Orion Group
Half-Year Financial Report 1–6/2018

ORION
Building well-being

ORION CORPORATION HALF-YEAR FINANCIAL REPORT JANUARY–JUNE 2018 18 JULY 2018 at 12:00 EEST

Orion Group Half-Year Financial Report January–June 2018

Orion's net sales for continuing operations in January-June 2018 totalled EUR 493 million (net sales in January–June 2017 were EUR 526 million).

- Operating profit for continuing operations was EUR 140 (159) million.
- Profit for continuing operations before taxes was EUR 137 (155) million.
- Equity ratio was 67% (58%).
- ROCE before taxes was 65% (44%).
- ROE after taxes was 70% (42%).
- Basic earnings per share for continuing operations were EUR 0.78 (0.87) and basic earnings per share including also discontinued operations were EUR 1.73 (0.90).
- Cash flow per share before financial items was EUR 1.75 (0.40).
- Orion signed an agreement on the sale of all shares in Orion Diagnostica Oy (i.e. the Orion Diagnostica business) on 21 April 2018. The closing of the transaction took place on 30 April 2018. Following the transaction, the Group now has only one reporting segment, Pharmaceuticals business. In this report, Orion Diagnostica business is reported as a discontinued operation, and as a rule, the report only covers continuing operations.
- Outlook remains unchanged: Orion estimates that in 2018 the net sales excluding Orion Diagnostica will be at the same level or slightly lower than in 2017 and the operating profit excluding Orion Diagnostica and material capital gains is estimated to be lower than in 2017. The complete outlook estimate and the basis for it can be found in this report under 'Outlook for 2018' and 'Basis for outlook'.

ORION'S KEY FIGURES FOR THE REVIEW PERIOD

Continuing operations	4-6/18	4-6/17	Change %	1-6/18	1-6/17	Change %	1-12/17
Net sales, EUR million	**246.1**	260.7	-5.6%	**493.3**	526.1	-6.2%	1,033.6
Operating profit, EUR million	**69.7**	70.5	-1.1%	**139.5**	158.7	-12.1%	284.1
% of net sales	**28.3%**	27.1%		**28.3%**	30.2%		27.5%
Profit before taxes, EUR million	**68.7**	69.3	-1.0%	**137.3**	154.7	-11.2%	277.7
% of net sales	**27.9%**	26.6%		**27.8%**	29.4%		26.9%
Income tax expense, EUR million	**13.1**	14.1	-6.9%	**28.0**	32.7	-14.4%	58.6
R&D expenses, EUR million	**26.0**	25.0	+4.1%	**51.7**	49.3	+4.9%	99.1
% of net sales	**10.6%**	9.6%		**10.5%**	9.4%		9.6%
Capital expenditure, EUR million	**3.1**	23.6	-86.9%	**19.8**	38.6	-48.8%	75.0
% of net sales	**1.3%**	9.0%		**4.0%**	7.3%		7.2%
Basic earnings per share, EUR	**0.40**	0.39	+2.6%	**0.78**	0.87	-10.3%	1.56
Diluted earnings per share, EUR	**0.40**	0.39	+2.6%	**0.78**	0.87	-10.3%	1.56
Personnel at the end of the period				**3,279**	3,340	-1.8%	3,182
Average personnel during the period				**3,187**	3,231	-1.3%	3,226

Continuing and discontinued operations	4-6/18	4-6/17	Change %	1-6/18	1-6/17	Change %	1-12/17
Assets total, EUR million				**1,072.9**	947.5	+9.8%	1,055.5
Equity ratio, %				**67.1%**	58.4%		64.6%
Gearing, %				**-7.7%**	15.2%		-1.9%
Interest-bearing liabilities, EUR million				**151.4**	151.4		151.3
Non-interest-bearing liabilities, EUR million				**219.1**	245.8	-10.9%	224.5
Cash and cash equivalents and money market investments, EUR million				**205.3**	67.7	+203.3%	164.1
ROCE (before taxes), %				**65.4%**	43.9%		36.2%
ROE (after taxes), %				**70.3%**	42.5%		34.2%
Basic earnings per share, EUR	**1.32**	0.40	+228.8%	**1.73**	0.90	+91.4%	1.61
Diluted earnings per share, EUR	**1.32**	0.40	+228.8%	**1.73**	0.90	+91.4%	1.61
Cash flow per share before financial items, EUR	**1.36**	0.07		**1.75**	0.40	+334.3%	1.09
Equity per share, EUR				**4.99**	3.91	+27.5%	4.83
Personnel expenses, EUR million				**106.3**	112.1	-5.2%	218.1

Discontinued operations	4-6/18	4-6/17	Change %	1-6/18	1-6/17	Change %	1-12/17
Profit for the period as stated in the consolidated statement of comprehensive income, EUR million	**130.1**	1.2		**133.4**	4.7		6.9
Capital gain, EUR million	**128.4**			**128.4**			
Sales-related expenses, EUR million	**0.8**			**0.8**			
Item related to transfer of defined benefit pension plans, EUR million	**-4.5**			**-4.5**			
Basic earnings per share, EUR	**0.92**	0.01		**0.95**	0.03		0.05
Diluted earnings per share, EUR	**0.92**	0.01		**0.95**	0.03		0.05

President and CEO Timo Lappalainen:

Continuing to build the future

"Our profitability was good in the first half of the year. The operating profit margin for continuing operations excluding the items associated with the sale of Orion Diagnostica was 28%, and above our financial target. Our cash flow was stronger than in the comparative period. Our research projects and product marketing authorisation applications have progressed, which supports our growth in the long term. Orion has three ongoing Phase III clinical trials, and the results from the first one are expected this autumn.

The sale of Orion Diagnostica that was completed at the end of April provided us with EUR 128 million in capital gain and additionally income of approximately EUR 5 million due to the departure of Orion Diagnostica from the Orion pension fund. The sale process incurred expenses amounting to approximately EUR one million. All of these items are reported as part of discontinued operations. The sale of Orion Diagnostica will allow us to further focus on growth and achieving our financial goals. Orion is currently working on numerous projects that target growth in our core area of the Pharmaceuticals business. For example, we are actively evaluating late stage in-licensing opportunities. We also continue to invest in our own research and development activities, with new clinical trials, for example. The capital gain from the transaction will strengthen our equity position and maintain our ability to achieve our dividend distribution objective.

The net sales and operating profit for our continuing operations fell behind from the exceptionally strong comparative period due to generic competition, tightening price competition especially in Finland, lower sales of biosimilars, smaller milestone payments and royalties and unfavourable exchange rate changes.

The growth of the Easyhaler product family has remained strong especially for our budesonide-formoterol product. The first national marketing authorisations for our other combined formulation, the salmeterol-fluticasone Easyhaler, have now been received, and we are preparing to launch the product in the first countries in the second half of the year. The significance of the Easyhaler product family to Orion is clearly increasing.

Sales of Simdax, a drug for treatment of acute decompensated heart failure, took a positive turn again after a decline in the first quarter, and sales in the first half-year were at the comparative period’s level. Net sales of Dexdor intensive care sedative continued to grow in most markets despite the generic competition expanding in Europe. As a whole, net sales of Dexdor were at the previous year's level.

Sales of the branded Parkinson drugs saw an unusual increase from the comparative period. However, the increase is explained by the timing of deliveries. In the longer term, we expect sales to continue to decrease, as the products have generic competition in practically all markets.

Sales of Specialty Products decreased in Finland and Scandinavia. In Finland, price competition has increased following the change made last year to the pricing system for substitutable prescription drugs by narrowing of the so-called price band. We expect the narrowing of the price band to decrease sales in Finland by approximately EUR 15 million in 2018.

The sales of Remsima biosimilar (infliximab), a driver of Specialty Products sales growth last year, were lower than in the comparative period, because Orion did not win national tendering competitions in Denmark and Norway since the comparative period. Sales development of Remsima will continue to fluctuate depending on our success in tendering competitions also in the future. In the near future, our biosimilar offer will expand by a third product: in the review period, we signed an agreement with Celltrion on the sales and marketing of the trastuzumab biosimilar.

Fermion, the manufacturer of active pharmaceutical ingredients, completed a significant expansion investment of more than EUR 30 million at its Hanko manufacturing plant in June. With the new facility, Fermion has ensured its preparedness to meet increasing global demand for active ingredients. In addition, it supports our aim to captively produce the active ingredients for Orion's in-house developed proprietary drugs.

The Phase III clinical trial (ARAMIS) on darolutamide (ODM-201) for the treatment of non-metastatic castration-resistant prostate cancer is progressing on schedule. Patient recruitment is completed, and the estimated primary completion date of the trial is in September. Our second darolutamide research project, Phase III clinical trial (ARASENS), is on track, and patient recruitment is now finalized also for this trial. Estimated to be completed in 2022, the ARASENS trial evaluates darolutamide in the treatment of patients with metastatic hormone-sensitive prostate cancer. Both research projects are carried out in collaboration with Bayer.

In July, Orion recruited the first patients in the Phase III clinical trial (REFALS) in which orally administered levosimendan (ODM-109) is being evaluated for the treatment of symptoms of amyotrophic lateral sclerosis (ALS). We are conducting the trial on our own and investing approximately EUR 60 million in it over the next three years. Orally administered levosimendan has now been granted an Orphan Drug Designation both in the United States and in the European Union.

We have completed the Phase II clinical trial with a drug candidate for the treatment of symptoms of Parkinson's disease in which a new levodopa/carbidopa formulation is combined with the COMT inhibitor (ODM-104) developed by Orion. The primary endpoint of the trial was reached. We continue to analyse the results and evaluate moving on to Phase III. We are looking for a potential collaboration partner for this trial.

The outlook remains unchanged. Orion estimates that in 2018 the net sales excluding Orion Diagnostica will be at the same level or slightly lower than in 2017 and the operating profit excluding Orion Diagnostica and material capital gains is estimated to be lower than in 2017. The complete outlook estimate and the basis for it can be found in this report under 'Outlook for 2018' and 'Basis for outlook'."

Events during the period

On 3 April 2018, Orion announced a status update of the Phase III clinical ARAMIS trial of darolutamide (ODM-201). The estimated primary completion date is in September 2018.

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

On 4 May 2018, Orion's Sustainability Report 2017 was published.

On 14 June 2018, the new manufacturing facility at Fermion's Hanko plant was commissioned. The investment, which totalled over EUR 30 million, involved the modernisation of the plant's production equipment to meet both increasing global demand for active pharmaceutical ingredients and the tightening requirements on quality, safety, the environment, and occupational health in the pharmaceutical industry.

Events after the period

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

News conference and teleconference

A news conference and teleconference on the published results will be held on Wednesday 18 July 2018 at 13:30 EEST at Orion's head office (address: Orionintie 1A, Espoo). President and CEO Timo Lappalainen will give a brief presentation in English on the financial review.

The event can be followed as a live webcast accessible on Orion's website at http://www.orion.fi/en/investors. After the presentation, questions can be asked also via teleconference in Finnish and English.

The conference call ID is 1819789 and the telephone numbers to participate in the teleconference are:

Finland: +358 (0)9 7479 0361
Sweden: +46 (0)8 5033 6574
United Kingdom: +44 (0)330 336 9105
United States: +1 323-794-2093

News conference recordings

A recording of the webcast of the event in English and a recording of the presentation by the President and CEO in Finnish will be published on Orion's website during Wednesday 18 July 2018.

Financial report material

Financial reports and related presentation material will be available at http://www.orion.fi/en/investors promptly after publication. The website also has a form for subscribing to Orion's releases.

Dates in Orion Calendar 2018–2019

Interim Report January–September 2018	Wednesday 24 October 2018
Financial Statement Release for 2018	Wednesday 6 February 2019
Annual General Meeting 2019	Planned to be held on Tuesday 26 March 2019
Interim Report January–March 2019	Thursday 25 April 2019
Half-Year Financial Report January–June 2019	Wednesday 17 July 2019
Interim Report January–September 2019	Wednesday 23 October 2019

The Financial Statements and Report by the Board of Directors for 2018 will be published on the Company's website at the latest in week 10/2019.

For additional information about the report:

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http://www.orion.fi/en/investors

Financial review for 1 January - 30 June 2018

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

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

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

Net sales

Orion Group's net sales in January–June 2018 totalled EUR 493 million (EUR 526 million in January–June 2017), a decrease of 6%.

The decrease in net sales was due to generic competition, tightening price competition especially in Finland, lower sales of biosimilars, smaller milestone payments and royalties than in the comparison period and unfavourable exchange rate changes.

Operating profit

The Orion Group’s operating profit was down by 12% at EUR 140 (159) million.

Gross profit from product sales was, mostly due to decline in sales, EUR 12 million lower than in the comparison period. The single greatest cause for the decline were exchange rates, with a net negative effect of EUR 13 million on net sales and EUR 9 million on the gross margin.

Milestone payments and royalties were also lower than in the comparative period. Milestone payments accounted for EUR 3 (8) million and royalties for EUR 9 (12) million of net sales and operating profit.

Profit impact of the sale of Orion Diagnostica

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

Operating expenses

The Group’s sales and marketing expenses totalled EUR 97 (96) million.

R&D expenses were up by 5% at EUR 52 (49) million and accounted for 10% (9%) of the Group's net sales. Research projects are reported in more detail under 'Business Review'.

Administrative expenses were EUR 22 (24) million, down by 8%.

Other operating income and expenses were EUR 4 (2) million.

The Group's profit including both continuing and discontinued operations

The profit of the Group's continuing operations was EUR 109 (122) million and the profit of discontinued operations was EUR 133 (5) million.

Basic earnings per share for continuing operations were EUR 0.78 (0.87) and basic earnings per share including continuing and discontinued operations were EUR 1.73 (0.90). Equity per share was EUR 4.99 (3.91). The return on capital employed before taxes (ROCE) was 65% (44%) and the return on equity after taxes (ROE) 70% (42%).

Financial position including both continuing and discontinued operations

The Group's gearing was -8% (15%) and the equity ratio 67% (58%).

The Group's total liabilities at 30 June 2018 were EUR 370 (397) million. At the end of the period, interest-bearing liabilities amounted to EUR 151 (151) million, including EUR 1 (150) million of long-term loans.

The Group had EUR 205 (68) 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 interest-bearing instruments issued by financially solid financial institutions and corporations.

Cash flow including both continuing and discontinued operations

Cash flow from operating activities was EUR 106 (92) million. The cash flow from investing activities was EUR 140 (-36) million following the sale of Orion Diagnostica. The cash flow from financing activities was EUR -203 (-219) million.

Capital expenditure

The Group's capital expenditure totalled EUR 20 (39) million, down by 49%. This comprised EUR 17 (32) million on property, plant and equipment and EUR 3 (7) million on intangible assets. Fermion's significant expansion investment at its Hanko manufacturing plant was completed in the period under review and the new plant was commissioned in June.

Outlook for 2018

Due to generic and price competition Orion estimates that in 2018, the net sales excluding Orion Diagnostica will be at the same level or slightly lower than in 2017 (net sales were EUR 1,034 million excluding Orion Diagnostica in 2017).

Orion continues persistent actions to generate growth. Due to the estimated sales development and these actions the operating profit excluding Orion Diagnostica and material capital gains is estimated to be lower than in 2017 (operating profit excluding Orion Diagnostica and capital gains was EUR 284 million in 2017).

As estimated earlier, Orion has recognised a EUR 128 million capital gain in other operating income from the sale of Orion Diagnostica. Due to the uncertainty relating to the variable component included in the transaction, the capital gain does not include any part of the variable component.

Basis for outlook in more detail

The outlook covers the Group's continuing operations excluding Orion Diagnostica.

Items related to the sale of Orion Diagnostica and the profit generated by Orion Diagnostica for the period from 1 January to 30 April 2018 are entered as part of discontinued operations. A capital gain of EUR 128 million was booked for the transaction closed on 30 April 2018. The departure of Orion Diagnostica from the Orion pension fund caused one-off income of EUR 5 million and the transaction process incurred expenses of approximately EUR one million. In addition, Orion has the possibility to receive a variable component of EUR 60 million maximum. The payment of the variable component is based on the return on investment for the buyer (investment fund managed by Axcel Management A/S) at the time of the exit. Due to the uncertainty relating to the variable component, the capital gain does not include any part of the variable component.

Net sales

Orion's branded Parkinson's drugs are Comtess®, Comtan® and Stalevo®. Generic competition to these products commenced in the United States in 2012 and has already extended to nearly all markets. As a result of the competition, Orion's sales of these products have decreased to low levels in the United States and some other markets, and competition is expected to extend gradually. Sales of the Easyhaler® product family are forecast to continue to grow. In some European countries, marketing authorisation has been granted for a generic version of Dexdor®, and it is to be assumed that generic competition to the

product will gradually expand in the EU. Orion has also been informed that a marketing authorisation application has been filed for a generic version of Simdax® in Europe. The impact of generic competition on the sales of Dexdor and Simdax is still difficult to estimate at this stage. The patent for the Simdax molecule expired in September 2015 but this is still not expected to have a material impact on sales of the product in 2018. Orion is continuing actions to defend its rights.

Sales of generic products account for a significant proportion of Orion's total sales. Competition in Finland, the most important generic market for Orion, is likely to remain intense in 2018. However, product launches continue to support Orion's position as market leader in Finland. At the beginning of 2017, changes were made to the pricing system for substitutable prescription drugs in Finland by narrowing the so-called price band. The decrease in sales caused by this change was estimated at about EUR 15 million in 2017. The outlook for 2018 assumes that the change in the system and its effect in lowering prices will also be as large in 2018. The sales of reference priced pharmaceuticals declined by 9% in the Finnish pharmaceuticals market in 2017 and the sales of Orion's reference priced pharmaceuticals declined by 6% (Source: IQVIA).

In 2017, sales of the biosimilar Remsima® generated a significant portion of the growth in net sales of the Specialty Products business division. Sales of Remsima in 2018 are expected to be materially lower than in the previous year because Orion did not win the national tendering competition for 2018 in Norway, nor the national tendering competition held in autumn 2017 in Denmark. In addition, the price level has declined significantly due to intensified competition. Orion has launched a new biosimilar, Ritemvia® (rituximab). However, sales have just commenced, and the product is not expected to compensate for the decline in Remsima sales in 2018. Orion estimates that the sales potential of Ritemvia will be lower than that of Remsima.

Orion's contract manufacturing sales will significantly decline due to ending of the largest individual collaboration agreement at the end of 2017 as the collaboration partner stopped selling the product manufactured by Orion. Net sales generated by this agreement were EUR 16 million in 2017. It included, among other things, a EUR 4 million advance payment late in the year that was entered as income earlier than planned.

Collaboration agreements with other pharmaceutical companies are an important component of Orion's business model. These agreements often include payments recorded in net sales that vary greatly from year to year. Forecasting the timing and amount of payments is difficult. Possible future payments relating to agreements already made have in some cases been conditional on, for instance, the progress or findings of research projects, which are not known until studies have been completed. On the other hand, making new agreements is generally a process for which neither the schedule nor the outcome is known before the final signing of the agreement. The outlook for 2018 does not include significant individual payments related to collaboration agreements. The new IFRS 15 standard that came into force at the beginning of 2018 changes the treatment of these payments. Some of the payments received, especially payments related to sales rights, will be entered as income over a longer period of time. Until now they have generally been recognised as one-off payments in sales.

Expenditure

Marketing expenditure will be higher than in the previous year due to additional promotion of sales of the Easyhaler product portfolio in countries where the product was launched in 2017 or will be launched in 2018. Because the registrations and launches of new products are projects that take more than a year, the increases in resources and other inputs required in 2018 were planned mainly during the previous year.

Research and development costs are estimated to be slightly higher than in 2017. They 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 2018 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 (ODM-201) research costs.

Investments

The Group's total capital expenditure in 2018 is expected to be lower than in 2017, when adjusted capital expenditure was EUR 75 million. The largest single ongoing investment project, the expansion of Fermion's Hanko manufacturing plant, was completed in June 2018.

Near-term risks and uncertainties

Sales of Orion's branded Parkinson's drugs will decrease in 2018 due to generic competition. The effects of the competition have been taken into account in the outlook estimate for the current year. However, the timing of the extension and intensity of generic competition to Stalevo in Europe and elsewhere still entail uncertainty that may materially affect the accuracy of the estimate made at this stage. The basic Dexdor and Simdax patents have expired. However, the products have other product protection that is still valid. In some European countries marketing authorisation has been granted for a generic version of Dexdor, and it is to be assumed that generic competition will gradually expand in the EU. Orion has also been informed that a marketing authorisation application has been filed for a generic version of Simdax in Europe. The impact of generic competition on the sales of Dexdor and Simdax is difficult to estimate at this stage. As regards Simdax, the possible generic competition is still not estimated to materially impact its sales in 2018. Orion is continuing actions to defend its rights.

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

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

Orion's broad product range may cause risks to the delivery reliability and make it challenging to maintain the high quality standard required in production. Authorities and key customers in different countries undertake regular and detailed inspections of development and manufacturing of drugs at Orion's production sites. Any remedial actions that may be required may at least temporarily have effects that decrease delivery reliability and increase costs. Orion's product range also includes products manufactured by other pharmaceutical companies. Possible problems related to the delivery reliability or quality of the products of those manufacturers may cause a risk to Orion's delivery reliability. The single-channel system used for pharmaceuticals distribution in Finland, in which Orion's products have so far been delivered to customers through only one wholesaler, may also cause risks to delivery reliability. To ensure deliveries, in addition to Oriola Finland Oy, there are also other distributors temporarily distributing certain Orion products.

Research projects always entail uncertainty factors that may either increase or decrease estimated costs. The projects may progress more slowly or faster than assumed, or they may be discontinued. Nonetheless, changes that may occur in ongoing clinical studies are reflected in costs relatively slowly, and they are not expected to have a material impact on earnings in the current year. Owing to the nature of the research process, the timetables and costs of new studies that are being started are known well in advance. They therefore typically do not lead to unexpected changes in the estimated cost structure. Orion generally 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 2014–2017 the annual payments varied from EUR 8 million to EUR 39 million. The payments may be subject to certain conditions relating to the development of research projects or sales, and whether these conditions are triggered and the timing of triggering always entail uncertainties.

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.

Shares and shareholders

On 30 June 2018, Orion had a total of 141,257,828 (141,257,828) shares, of which 37,120,346 (37,266,346) were A shares and 104,137,482 (103,991,482) B shares. The Group's share capital is EUR 92,238,541.46 (92,238,541.46). At the end of June 2018, Orion held 562,440 (675,401) B shares as treasury shares. On 30 June 2018, the aggregate number of votes conferred by the A and B shares was 845,981,962 (848,643,001) excluding treasury shares.

At the end of June 2018, Orion had 74,436 (47,828) registered shareholders.

Voting rights conferred by shares

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

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

Conversion of shares

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

Trading in Orion's shares

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

On 30 June 2018, the market capitalisation of the Company's shares, excluding treasury shares, was EUR 3,329 million.

Orion shares are also traded on various alternative trading platforms in addition to Nasdaq Helsinki.

Authorisations of the Board of Directors

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

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

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

Share-based incentive plans

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

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 June 2018, Orion had a total of 74,436 (47,828) registered shareholders, of whom 96% (96%) were private individuals. They held 44% (38%) of the entire share stock and had 62% (60%) of the total votes. There were 43 (65) million nominee-registered and foreign-owned shares, which was 31% (46%) of all shares, and they conferred entitlement to 7% (10%) of the total votes.

At the end of June 2018, Orion held 562,440 (675,401) B shares as treasury shares, which is 0.40% (0.48%) of the Company's total share stock and 0.07% (0.08%) of the total votes.

Personnel

The average number of employees in the Orion Group in January–June 2018 was 3,187 (3,231). At the end of June 2018, the Group had a total of 3,279 (3,340) employees, of whom 2,611 (2,711) worked in Finland and 668 (629) outside Finland.

Salaries and other personnel expenses in January–June 2018 totalled EUR 100 (105) 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.

Business review

Orion signed an agreement on the sale of all shares in Orion Diagnostica Oy (i.e. the Orion Diagnostica business division) on 21 April 2018. The transaction was closed on 30 April 2018. Following the transaction, Orion Diagnostica business is reported as a discontinued operation. The Group will have only one reporting segment, the Pharmaceuticals business. In the Half-Year Financial Report, Orion Diagnostica segment is reported as a discontinued operation and as a rule, the review only covers continuing operations.

Review of human pharmaceuticals market

Finland is the most important individual market for Orion, generating about one-third of the total net sales. According to IQVIA statistics, Finnish sales of human pharmaceuticals, including medicinal and non-medicinal products, in January–June 2018 increased 9% on the corresponding period of the previous year. Orion's human pharmaceutical sales in Finland were down by 8%, mainly due to the change made in the Finnish pricing system for substitutable prescription drugs at the beginning of 2017, which has toughened price competition. A significant share of Orion's prescription drug sales, 60%, were reference priced drugs. In the Finnish pharmaceuticals market, the sales of reference priced drugs were down by 8% and Orion's reference priced drugs by 9%.

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

EUR million	1-6/2018	1-6/2017	Change %
Total sales of human pharmaceuticals			
Market	**1,329**	1,215	+9%
Orion	**155**	169	-8%
Prescription drugs			
Market	**1,120**	1,015	+10%
Orion	**106**	120	-12%
Reference priced prescription drugs			
Market	**238**	258	-8%
Orion	**63**	69	-9%
Self-care products in pharmacy channel			
Market	**209**	200	+4%
Orion	**49**	48	+1%

Source: IQVIA pharmaceutical sales statistics 1-6/2018

Despite the challenging operating environment, Orion has maintained its position as leader in marketing pharmaceuticals in Finland: its share of the medicinal and non-medicinal products market was 12% in January–June 2018. Orion has a particularly strong standing in the pharmacy sales of self-care products and in reference priced prescription drugs.

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

Orion's market share, %	1-6/2018	1-6/2017
Human pharmaceuticals in total	**12%**	14%
Prescription drugs	**9%**	12%
Reference priced prescription drugs	**26%**	27%
Self-care products	**23%**	24%

Source: IQVIA pharmaceutical sales statistics 1-6/2018

Orion is a significant player also in the Scandinavian generics market, where according to IQVIA statistics, it was among the top three generic companies in all of its operating countries in 2017. Biosimilars are an important source of growth for generic drugs in the area.

The most important individual therapy area for Orion is still the treatment of Parkinson's disease. Orion's branded Parkinson's drugs containing entacapone (Stalevo®, Comtess® and Comtan®) account for 12% of the Group's net sales.

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

EUR or USD million		MAT3/2018	MAT3/2017	Change %
United States	USD	**6**	8	-26%
Europe TOP 5	EUR	**49**	64	-24%
Japan	EUR	**70**	79	-11%

Source: IQVIA pharmaceutical sales statistics MAT3/2018 (4/2017–3/2018)
Europe TOP 5: Germany, United Kingdom, France, Spain and Italy

Sales of Orion's branded Parkinson's drugs decreased due to generic competition and changes in exchange rates.

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 March 2018 were up by 3% at EUR 548 (532) million. According to IQVIA pharmaceutical sales statistics, sales of Orion's Dexdor® intensive care sedative (dexmedetomidine) were up by 21% at EUR 65 (54) million in Europe.

Net sales and operating profit of the Pharmaceuticals business

Net sales of the Pharmaceuticals business in January–June 2018 were down by 6% at EUR 493 (526) million. The Pharmaceuticals business's operating profit was down by 11% at EUR 146 (164) million. Milestone payments and royalties accounted for EUR 12 (20) million of the net sales and operating profit.

The operating profit of the Pharmaceuticals business was 30% (31%) of the segment's net sales.

Net sales of Orion's top ten pharmaceuticals in January–June 2018 were EUR 236 (246) million. They accounted for 48% (47%) of the total net sales of the Pharmaceuticals business.

Proprietary Products

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

Net sales of the Proprietary Products business division in January–June 2018 were EUR 188 (186) million.

Orion's drugs for treatment of Parkinson's disease are Stalevo® (active ingredients carbidopa, levodopa and entacapone) and Comtess®/Comtan® (entacapone). Their total net sales in January–June 2018 were up by 4% at EUR 60 (58) million. The growth was due to the timing of deliveries and normal fluctuations between quarters. In the longer term, Orion expects Parkinson sales to continue to decrease, as the products have generic competition in practically all markets. In the United States, Orion's Parkinson's drugs have several generic competitors, and competition is increasing in Europe and also in other markets. In Japan Comtan has generic competitors, but generic competition to Stalevo has not yet commenced.

Breakdown of sales of Parkinson's drugs:

EUR million	1-6/2018	1-6/2017	Change %
Deliveries to key partners	**49**	44	+12%
Orion's own sales	**11**	14	-20%

Total net sales of the Easyhaler® product family for treatment of asthma and chronic obstructive pulmonary disease were up by 18% in January–June 2018 at EUR 44 (37) million. The increase was mainly due to sales of the budesonide-formoterol combined formulation.

Sales of the budesonide-formoterol combined formulation were up by 26% in January–June 2018 at EUR 23 (18) million. The product was launched in several countries in 2017, and in the review period, sales had already commenced in all key European markets. Besides Orion's sales, co-marketing partner Menarini sells the budesodine-formoterol combined formulation in a few Southern European countries and in France. The first marketing authorisation applications have also been submitted outside Europe. Menarini is in charge of the distribution of the budesonide-formoterol combined formulation in the Asia and Pacific region, and

Hikma Pharmaceuticals PLC in the Middle East and North Africa. Orion's market position in budesonide-formoterol product varies considerably by country. For example, in Sweden, Orion had a strong position with a 38% share of the budesonide-formoterol market in the review period, while in Germany, Orion's share in the market was just 6%.

In March 2018, Orion received positive conclusions for the salmeterol-fluticasone Easyhaler under the decentralised EU marketing authorisation procedure, and the national approval procedures of the marketing authorisation applications started in 23 EU countries. National marketing authorisations have now been acquired for several countries, and Orion prepares for the first launches in the second half of the year. The salmeterol-fluticasone combined formulation is the sixth product of the Easyhaler product family. In the first quarter of the year Orion commenced the development of a seventh Easyhaler product, tiotropium, for the European market. The expansion of Easyhaler production facility at Espoo pharmaceuticals production plant is now completed, which will allow production volumes to increase as the product family grows.

Net sales of Orion's Dexdor® intensive care sedative (dexmedetomidine) were EUR 34 (34) million in January–June 2018. Sales continued to grow in almost all European markets. In some European countries, marketing authorisation has been granted for generic versions of the drug, and it is to be assumed that generic competition to the product will gradually expand in the EU. In January–June 2018, there was significant generic competition only in Germany. Orion is continuing actions to defend its rights. The impact of generic competition on sales is still difficult to estimate at this stage. Sales of the Precedex® intensive care sedative were down by 15% at EUR 11 (13) million.

Simdax®, a drug for treatment of acute decompensated heart failure is sold in some 60 countries worldwide. Net sales of the product in January–June 2018 were at level with the previous year, at EUR 29 (30) million. Orion was informed in the first quarter that a marketing authorisation application has been filed for a generic version of Simdax in Europe. The patent for the product's molecule expired in September 2015, but possible generic competition is still not expected to have a material impact on sales of the product in 2018.

Specialty Products

Net sales of the Specialty Products business division’s off-patent, i.e. generic prescription drugs, self-care products and biosimilars were down in January–June 2018 by 9% at EUR 232 (254) million.

In January-June 2018, 70% of the net sales of Specialty Products came from generic drugs, 24% from self-care products and 6% from biosimilars.

Finland, Scandinavia and Eastern Europe and Russia are the most important markets for Specialty Products. The business division's sales in Finland in January–June 2018 were EUR 134 (145) million, down by 7%. Sales declined in particular due to tougher price competition, which was mostly due to the change in the operating environment: the change made to the pricing system of substitutable prescription drugs in Finland at the beginning of 2017.

In Scandinavia, sales totalled EUR 35 (47) million, down by 25%. The decline in sales was in particular due to the decreased sales of the biosimilar Remsima. In Eastern Europe and Russia, sales were up by 5% at EUR 31 (30) million.

The biosimilars net sales were down by 47% at EUR 15 (28) million. Net sales of Remsima® (infliximab) for treatment of rheumatoid arthritis among other things, were EUR 12 (28) million. The sales declined by 56% due to the situation of tendering competitions, increasing competition with new competitors entering the market, and the subsequently significantly declined price level. In 2017, sales of Remsima generated a significant portion of the growth in net sales of the Specialty Products business division. However, in 2018 sales of Remsima are expected to be materially lower than in the previous year because Orion did not win the national tendering competition for 2018 in Norway, nor the national tendering competition held in autumn 2017 in Denmark. Remsima was not sold in these markets in May and June and no new tendering competitions opened in the review period. Sales development will continue to fluctuate depending on the success in tendering competitions also in the future.

In the first quarter of 2018, Orion launched its second biosimilar, Ritemvia® (rituximab) for treatment of lymphoma, among other things, for which Orion has the distribution rights in the Nordic countries and Estonia. Sales of Ritemvia are expected to be less than for Remsima, and it is not expected to compensate for the decline in Remsima sales in 2018. Orion estimates that the sales potential of Ritemvia will be lower than that of Remsima.

In the review period, Orion signed an agreement on the sales, marketing and distribution of a third biosimilar, trastuzumab, in the Nordic countries and Estonia. The product is made by the South Korean manufacturer Celltrion, which also manufactures Remsima and Ritemvia. The launch schedule of trastuzumab remains open and depends on the patent situation and on the timing of tendering competitions, among other things.

Animal Health

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

Net sales of the Animal Health business division in January–June 2018 were down by 6% at EUR 39 (41) million, mostly due to the timing of deliveries to partners. Sales of animal sedative products accounted for 38% (43%) of the division's net sales. The product family comprises Orion's animal sedatives Dexdomitor® (dexmedetomidine), Domitor® (medetomidine) and Domosedan® (detomidine), and antagonist Antisedan® (atipamezole), which reverses the effects of the sedatives. In February 2018, Orion received positive conclusions under the decentralised EU marketing authorisation procedure for Clevor®. Clevor, with ropinirole as the active ingredient, is an eye-drop formula designed to treat poisoning in dogs. National marketing authorisation processes proceeded as expected in the review period.

Fermion

Fermion manufactures active pharmaceutical ingredients for Orion and other pharmaceutical companies. Its product range comprises nearly 30 pharmaceutical ingredients. Fermion's aim is to captively produce the active 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 ingredients.

Fermion's net sales in January–June 2018 excluding deliveries for Orion's own use were EUR 26 (28) million and accounted for over one-half of Fermion's total net sales. In recent years order cycles in the trade in pharmaceutical raw materials have become ever shorter, and this has led to clearly greater fluctuation in business volume than before within each year and between different years.

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

Research and development

The Group's R&D expenses totalled EUR 52 (49) million in January–June 2018 and accounted for 10% (9%) of the Group's net sales. R&D expenses also include expenses related to development of the current portfolio.

In March 2018, Orion received positive conclusions for the salmeterol-fluticasone Easyhaler under the decentralised EU marketing authorisation procedure. The national approval procedures of the marketing authorisation applications started in 23 EU countries. The first national marketing authorisations have now been acquired and Orion prepares for the first launches in the second half of the year. The inhaled salmeterol-fluticasone combined formulation is the sixth member of the Easyhaler product family for the treatment of asthma and COPD. In the salmeterol-fluticasone combined formulation, fluticasone acts as

an anti-inflammatory agent and salmeterol acts as a long-acting bronchodilator. The Easyhaler product family offers diverse treatment options for asthma and COPD using the same inhaler technology. Orion's Easyhaler is a dry-powder inhaler developed in-house, for which Orion has developed Easyhaler-adapted dry powder formulations of several well-known generic active substances (salbutamol, beclometasone, budesonide, formoterol, salmeterol and fluticasone).

In the first quarter of the year, Orion started a research project to expand the Easyhaler product family 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 treatment of chronic obstructive pulmonary disease.

In 2014, Orion commenced global collaboration with Bayer in the development and commercialisation of the novel oral androgen receptor antagonist darolutamide (ODM-201). The companies have an ongoing joint Phase III clinical trial (ARAMIS) for evaluation of the efficacy and safety of darolutamide in patients with non-metastatic castration-resistant prostate cancer (nmCRPC) with high risk of developing metastases. Darolutamide is an androgen receptor antagonist that has low blood-brain barrier penetration, potentially resulting in less side effects in the central nervous system. The trial is proceeding as planned and patient recruitment has been finalized. Orion announced in early April 2018, that it has updated the estimated primary completion date for the trial in the ClinicalTrials.gov online service. The estimated primary completion date is in September 2018.

Orion and Bayer also have another ongoing Phase III clinical trial (ARASENS), which evaluates the efficacy and safety of darolutamide (ODM-201) 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 review period. The trial is estimated to be completed in 2022.

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

Orion has completed the Phase II clinical trial with a drug candidate for the treatment of symptoms of Parkinson’s disease in which a new levodopa/carbidopa formulation is combined with the COMT inhibitor (ODM-104) developed by Orion. In the trial, the product was compared with a Stalevo product already in the market in which the active ingredients are the COMT inhibitor entacapone, carbidopa and levodopa. The primary endpoint of the trial was reached. Orion is analysing the results and evaluating moving on to Phase III. Orion is looking for a potential collaboration partner for the trial.

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

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

In the first quarter of 2018, Orion commenced a Phase I clinical trial for the development of a novel selective hormone synthesis inhibitor (CYP11A1 inhibitor) for castration-resistant prostate cancer. In preclinical studies, the molecule (ODM-208) has shown antitumor activity. It has potential efficacy also for

those cancers that have become resistant to the standard hormonal treatments. Orion is the first pharmaceutical company to develop a drug with this mechanism. The trial will investigate the safety and tolerability of the drug candidate in prostate cancer patients, but Orion also plans to study the potential of the molecule for breast cancer treatment.

Orion also has several projects in the early research phase investigating central nervous diseases, cancer and neuropathic pain, among others.

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

Discontinued operations: Diagnostics

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

Espoo, 18 July 2018

Board of Directors of Orion Corporation

Orion Corporation

Timo Lappalainen
President and CEO

Jari Karlson
CFO

Tables

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Continuing operations

EUR million	4-6/18	Adjusted 4-6/17	Change %	1-6/18	Adjusted 1-6/17	Change %	Adjusted 1-12/17
Net sales	**246.1**	260.7	-5.6%	**493.3**	526.1	-6.2%	1,033.6
Cost of goods sold	**-89.9**	-102.9	-12.6%	**-187.5**	-200.6	-6.5%	-417.6
Gross profit	**156.2**	157.7	-1.0%	**305.8**	325.6	-6.1%	616.0
Other operating income and expenses	**1.0**	0.8	+28.6%	**3.7**	1.7	+112.6%	4.9
Sales and marketing expenses	**-50.1**	-50.5	-0.8%	**-96.5**	-95.7	+0.8%	-188.9
R&D expenses	**-26.0**	-25.0	+4.1%	**-51.7**	-49.3	+4.9%	-99.1
Administrative expenses	**-11.3**	-12.5	-9.2%	**-21.8**	-23.5	-7.6%	-48.8
Operating profit	**69.7**	70.5	-1.1%	**139.5**	158.7	-12.1%	284.1
Finance income	**0.0**	0.2	-88.8%	**0.0**	0.1	-66.5%	0.1
Finance expenses	**-1.1**	-1.3	+15.3%	**-2.3**	-4.1	-44.3%	-6.6
Profit before taxes	**68.7**	69.3	-1.0%	**137.3**	154.7	-11.2%	277.7
Income tax expense	**-13.1**	-14.1	-6.9%	**-28.0**	-32.7	-14.4%	-58.6
Profit for the period for continuing operations	**55.6**	55.3	+0.6%	**109.3**	122.0	-10.4%	219.1
Profit for the period for discontinued operations	**130.1**	1.2		**133.4**	4.7		6.9
Profit for the period	**185.7**	56.5	+228.9%	**242.8**	126.7	+91.6%	226.0
OTHER COMPREHENSIVE INCOME INCLUDING TAX EFFECTS[1]							
Translation differences	**-0.8**	-1.3		**-1.2**	-1.1		-1.4
Items that may be reclassified subsequently to profit and loss	**-0.8**	-1.3		**-1.2**	-1.1		-1.4
Items due to remeasurement of defined benefit plans (continuing operations)	**-4.5**			**-4.5**	0.0		27.4
Items due to remeasurement of defined benefit plans (discontinued operations)	**2.9**			**2.9**	0.0		2.5
Items that will not be reclassified to profit and loss	**-1.6**	0.0		**-1.6**	0.0		29.9
Other comprehensive income net of tax	**-2.4**	-1.3	+82.5%	**-2.8**	-1.1	+149.1%	28.5
Comprehensive income for the period including tax effects	**183.3**	55.1	+232.5%	**240.0**	125.6	+91.1%	254.5
PROFIT ATTRIBUTABLE TO:[1]							
Owners of the parent company	**185.7**	56.5	+228.9%	**242.8**	126.7	+91.6%	226.0
Non-controlling interests	**0.0**	0.0		**0.0**	0.0		-0.0
COMPREHENSIVE INCOME ATTRIBUTABLE TO:[1]							
Owners of the parent company	**183.3**	55.1	+232.5%	**240.0**	125.6	+91.1%	254.5
Non-controlling interests	**0.0**	0.0		**0.0**	0.0		-0.0
Continuing operations							
Basic earnings per share, EUR[2]	**0.40**	0.39	+2.6%	**0.78**	0.87	-10.3%	1.56
Diluted earnings per share, EUR[2]	**0.40**	0.39	+2.6%	**0.78**	0.87	-10.3%	1.56
Depreciation, amortisation and impairment	**10.2**	9.8	+4.1%	**20.0**	19.4	+3.2%	39.5
Personnel expenses	**48.6**	54.8	-11.3%	**99.7**	104.6	-4.7%	203.9

Discontinued operations

Basic earnings per share, EUR²	**0.92**	0.01		**0.95**	0.03		0.05
Diluted earnings per share, EUR²	**0.92**	0.01		**0.95**	0.03		0.05
Depreciation, amortisation and impairment	**0.2**	0.7	-76.9%	**0.8**	1.4	-39.6%	2.8
Personnel expenses	**2.6**	3.9	-32.5%	**6.6**	7.5	-11.3%	14.2

[1]The figures in the table include both continuing and discontinued operations.
[2]The figure has been calculated from the profit attributable to the owners of the parent company.
IFRS 15 and IFRS 9 standards have been adopted by using cumulative effect method, and therefore figures of the comparison periods have not been adjusted.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS EUR million	6/18	6/17	Change %	12/17
Property, plant and equipment	**314.4**	304.7	+3.2%	323.1
Goodwill	**13.5**	13.5		13.5
Intangible rights	**26.6**	39.9	-33.3%	36.7
Other intangible assets	**2.6**	2.8	-6.0%	2.6
Investments in associates	**0.1**	0.1	-1.8%	0.1
Other investments	**0.3**	0.3	+0.9%	0.3
Pension asset	**52.4**	20.6	+154.9%	55.2
Deferred tax assets	**5.3**	1.3	+313.7%	1.3
Other non-current assets	**2.0**	2.3	-12.4%	1.9
Non-current assets total	**417.2**	385.3	+8.3%	434.7
Inventories	**225.8**	238.4	-5.3%	225.4
Trade receivables	**184.0**	208.1	-11.6%	199.0
Other receivables	**40.6**	48.0	-15.5%	32.4
Cash and cash equivalents	**205.3**	67.7	+203.3%	164.1
Current assets total	**655.7**	562.2	+16.6%	620.8
Assets total	**1,072.9**	947.5	+13.2%	1,055.5

EQUITY AND LIABILITIES EUR million	6/18	6/17	Change %	12/17
Share capital	**92.2**	92.2		92.2
Expendable fund	**0.5**	0.5		0.5
Other reserves	**2.3**	2.4	-0.9%	2.4
Retained earnings	**607.3**	455.2	+33.4%	584.6
Equity attributable to owners of the parent company	**702.4**	550.3	+27.6%	679.7
Non-controlling interests		0.0	-100.0%	0.0
Equity total	**702.4**	550.3	+27.6%	679.7
Deferred tax liabilities	**40.8**	37.0	+10.3%	42.3
Pension liability	**3.3**	3.1	+7.8%	3.2
Provisions	**0.4**	0.3	+31.7%	0.3
Interest-bearing non-current liabilities	**0.5**	150.3	-99.6%	150.3
Other non-current liabilities	**18.4**	0.0		0.0
Non-current liabilities total	**63.4**	190.7	-66.7%	196.2
Trade payables	**70.6**	97.6	-27.6%	83.2
Current tax liabilities	**0.4**	6.9	-94.0%	3.0
Other current liabilities	**85.2**	100.6	-15.3%	92.4
Provisions		0.4	-100.0%	
Interest-bearing current liabilities	**150.9**	1.1		1.1
Current liabilities total	**307.1**	206.5	+48.7%	179.7
Liabilities total	**370.5**	397.2	-6.7%	375.8
Equity and liabilities total	**1,072.9**	947.5	+13.2%	1,055.5

The consolidated statement of financial position includes both continuing and discontinued operations.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

a. Share capital
b. Expendable fund
c. Other reserves
d. Items due to remeasurement of defined benefit plans
e. Translation differences
f. Retained earnings
g. Non-controlling interests
h. Equity total

	Equity attributable to owners of the parent company							
EUR million	a.	b.	c.	d.	e.	f.	g.	**h.**
Equity at 1 January 2017	92.2	0.5	2.1	2.0	-5.0	549.5	0.0	**641.4**
Profit for the period						126.8		**126.8**
Other comprehensive income								
Translation differences					-0.7	-0.5		**-1.1**
Items due to remeasurement of defined benefit plans				0.0				**0.0**
Transactions with owners								
Dividend and capital repayment						-218.2		**-218.2**
Share-based incentive plan						1.5		**1.5**
Other adjustments			0.3			-0.2	-0.0	**0.1**
Equity at 30 June 2017	92.2	0.5	2.4	2.0	-5.7	458.8	-0.0	**550.3**
Equity at 1 January 2018	92.2	0.5	2.3	31.9	-5.9	558.6	-0.0	**679.7**
Impact of adoption of the IFRS 15 and IFRS 9 standards						-16.5		**-16.5**
Adjusted equity at 1 January 2018	92.2	0.5	2.3	31.9	-5.9	542.1	-0.0	**663.2**
Profit for the period						242.8		**242.8**
Other comprehensive income								
Translation differences					-1.3	0.2		**-1.2**
Items due to remeasurement of defined benefit plans				-4.5		2.9		**-1.6**
Transactions with owners								
Dividend and capital repayment						-203.8		**-203.8**
Share-based incentive plan						3.2		**3.2**
Other adjustments			-0.0			-0.2	0.0	**-0.2**
Equity at 30 June 2018	**92.2**	**0.5**	**2.3**	**27.4**	**-7.3**	**587.1**		**702.4**

The consolidated statement of changes in equity includes both continuing and discontinued operations.

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR million	1-6/18	1-6/17	1-12/17
Operating profit	**274.6**	163.5	293.0
Adjustments	**-108.5**	24.9	49.1
Change in working capital	**-23.9**	-56.3	-38.9
Interest paid	**-5.4**	-5.0	-6.2
Interest received	**1.0**	0.6	1.4
Dividends received	**0.0**	0.0	0.0
Income taxes paid	**-31.9**	-35.3	-70.0
Total net cash flow from operating activities	**106.0**	92.4	228.4
Investments in property, plant and equipment	**-20.6**	-29.5	-67.1
Investments in intangible assets	**-2.6**	-7.4	-9.4
Sales of property, plant and equipment and other investments	**0.4**	1.2	1.6
Sales of subsidiaries	**162.5**		
Total net cash flow from investing activities	**139.7**	-35.8	-74.9
Current loans raised	**0.6**	0.6	1.3
Repayments of current loans	**-0.3**	-1.2	-3.5
Non-current loans raised	**0.2**	0.0	
Dividends paid and other distribution of profits	**-203.9**	-217.9	-218.0
Total net cash flow from financing activities	**-203.4**	-218.5	-220.3
Net change in cash and cash equivalents	**42.3**	-162.0	-66.8
Cash and cash equivalents at the beginning of the period	**164.1**	231.9	231.9
Foreign exchange differences	**-1.0**	-2.2	-1.0
Impact of discontinued operations	**-0.8**		
Net change in cash and cash equivalents	**43.0**	-162.0	-66.8
Cash and cash equivalents at the end of the period	**205.3**	67.7	164.1

The consolidated statement of cash flows includes both continuing and discontinued operations.

DISCONTINUED OPERATIONS

On 23 January 2018, Orion announced that it had decided to investigate the possible sale of Orion Diagnostica or other transaction that would result in transfer of Orion Diagnostica outside the Orion Group. As a result of the investigation, an agreement on the sale of all shares in Orion Diagnostica Oy (i.e. the Orion Diagnostica business) was signed with an investment fund managed by Axcel Management A/S (Axcel) on 21 April 2018. In the Financial Review and the tables of the Half-Year Financial Report, Orion Diagnostica business is reported as a discontinued operation. The profit of discontinued operations in January–June 2018 was EUR 133.4 (4.7) 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 discountinued operations. In addition, Orion has the possibility to receive an additional selling price of EUR 60 million maximum. The payment of this component is based on the return on investment for Axcel at the time of their exit. Due to the uncertainty relating to the euro value and timing of the additional price, the capital gain does not include any part of the additional price component.

PROFIT FOR THE PERIOD FOR DISCONTINUED OPERATIONS

EUR million	1-6/18	1-6/17	Change %	1-12/17
Net sales	**18.7**	26.8	-30.5%	53.8
Capital gain from sale of discontinued operations	**128.4**			
Expenses related to sale of discontinued operations	**-0.8**			
Item related to fulfilment of an obligation under IAS 19	**4.5**			
Other operating expenses	**-16.0**	-22.1	-27.6%	-44.9
Operating profit	**134.8**	4.7		8.9
Income tax expense	**-1.3**	-0.1		-1.9
Profit for the period	**133.4**	4.7		6.9

CASH FLOW FROM DISCONTINUED OPERATIONS

EUR million	1-6/18	1-6/17	Change %	1-12/17
Cash flow from operating activities	**-10.9**	-5.7	-91.2%	8.9
Cash flow from investing activities	**142.4**	-0.3		-1.3

Orion Diagnostica employees will no longer be insured under the Orionin Pension Fund. The transfer of insurance portfolio to the new insurer chosen by Orion Diagnostica involves 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 constitutes 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.

CHANGES IN PROPERTY, PLANT AND EQUIPMENT

EUR million	6/18	6/17	12/17
Carrying amount at the beginning of the period	**323.1**	289.1	289.1
- discontinued operations	**-10.1**		
Additions	**17.3**	32.1	67.4
Disposals	**-0.5**	-0.5	-1.0
Amortisation and impairments	**-15.4**	-15.7	-32.1
Carrying amount at the end of the period	**314.4**	305.0	323.1

CHANGES IN INTANGIBLE ASSETS (EXCLUDING GOODWILL)

EUR million	6/18	6/17	12/17
Carrying amount at the beginning of the period	**39.4**	40.4	40.4
- discontinued operations	**-8.0**		
Additions	**2.6**	7.3	9.1
Disposals		-0.0	-0.1
Amortisation and impairments	**-4.7**	-5.0	-10.2
Carrying amount at the end of the period	**29.2**	42.5	39.4

COMMITMENTS AND CONTINGENCIES

EUR million	6/18	6/17	12/17
CONTINGENCIES FOR OWN LIABILITIES			
Guarantees	**4.4**	4.3	3.6
OTHER LIABILITIES			
Leasing liabilities (excluding finance lease contracts)	**5.3**	5.5	6.1
Other liabilities	**0.3**	0.3	0.3

DERIVATIVES

EUR million	6/18	6/17	12/17
CURRENCY FORWARD CONTRACTS AND CURRENCY SWAPS			
Fair value, EUR million	**0.0**	-0.8	0.1
Nominal value, EUR million	**23.0**	34.5	32.4
CURRENCY OPTIONS			
Fair value, EUR million	**-0.1**	-0.1	0.1
Nominal value, EUR million	**36.9**	50.8	45.4

FAIR VALUE MEASUREMENT AND HIERARCHY OF FINANCIAL INSTRUMENTS

EUR million	Level 1	Level 2	Level 3	Total
Derivatives				
Currency derivatives		0.3		0.3
Available-for-sale financial assets				
Shares and investments			0.3	0.3
Assets total		0.3	0.3	0.6
Derivatives				
Currency derivatives		-0.3		-0.3
Liabilities total		-0.3		-0.3

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

In the Group the principle is applied that transfers between levels of fair value hierarchy are recognised on the date on which the event triggering the transfer occurred.

No transfers between levels occurred during the reporting period.

RELATED PARTY TRANSACTIONS

EUR million	6/18	6/17	12/17
Management's employment benefits	**4.4**	5.9	7.1

Operating segment performance for continuing operations

NET SALES BY BUSINESS DIVISION

EUR million	4-6/18	4-6/17	Change %	1-6/18	1-6/17	Change %	1-12/17
Pharmaceuticals	**246.1**	260.7	-5.6%	**493.3**	526.1	-6.2%	1,033.6
Proprietary Products[1)]	**95.6**	87.5	+9.3%	**188.5**	185.9	+1.4%	351.4
Specialty Products	**114.3**	132.7	-13.8%	**232.0**	254.5	-8.8%	519.0
Animal Health	**18.7**	21.8	-14.5%	**38.6**	40.9	-5.6%	75.9
Fermion	**13.5**	12.5	+7.9%	**25.9**	28.0	-7.7%	51.0
Contract manufacturing and other	**3.9**	6.1	-35.3%	**8.4**	16.8	-50.1%	36.2
Group total	**246.1**	260.7	-5.6%	**493.3**	526.1	-6.2%	1,033.6

1) The net sales of Proprietary Products during the period 1-6/18 includes EUR 1.0 million of sales revenue for performance obligations to be transferred to customers that will be entered as income over time.

OPERATING PROFIT BY BUSINESS AREA

EUR million	4-6/18	4-6/17	Change %	1-6/18	1-6/17	Change %	1-12/17
Pharmaceuticals	**73.6**	73.5		**146.1**	163.7	-10.8%	296.3
Group items	**-3.9**	-3.0	+28.0%	**-6.5**	-5.0	+31.7%	-12.2
Group total	**69.7**	70.5	-1.1%	**139.5**	158.7	-12.1%	284.1

NET SALES BY ANNUAL QUARTERS

	2018		2017				2016	
EUR million	4-6	1-3	10-12	7-9	4-6	1-3	10-12	7-9
Pharmaceuticals	246.1	247.2	265.9	241.5	260.7	265.5	267.1	245.7
Group total	246.1	247.2	265.9	241.5	260.7	265.5	267.1	245.7

OPERATING PROFIT BY ANNUAL QUARTERS

	2018		2017				2016	
EUR million	4-6	1-3	10-12	7-9	4-6	1-3	10-12	7-9
Pharmaceuticals	73.6	72.5	75.2	57.4	73.5	90.2	59.6	91.8
Group items	-3.9	-2.7	-4.7	-2.5	-3.0	-2.0	-2.6	-2.0
Group total	69.7	69.8	70.5	54.9	70.5	88.2	57.0	89.8

GEOGRAPHICAL BREAKDOWN OF NET SALES BY ANNUAL QUARTERS

	2018		2017				2016	
EUR million	4-6	1-3	10-12	7-9	4-6	1-3	10-12	7-9
Finland	75.4	80.0	84.6	80.4	82.4	81.3	91.2	83.9
Scandinavia	36.9	41.2	42.4	44.0	46.6	40.5	41.6	36.1
Other Europe	73.0	75.5	80.5	73.2	78.7	79.2	85.7	75.5
North America	13.5	14.0	27.0	16.8	15.7	19.3	29.3	18.4
Other markets	47.3	36.6	31.4	27.1	37.2	45.2	19.3	31.8
Group total	246.1	247.2	265.9	241.5	260.7	265.5	267.1	245.7

Business review

KEY FIGURES FOR PHARMACEUTICALS BUSINESS

EUR million	4-6/18	4-6/17	Change %	1-6/18	1-6/17	Change %	1-12/17
Net sales	**246.1**	260.7	-5.6%	**493.3**	526.1	-6.2%	1,033.6
Operating profit	**73.6**	73.5		**146.1**	163.7	-10.8%	296.3
% of net sales	**29.9%**	28.2%		**29.6%**	31.1%		28.7%
R&D expenses	**26.0**	25.0	+4.1%	**51.7**	49.3	+4.9%	99.2
% of net sales	**10.6%**	9.6%		**10.5%**	9.4%		9.6%
Capital expenditure	**3.1**	23.4	-86.8%	**19.8**	38.4	-48.5%	74.6
% of net sales	**1.3%**	9.0%		**4.0%**	7.3%		7.2%
Sales revenue from proprietary products	**106.7**	101.8	+4.8%	**208.2**	202.7	+2.7%	386.6
Assets				**847.2**	814.1	+4.1%	832.1
Liabilities				**174.0**	191.2	-9.0%	165.2
Personnel at the end of the period				**3,252**	3,312		3,159

TOP TEN BEST-SELLING PHARMACEUTICAL PRODUCTS

EUR million	4-6/18	4-6/17	Change %	1-6/18	1-6/17	Change %	1-12/17
Stalevo®, Comtess® and Comtan® (Parkinson's disease)	**32.1**	27.2	+17.9%	**60.0**	57.7	+4.1%	103.8
Easyhaler® product family (asthma, COPD)	**21.9**	18.9	+16.2%	**43.5**	36.9	+17.9%	76.6
Dexdor® (intensive care sedative)	**16.4**	17.0	-3.6%	**33.9**	33.7	+0.6%	64.1
Simdax® (acute decompensated heart failure)	**15.2**	14.4	+5.6%	**29.5**	29.7	-0.7%	57.2
Biosimilars (rheumatoid arthritis, inflammatory bowel diseases, lymphoma)	**4.1**	16.7	-75.5%	**14.6**	27.7	-47.2%	56.7
Dexdomitor®, Domitor®, Domosedan® and Antisedan® (animal sedatives)	**6.1**	10.1	-39.8%	**14.5**	17.6	-17.4%	30.5
Precedex® (intensive care sedative)	**6.1**	6.5	-6.8%	**11.3**	13.4	-15.5%	25.0
Burana® (inflammatory pain)	**5.3**	5.7	-7.3%	**11.0**	11.4	-2.8%	23.4
Divina series (menopausal symptoms)	**5.0**	4.9	+2.3%	**9.2**	8.6	+6.9%	18.6
Marevan® (anticoagulant)	**3.9**	5.5	-28.2%	**8.2**	9.5	-13.0%	19.2
Total	**116.0**	126.8	-8.5%	**235.8**	246.0	-4.1%	475.1
Share of pharmaceutical net sales	**47%**	49%		**48%**	47%		46%

KEY CLINICAL PHARMACEUTICAL DEVELOPMENT PROJECTS

Project	Indication	PHASE			Registration
		I	II	III	
Easyhaler® salmeterol-fluticasone	Asthma, COPD	Bioequivalence study			Registration*
Easyhaler® tiotropium	COPD	Bioequivalence study*			
Darolutamide (ODM-201) [1)]	Prostate cancer (nmCRPC)	I	II	III*	
Darolutamide (ODM-201) [1)]	Prostate cancer (mHSPC)	I	II	III*	
ODM-109 (oral levosimendan)	ALS	I	II	III*	
ODM-104 (more effective COMT inhibitor)	Parkinson's disease	I	II		
ODM-203 (targeted FGFR+VEGFR inhibitor)	Solid tumours	I	II*		
ODM-207 (BET protein inhibitor)	Cancer	I*			
ODM-208 (CYP11A1 inhibitor)	Prostate cancer (CRPC)	I*			

[1)] In collaboration with Bayer

*	= Phase ongoing
II	= Status changed vs. previous quarter

Information on Orion's shares

BASIC SHARE INFORMATION 30 JUNE 2018

	A share	B share	Total
Trading code on Nasdaq Helsinki	ORNAV	ORNBV	
Listing day	1.7.2006	1.7.2006	
ISIN code	FI0009014369	FI0009014377	
ICB code	4500	4500	
Reuters code	ORNAV.HE	ORNBV.HE	
Bloomberg code	ORNAV.FH	ORNBV.FH	
Share capital, EUR million	24.2	68.0	92.2
Counter book value per share, EUR	0.65	0.65	
Total number of shares	37,120,346	104,137,482	141,257,828
% of total share stock	26%	74%	100%
Number of treasury shares		562,440	562,440
Total number of shares excluding treasury shares	37,120,346	103,575,042	140,695,388
Minimum number of shares			1
Maximum number of A and B shares, and maximum number of all shares	500,000,000	1,000,000,000	1,000,000,000
Votes per share	20	1	
Number of votes excluding treasury shares	742,406,920	103,575,042	845,981,962
% of total votes	88%	12%	100%
Total number of shareholders	20,012	60,949	74,436

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

INFORMATION ON TRADING ON NASDAQ HELSINKI 1 JANUARY – 30 JUNE 2018

	A share	B share	Total
Shares traded	1,093,756	67,434,740	68,528,496
% of the total number of shares	2.9%	64.8%	48.5%
Trading volume, EUR million	32.1	1,804.3	1,836.4
Closing quotation on 31 December 2017, EUR	32.07	31.08	
Lowest quotation, EUR (A 28 and 29 June, B 26 April and 28 June 2018)	24.80	22.66	
Average quotation, EUR	29.34	26.76	
Highest quotation, EUR (A 23 January 2018 and B 19 January 2018)	35.70	33.50	
Closing quotation on 30 June 2018, EUR	25.25	23.09	
Market capitalisation on 30 June 2018, EUR million	937.3	2,391.5	3,328.8

PERFORMANCE PER SHARE

Continuing operations	**4-6/18**	**4-6/17**	**Change %**	**1-6/18**	**1-6/17**	**Change %**	**1-12/17**
Basic earnings per share, EUR	**0.40**	0.39	+2.6%	**0.78**	0.87	-10.3%	1.56
Diluted earnings per share, EUR	**0.40**	0.39	+2.6%	**0.78**	0.87	-10.3%	1.56

Continuing and discontinued operations	**4-6/18**	**4-6/17**	**Change %**	**1-6/18**	**1-6/17**	**Change %**	**1-12/17**
Basic earnings per share, EUR	**1.32**	0.40	+228.8%	**1.73**	0.90	+91.4%	1.61
Diluted earnings per share, EUR	**1.32**	0.40	+228.8%	**1.73**	0.90	+91.4%	1.61
Cash flow per share before financial items, EUR	**1.36**	0.07		**1.75**	0.40	+334.3%	1.09
Equity per share, EUR				**4.99**	3.91	+27.5%	4.83
Average number of shares excluding treasury shares, 1,000 shares	**140,695**	140,582		**140,658**	140,547		140,565

Appendices

Reporting

Orion Corporation is the parent company of the Orion Group. The Group consists of one business area or operating segment and four business divisions. Orion reports on its operations segmentally.

- Pharmaceuticals business
  - Proprietary Products (patented prescription products for three therapy areas)
  - Specialty Products (off-patent generic prescription products, self-care products and biosimilars)
  - Animal Health (veterinary products for pets and production animals)
  - Fermion (active pharmaceutical ingredients for Orion and other companies)

Contract manufacturing and other, i.e. manufacturing for other companies, is included in the Pharmaceuticals business segment, but it is not a separate business division, it is part of the Group's Supply Chain organisation.

Accounting policies

This report has been prepared in accordance with the accounting policies set out in International Accounting Standard 34 on Interim Financial Reporting. The same accounting principles have been applied as in the 2017 financial statements, besides which the amendments to existing IFRS and IAS standards endorsed by the EU have been adopted as of 1 January 2018.

Orion Group adopted the new IFRS 15 standard and IFRS 9 standard as of 1 January 2018, which both impact the information provided in the consolidated financial statements.

Adoption of IFRS 15 (Revenue from Contracts with Customers)

IFRS 15 (Revenue from Contracts with Customers) replaces the previous IAS 18 (Revenue) and IAS 11 (Construction Contracts), which governed revenue recognition. The Group has adopted the new standard for the financial year commencing on 1 January 2018. The Group has applied the cumulative effect method in the transition and recognised the impact of IFRS 15 on 1 January 2018 in equity as an adjustment to retained earnings. An item of corresponding amount has been recognised as a counterpart entry in other liabilities in the statement of financial position. Adjustments of the opening balance have been made only in respect of contracts that had not been fully fulfilled on 1 January 2018.

Adoption of IFRS 15 affects the timing of recognising as revenue the net sales from sales of the sales rights to products in the markets and from collaboration with collaboration partners in clinical phases, so that net sales of these revenue flows arising from some performance obligations are recognised later than they have been recognised under IAS 18. The total net sales from the above-mentioned revenue flows on average account for less than five per cent of the Group's annual net sales. For the financial period 2017 net sales recorded from the revenue flows mentioned were EUR 12.1 million (2016: EUR 18.6 million), in other words 1.1 per cent (1.7 per cent) of the total consolidated net sales. In the Group's view, the effect of IFRS 15 in recognising these revenue flows as revenue is not material in proportion to the total consolidated net sales.

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

financial position. The Group has recorded a total reduction of EUR 16.6 million of retained earnings on 1 January 2018. An increase of EUR 18.7 million in the long-term other liabilities and an increase of EUR 1.9 million in the short-term other liabilities have been recorded in the statement of financial position. An increase of EUR 4.1 million has been recorded as deferred tax assets.

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

ADJUSTED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND OTHER KEY FIGURES FOR THE FINANCIAL YEAR 2017

1) Earlier reported comparison information in the Interim Report and Financial Statement Release.
2) Earlier reported comparison information in the Interim Report and Financial Statement Release, if impact of the IFRS 15 standard taken into consideration.
3) Adjusted comparison information reported in this Half-Year Financial Report. Orion Diagnostica is reported as a discontinued operation.
4) Adjusted comparison information reported in this Half-Year Financial Report, if impact of the IFRS 15 standard taken into consideration. Orion Diagnostica is reported as a discontinued operation.

	1-6/17				1-12/17			
	1)	2)	3)	4)	1)	2)	3)	4)
Net sales, EUR million	551.6	546.4	526.1	520.9	1,084.6	1,077.2	1,033.6	1,026.2
Operating profit, EUR million	163.5	158.3	158.7	153.5	293.0	285.6	284.1	276.7
% of net sales	29.6%	29.0%	30.2%	29.5%	27.0%	26.5%	27.5%	27.0%
Profit before taxes, EUR million	159.5	154.3	154.7	149.5	286.5	279.1	277.7	270.3
% of net sales	28.9%	28.2%	29.4%	28.7%	26.4%	25.9%	26.9%	26.3%
Income tax expense, EUR million	32.7	31.7	32.7	31.7	60.5	59.0	58.6	57.1
Profit for the period, EUR million	126.7	122.5	122.0	117.8	226.0	220.1	219.1	213.1
Other comprehensive income net of tax, EUR million	-1.2	-1.2	-1.1	-1.1	28.5	28.5	26.0	26.0
Deferred tax assets, EUR million	1.3	5.6	1.3	5.6	1.3	5.4	1.3	5.4
Other non-current liabilities, EUR million	0.0	19.6	0.0	19.6	0.0	18.7	0.0	18.7
Other current liabilities, EUR million	100.6	102.4	100.6	102.4	92.4	94.3	92.4	94.3
Non-interest-bearing liabilities, EUR million	245.8	267.3	245.8	267.3	224.5	245.1	224.5	245.1
Equity total, EUR million	550.3	528.3	550.3	528.3	679.7	655.9	679.7	655.9
Assets total, EUR million	947.5	947.0	947.5	947.0	1,055.5	1,052.4	1,055.5	1,052.4
Equity ratio, %	58.4%	56.1%	58.4%	56.1%	64.6%	62.5%	64.6%	62.5%
Gearing, %	15.2%	15.8%	15.2%	15.8%	-1.9%	-1.9%	-1.9%	-1.9%
ROCE (before taxes), %	43.9%	44.0%	43.1%	42.9%	36.2%	36.4%	35.5%	35.1%
ROE (after taxes), %	42.5%	42.6%	41.6%	41.2%	34.2%	34.4%	33.2%	33.3%
Basic earnings per share, EUR	0.90	0.87	0.87	0.84	1.61	1.57	1.56	1.52
Diluted earnings per share, EUR	0.90	0.87	0.87	0.84	1.61	1.57	1.56	1.52
Equity per share, EUR	3.91	3.76	3.91	3.76	4.83	4.67	4.65	4.67

Revenue recognition principles

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

Sales of goods

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 for a performance obligation is in principle variable because there may be various related 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.

Sales of sales rights to products already in the market

The Group enters into agreements in which it transfers the sales rights to a product already in the market to an external party outside the Group and agrees to manufacture the product for that external party. For selling sales rights and manufacturing products, depending on the agreement the Group may receive milestone payments, revenue from sales of the products and royalty income. Normally milestone payments are by their nature payments related to signing of the agreement or payments related to commercialisation of the 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 sale of sales right to the product is therefore inextricably linked to sales of products manufactured and delivered to a customer. Together they constitute a distinct performance obligation that will be satisfied over time. The components of the sales price for the performance obligation are the consideration for selling the sales rights, the consideration for the delivery of finished products, and possible royalty income. The sales price allocated to the performance obligation is variable due to 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 satisfied at a single point of time because estimating future sales volume entails uncertainty factors.

Clinical phase research and development work undertaken with collaboration partners

The Group has entered into agreements with collaboration partners that relate to clinical phase research and development projects. Under these agreements milestone payments shall be paid when a certain development phase has been achieved. Milestone payments normally comprise a single upfront payment received on signing the agreement and milestone payments conditional on the progress of the project. In addition, payments related to commercial rights to the finished product such as royalties may be agreed in the agreements.

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. Milestone payments on signing an agreement are considered as distinct performance obligations that are satisfied on signing of the agreement. Due to the nature of the above-mentioned clinical phase trial, later milestone payments payable at achieved milestones for research are also distinct performance obligations. They are satisfied 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, milestone payments 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. It is essential in the evaluation to analyse the value being transferred to the collaboration partner on achievement of the milestone and making the payment.

Following adoption of IFRS 15, comparative information reported by the Group have not been adjusted. The Group provides information on the impact of the adoption of IFRS 15 on the comparative period figures in a separate note to this report.

Adoption of IFRS 9 (Financial Instruments)

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

The Group's financial assets and liabilities have been gone through, and on adoption of the new standard the Group's financial items have been recognised according to the following principles:

- The Group's financial assets that are classified as loans and other receivables are measured at amortised cost. This does not affect the carrying amounts.
- Equity instruments included in the available-for-sale financial assets were measured at fair value until 31 December 2017 and disclosed in the items under other comprehensive income. Since IFRS 9, these instruments are measured at fair value through profit or loss, which changes the accounting on adoption of IFRS 9. Considering the current equity instruments of EUR 0.3 million in the statement of financial position, the Group does not expect the change in accounting to increase the volatility of the results.
- The accounting of financial liabilities did not change on adoption of IFRS 9 because the new requirements affect only the accounting of financial liabilities specifically classified at fair value through profit or loss. The Group does not have such liabilities.
- The Group does not currently apply hedge accounting, so the changes to hedge accounting due to IFRS 9 do not affect the Company.
- Measurement of financial assets for any impairment is based on whether there is a significant credit risk related to the receivable or not. The Group evaluates the risk related to a neglected payment on a financial instrument and recognises a provision for credit loss based on the assessment. Impairment of financial instruments is based on an expected credit loss model in which earlier and greater credit losses are recognised than under IAS 39.
- A simplified approach under IFRS 9 is applied for measurement of trade receivables through which impairment of trade receivables with various due dates is entered by reducing their value by a certain percentage allowance, which are determined based on actual credit losses taking into account economic conditions on the reporting day. The allowance percentages shall lead to impairment that corresponds to the expected credit losses of receivables over their lifetime. As regards impairment of trade receivables, the change to IFRS 9 had no material impact.

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

Other adjustments as of 1 January 2018

Other new IFRS standards, interpretations and amendments to existing IFRS standards adopted from 1 January 2018 have not affected the consolidated financial statements.

The policies and calculation methods applied during the period can be found on the Orion website at http://www.orion.fi/en/investors.

Other matters

The figures in this Half-Year Financial Report have not been audited.

The figures in parentheses are for the corresponding period of the previous year. All the figures in this report have been rounded, which is why the total sums of individual figures may differ from the total sums shown.

CALCULATION OF THE KEY FIGURES

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

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Orion is a globally operating Finnish pharmaceutical company – a builder of well-being. Orion develops, manufactures and markets human and veterinary pharmaceuticals and active pharmaceutical ingredients. The company is continuously developing new drugs and treatment methods. The core therapy areas of Orion's pharmaceutical R&D are central nervous system (CNS) disorders, oncology and respiratory diseases for which Orion develops inhaled Easyhaler® pulmonary drugs. Orion's net sales in 2017 amounted to EUR 1,034 million and the company had about 3,200 employees at the end of the year. Orion's A and B shares are listed on Nasdaq Helsinki.