

# SUSTAINABILITY REPORT 2017

  
Recipharm  
good for business

## YEAR IN BRIEF



### ACQUISITION OF FACILITY IN SPAIN

Recipharm commenced the supply of commercial products to Roche and completed the acquisition of the manufacturing facility located in Leganés, Spain.

**“We are continuing to gain momentum in the CDMO market and this latest agreement is another demonstration of this.**

Thomas Eldered, CEO of Recipharm

### EFFICIENCY IMPROVEMENTS IN SWEDEN

Since 2015, Recipharm has been implementing efficiency activities in the Swedish part of the business segment known as Solids and Others. In November, Recipharm initiated a process with the intention of discontinuing manufacturing operations at two facilities in Sweden in order to optimise the overall business.



### MANUFACTURING CAPABILITIES ESTABLISHED FOR NEW LIDDS PRODUCT

A manufacturing line was set up for LIDDS' novel prostate cancer drug, Liproca®Depot, at Recipharm in Solna, Sweden. The manufacturing line has been adapted for GMP production and is industrialised according to a unique process invented by LIDDS, involving the installation of novel equipment that is new to the pharmaceutical industry.

**“I am pleased we have completed this important acquisition. We are now in a position to offer our customers access to cost effective development and manufacturing capabilities able to serve international markets including the US.**

Thomas Eldered, CEO of Recipharm

### STRATEGIC ACQUISITION IN INDIA COMPLETED

Recipharm concluded the acquisition of Kemwell's pharmaceutical businesses located in Bengaluru, India. The acquisition expands the position in emerging markets significantly, taking sales in these markets to more than SEK 800 million, dominated by sales directly to the fast-growing pharma market in India.



### CSR INITIATIVE IN INDIA

In 2017, Recipharm extended its support to the local community in the Teppada Begur village in India, by working with the country-wide Swachh Bharat initiative. Teppada Begur is located next to our facility in Bengaluru. The Swachh Bharat campaign is a hygiene and cleanliness drive, which ensures the village's schools have toilet facilities and encourages ongoing knowledge sharing.

### AWARD FOR GROWTH IN FRANCE

Recipharm received recognition for its commitment to its French operations by the Swedish Chamber of Commerce in France. The award acknowledges examples of best practice in the Franco-Swedish business community.



### SERIALISATION LEADERSHIP CONTINUES

Recipharm continued with its proactive preparations for new serialisation requirements and has now equipped nine of its facilities with serialisation capabilities. To date, the company has delivered over 1.3 million serialised and aggregated packs to markets including China, Saudi Arabia, South Korea, and Turkey.

### LAUNCH OF INTEGRATED FIRST IN HUMAN SERVICE

Recipharm and Clinical Trial Consultants (CTC) partnered to launch a new service that delivers a clear, streamlined pathway to first in human milestones. Recipharm Pathway to Clinic® takes projects from early phase formulation development through to clinical trial implementation with patients, helping companies, ranging from small, virtual firms to big pharma, quickly generate data and build value in their compound.



### NEW GMP SUITE FOR CLINICAL TRIAL MATERIAL

Recipharm opened a newly built GMP suite for clinical trial material manufacture at its facility in Research Triangle Park, North Carolina, USA. With the introduction of the GMP suite, Recipharm can now provide complete early development services from this facility in Research Triangle Park, including process development and scale-up, CTM manufacturing and packaging, product release and stability programs.

### KEY FIGURES

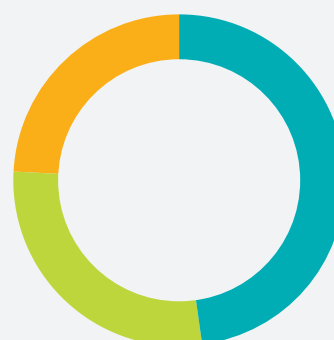
	2017	2016
Net sales	5,332	4,678
EBITDA	730	749
Operating profit, adjusted	231	384
Net profit	-160.0	196.6
Sales growth	14.0%	38.0%
EBITDA margin	13.7%	16.0%
Operating margin, adjusted	4.3%	8.2%
Dividend per share	0	1.50
Net debt to equity	0.7	0.4
Earning per share, adjusted	1.10	3.32
Employees (FTE)	4,575	2,927

### SALES SPLIT PER SEGMENT 2017



■ Sterile Liquids 39%  
■ Solids & Others 45%  
■ Development & Technology 16%

### EBITDA PER SEGMENT 2017



■ Sterile Liquids 48%  
■ Solids & Others 28%  
■ Development & Technology 24%





## CHALLENGING YEAR BUILDS FOR A BRIGHT FUTURE

Through extensive integration activities of newly acquired businesses as well as important capacity and technology capital expansion projects, we laid the foundations for sustainable success and can look forward to the future with great optimism.

### INTEGRATING ACQUISITIONS AND SUPPLY AGREEMENTS

During the year we completed our second Indian acquisition. Despite licensing delays that set us back several months, the business in Bengaluru has developed well— particularly in terms of development services. We have already trialed the transfer of some analytical services from Europe to India, which is something we expect to do more of in 2018 for both product development and manufacturing services.

We started to integrate the Indian units into our operations by finding value-creating synergies between our facilities. There will be further opportunities following the acquisition of the remaining minority share in our first Indian acquisition; Nitin Lifesciences Ltd. India continues to be a promising market, despite certain macro-economic volatility in the domestic market.

In December, we were pleased to commence supply under a new long-term arrangement with one of our customers – Roche. In addition we acquired a manufacturing facility from them in Leganés, Spain, which we can also use for other cus-

tomers. Good progress has already been made in integrating the facility into the rest of Recipharm, and in transforming it into a prosperous operating company in our Group.

In terms of our strategy, I believe we can expect to enter into more strategic supply arrangements of this kind and associated manufacturing facility acquisitions in the future, along with more conventional acquisitions. There are plenty of good opportunities out there and we intend to continue to be a consolidator in the CDMO industry.

### INVESTMENTS BEGINNING TO BEAR FRUIT

Our short-term priority is to get our growth-driving expansion investments up and running, and to consolidate the business that we have. The investments will start to generate revenue and profit during 2018 but until then they have impacted our profitability negatively. This is further due to some of our major growth-driving expansion investments which experienced delays in 2017. In total we have made approximately a SEK 1 billion acquisition investment in Bengaluru, which is just starting to deliver, and a further SEK 1 billion in capital expenditures in lyophilisation,

Blow-fill-seal and serialisation in Europe, which have not yet started to generate revenue. Our lyophilisation investment in Germany for example was delayed by over six months due to licensing taking longer than expected. Our serialisation investments are on track and we are very well positioned to support our customers and win more business as the 2019 European deadline approaches.

The issues we experienced with our growth-driving expansion investments in 2017 are now resolved and the investments will all start to make significant contributions to profitable growth throughout 2018 and 2019.

### ONE DEVELOPMENT

During the year, we made preparations to reorganise our global development business into a new structure, which will be launched during Q2 2018. This new development organisation will have a global presence with centres of excellence in Europe, US and India and it will enable us to better combine our resources and identify value-creating synergies to manage complex development projects throughout the value chain for our customers. This is a clear example of how Recipharm draws on its position as a leading global CDMO to strengthen its business and unique customer offering.

In the US, we continued to build up our development business for specialised technologies during the year. We experienced setbacks with two major projects being cancelled, and we still have some work to do, but during 2017 we have substantially improved our footprint in the space for development services within the respiratory area, which will support our future business when looking at developing various opportunities in the US market. Importantly, having a presence in the US gives us local credibility and has already helped us win business in the country for our European units.

### ENHANCING EFFICIENCY IN SWEDEN

Due to competitive end-market conditions and declining sales for many mature products in Scandinavia affecting primarily the Swedish operations of our Solids & Others segment, we took the difficult decision to discontinue our manufacturing units in Stockholm and Höganäs. This move is obviously regrettable in particular for the 280 employees affected, including people that have been with us for many years. But we will try to find good solutions for the affected employees, including opportunities at other Recipharm sites or elsewhere.

From a business perspective, discontinuing our operations in Stockholm and Höganäs will give us a more efficient and streamlined organisation – ultimately making us more competitive. These measures are part of our Group-wide focus on reducing our exposure to low-margin products.

### FINANCIAL PERFORMANCE

With delays in our growth-driving expansion investments, flat net sales and weak organic growth, 2017 was a tough year in terms of financial performance. Scheduled maintenance and temporary shutdown in our manufacturing facilities also had a negative impact. Additionally, our European sterile liquids business was affected by an industry-wide irregular supply of an important Active Pharmaceutical Ingredient (API). In 2017, we achieved an EBITDA-margin of 14 per cent, which is lower than our ongoing target of at least 16 per cent each year.

However, we have not lost any business during the year, and we are now in a much better position for future growth. In fact, I think we will see significant growth in 2018 and beyond, particularly as our growth-driving expansion investments start to pay off.

**Our large growth-driving expansion investments will have a material positive impact on our business as they become operational and ramp up in 2018.**

### MAKING PROGRESS ON SUSTAINABILITY

We continued to make good progress in terms of sustainability during the year, with one highlight being the ISO 14001 certification of our manufacturing sites in Italy. We are a leading company in our industry in terms of sustainability, which is greatly appreciated by our stakeholders. Customers appreciate our sustainability efforts – particularly as a means to mitigate risk in their supply chain. The principles of the UN Global Compact, which we have followed for many years, form the base for our global sustainability work.

Sustainability challenges we face include our strategy to apply the same standards throughout our business. For example, even though our Indian units are of very high quality, they operate under very different conditions to our other units. Nevertheless we apply the same standards throughout the Recipharm Group. The recruitment of suitably qualified employees is also sometimes a challenge. In 2017, we launched a new internship programme for recent graduates as part of our long-term efforts to attract talent. We provided four young graduates with year-long internships, including two in Sweden, one in India and one in the UK.

### LOOKING FORWARD TO A PROMISING 2018 AND BEYOND

Despite pressure on our financial performance during the year, we have a very strong underlying business that will become increasingly apparent in 2018 and beyond. Our growth-driving expansion investments will have a material positive impact on our business as they become operational and ramp up in 2018 and 2019. We will continue to streamline and integrate our units, as we increasingly draw on our global presence and value-creating synergies. We constantly identify and evaluate opportunities for acquisitions and extensive customer supply arrangements. All in all, this will ensure that we reach our overall growth and margin objectives and become one of the largest and leading CDMOs globally.

I would finally like to thank all our employees for their efforts during the year. We have had a difficult year in many respects but the future looks very bright, as we build on the excellent foundations we have laid in 2017. I look forward to continuing our journey together as a leading CDMO with an attractive and increasingly unique customer offering.



Thomas Eldered, CEO

## SUSTAINABILITY

Recipharm takes responsibility for all aspects of our operations by mitigating negative impacts and taking advantage of opportunities and improvements. Recipharm's operations are based on the conviction that high ethical standards, accountability and good stakeholder relations create long-term benefits. This approach should be a guiding principle for all our decisions, policies and activities.

### CONTINUED FOCUS ON SUSTAINABLE BUSINESS PRACTICES

In 2016, we began a process to improve our sustainability work, leading to Recipharm's first sustainability report in 2017. In this years report we include the operations in India that Recipharm acquired in 2016 and 2017. The report consequently cover all operating companies in the Group, except where explicitly stated. As a result of the growth in operations and scope, some indicators in the report has changed significantly between 2016 and 2017.

In 2016, we conducted our sustainability materiality analysis, including stakeholder dialogues, and identified three focus areas going forward:

- 1 Long-term success requires Recipharm to use natural resources in a sustainable manner and continuously reduce our environmental impact. Our first focus area is therefore to reduce greenhouse gas emissions, primarily by working with energy consumption and transports.
- 2 The second focus area is supplier assessment and monitoring. Good relations with suppliers and other business partners are important for Recipharm to be able to operate successfully. This also involves ensuring sustainable and ethical conduct among suppliers.

- 3 The third focus area is economic value. Good corporate governance means that the company is managed in accordance with the owners' interests, but also that Recipharm shall deliver value for other stakeholders, such as customers and employees. Effective management and control mechanisms influence external confidence in the company and ultimately its ability to deliver good business results.

Recipharm has assigned to United Nations Global Compact and acknowledges the ten principles concerning human rights, anti-corruption, labour and environment. The ten principles in UN Global Compact also serve as basis for identifying further improvement areas.

#### About the sustainability report

Recipharm's 2017 sustainability report has been prepared in accordance with the Swedish legal requirements concerning Annual Accounts Act on sustainability reporting. The Statutory Sustainability report and Recipharm's Sustainable Report, is found on pages 16, 20-29. Recipharm reports sustainability information in accordance with the Global Reporting Initiative (GRI) guidelines 4 – Core level. This report also serves as Recipharm's Communication on Progress Report to the UN Global Compact. Recipharm's GRI Appendix with GRI-index and associated reporting information is available on Recipharm's website [www.recipharm.com/sustainability/](http://www.recipharm.com/sustainability/)

### FOCUS AREAS

We have identified three focus areas going forward. More information about the rationale behind our priorities is included in our GRI Appendix.

#### Reduced greenhouse gas emissions



Long-term success requires Recipharm to use natural resources in a sustainable manner and continuously reduce our environmental impact.

#### Supplier assessment and monitoring



To be able to operate successfully, it is important that Recipharm have good relations with business partners and ensure sustainable and ethical conduct among suppliers.

#### Economic value



Good corporate governance in accordance with the owners' interests and delivering value to our stakeholders, such as customers and employees.

## OBJECTIVES AND RESULTS 2017

During 2016, we carried out stakeholder dialogues on sustainability with our main shareholders, customers and employees. Together with a materiality analysis, these discussions were used as the basis for setting our objectives and priorities for 2017. The areas used for 2017 will remain as our key objective areas also for 2018.

### 1 Reduce Recipharm's environmental impact

The overall objective has been to reduce the amount of greenhouse gas emissions per employee. The greenhouse gas emissions increased in the year due to our growing organisation, and the addition of emissions from our plants in India. Initiatives to reduce the CO<sub>2</sub> emissions in India have been taken, read more on page 27. A second objective for the year has been to continue developing Recipharm's environmental management system to gradually certify all operating companies according to ISO 14001. In 2017, the work for our operations in Italy has continued but the certification process was slightly delayed. 2017 also saw the start of a project for certifying our manufacturing operation in Uppsala, Sweden.

The long term goal for reduction of environmental impact is to show continuous year-on-year improvements with clear connections to performed actions.

### 2 Supplier management

The objective has been to extend monitoring of suppliers' compliance with the Supplier Code of Conduct, with a focus on the suppliers of API. In 2017, a total of 64 suppliers have been covered by audits, in connection to quality audits. Almost 300 suppliers have acknowledged the Supplier Code of Conduct in writing.

Recipharm's long-term goal for managing sustainability at suppliers, is to establish a clear overview of all suppliers in scope with tangible and agreed action plans with suppliers where standards are not met.



### 3 Develop internal governance

Recipharm's internal control and business conduct guidelines have been developed around processes for review, communication and training. Some progress has been achieved in 2017, but the objective remains unchanged for 2018.

## OBJECTIVES 2018

As a summary, the objectives for 2017 have largely been met. We are now improving our process by setting tangible targets for the sustainability performance regarding environment and supplier management in 2018.

### Reduce Recipharm's environmental impact

**-4%**

To reduce the amount of greenhouse gas emissions per employee by at least 4 per cent. To achieve ISO 14001 certification at Recipharm's manufacturing operations in Uppsala, Masate and Brescia and start working on ISO 14001 for remaining operations in Italy and the activities in India.

### Supplier management



To have conducted 40 additional on-site reviews at suppliers in scope for the Supplier Code of Conduct.

### Develop internal governance



Guidelines will be further developed around processes for review, communication and training. Procedures for prevention of corruption will be strengthened. Work to develop internal processes to align with UN Global Compact will continue.





## OUR COMPANY CULTURE

**As a decentralised company with relatively small Group-level functions, Recipharm's company-wide culture is reflected through its entrepreneurial spirit, local accountability and management model.**

### ENTREPRENEURIAL SPIRIT AND LOCAL ACCOUNTABILITY

Entrepreneurship is our core value that most differentiates our company culture from other companies in the industry. We promote entrepreneurship through a culture of local autonomy and accountability, and decentralised decision-making through flat managerial structures in many of our operating companies.

### MANAGEMENT MODEL

Our Global Policy document sets out a clear management model and guidelines for operating companies, while appreciating that one size does not fit all. This allows our operating companies to work in the best way to suit their needs and market conditions.

The Global Policy includes Recipharm's vision, mission and long-term objectives as well as the governing principles for operating companies, including delegation of authorities. It also comprises a framework for other Group policies, such as financial reporting, financial audits, purchasing and Code of Conduct. This allows General Managers in operating companies a high degree of managerial freedom within a clearly defined framework.

Internal compliance to the Global Policy and the Code of Conduct is reviewed on an annual basis in a Letter of Assurance process, where each General Manager has to confirm compliance to company policies and report any deviations during the year.

### STRENGTHENING OUR CULTURE THROUGH SYNERGIES

We are increasingly drawing on synergies between our growing number of operating companies around the world. This helps us to implement common ways of working that add value throughout the company, and contribute toward a shared company culture. For example, we have established a company-wide network in areas such as purchasing and Lean manufacturing to promote cooperation, share knowledge and spread best practices throughout the Group. We also promote cross-unit employment opportunities with internal job advertisements. Employee competence and commitment are crucial to Recipharm's future success. We value the competence and collective industry experience of our employees, and we encourage personal development and initiatives for knowledge sharing. At Recipharm, the exchange of professional skills and knowledge is similar to that of a small company, but within an international network and brand.

Strategic competencies, positions and special areas critical for Recipharm's success are identified. Employee development is therefore in line with the role and needs of the company. Individual performance and development reviews should generally be carried out on an annual basis and adequate training and development of people is ensured at a local level.



### ACQUISITIONS – TRANSFERRING CULTURE

Newly acquired companies are quickly integrated into our business by working on three key areas – Reporting, Policy and Management. Transferring our culture is also a natural phase of integrating new companies as part of a longer-term process.

### MAINTAINING OUR CULTURE

As we grow and become increasingly global, maintaining our culture of entrepreneurship, local accountability and management model is an ongoing challenge – but is all the more important. In a competitive industry increasingly focused on cost, our culture is what differentiates us, helps to attract and retain employees, and ultimately promotes the success of our local operating companies and the Group as a whole. During 2017, employee turnover within Recipharm was 17 (13) per cent, almost half of the employee turnover was represented in India where it is more common to change work place more often.

### EMPLOYEES HEALTH AND SAFETY

Recipharm is a safe, healthy and pleasant workplace. All our companies have detailed employee and safety manuals to ensure we comply with the relevant labour and safety requirements. These are locally adopted to fit with applicable legislation and practices in the country of operation. All employees have the right to join trade unions, and we work actively with unions on health and safety issues where they are active. 61 per cent of Recipharm's employees are currently covered by collective bargaining agreements.

Recipharm's facilities normally have an occupational health and safety system certified according to OHSAS 18001. Today, 10 operating companies out of 26 have this in place. The exceptions are operating companies in France, where an equivalent system is applied, and where the implementation is not yet completed. 56 per cent of the total workforce is represented in formal joint management – worker health and safety committees that help monitor and advise on occupational health and safety programs.

During the year, a total of 182 (126) work-related accidents were reported. Most involved minor injuries among manufacturing employees. The accident rate (number of accidents in relation to total number of scheduled working days) in 2017 was 0.022 (0.023) per cent, which is considered to be low. All operating companies actively monitor work-related accidents and take corrective actions in the event accidents occur. Sick leave amounted to 3.7 (4.7) per cent. Sick leave is relatively evenly distributed between men and women and between age groups. Follow up and possible actions are managed at local level.

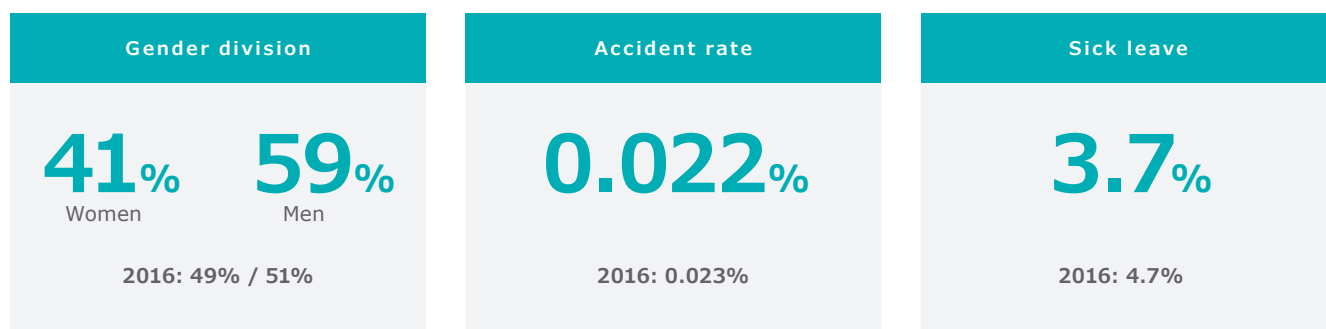
### EQUALITY AND DIVERSITY

To treat all employees, job applicants, customers and others equally is a prerequisite for our business behaviours. Recipharm's Code of Conduct states that discrimination based on gender, gender identity or expression, ethnicity, religion or belief, disability, sexual orientation, or age must not occur. In recruitment and succession planning, we always aim to promote the best qualifications. At the same time we consider diversity to ensure a good mix of backgrounds, experience and perspectives in our teams.

No cases of discrimination were reported in 2017. Of Recipharm's 5,630 employees, 41 (49) per cent are women and 59 (51) per cent men. In management positions, 47 (39) per cent are women and 53 (61) per cent are men. Recipharm promotes equal opportunities for men and women.

NUMBER OF EMPLOYEES	2017	2016
Permanent	4,589	3,207
Temporary	1,041	330

## OUR EMPLOYEES



## CASE STUDY: INTERVIEWS WITH EMPLOYEES



PEDRO ROSÁRIO

*Production Supervisor at Recipharm in Lisbon*

**Why did you choose to work for Recipharm?**

It is more so that Recipharm chose me when it acquired Lusomedicamenta in 2014. Since then it has been an amazing journey where I have been able to work with experts that are among the best in their field, which is an opportunity you can only get at a company such as Recipharm.

**What does a typical day at Recipharm look like?**

The best thing about my job is that it never gets boring. Working with an extremely skilled and committed team, and overcoming new challenges every day that none of us could have done by ourselves, is very fulfilling. I am still amazed by some of the creative and innovative solutions we develop as a team.

**Can you give an example?**

Recently we had a customer on site for the manufacture of a new product to be tech transferred to the Lisbon facility. Despite the preliminary meetings and the hours spent on assessing every risk, the first manufactured batch failed - people from production will know the feeling. However, we did not let this setback affect our morale and with the help of a cross-disciplinary team from Recipharm, together with the knowledge from our customer, we learnt from the failure and worked our way through three successful batches by the end of that week.



KIMBERLY JOYNER

*Senior Chemist in the Formulation Development team at Recipharm in Research Triangle Park, North Carolina, USA*

**Tell us about working at Recipharm**

Recipharm is very important to the pharma industry due to its expertise in development and technology, its wide customer base and full-service offering. Recipharm is truly committed to high industry standards for its regulatory requirements. Making sure that we provide high quality service to our customers is a must. I also enjoy that Recipharm is a CDMO that can open its capabilities to endless opportunities for our growth and financial success.

**How have you been able to grow at Recipharm?**

Since my background is mostly in a scientific setting, I have been able to build upon my skillset tremendously since being here at Recipharm. Having a great director and manager is really important. They were able to place me on projects to help build upon my current skillset in Inhalations and Formulations, and to help me venture out into other areas inside our Formulations team here at the facility.

**What characterises the Recipharm culture?**

Definitely the people. Having a great team to work with every day is such a great opportunity. You get to work with team members with different skillsets and levels of expertise. This adds great value to the team and to Recipharm's culture.

## ENVIRONMENT

**Recipharm's greatest environmental impact is from energy consumption, emissions and waste at its manufacturing and laboratory facilities. Emissions from transports and travel also contribute to the company's environmental impact.**

### ENVIRONMENTAL MANAGEMENT SYSTEM

Recipharm's facilities have the relevant environmental permits required by law in each country. All facilities are actively monitored and no deviations were noted in 2017. We are committed to ensuring that all our operating companies have environmental management systems certified to ISO 14001. Our goal is to certify newly acquired facilities to ISO 14001 within two years of being incorporated into the Recipharm Group. In 2017, work to achieve certification in Masate and Brescia has continued, but has been delayed. Certification is now expected in Q2 2018.

A certification project has also been started for Recipharm's manufacturing operation in Uppsala. The aim is to achieve ISO 14001 certification in Q3 2018. In 2018, initial work for the Indian operations in Bengaluru, Karnal and Paonta Sahib will also be conducted.

### ENERGY AND GREENHOUSE GAS EMISSIONS

Reducing energy consumption and greenhouse gas (GHG) emissions are Recipharm's most important environmental objectives. We report our GHG emissions and how we manage our climate impacts in the annual CDP Climate Change questionnaire. Responding to CDP supports further improvements in our environmental and climate work, and provides us with feedback on our climate reporting and actions. Recipharm's CDP reporting in 2017 was graded at level C. The CDP data for 2018 will be submitted in May 2018.

In 2017, Recipharm's direct and indirect carbon emissions amounted to 66,495 (40,857) tonnes. This is equivalent to 14.5 (14.0) tonnes per employee. Direct emissions primarily result from heating of our manufacturing and development facilities, and from company owned vehicles. Our indirect emissions result from energy use in our manufacturing and development facilities, which mostly relates to electricity consumption. Indirect GHG emissions also include transport emissions related to our suppliers and intercompany transportation.

The increase in total GHG emissions in 2017 primarily resulted from the company's growth. Long-term, our most important measures to reduce GHG emissions will be related to energy consumption in our facilities. Projects to reduce energy use have been introduced in several operating companies.

### WATER AND WASTE

In 2016, we began to compile water and waste data for all our manufacturing and development facilities. Our process wastewater primarily results from cleaning of equipment. The quantity of drug residues in our wastewater is small and all Recipharm facilities are authorised to release wastewater into normal sewage systems for processing in treatment plants. The exception is India, where we operate our own local water treatment plants and recirculate the water by using it for irrigation.

The availability of fresh water is generally good in the locations where Recipharm operates. The exception is again

India, where the availability of fresh water varies year on year. In India, Recipharm uses ground water which is pre-treated on sites before use in manufacturing, thus impacting the municipal fresh water as little as possible.

Because most of our facilities handle final formulation and packaging, with only a small number of chemical synthesis operations, our emissions of solvents to the air are small. All units comply with their respective environmental permits by a wide margin. Solvent emissions in 2017 amounted to 1,625 tonnes, with plants in Uppsala and Paderno Dugnano accounting for most of the emissions.

### ACQUISITIONS

Environmental due diligence is one of the most important activities when Recipharm is considering acquisition candidates. Due diligence reviews are primarily conducted through reviews of material provided by the seller, but when required more information is being collected through on-site investigations including sampling of soil, water and other areas as relevant. Recipharm uses external expertise for these investigations.

### WATER AND WASTE

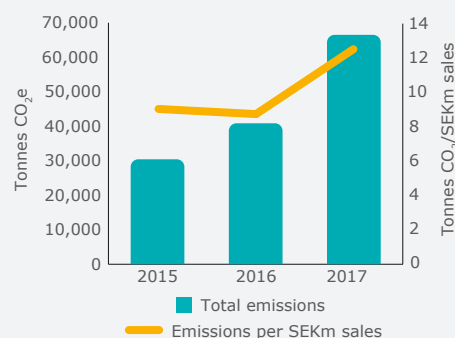
	2017	2016
Water	1,949,297 m <sup>3</sup>	1,580,312 m <sup>3</sup>
Of which own sources	1,233,896 m <sup>3</sup>	969,814 m <sup>3</sup>

The water used is municipal water and ground water from own sources. Most of the consumption is used in production processes in one specific facility in Italy.

	2017	2016
Waste	7,468 tonnes	7,004 tonnes
Of which hazardous waste	5,245 tonnes	5,131 tonnes

The table shows total amount of waste generated and waste defined as hazardous. The total amount of waste generated in 2016 has been corrected.

### GREENHOUSE GAS EMISSIONS



The table shows Recipharm's total amount of greenhouse gas emissions and emissions per SEKm of sales.



## RESPONSIBLE BUSINESS AND CORPORATE GOVERNANCE

**Recipharm's operations affect people's lives and health. This means that, in addition to complying with laws and regulations, our business must also be conducted in a responsible and ethical manner.**

### GOVERNANCE AND BUSINESS ETHICS

Ethics are managed by our ethical guidelines – our Code of Conduct. The guidelines cover business ethics and relations with employees, customers, suppliers, authorities, competitors and other stakeholders. The Code of Conduct also covers Recipharm's policies on anti-corruption and human rights. Our guidelines explicitly prohibit any interference that aims to create undue advantage for Recipharm, or for individual employees.

During the year, none of Recipharm's operating companies reported deviations from the Code of Conduct. Compliance to the code is reported and reviewed through a Letter of Assurance process. There were two whistleblowing cases in 2017, leading to specific actions to rectify identified inappropriate conditions and practices.

As part of our 2018 sustainability objectives, we will continue to develop the model for how we monitor our Code of Conduct. The focus will be on implementation, monitoring and employee training. We also follow ongoing developments concerning anti-corruption legislation and will continue to strengthen the organisation and our competence to ensure necessary adaptation. One example is to further develop our internal process for whistleblowing.

### UN GLOBAL COMPACT

Recipharm assigned to the United Nations Global Compact (UNGC) in 2016. This means that Recipharm is committed to promoting the UNGC's ten principles on human rights, labour, environment and anti-corruption. Our commitment include support for all internationally recognised principles on human rights, ILO core conventions, and we are committed to develop our work with these matters.

### SUPPLIER REQUIREMENTS

Our suppliers provide active ingredients, raw materials, packaging materials as well as machine and laboratory equipment. We also have agreements with service providers. To enable us to keep our commitments with customers and other stakeholders, we place high standards on safety, quality, price, performance and the ability to deliver.

Recipharm's Supplier Code of Conduct was launched in 2016, covering business ethics, labour practices, anti-corruption, human rights and environmental management. We strive to ensure that suppliers actively endorse the requirements of the Supplier Code of Conduct, and we began the communication and follow-up of the code in 2016.

There are legal requirements for us to make regular quality audits of our suppliers to verify they comply with the pharmaceutical industry's quality system, GMP. In connection with these audits, compliance with our Supplier Code of Conduct is reviewed. If necessary, specific audits focusing on sustainability matters will be conducted. The code has been communicated to 358 suppliers, 293 of which have accepted the code. There have been 64 sustainability audits in connection to QA audits in 2017. Focus in the roll out of the Supplier Code of Conduct has been on suppliers of API, this focus will continue in 2018.

## OUR VALUES

Tenacity	Reliability	Professionalism	Entrepreneurship
<ul style="list-style-type: none"> <li>We show commitment in everything we do</li> <li>We are committed to reaching our goals</li> <li>We are persistent and we will not give up easily</li> <li>If we encounter an obstacle, we try harder to find a solution</li> </ul>	<ul style="list-style-type: none"> <li>We create trust by always delivering on promises</li> <li>We deliver with quality and in time</li> <li>We are honest and always follow our Code of Conduct</li> </ul>	<ul style="list-style-type: none"> <li>We maintain a high level of competence to deliver a return on investment to our stakeholders</li> <li>We are flexible, service minded and always looking for the best solutions</li> <li>We learn from our mistakes</li> <li>We show respect – to customers, peers, partners and managers</li> </ul>	<ul style="list-style-type: none"> <li>We are innovative and creative in finding ways to develop and improve our business</li> <li>We are open to change but respect that it can take time to achieve</li> <li>We have a "can do" attitude and always take on challenges with a mindset that nothing is too difficult</li> </ul>

## OUR ROLE IN SOCIETY

Recipharm companies engage in social initiatives relevant to our operations and in response to local priorities within the surrounding communities of our facilities. Our internal guidelines for ethical behaviour – the Code of Conduct – govern which activities local companies can engage in. We take our responsibility to operate within the framework of competition law in all our activities.

The Recipharm Code of Conduct complements this legislation and prohibits partnerships or agreements with competitors regarding price, terms or other areas. We operate in a strictly regulated market, where all our products and services are subject to regulation and requirements regarding ingredients, preparation and quality control.

Recipharm takes advantage of funding opportunities from local authorities in the countries in which it operates. In 2017, Recipharm in collaboration with Business France introduced an internship program where we provide four French graduates with year-long internships, including two in Sweden, one in India and one in the UK.

### Recipharm supports local communities in India

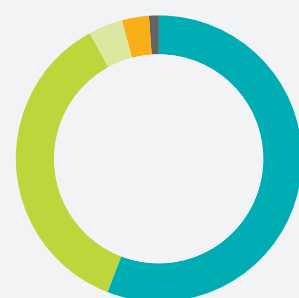
In 2017, Recipharm extended its support to the local community in the Teppada Begur village in India. The Teppada Begur village, which is located next to our facility in Bengaluru, has a population of around 5,000 people. Most of them are very poor and depend upon agriculture for their livelihood. Since our facility was established in 2001, many people have started working there and some of the local vendors, such as the laundry, local restaurants and farms, have had increased opportunities.

Money donated by Recipharm will be used to open a small clinic in Teppada Begur. Currently, villagers must travel long distances when they are ill, and quite often they try to avoid going at all as they cannot afford the doctors' charges. This new initiative will give them fast and free healthcare as

well as helping to create awareness among villagers about various prevailing diseases, such as dengue and malaria, and their causes which includes poor hygiene and unsanitary water practices. A very small building is already in place, but it needs to be equipped with tables, beds, screens and partitions, lights and medical equipment.

Recipharm in Bengaluru already has an onsite doctor and moving forward, the plan is for him to spend at least 50 per cent of his time in the new clinic. Together with the rest of the team he will be tasked with driving different health awareness programs, including eye check-ups and diabetes testing.

### DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED



- Operating costs 56%
- Employee wages and benefits 36%
- Payments to providers of capital 4%
- Payments to government 3%
- Economic value retained 1%

Net sales in 2017 totalled SEKm 5,332 (4,678). The diagram shows how much was reinvested and distributed to Recipharm's stakeholders.

## CASE: BENGALURU

### RECIPHARM IN BENGALURU SIGNS 10 YEAR SOLAR POWER SUPPLY AGREEMENT

**Solar power in India is developing fast. The 20 GW capacity that the country had targeted for 2022 will be reached by 2018, and the average price of solar electricity has dropped below its coal-fired alternative.**

Recipharm has decided to actively take part in this growth by signing a 10 year supply agreement for solar energy at the plant in Bengaluru, securing around 70% of the electricity needed through solar power. This change will be made effective in May 2018

and will reduce the Bengaluru plant CO<sub>2</sub> emissions for 2018 by approximately 4,000 tonnes. The decrease will continue in 2019 when the change will take full effect. Electricity comprises approximately half of the plant's energy use. The main usage is for ventilation systems required for keeping the controlled indoor environment needed in a pharmaceutical plant. Heat generation, primarily for manufacturing processes, comprises the other half of energy use and is done by combustion of biomass pellets, thus creating a sustainable energy profile for the site.

## CASE: ENVIRONMENTAL AWARD

## RECIPHARM'S TENTH INTERNATIONAL ENVIRONMENTAL AWARD

**Recipharm grants the tenth International Environmental Award to Karen Kidd, Professor in Biology, and Geography & Earth Sciences at McMaster University in Hamilton, Ontario and Jarislowsky Chair in Environment and Health.**

Dr Kidd's research was designed to improve the understanding of how human activities impact aquatic ecosystems, specifically how diverse effluents and contaminants affect the abundance and health of aquatic organisms.

Her lab conducts whole system experiments and studies to understand how pesticides, nutrients and other stressors can affect freshwater food webs. For over a decade, she led a groundbreaking whole-lake experiment at the IISD Experimental Lakes Area in Canada to improve understanding of the risks that hormone mimics pose to fish and their habitats and the timing and severity of impacts of synthetic estrogen on aquatic organisms.

“ This research will no doubt be essential in building commitment towards environmental matters and provides valuable guidance for future actions in order to decrease or avoid the negative effects of chemical contamination.

**Lars Backsell, Chairman of the Board of Recipharm**



### Risk analysis

Recipharm's risks and management of environmental, human rights and anti-corruption will be clarified in accordance with new regulations on sustainability reporting.

A risk analysis of sustainability has been carried out to supplement the materiality analysis conducted in 2016. Sustainability related risks present both financial and reputational risks to the company and need to be managed. Most risks are believed to be in the manufacture and supply of products, where manufacturing interruptions may impact delivery performance and supply reliability. Manufacturing and development operations are also associated with environmental impact and the risk of accidents.

Recipharm's operations are subject to regulatory approvals in several areas. According to legislation, all factories must have a Manufacturing License to produce pharmaceuticals and the corresponding conditions are required for

development laboratories depending on the extent of the development work being carried out. The operation also requires local environmental permits - the extent of these varies depending on the business and legislation in each country. Finally, all products require the necessary regulatory approvals in the countries in which they are to be sold. It is the Market Authorisation Holder, that is Recipharm's customers, that are responsible for this, but Recipharm must comply with the terms of the registrations.

Recipharm actively works with quality systems within the framework of GMP and maintains Environmental Management Systems at the facilities. Recipharm today meets all requirements associated with current permits. There have been no deviations during the fiscal year.

Risks associated with business ethics are also identified in the risk analysis. Additionally, suppliers present risks, both in terms of supply reliability and business ethics.



Recipharm's responsibility in relation to stakeholders such as customers, owners and employees requires the company to manage its risks correctly. The risks vary between different geographies. As Recipharm continues to expand, the need for new knowledge and monitoring activities increases.

Recipharm's mitigation of sustainability risks includes the following:

- Recipharm continuously work on supply interruption risks in the operating companies. In several cases, mitigation plans are also requested by and presented to customers.
- Risks for environment and work safety are addressed within the ISO 14001 and OHSAS 18001 systems.
- Suppliers are being managed within the framework of the Supplier Code of Conduct and quality audits. The scope of these reviews is continuously developed.
- Risks regarding business ethics are addressed through adequate routines for communication, follow-up and control to ensure the correct implementation of and compliance with the company's Code of Conduct.

**We are a leading company in our industry in terms of sustainability, which is greatly appreciated by our stakeholders. Customers appreciate our sustainability efforts – particularly as a means to mitigate risk in their supply chain.**

Thomas Elderred, CEO of Recipharm



## THE AUDITOR'S REPORT ON THE STATUTORY SUSTAINABILITY REPORT

To the general meeting of Recipharm AB (publ.), corporate, identity number 556498-8425

### ENGAGEMENT AND RESPONSIBILITY

The Board of Directors is responsible for the statutory sustainability report for 2017 as defined above, and that it has been prepared in accordance with the Annual Accounts Act.

### THE SCOPE OF THE AUDIT

Our examination of the statutory sustainability report has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's report on the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit

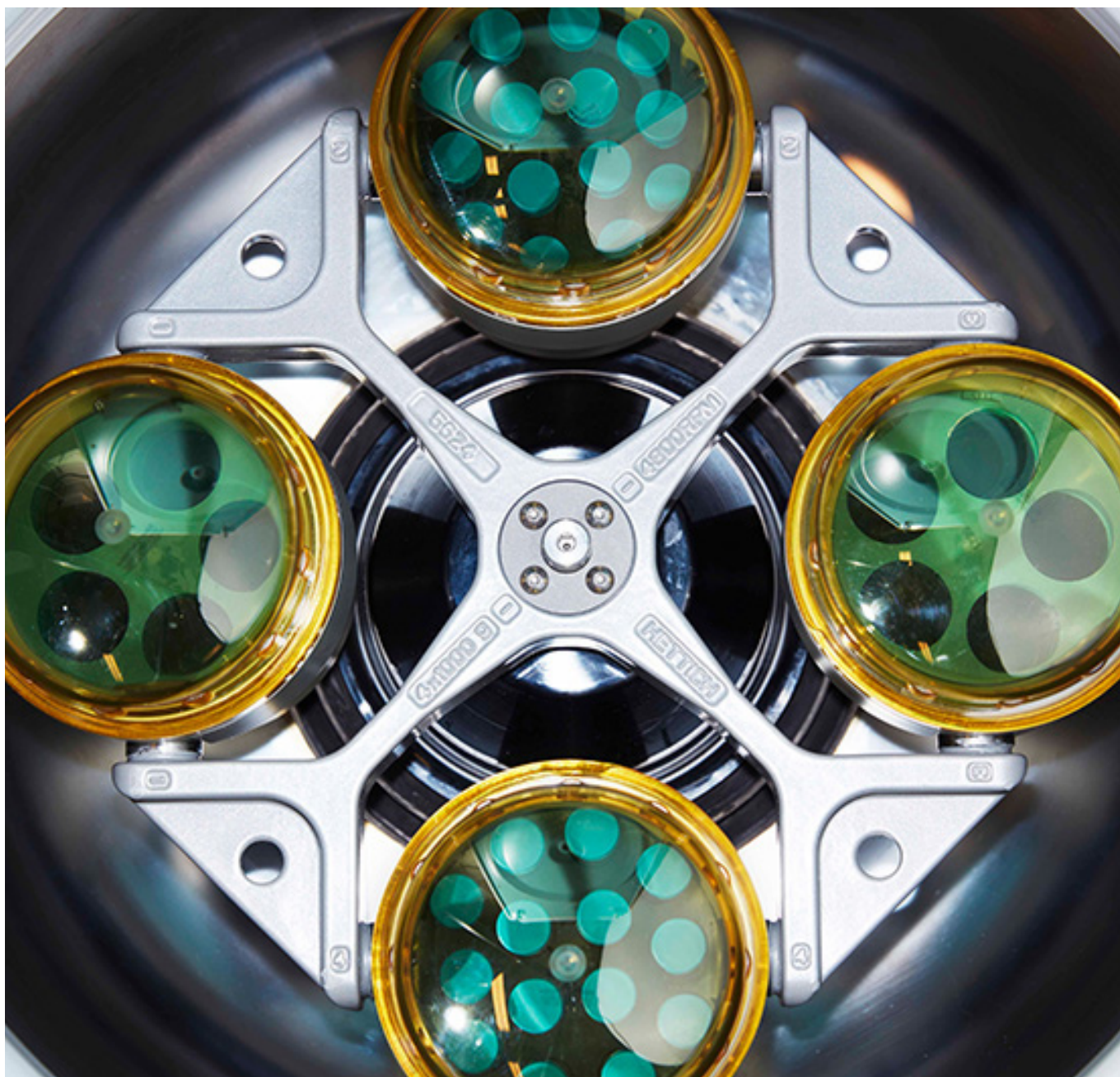
conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

### OPINION

A statutory sustainability report has been prepared.

Stockholm, April 11, 2018  
Ernst & Young AB

Jennifer Rock-Baley



# RECIPHARM

## GRI APPENDIX 2017

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Recipharm's sustainability report is in accordance with the Global Reporting Initiative (GRI) sustainability reporting guidelines G4, level Core. Our sustainability report is presented yearly as part of our annual report, and this document supplements the information provided in the annual report. No third party has audited the sustainability report and we will evaluate the need for external review.

In this document, we present our GRI-index, describe our stakeholder dialogue and how we have selected our most material sustainability aspects. We also outline the underlying methods and assumptions used for the sustainability data.



## GRI INDEX

The following list references the GRI indicators that Recipharm has decided to report on.

AR = Annual report; GRI = GRI Appendix; DMA = Disclosure on Management Approach

Indicator	Description	Reference
G4-1	CEO's statement on the organisation's sustainability strategy	AR 4-5
G4-3	Name of the organisation	AR 31
G4-4	Primary products and services	AR 16-18
G4-5	Location of organisation's headquarters	AR 0
G4-6	Countries where operations are conducted	AR 0
G4-7	Nature of ownership and legal form	AR 92-93
G4-8	Markets served	AR 0
G4-9	Scale of the organisation	AR 0, 3, 39, 64
G4-10	Total number of employees	GRI 4
G4-11	Employees covered by collective bargaining agreements	AR 23
G4-12	Describe the organization's supply chain	AR 6-8, 10
G4-13	Significant changes during the reporting period	AR 2-3
G4-14	Organisation's compliance with the precautionary principle	GRI 4
G4-15	External initiatives that the organisation subscribes or endorses	AR 20
G4-16	Memberships of associations	GRI 3-4
G4-17	Entities included in the scope of the report	AR 61-62, GRI 3
G4-18	Process for defining report content	AR 20-21, GRI 3
G4-19	Material aspects of sustainability identified	GRI 3
G4-20	Aspect boundaries within the organisation	GRI 3
G4-21	Aspect boundaries outside the organisation	GRI 3
G4-22	Restatements of information	AR 20, 25
G4-23	Significant changes from previous reports	AR 20
G4-24	Stakeholder groups with whom the organisation is engaged	GRI 3
G4-25	Basis for identification and selection of stakeholders	GRI 3
G4-26	Approaches to stakeholder engagement	GRI 3
G4-27	Topics and concerns raised through stakeholder engagement	GRI 3
G4-28	Reporting period	GRI 1
G4-29	Date of publication of most recent report	April 2017
G4-30	Reporting cycle	GRI 1
G4-31	Contact person for questions regarding the report	GRI 4
G4-32	Reporting level and GRI Index	GRI 1-2
G4-33	External audit	GRI 1
G4-34	Governance structure for the company	AR 26, 35-37
G4-56	The organisation's values, codes of conduct etc.	AR 26
<b>DMA</b>	<b>Economic performance</b>	AR 11-13, 27
EC1	Direct economic value generated and distributed	AR 27
<b>DMA</b>	<b>Emissions</b>	AR 20-21, 25
EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	GRI 4
EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	GRI 4
<b>DMA</b>	<b>Supplier assessment for environment, labor practices, impacts on society and human rights</b>	AR 20-21, 26, GRI 3
EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	AR 26, GRI 3
LA15	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken	AR 26, GRI 3
HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	AR 26, GRI 3
SO10	Significant actual and potential negative impacts on society in the supply chain and actions taken	AR 26, GRI 3
<b>DMA</b>	<b>Occupational health and safety</b>	AR 23
LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	AR 23, GRI 4



## STAKEHOLDER DIALOGUE

Recipharm has identified employees, customers, owners, investors, analysts, suppliers and government agencies as key stakeholders. The company has an ongoing dialogue with all relevant stakeholders regarding important business topics, including sustainability. As part of preparing priorities and reporting, Recipharm has had specific meetings with the four largest institutional owners, carried out a survey with employees and conducted two workshops within the Group Management Team.

Recipharm's key stakeholders	Forum for dialogue	Key topics and Recipharm's response
Owners, investors and analysts	<ul style="list-style-type: none"> <li>• Regular meetings</li> <li>• Ongoing contact</li> <li>• Capital Market Day</li> <li>• Annual general meeting</li> <li>• Annual Report</li> </ul>	<ul style="list-style-type: none"> <li>• Scope and objectives</li> <li>• Prioritized areas</li> <li>• Current performance</li> <li>• Planned activities</li> </ul>
Employees	<ul style="list-style-type: none"> <li>• Regular dialogue</li> <li>• Performance reviews</li> <li>• Conferences</li> <li>• Wider input survey open for all employees</li> </ul>	<ul style="list-style-type: none"> <li>• Performance reviews</li> <li>• Personal and team contribution to sustainability</li> </ul>
Customers	<ul style="list-style-type: none"> <li>• Ongoing contact</li> <li>• Responding to several customers' sustainability surveys</li> </ul>	<ul style="list-style-type: none"> <li>• Customer meetings addressing sustainability</li> <li>• Customers' sustainability requirements</li> <li>• Recipharm's performance regarding sustainability</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>• Procurement requirements</li> <li>• Ongoing contact</li> <li>• Supplier audits</li> </ul>	<ul style="list-style-type: none"> <li>• Start of implementation of Recipharm's Supplier Code of Conduct</li> <li>• Sustainability assessments included in supplier quality audits</li> </ul>
Government agencies	<ul style="list-style-type: none"> <li>• Ongoing contact</li> </ul>	<ul style="list-style-type: none"> <li>• No specific topics raised in 2017</li> </ul>

The table shows Recipharm's key stakeholders, the forum for dialogues and their key topics and Recipharm's response. Recipharm is also responding to the key topics and concerns in the annual report and this GRI Appendix.

## MATERIAL ASPECTS AND BOUNDARIES

Recipharm conducted a materiality analysis during 2016. The analysis was based on Recipharm's strategy, sustainability context and stakeholder expectations. Recipharm's management team made the prioritizing of the most material sustainability topics. The table below lists the sustainability topics that have been defined as the most material to Recipharm.

### Material GRI G4 aspects

- Economic Performance
- Emissions
- Supplier Environmental Assessment
- Supplier Assessment for Impacts on Society
- Supplier Assessment for Labor Practices
- Supplier Human Rights Assessment
- Occupational Health and Safety

The table shows Recipharm's material sustainability aspects.

Recipharm's sustainability report focus on the material topics but also addresses other aspects of sustainability when relevant. Recipharm will develop the sustainability work gradually and have an active dialogue with stakeholders for input on Recipharm's priorities and improvements.

### Boundaries

Recipharm's sustainability report covers the entire Group, unless other is stated. The material sustainability aspects have impacts on our own business and our employees.

Some of the aspects have impacts beyond Recipharm's organizational boundaries, such as assessment and monitoring of suppliers. In the sustainability report, we continuously describe the impact of each sustainability aspect, both within and outside the company.

## GOVERNANCE

As a company listed on NASDAQ OMX Nordic Mid Cap Recipharm follows Swedish Code of Corporate Governance. Recipharm has developed a number of governing documents, such as the Code of Conduct and Internal Control Standards. Auditing and monitoring are achieved with the help of external resources and through self-evaluation. Self-evaluation includes monitoring of local companies' compliance with Recipharm's Code of Conduct, Internal Control Standards and other rules and guidelines through a Letter of Assurance process.

Targets are monitored regularly and Recipharm's operating companies are responsible for implementation and management. Overall control is carried out at the group with direct feedback to the CEO and the Board.

Recipharm applies an ISO 14001 certified environmental management system and a management system for health and safety, certified according to OSHAS 18001, across the majority of Operating Companies. Internal governing document Global Policy was introduced 2005 and complemented in 2008 with Recipharm's Code of Conduct. Recipharm became members of the UN Global Compact in 2016, a commitment to support the ten principles regarding human rights, anti-corruption,

labour and environment. Recipharm is taking the precautionary approach into account in the company's risk management processes. Work methods and processes are constantly adapted to external expectations, requirements and legislation relevant to Recipharm. Recipharm is a member of the Swedish Life Science Industry Organization, SwedenBIO, where Recipharm's CEO is a member of the board.

## BACKGROUND DATA FOR GHG CALCULATIONS

All calculations are made according to the Greenhouse Gas (GHG) Protocol. Direct GHG emissions in Scope 1 includes combustion of natural gas and oil for our factories and premises and fuel for company vehicles. Energy indirect GHG emissions in Scope 2 include consumption of electricity, district heating, cooling and steam. Emissions of other indirect GHGs in Scope 3 include business travel by train and airplane.

Calculation of GHG emissions	Source of data
Combustion of natural gas and oil	Conversion factor for natural gas and oil from Greenhouse Gas Protocol.
Fuel from business travel in company vehicles	Statistics on fuel consumed or distance travelled gathered from employee expenses. Assumptions of gasoline cars when unknown and conversion factors from Greenhouse gas protocol.
Electricity	Country by country data for conversion factors from "Reliable Disclosure Systems for Europe – Phase II" (RE-DISS II) project, which was supported by the European Commission through the Intelligent Energy Europe (IEE). When specific agreement for 100 % renewable energy, zero emissions assumed.
District heating, cooling and steam	Statistics from suppliers.
Business travel	Data on emissions from travel agencies when possible, conversion factors from Greenhouse gas protocol when only distance travelled is known.

## KEY PERFORMANCE INDICATORS

This section contains data on disclosures that are not fully reported in the annual report.

Greenhouse gas emissions	2017	2016	2015
Scope 1 (Use of natural gas and oil in premises, and fuel in company vehicles)	16,328	15,379	12,442
Scope 2 (Electricity, district heating, cooling and steam)	49,233	24,807	17,517
Scope 3 (Business travel by train and airplane)	934	671	463
<b>Total</b>	<b>66,495</b>	<b>40,857</b>	<b>30,422</b>

The table shows the total direct and indirect greenhouse gas emissions from the reported sources.

Number of employees	2017	Share of women	2016	Share of women	2015	Share of women
Total number of employees	5,630	41%	3,537	49 %	2,569	55 %
Permanent contract	4,589	41%	3,207	49 %	2,314	56 %
Full time	4,350	38%	2,979	46 %	2,111	52 %
Part time	239	92%	228	91 %	203	91 %
Temporary contract	1,041	42%	330	52 %	255	53 %

The table shows the total number of employees by employment contract and gender.

Health and safety	2017	2016	2015
Injury rate (IR), number of injuries per working day	0.00022	0.00023	0.00030
Occupational diseases rate (ODR) rate based on number of occupational diseases per working day	0.00003	0.00004	0.00002
Lost day rate (LDR) rate based on number of lost days from injuries and occupational diseases per working day	0.00221	0.00343	0.00185
Absentee rate (AR) rate based on number of days of absence per working day	0.03730	0.04745	0.05046

The table shows the rate of injuries, occupational diseases, lost days and absentee. No work-related fatalities in the reporting period. No information on independent contractors.

Economic value generated and distributed	2017	2016	2015
Revenues	5,332	4,678	3,389
Operating costs	-3,011	-2,459	-1,759
Employee wages and benefits	-1,909	-1,551	-1,176
Payments to providers of capital	-200	-119	-77
Payments to government	-168	-200	133
Economic value retained	44	350	511

The table shows the direct economic value generated and distributed.

## Contact

For questions regarding our sustainability report, contact Erik Haeffler, Head of CSR, erik.haeffler@recipharm.com.