation at 1 Jan			44.4	43.5	46.9	45.3	0.1	0.1			91.4	88.8
Change in cumulative accelerated depreciation, increase (+) / decrease (-)			0.2	0.9	-0.9	1.7	0.0	-0.0			-0.6	2.5
Accumulated difference at 31 Dec			44.6	44.4	46.0	46.9	0.1	0.1			90.7	91.4

[1] 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 2019 was EUR 54.2 (2018: 56.5) million. The revaluation included in the acquisition cost of land was EUR 0.1 (2018: 0.1) million and in the acquisition cost of buildings EUR 16.5 (2018: 16.5) million.

10. Investments

	Shares in Group companies		Receivables from Group companies		Other shares and equity		Loan receivables[1]		Total	
EUR million	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Acquisition cost at 1 Jan	107.7	121.8	3.9	4.3	0.3	0.3	0.2	0.1	112.1	126.5
Additions						0.0		0.1		0.1
Disposals	-3.7	-14.1	-3.9	-0.4	-0.1	-0.0	-0.1		-7.8	-14.4
Acquisition cost at 31 Dec	104.0	107.7		3.9	0.2	0.3	0.1	0.2	104.3	112.1
Accumulated impairment at 1 Jan	-40.0	-40.0	-2.9	-2.9					-42.9	-42.9
Change during the period			2.9						2.9	
Accumulated impairment at 31 Dec	-40.0	-40.0		-2.9					-40.0	-42.9
Book value at 1 Jan	67.7	81.8	1.0	1.4	0.3	0.3	0.2	0.1	69.2	83.6
Book value at 31 Dec	64.0	67.7		1.0	0.2	0.3	0.1	0.2	64.3	69.2

[1] Loan receivables are equity loan receivables under the Companies Act.

11. Inventories

EUR million, 31 Dec	**2019**	**2018**
Raw materials and consumables	35.4	31.1
Work in progress	12.5	13.7
Finished products/goods	112.4	119.7
Other inventories	4.9	4.4
Total	165.2	168.9

12. Non-current receivables

EUR million, 31 Dec	**2019**	**2018**
Other receivables from Group companies	0.0	0.0
Loan receivables from associated companies	0.4	0.5
Other loan receivables	0.1	0.1
Total	0.5	0.6

13. Current receivables

EUR million, 31 Dec	2019	2018
Trade receivables	133.8	130.0
Receivables from Group companies		
Trade receivables	46.5	29.9
Loan receivables	26.0	16.7
Other receivables	0.0	
Prepayments and accrued income	4.0	14.0
Total	76.6	60.6
Loan receivables from associated companies	0.1	0.1
Other loan receivables	0.1	0.2
Other receivables	2.7	1.3
Prepayments and accrued income	10.4	24.9
Total	223.7	217.0

Material items included in prepayments and accrued income

EUR million, 31 Dec	2019	2018
Receivables from royalties	2.4	3.8
Prepayments for services and maintenance	2.2	2.1
Pending price difference payments	1.6	2.2
Prepaid remunerations under incentive plan	0.9	1.4
Pending compensations	0.8	0.7
Pending contributions	0.7	0.8
Pending compensation due to inventory write-down	0.7	
Receivables based on derivative contracts	0.1	0.4
Prepayments for R&D costs		5.9
Income tax receivable		3.5
Price correction of purchase order acceptance		1.3
Consideration related to transfer of sales right not received		1.0
Other prepayments and accrued income	0.9	1.8
Total	10.4	24.9

14. Investments

EUR million, 31 Dec	2019	2018
Other securities: interest instruments	36.0	49.0
Total	36.0	49.0

Difference between market value and book value

EUR million, 31 Dec	2019	2018
Market value	36.0	49.0
Corresponding book value	-36.0	-49.0
Accrued interest from interest instruments included in prepayments and accrued income	-0.0	-0.0
Difference	0.0	0.0

15. Shareholder's equity

Share capital

EUR million	2019	2018
Share capital at 1 Jan	92.2	92.2
Share capital at 31 Dec	92.2	92.2

Expendable fund

EUR million	2019	2018
Expendable fund at 1 Jan	0.5	0.5
Expendable fund at 31 Dec	0.5	0.5

Reserve for invested unrestricted equity

EUR million	2019	2018
Reserve for invested unrestricted equity at 1 Jan	0.9	0.9
Reserve for invested unrestricted equity at 31 Dec	0.9	0.9

Retained earnings

EUR million	2019	2018
Retained earnings at 1 Jan	471.7	334.1
By decision of Annual General Meeting		
dividends distributed	-211.1	-204.0
donations made	-0.3	-0.3
share rewards paid	2.5	3.0
repurchase of treasury shares	-7.4	
Unpaid dividends	0.2	0.5
Profit for the financial year	211.4	338.5
Retained earnings at 31 Dec	467.0	471.7

Parent company share capital by share class

	2019		2018	
31 Dec	number	EUR	number	EUR
A shares (20 votes/share)	36,335,463		37,120,346	
B shares (1 vote/share)	104,922,365		104,137,482	
Total	141,257,828	92,238,541.46	141,257,828	92,238,541.46

During the financial year 1 January to 31 December 2019, a number of 784 883 A shares were converted into B shares.

16. Appropriations

EUR million, 31 Dec	2019	2018
Cumulative accelerated depreciation	99.8	104.7
Total	99.8	104.7

17. Provisions

EUR million, 31 Dec	2019	2018
Pension provisions	0.6	0.6
Total	0.6	0.6

18. Current liabilities

EUR million, 31 Dec	2019	2018
Advances received	1.9	2.4
Trade payables	66.0	62.3
Liabilites to Group companies		
Trade payables	11.2	13.4
Accrued liabilities and deferred income	0.0	0.0
Other liabilities	34.1	12.7
Total	45.3	26.1
Bonds		149.9
Other liabilities	11.2	8.1
Accruals and deferred income	67.1	54.5
Total	191.5	303.3

The bond issued in 2013 with nominal amount of 150,000,000, which matured 2019 had interest rate of 2.75% and effective interest 2.854%.

Material items included in accruals and deferred income

EUR million, 31 Dec	2019	2018
Liabilities from share-based incentive plan	17.8	9.3
Other accrued salary, wage and social security payments	18.8	17.8
Accrued price adjustments	9.2	7.2
Accrued price reductions	8.3	4.1
Accrued R&D expenses	4.4	6.2
Accrued expert fees	2.0	
Accrued litigation costs	1.9	2.1
Accrued royalties	1.9	2.5
Accrued sales compensations	0.8	1.8
Liabilities on derivative contracts	0.7	0.1
Tax liability	0.5	
Accrued interest		2.3
Other accrued liabilities and deferred income	0.9	1.2
Total	67.1	54.5

Liabilities include

EUR million, 31 Dec	2019	2018
Current interest-bearing liabilities	34.1	162.6
Current non-interest-bearing liabilities	157.4	140.7
Total	191.5	303.3

19. Notes relating to members of administrative bodies

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

EUR million	2019	2018
President and CEO and members of Board of Directors	1.6	1.8

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.

20. Contingencies

Contingencies for own liabilities

EUR million, 31 Dec	2019	2018
Guarantees given	6.3	4.3

Total guarantees

EUR million, 31 Dec	2019	2018
Total guarantees	6.3	4.3

21. Liabilities and commitments

Lease agreements

EUR million, 31 Dec	2019	2018
Payments payable under lease agreements		
within next 12 months	2.1	2.0
later than 12 months	2.7	2.2
Total	4.8	4.2

The terms of lease agreements are normal.

Other liabilities

EUR million, 31 Dec	2019	2018
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 2011–2019 if the use subject to VAT decreases during the review period. The maximum liability is EUR 16.0 million and the last review year is 2028.

22. 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 are 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.

23. Derivatives

Nominal values and maturity of derivatives

EUR million, 31 Dec	2019	2018
Currency derivatives		
Currency forward contracts and currency swaps	32.4	32.6
Currency options	45.4	31.8

All derivatives have a maturity less than one year.

Fair values of derivatives

	2019			2018
EUR million, 31 Dec	Positive	Negative	Net	Net
Non-hedge-accounting derivatives				
Currency forward contracts and currency swaps	0.1	-0.6	-0.5	0.2
Currency options	0.1	-0.1	-0.1	0.0

Fair value measurement and hierarchy

Financial instruments measured at fair value in the stament 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		0.1		0.1
Money market investments	35.0			35.0
Other investments				
Shares and investments			0.2	0.2
Assets total	35.0	0.1	0.2	35.4
Derivatives				
Currency derivatives		-0.7		-0.7
Liabilities total		-0.7		-0.7

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
Assets total	35.0	0.4	0.3	35.6
Derivatives				
Currency derivatives		-0.1		-0.1
Liabilities total		-0.1		-0.1

The fair value of level 1 financial instrument 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. Holdings in other companies

See Note 27 Group companies in the Notes to the Consolidated financial statements for the Parent Company's holdings in other companies.

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 468,363,703.16, including EUR 211,377,323.85 of profit for the financial year.

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

• distribution of EUR 1.50 of dividend per share. No dividend shall be paid on treasury shares held by the Company on the record date for dividend payment. On the day when the profit distribution was proposed, the number of shares conferring entitlement to receive dividend totalled 140,492,429, on which the total dividend would be	EUR 210,738,643.50
• donations to medical and other purposes of public interest as decided by the Board of Directors	EUR 250,000.00
• retention in equity	EUR 257,375,059.66
	EUR 468,363,703.16

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.

Signature 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, 5 February 2020

Heikki Westerlund
Chairman

Timo Maasilta
Vice Chairman

Pia Kalsta

Ari Lehtoranta

Hilpi Rautelin

Eija Ronkainen

Mikael Silvennoinen

Timo Lappalainen
President and CEO

On auditor's report has been issued today.

Espoo, 5 February 2020

KPMG OY AB

Kimmo Antonen

Authorised Public Accountant, KHT

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

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 2019. 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.

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
Revenue recognition *(Refer to Accounting policies and note 1)*	
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. 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. Due to 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.	Our audit procedures included evaluation of the revenue recognition principles applied by the Group and assessment of their appropriateness by reference to IFRS standards. 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. 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. We discussed with the management the revenue recognition practices applied and decisions involving management judgement which had a significant impact on revenue recognition. Furthermore, we considered the appropriateness of the Group's disclosures in respect of revenue recognition principles and net sales.

Inventories *(Refer to Accounting policies and note 15)*

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 is 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.

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 skepticism 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 two years.

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 above mentioned 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 5 February 2020

KPMG OY AB

Kimmo Antonen

Authorised Public Accountant, KHT

Key events in 2019

February

Marketing authorisation application for darolutamide was submitted to FDA in the USA.

March

Marketing authorisation application for darolutamide was submitted in Europe and Japan

Dexdor® indication patent expired.

April

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

July

Patient recruitment for Orion's REFALS Phase III clinical trial studying the effect of orally administered levosimendan in patients with amyotrophic lateral sclerosis (ALS) was completed.

July

The United States Food and Drug Administration granted marketing authorisation to darolutamide, a new drug for the treatment of non-metastatic castration-resistant prostate cancer (nmCRPC), under the brand name Nubeqa®.

August

Orion received EUR 45 million milestone from Bayer for the successful commercialisation of darolutamide in the United States.

December

Orion signed an agreement with Lotus Pharmaceutical Co., Ltd for the marketing and distribution of Orion's Stalevo® and Comtan® drugs for the treatment of Parkinson's disease in parts of Asia.

Orion Corporation
Orionintie 1A, P.O. Box 65,
FI-02101 Espoo, Finland
Phone: +358 10 4261
www.orion.fi/en

Follow Orion
in social media