

SUSTAINABILITY REPORT 2018



YEAR IN BRIEF



While many stakeholders in the pharma industry are campaigning for a 'soft' exit from the EU, there is a risk that the complexity of the regulatory landscape will increase dramatically if a 'hard' Brexit takes place. Consequently, we are preparing for all eventualities.

– Thomas Beck, Senior Vice President,
Quality Management at Recipharm

Recipharm maintains leadership as serialisation becomes a requirement in Europe

Throughout 2018 Recipharm continued to take a proactive approach to its serialisation preparations. We successfully connected to the European Hub, delivered our first serialised batch to Europe ahead of the EU Falsified Medicines Directive (FMD) enforcement deadline and enrolled our customers on its platform.

Recipharm completes acquisition of inhalation contract manufacturing business

Recipharm completed the acquisition of Sanofi's inhalation contract manufacturing business in Holmes Chapel, UK. This includes development and manufacturing capabilities for novel respiratory products, complements the inhalation development expertise offered by the Recipharm team in Research Triangle Park, North Carolina.



OnDosis and Recipharm partner to advance ADHD treatment

We entered an agreement with Swedish life science company, OnDosis for the formulation development of a novel ADHD treatment regime for the US market. The treatment will leverage OnDosis' proprietary technology which integrates micro-units of oral drugs and individualised dosing in a handheld device.

Recipharm invests in Brexit preparations

Recipharm established a dedicated taskforce to effectively manage the Brexit transition and ensure minimal impact on our operations. We are recruiting additional laboratory and regulatory staff to meet potential increased requirements for analytical work and release testing and are now well positioned to overcome any challenges associated with the UK's departure from the EU.

End-to-end development offering

During the year, we have reorganised our global Development Services business with Centres of Excellence in Europe, the US and India. The new organisation enables us to better combine resources and identify value-creating synergies to manage complex development projects for our customers throughout the value chain.

Recipharm to prepare the closing of the Ashton-under-Lyne facility

The decision to close was taken following a strategic review of the operation which has not been profitable for several years.

Recipharm completes Kaisersberg expansion

Following an EUR 18 million investment at the beginning of the year we announced that the new blow-fill-seal line was operational ahead of schedule in Kaisersberg, France. The new equipment increases our manufacturing capacity by 200 million unidoses per year which can be expanded to 800 million.

KEY FIGURES

	2018	2017
Net sales	6,374	5,332
EBITDA	987	730
Operating profit, adjusted	425	231
Net profit	159.9	-160.0
Sales growth	20%	14.0%
EBITDA margin	15.5%	13.7%
Operating margin, adjusted	6.7%	4.3%
Dividend per share	1.25	0
Net debt to equity	0.7	0.7
Earning per share, adjusted	2.43	1.10
Employees (FTE)	4,822	4,575

SALES SPLIT PER SEGMENT 2018



■ Steriles & Inhalation 41%
 ■ Solids & Others 44%
 ■ Development & Technology 15%

EBITDA PER SEGMENT 2018



■ Steriles & Inhalation 45%
 ■ Solids & Others 36%
 ■ Development & Technology 19%

HIGHLY SUCCESSFUL YEAR DELIVERS ON OUR PROMISES

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

Our financial performance

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

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

Positive developments around the world

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

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

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

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

Acquisitions and supply arrangements

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

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

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

Streamlining our operations

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

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

A global Development Services offering

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

Continuing to develop our sustainability work

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

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

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

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

Looking forward to further success in 2019

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



Recipharm is in a very strong position and I see many exciting opportunities to further develop.



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

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

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

Thomas Eldered, CEO

SUSTAINABILITY

Recipharm takes a responsible approach to all aspects of our operations. We continuously aim to mitigate our impact and take advantage of any opportunities to make improvements. At Recipharm we believe 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 committed to improving our sustainability work, this led to Recipharm’s first sustainability report in 2017. This year we continue to develop our reporting to ensure that we give a detailed overview of the activities within the Recipharm Group. The report covers all operating companies within the Group, except where explicitly stated. As a result of the growth in our operations and the resulting scope of our responsibility, some indicators in the report have changed significantly between 2017 and 2018.

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 to continuously find ways to reduce our environmental impact. Our first focus area is therefore to reduce greenhouse gas emissions by targeting energy consumption and transport.

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. As part of this, it is important that we work closely with companies to ensure sustainable and ethical conduct.

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 delivers value for other stakeholders. Effective management and control mechanisms encourage external confidence in the company and ultimately its ability to deliver good 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 areas for further improvement.

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.

About the sustainability report

Recipharm's 2018 sustainability report has been prepared in accordance with the Swedish legal requirements including the Annual Accounts Act. The Statutory Sustainability report and Recipharm's Sustainable Report can be found on pages 20-31.

Recipharm also reports sustainability information in accordance with the Global Reporting Initiative (GRI) Standards and this report has been prepared in accordance with the GRI Standards: Core option. This report also serves as Recipharm's Communication on Progress Report to the UN Global Compact.

All of Recipharm's GRI Appendix with GRI-index and associated reporting information is available on Recipharm's website www.recipharm.com/sustainability/

Objectives and results 2018

During 2016, we carried out stakeholder dialogues on sustainability with some of our main shareholders, customers and employees. Together with a materiality analysis, these discussions were used as the basis for setting our objectives and priorities. These will remain our key focus areas for 2019.

1 Reduce Recipharm's environmental impact

The overall objective was to reduce the amount of greenhouse gas emissions per employee by at least 4 per cent. The total greenhouse gas emissions increased throughout the year due to our growth, specifically the addition of emissions from our new plant in Leganes, Spain. However, the relative amount of greenhouse gas emissions in 2018 amounted to 14.3 tonnes per employee, a reduction of 2 per cent. The reduction has been driven by energy efficiency improvements. Initiatives to reduce the CO₂ emissions have been taken at several locations, read more on page 26.

A second objective for the year was to continue developing Recipharm's environmental management system to gradually certify all operating companies according to ISO 14001. The goal was to achieve ISO 14001 certification at Recipharm's manufacturing facilities in Uppsala, Masate and Brescia. This has been achieved with all three sites now being certified according to ISO 14001.

Objective 2019: The long-term aim is to reduce our environmental impact and show continuous year-on-year improvements as a result of the actions we take.

The new target for 2019 is to reduce the amount of greenhouse gas emissions per employee by at least 3 per cent. The second target is to continue to implement environmental management systems according to ISO 14001 at Recipharm's manufacturing facilities in India and all other units that are not currently certified according to ISO 14001.

2 Supplier management

This year the target was to conduct 40 additional on-site supplier reviews in accordance with the Supplier Code of Conduct. With the aim of to improve our monitoring of suppliers' compliance, in 2018, a total of 71 suppliers have been audited in connection to quality audits which is an increase of 11 per cent. In addition, almost 800 suppliers have acknowledged the Supplier Code of Conduct in writing.

Objective 2019: Recipharm's long-term goal for managing the sustainability of our suppliers is to establish a clear overview of all their operations in relation to the Supplier Code of Conduct. The target for 2019 is to conduct 40 additional on-site reviews at suppliers.

3 Develop internal governance

Recipharm's internal control and business conduct guidelines have been developed to guide our processes for review, communication and training. The objective for 2018 was to further develop our governance policies and to strengthen procedures to prevent corruption. Some progress has been achieved in 2018, but there are still further improvements to be made. A project team was formed in the second half of 2018 to drive this forward and tangible actions are expected in 2019.

Objective 2019: Guidelines will be further developed around processes for review, communication and training. Procedures for prevention of corruption will be strengthened and work to develop internal processes to align with the UN Global Compact will continue.

As a summary, while some progress has been made toward the objectives for 2018 there is still more to do. The priority areas remain the same also for 2019.

OBJECTIVES 2019

-3%

REDUCE RECIPHARM'S ENVIRONMENTAL IMPACT

To reduce the amount of greenhouse gas emissions per employee by at least 3 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.

As a summary, the objectives for 2018 have largely been met. The priority areas remain the same also for 2019. Tangible improvement targets for the sustainability performance regarding Environment and Supplier Management have been set for 2019.

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 its management model.

Entrepreneurial spirit and local accountability

Entrepreneurship is the value that differentiates our company culture from other companies in the industry. We promote entrepreneurship by creating a culture of local autonomy and accountability, as well as allowing 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, whilst appreciating that one size does not fit all. This allows our operating companies to work in the way that best suits 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 the delegation of authorities. It also comprises a framework for other Group policies, such as

financial reporting, financial audits, purchasing and our Code of Conduct. This allows General Managers within our operating companies to work with 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.

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 procurement and lean manufacturing to promote cooperation, share knowledge and spread best practices throughout the Group. We also promote cross-unit employment opportunities by advertising internally as well as externally.



Employee competence and commitment is crucial to Recipharm's future success. We value the knowledge and collective industry experience of our employees, and we encourage personal development and initiatives for information 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. In addition, helping the new employees to understand and embrace the Recipharm culture is a natural phase of integrating new companies.

Maintaining our culture

As we grow and become increasingly global, maintaining our culture of entrepreneurship, local accountability and our decentralised management model continues to be an ongoing challenge – but remains important. In a competitive industry increasingly focused on cost, our culture is what differentiates us, helps us to attract and retain employees, and ultimately promotes the success of our local operating companies and the Group as a whole.

Employees health and safety

Recipharm is a safe and pleasant workplace. All our companies have detailed employee and safety manuals to ensure we comply with all the relevant labour and safety requirements and ensure staff are working in accordance with these. 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. 55 (61) per cent of Recipharm's employees are also currently covered by collective bargaining agreements.

Recipharm's facilities normally have an occupational health and safety system certified according to OHSAS 18001 or similar standard. Today, 18 (10) operating companies out of 26 representing 69% (38%) have this in place. This certification will gradually be moved to the new ISO 45001 standard. The occupational health and safety systems govern methods and procedures for risk management, reporting of hazards, incidents and accidents and the management of health and safety matters.

Safety is a key priority in Recipharm. Employees are instructed to interrupt operations or to leave work situations when health and safety hazards are detected. Recipharm also provides additional health initiatives. In some countries, wellness grants (i.e. for physical exercise) are available. The majority of operating companies also provide access to occupational healthcare. Methods vary according to local practices and can be based on site or provided through an external service provider.

44 (56) per cent of the total workforce is represented by formal joint management – worker health and safety committees that help monitor and advise on occupational health and safety programs. These committees are chaired by the General Manager or other Senior Managers of the respective operating companies. Meetings are normally held quarterly but can differ depending on company operations.

OUR EMPLOYEES

27

2017: 26

NUMBER OF FACILITIES

6,806

2017: 5,630

TOTAL NUMBER OF EMPLOYEES

42%

2017: 41%

WOMEN

58%

2017: 59%

MEN

Recipharm operates in a competitive environment, and we need talented people. It is vital to attract, develop and retain excellent individuals. Diversity and equality are essential to our business behaviours.

During the year, a total of 150 (182) work-related accidents were reported. Most involved minor injuries among manufacturing facility employees. The accident rate (number of accidents in relation to total number of scheduled working hours per 500 employees) in 2018 was 1.01 which is considered to be low.

When introducing new equipment, manufacturing processes and new chemical compounds, a risk assessment is mandatory. Based on this assessment, relevant procedures, instructions and protective measures are put in place. Employees are also properly trained for the operations they conduct. All operating companies have reporting systems for employees to actively monitor work-related incidents and accidents and take corrective actions in the event incidents and/or accidents occur. This is communicated to all employees concerned. Recipharm's management approach for health and safety also applies to workers who are not employees but whose work or workplace is controlled by the organisation such as, contractors, self-employed personnel and agency workers.

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 look for a mixture of the best qualifications, experience and perspective. At the same time, we also consider diversity to ensure a good mix of backgrounds.

Of Recipharm's 6,806 employees, 42 (41) per cent are women and 58 (59) per cent men.

Number of employees	2018	2017
Permanent	5,633	4,589
Temporary	1,173	1,041



“
 We promote entrepreneurship by creating a culture of local autonomy and accountability allowing decentralised decision making.”

CASE STUDY: INTERVIEWS WITH EMPLOYEES



Mikaela Winter

Group Manager at Recipharm in Uppsala, Sweden

Tell us about working at Recipharm

Working at Recipharm is an inspiring career with lots of opportunities to progress and grow. As part of the team at Recipharm in Uppsala, I have worked with lean tools for a number of years with good results. We implement a flow line management concept which focuses on the customer and ensure we have common goals throughout the organisation from manufacturing to shipping. This then leads to increased robustness and delivery.

Have you been able to grow at Recipharm?

I started my career at Recipharm as an Operator and then became a Quality Coordinator. When the company started to implement lean production methods I found my calling and was given the opportunity to gain more experience with new tools across different areas. Today I work as a group manager and I am part of the LEAN OPEX network at Recipharm. The network gives me the opportunity to continue to develop by sharing experiences with other sites. By setting goals and discussing challenges we can continue to develop the use of lean tools.

What characterises the Recipharm culture?

We care about each other, help each other and support each other when it comes to prioritising work. The thing I like most about the Recipharm Uppsala team is that we are committed and interested in both our work and the rest of the team. I am very grateful for my time at Recipharm and look forward to many more years as an employee.



Working at Recipharm is an inspiring career with lots of opportunities to progress and grow.



Manuel San Mauro

QC Section Head at Recipharm in Leganés, Spain

Why did you choose to work for Recipharm?

When Roche announced plans to exit our manufacturing site in Leganés, not only my job but all my working possibilities seemed to hit rock bottom. Since Recipharm took over the site, they have given me the chance to continue my professional career and take on new challenges within the pharmaceutical industry, always with a positive attitude and refreshed business perspective... For that, I'm very grateful.



Recipharm's global network helps me to keep up to date with the latest science and provide harmonised solutions to customers.

What does a typical day look like?

We are new arrivals to the "CDMO" space, so we are adapting our daily routine and taking on new activities. We face a very demanding environment where multiple tasks need to be handled at the same time, hence the high tech-science aptitude and the knowledge of a truly experienced team become essential. It is challenging, but it is also extremely rewarding from a professional perspective. A sense of team spirit can be felt throughout the plant, with our team exhibiting versatility and a positive approach to challenges.

Have you been able to grow at Recipharm?

It's been less than two years since we joined the company, but it is clear to me that Recipharm values my contribution to the business. From the very beginning they have acknowledged my background as a Microbiology PhD and I am able to exchange my knowledge with other colleagues around the world. This collaborative way of working and Recipharm's global network helps me to keep up to date with the latest science and provide harmonised solutions to customers. Recipharm also trusted my talent and has given me additional responsibility due to the way I have overcome challenges. I now lead the Quality Control department within my team and have an oversight of all laboratory activities. My role is not only a matter of microbiology today, but also physical-chemistry and materials.

ENVIRONMENT

Recipharm's greatest environmental impact is a result of energy consumption, emissions and waste at its manufacturing and laboratory facilities. Emissions from transport 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 2018. We are committed to ensuring that all our operating companies have environmental management systems certified to ISO 14001 standards. Our goal is to certify newly acquired facilities to ISO 14001 within two years of them being incorporated into the Group. In 2018, certification was achieved in Masate and Brescia in Italy, as well as in Uppsala in Sweden. In 2019, initial work for the Indian operations in Bengaluru, Karnal and Paonta Sahib will also be conducted with the aim of being well progressed in implementing environmental management system according to ISO14001.

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 environmental impact 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 2018 was graded at level C. The CDP data for 2019 will be submitted in May 2019. In 2018, Recipharm's direct and indirect carbon emissions amounted to 68,989 (66,495) tonnes. This is equivalent to 14.3 (14.5) tonnes per employee, a reduction of 2 per cent. Direct emissions are primarily a result of heating of our manufacturing and development facilities and from company owned vehicles. Our indirect emissions are a result of 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 2018 was primarily a result of the company's growth. Still, the emissions per employee reduced. This is primarily because of more efficient energy use in the manufacturing plants. One key initiative has been to change to solar energy for electricity generation at our manufacturing plant in Bengaluru, India. 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 also been introduced in several operating companies.

WATER AND WASTE

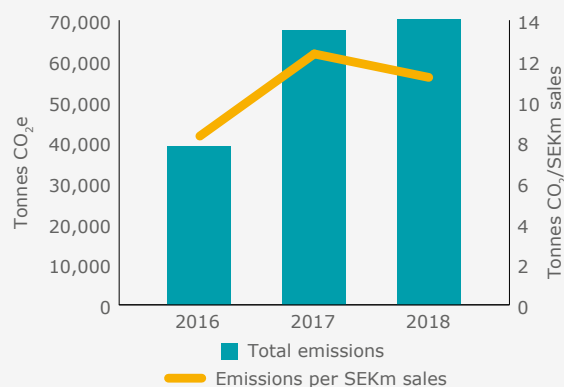
	2018	2017
Water	1,751,790 m ³	1,949,297 m ³
Of which own sources	1,142,648 m ³	1,233,896 m ³

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.

	2018	2017
Waste	10,293 tonnes	7,468 tonnes
Of which hazardous waste	5,463 tonnes	5,245 tonnes

The table shows total amount of waste generated and waste defined as hazardous.

GREENHOUSE GAS EMISSIONS



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



CASE

CORPORATE SOCIAL RESPONSIBILITY IN INDIA

Recipharm builds on commitment to eliminating environmental issues and prioritising social engagement in India. Recipharm is actively working to create a sustainable energy profile and boost community engagement in Bengaluru, India.

Recipharm has signed a 10-year agreement for solar energy at the Bengaluru plant. In combination with the use of hydro power sources, 12,000,000 kWh per annum of power are now being secured through these means. In 2018, the plant reduced its CO₂ emissions by approximately 10,800 metric tonnes, with these changes expected to take full effect during 2019. Electricity currently accounts for approximately half of Bengaluru's energy use, primarily for the ventilation systems required to control the facility's indoor environments. Heat generation for manufacturing processes accounts for the

remaining energy usage, achieved via the combustion of biomass pellets. The use of biofuels in boiler operation has eliminated the use of fossil fuels in the region of 940 metric tons and has reduced 2,900 tons of CO₂ emissions per year.

The Bengaluru plant works on a concept of zero discharge. The facility has in-house waste water treatment capabilities, with treated water being used for internal site gardening.

As part of its green initiatives, Recipharm has also planted over 4,000 trees in the local community and in the areas surrounding nearby schools.

Social engagement

Recipharm has been working closely with employees at Bengaluru to deliver education and skills workshops in mathematics, science and computer science in local schools. The organisation has also established an academic excellence awards programme for its employees' children. In 2018, Recipharm also supported the community in Bengaluru by working with local government schools to provide basic amenities and healthcare. Projects funded by Recipharm's donations include:

- Construction of toilets and hand wash facilities
- Construction of a government school kitchen as part of a free mid-day meal scheme provided by local state government
- Distribution of school desks, computers and uniforms
- Organisation of a health awareness camp for local residents in Teppada Begur village
- Promoting study and education with financial incentives for local villages whose schools have excelled in public examinations

Recipharm will continue to support the development of amenities and facilities, while working to instigate long-term, sustainable change in the Bengaluru community.

Skill development programme

As part of the Skill India Initiative, Recipharm has recruited students from rural areas onto a development scheme to deliver training in areas of pharmaceutical manufacturing, packing, engineering and warehousing. Established in 2016, the three-year programme will see successful students awarded a BVoc (Bachelor of Vocational Education) degree in pharmaceutical manufacturing.

Water and waste

In 2016, we began to compile water and waste data for all our manufacturing and development facilities. Our process wastewater is predominantly from cleaning 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 in 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.

Where organic solvents are being used, emissions undergo pre-treatment. Consequently, the direct emissions of organic solvents are small. All units comply with their respective environmental permits by a wide margin. Solvent emissions in 2018 amounted to 1,733 (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 collected through on-site investigations including sampling of soil, water and other areas as relevant. Recipharm uses external expertise for these investigations.

RESPONSIBLE BUSINESS AND CORPORATE GOVERNANCE

Recipharm understands its operations can 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

Our business ethics are managed by our ethical guidelines – our Code of Conduct. The guidelines cover all aspects of 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, deviation from the Code of Conduct was reported from one of the operating companies in Sweden. Appropriate corrective measures have been taken. None of Recipharm's other operating companies reported deviations from the Code of Conduct.

As part of our 2019 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 includes support for all internationally recognised principles on human rights, ILO core conventions, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption and we continue to develop our work around these principles.

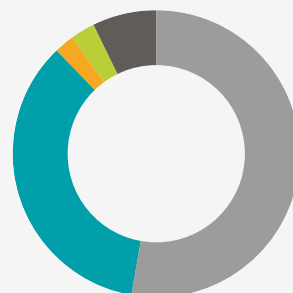
Supplier requirements

Our suppliers provide active ingredients, raw materials and packaging materials, as well as machine and laboratory equipment. We also have agreements with service providers. To enable us to maintain our commitments to customers and other stakeholders, we place prominence 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.

For direct materials, Recipharm has more than 700 different suppliers. The larger proportion of these suppliers are located in Europe, but the supplier base in total is global. Suppliers to the pharmaceutical industry work under well-defined quality criteria and many are covered by the pharmaceutical industry's quality system, Good Manufacturing Practice (GMP).

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED



- Operating costs 53%
- Employee wages and benefits 35%
- Payments to providers of capital 2%
- Payments to government 3%
- Economic value retained 7%

Net sales in 2018 totalled SEKm 6,374 (5,332). The diagram shows how much was reinvested and distributed to Recipharm's stakeholders.

Operations are normally automated with low labour intensity. During 2018 there has been no significant change in the supply chain.

There are legal requirements for us to make regular quality audits of our suppliers to verify their compliance with GMP requirements. 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 1,611 suppliers, whereof 777 have accepted the code. There have not been any specific sustainability audits in 2018, but 71 number of suppliers have been reviewed in connection to quality audits.

Through our Supplier Code of Conduct Recipharm requires that suppliers provide a safe working environment, including any company-provided living quarters, protecting employees from overexposure to chemical, biological and physical hazards and having programs in place to prevent or mitigate catastrophic releases of chemicals and other identified major risks. Recipharm also requires that suppliers identify and assess emergency situations and minimize their impact by implementing emergency plans and response procedures. Safety information regarding hazardous materials should be available to educate, train and protect workers from hazards.



OUR VALUES

RELIABILITY

- We create trust by always delivering on promises
- We deliver with quality and in time
- We are honest and always follow our Code of Conduct

PROFESSIONALISM

- We maintain a high level of competence to deliver a return on investment to our stakeholders
- We are flexible, service minded and always looking for the best solutions
- We learn from our mistakes
- We show respect – to customers, peers, partners and managers

ENTREPRENEURSHIP

- We are innovative and creative in finding ways to develop and improve our business
- We are open to change but respect that it can take time to achieve
- We have a “can do” attitude and always take on challenges with a mindset that nothing is too difficult

TENACITY

- We show commitment in everything we do
- We are committed to reaching our goals
- We are persistent and we will not give up easily
- If we encounter an obstacle, we try harder to find a solution



Dr. Bryan Brooks



We are delighted to present the 2018 award to Bryan Brooks. This research will help to build a greater understanding of the impact of certain contaminants on the environment and could potentially provide invaluable guidance on how to reduce any negative effects

– Lars Backsell,
Chairman of the Board of Recipharm

RECIPHARM'S ELEVENTH INTERNATIONAL ENVIRONMENTAL AWARD WINNER



Recipharm grants its 2018 International Environmental Award to Dr. Bryan Brooks, Distinguished Professor in Environmental Science and Biomedical Studies at Baylor University in Waco, Texas.

Dr. Brooks' transdisciplinary research includes understanding and managing human activities and environmental stressors across levels of biological

organization, particularly in rapidly urbanizing regions. His current research with students focuses on water quality and water reuse, comparative toxicology and pharmacology, sustainable molecular design, environmental public health, and the ecology and toxicology of harmful algal blooms.

About Recipharm's International Environmental Award

Since Recipharm was founded in 1995, our environmental agenda has been a central part of the way we do business. It is our belief that transparency, cooperation and encouragement are necessary if we are to achieve sustainable development. In order to promote this belief, we introduced an international environmental award in 2008 for the best environmental practice or innovation within the pharmacy and health care industries or academia.

Our role in society

Recipharm engages 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 responsibility and 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. Since 2017 Recipharm, in collaboration with Business France, runs an internship program, which in 2018 has provided four French graduates with year-long internships, including two in Sweden, one in India and one in the UK.

Risk analysis

Recipharm's management of environmental, human rights and anti-corruption risk is continuously developed 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 (MAH), our customer, that has the responsibility 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. In October 2018, following a routine audit, the UK Medicines and Healthcare Products Regulatory Agency (MHRA) restricted the manufacturing licence for five non-critical highly potent products supplied from the Recipharm facility located in Ashton, UK. This was due to deficiencies in certain manufacturing procedures which represented a potential cross contamination risk. Remediation plans have been endorsed by the MHRA and are being executed. The issue is expected to be resolved during the first half of 2019.

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 evaluates 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/ISO 45001 systems
- Suppliers are 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.



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 2018 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 8, 2019
Ernst & Young AB

Jennifer Rock-Baley



RECIPHARM GRI APPENDIX 2018

Recipharm's sustainability report is in accordance with the Global Reporting Initiative Standard (GRI) sustainability reporting guidelines, 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.

General disclosures

GRI 102: 2016	Description	Reference
102-1	Name of the organisation	AR 33
102-2	Activities, brands, products, and services	AR 16-18
102-3	Location of headquarters	AR 1
102-4	Location of operations	AR 1
102-5	Ownership and legal form	AR 94-95
102-6	Markets served	AR 0-1
102-7	Scale of the organisation	AR 1, 41, 59
102-8	Information on employees and other workers	GRI 4
102-9	Supply chain	AR 6-8, 28-29
102-10	Significant changes to the organisation and its supply chain	AR 2-3
102-11	Precautionary Principle or approach	GRI 3
102-12	External initiatives	AR 20
102-13	Membership of associations	GRI 3
102-14	Statement from senior decision-maker	AR 4-5
102-16	Values, principles, standards, and norms of behaviour	AR 10-11, 14, 28-29
102-18	Governance structure	AR 37-39
102-40	List of stakeholder groups	GRI 3
102-41	Collective bargaining agreements	AR 23
102-42	Identifying and selecting stakeholders	GRI 3
102-43	Approach to stakeholder engagement	GRI 3
102-44	Key topics and concerns raised	GRI 3
102-45	Entities included in the consolidated financial statements	AR 63-64, GRI 3
102-46	Defining report content and topic Boundaries	AR 20-21, GRI 3
102-47	List of material topics	GRI 4
102-48	Restatements of information	AR 20
102-49	Changes in reporting	GRI 3
102-50	Reporting period	GRI 1
102-51	Date of most recent report	April 2018
102-52	Reporting cycle	GRI 1
102-53	Contact point for questions regarding the report	GRI 3
102-54	Claims of reporting in accordance with the GRI Standards	GRI 1
102-55	GRI content index	GRI 2
102-56	External assurance	GRI 1
GRI 201: 2016	Economic Performance	
103-1, 103-2, 103-3	Management approach	AR 10-12, 28
201-1	Direct economic value generated and distributed	AR 28
GRI 305: 2016	Emissions	
103-1, 103-2, 103-3	Management approach	AR 20-21, 26-27
305-1	Direct GHG emissions (Scope 1)	GRI 4
305-2	Energy indirect GHG emissions (Scope 2)	GRI 4
GRI 308: 2016	Supplier Environmental Assessment	
103-1, 103-2, 103-3	Management approach	AR 20-21, 28-29, GRI 3
308-1	Negative environmental impacts in the supply chain and actions taken	GRI 3
GRI 403: 2018	Occupational Health and Safety	
103-1, 103-2, 103-3	Management approach	AR 20-21, 23-24, GRI 3
403-1 - 403-7	Management approach	AR 23-24
403-9	Work-related injuries	GRI 4
GRI 414: 2016	Supplier Social Assessment	
103-1, 103-2, 103-3	Management approach	AR 20-21, 28-29, GRI 3
414-2	Negative social impacts in the supply chain and actions taken	GRI 3

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"> • Regular meetings • Ongoing contact • Capital Market Day • Annual general meeting • Annual Report 	<ul style="list-style-type: none"> • Scope and objectives • Prioritised areas • Current performance • Planned activities
Employees	<ul style="list-style-type: none"> • Regular dialogue • Performance reviews • Conferences • Wider input survey open for all employees 	<ul style="list-style-type: none"> • Performance reviews • Personal and team contribution to sustainability
Customers	<ul style="list-style-type: none"> • Ongoing contact • Responding to several customers' sustainability surveys 	<ul style="list-style-type: none"> • Customer meetings addressing sustainability • Customers' sustainability requirements • Recipharm's performance regarding sustainability
Suppliers	<ul style="list-style-type: none"> • Procurement requirements • Ongoing contact • Supplier audits 	<ul style="list-style-type: none"> • Start of implementation of Recipharm's Supplier Code of Conduct • Sustainability assessments included in supplier quality audits
Government agencies	<ul style="list-style-type: none"> • Ongoing contact 	<ul style="list-style-type: none"> • No specific topics raised in 2018

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.

Some of the aspects have impacts beyond Recipharm's organisational 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.

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 prioritising 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 Standard aspects

- Economic Performance
- Emissions
- Supplier Social 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.

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.

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	2018	2017	2016
Scope 1 (Use of natural gas and oil in premises, and fuel in company vehicles)	19,224	16,328	15,379
Scope 2 (Electricity, district heating, cooling and steam)	49,144	49,233	24,807
Scope 3 (Business travel by train and airplane)	621	934	671
Total	68,989	66,495	40,857

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

Number of employees	2018	Share of women	2017	Share of women	2016	Share of women
Total number of employees	6,806	42%	5,630	41%	3,537	49 %
Permanent contract	5,633	41%	4,589	41%	3,207	49 %
Full time	4,813	38%	4,350	38%	2,979	46 %
Part time	820	64%	239	92%	228	91 %
Temporary contract	1,173	42%	1,041	42%	330	52 %

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

Work-related injuries	2018
Recordable work-related injuries	150
Rate of recordable work-related injuries	15.20
High-consequence work-related injuries	10
Rate of high-consequence work-related injuries	1.01
Fatalities as a result of work-related injury	0
Rate of fatalities as result of work-related injury	0

The table shows the rate of recordable work related injuries, and high-consequence work related injuries for our own employees. No work-related fatalities in the reporting period. No information on independent contractors. The rate has been calculated based on 1,000,000 hours worked. Total working hours for Recipharm were 9,867,177.4.

Economic value generated and distributed	2018	2017	2016
Revenues	6,374	5,332	4,678
Operating costs	-3,360	-3,011	-2,459
Employee wages and benefits	-2,229	-1,909	-1,551
Payments to providers of capital	-134	-200	-119
Payments to government	-197	-168	-200
Economic value retained	454	44	350

The table shows the direct economic value generated and distributed.

Contact

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