Financial Statement documents 2016

Building well-being. Together.

Contents

All the figures in the financial statements have been rounded, which is why the total sums of individual figures may differ from the total sums shown.

Report by the Board of Directors for the Financial Year 2016

Events during the period

On 22 March Orion Corporation's Annual General Meeting was held in Helsinki.

On 3 June Orion and Bayer announced their expansion of the ODM-201 clinical development programme and initiation of a new Phase III trial (ARASENS) with patients having metastatic hormone-sensitive prostate cancer.

On 15 June Orion upgraded the full-year outlook for 2016.

On 18 July Orion sold its shares in Pharmaservice Oy to Oriola-KD Corporation.

On 2 September Orion and Menarini commenced collaboration in marketing the budesonide-formoterol Easyhaler® combined formulation.

On 5 September Orion sold its shares in Ekokem Corporation to Fortum Corporation.

On 12 October the budesonide-formoterol Easyhaler® combined formulation received marketing authorisation for Germany through the decentralised procedure (DCP).

On 14 December the budesonide-formoterol Easyhaler® combined formulation received marketing authorisation for the United Kingdom and France through the decentralised procedure (DCP).

On 21 December Orion announced that it was planning to apply for marketing authorisation for a salmeterol-fluticasone combined formulation in the Easyhaler® product family in Europe.

Events after the period

There were no significant events after the period.

Financial review

Net sales

The Orion Group's net sales in 2016 were up by 6% at EUR 1,074 million (EUR 1,016 million in 2015). The net effect of currency exchange rates was minus EUR 10 million.

The Pharmaceuticals business's net sales were up by 6% at EUR 1,022 (961) million. The Pharmaceuticals business's net sales of products in the portfolio other than Stalevo®, Comtess®/Comtan® and Precedex®, and excluding milestone payments, were up by 8% at EUR 863 (798) million. Net sales of Orion's Stalevo® (carbidopa, levodopa and entacapone) and Comtess®/Comtan® (entacapone) Parkinson's drugs were down by 10% at EUR 124 (138) million, which was 12% (14%) of the Pharmaceuticals business's net sales.

The Diagnostics business's net sales were down by 5% at EUR 55 (58) million.

Operating profit

The Orion Group's operating profit was up by 18% at EUR 315 (267) million. Milestone payments accounted for EUR 15 (8) million of the operating profit. Operating profit growth was enhanced by about EUR 22 million of capital gains included in the Pharmaceuticals business's operating profit.

The Pharmaceuticals business's operating profit was up by 18% at EUR 316 (269) million. Milestone payments accounted for EUR 15 (8) million of the operating profit.

The Diagnostics business's operating profit was EUR 8.4 (8.5) million.

Operating expenses

The Group's sales and marketing expenses were EUR 195 (190) million.

R&D expenses were EUR 118 (108) million and accounted for 11% (11%) of the Group's net sales. Pharmaceutical R&D expenses amounted to EUR 112 (101) million. Research projects are reported in more detail under Pharmaceuticals in the Business Reviews.

Administrative expenses were EUR 49 (46) million.

Other operating income and expenses, which include about EUR 22 million of capital gains, were EUR 24 (1) million.

Group's profit

The Group's profit before taxes was up by 19% at EUR 311 (262) million. Basic earnings per share were EUR 1.77 (1.48) and diluted earnings per share were EUR 1.77 (1.48). Equity per share was EUR 4.57 (4.22). The return on capital employed before taxes (ROCE) was 41% (36%) and the return on equity after taxes (ROE) 40% (38%).

Financial position

The Group's gearing was -12% (-10%) and the equity ratio 61% (57%).

The Group's total liabilities at 31 December 2016 were EUR 422 (452) million. At the end of the period, interest-bearing liabilities amounted to EUR 153 (188) million, including EUR 150 (178) million of long-term loans.

The Group had EUR 232 (245) million of cash and cash equivalents and money market investments at the end of the period. The cash and cash equivalents are invested in short-term interest-bearing instruments issued by financially solid financial institutions and corporations.

Cash flow

Cash flow from operating activities was EUR 249 (255) million. Cash flow decreased because working capital increased by more than in the comparative period.

Cash flow from investing activities was EUR -21 (-42) million, the change relative to the comparative period being explained mostly by the sales of shares.

Cash flow from financing activities was EUR -237 (-231) million. The change is mainly due to purchasing of the Company's shares in June (EUR -17 million). The purchase of own shares was based on the decision by the Board of Directors which was announced in a stock exchange release on 27 April 2016.

Capital expenditure

The Group's capital expenditure totalled EUR 51 (44) million. This comprised EUR 44 (39) million on property, plant and equipment and EUR 6 (5) million on intangible assets.

Outlook for 2017

Net sales are estimated to be at similar level to 2016 (net sales were EUR 1,074 million in 2016).

Operating profit excluding material capital gains is estimated to be at least EUR 280 million (operating profit excluding capital gains was EUR 293 million in 2016).

Basis for outlook

Orion's branded Parkinson's drugs are Comtess®, Comtan® and Stalevo®. Generic competition to these products commenced in the United States in 2012 and has already extended to nearly all markets. As a result of the competition, Orion's sales of these products have decreased to low levels in the United States and some other markets, and competition is expected to extend gradually in all markets. However, in 2017 growth in sales of other products is expected to continue to compensate for the decline in sales of these products. Sales of the Easyhaler product family are forecast to continue to grow. A generic competitor to Dexdor® has been approved in some European countries. However, the impact of these approvals is not included in the outlook estimate because at this stage it is still difficult to estimate the precise timing and significance of possible competition. The patent for the Simdax® molecule expired in September 2015 but this is still not expected to have a material impact on sales of the product in 2017.

Sales of generic products account for a significant proportion of Orion's total sales, and price competition has continued in many markets. Competition in Finland, the most important generic market for Orion, will remain intense in 2017. In addition, at the beginning of the current year in Finland changes were made to the pricing system for substitutable prescription drugs by narrowing the so-called price band. The estimated negative impact of this change on Orion's sales has been taken into account in the outlook estimate. However, product launches continue to support Orion's position as market leader. In 2016 sales of Remsima® generated a significant portion of the growth in net sales of the Speciality Products business division. Sales of the product in the current year are expected to be similar to the previous year.

Collaboration agreements with other pharmaceutical companies are an important component of Orion's business model. Often payments related to these agreements, which vary greatly from year to year, are recorded in net sales. Forecasting the timing and amount of payments is difficult. Possible future payments relating to agreements already made have in some cases been conditional on, for instance, the progress of research projects or results received, which are not known until studies have been completed. On the other hand, making new agreements is generally a process for which neither the schedule nor the outcome is known before the final signing of the agreement.

The Group's total capital expenditure in 2017 is expected to be higher than in 2016, when it was EUR 51 million. The largest single ongoing projects are expansion of Fermion's Hanko manufacturing plant and increasing Easyhaler product family production capacity.

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

Research and development costs will be similar to 2016. They are partly the Company's internal fixed cost items, such as salaries and maintenance of the operating infrastructure, and partly external variable costs. External costs arise from, among other things, long-term clinical trials, which are typically performed in clinics located in several countries. The most important clinical trials scheduled for 2017 are either ongoing from the previous year or at an advanced stage of planning, therefore their cost level can be estimated rather accurately. The accrued costs are materially affected by collaboration arrangements and how the costs arising are allocated between Orion and its collaboration partners. For instance, Bayer is paying the majority of the ODM-201 research costs.

Near-term risks and uncertainties

Sales of Orion's branded Parkinson's drugs will decrease in 2017 due to generic competition. The effects of the competition have been taken into account in the outlook estimate for the current year. However, the timing of the extension and intensity of generic competition to Stalevo in Europe and elsewhere still entails uncertainty that may materially affect the accuracy of the estimate made at this stage. The basic Simdax and Dexdor patents have expired. However, the products have other still valid product protection. Nevertheless, for these products there is a possibility that generic competition might commence before expiry of the respective product protection. Orion has become aware that marketing authorisation for a generic version of Dexdor has been granted in some European countries. Orion is continuing actions to defend its rights.

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

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

Orion's broad product range may cause risks to the delivery reliability and make it challenging to maintain the high quality standard required in production. Authorities and key customers in different countries undertake regular and detailed inspections of development and manufacturing of drugs at Orion's production sites. Any remedial actions that may be required may at least temporarily have effects that decrease delivery reliability and increase costs. Orion's product range also includes products manufactured by other pharmaceutical companies. Possible problems related to the delivery reliability or quality of the products of those manufacturers may cause a risk to Orion's delivery reliability.

Research projects always entail uncertainty factors that may either increase or decrease estimated costs. The projects may progress more slowly or faster than assumed, or they may be discontinued. Nonetheless, changes that may occur in ongoing clinical studies are reflected in costs relatively slowly, and they are not expected to have a material impact on earnings in the current year. Owing to the nature of the research process, the timetables and costs of new studies that are being started are known well in advance. They therefore typically do not lead to unexpected changes in the estimated cost structure. Orion generally undertakes the last, in other words Phase III, clinical trials in collaboration with other pharmaceutical companies. Commencement of these collaboration relationships and their structure also materially affect the schedule and cost level of research projects.

Collaboration arrangements are an important component of Orion's business model. Possible collaboration and licensing agreements related to these arrangements also often include payments to be recorded in net sales that may materially affect Orion's financial results. In 2014–16 the annual payments varied from EUR 8 million to EUR 39 million. The payments may be subject to certain conditions relating to the development of research projects or sales, and whether these conditions are triggered and the timing of triggering always entail uncertainties.

Orion's dividend distribution policy

Orion's dividend distribution takes into account the distributable funds and the capital expenditure and other financial requirements in the medium and long term to achieve the financial objectives.

Proposal by the Board of Directors for distribution of profit: total dividend per share EUR 1.55

The parent company's distributable funds are EUR 318,637,450.47, or EUR 2.27 per share, including EUR 240,587,853.53, or EUR 1.71 per share, of profit for the financial year. These per share amounts are calculated excluding treasury shares held by the Company.

The Board of Directors proposes payment of a dividend of EUR 1.35 per share from the parent company's distributable funds, and in addition an extra EUR 0.20 special dividend per share to commemorate Orion's centenary year, in total EUR 1.55 per share.

No dividend shall be paid on treasury shares held by the Company on the dividend distribution record date. On the day when the profit distribution was proposed, the number of shares conferring entitlement to receive dividend totalled 140,474,462, on which the total dividend payment would be EUR 217,735,416.10. The Group's payout ratio for the financial year 2016 would be 87.6% (87.8%). The dividend payment date would be 31 March 2017, and shareholders registered in the Company's shareholder register on 24 March 2017 would be entitled to the dividend payment.

The Board of Directors further proposes that EUR 300,000 (350,000) be donated to medical research and other purposes of public interest in accordance with a separate decision by the Board and that EUR 100,602,034.37 remain in equity.

Strategy

Orion's Board of Directors has confirmed the Company's strategy for 2017–2021.

Operating environment

Orion's strategy is affected by global healthcare megatrends that have material impact on trends in consumption of drugs, the price level of drugs and progress in pharmaceutical research. These megatrends include:

- ageing of population
- advances in science, such as personalised medicine, increased genetic and epigenetic data, developments in drug dosing and developments in diagnostics
- the increasing cost burden of healthcare and consequent need for cost-effective treatments and drugs
- increased personal responsibility for own health

Mission and values

Orion's mission is to build well-being. Orion builds well-being by bringing to markets drugs and diagnostic tests that give patients help and an effective treatment for their illnesses. An effective drug also creates added value for the patient by improving the quality of life. Underlying Orion's strategy are Orion's values, which characterise the way of working within the Company. These values are:

- mutual trust and respect
- quality, reliability and safety
- customer focus
- innovation
- achievement

Focus areas

For Orion to fulfil the mission and achieve the strategic targets, within the Company there must be systematic concentration on key focus areas and their development. The crucial focus areas for implementing the strategy are:

- **Quality and safety.** High quality, product safety and complying with requirements of authorities are indispensable in the pharmaceutical industry. To meet ever increasing requirements and expectations of stakeholder groups, Orion is continuously and systematically developing these areas.
- **Productivity and flexibility.** Under pressure from declining prices for drugs, Orion needs cost awareness in its operations and seamless co-operation between different parts of the Company to achieve the targeted profitability level. In addition, operations must be flexible and able to react rapidly to changes identified in the operating environment. Due to its size, Orion can be more agile than large companies and gain a competitive advantage from this.
- **Partnerships.** Orion's operations are almost in their entirety based on utilising worldwide networks in which well-managed partnerships and collaborations are a competitive advantage for the Company. This requires Orion to be unprejudiced and open to learning new things from partners and collaborators. Partnerships must also be managed so that jointly agreed modes of operation and responsibilities are adopted at every level.
- **Competitive and strong portfolio, which is crucial for Orion's success.** This requires from the Company continuous striving to renew the portfolio, which in addition to product development, acquisition or manufacturing, includes effective launching of products and management of their entire life cycle.
- **Strong corporate culture of working together**, the basis of which is valuable and important work for the customer. Orion wants to be an excellent workplace and a responsible and attractive employer that promotes the well-being of its personnel at work and continuously develops their expertise.

Strategic targets

The following strategic targets have been confirmed, and their achievement is monitored with clearly defined indicators:

- **Providing new innovative and cost-effective drugs and treatments for patients.** Orion launches a steady stream of new drugs and diagnostic tests into markets. The product development pipeline has balanced numbers of proprietary products and generic projects in different phases. In its research the Company aims for the best input/output ratio in the field.
- **Working together to benefit the customer.** Orion's personnel are committed and understand the needs of customers. The working atmosphere, customer satisfaction and image of Orion are outstanding.
- **Continuous improvement in operations as regards sustainability.** Patient safety is the most vital aspect of Orion's corporate responsibility. The key to patient safety is that Orion's products are safe when used appropriately. Managing the Company's environmental responsibilities is also an important part of sustainability. Orion's aims additionally include continuous development of the personnel's occupational safety and ability to cope with their work.
- **Growing faster than the markets.** Growth enables a company to develop and take manageable risks. This aim should be achieved by the Company as a whole and in the geographic and product areas in which Orion operates.
- **Strongly improving profitability.**

Financial objectives

Through the financial objectives Orion aims to develop the Group's shareholder value and ensure financial stability and profitable growth. Orion's financial objectives are:

- Growing net sales more rapidly than growth of the pharmaceuticals market. Achievement of this objective requires continuous investment in development of the product portfolio.
- Maintaining profitability at a good level. The aim is operating profit that exceeds 25% of net sales.
- Keeping the equity ratio at least 50%.
- Distributing an annual dividend that in the next few years will be at least EUR 1.30 per share, and increasing the dividend in the long term

In the short term what actually happens may deviate from the objectives.

Promising developments in the R&D project pipeline will probably somewhat increase the Company's research expenses in the next few years. However, agreements already made relating to research projects (Bayer/ODM-201, Janssen/ORM-12741) and their good progress, and possible new agreements with partners relating to other projects are expected to generate material upfront and milestone payments in coming years. Successful projects will have a positive effect on Orion's net sales and especially operating profit even before possible approval of new proprietary drugs and before the actual commencement of product sales.

Business Reviews

Pharmaceuticals

Review of human pharmaceuticals market

Finland is the most important individual market for Orion, generating about one-third of the total net sales. According to IMS Health statistics, Finnish wholesale of human pharmaceuticals in 2016 was up by 4% on the previous year at EUR 2,320 (2,239) million. Orion was able to increase its sales faster than market growth, and strengthened its position as leader in marketing pharmaceuticals in Finland. According to statistics collected by IMS Health, Orion's wholesale of human pharmaceuticals in Finland in 2016 amounted to EUR 299 (270) million, up by 11% compared with the previous year. Orion's market share of Finnish pharmaceuticals markets was 13% (12%).

The most important individual therapy area for Orion is still the treatment of Parkinson's disease. Orion's branded Parkinson's drugs containing entacapone (Stalevo®, Comtess® and Comtan®) account for slightly over 10% of the Group's net sales.

Total sales of all Parkinson's drugs:

EUR or USD million		MAT9/2016	MAT9/2015	Change %
United States	USD	64	91	-29%
Europe TOP 5	EUR	113	131	-13%
Japan	EUR	76	63	+22%

Source: IMS Health pharmaceutical sales statistics MAT9/2016 (10/2015–9/2016)

Europe TOP 5: Germany, United Kingdom, France, Spain and Italy

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

EUR or USD million		MAT9/2016	MAT9/2015	Change %
United States*	USD	9	13	-31%
Europe TOP 5	EUR	73	99	-27%
Japan	EUR	76	63	+21%

Source: IMS Health pharmaceutical sales statistics MAT9/2016 (10/2015–9/2016)

* Sales of generic entacapone products by Sandoz, which is part of the Novartis Group, were previously included in US sales but are no longer included.

Europe TOP 5: Germany, United Kingdom, France, Spain and Italy.

Sales of Orion's branded Parkinson's drugs decreased in Europe due to commencement of generic competition. Sales increased in Japan, mainly due to growth in Stalevo, which was launched in that market in 2015.

According to IMS Health pharmaceutical sales statistics, in Europe total sales of the most common intravenous anaesthetics and intensive care sedatives (propofol, midazolam, remifentanil and dexmedetomidine) in the 12-month period ending in September 2016 were up by 2% at EUR 527 (518) million. According to IMS Health pharmaceutical sales statistics, sales of Orion's Dexdor® intensive care sedative (dexmedetomidine) were up by 28% at EUR 44 (34) million in Europe.

Net sales and operating profit of the Pharmaceuticals business

In 2016 the Pharmaceuticals business's net sales were EUR 1,022 (961) million and its operating profit was EUR 316 (269) million. Milestone payments accounted for EUR 15 (8) million of the net sales and operating profit, and comprised mainly a milestone payment of EUR 5 million from Bayer related to ODM-201 project technology transfer and milestone payments related to marketing rights to the Easyhaler® product family. The operating profit of the Pharmaceuticals business was 31% (28%) of the segment's net sales.

Net sales of Orion's top ten pharmaceuticals in 2016 were up by 9% at EUR 450 (415) million. They accounted for 44% (43%) of the total net sales of the Pharmaceuticals business. Net sales of the Pharmaceuticals business other than Stalevo®, Comtess®/ Comtan® and Precedex® and excluding milestone payments were up by 8% at EUR 863 (798) million.

Proprietary Products

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

Net sales of Proprietary Products in 2016 were up by 9% at EUR 350 (323) million. Growth was enhanced by higher milestone payments than in the previous year, but product sales were also higher than in the comparative period. Sales of Parkinson's drugs continued to decline, but this decline was compensated by the good growth in sales of other products.

Orion's drugs for treatment of Parkinson's disease are Stalevo® (active ingredients carbidopa, levodopa and entacapone) and Comtess®/Comtan® (entacapone). Their total net sales in 2016 were down by 10% at EUR 124 (138) million. In the United States Orion's Parkinson's drugs have several generic competitors, and competition is increasing in Europe and also other markets. In Japan the first marketing authorisations for generic Comtan products were granted, but generic competition has not yet commenced.

Breakdown of sales of Parkinson's drugs:

EUR million	2016	2015	Change %
Stalevo deliveries to Novartis	65	64	+2%
Comtan deliveries to Novartis	24	27	-11%
Orion's Stalevo sales	31	40	-23%
Orion's Comtess sales	4	6	-36%

Net sales of Simdax®, a drug for treatment of acute decompensated heart failure, in 2016 were up by 10% at EUR 56 (51) million. Simdax is sold in altogether over fifty countries worldwide.

Total net sales of the Easyhaler® product family for treatment of asthma and chronic obstructive pulmonary disease were up by 24% in 2016 at EUR 64 (51) million. The increase was mainly due to sales of the Bufomix Easyhaler® combined formulation (budesonide-formoterol). Sales of Bufomix Easyhaler were up by 68% at EUR 27 (16) million in 2016. In the last quarter of 2016, through the decentralised procedure the budesonide-formoterol Easyhaler combined formulation received marketing authorisation for Germany, the United Kingdom and France. The national approval process has been completed in Germany and is ongoing in the United Kingdom and France. Orion is expanding Easyhaler production at the Espoo pharmaceuticals production plant. In 2016 Orion entered into a collaboration agreement with Menarini for the co-marketing of the budesonide-formoterol Easyhaler combined formulation in Germany, Italy, Spain and Portugal. In addition, the parties agreed an exclusive licence and distribution arrangement for Menarini in France and Turkey. At the end of the year Orion entered into a collaboration agreement with Hikma for the marketing of the budesonide-formoterol combined formulation in the Middle East and North Africa (MENA region).

Net sales of Orion's Dexdor® intensive care sedative (dexmedetomidine) in 2016 were up by 28% at EUR 57 (45) million.

Specialty Products

Net sales of the Specialty Products business division's off-patent, i.e. generic prescription drugs, self-care products and biosimilars in 2016 were up by 8% at EUR 508 (471) million. Sales of generic entacapone products were down by 47% at EUR 13 (25) million. Sales of products from the rest of the portfolio were up by 11%. About one-third of this growth came from the biosimilar Remsima®.

Finland, Scandinavia, and Eastern Europe and Russia are the most important markets for Specialty Products. The business division's sales in Finland in 2016 were up by 9% at EUR 300 (276) million. Orion managed to increase its sales, especially in prescription drugs. Sales were up by 10% at EUR 82 (75) million in Scandinavia and up by 11% at EUR 59 (53) million in Eastern Europe and Russia.

Net sales of Remsima® for treatment of rheumatoid arthritis among other things were up by 51% at EUR 42 (28) million in 2016. The growth was mainly due to the tendering competitions won in 2015 and 2016, such as the national tendering competition in Denmark. The reason for the slowdown in sales growth for the whole year was that in Norway Orion did not win the national tendering competition and renew its agreement for the twelve-month period beginning in March 2016. However, Orion won the national tendering competition in Norway for the twelve-month period beginning in March 2017. Remsima is a biosimilar infliximab developed and manufactured by Orion's collaboration partner, for which Orion has marketing rights in the Nordic countries and Estonia.

Animal Health

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

Net sales of the Animal Health business division in 2016 were EUR 77 (77) million. However, product sales grew, as in the comparative period net sales included a milestone payment recorded on the sale of product rights, but no such were recorded in 2016. Sales of the animal sedative product family at EUR 28 (27) million accounted for 36% (35%) of the division's net sales. The product family comprises Orion's animal sedatives Dexdomitor® (dexmedetomidine), Domitor® (medetomidine) and Domosedan® (detomidine), and antagonist Antisedan® (atipamezole), which reverses the effects of the sedatives.

Sales of Sileo® launched in 2015 and indicated for alleviation of fear associated with noise in dogs have started well, especially thanks to the deliveries made to the partner in the United States. Net sales of Sileo in 2016 were EUR 6 million.

Fermion

Fermion manufactures active pharmaceutical ingredients for Orion and other pharmaceutical companies. Its product range comprises nearly 30 pharmaceutical ingredients. For other pharmaceutical companies Fermion manufactures generic pharmaceutical ingredients and offers contract manufacturing services for development and manufacturing of new active pharmaceutical ingredients. Fermion's net sales in 2016 excluding pharmaceutical ingredients supplied for Orion's own use were down by 10% at EUR 48 (53) million and accounted for over one-half of Fermion's entire net sales. In 2016 Fermion commenced significant investment in expansion of its Hanko manufacturing plant.

Research and development

The Group's R&D expenses in 2016 were EUR 118 (108) million, of which the Pharmaceuticals business accounted for EUR 112 (101) million. The Group's R&D expenses accounted for 11% (11%) of the Group's net sales. R&D expenses also include expenses related to development of the current portfolio.

In 2014 Orion commenced global collaboration with Bayer in the development and commercialisation of the novel oral androgen receptor antagonist (ODM-201). The companies have an ongoing joint Phase III clinical trial (ARAMIS) for evaluation of the efficacy and safety of ODM-201 in patients with non-metastatic castration-resistant prostate cancer (nmCRPC).

In 2016 Orion and Bayer agreed to expand the ODM-201 development programme and towards the end of the year commenced a new Phase III trial (ARASENS) that will evaluate the efficacy and safety of ODM-201 in combination with standard androgen deprivation therapy (ADT) and the chemotherapy drug docetaxel in patients having newly diagnosed metastatic hormone-sensitive prostate cancer (mHSPC) who are starting hormone therapy.

In December 2016 Orion completed trials with a salmeterol-fluticasone combined formulation in the Easyhaler® product family. Based on the positive findings, Orion is planning to apply for marketing authorisation for the product in Europe. It is currently estimated that the marketing authorisation application in Europe could be submitted during the first half of 2017. In this formulation fluticasone acts as an anti-inflammatory agent and salmeterol acts as a long-acting bronchodilator. In addition, during the year Orion received marketing authorisation through the decentralised procedure for the budesonide-formoterol combined formulation in the Easyhaler® product family in Germany, the United Kingdom and France. The national approval process has been completed in Germany and is ongoing in the United Kingdom and France. In this formulation budesonide acts as an anti-inflammatory agent and formoterol acts as a long-acting bronchodilator.

Orion is continuing development of an alpha-2c adrenoceptor antagonist (ORM-12741) for treatment of symptoms of Alzheimer's disease in collaboration with Janssen Pharmaceuticals Inc. Orion has an ongoing Phase IIa clinical trial with a new drug formulation. In the initial Phase IIa clinical trial conducted by Orion, the efficacy and safety of the drug candidate in treatment of cognitive and behavioural symptoms related to Alzheimer's disease were investigated with positive results.

Orion has completed the Phase II clinical trial with orally administered levosimendan (ODM-109) for treatment of patients with amyotrophic lateral sclerosis (ALS). Although the trial did not achieve its primary objective, the findings were, however, promising. Based on the findings, Orion is planning to continue the development programme.

Orion has an ongoing Phase II clinical trial with a drug candidate for treatment of symptoms of Parkinson's disease in which the COMT inhibitor (ODM-104) developed by Orion is combined with the pharmaceutical ingredients carbidopa and long-acting levodopa used to treat Parkinson's disease. In the trial the efficacy of the drug candidate in treating symptoms of Parkinson's disease will be investigated and the product will be compared with a Stalevo product already in the markets in which the active ingredients are the COMT inhibitor entacapone, carbidopa and levodopa.

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

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

Orion's partner Tenax Therapeutics, Inc. will develop and commercialise levosimendan in US and Canadian markets for a new cardiovascular indication, prevention of low cardiac output syndrome (LCOS) in cardiac surgery patients. The company has completed the Phase III clinical trial for this indication. According to the preliminary findings, the trial did not achieve its primary objectives. Tenax has announced that it will continue analysing the findings and will discuss the trial results and possible continuance of development work with the US Food and Drug Administration (FDA). In addition, Tenax was investigating the possibility of gaining an additional indication of septic shock for levosimendan, but the trial results reported in October 2016 did not support further development for this indication.

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

In 2016 Orion strengthened its early-phase research through strategic collaboration agreements with the German Center for Neurodegenerative Diseases (DZNE) in treatment of neurodegenerative diseases, with the Japanese pharmaceutical company Asahi Kasei Pharma in treatment of pain and with the US University of Wisconsin in treatment of oncological diseases. Orion now has strategic collaboration partners in both core therapy areas of its pharmaceutical R&D. Earlier, in 2013 Orion and the Hungarian pharmaceutical company Gedeon Richter Plc. had already entered into a collaboration agreement for discovery and development of new drug candidates in the field of cognitive disorders.

In 2016 Orion discontinued trials with a CYP17 enzyme and androgen receptor inhibitor (ODM-204) for treatment of castration-resistant prostate cancer (CRPC) and with a novel, highly potent, selective and reversible negative allosteric modulator of Transient Receptor Potential A1 (TRPA1) ion channel (ODM-108) for treatment of neuropathic pain.

Diagnostics

Orion Diagnostica manufactures convenient and quick in vitro diagnostic tests and testing systems suitable for point-of-care testing. Net sales of the Diagnostics business in 2016 were down by 5% at EUR 55 (58) million mainly due to the ending of some collaboration related to the distribution of products in early 2016.

QuikRead® infection tests remained the main product, with sales continuing to increase. With the help of CRP tests from the QuikRead go® product family in infectious disease diagnostics, antibiotic treatment can be targeted at patients that need it and unnecessary use of antibiotics avoided in situations in which a patient would not benefit from them. Avoiding unnecessary antibiotic treatments helps in tackling the growing problem of antibiotic resistance.

In 2016 the QuikRead go® CRP test received clearance from the US Food and Drug Administration (FDA) for marketing of the product for laboratory use in the United States, and preparation to launch the product in US markets is ongoing.

Launching of the first Orion GenRead® test system products – a test for detecting C. difficile bacteria – continued as planned. The product family was expanded late in the year with a Campylobacter test. The test gives prompt diagnosis in less than one hour and so aids in targeted treatment of patients. Orion GenRead® is based on an isothermal nucleic acid amplification technique, SIBA® technology. The product family will next be expanded with a test to detect the most important virus-based respiratory infections, the most important being influenza A and B, and RSV.

The operating profit of the Diagnostics business was EUR 8.4 (8.5) million. The operating profit accounted for 15% (15%) of the segment's net sales.

Shares and shareholders

On 31 December 2016 Orion had a total of 141,257,828 (141,257,828) shares, of which 38,294,154 (38,906,154) were A shares and 102,963,674 (102,351,674) B shares. The Group's share capital was EUR 92,238,541.46 (92,238,541.46). At the end of 2016 Orion held 783,366 (427,716) B shares as treasury shares. On 31 December 2016 the aggregate number of votes conferred by the A and B shares was 868,063,388 (880,047,038) excluding treasury shares.

At the end of 2016, Orion had 48,547 (48,877) registered shareholders.

Voting rights conferred by shares

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

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

Conversion of shares

The Articles of Association entitle shareholders to demand the conversion of their A shares to B shares within the limitation on the maximum number of shares of a class. In 2016 in total 612,000 shares were converted.

Trading in Orion's shares

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

On 31 December 2016 the market capitalisation of the Company's shares, excluding treasury shares, was EUR 5,944 million.

In 2016 a total of 1,983,921 A shares and 57,062,757 B shares were traded on Nasdaq Helsinki. The total value of the shares traded was EUR 2,039 million. During the year, 5.1% of the A shares and 55.6% of the B shares were traded. The average turnover in Orion's shares was 41.8%.

The price of Orion's A shares increased by 33% and the price of its B shares by 32% during 2016. On 31 December 2016 the closing quotation was EUR 42.38 for the A shares and EUR 42.29 for the B shares. The highest quotation for Orion's A shares in 2016 was EUR 42.91 and the lowest quotation was EUR 27.70. The highest quotation for the B shares in 2016 was EUR 43.10 and the lowest quotation was EUR 27.79.

Orion shares are also traded on various alternative trading platforms in addition to Nasdaq Helsinki. In 2016 Nasdaq Helsinki accounted for about 92% of the entire trading volume in Orion A shares. In 2016 Nasdaq Helsinki accounted for about 59% of the entire trading volume in Orion B shares (source: Fidessa Fragmentation Index).

Authorisations of the Board of Directors

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

On 27 April 2016 Orion's Board of Directors decided to acquire shares in the Company as authorised by the Annual General Meeting. In the period 3–15 June 2016 the Company acquired 500,000 B shares in the Company in accordance with the decision. The shares were acquired for use as part of the Orion Group's incentive plans. Following the acquisitions, the Board of Directors does not have any outstanding authorisation to decide to acquire shares in the Company.

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

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

Share-based Incentive Plans

Orion Group's Long-Term Incentive Plan 2013

Orion has a currently operating share-based incentive plan for key persons of the Group, which was announced in a stock exchange release published on 5 February 2013.

On 1 March 2016 Orion transferred altogether 144,350 Orion Corporation B shares held by the Company as share bonuses for the earning periods 2013–2015 and 2015 to the key persons belonging to the incentive plans of the Orion Group.

Orion Group's Long-Term Incentive Plan 2016

In February 2016 the Board of Directors of Orion Corporation decided on a new share-based incentive plan for key persons of the Group. The Plan includes earning periods and the Board of Directors will annually decide on the beginning and duration of the earning periods in 2016, 2017 and 2018. The Board of Directors will decide on the earnings criteria and on targets to be established for them at the beginning of each earning period. The target group of the Plan consists of a maximum of 50 people. The total maximum amount of rewards to be paid on the basis of the Plan is 500,000 Orion Corporation B shares and a cash payment corresponding to the value of the shares. The incentive plan is reported in more detail in a stock exchange release on 2 February 2016.

Share ownership

Orion's shares are in the book-entry system maintained by Euroclear Finland, and Euroclear Finland maintains Orion's official shareholder register.

At the end of 2016, Orion had a total of 48,547 (48,877) registered shareholders, of whom 96% (96%) were private individuals holding 39% (41%) of the entire share stock and 61% (62%) of the total votes. There were altogether 61 (58) million nominee-registered and foreign-owned shares, which was 43% (41%) of all shares, and they conferred entitlement to 9% (9%) of the total votes.

At the end of 2016 Orion held 783,366 (427,716) B shares as treasury shares, which is 0.6% (0.3%) of the Company's total share stock and 0.09% (0.05%) of the total votes.

Notification threshold

There were no threshold notifications during 2016.

Management's shareholdings

At the end of 2016, the members of the Board of Directors owned a total of 1,633,784 of the Company's shares, of which 1,290,064 were A shares and 343,720 B shares. At the end of 2016, the President and CEO owned 82,519 of the Company's shares, which were all B shares. The members of the Group's Executive Management Board (excluding the President and CEO) owned a total of 186,047 of the Company's shares, which were all B shares. Thus, the Company's executive management held 1.35% of all of the Company's shares and 3.04% of the total votes.

The Company does not have stock option programmes.

Corporate Governance

The operations and activities of Orion Corporation and its subsidiaries (the Orion Group) are based on compliance with laws and regulations issued thereunder, as well as with ethically acceptable operating practices. The tasks and duties of the different governance bodies of the Group are determined in accordance with legislation and the corporate governance principles of the Group.

In its governance, Orion Corporation follows the Finnish Corporate Governance Code 2015 for companies listed on Nasdaq Helsinki Ltd. Orion Corporation departs from the Code's recommendation No. 15 concerning the election of members to the Nomination Committee, which can also include persons other than members of the Board. More detailed information on compliance with the Corporate Governance Code and departure from it can be found on Orion's website at www.orion.fi/en.

The management system of the Orion Group consists of the Group level functions and business divisions. In addition, the system includes the organisation of the administration of the legal entities. For the steering and supervision of operations, the Group has a control system for all levels.

The parent company of the Group is Orion Corporation, whose shareholders exercise their decision-making power at a General Meeting of Shareholders in accordance with the Limited Liability Companies Act and the Articles of Association. General Meetings of Shareholders elect the Board of Directors and decide on amendments to the Articles of Association, issuance of shares and repurchase of the Company's own shares, among other things.

The Board of Directors of Orion Corporation handles and decides all the most important issues relating to the operations of the whole Group or any units irrespective of whether the issues legally require a decision of the Board of Directors. The Board also ensures that good corporate governance practices are followed in the Orion Group. The Board of Directors of the parent company comprises at least five and at most eight members elected by a General Meeting of Shareholders. The term of the members of the Board of Directors ends at the end of the Annual General Meeting of Shareholders following the election. A General Meeting of Shareholders elects the Chairman of the Board of Directors, and the Board of Directors elects the Vice Chairman of the Board of Directors, both for the same term as the other members. A person who has reached the age of 67 may not be elected a member of the Board of Directors.

The President and CEO of the parent company is elected by the Board of Directors. In accordance with the Limited Liability Companies Act, the President and CEO is in charge of the day-to-day management of the Company in accordance with instructions and orders issued by the Board of Directors. In addition, the President and CEO ensures that the bookkeeping of the Company complies with the law and that its asset management is arranged in a reliable way. If the service contract of the President and CEO is terminated on the Company's initiative, the notice period is 6 months. If the service contract is terminated on the initiative of the President and CEO, the notice period is 6 months, unless otherwise agreed. The service ends at the end of the notice period. If the service contract is terminated either on the Company's initiative or on the initiative of the President and CEO because of a breach of contract by the Company, the President and CEO will be compensated with a total sum corresponding to the monetary salary for 18 months, unless otherwise agreed. No such separate compensation will be paid if the President and CEO resigns at his own request for reasons other than a breach of contract by the Company.

Orion publishes its Corporate Governance Statement separately from the Report by the Board of Directors on the Company's website at www.orion.fi/en.

Annual General Meeting on 22 March 2016

Orion Corporation's Annual General Meeting was held on 22 March 2016 in Messukeskus Helsinki, Expo and Convention Centre. In addition to matters in accordance with Section 10 of the Articles of Association and Chapter 5, Section 3 of the Limited Liability Companies Act, the meeting dealt with proposals concerning authorisation of the Board of Directors to decide on acquisition and conveyance of shares in the Company.

Distribution of a dividend of EUR 1.30 per share was approved for 2015, in accordance with the Board's proposal. The decisions taken by the Annual General Meeting and the organising meeting of the Board of Directors were reported in stock exchange releases on 22 March 2016.

Annual General Meeting on 22 March 2017

Orion Corporation's Annual General Meeting will be held on Wednesday 22 March 2017 in Messukeskus Helsinki, Expo and Convention Centre commencing at 14:00.

Significant risks and uncertainties

Risk management constitutes a significant part of Orion Group's management system and is an integral part of the Company's responsibility structure and business operations. The aim is to identify, measure and manage the risks that might threaten the Company's operations and the achievement of the objectives set for the Company. Overall risk management processes, practical actions and the definition of responsibilities are developed by means of regular risk identification approaches covering the following areas:

- strategic risks, including research and development risks and threats in the operating environment that could become risks to business operations
- operational risks, including sales and business risks, corporate security risks and data security risks, and risks related to corporate responsibility, such as environmental risks and risks related to patient safety
- potential threats of disruption to production and the delivery chain, and assessment of their impact and contingency plans
- financial risks, including market, credit and liquidity risks.

Operational risk management also includes project-specific risk management

Agreements referred to in Ministry of Finance decree 1020/2012, Section 8, Paragraph 1, Subparagraph 11

Orion and its marketing partner Novartis have marketing agreements concerning the Comtess®/Comtan® and Stalevo® drugs. These agreements include terms concerning change of control in the company that entitle a party to terminate the agreement in certain circumstances, as referred to in the Ministry of Finance Decree 1020/2012, Section 8, Paragraph 1, Subparagraph 11.

Personnel

The average number of employees in the Orion Group in 2016 was 3,446 (3,431). At the end of 2016 the Group had a total of 3,469 (3,401) employees, of whom 2,796 (2,723) worked in Finland and 673 (678) outside Finland.

Salaries and other personnel expenses in 2016 totalled EUR 224 (221) million.

Environmental issues

Orion's environmental impacts relate mainly to consumption of supply chain raw materials, energy and water, emissions into the air and amounts of waste created by operations. All of the Group's manufacturing plants are in Finland. The manufacturing plants, located in Espoo, Turku, Kuopio, Salo, Hanko and Oulu, are all regulated by environmental permits issued by local environmental authorities.

In management and development concerning its environmental issues, Orion applies operations models consistent with the ISO 14001 environmental standard that also include an energy management system based on the ETJ+ energy efficiency system reference framework, and occupational health and safety issues. A fundamental principle is continuous improvement. Orion monitors the environmental impacts of its operations by measuring and monitoring consumption of materials, energy and water, emissions into the air and waste water, and amounts of waste created by operations. Orion reports annually on issues within its environmental responsibilities in its Sustainability Report.

Significant legal proceedings

Companies belonging to the Orion Group are parties to various legal disputes, which are not, however, considered to be significant legal proceedings for the Group.

Basic information on Orion's shares

31 December 2016	A share	B share	Total
Trading code on Nasdaq Helsinki	ORNAV	ORNBV	
Listing day	1 Jul 2006	1 Jul 2006	
ISIN code	FI0009014369	FI0009014377	
ICB code	4500	4500	
Reuters code	ORNAV.HE	ORNBV.HE	
Bloomberg code	ORNAV.FH	ORNBV.FH	
Share capital, EUR million	25.0	67.2	92.2
Counter book value per share, EUR	0.65	0.65	
Total number of shares	38,294,154	102,963,674	141,257,828
% of total share stock	27%	73%	100%
Number of treasury shares		783,366	783,366
Total number of shares excluding treasury shares	38,294,154	102,180,308	140,474,462
Minimum number of shares			1
Maximum number of A and B shares, and maximum number of all shares	500,000,000	1,000,000,000	1,000,000,000
Votes per share	20	1	
Number of votes excluding treasury shares	765,883,080	102,180,308	868,063,388
% ot total votes	88%	12%	100%
Total number of shareholders	16,786	37,362	48,547

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

Ownership base by type of shareholder

31 December 2016	Owners	%	A shares	%	B shares	%	Total shares	%	Total votes	%
Households	46,495	95.77	25,058,675	65.44	30,629,106	29.75	55,687,781	39.42	531,802,606	61.21
Nominee-registered and foreign shareholders	179	0.37	1,063,926	2.78	60,322,999	58.59	61,386,925	43.46	81,601,519	9.39
Public sector entities	30	0.06	3,057,920	7.99	4,205,362	4.08	7,263,282	5.14	65,363,762	7.52
Non-financial and housing corporations	1,176	2.42	5,760,697	15.04	2,004,976	1.95	7,765,673	5.50	117,218,916	13.49
Non-profit organisations	621	1.28	3,186,730	8.32	3,466,294	3.37	6,653,024	4.71	67,200,894	7.73
Financial and insurance institutions	45	0.09	100,924	0.26	1,489,349	1.45	1,590,273	1.13	3,507,829	0.40
Others	0	0.00	65,282	0.17	62,222	0.06	127,504	0.09	1,367,862	0.16
Number of treasury shares	1	0.00	0	0.00	783,366	0.76	783,366	0.55	783,366	0.09
Total	**48,547**	**100.00**	**38,294,154**	**100.00**	**102,963,674**	**100.00**	**141,257,828**	**100.00**	**868,846,754**	**100.00**

Ownership base by number of shares

31 December 2016	Owners	%	A shares	%	B shares	%	Total shares	%	Total votes	%
1–100	14,702	30.28	265,464	0.69	618,733	0.60	810,826	0.57	5,192,245	0.60
101–1,000	24,502	50.47	3,156,883	8.24	8,257,961	8.02	9,980,650	7.07	56,614,003	6.52
1,001–10,000	8,496	17.50	9,240,075	24.13	16,399,743	15.93	24,089,795	17.05	184,316,966	21.21
10,001–100,000	772	1.59	8,315,859	21.72	9,527,948	9.25	19,240,941	13.62	190,861,937	21.97
100,001–1,000,000	65	0.13	9,671,555	25.26	7,780,393	7.56	18,116,327	12.83	204,828,643	23.57
1,000,001–	9	0.02	7,579,036	19.79	59,533,308	57.82	68,108,419	48.22	224,881,732	25.88
In joint account	0	0.00	65,282	0.17	62,222	0.06	127,504	0.09	1,367,862	0.16
Total	**48,546**	**100.00**	**38,294,154**	**100.00**	**102,180,308**	**99.24**	**140,474,462**	**99.45**	**868,063,388**	**99.91**
of which nominee registered	9	0.02	716,626	1.87	58,906,091	57.65	59,622,717	42.44	73,238,611	8.44
Number of treasury shares	1	0.00	0	0.00	783,366	0.76	783,366	0.55	783,366	0.09
Total	**48,547**	**100.00**	**38,294,154**	**100.00**	**102,963,674**	**100.00**	**141,257,828**	**100.00**	**868,846,754**	**100.00**

Largest shareholders[1]

31 December 2016		A shares	B shares	Total shares	of total shares	Total votes	of total votes	Order by number of votes
1.	Erkki Etola and companies	2,500,000	0	2,500,000	1.77%	50,000,000	5.75%	1.
	Etola Erkki	200,000	0			4,000,000		
	Etola Oy	2,300,000	0			46,000,000		
2.	Land and Water Technology Foundation and companies	2,083,360	0	2,083,360	1.47%	41,667,200	4.80%	2.
	Land and Water Technology Foundation	1,034,860	0			20,697,200		
	Tukinvest Oy	1,048,500	0			20,970,000		
3.	Ilmarinen Mutual Pension Insurance company	1,948,540	26,155	1,974,695	1.40%	38,996,955	4.49 %	3.
4.	Social Security Institution of Finland, KELA	0	1,658,368	1,658,368	1.17%	1,658,368	0.19%	16.
5.	Ylppö Jukka	1,247,136	297,729	1,544,865	1.09%	25,240,449	2.91%	4.
6.	Into Ylppö and controlling votes	785,492	242,848	1,028,340	0.73%	15,952,688	1.84%	8.
	Ylppö Into	577,936	240,200			11,798,920		
	Ylppö Eeva	110,778	1,324			2,216,884		
	Ylppö Aurora	96,778	1,324			1,936,884		
7.	Swiss National Bank	0	989,836	989,836	0.70%	989,836	0.11%	17.
8.	Elo Mutual Pension Insurance Company	292,800	600,000	892,800	0.63%	6,456,000	0.74%	12.
9.	Saastamoinen Foundation	889,996	0	889,996	0.63%	17,799,920	2.05%	5.
10.	Aho Group Oy’s controlling votes	878,726	2,429	881,155	0.62%	17,576,949	2.02%	6.
	Aava Terveyspalvelut Oy	358,230	4			7,164,604		
	Kliinisen Kemian Tutkimussäätiö	107,800	0			2,156,000		
	Aho Juhani	362,819	0			7,256,380		
	Aho Kari Jussi	21,641	0			432,820		
	Porkkala Miia	5,115	0			102,300		
	Lappalainen Annakaija	4,944	2,000			100,880		
	Aho Antti	7,262	0			145,240		
	Aho Ville	10,915	425			218,725		

31 December 2016		A shares	B shares	Total shares	of total shares	Total votes	of total votes	Order by number of votes
11.	Orion Pension Fund²	815,624	19,000	834,624	0.59%	16,331,480	1.88%	7.
12.	Jouko Brade (deceased's estate) and companies	597,889	157,808	755,697	0.53%	12,115,588	1.39%	10.
	Brade Jouko (deceased's estate)	181,000	4,400			3,624,400		
	Brade Oy	726	100			14,620		
	Medical Investment Trust Oy	414,974	151,573			8,451,053		
	Lamy Oy	1,152	235			23,275		
	Helsinki Investment Trust Oy	37	1,000			1,740		
	Helsinki Securities Oy	0	500			500		
13.	Varma Mutual Pension Insurance Company	0	713,609	713,609	0.51%	713,609	0.08%	18.
14.	Eero Karvonen and companies	615,500	26,433	641,933	0.45%	12,336,433	1.42%	9.
	Karvonen Eero	80,000	9,762			1,609,762		
	EVK-Capital Oy	535,500	16,671			10,726,671		
15.	The State Pension Fund	0	600,000	600,000	0.42%	600,000	0.07%	19.
16.	Oy Ingman Finance Ab	420,104	0	420,104	0.30%	8,402,080	0.97%	11.
17.	Orion Research Foundation	132,996	282,514	415,510	0.29%	2,942,434	0.34%	15.
18.	Finnish Cultural Foundation	200	363,930	364,130	0.26%	367,930	0.04%	20.
19.	Salonen Seppo	255,287	98,000	353,287	0.25%	5,203,740	0.60%	13.
20.	Westerlund Riikka Maritza	239,035	108,000	347,035	0.25%	4,888,700	0.56%	14.
20 largest shareholders total		**13,702,685**	**6,186,659**	**19,889,344**	**14.08%**	**280,240,359**	**32.25%**	
Nominee-registered		716,626	58,906,091	59,622,717	42.21%	73,238,611	8.43%	
Others		23,874,843	37,087,558	60,962,401	43.2%	514,584,418	59.2%	
Orion's treasury shares²			783,366	783,366	0.55%	783,366	0.09%	
Total		**38,294,154**	**102,963,674**	**141,257,828**	**100.0%**	**868,846,754**	**100.0%**	

¹ The list includes the direct holdings and votes of the Company's major shareholders, corresponding holdings of organisations or foundations controlled by a shareholder in so far as they are known to the issuer, holdings of a pension foundation or pension fund of a shareholder or an organisation controlled by a shareholder, and other holdings the use of which the shareholder, alone or together with a third party, may decide on under a contract or otherwise.

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

Shareholdings of Board of Directors members[1]

31 December 2016	A shares	Change since 1 Jan 2016	B shares	Change since 1 Jan 2016	Total shares	% of total shares	% of total votes
Hannu Syrjänen, chairman	10,000	0	13,899	1,052	23,899	0.02	0.02
Timo Maasilta, vice chairman	21,928	0	3,730	706	25,658	0.02	0.05
Sirpa Jalkanen	0	0	6,696	526	6,696	0.00	0.00
Eija Ronkainen[2]	11,000	0	14,526	526	25,526	0.02	0.03
Mikael Silvennoinen	0	0	1,781	526	1,781	0.00	0.00
Heikki Westerlund	0	0	5,359	526	5,359	0.00	0.00
Jukka Ylppö	1,247,136	0	297,729	526	1,544,865	1.09	2.91
Board of directors total	**1,290,064**	**0**	**343,720**	**4,388**	**1,633,784**	**1.16**	**3.01**

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

[2] Eija Ronkainen from 22nd of March 2016

Shareholdings of Executive Management Board members[1]

31 December 2016	A shares	Change since 1 Jan 2016	B shares	Change since 1 Jan 2016	Total shares	% of total shares	% of total votes
Timo Lappalainen, president and CEO	0	0	82,519	15,000	82,519	0.06	0.01
Satu Ahomäki	0	0	18,161	0	18,161	0.01	0.00
Markku Huhta-Koivisto	0	0	21,135	3,600	21,135	0.01	0.00
Olli Huotari	0	0	44,405	8,000	44,405	0.03	0.01
Liisa Hurme	0	0	15,182	-2,400	15,182	0.01	0.00
Jari Karlson	0	0	25,940	500	25,940	0.02	0.00
Virve Laitinen	0	0	14,092	-1,000	14,092	0.01	0.00
Reijo Salonen	0	0	47,132	9,350	47,132	0.03	0.01
Executive management board total[2]	**0**	**0**	**268,566**	**33,050**	**268,566**	**0.19**	**0.03**

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

Group's key figures

Key figures relating to financial performance

	2012	2013	2014	2015	2016
Net sales, EUR million	980.4	1,006.9	1,015.3	1,015.6	1,073.5
Operating profit, EUR million	278.3	267.7	272.4	266.6	314.6
% of net sales	28.4%	26.6%	26.8%	26.2%	29.3%
Profit before taxes, EUR million	276.6	264.0	267.8	262.3	310.9
% of net sales	28.2%	26.2%	26.4%	25.8%	29.0%
Income tax expense, EUR million	69.7	57.8	56.6	54.2	61.9
R&D expenses, EUR million	105.8	101.9	106.2	108.1	118.2
% of net sales	10.8%	10.1%	10.5%	10.6%	11.0%
Capital expenditure, EUR million	46.8	77.9	57.1	44.5	51.1
% of net sales	4.8%	7.7%	5.6%	4.4%	4.8%
Assets total, EUR million	835.7	979.0	1,001.5	1,047.4	1,062.9
Equity ratio, %	61.0%	53.6%	52.3%	57.4%	60.8%
Gearing, %	-1.7%	8.4%	-4.7%	-9.6%	-12.4%
Interest-bearing liabilities, EUR million	136.7	257.8	234.5	187.8	152.5
Non-interest-bearing liabilities, EUR million	189.5	207.3	252.0	264.6	269.0
Cash and cash equivalents and money market investments, EUR million	145.2	214.7	258.5	245.2	231.9
ROCE (before taxes), %	45.9%	38.5%	36.6%	35.7%	40.9%
ROE (after taxes), %	41.0%	40.3%	41.1%	37.5%	40.3%
Personnel at the end of the period	3,486	3,519	3,450	3,401	3,469
Average personnel during the period	3,495	3,540	3,493	3,431	3,446
Personnel expenses, EUR million	214.8	218.1	219.2	220.6	224.4

Performance per share

	2012	2013	2014	2015	2016
Basic earnings per share, EUR	1.47	1.46	1.50	1.48	1.77
Diluted earnings per share, EUR	1.47	1.46	1.50	1.48	1.77
Cash flow per share before financial items, EUR	1.23	1.02	1.72	1.51	1.62
Equity per share, EUR	3.62	3.66	3.66	4.22	4.57
Total dividend, EUR million	183.2	175.7	182.9	183.1	217.7[1]
Payout ratio, %	88.4 %	85.6 %	86.7%	87.8%	87.6%[1]
Dividend per share, EUR	1.30	1.25	1.30	1.30	1.55[1]
A shares					
Number of shares at 31 Dec	43,267,218	42,022,816	40,412,981	38,906,154	38,294,154
Effective dividend yield, %	5.9%	6.1%	5.2%	4.1%	3.7%[1]
Price/earnings ratio (P/E)	15.00	13.94	16.69	21.51	23.94
Closing quotation at 31 Dec, EUR	22.05	20.35	25.03	31.83	42.38
Lowest quotation during the period, EUR	13.31	17.30	19.13	24.90	27.70
Average quotation during the period, EUR	16.82	20.60	25.70	31.07	34.37
Highest quotation during the period, EUR	22.57	24.42	31.11	38.69	42.91
Shares traded, 1,000 shares	4,055	2,736	2,595	2,868	1,984
% of the total number of shares	9.1%	6.4%	6.3%	7.2%	5.1%
B shares					
Number of shares at 31 Dec excluding treasury shares	97,664,619	98,546,021	100,275,182	101,923,958	102,180,308
Treasury shares at 31 Dec	325,991	688,991	569,665	427,716	783,366
Number of shares at 31 Dec including treasury shares	97,990,610	99,235,012	100,844,847	102,351,674	102,963,674
Effective dividend yield, %	5.9%	6.1%	5.0%	4.1%	3.7%[1]
Price/earnings ratio (P/E)	15.09	13.99	17.18	21.60	23.89
Closing quotation at 31 Dec, EUR	22.18	20.42	25.77	31.97	42.29
Lowest quotation during the period, EUR	13.31	17.28	19.07	25.47	27.79
Average quotation during the period, EUR	16.26	20.16	25.59	31.08	34.54
Highest quotation during the period, EUR	22.74	24.58	31.33	38.86	43.10
Shares traded, 1,000 shares	84,056	76,574	74,825	67,069	57,063
% of the total number of shares	86.9%	77.6%	74.9%	66.1%	55.6%
Total number of shares at 31 Dec	141,257,828	141,257,828	141,257,828	141,257,828	141,257,828
Average number of shares during the period excluding treasury shares	140,914,572	141,006,092	140,667,894	140,806,389	140,670,663
Shares traded, % of all shares	62.4%	56.1%	54.8%	49.5%	41.8%
Market capitalisation at 31 Dec, excluding treasury shares, EUR million	3,120.2	2,867.5	3,595.6	4,496.9	5,944.1

[1] The Board of Directors' proposal for 2016 to the AGM.

Calculation of the key figures

Return on capital employed (ROCE), %

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

Return on equity (ROE), %

$$= \frac{\text{Profit for the period}}{\text{Total equity (average during the period)}} \times 100$$

Equity ratio, %

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

Gearing, %

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

Earnings per share, EUR

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

Cash flow per share before financial items, EUR

$$= \frac{\text{Cash flow from operating activities + Cash flow from investing activities}}{\text{Average number of shares during the period, excluding treasury shares}}$$

Equity per share, EUR

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

Dividend per share, EUR

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

Payout ratio, %

$$= \frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$$

Effective dividend yield, %

$$= \frac{\text{Dividend per share}}{\text{Closing quotation of the period}} \times 100$$

Price/earnings ratio (P/E)

$$= \frac{\text{Closing quotation of the period}}{\text{Earnings per share}}$$

Average share price, EUR

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

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

EBITDA = EBIT + Depreciation + Amortisation + Impairment

Consolidated financial statements (IFRS)

Consolidated statement of comprehensive income

EUR million	Note	2016	2015
Net sales	1	1,073.5	1,015.6
Cost of goods sold		-421.7	-405.8
Gross profit		651.8	609.8
Other operating income and expenses	2	24.3	1.5
Selling and marketing expenses	3, 4	-194.7	-190.4
R&D expenses	3, 4	-118.2	-108.1
Administrative expenses	3, 4	-48.7	-46.2
Operating profit		314.6	266.6
Finance income	5	0.8	0.8
Finance expenses	5	-4.9	-5.5
Share of associated companies' results		0.4	0.4
Profit before income taxes		310.9	262.3
Income tax expense	6	-61.9	-54.2
Profit for the period		249.0	208.2
OTHER COMPREHENSIVE INCOME INCLUDING TAX EFFECTS			
Change in value of cash flow hedges			0.1
Change in value of available-for-sale investments		-5.2	1.1
Translation differences		-4.6	1.8
Items that may be reclassified subsequently to profit and loss		-9.8	3.0
Items due to remeasurement of defined benefit plans		3.7	49.1
Items that will not be reclassified to profit and loss		3.7	49.1
Other comprehensive income net of tax		-6.1	52.1
Comprehensive income for the period including tax effects		243.0	260.2
PROFIT ATTRIBUTABLE TO			
Owners of the parent company		249.0	208.2
Non-controlling interests		0.0	0.0
COMPREHENSIVE INCOME ATTRIBUTABLE TO			
Owners of the parent company		243.0	260.2
Non-controlling interests		0.0	0.0
Basic earnings per share, EUR[1]	7	1.77	1.48
Diluted earnings per share, EUR[1]	7	1.77	1.48
Depreciation, amortisation and impairment		40.6	41.8
Personnel expenses		224.4	220.6

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

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

Consolidated statement of financial position

Assets

EUR million, 31 Dec	Note	2016	2015
Property, plant and equipment	8	289.1	276.4
Goodwill	9	13.5	13.5
Intangible rights	9	37.9	41.7
Other intangible assets	9	2.5	2.5
Investments in associates	10	0.1	2.6
Available-for-sale investments	11	0.4	6.9
Pension asset	12	22.8	24.4
Deferred tax assets	13	1.5	1.1
Other non-current receivables	14	3.8	4.1
Non-current assets total		371.5	373.3
Inventories	15	227.5	205.7
Trade receivables	16	200.1	192.1
Other receivables	16	31.9	31.1
Money market investments	16	31.0	
Cash and cash equivalents	17	200.9	245.2
Current assets total		691.4	674.1
Assets total		1,062.9	1,047.4

Equity and liabilities

EUR million, 31 Dec	Note	2016	2015
Share capital		92.2	92.2
Expendable fund		0.5	0.5
Other reserves		2.0	6.9
Retained earnings		546.6	495.3
Equity attributable to owners of the parent company		641.4	594.9
Non-controlling interests		0.0	0.0
Equity total	18	641.4	594.9
Deferred tax liabilities	13	37.1	37.8
Pension liability	12	3.2	3.1
Provisions	19	0.3	0.3
Interest-bearing non-current liabilities	20	150.2	177.9
Other non-current liabilities	21	0.0	0.0
Non-current liabilities total		190.8	219.2
Trade payables	22	106.1	99.1
Current tax liabilities	22	9.1	1.2
Other current liabilities	22	112.9	122.8
Provisions	19	0.2	0.3
Interest-bearing current liabilities	20	2.3	9.9
Current liabilities total		230.7	233.3
Liabilities total		421.5	452.5
Equity and liabilities total		1 062.9	1 047.4

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

Consolidated statement of changes in equity

		Equity attributable to owners of the parent company							
EUR million	Note	Share capital	Expendable fund	Other reserves	Items due to reme-asurement of defined benefit plans	Translation differences	Retained earnings	Non-controlling interests	Equity total
Equity at 1 January 2015		92.2	0.5	5.9	-50.8	-3.3	470.4	0.0	514.9
Profit for the period							208.2		208.2
Other comprehensive income									
Change in value of cash flow hedges				0.1					0.1
Change in value of available-for-sale investments				1.1					1.1
Translation differences						1.8			1.8
Items due to remeasurement of defined benefit plans					49.1				49.1
Transactions with owners									
Dividend and capital repayment	18						-183.1		-183.1
Share-based incentive plan	4						3.1		3.1
Other adjustments				-0.1			-0.1	-0.0	-0.2
Equity at 31 December 2015		92.2	0.5	6.9	-1.6	-1.5	498.4	0.0	594.9
Profit for the period							249.0		249.0
Other comprehensive income									
Change in value of available-for-sale investments				-5.2					-5.2
Translation differences						-4.6			-4.6
Items due to remeasurement of defined benefit plans					3.7				3.7
Transactions with owners									
Dividend and capital repayment	18						-183.3		-183.3
Treasury shares	18						-16.8		-16.8
Share-based incentive plan	4						3.4		3.4
Other adjustments				0.3			-0.2		0.1
Equity at 31 December 2016		92.2	0.5	2.0	2.0	-6.2	550.7	0.0	641.4

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

Consolidated statement of cash flows

EUR million	Note	2016	2015
Operating profit		314.6	266.6
Depreciation, amortisation and impairment	3	40.6	41.8
Gains/losses on sales or disposals of property, plant and equipment and intangible assets		-11.6	-0.1
Unrealised foreign exchange gains and losses		-1.7	-0.3
Change in pension asset and pension obligation	12	6.3	9.0
Change in provisions	19	-0.1	0.2
Other adjustments		-6.7	2.9
Total adjustments to operating profit		26.8	53.5
Change in trade and other receivables		-7.8	-20.0
Change in inventories		-21.2	-27.3
Change in trade and other payables		-4.0	32.5
Total change in working capital		-33.0	-14.9
Interest and other financial expenses paid		-11.9	-10.9
Interest and other financial income received		7.7	7.7
Dividends received		0.1	0.2
Income taxes paid	6	-55.2	-47.2
Total net cash flow from operating activities		249.1	254.9
Investments in property, plant and equipment	8	-41.0	-38.4
Investments in intangible assets	9	-6.7	-4.8
Sales of property, plant and equipment, available-for-sale investments and associated companies	8,10	26.6	1.0
Total net cash flow from investing activities		-21.1	-42.2
Current loans raised	20	1.2	1.4
Repayments of current loans	20	-1.5	-2.7
Repayments of non-current loans	20	-36.7	-46.2
Treasury shares	18	-16.8	
Dividends paid and other distribution of profits	18	-183.6	-183.3
Total net cash flow from financing activities		-237.4	-230.8
Net change in cash and cash equivalents		-9.4	-18.1
Cash and cash equivalents at 1 Jan	17	245.2	258.5
Foreign exchange differences		-3.9	4.8
Net change in cash and cash equivalents		-9.4	-18.1
Cash and cash equivalents at 31 Dec	17	231.9	245.2

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

Reconciliation of cash and cash equivalents in statement of financial position

EUR million	2016	2015
Cash and cash equivalents in statement of financial position at the end of the period	200.9	245.2
Money market investments at the end of the period	31.0	
Cash and cash equivalents in the statement of cash flows	231.9	245.2

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

Notes to the consolidated financial statements

General information

Orion Corporation is a Finnish public limited liability company domiciled in Espoo, Finland, and registered at Orionintie 1, FI-02200 Espoo. Orion Corporation and its subsidiaries develop and manufacture pharmaceuticals, active pharmaceutical ingredients and diagnostic tests that are marketed globally.

The Orion Group's first financial year was 1 July–31 December 2006, because the Group came into being on 1 July 2006 following the demerger of its predecessor Orion Group into the pharmaceuticals and diagnostics business and a pharmaceutical wholesale and distribution business. Orion Corporation is listed on Nasdaq Helsinki. Trading in Orion Corporation shares commenced on 3 July 2006.

At its meeting on 8 February 2017, the Company's Board of Directors approved the publication of these consolidated financial statements. Under the Finnish Limited Liability Companies Act, shareholders have the option to accept or reject the financial statements at the Annual General Meeting, which is held after the publication of the financial statements. In addition, the AGM may amend the financial statements. The financial statement documents can be viewed at the website www.orion.fi, and copies of the financial statements are available from Orion Corporation's headquarters, Orionintie 1, FI-02200 Espoo.

Accounting policies

The consolidated financial statements of the Orion Group have been prepared in accordance with International Financial Reporting Standards (IFRS), applying IAS and IFRS standards as well as SIC and IFRIC interpretations effective on 31 December 2016. International Financial Reporting Standards refer to the standards and their interpretations approved for application in the EU in accordance with the procedure stipulated in the EU's regulation (EC) No. 1606/2002 and embodied in the Finnish Accounting Act and provisions issued under it. The notes to the consolidated financial statements have also been prepared in accordance with the requirements in Finnish accounting legislation and Community law that complement the IFRS regulations.

The information in the consolidated financial statements is based on historical costs, except for financial assets recorded at fair value through profit or loss, and available-for-sale investments, derivatives and share-based payments recorded at fair value.

Monetary figures in the financial statements are expressed in millions of euros unless otherwise stated

New IFRS standards and IFRIC interpretations adopted in financial year 2016

The following new standards, interpretations and amendments to existing standards and interpretations endorsed by the EU have been adopted as of 1 January 2016:

- IAS 1 (amendment), Presentation of Financial Statements
- IAS 16 and IAS 38 (amendment), Property, Plant and Equipment and Intangible Assets
- IFRS 11 (amendment), Joint arrangements
- IASB's published annual improvements (2012–2014) to the following standards:
  - IFRS 5, Non-current Assets Held for Sale and Discontinued Operations
  - IFRS 7, Financial Instruments: Disclosures
  - IAS 19, Employee Benefits
  - IAS 34, Interim Financial Reporting

The amendments or improvements made to the IFRS standards have no material effect on the consolidated financial statements.

Consolidation Principles

Subsidiaries

The consolidated financial statements cover the parent company Orion Corporation and all companies directly or indirectly owned by it and controlled by the Group. A company is controlled by the Group if the Group owns more than 50% of the company's voting rights or has power to govern the financial and operating policies of the company so as to benefit from its operations.

Internal shareholdings have been eliminated using the purchase method of accounting. In the consolidated financial statements, acquired subsidiaries are fully consolidated from the date the Group acquires control, and divested subsidiaries are de-consolidated from the date control ceases. All intra-Group transactions, receivables and liabilities, distribution of profit and unrealised internal gains are eliminated in the compilation of the consolidated financial statements. The consolidated profit for the financial year is divided into portions attributable to owners of the parent company and non-controlling interests. The portion of the equity attributable to the non-controlling interests is included in Group equity and specified in the statement of changes in equity

Associates, joint ventures and joint operations

Associates are all companies over which the Group has significant influence but not control. Significant influence generally means a shareholding of 20% to 50% of the voting rights.

Joint ventures are joint arrangements in which the parent companies or subsidiaries have joint control of an entity that is not part of the Group and in which a parent company or subsidiary has rights to the net assets of the arrangement. Associates and joint ventures are incorporated into the consolidated financial statements using the equity method of accounting.

Joint operations are joint arrangements that have been implemented without a separate investment instrument or in which the legal form of the arrangement is such that the parties have direct rights to certain assets or obligations for certain liabilities. Joint operations are incorporated into the consolidated financial statements in accordance with the proportional interest in the joint operation.

If the Group's share of the losses of an associate or joint venture exceeds the carrying amount, it is not consolidated unless the Group has made a commitment to fulfil the liabilities of the associate or joint venture.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, is the President and CEO of Orion Corporation, who makes the Group's strategic decisions.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's companies are measured using the currency of the primary economic environment in which the company operates (the functional currency). The consolidated financial statements are presented in euros, which is the functional currency of the parent company of the Group and the Group's presentation currency for the consolidated financial statements.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items in foreign currencies at the end of the reporting period in the statement of financial position are measured using the exchange rates at the end of the reporting period. Foreign exchange gains and losses from translation of the items are recognised in the statement of comprehensive income. Exchange rate gains and losses related to business operations are included in the corresponding items above the operating profit line. Exchange rate differences resulting from hedges made for hedging purposes but for which hedge accounting under IAS 39 does not apply are included as net amounts within other operating income or expenses. Exchange rate gains and losses related to financial liabilities and receivables in foreign currencies and foreign exchange derivatives related to them are included in financial income and expenses. Non-monetary items in foreign currencies in the statement of financial position which are not measured at fair value are measured using the exchange rate at the date of the transaction.

Group companies

For all Group companies with a functional currency different from the Group's presentation currency, the income statements are translated into euros using average exchange rates for the reporting period, and the statements of financial position are translated into euros using the exchange rates at the end of the reporting period. Any exchange difference arising from this and translation differences arising from elimination of the acquisition costs of these companies are recognised in equity and changes are disclosed in the items under other comprehensive income. There are no Group companies operating in a country with hyperinflation.

The accumulated translation differences related to divestment of Group companies, which are recognised in equity, are recognised as gains or losses in the statement of comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate at the end of the reporting period.

Property, plant and equipment

Property, plant and equipment comprise mainly factories, offices and research centres, and machines and equipment for manufacturing, research and development. Property, plant and equipment are measured at their historical cost, less accumulated depreciation and impairment, and are depreciated over their useful life using the straight-line method. The residual value and useful life of property, plant and equipment are reviewed when necessary, but at least at every year end for the financial statements, and adjusted to correspond to probable changes in the expectations of economic benefits. The estimated useful lives are as follows:

- buildings 20–50 years
- machinery and equipment 5–10 years
- other tangible assets 10 years

Land is not depreciated. Repair and maintenance costs are recognised as expenses for the reporting period. Improvement investments are capitalised if they are expected to generate future economic benefits. Gains and losses on disposals of property, plant and equipment are recognised in the statement of comprehensive income.

Intangible assets

Research and development costs

Research costs are expensed as incurred in the statement of comprehensive income. Intangible assets generated from development activities are recognised in the statement of financial position only if the expenditure of the development phase can be reliably determined, the product is technically feasible and commercially viable, the product is expected to generate future economic benefits and the Group has the intention and resources to complete the development work. The Group's view is that until an authority has granted marketing authorisation, it could not be demonstrated that an intangible asset would generate future economic benefits. The Group has therefore not capitalised its internal development costs. The same principle for recognition has been applied for externally purchased services. Software, buildings, machinery and equipment used in research and development activities are depreciated and recognised under research and development costs over their useful life.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired company at the date of acquisition. Goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination. Cash-generating units have been grouped according to operating segment. The goodwill in the consolidated statement of financial position arose prior to the adoption of IFRS, and it corresponds to the carrying amount according to the previous financial reporting standards, which was used as the deemed cost on 1 January 2004 when making the transition to IFRS.

Intangible rights and other intangible assets

Intangible rights and other intangible assets are measured at their historical cost, less accumulated amortisation and impairment. They are amortised over their useful life, usually five to ten years, using the straight-line method.

Externally acquired intangible rights, such as product and marketing rights, are recognised in the statement of financial position. For a product under development, the cost bases are assessed. The costs of payments for research and development work undertaken that has not yet generated an intangible right recognisable in the statement of financial position are recognised as research and development costs. However, if an intangible right is considered to have been transferred to the Group, the costs are recognised in the statement of financial position. Amortisations of marketing authorisations, and product and marketing rights included in the intangible rights are disclosed under selling and marketing expenses, and recording of an amortisation expense will commence when an authority has issued authorisation for marketing of the product and selling of it commences.

Impairment of property, plant, equipment and intangible assets

At the end of each reporting period, the Group assesses whether there are indications that an asset may be impaired. If there are any such indications, the respective recoverable amount is assessed. As regards goodwill and an intangible asset not yet available for use, the assessment is undertaken annually even if no such indications had become apparent. The recoverable amount is the higher of the asset's fair value less selling costs or value in use. The value in use is obtained by discounting the present value of the future cash flows from that asset. The discount rate is the weighted average cost of capital (WACC) calculated before tax and using Standard & Poor's index for the healthcare industry as the debt-to-equity ratio. The index corresponds to the potential and risks of the asset under review.

An impairment loss is recognised in the statement of comprehensive income for the amount by which the asset's carrying amount exceeds its recoverable amount. An impairment loss other than on goodwill is reversed if there is a change in the circumstances and the asset's recoverable amount exceeds its carrying amount. An impairment loss is not reversed to more than what the carrying amount of the asset would have been had there been no impairment loss.

Impairment of goodwill is recognised in the statement of comprehensive income under Other operating expenses, which include expenses not allocable to specific operations. Intangible assets not yet available for use, comprising mainly marketing authorisations and product rights, are tested for impairment individually for each asset carrying material value in the statement of financial position. Impairment charges are recognised as an expense under the appropriate activity, and for marketing authorisations and product and marketing rights under selling and marketing expenses.

Leases

Group as lessee

Lease agreements under which substantially all the risks and rewards of ownership of the assets are transferred to the Group are classified as finance leases. Finance leases are recorded in the statement of financial position under assets and liabilities at the commencement of the lease, either at the fair value of the asset or the present value of the minimum lease payments if lower.

Assets acquired under finance leases are depreciated in the same manner as any property, plant and equipment, either over the useful life of the asset or over a shorter lease term. Each lease payment is allocated between the loan reduction and finance charge during the lease period so that the interest rate on the outstanding loan during each period remains constant. Finance lease liabilities are included under the non-current and current interest-bearing liabilities in the statement of financial position.

If the lessor retains the risks and rewards of ownership, the lease is treated as an operating lease, and payments made under an operating lease are recognised as an expense on a straight-line basis over the period of the lease.

The above principles are applied to separate leases and to leases that are included in other agreements.

Borrowing costs

Borrowing costs are recognised in the statement of comprehensive income as an expense in the period in which they are incurred. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that requires a substantial period of time to be made ready are capitalised as a part of the cost of that asset.

Government grants

Government grants related to research activities are recognised as decreases in the research expenses incurred in the corresponding reporting period. If an authority decides to convert an R&D loan into a grant, that is recognised in the statement of comprehensive income under other operating income. Government grants related to the acquisition of property, plant and equipment or intangible assets are recognised as decreases in their acquisition costs. Such grants are recognised as income in the form of reduced depreciation during the useful life of the asset.

Inventories

Inventories are presented in the statement of financial position using the standard price for self-manufactured products, and for purchased products the weighted average cost method using the value of the purchase and variable conversion costs, or if lower, the net realisable or replacement value. Inventories are valued at the cost of the materials consumed plus the cost of conversion, which comprises costs directly proportional to the amount produced and a systematically allocated share of fixed and variable production overheads.

The net realisable value is the estimated selling price obtainable through normal business, less the estimated expenses incurred in finalising the product and selling it.

Financial assets

Classification

The Group's financial assets are classified into the following categories: financial assets at fair value through profit or loss, loans and other receivables, and available-for-sale financial assets.

The classification is based on the purpose for which the financial assets were acquired, and they are classified at initial recognition. A financial asset with maturity over 12 months from the reporting date is included in the non-current assets in the statement of financial position. If a financial asset is intended to be held for less than 12 months or its maturity is less than 12 months from the reporting date, it is included in the current assets in the statement of financial position.

1. Financial assets at fair value through profit or loss

Financial assets recognised at fair value through profit or loss are held for trading. A financial asset is classified as held for trading if it has been acquired principally for sale in the near term. Derivatives to which hedge accounting under IAS 39 does not apply are also classified as held for trading.

2. Loans and other receivables

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. This group includes trade receivables, cash and cash equivalents and some other receivables related to financial assets in the statement of financial position.

3. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that have been specially classified as available-for-sale financial assets or have not been classified in any other group. This group includes available-for-sale investments and money market investments with maturities over 3 months at the time of investment in the statement of financial position.

Recognition and measurement

Purchases and sales of financial assets are recognised in the accounting through settlement date accounting except for derivatives, which are recognised on the acquisition date. Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are recognised as expenses in the statement of comprehensive income. Other financial assets are also initially recognised at fair value, but transaction costs are added to the value.

Financial assets recognised at fair value through profit or loss are later measured at fair value based on the quoted market price on the end date of the reporting period. Available-for-sale financial assets are measured at fair value, or if their fair value cannot be determined reliably, they are measured at cost, less any impairment. Loans and other receivables are measured at amortised cost using the effective interest method.

Unrealised and realised gains and losses due to changes in the fair value of derivatives relating to assets classified as financial assets at fair value through profit or loss are recognised through profit or loss in the accounting period in which they arise in either other operating income and expenses or finance income and expenses, depending on whether operating or finance items have been hedged.

Changes in the fair values of assets classified as available-for-sale financial assets are recognised in the fair value reserve in equity and disclosed in the items under other comprehensive income including tax effects. Accumulated fair value adjustments are transferred from equity through profit or loss when an investment is sold or its value is impaired so that an impairment loss should be recognised. Interest on available-for-sale debt instruments is recognised in finance income using the effective interest method.

A financial asset is derecognised in the statement of financial position when the Group no longer has the contractual rights to receive the cash flows or when it has substantially transferred the risks and income from the asset to outside the Group.

Impairment of financial assets

At the end of each reporting period, it is assessed whether there is any objective evidence that an item in the Group's financial assets might be impaired.

Criteria applied by the Group in stating that there is objective evidence of impairment:
- issuer's or debtor's considerable financial problems
- breach of contract terms, such as neglecting payments or payments long overdue
- high probability of bankruptcy or other financial restructuring of debtor.

Assets recognised at amortised cost in the statement of financial position

An impairment loss concerning assets recognised at amortised cost are recognised through profit or loss. An impairment loss recognised through profit or loss concerning an asset included in loans and receivables is measured as the difference between the carrying amount of the asset and the present value of the estimated cash flows discounted at the effective interest rate. If, in a subsequent period, the amount of the impairment loss relating to an asset is objectively viewed as having decreased due to an event occurring after the impairment was originally recognised, the previously recognised impairment loss is reversed through profit or loss.

Assets classified as available-for-sale

For debt securities, the Group applies the above criteria. For assets classified as available-for-sale equity investments, a significant or prolonged decrease in fair value below acquisition cost is deemed as evidence of impairment of the asset. If there is such evidence, the accumulated loss in fair value reserve is transferred through profit or loss. An impairment loss relating to equity investment is not reversed through profit or loss, but any later reversal of impairment loss on debt instruments is recognised through profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank deposits and assets in bank accounts, and liquid debt instruments. Liquid debt instruments are short-term certificates of deposit and commercial paper with maturities initially of no more than three months issued by banks and companies.

Money market investments that are available-for-sale debt instruments with maturities initially of over three months and no more than six months are regarded as cash and cash equivalents in the statement of cash flows. Money market investments are part of the Group's active cash management.

Financial liabilities

Financial liabilities are initially recognised in accounting at fair value less transaction costs. Subsequently, non-derivative financial liabilities are measured at amortised cost using the effective interest method.

Financial liabilities are classified as non-current liabilities in the statement of financial position if their maturity is more than 12 months from the reporting date. The credit limits of bank accounts to the extent that they are used and commercial paper issued by the Company are included in interest-bearing current liabilities, as are any repayments of capital of non-current interest-bearing liabilities due in the next 12 months.

Derivative instruments and hedge accounting

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at their fair value using the closing market prices on the end date of the reporting period. Derivatives are recognised under other receivables and liabilities in the statement of financial position.

The Group does not apply IAS 39 hedge accounting to foreign exchange derivatives that hedge items in foreign currencies in the statement of financial position or hedge highly probable forecast cash flows, even though they have been acquired for hedging purposes in accordance with the Group's treasury policy. These derivative contracts are classified as financial assets held for trading, and the change in their fair value is recognised through profit or loss under either other income and expenses or finance income and expenses, depending on whether, from the operational perspective, sales revenue or finance items have been hedged.

Cash flow hedging

The Group applies hedge accounting in accordance with IFRS to interest rate derivatives that hedge capital and/or interest cash flows of loans. The effectiveness of the hedging relationship is verified before commencement of hedge accounting and subsequently regularly at least quarterly. The change in the fair value of the effective portion of qualifying derivative instruments that hedge cash flow is directly recognised against the fair value reserve included in the equity and the changes disclosed in the items under other comprehensive income including tax effects. The gains and losses recognised in equity are transferred to the statement of comprehensive income in the period during which the hedged cash flow is recognised in the statement of comprehensive income. The ineffective portion of the hedging relationship is recognised in the statement of comprehensive income under finance income and expenses.

Equity

Ordinary shares are presented as share capital. Transaction costs directly due to issuance of new shares or options are presented in equity including tax effects as a decrease in payments received. If a Group company purchases shares in the Company, the payment and direct costs relating to the acquisition are deducted from the equity.

The expendable fund and reserve for invested unrestricted equity are included in distributable funds under the Finnish Limited Liability Companies Act.

Provisions and contingent liabilities

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

A restructuring provision is recognised when the Group has compiled a detailed restructuring plan, launched its implementation or informed the parties concerned.

A contingent liability is a potential liability based on previous events. It depends on the realisation of an uncertain future event beyond the Group's control. Contingent liabilities also include obligations that will most likely not lead to a payment or its size cannot be reliably determined. Contingent liabilities are disclosed in the Notes.

Employee benefits

Pension obligations

The Group has pension plans in accordance with each country's local regulations and practices. The Group has both defined contribution and defined benefit plans. In the defined contribution plans, the Group pays fixed contributions to separate entities. The Group has no legal or constructive obligations to pay further contributions if the recipient of the contributions is unable to pay the employee benefits. All the plans that do not fulfil these criteria are defined benefit plans. The payments to the defined contribution plans are recognised as expenses in the statement of comprehensive income in accordance with the contributions payable for the period.

The Group's most important defined benefit pension plans are in Finland, where statutory insurance under the Employees' Pensions Act (TyEL) has been arranged through the Orion Pension Fund for the Group's clerical employees and supplementary pension security for some of the clerical employees. In addition, the Group management has defined benefit pension plans taken out with life assurance companies. The obligations under the defined benefit pension plans have been calculated separately for each plan.

The pension expenses related to the defined benefit pension plans have been calculated using the projected unit credit method. The pension expenses are recognised as expenses by distributing them over the whole estimated period of service of the personnel. The net defined benefit liability to be recorded in the statement of financial position is the present value of the defined benefit obligation at the end date of the reporting period less the fair value of plan assets. The present value of the defined benefit obligation is the present value of the estimated future pensions payable, and the discount rate applied is the interest rate of low-risk bonds issued by companies with a maturity that corresponds to that of the defined benefit obligation as closely as possible. The interest rate is derived from bonds issued in the same currency as the benefits payable.

Items arising from remeasurement of defined benefit plan assets are recognised directly into components of other comprehensive income during the period when they arise. The most substantial items due to remeasurement in the Group are due to actuarial gains and losses and return on the plan assets (excluding net interest items).

The Group applies an accounting procedure in which net interest arising from plan assets is recognised functionally above operating profit as part of defined benefit plan pension expense.

Share-based payments

The benefits under the share-based incentive plan for key employees approved by the Board of Directors are recognised as an expense in the income statement during the vesting period of the benefit. The equity-settled portion is measured at fair value at the time of granting the benefit, and an increase corresponding to the expense entry in the statement of comprehensive income is recognised in equity. The cash-settled portion is recognised as a liability, which is measured at fair value at the end of the reporting period. The fair value of shares is the closing quotation for B shares on the day of granting the benefit. Non-market vesting conditions, such as individual goals and result targets, affect the estimate of the final number of shares and amount of associated cash payments. The estimate of the final number of shares and associated cash payments is updated at the end of each reporting period. Changes in estimates are recognised in the statement of comprehensive income.

Income taxes

The income tax expense in the consolidated statement of comprehensive income includes taxes based on the profit of the Group companies for the financial year, tax adjustments for previous financial years and deferred tax. For items recognised directly in equity, the corresponding tax effect is also recognised in equity. Current tax is calculated on the basis of the tax rate in force in each country.

Deferred tax is computed on all temporary differences between the carrying amount and the taxable value. Deferred tax assets due to confirmed tax losses of Group companies are imputed only to the extent that they can be utilised in the future. Deferred taxes are computed using the tax rates valid or in practice approved at the end of the reporting period.

Revenue recognition

Sales of goods and services

Consolidated net sales include revenue from sales of goods and services adjusted for indirect taxes, discounts and currency translation differences on sales in foreign currencies. Net sales also include milestone payments under contracts with marketing partners, which are paid by the partner as a contribution to cover the R&D expenses of a product during the development phase and are tied to certain milestones in research projects. In addition, net sales include royalties from the products licensed out by Group companies to companies outside the Group.

Revenue from sales of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer. Revenue from services is recognised when the service has been provided. Milestone payments are recognised when the R&D project has progressed to a phase that, in accordance with an advance agreement with the partner, triggers the partner’s obligation to pay its share. Royalties are recorded on an accrual basis in accordance with the licensing agreements.

Interest and dividends

Interest income is recognised using the effective interest method and dividend income when the right to receive payment is established.

Contents of the function-based statement of comprehensive income

Cost of goods sold

The cost of goods sold comprises wages and salaries, materials, procurement and other costs related to manufacturing and procurement.

Selling and marketing expenses

The expenses of selling and marketing operations comprise costs related to the distribution of products, field sales, marketing, advertising and other promotional activities, including the related wages and salaries.

Research and development expenses

R&D expenses comprise wages and salaries, materials, procurement of external services and other costs related to R&D. R&D expenses also include expenses for R&D projects that are classified as joint operations. The portion of the expenses that corresponds to the Group’s contractual share of a project is recognised as an expense.

Administrative expenses

Administrative expenses include general administrative and Group management costs.

The functions also bear the depreciation, amortisation and impairment of the assets they use, as well as some administrative overheads in accordance with the cost matching principle.

Critical accounting estimates and assumptions, and main related uncertainties

When compiling the financial statements, the Company's management had to make certain estimates and assumptions concerning the future that have an impact on the items included in the financial statements. The actual values may differ from these estimates. The estimates are mainly related to impairment testing of assets, the measuring of receivables and liabilities related to defined benefit pension plans, the recognition of provisions and income tax. In addition, the application of accounting policies calls for the exercise of judgement.

Within the Group, the principal assumptions concerning the future and the main uncertainties relating to estimates at the end of the reporting period that constitute a significant risk of causing a material change in the carrying values of assets and liabilities within the next financial year are the following:

Non-current assets

Actual cash flows can differ from estimated discounted future cash flows because changes in the long-term economic life of the Company's assets, the forecast selling prices of products, production costs and the discount rate applied in the calculations can lead to the recognition of impairment losses. The effects of possible changes of key variables on the carrying amounts of non-current assets have been estimated in Note 9, Intangible assets.

Employee benefits

The Group has various pension plans to provide for the retirement of its employees or to provide for when the employment ends. Various statistical and other actuarial assumptions are applied in calculating the expenses and liabilities of employee benefits, such as the discount rate, estimated changes in the future level of wages and salaries, and employee turnover. The statistical assumptions made can differ considerably from the actual trend because of, among other things, a changed general economic situation and the length of the period of service. The gains and losses due to changes in actuarial assumptions are recorded into components of other comprehensive income during the period in which they arise. The changes affect the comprehensive income for the period.

Income taxes

In preparing the financial statements, the Group estimates, in particular, the basis for recording deferred tax assets. For this purpose, an estimate is made of how probable it is that the subsidiaries will generate sufficient taxable income against which unused tax losses or unused tax assets can be utilised. The factors applied in making the forecasts can differ from the actual figures, and this can lead to expense entries for tax assets in the income statement.

New IFRS standards and IFRIC interpretations to be applied in future financial periods

The following new standards, interpretations and amendments to existing standards are adopted by the Group as of 1 January 2017:

- IAS 7 (amendment)[1], *Statement of Cash Flows*. Following the amendment to the standard, the amount of information provided relating to changes in the assets and liabilities included in the cash flow from financing activities will increase. In addition, the amendment requires that changes in assets and liabilities arising from financing activities shall be disclosed separately from the other assets and liabilities.
- IAS 12 (amendment)[1], *Income Taxes*. The amendment to the standard directs how unrealised losses relating to asset items recorded at fair value should be treated in the financial statements. If these asset items are recognised at acquisition cost in taxation, a deductible temporary difference arises between taxation and the accounting treatment. In addition, the amendment specifies that evaluation of taxable income must take into consideration situations in which an item included in the assets would on disposal yield more than its current carrying amount.
- IASB's annual improvements (2014–2016 cycle)[1] to IFRS 12, *Disclosures of interests in other entities*. The disclosure requirements under IFRS 12 relate to the Group's interests in other entities that in accordance with IFRS 5 are classified as held for sale or discontinued operations, but not to summary financial information on subsidiaries and associated and affiliated companies.

The following new standards, interpretations and amendments to existing standards will be adopted by the Group as of 1 January 2018 or later:

- IFRS 15 (new standard and amendment[1]), *Revenue from Contracts with Customers*. Information on the impact of the standard on the consolidated financial statements is provided in a separate section below. The amendment to the standard clarifies how to identify a performance obligation and treatment of licences. The Group takes the amendments into account in adoption of IFRS 15.
- IFRS 16 (new standard)[1], *Leases*. The new standard replaces the previous IAS 17 on leases, according to which the lessee had to recognise a finance lease in the statement of financial position. Operating leases did not have an impact on the statement of financial position. Following the new standard, nearly all leases are recognised in the statement of financial position. The standard will affect key figures based on the statement of financial position such as equity ratio. As regards an operating lease classified under IAS 17, IFRS 16 will change the allocation of expense items to be recognised in the income statement and the total expenses to be recognised in each financial period. For operating leases, the expenses will be higher in the first years of the leases and decrease towards the end of the lease period. At the end of the 2016 financial year the Group had a total of EUR 6.7 million of lease obligations related to non-cancellable operating leases (see note 27 in the consolidated financial statements). The Group is assessing the impact of this standard on the consolidated financial statements.
- IFRS 9 (new standard), *Financial Assets and Liabilities – Classification and Measurement*. The new standard replaces IAS 39 and changes the classification and measurement of financial assets, the determination of their impairment and hedging principles. The Company's management has commenced analysing the impact of adoption of IFRS 9. According to the current view of the Company, adoption of the standard will not have material impact on the figures in the financial statements because the financial assets have been measured mainly according to IFRS 9. The model to be adopted for determination of anticipated losses on trade receivables will be determined. The Group's credit risk is not significant, and there are no significant credit losses to be expected in the future. The Company does not currently apply hedge accounting and therefore the changes to hedge accounting due to IFRS 9 do not affect the Company. The new standard will require new information in the Notes, and there will be some changes in presentation.
- IFRS 2 (amendment)[1], *Share-based Payments*. The amendment to the standard specifies, among other things, the vesting conditions and non-vesting conditions for measurement of cash-settled share-based payment transactions. In addition, the amendment deals with measurement of share-based payment transactions that entail net settlement of tax obligations. The Group is assessing the impact of this standard on the consolidated financial statements.
- IFRIC 22 (new interpretation)[1], *Foreign Currency Transactions and Advance Consideration*. The interpretation concerns what foreign currency exchange rate should be used at the reporting date for items in foreign currency for which payment was made or received in advance. The Group is assessing the impact of this standard on the consolidated financial statements.

[1] This standard, interpretation or amendment is still subject to EU endorsement.

Adoption of IFRS 15

IFRS 15 replaces the previous IAS 18 and IAS 11, which governed revenue recognition. The Group will adopt the standard during the financial year commencing 1 January 2018. The Group will adopt IFRS 15 retrospectively so that the accrued impact since the commencement of adoption will be recorded in equity as an adjustment to the opening balance of retained earnings. The adjustment of the opening balance will be recorded in the financial year 2018 when the standard will be adopted. The adjustment will be made only in respect of contracts that had not been fully fulfilled on 1 January 2018. In addition, the Group will disclose in the financial statements the amounts for other items affected by adoption IFRS 15.

The Group has decided to evaluate the impact of IFRS 15 on the recording of net sales separately for each of the following revenue flows:
- Sales of goods
- Sales of services
- Sales of rights to products already in the markets
- Clinical phase research and development work undertaken with collaboration partners

An analysis of the effects of IFRS 15 on the above revenue flows is presented below. The total revenue generated by revenue flows 2–4 below averages less than five per cent of the Group's annual net sales. In the 2016 financial year the net sales recorded from these revenue flows were EUR 18.6 million, which is 1.7 per cent of the Group's total net sales. In the Group's view the impact of IFRS 15 on the net sales from these items is not a significant part of the entire Group's net sales.

1. Sales of goods

The Group assesses that adoption of IFRS 15 will not affect the revenue to be recorded from sales of goods when there is no related transfer of rights or other collaboration with the customer. A delivery to a customer of one batch of product constitutes one performance obligation for which the revenue will be recognised in accordance with the delivery terms when the control is transferred from the Group to the customer. The selling price for a performance obligation is in principle variable because there may be related discounts or incentives.

In the Group's view the impact of IFRS 15 on revenue generated by sales of products is not significant in terms of the Group's total net sales.

2. Sales of services

The Group provides services related to contract manufacturing, a significant part of which relates to establishing production prerequisites for the coming contract manufacturing. The Group considers the services associated with the coming contract manufacturing and the products to be manufactured as together constituting one performance obligation. Most of the performance obligations related to these services will therefore be fulfilled when finished products are delivered to the customer.

Following the adoption of IFRS 15, part of the revenue from the Group's sales of services will change to being recognised during the contract period. Net sales from sales of services was EUR 3.8 million in the 2016 financial year. The Group has many contracts related to sales of services, and their value is not significant when considered individually. For these reasons, in the Group's view the impact of IFRS 15 on revenue generated by sales of services is not significant in terms of the Group's total net sales.

3. Sales of rights to products already in the markets

When the Group agrees on the sale of rights to a finished product already in the markets and at the same time on manufacture of products for an external party, in the Group's view these agreements are in many cases to be considered as a single performance obligation. The Group would itself generally have manufactured the product before the sale of rights, so the Group would have know-how related to manufacture that would otherwise not be easily attained by the customer.

The performance obligation related to the sale of rights will be fulfilled progressively when it is associated with product manufacture. The components of the sales price for the performance obligation are the consideration for selling the rights, the consideration for the delivery of finished products, and possible royalty revenues. The revenue from the sale of rights received by the Group will therefore be recognised during the time that the Group estimates the product will generate significant sales revenue in markets.

Following the adoption of IFRS 15, part of the payments for transfers of rights will change to being recognised during the contract period or during the time that the product is estimated to generate significant sales revenue in markets. The average impact of the amendment of the recognition principle on the amount to be recorded in coming net sales cannot be estimated due to the rarity of such business transactions and their nature. In the Group's view the impact of IFRS 15 on revenue generated by transfers of rights is not significant in terms of the Group's total net sales.

4. Clinical phase research and development work undertaken with collaboration partners

The Group has ongoing clinical phase research and development projects with collaboration partners. Of these projects, the ones significant as regards IFRS 15 are those for which the Group receives milestone payments from collaboration partners. Milestone payments normally comprise a single upfront payment received on signing the agreement and milestone payments conditional on the progress of the project. In addition, payments related to commercial rights to the finished product such as royalties may be agreed in the agreements. Clinical phase trials may be conducted through many service providers, and the collaboration partner can then utilise in its own business operations the research results conveyed on signing.

The Group is assessing the impact of IFRS 15 on the revenue to be recognised from clinical phase research and development projects undertaken with collaboration partners. The Group has some agreements related to these projects that are unique and analysis of them is ongoing. Assessment of the impact of IFRS 15 on the recognition of revenue from these agreements will be completed during the 2017 financial year.

1. Segment reporting

The Group has two strategic segments, which are Pharmaceuticals business and Diagnostics business. These are also Group's reportable segments. The Pharmaceuticals business develops, manufactures and markets pharmaceuticals and active pharmaceutical ingredients. The Diagnostics business develops, manufactures and markets diagnostic tests.

A segment's assets and liabilities include items attributable or allocable on a reasonable basis to the segment. The Group items include tax and financial items, items shared by the whole Group and eliminations of intersegment transactions. Capital expenditure consists of increases in property, plant and equipment and intangible assets.

The pricing between segments is based on market prices.

Operating segments

	Pharmaceuticals		Diagnostics		Group items		Group total	
EUR million	2016	2015	2016	2015	2016	2015	2016	2015
Sale of goods	976.8	922.5	54.6	57.6			1,031.4	980.1
Rendering of services	3.7	4.0	0.1	0.0			3.8	4.0
Royalties and milestone payments	38.3	31.3	0.0	0.2			38.3	31.5
Sales to external customers	1,018.7	957.8	54.8	57.8			1,073.5	1,015.6
Sales to other segments	2.8	3.1	0.0		-2.8	-3.1		
Net sales	1,021.6	960.9	54.8	57.8	-2.8	-3.1	1,073.5	1,015.6
Operating profit	316.4	269.0	8.4	8.5	-10.2	-10.9	314.6	266.6
Assets	776.9	740.8	48.8	51.3	237.3	255.3	1,062.9	1,047.4
Liabilities	209.0	211.0	17.6	16.2	194.9	225.3	421.5	452.5
Capital expenditure	49.7	40.6	1.1	3.7	0.4	0.2	51.1	44.5
Depreciation and amortisation	37.0	36.6	2.8	2.7	0.5	1.1	40.3	40.5
Impairments	0.3	1.3					0.3	1.3
Cash flow from operating activities	295.6	327.4	14.5	17.9	-61.0	-90.4	249.1	254.9
Cash flow from investing activities	-20.2	-38.0	-1.1	-4.1	0.3	-0.1	-21.1	-42.2
Cash flow from financing activities							-237.4	-230.8
Average number of personnel	3,131	3,113	291	293	24	26	3,446	3,431

The Group items include the following Group eliminations: net sales EUR 2.8 (2015: 3.1) million, operating profit EUR 0.0 (2015: 0.0) million, assets and liabilities EUR 19.7 (2015: 14.3) million. Other Group items relate to the Group's administrative expenses, and finance and other items not allocated to segments.

Net sales by business division

EUR million	2016	2015
Pharmaceuticals	1,021.6	960.9
Proprietary Products	350.4	322.5
Specialty Products	507.8	471.2
Animal Health	77.3	77.0
Fermion	47.6	52.7
Contract manufacturing and other	38.5	37.5
Diagnostics	54.8	57.8
Group items	-2.8	-3.1
Group total	1,073.5	1,015.6

Data relating to geographical regions

These geographical regions correspond to the Group's main markets. Net sales are presented according to the customer's location. Assets and capital expenditure are presented according to their location.

	Finland		Scandinavia		Other Europe		North America		Other countries		Group total	
EUR million	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Sales to external customers	338.5	318.5	174.0	164.0	335.7	316.7	86.1	76.2	139.1	140.2	1,073.5	1,015.6
Assets	935.0	955.6	39.7	31.8	86.9	59.2			1.3	0.8	1,062.9	1,047.4
Capital expenditure	50.9	44.2			0.2	0.2			0.1	0.1	51.1	44.5

2. Other operating income and expenses

EUR million	2016	2015
Gains on sales of property, plant and equipment, intangible assets and available-for-sales investments	22.5	0.3
Rental income	0.4	0.4
Exchange rate gains and losses	-0.5	-1.7
Other operating income	2.3	2.7
Other operating expenses	-0.4	-0.1
Total	24.3	1.5

3. Depreciation, amortisation and impairment

Depreciation, amortisation and impairment by function

EUR million	2016	2015
Cost of goods sold	22.0	21.1
Selling and marketing	7.2	8.5
Research and development	4.7	4.6
Administration	6.8	7.5
Total	40.6	41.8

Depreciation, amortisation and impairment by type of asset

EUR million	2016	2015
Buildings and constructions	8.9	9.0
Machinery and equipment	21.4	21.1
Other tangible assets	0.2	0.2
Property, plant and equipment, total	30.5	30.2
Intangible rights	9.2	10.4
Other intangible assets	0.9	1.1
Intangible assets, total	10.1	11.5

During the period, an impairment charge of EUR 0.3 (2015: 1.3) million was recognised in selling and marketing expenses on intangible rights. The basis for depreciation and amortisation is described in the accounting policies for the financial statements.

4. Employee benefits and auditor's remuneration

EUR million	2016	2015
Wages and salaries	175.5	168.9
PENSION COSTS		
Defined contribution plans	23.5	20.6
Defined benefit plans	2.9	11.0
SHARE-BASED INCENTIVE PLAN		
Equity-settled	3.2	2.8
Cash-settled	5.1	4.4
Other social security expenses	14.2	13.0
Total	224.4	220.6
Average number of personnel	3,446	3,431

The number of personnel in each segment is presented in Note 1, Segment reporting. Defined benefit pension obligations are presented in Note 12, Pension assets and pension liabilities. The management's employee benefits are presented in Note 29, Related party transactions.

Share-based incentive plans

The Group has a share-based incentive plan that commenced in 2013 and one that commenced in 2016 in force for key persons of the Group.

The plan that commenced in 2013 includes earning periods, and the Board of Directors has annually decided on the beginning and duration of the earning periods in 2013, 2014 and 2015. The Board of Directors shall decide on the earning criteria and targets to be established for them at the beginning of each earning period. Two earning periods, calendar year 2013 and calendar years 2013–2015, commenced upon implementation of the plan. Two earning periods, calendar year 2014 and calendar years 2014–2016, commenced in 2014. Two earning periods, calendar year 2015 and calendar years 2015–2017, commenced in 2015. The reward under the plan for the earning periods 2013, 2014 and 2015 is based on the Orion Group's operating profit. The reward under the plan for the earning periods 2013–2015, 2014–2016 and 2015–2017 is based on the total return on Orion Corporation B shares.

The plan that commenced in 2016 includes earning periods, and the Board of Directors has decided or shall decide annually on the beginning and duration of the earning periods in 2016, 2017 and 2018. The Board of Directors shall decide on the earning criteria and targets to be established for them at the beginning of each earning period. Two earning periods, calendar year 2016 and calendar years 2016–2018, commenced upon implementation of the plan. The reward under the plan for the earning period 2016 is based on the Orion Group's operating profit. The reward for the earning period 2016–2018 is based on the total return on Orion Corporation B shares.

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

Earning period	Reward paid on / potential reward to be paid in
2013	3 Mar 2014
2014	2 Mar 2015
2013–2015	1 Mar 2016
2015	1 Mar 2016
2014–2016	2017
2016	2017
2015–2017	2018
2016–2018	2019

Shares received based on the one-year earning periods under the plan that commenced in 2013 cannot be transferred during the restricted period defined for the plan. For the three-year earning periods, there is no restricted period.

The target group of the plan that commenced in 2013 consists of approximately 35 people. The total maximum amount of rewards to be paid on the basis of the plan is 500,000 Orion Corporation B shares and a cash payment corresponding to the value of the shares. By 31 December 2016, a total of 320,475 Orion Corporation B shares had been paid as rewards under this plan.

The target group of the plan that commenced in 2016 consists of no more than 50 people. The total maximum amount of rewards to be paid on the basis of the plan is 500,000 Orion Corporation B shares and a cash payment corresponding to the value of the shares. By 31 December 2016, no rewards had yet been paid under this plan.

The costs due to the plan are recorded as expenses during the restricted period. The anticipated dividends have not been taken into account separately because they are taken into account in determining the share-based rewards. The fair values of the rewards granted based on the total return on Orion Corporation B shares for the earning periods are shown in the table below. The fair values have been determined using the binary asset-or-nothing call option method.

Earning periods currently in effect

	2016	2016–2018	2015–2017	2014–2016
Start date of earning period	1 Jan 2016	1 Jan 2016	1 Jan 2015	1 Jan 2014
End date of earning period	31 Dec 2016	31 Dec 2018	31 Dec 2017	31 Dec 2016
End date of restricted period	31 Dec 2018			
Grant date of share rewards	23 Mar 2016	23 Mar 2016	27 Feb 2015	27 Feb 2014
Fair value of shares at granting, EUR[1]	29.16	29.16	29.09	24.00
Fair value of reward at grant date, EUR[1]		8.67	13.73	12.09

[1] B share closing price on granting date as determined with the Binary "asset or nothing call" evaluation model.

Transferred shares

	2016	2015	2014
Number of shares transferred during the period	144,350	141,949	119,326
Price per transferred share, EUR[1]	31.08	28.92	23.48
Total price of transferred shares, EUR million	4.5	4.1	2.8
End date of restricted period[2]	31 Dec 2017	31 Dec 2016	31 Dec 2015

[1] Average price of B shares on transfer date.

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

Auditor's remuneration

EUR million	2016	2015
Auditing	0.2	0.2
Assingments in accordance with the Auditing Act	0.0	0.0
Advice on taxation	0.1	0.1
Other services	0.0	0.0
Total	0.4	0.3

5. Finance income and expenses

EUR million	2016	2015
Interest income on loans and cash and other receivables	0.1	0.2
Interest income on available-for sale financial assets	0.0	0.0
Dividend income on available-for-sale financial investments	0.1	0.2
Foreign exchange gains and losses, net	0.5	0.4
Other finance income	0.0	0.0
Finance income, total	0.8	0.8
Interest expenses on financial liabilities measured at amortised cost	4.6	5.2
Other finance expenses	0.2	0.3
Finance expenses, total	4.9	5.5
Finance income and expenses, total	-4.1	-4.7

During the period the Group did not acquire any assets requiring a substantial period of time to be ready, and therefore no borrowing costs have been capitalised during the period.

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

EUR million	2016	2015
In net sales	1.9	1.2
In cost of goods sold	-0.5	0.1
In other income and expenses	-0.5	-1.7
In functions' expenses	0.0	-0.2

6. Income taxes

EUR million	2016	2015
Current taxes	62.6	53.5
Adjustments in respect of prior periods	0.1	-0.1
Deferred taxes	-0.8	0.8
Total	61.9	54.2

Taxes recognised in other comprehensive income

EUR million	2016	2015
Change in value of cash flow hedges (income -/ expense +)		0.0
Change in value of available-for-sale financial investments (income -/ expense +)	-1.3	0.3
Items due to remeasurement of defined benefit plans (income -/ expense +)	0.9	12.3

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

EUR million	2016	2015
Profit before taxes	310.9	262.3
Consolidated income taxes at Group's domestic tax rate	62.2	52.5
Impact of different tax rates of foreign subsidiaries	1.3	1.6
Tax-exempt income	-2.6	-0.2
Non-deductible expenses	0.8	0.9
Utilisation of deductible losses		-0.2
Tax adjustments for previous financial years	0.1	-0.1
Other items	0.1	-0.3
Income tax expense recognised in consolidated income statement	61.9	54.2
Effective tax rate	19.9%	20.6%

7. Earnings and dividend per share

Basic earnings per share

	2016	2015
Profit for the period attributable to owners of the parent company, EUR million	249.0	208.2
Weighted average number of shares during the period (1,000 shares)	140,671	140,806
Basic earnings per share, EUR	1.77	1.48

Diluted earnings per share

	2016	2015
Profit used to determine diluted earnings per share, EUR million	249.0	208.2
Weighted average number of shares for diluted earnings per share (1,000 shares)	140,671	140,806
Diluted earnings per share, EUR	1.77	1.48

Earnings per share are calculated by dividing the profit for the period attributable to owners by the weighted average number of shares outstanding during the period. The weighted average number of shares has been adjusted for the number of treasury shares held by the Group during 2016.

Dividend per share

	2016	2015
Dividend paid during the period, EUR million	183.3	183.1
Number of shares at 31 Dec, (1,000 shares)	140,474	140,830
Dividend per share paid during the period, EUR	1.30	1.30

Dividend per share is calculated by dividing the dividend distributed during the period by the number of shares outstanding at 31 December. The Group held 783,366 Company's B shares as treasury shares at 31 December 2016.

For the financial year 2016 a dividend of EUR 1.55 per share, in total EUR 217.7 million is proposed to the Annual General Meeting on 22 March 2017. These financial statements do not reflect the proposed dividend.

8. Property, plant and equipment

	Land and water		Buildings and constructions		Machinery and equipment		Other property, plant and equipment[1]		Advance payments and construction in progress		Total	
EUR million	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Historical cost at 1 Jan	5.9	5.9	321.9	307.3	383.2	366.0	4.7	4.7	24.1	24.1	739.9	708.0
Additions			5.3	9.8	15.7	13.1	0.0	0.2	23.4	15.6	44.5	38.7
Disposals			-0.2	-1.6	-15.6	-5.0	-0.0	-0.2	-0.2		-16.0	-6.8
Transfers between statement of financial position items			5.2	6.3	11.2	9.1	0.0	0.0	-16.4	-15.5	-0.0	-0.1
Translation differences					0.0	-0.0	-0.1	0.0			-0.1	0.0
Historical cost at 31 Dec	5.9	5.9	332.1	321.9	394.6	383.2	4.6	4.7	30.9	24.1	768.3	739.9
Accumulated depreciation and impairment at 1 Jan	0.2	0.2	-181.7	-174.2	-278.8	-261.7	-3.3	-3.3			-463.5	-438.9
Accumulated depreciation on disposals and transfers			0.2	1.6	14.4	4.0	0.0	0.2			14.6	5.7
Depreciation for the period			-8.9	-9.0	-21.4	-21.1	-0.2	-0.2			-30.5	-30.2
Translation differences				-0.0	0.0	0.0	0.1	-0.0			0.1	-0.1
Accumulated depreciation and impairment at 31 Dec	0.2	0.2	-190.3	-181.7	-285.8	-278.8	-3.3	-3.3			-479.2	-463.5
Carrying amount at 1 Jan	6.1	6.1	140.2	133.1	104.5	104.4	1.4	1.4	24.1	24.1	276.4	269.1
Carrying amount at 31 Dec	6.1	6.1	141.8	140.2	108.9	104.5	1.3	1.4	30.9	24.1	289.1	276.4

[1] Other property, plant and equipment mainly comprise basic improvements to rented apartments, asphalting, environmental works and art objects.

Finance leases

Assets leased through finance lease agreements included in machinery and equipment

EUR million, 31 Dec	2016	2015
Historical cost	15.5	14.1
Accumulated depreciation	-13.7	-12.7
Carrying amount	1.8	1.4

The additions to the historical cost of machinery and equipment include EUR 1.6 (2015: 0.7) million of assets leased through finance lease agreements.

There have been no other indications that the value of property, plant and equipment might have been impaired during the period.

9. Intangible assets

	Goodwill		Intangible rights[1]		Other intangible assets[2]		Total	
EUR million	2016	2015	2016	2015	2016	2015	2016	2015
Historical cost at 1 Jan	13.5	13.5	136.5	146.6	57.1	56.2	207.1	216.2
Additions			5.4	4.4	0.9	0.9	6.2	5.4
Disposals			-3.6	-14.6	-0.5		-4.1	-14.6
Transfers between statement of financial position items			0.0	0.1			0.0	0.1
Translation differences					0.0	-0.0	0.0	-0.0
Historical cost at 31 Dec	13.5	13.5	138.3	136.5	57.5	57.1	209.3	207.1
Accumulated amortisation and impairments at 1 Jan			-94.8	-98.9	-54.6	-53.4	-149.3	-152.3
Accumulated amortisation on disposals			3.5	14.6	0.5		4.0	14.6
Amortisation for the period			-8.9	-9.1	-0.9	-1.1	-9.8	-10.2
Impairment			-0.3	-1.3			-0.3	-1.3
Translation differences				0.0		0.0		0.0
Accumulated amortisation and impairment at 31 Dec			-100.4	-94.8	-55.0	-54.6	-155.4	-149.3
Carrying amount at 1 Jan	13.5	13.5	41.7	47.7	2.5	2.7	57.7	63.9
Carrying amount at 31 Dec	13.5	13.5	37.9	41.7	2.5	2.5	53.9	57.7

[1] Intangible rights comprise mainly product rights and marketing authorisations with carrying amount EUR 22.1 (2015: 25.8) million, and also software, trademarks, patents and paid-up policies.

[2] Other intangible assets include development costs for software paid to external parties and entry fees.

Besides goodwill, the Group has no other intangible assets with indefinite useful life. The Group has no internally produced intangible assets. All intangible assets have been obtained through acquisition.

Impairment testing of goodwill, property, plant and equipment and intangible assets

Goodwill

The goodwill of EUR 13.5 million originated from the acquisition of Farmos-Group Ltd. in 1990. In impairment testing, the goodwill is allocated to the cash generating units that form the Pharmaceuticals business.

In the impairment tests, the recoverable amount is determined on the basis of the value-in-use calculation. The cash flow forecasts are based on the detailed five-year plans adopted by the management. The cash flows beyond the forecast period adopted by the management have been calculated cautiously assuming zero per cent growth. The management's forecasts are based on the growth of global pharmaceutical markets, market shares in sales of pharmaceuticals, and the trends expected in pharmaceutical markets and sales.

The discount rate used is the weighted average cost of capital (WACC), in which the special risks related to the cash generating unit have been taken into account. The discount rate is defined before taxes. The discount rate for the period is 4.06% (2015: 4.90%).

Based on impairment testing, there was no need to recognise any impairment of goodwill during the period.

A change in any of the main variables used would, reasonably judged, not lead to a situation in which the recoverable amounts of a group of cash-generating units were lower than their carrying amount.

Intangible assets not yet available for use

Intangible assets not yet available for use are tested for impairment annually. The recoverable amount is based on the value in use. Cash flow forecasts adopted by the management cover a 5–15 year period from taking asset into use. The use of forecasts for periods of over five years is based on the estimated useful life of products. Beyond the five-year period, the cash flow growth rate does not exceed the average growth rates of markets for the Company's products and the pharmaceutical industry. The discount rates for the period varied from 10% to 12%, and they are defined separately for each unit taking into account its risks.

The carrying amount of intangible assets not yet available for use was EUR 7.2 (2015: 7.1) million.

Impairment charges recognised in the period

During the period impairment charges totalling EUR 0.3 (2015: 1.3) million were recognised on the intangible rights of the Pharmaceuticals business. Intangible rights not yet available for use accounted for EUR 0.3 (2015: 0.7) million of the impairments. The most significant impairment charges relate to acquired rights to products the development of which has ceased, and to products that are already in markets, but for which the forecast recoverable cash flows were less than the carrying amount. The full carrying amount of rights to products the development of which has ceased has been recognised as an expense.

There were no other indications that the value of intangible assets might have been impaired during the period.

10. Investments in associates, affiliates and joint arrangements

EUR million	2016	2015
Carrying amount at 1 Jan	2.6	2.1
Share of associated companies' results	0.4	0.4
Sale of associated companies	-2.9	
Carrying amount at 31 Dec	0.1	2.6

Associates and affiliates of the Group

Holding at 31 Dec, %	Domicile	2016	2015
Hangon Puhdistamo Oy	Hanko	50.0%	50.0%
Regattalämpö Oy	Hanko	42.6%	42.6%
Pharmaservice Oy	Helsinki		49.0%

Hangon Puhdistamo Oy engages in wastewater treatment for the companies that own it. Regattalämpö Oy provides real estate services for the residential buildings of the companies that own it. The companies operate at cost, by covering their own expenses and without making any profit, so their impact on the consolidated statement of comprehensive income and statement of financial position is minimal. Pharmaservice Oy is a provider of dose dispensing support services for pharmacies. Pharmaservice Oy was sold in July 2016.

Summarised financial information of associates

EUR million	2016	2015
Assets	6.5	11.1
Liabilities	5.6	9.5
Revenues	2.5	16.5
Profit (+) or loss (-) for the period	0.0	0.9

The most recent available financial statements of the associates are for the years 2015 and 2014.

Joint arrangements

In the 2016 financial year, total cost of joint operations amounted to EUR 13.8 (2015: 18.0) million. At the end of the financial year 2016, Orion had EUR 6.8 (2015: 10.5) million of the upfront payments related to the joint operations in the consolidated statement of financial position.

Licensing, development and commercialisation agreement between Orion and Bayer

In June 2014 Orion commenced global collaboration with Bayer in the development and commercialisation of the ODM-201 androgen receptor inhibitor. ODM-201 is in clinical development for the treatment of patients with prostate cancer. A Phase III trial was started in 2014 for further evaluation of the efficacy and safety of ODM-201 in patients with non-metastatic castration-resistant prostate cancer (nm-CRPC).

Orion and Bayer have set up a joint steering group for the project, and they are considered to have joint control over the project. The agreement does not involve a separate investment instrument, so the project is considered a joint operation under IFRS 11. In accordance with the agreement, Bayer will take main responsibility for future costs. Bayer will commercialise the product globally. Orion has the right to co-promote it in Europe and to royalties on product sales. Orion will be responsible for manufacturing of the product.

Licensing, development and commercialisation agreement between Orion and Janssen

During the 2013 financial year Orion entered into an agreement with Janssen Pharmaceuticals for further development and commercialisation of alpha-2c adrenoceptor antagonists for treatment of symptoms of Alzheimer’s disease, including the ORM-12741 molecule in clinical trials. Orion has completed Phase IIa clinical trials with the ORM-12741 molecule and Orion and Janssen will jointly fund further trials.

Orion and Janssen have a joint steering group related to the agreement, and the parties are considered to have joint control over the project. The agreement does not involve a separate investment instrument, so the project is considered as a joint operation under IFRS 11. Orion will spend a major part of the upfront payment on additional Phase IIa clinical trials. Orion retains exclusive rights for commercialisation of the products in Europe, and grants Janssen a global exclusive license to develop ORM-12741 and other molecules in the alpha-2c platform. Janssen has exclusive rights for commercialisation of the molecules outside Europe.

11. Available-for-sale investments

Available-for-sale investments, with asset value of EUR 0.4 (2015: 6.9) million at 31 December 2016, include mainly shares and investments in listed and unlisted companies. The shares and investments in unlisted companies are stated at cost, because their fair value cannot be determined reliably.

12. Pension assets and pension liabilities

The Orion Group has defined benefit pension plans in Finland and Norway. The regulation of these pension plans is quite similar. The most significant individual pension plan in Finland is the Orion Pension Fund, through which pension plans are provided for white-collar staff working in Finland. The Pension Fund includes statutory pension insurance to which all white-collar staff are entitled (Department B), only part of which is treated as defined benefit based under IAS 19, and supplementary insurance for some white-collar staff (Department A), which is entirely defined benefit based. Assets of the Orion Pension Fund are invested in accordance with Finnish legislation. The management and Board of Directors of the Pension Fund are responsible for management of the assets of the Fund. The Group also has other defined benefit pension plans in Finland and Norway for which a party outside the Group provides asset management.

Defined benefit plans - amounts recognised in the statement of financial position

EUR million, 31 Dec	Pension Fund 2016	Other 2016	Pension Fund 2015	Other 2015
Present value of funded obligations	308.7	13.9	295.7	12.8
Fair value of plan assets	-331.5	-11.2	-320.2	-10.3
Surplus (-) / deficit (+)	-22.8	2.6	-24.4	2.5
Present value of unfunded obligations		0.6		0.6
Net asset (-) / liability (+) recognised in the statement of financial position	-22.8	3.2	-24.4	3.1

Amounts in consolidated statement of financial position

EUR million	Pension Fund 2016	Other 2016	Pension Fund 2015	Other 2015
Liabilities	0.7	3.2	1.3	3.1
Asset	-23.5		-25.7	
Net asset (-) / liability (+) recognised in the statement of financial position	-22.8	3.2	-24.4	3.1

Defined benefit plan pension expenses in consolidated statement of comprehensive income

milj. €	Pension Fund 2016	Other 2016	Pension Fund 2015	Other 2015
Current service cost	2.7	0.6	8.8	1.5
Interest expense and income, total	-0.5	0.1	0.6	0.1
Pension expense (+) / income (-) in income statement	2.2	0.7	9.4	1.6
Items due to remeasurement	-5.0	0.4	-61.5	0.1
Pension expense (+) / income (-) in statement of comprehensive income	-2.8	1.1	-52.1	1.7

Defined benefit plan pension expenses by function

EUR million	Pension Fund 2016	Other 2016	Pension Fund 2015	Other 2015
Cost of goods sold	0.9		3.8	
Selling and marketing	0.3	0.2	1.3	0.8
Research and development	0.7		2.8	
Administration	0.4	0.5	1.5	0.8
Pension expense (+) / income (-) in the income statement	2.2	0.7	9.4	1.6

Changes in present value of obligation

EUR million	Pension Fund 2016	Other 2016	Pension Fund 2015	Other 2015
Defined benefit plan obligation at 1 Jan	295.7	13.5	323.4	10.4
Current service cost	3.9	0.7	8.7	1.5
Interest expense	6.6	0.3	7.2	0.3
Curtailments			-1.3	
Past service cost	-1.2	-0.1	1.4	
Items due to remeasurement:				
Gains (-) or losses (+) due to change in demographic assumptions			7.6	0.7
Gains (-) or losses (+) due to change in economic assumptions	6.3	0.1	-52.2	-0.7
Experienced gains (-) or losses (+)	4.1	0.2	7.3	1.9
Total	10.4	0.3	-37.3	1.9
Foreign exchange differences		0.2		-0.3
Benefits paid	-6.8	-0.4	-6.4	-0.3
Obligation at 31 Dec	308.7	14.5	295.7	13.5

Changes in fair value of plan asset

EUR million	Pension Fund 2016	Other 2016	Pension Fund 2015	Other 2015
Fair value of plan assets at 1 Jan	320.2	10.3	294.8	7.8
Interest income	7.1	0.2	6.6	0.2
Items due to remeasurement:				
Return on plan assets excluding items in interest expense and income	15.4	-0.0	24.2	1.8
Total	15.4	-0.0	24.2	1.8
Foreign exchange differences		0.2		-0.2
Employer contributions	-4.4	0.9	1.0	1.0
Benefits paid	-6.8	-0.4	-6.4	-0.3
Fair value of plan assets at 31 Dec	331.5	11.2	320.2	10.3

Fair values of assets of benefit plan arranged through the Orion Pension Fund by asset category as percentages of fair value of all plan assets

%	2016	2015
Equity in developed markets	49%	47%
Equity in emerging markets	6%	7%
Bonds	21%	22%
Cash and money market investments	8%	9%
Properties	12%	10%
Other	4%	5%
Total	100%	100%

In other benefit plans the insurance companies are responsible for the plan assets, so it is not possible to present a breakdown of those assets.

The Pension Fund plan assets in 2016 include shares issued by the parent company Orion Corporation with fair value EUR 35.4 (2015: 29.5) million that account for 10.7% (2015: 9.2%) of the plan assets.

The objective of the Orion Pension Fund is a distribution of investments that spreads risk between different types of asset over the long term. Most of the assets are invested in shares and bonds.

Actuarial assumptions used by the Orion Pension Fund

%	2016	2015
Discount rate	2.05	2.25
Inflation rate	1.50	1.50
Future pension increases	0.80–1.80	0.80–2.50
Future salary increases	1.60	1.75–2.00

In 2017 the Group expects to contribute EUR 13 (2015: 11) million to its pension plans.

The EUR 308.7 (2015: 295.7) million liability of the Orion Pension Fund has been discounted at a discount rate of 2.05%. The impact on the liability of a change in the discount rate of +/- 0.50 percentage points would be EUR -27.5/+31.7 (2015:-26.0/+30.0) million, when other assumptions unchanged.

The weighted average duration of the defined benefit liability is 16 (2015: 19) years.

The defined benefit plans expose the Group to risks, the most significant of which are described in more detail below.

Volatility related to assets and liability

The discount rate applied in calculating the net liability due to the plans is based on the return of low-risk bonds issued by companies. The Group's target over the long-term for defined benefit plan assets is to achieve a return exceeding the discount rate because some of the assets are equity instruments for which the return over the long term is expected to be higher than the return of bonds on which the discount rate is based. The value of defined benefit assets changes as the return rises above or decreases below the discount rate. This may generate a surplus or deficit of plan assets. The solidity of the Orion Pension Fund is good, so the Orion Pension Fund can withstand quite a heavy fall in stock markets.

Changes in returns of bonds

The Group may have to change the discount rate if the return on bonds changes. That would alter the liabilities of the defined benefit plans and the components relating to defined benefit plans to be recorded in the statement of comprehensive income. However, some of the assets of the plans are invested in bonds, and the change in their value may partly compensate for the effect of the change in the liability on the value of the net debt.

Inflation risk

The liability of the defined benefit plans would increase if inflation increased. Some of the plan assets are invested in equity instruments that are affected only a little by inflation. Acceleration of inflation would therefore increase the deficit of the defined benefit plans.

Anticipated life expectancy

Defined benefit plan liabilities to a large extent relate to the generation of life-long benefits for members. A rise in anticipated life expectancy would therefore increase the defined benefit liability.

13. Deferred tax assets and liabilities

Deferred tax assets

EUR million, 31 Dec	2016	2015
Pension liability	0.7	0.7
Internal inventory margin	0.6	0.2
Other deductible temporary differences	0.2	0.2
Total	1.5	1.1

Deferred tax liabilities

EUR million, 31 Dec	2016	2015
Depreciation difference and untaxed reserves	25.3	24.2
Capitalised cost of inventory	5.5	5.1
Availble-for-sale investments		1.3
Effects of consolidation and elimination	0.1	0.2
Pension assets	4.6	4.9
Other taxable temporary differences	1.7	2.2
Total	37.1	37.8

Change in deferred tax arises from

EUR million	2016	2015
Pension assets/liabilities	0.3	-10.4
Internal inventory margin	0.4	-0.2
Depreciation difference and untaxed reserves	-1.0	-1.8
Capitalised cost of inventory	-0.4	-0.9
Available-for-sale investments	1.3	-0.3
Deductible losses and other timing differences	0.5	0.2
Total	1.2	-13.4

During the period, an increase in equity of EUR 0.4 (2015: a decrease of 12.6) million due to income taxes was recognised. The recognised taxes decreased at 31 December 2016 the equity by EUR 0.6 (2015: decreased by EUR 0.9) million.

14. Other non-current receivables

EUR million, 31 Dec	2016	2015
Loan receivables from associates	0.6	0.6
Other non-current receivables	3.3	3.5
Total	3.8	4.1

Loan receivables include both interest-bearing and non-interest-bearing receivables. The carrying amounts do not materially differ from fair value.

15. Inventories

EUR million, 31 Dec	2016	2015
Raw materials and consumables	33.8	32.1
Work in progress	39.3	36.5
Finished products and goods	154.3	137.1
Total	227.5	205.7

The value of inventories has been impaired by EUR 13.4 (2015: 12.0) million for the period so it corresponds to net realisable value.

16. Trade and other receivables

	Carrying amount	Fair value	Carrying amount	Fair value
EUR million, 31 Dec	2016	2016	2015	2015
Trade receivables	200.1	200.1	192.1	192.1
Current tax assets	0.8	0.8	0.4	0.4
Receivables due from associates	0.1	0.1	0.1	0.1
Prepaid expenses and accrued income	20.4	20.4	18.8	18.8
Receivables on derivative contracts	0.1	0.1	0.3	0.3
Other receivables	10.5	10.5	11.4	11.4
Money market investments	31.0	31.0		
Total	263.0	263.0	223.2	223.2

The most substantial item in other receivables is VAT receivables EUR 4.0 (2015: 5.1) million.

The maturities of the money market investments on their acquisition dates were over three months but no more than six months. The carrying amount of trade receivables and other current receivables is a reasonable estimate of their fair value.

Ageing analysis of trade receivables

EUR million, 31 Dec	Carrying amount 2016	Fair value 2016	Carrying amount 2015	Fair value 2015
Not yet due	174.7	174.7	164.8	164.8
1 to 30 days past due	21.0	21.0	21.9	21.9
31 to 60 days past due	1.3	1.3	1.1	1.1
61 to 90 days past due	0.8	0.8	0.5	0.5
Over 90 days overdue	2.4	2.4	3.7	3.7
Total	200.1	200.1	192.1	192.1

Impairment charges recognised on trade receivables and other receivables for the period were net EUR 0.2 (2015: 0.0) million.

Material items included in prepaid expenses and accrued income

EUR million, 31 Dec	2016	2015
Prepayments for R&D costs	5.4	2.8
Receivables from royalties	4.3	4.4
Price differential payments	3.9	2.5
Share remunerations for restricted period	2.1	1.9
Prepayments for service and maintenance	1.8	1.6
Pending compensations	0.9	0.9
Pending R&D contributions	0.7	1.2
Other prepaid expenses and accrued income	1.4	3.6
Total	20.4	18.8

Due to the short-term character of the prepaid expenses and accrued income, the carrying amounts do not differ from fair value.

17. Cash and cash equivalents

EUR million, 31 Dec	Carrying amount 2016	Fair value 2016	Carrying amount 2015	Fair value 2015
Cash at bank and in hand	198.8	198.8	242.2	242.2
Money market investments	2.1	2.1	3.0	3.0
Total	200.9	200.9	245.2	245.2

Money market investments included in cash and cash equivalents are certificates of deposit and commercial paper with a maturity of less than three months issued by banks and companies.

18. Equity

Changes in share capital

	A shares	B shares	Total	Share capital EUR million
Total number of shares at 1 Jan 2015	**40,412,981**	**100,844,847**	**141,257,828**	**92.2**
Conversions of A shares to B shares in 1 Jan–31 Dec 2015	-1,506,827	1,506,827		
Total number of shares at 31 Dec 2015	38,906,154	102,351,674	141,257,828	92.2
Conversions of A shares to B shares in 1 Jan–31 Dec 2016	-612,000	612,000		
Total number of shares at 31 Dec 2016	**38,294,154**	**102,963,674**	**141,257,828**	**92.2**
Number of treasury shares at 31 Dec 2016		-783,366	-783,366	
Total number of shares at 31 Dec 2016 excluding treasury shares	**38,294,154**	**102,180,308**	**140,474,462**	
Total number of votes at 31 Dec 2016 excluding treasury shares	**765,883,080**	**102,180,308**	**868,063,388**	

On 31 December 2016 Orion had a total of 141,257,828 (141,257,828) shares, of which 38,294,154 (38,906,154) were A shares and 102,963,674 (102,351,674) B shares. The Group's share capital was EUR 92,238,541.46 (92,238,541.46). At the end of 2016 Orion held 783,366 (427,716) B shares as treasury shares. On 31 December 2016 the aggregate number of votes conferred by the A and B shares was 868,063,388 (880,047,038) excluding treasury shares.

All shares issued have been paid in full.

Orion's shares have no nominal value. The counter book value of the A and B shares is about EUR 0.65 per share.

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

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

The Articles of Association entitle shareholders to demand the conversion of their A shares to B shares within the limitation on the maximum number of shares of a class. In 2016 in total 612,000 shares were converted.

According to Orion's Articles of Association, the minimum number of all shares in the Company is one (1) and the maximum number is 1,000,000,000. A maximum number of 500,000,000 of the shares shall be A shares and a maximum number of 1,000,000,000 shares shall be B shares.

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

On 27 April 2016 Orion's Board of Directors decided to acquire shares in the Company as authorised by the Annual General Meeting. In the period 3–15 June 2016 the Company acquired 500,000 B shares in the Company in accordance with the decision. The shares were acquired for use as part of the Orion Group's incentive plans. Following the acquisitions, the Board of Directors does not have any outstanding authorisation to decide to acquire shares in the Company.

The Board of Directors is authorised to decide on conveyance of no more than 600,000 Orion Corporation B shares held by the Company. They authorisation to issue shares is valid for five years from the decision taken by the Annual General Meeting. The authorisation to be exercised is described in Note 4 under "Share-based payments".

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

After the end of the period, the Board of Directors proposed a dividend of EUR 1.55 per share to be distributed.

Expendable fund

EUR million	2016	2015
Expendable fund at 1 Jan	0.5	0.5
Expendable fund at 31 Dec	0.5	0.5

Other reserves

EUR million	2016	2015
Reserve for invested unrestricted equity	0.9	0.9
Reserve funds	1.2	0.9
Fair value reserve		5.2
Total	2.0	6.9

The fair value reserve includes possible gains and losses arising from revaluation of available-for-sale investments.

Translation differences

Translation differences include those arising from translation of the financial statements of foreign entities.

Dividends and other distribution of profits

A dividend of EUR 1.30 (2015: 1.30) per share were distributed in the 2016 financial year. In addition, donations of EUR 0.4 (2015: 0.3) million were distributed from profit funds.

19. Provisions

EUR million	Pension provisions	Restructuring provisions	Other provisions	Total
1 Jan 2016	0.1	0.3	0.2	0.6
Exchange rate differences		-0.0		-0.0
Utilised during the period	-0.0	-0.1	-0.2	-0.3
Additions to provisions		0.0	0.2	0.3
31 Dec 2016	0.0	0.2	0.3	0.5

EUR million, 31 Dec	2016	2015
Non-current provisions	0.3	0.3
Current provisions	0.2	0.3
Total	0.5	0.6

Pension provision

Pension provisions include provisions for unemployment pension expenses for persons made redundant in 2013 who have not yet found work or may possibly not find work. Main part of the restructuring provision relates to redundancies in Sweden in 2013. Other provisions are termination expenses related to R&D project. The provisions are expected to materialise in the next 1–3 years.

20. Interest-bearing liabilities

EUR million, 31 Dec	Carrying amount 2016	Fair value 2016	Carrying amount 2015	Fair value 2015
Loans from financial institutions			28.0	27.9
Bonds	149.5	158.5	149.3	156.4
Finance lease liabilities	0.7	0.7	0.5	0.6
Non-current liabilities total	150.2	159.2	177.9	184.9

EUR million, 31 Dec	Carrying amount 2016	Fair value 2016	Carrying amount 2015	Fair value 2015
Repayments of non-current loans			8.7	8.9
Finance lease liabilities	1.2	1.2	1.0	1.0
Other interest-bearing liabilities	1.2	1.2	0.2	0.2
Current liabilities total	2.3	2.3	9.9	10.1

The fair values of the liabilities have been determined by discounting future cash flows to present value using the market interest rate applicable to a Group loan at the end of the reporting period. At the end of the reporting period, a company-specific margin has been added in discounting to market interest rates. The fair value of the bond has been determined by using estimated market value received from the bank.

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

Most of the interest-bearing liabilities are euro-denominated.

Maturities of finance lease liabilities

Minimum lease payments

EUR million, 31 Dec	2016	2015
No later than 1 year	1.2	1.1
Later than 1 year but no later than 5 years	0.7	0.6
Total	1.9	1.6

Present value of minimum lease payments

EUR million, 31 Dec	2016	2015
No later than 1 year	1.2	1.0
Later than 1 year but no later than 5 years	0.7	0.5
Present value of minimum lease payments	1.9	1.5
Future finance charges	0.1	0.1
Minimum lease payments, total	1.9	1.6

21. Other non-current liabilities

EUR million, 31 Dec	2016	2015
Other non-current liabilities	0.0	0.0
Total	0.0	0.0

22. Trade payables and other current liabilities

EUR million, 31 Dec	2016	2015
Trade payables	106.1	99.1
Current tax liabilities	9.1	1.2
Other current liabilities to associates	0.1	0.1
Accrued liabilities and deferred income	90.2	98.1
Liabilities on derivative contracts	0.2	0.4
Other current liabilities	22.3	24.1
Total	228.1	223.1

The most substantial items in other liabilities are EUR 6.8 (2015: 10.5) million of upfront payments relating to joint operations and EUR 5.5 (2015: 5.7) million of VAT liabilities.

Material items included in accrued liabilities and deferred income

EUR million, 31 Dec	2016	2015
Liabilities from incentive plans	27.5	22.3
Other accrued salary, wage and social security payments	22.1	22.9
Accrued price adjustments	9.7	20.1
Sales revenue received in advance	7.8	12.0
Accrued R&D expenses	5.3	3.6
Accrued price reductions	2.4	2.7
Accrued interest	2.3	2.3
Accrued litigation costs	2.3	1.4
Accrued royalties	2.2	2.3
Accrued sales compensation	1.1	0.3
Other accrued liabilities and deferred income	7.5	8.3
Total	90.2	98.1

Due to the short-term character of the trade payables and other current liabilities, the carrying amounts do not materially differ from fair value.

23. Financial assets and liabilities by value category

EUR million, 31 Dec	2016	2015
Financial assets at fair value through profit and loss		
Non-hedge-accounting derivatives	0.1	0.3
Loans and other receivables		
Other non-current assets	3.8	4.1
Trade receivables	200.1	192.1
Other receivables	9.1	8.5
Cash and cash equivalents	200.9	245.2
Available-for-sale financial assets		
Available-for-sale investments	0.4	6.9
Money market investments	31.0	
Financial assets total	445.5	457.1
Financial liabilities at fair value through profit and loss		
Non-hedge-accounting derivatives	0.2	0.4
Financial liabilities measured at amortised costs		
Interest-bearing non-current liabilities	150.2	177.9
Other non-current liabilities	0.0	0.0
Trade payables	106.1	99.1
Other current liabilities	16.6	27.5
Interest-bearing current liabilities	2.3	9.9
Financial liabilities total	275.6	314.8

Derivative contracts are included in other receivables and other liabilities in the consolidated statement of financial position.

Fair value measurement and hierarchy

Financial instruments measured at fair value in the statement of financial position are grouped as follows into three hierarchy levels depending on the valuation technique

EUR million, 31 Dec 2016	Level 1	Level 2	Level 3	Total
Derivatives				
Currency derivatives		0.1		0.1
Available-for-sale financial assets				
Shares and investments			0.4	0.4
Assets total		0.1	0.4	0.5
Derivatives				
Currency derivatives		-0.2		-0.2
Liabilities total		-0.2		-0.2

EUR million, 31 Dec 2015	Level 1	Level 2	Level 3	Total
Derivatives				
Currency derivatives		0.3		0.3
Available-for-sale financial assets				
Shares and investments	6.6		0.3	6.9
Assets total	6.6	0.3	0.3	7.2
Derivatives				
Currency derivatives		-0.4		-0.4
Interest rate swaps		-0.0		-0.0
Liabilities total		-0.4		-0.4

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

The Group applies the principle of recognising transfers between levels of fair value hierarchy on the date on which the event triggering the transfer occurred.

24. Financial risk management

The objective of the Group's financial risk management is to decrease the negative effects of market and counterparty risks on the Group's profits and cash flows and to ensure sufficient liquidity.

The main principles for financial risk management are defined in the Group Treasury Policy approved by the Board of Directors of the parent company, and the Group Treasury is responsible for its implementation. Treasury activities are centralised in the Group Treasury.

24.1. Market risk

The Group is exposed to market risks related to foreign currency exchange rate, market interest rate and electricity price.

24.1.1. Foreign currency exchange rate risk

The Group's foreign currency exchange rate risk consists of transaction risk and translation risk.

Transaction risk

Transaction risk arises from operational items (such as sales and purchases) and financial items (such as loans, deposits and interest flows) in foreign currency in the statement of financial position, and from forecast cash flows over the upcoming 12 months. Transaction risk is monitored and hedged actively. In accordance with the Treasury Policy, items based on significant currencies in the statement of financial position are normally hedged 90–105% and the forecast cash flows over the upcoming 12 months 0–50%. Currency derivatives with maturities up to 12 months are used as hedging instruments.

The most significant currencies for the Group's operational items are the US dollar, Swedish krona, Polish zloty, Norwegian krona, Russian rouble, Japanese yen and British pound. As regards these currencies, no individual currency accounts for a significant portion of the overall position. The combined position as regards these currencies is presented below.

	Significant currencies	
EUR million, 31 Dec	2016	2015
Net position in statement of financial position	6.0	12.9
Forecast net position (12 months)	167.6	110.7
Net position, total	173.5	123.6
Currency derivatives for hedging	-22.7	-27.2
Net open position total	150.8	96.4

The Group's internal loans and deposits are denominated in the local currency of the subsidiary and the most significant ones are fully hedged with currency swaps.

The fair value changes of the currency derivatives are recognised through profit and loss in either other operating income and expenses or finance income and expenses depending on whether, from an operational perspective, sales revenues or financial assets and liabilities have been hedged.

Translation risk

Translation risk arises from the equity of subsidiaries outside the eurozone. At 31 December 2016 the equity in these subsidiaries totalled EUR 73.5 (2015: 69.3) million. The most significant translation risk arises from the British pound. This translation position has not been hedged.

Sensitivity analysis

The effect of changes in foreign currency exchange rates on the Group's results (before taxes) and equity at the reporting date is presented below for the significant currencies. The assumption used in the sensitivity analysis is a +/- 10% change in the exchange rates (foreign currency depreciates/appreciates by 10%) while other factors remain unchanged. In accordance with IFRS 7, the sensitivity analysis includes only the financial assets and liabilities in the statement of financial position, and so the analysis does not take into account the forecast upcoming 12-month foreign currency cash flow included in the position. The potential translation position is not taken into account in the sensitivity analysis.

EUR million, 31 Dec	Impact on profit 2016	Impact on profit 2015	Impact on equity 2016	Impact on equity 2015
+/- 10% change in exchange rates	1.5/-1.9	1.3/-1.6	0	0

24.1.2. Electricity price risk

The price risk refers to the risk resulting from changes in electricity market prices. The market price of electricity fluctuates greatly due to weather conditions, hydrology and emissions trading, for example. The Group obtains its electricity through deliveries that are partly fixed-price contracts and partly tied to the spot price of the price area of Finland, and in the latter case is therefore exposed to electricity price fluctuation. This price risk is not hedged.

24.1.3. Interest rate risk

Changes in interest rates affect the Group's cash flow and results. At 31 December 2016, the Group's interest-bearing liabilities totalled EUR 152.5 (2015: 187.8) million. Most of the Group's interest-bearing liabilities are tied to a fixed interest rate, so the impact of changes in interest rates on the Group is minor.

The effect of an interest rate rise on net interest expenses has been estimated through a sensitivity analysis in which interest rates are assumed to rise in 2017 in parallel by one percentage point (1%) compared with market interest rates at the end of the reporting period while other factors (including liabilities) remain unchanged. The estimated interest expenses of the Group would then rise by EUR 0.0 million in 2017 (before taxes) (2016: EUR 0.4 million).

Cash flow hedge accounting under IAS 39 was not applied at 31 December 2016, so no fair value valuation for interest rate derivatives has been recognised in the equity (2015: EUR 0.0 million before taxes). The nominal values of the interest rate derivatives therefore totalled EUR 0.0 (2015: 11.6) million. In 2016 EUR -0.0 (2015: -0.1) million due to interest rate derivatives was recognised in net interest expenses.

24.2. Counterparty risk

Counterparty risk is realised when a counterparty to the Group does not fulfil its contractual obligations, resulting in non-payment of funds to the Group. The maximum credit risk exposure at 31 December 2016 is the total of financial assets less carrying amounts of derivatives in financial liabilities, which totalled EUR 445.3 (2015: 456.7) million (Note 23). The main risks relate to trade receivables, cash and cash equivalents, and money market investments.

The Group Treasury Policy defines the requirements for the creditworthiness of the financial institutions acting as counterparties to Group companies. Limits have been set for counterparties on the basis of credit rating and solidity, and they are regularly monitored and updated. Money market investments are made mainly in interest-bearing instruments with duration up to six months that are tradable in secondary markets.

The Group Customer Credit Policy defines the basis for classifying customers and setting limits for them, and the ways through which the credit risk is managed. Payment performance and the financial situation of customers are monitored, and effective collection is regularly undertaken. Credit risk can be reduced by requiring advance payment, a letter of credit or a bank guarantee as a payment term, or by using credit insurance. In the pharmaceutical industry, trade receivables are typically generated by distributors representing different geographical areas. In certain countries, the Group also sells directly to local hospitals.
The 25 largest customers accounted for 78.5% of the trade receivables at 31 December 2016 (2015: 80.1 %). The trade receivables are not considered to involve significant risk. Credit losses for the period recognised through profit and loss were EUR 0.2 (2015: 0.0) million.

24.3. Liquidity risk

The Group seeks to maintain a good liquidity position in all conditions. In addition to cash flows from operating activities and cash and cash equivalents and other money market investments, the liquidity is ensured by EUR 100 million of binding undrawn bilateral credit limits that will mature in late 2017. In addition to this, the Group has undrawn bank overdraft limits and a EUR 100 million unconfirmed commercial paper programme from which no commercial papers had been issued on the reporting date.

The Group's interest-bearing liabilities at 31 December 2016 were EUR 152.5 (2015: 187.8) million. The average maturity for interest-bearing liabilities excluding finance lease liabilities is two years and five months (2015: three years and three months). At 31 December 2016, the Group's cash and cash equivalents and money market investments, which decrease liquidity risk, totalled EUR 231.9 (2015: 245.2) million. To ensure the Group's liquidity, surplus cash is invested mainly in short-term euro-denominated interest-bearing instruments with good creditworthiness that are tradable in secondary markets. An investment-specific limit is determined for each investment.

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

EUR million, 31 Dec 2016	2017	2018	2019	2020	2021–	Total
Repayments of bonds			150.0			150.0
Repayments of finance lease loans	1.2	0.7	0.0	0.0		1.9
Repayments of other liabilities	1.2					1.2
Interest payments	4.2	4.1	4.1	0.0	0.0	12.4
Cash flow total, interest-bearing financial liabilities	6.5	4.8	154.1	0.0	0.0	165.5
Trade payables	106.1					106.1
Other non-interest-bearing financial liabilities	16.6				0.0	16.7
Cash flow total, non-interest-bearing financial liabilities	122.8				0.0	122.8
Derivative contracts, inflow	0.1					0.1
Derivative contracts, outflow	-0.2					-0.2
Cash flow total, derivative contracts	-0.1					-0.1
Cash flow total, all	129.2	4.8	154.1	0.0	0.0	288.2

EUR million, 31 Dec 2015	2016	2017	2018	2019	2020–	Total
Repayments of loans from financial institutions	8.7	8.7	8.7	6.4	4.2	36.7
Repayments of bonds				150.0		150.0
Repayments of finance lease loans	1.0	0.4	0.2	0.0		1.5
Repayments of other liabilities	0.2					0.2
Interest payments	4.5	4.3	4.4	4.4	0.1	17.7
Cash flow total, interest-bearing financial liabilities	14.4	13.4	13.3	160.8	4.3	206.2
Trade payables	99.1					99.1
Other non-interest-bearing financial liabilities	31.1				0.0	31.2
Cash flow total, non-interest-bearing financial liabilities	130.2				0.0	130.2
Derivative contracts, inflow	0.3					0.3
Derivative contracts, outflow	-0.4					-0.4
Cash flow total, derivative contracts	-0.1					-0.1
Cash flow total, all	144.5	13.4	13.3	160.8	4.3	336.4

Forward rates or the average reference rate per contract are used for forecasts of interest payments on floating-rate loans.

24.4. Management of capital structure

The financial objectives of the Group include a capital structure related goal to maintain the equity ratio, i.e. equity in proportion to total assets, at a level of at least 50%. This equity ratio is not the Company's opinion of an optimal capital structure, but rather part of an aggregate consideration of the Company's growth and profitability targets and dividend policy.

The terms of credit agreements of the Company include covenants that specify that if the covenants are breached, the lender optionally has the right to demand early repayment of the loan. The following tables show the levels of financial covenants specified in the terms of the agreements and the corresponding values at 31 December 2016.

The company has given the following covenants:

FINANCIAL COVENANTS	Requirements
Group equity ratio	>32%
Group interest-bearing liabilities / EBITDA	<2.0:1

Group equity ratio (including advance payments)

31 Dec	2016	2015
Equity, EUR million	641.4	594.9
Equity and liabilities total, EUR million	1,062.9	1,047.4
Equity ratio, (including advance payments) %	60.3%	56.8%

Group interest-bearing liabilities / Group EBITDA

EUR million, 31 Dec	2016	2015
Interest-bearing liabilities	152.5	187.8
EBITDA	355.2	308.3
Interest-bearing liabilities / EBITDA	0.4	0.6

25. Derivatives

Nominal values and maturity of derivatives

EUR million, 31 Dec	2016	2015
Currency derivatives		
Currency forward contracts and currency swaps	25.1	49.1
Currency options	31.7	39.2
Interest rate swaps		11.6

All derivatives have a maturity less than one year.

Fair values of derivatives

	2016			2015
EUR million, 31 Dec	Positive	Negative	Net	Net
Non-hedge-accounting derivatives				
Interest-rate swaps				-0.0
Currency forward contracts and currency swaps	0.1	-0.1	-0.1	-0.0
Currency options	0.1	-0.1	-0.0	-0.0

All derivatives are OTC derivatives, and market quotations at the end of the reporting period have been used for determining their fair value. Derivatives measured at fair value have been reported in the consolidated statement of financial position on a gross basis. Derivative contract terms agreed with banks allow netting in the event of payment default or bankruptcy, among other things. At the end of the reporting period, after netting the counterparty risk to Orion was EUR 0.0 (2015: 0.0) million and to counterparties EUR 0.1 (2015: 0.1) million.

26. Contingent liabilities

Commitments and contingencies

EUR million, 31 Dec	2016	2015
Contingencies for own liabilities		
Guarantees	4.1	5.2
Other	0.3	0.3

Significant legal proceedings

Companies belonging to the Orion Group are parties to various legal disputes, which are not, however, considered to be significant legal proceedings for the Group.

27. Operating leases

Group as lessee

Minimum lease payments payable on the basis of other non-cancellable leases

EUR million, 31 Dec	2016	2015
No later than 1 year	2.1	2.5
Later than 1 year but no later than 5 years	3.9	3.8
Over 5 years	0.7	1.0
Total	6.7	7.3
Rents paid on the basis of other operating leases during the period	3.0	3.0

Other lease expenses comprise mainly expenses for business premises abroad and other non-financial lease items.

Group as lessee

Rental income is presented in Note 2, Other operating income and expenses. The rental income comprises mainly rents from personnel and others for real estate owned by the Group.

The Group does not have any finance leases under which the Group is a lessor. .

28. Group companies

Group companies at 31 December 2016

	Group		Parent company	
	Ownership, %	Share of votes, %	Ownership, %	Share of votes %
Pharmaceuticals				
Parent company Orion Corporation, Espoo				
Fermion Oy, Espoo	100.00	100.00	100.00	100.00
Kiinteistö Oy Harmaaparta, Espoo	100.00	100.00	100.00	100.00
Kiinteistö Oy Kalkkipellontie 2, Espoo	100.00	100.00	100.00	100.00
Kiinteistö Oy Kapseli, Hanko	100.00	100.00		
Kiinteistö Oy Pilleri, Hanko	70.39	70.39		
Kiinteistö Oy Tonttuvainio, Espoo	100.00	100.00	100.00	100.00
Orion Export Oy, Espoo[1]	100.00	100.00	100.00	100.00
Saiph Therapeutics Oy, Espoo[1]	100.00	100.00	100.00	100.00
FinOrion Pharma India Pvt. Ltd., India	100.00	100.00	95.00	95.00
OOO Orion Pharma, Russia	100.00	100.00		
Orion Pharma (Austria) GmbH, Austria	100.00	100.00	100.00	100.00
Orion Pharma (Ireland) Ltd., Ireland	100.00	100.00	100.00	100.00
Orion Pharma (UK) Ltd., United Kingdom	100.00	100.00	100.00	100.00
Orion Pharma A/S, Denmark	100.00	100.00	100.00	100.00
Orion Pharma AB, Sweden	100.00	100.00	100.00	100.00
Orion Pharma AG, Switzerland	100.00	100.00	100.00	100.00
Orion Pharma AS, Norway	100.00	100.00	100.00	100.00
Orion Pharma BVBA, Belgium	100.00	100.00	100.00	100.00
Orion Pharma d.o.o., Slovenia	100.00	100.00	100.00	100.00
Orion Pharma East LLP, Kazakstan	100.00	100.00	100.00	100.00
Orion Pharma GmbH, Germany	100.00	100.00	100.00	100.00
Orion Pharma Hellas, Pharmakeftiki Mepe, Greece	100.00	100.00	100.00	100.00
Orion Pharma Kft., Hungary	100.00	100.00	100.00	100.00
Orion Pharma Poland Sp.z.o.o., Poland	100.00	100.00	100.00	100.00
Orion Pharma Romania S.R.L., Romania	100.00	100.00	100.00	100.00
Orion Pharma S.L., Spain	100.00	100.00	100.00	100.00
Orion Pharma S.r.l., Italy	100.00	100.00	100.00	100.00
Orion Pharma s.r.o., Czech	100.00	100.00	100.00	100.00
Orion Pharma s.r.o., Slovakia	100.00	100.00	100.00	100.00
Orion Pharma SA, France	100.00	100.00	100.00	100.00
Orion Pharma Ukraine LLC, Ukraine	100.00	100.00	100.00	100.00
Orion Pharma, Inc., USA[1]	100.00	100.00	95.00	95.00
Orionfin Unipessoal Lda, Portugal	100.00	100.00	100.00	100.00
OÜ Orion Pharma Eesti, Estonia	100.00	100.00	100.00	100.00
UAB Orion Pharma, Lithuania	100.00	100.00	100.00	100.00
Diagnostics				
Orion Diagnostica Oy, Espoo	100.00	100.00	100.00	100.00
GeneForm Technologies Ltd., United Kingdom	100.00	100.00		
Orion Diagnostica AB, Sweden[1]	100.00	100.00		
Orion Diagnostica AS, Norway[1]	100.00	100.00		
Orion Diagnostica Danmark A/S, Denmark[1]	100.00	100.00		

[1] These companies are not engaged in business activities.

There are no companies in which the Group's ownership is 1/5 or more that have not been consolidated as associated companies or subsidiaries.

29. Related party transactions

In the Orion Group, the related parties are deemed to include the parent company Orion Corporation, the subsidiaries and associated and affiliated companies, the members of the Board of Directors of Orion Corporation, the members of the Executive Management Board of the Orion Group, the immediate family members of these persons, the companies controlled by these persons, and the Orion Pension Fund.

Related party transactions

The Group has no significant business transactions with the related parties, except for the pension expenses resulting from the defined benefit plans with Orion Pension Fund.

Management's employment benefits

EUR million	2016	2015
Salaries and other short-term employment benefits	6.4	6.2
Post-employment benefits	0.5	0.8

Salaries and remuneration[1]

EUR million	2016	2015
Timo Lappalainen, President and CEO	1.5	1.5
Hannu Syrjänen, Chairman	0.1	0.1
Timo Maasilta, Vice Chairman	0.1	0.1
Sirpa Jalkanen	0.0	0.1
Eero Karvonen	0.0	0.1
Eija Ronkainen	0.0	
Mikael Silvennoinen	0.1	0.1
Heikki Westerlund	0.1	0.1
Jukka Ylppö	0.1	0.1
Board of Directors, total	0.4	0.4

[1] Exact figures are available in the Corporate Governance Statement, under Remuneration Statement

The retirement age of the parent company's President and CEO is agreed to be 60 years and the pension level 60% of the agreed pensionable salary. In addition, one of the members of the Executive Management Board has the right to retire at the age of 60 years, the pension level being 60% of the pensionable salary. During the period EUR 0.1 (2015: 0.1) million was recorded as expenses for the statutory pension and EUR 0.4 (2015: 0.3) million for the supplementary pension of the parent company's President and CEO.

Loans, guarantees and other commitments to or on behalf of the related parties

Orion Corporation is the lender of an interest-bearing loan of EUR 0.6 million to Hangon Puhdistamo Oy.

30. Events after the end of the reporting period

There have been no known significant events after the reporting period that would have had an impact on the financial statements.

Parent company Orion corporation's financial statements (FAS)

Income statement

EUR million	Note	2016	2015
Net sales	1	900.4	833.9
Other operating income	2	32.4	8.2
Operating expenses	3,4	-637.0	-598.5
Depreciation, amortisation and impairment	4	-30.1	-30.6
Operating profit		265.7	213.0
Finance income and expenses	5	11.3	13.8
Profit before appropriations and taxes		277.0	226.9
Appropriations	6	17.3	15.0
Income tax expense	7	-53.7	-44.9
Profit for the period		240.6	196.9

Balance sheet

Assets

EUR million, 31 Dec	Note	2016	2015
Intangible rights		28.7	32.0
Other long-term expenditure		2.3	2.4
Intangible assets total	8	31.0	34.4
Land		3.5	3.5
Buildings and constructions		128.3	125.7
Machinery and equipment		77.2	74.2
Other tangible assets		1.1	1.2
Advance payments and construction in progress		14.9	17.2
Tangible assets total	9	225.2	221.9
Holdings in Group companies		83.2	83.2
Holdings in associates			1.3
Other investments		2.0	2.3
Investments total	10	85.2	86.8
Non-current assets total		341.3	343.1
Inventories	11	169.6	147.8
Non-current receivables	12	2.1	2.2
Trade receivables	13	165.3	161.0
Other current receivables	13	45.6	45.6
Investments	14	33.0	3.0
Cash and bank		146.3	219.1
Current assets total		561.9	578.7
Assets total		903.2	921.8

Liabilities

EUR million, 31 Dec	Note	2016	2015
Share capital		92.2	92.2
Expendable fund		0.5	0.5
Reserve for invested unrestricted equity		0.9	0.9
Retained earnings		76.7	75.5
Profit for the period		240.6	196.9
Shareholders' equity	15	410.9	366.0
Appropriations	16	96.0	92.3
Provisions	17	0.8	0.7
Loans from financial institutions			28.0
Bonds		149.5	149.3
Non-current liabilities total	18	149.5	177.3
Trade payables		99.8	94.7
Other current liabilities		146.2	190.8
Current liabilities total	19	246.0	285.5
Liabilities total		903.2	921.8

Cash flow statement

EUR million	2016	2015
Operating profit	265.7	213.0
Depreciation, amortisation and impairment	30.1	30.6
Other adjustments	-25.0	3.4
Total adjustments to operating profit	5.2	34.0
Change in non-interest-bearing current receivables	18.6	8.2
Change in inventories	-21.8	-22.6
Change in non-interest-bearing current liabilities	-32.7	18.4
Total change in working capital[1]	-35.9	3.9
Interest paid	-11.6	-10.2
Dividends received[2]	15.5	19.0
Interest received[2]	7.3	5.8
Income tax paid	-45.7	-38.2
Total net cash flow from operating activities	200.5	227.3
Investments in intangible assets	-5.9	-4.9
Investments in tangible assets	-26.5	-27.7
Sales of tangible assets	1.2	0.7
Investments in subsidiary shares		-0.0
Sale of subsidiary shares		0.0
Sales of other investments	25.2	
Loans granted		0.1
Repayments of loan receivables	0.3	-0.5
Total net cash flow from investing activities	-5.7	-32.3
Current loans raised	6.7	11.7
Repayments of current loans	-33.7	-10.3
Repayments of non-current loans	-36.7	-46.2
Treasury shares	-16.8	
Dividends paid and other distribution of profits	-179.1	-183.3
Group contributions received	22.0	21.0
Total cash flow from financing activities	-237.7	-207.1
Net change in cash and cash equivalents	-42.9	-12.1
Cash and cash equivalents at 1 Jan[3]	222.1	234.2
Net change in cash and cash equivalents	-42.9	-12.1
Cash and cash equivalents at 31 Dec[3]	179.3	222.1

[1] The change of the short-term loans and receivables between the parent company and the Finnish subsidiaries are recorded in the change of the parent company's working capital at their gross value.

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

[3] Cash and cash equivalents include liquid securities with a very low fluctuation-in-value risk, as well as cash in hand and at bank.

Parent company notes to the financial statements for 2016 (FAS)

General information

The parent company of the Orion Group is Orion Corporation, business ID 1999212-6, domiciled in Espoo.

The Orion Group's first financial year was 1 July–31 December 2006, because the Group came into being on 1 July 2006 following the demerger of its predecessor Orion Group into a pharmaceuticals and diagnostics business and a pharmaceutical wholesale and distribution business. Orion Corporation was listed on the Helsinki stock exchange on 3 July 2006.

Accounting policies

The Financial Statements of Orion Corporation are prepared in accordance with the Finnish Accounting Act, as well as other provisions and regulations related to compilation of financial statements.

Non-current assets

The Balance Sheet values of intangible and tangible assets are based on their historical costs, depreciated according to plan. The depreciation according to plan is based on the economic life of the assets, following the straight-line depreciation method.

The historical cost of the intangible and tangible assets includes assets with remaining economic life, as well as fully depreciated non-current asset items that are still in operative use. The corresponding policies are applied to the accumulated depreciation.

The economic lives of various asset categories are as follows:

• intangible rights and other capitalised expenditure	5–10 years
• goodwill	5–20 years
• buildings	20–40 years
• machinery, equipment and furniture	5–10 years
• vehicles	6 years
• other tangible assets	10 years

As a rule, goodwill is amortised over five years. In certain cases, however, the estimated economic life of the goodwill is longer, but at maximum twenty years. Other long-term expenditure items that generate or maintain income for three years or longer are capitalised and are normally depreciated over five years.

Land areas and revaluations are not depreciated according to plan. The production and office facilities were revalued in the Orion Group in the 1970s and 1980s. The revaluations are based on valuation of each asset separately.

Research and development expenses

R&D expenses are entered as expenses during the financial year in which they are incurred.

Inventories

Inventories are presented in the Balance Sheet using the standard price for self-manufactured products, and for purchased products the weighted average cost method using the value of the purchase and variable conversion costs, or if lower, the net realisable or replacement value.

Investments

The investments include short-term interest-bearing instruments. Financial instruments are valued at their historical cost or at market value, if lower.

Foreign currency transactions

The valuation of the receivables and liabilities denominated in foreign currencies is based on the exchange rates quoted by the European Central Bank on the reporting date. The resulting translation gains and losses are recognised through profit or loss Translation gains and losses related to business operations are recorded as adjustments of sales and purchases, whereas those related to financial items are recognised under financial income or expenses.

Financial assets and liabilities and derivative financial instruments

Financial instruments are measured at fair value using an alternative treatment allowed under the Finnish Accounting Act Chapter 5, Section 2a. Fair value measurement is applied to financial assets held for sale that are classified as financial assets and to derivatives. Other loans and receivables and other financial liabilities included in financial instruments are measured at amortised cost.

Financial assets held for sale include shares and interest-bearing direct investments, which are included mainly in short-term assets. Financial assets held for sale are measured at fair value using the price quoted in active markets on the reporting date. Investments in unquoted shares are measured at acquisition cost because their fair value cannot be measured using the fair value method. The change in the fair value of financial assets held for sale is recognised against the fair value reserve included in the equity.

Loans and receivables comprise cash and cash equivalents, loans granted, and trade and other receivables. Other financial liabilities include interest-bearing liabilities and trade and other payables.

Foreign exchange derivatives for hedging currency risk are measured at fair value using market prices on the reporting date. The fair value of foreign exchange derivatives that hedge operative items is recorded in other operating income and expenses, whereas the fair value of foreign exchange derivatives that hedge loans and receivables denominated in foreign currencies is recorded in translation differences in the financial items.

The Company has also entered into interest rate derivative contracts that hedge cash flows of loans. The effectiveness of the hedging relationship is verified before commencement of hedge accounting and subsequently regularly at least quarterly. The change in the fair value of the effective portion of qualifying derivative instruments that hedge cash flow is directly recognised against the fair value reserve included in the equity. The gains and losses recognised in equity are transferred to the income statement in the period during which the hedged cash flow is recognised in the income statement. The ineffective portion of the hedging relationship is recognised in the income statement under financial income and expenses as regards interest rate derivatives.

Provisions

Commitments by the Company to future expenses that are unlikely to generate corresponding revenue are deducted from income as provisions. Similarly, future losses that are likely to materialise are deducted from income.

Net sales

Net sales include revenue from sales of goods and services adjusted for indirect taxes, discounts and currency translation differences on sales in foreign currencies. Net sales also include milestone payments under contracts with marketing partners, which are paid by the partner as a contribution to cover the R&D expenses of a product during the development phase and are tied to certain milestones in research projects. In addition, net sales include royalties from the products licensed out by the Group.

Revenue from sales of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer. Revenue from services is recognised when the service has been provided. Milestone payments are recognised when the R&D project has progressed to a phase that, in accordance with an advance agreement with the partner, triggers the partner’s obligation to pay its share. Royalties are recorded on an accrual basis in accordance with the licensing agreements.

Share-based payment

The benefits under the share-based incentive plan for key employees approved by the Board of Directors are valued at fair value on the reporting date and recognised as an expense in the income statement during the vesting period of the benefit. The estimate of the final number of shares and associated cash payments is updated at each reporting date.

Pension arrangements

The pension security of the Company's employees has been arranged through the Orion Pension Fund and pension insurance companies. Supplementary pension security has been arranged through the pension fund for employees whose employment began prior to 25 June 1990 and continues until retirement. Supplementary pensions for some executives have also been arranged through pension insurance companies. The pension liability of the Orion Pension Fund is covered in full.

Income taxes

Income taxes comprise the taxes based on taxable profit and tax adjustments to previous financial periods. The financial statements do not itemise the deferred tax liabilities and assets, but the notes record the deferred tax liabilities and assets recognised in the balance sheet. These deferred tax liabilities or assets are calculated from material differences due to timing between the tax assessment and the financial statements, using the tax rate confirmed at the time of the financial statements for subsequent years.

1. Net sales

Net sales by business area

EUR million	2016	2015
Pharmaceuticals business	900.4	833.9
Total	900.4	833.9

Net sales by market area

EUR million	2016	2015
Finland	336.6	316.1
Scandinavia	128.0	118.9
Other Europe	270.5	251.1
North America	68.4	49.5
Other countries	96.9	98.3
Total	900.4	833.9

2. Other operating income

EUR million	2016	2015
Service charges received from Group companies	5.6	5.5
Rental income	0.6	0.7
Gains on sales of shares	23.8	
Gains on sales of property, plant and equipment and intangible assets	0.3	0.2
Other operating income	2.1	1.7
Total	32.4	8.2

3. Change in provisions

EUR million	2016	2015
Change in provisions	-0.1	-0.1
Total, increase (-), decrease (+)	-0.1	-0.1

4. Operating expenses, depreciation, amortisation and impairment

Operating expenses

EUR million	2016	2015
Increase (-) or decrease (+) in stocks of finished goods or work in progress	-19.3	-21.1
Production for own use	-3.7	-2.5
Raw materials and services		
Purchases during the financial year	264.3	250.1
Increase (-) or decrease (+) in stocks	-2.6	-1.6
External services	28.7	28.5
Total	290.5	277.0
Personnel expenses		
Wages and salaries	112.7	106.4
Pension expenses	13.2	15.2
Share-based incentive plan	9.8	8.5
Other social security expenses	7.6	6.7
Total	143.3	136.8
Other operating expenses	226.2	208.3
Total	637.0	598.5

Voluntary social security expenses are included in other operating expenses.

Auditor's remuneration

EUR million	2016	2015
Auditing fee	0.1	0.1
Assignments under Auditing Act Section 1 Subsection 1 Paragraph 2	0.0	0.0
Consultation on taxation	0.0	
Other services	0.0	
Total	0.1	0.1

Depreciation, amortisation and impairment

EUR million	2016	2015
Impairment	0.3	1.3
Other depreciation and amortisation	29.8	29.3
Total	30.1	30.6

See Balance Sheet Notes 8–9 for depreciation and amortisation by Balance Sheet item for the financial year.

See Accounting Policies for the financial statements of the parent company for basis of depreciation and amortisation according to plan.

Average number of employees

	2016	2015
Average number of employees during the financial year	2,189	2,177

Share-based payments

The Group has a share-based incentive plan that commenced in 2013 and one that commenced in 2016 in force for key persons of the Group.

The plan that commenced in 2013 includes earning periods, and the Board of Directors has annually decided on the beginning and duration of the earning periods in 2013, 2014 and 2015. The Board of Directors shall decide on the earning criteria and targets to be established for them at the beginning of each earning period. Two earning periods, calendar year 2013 and calendar years 2013–2015, commenced upon implementation of the plan. Two earning periods, calendar year 2014 and calendar years 2014–2016, commenced in 2014. Two earning periods, calendar year 2015 and calendar years 2015–2017, commenced in 2015. The reward under the plan for the earning periods 2013, 2014 and 2015 is based on the Orion Group's operating profit. The reward under the plan for the earning periods 2013–2015, 2014–2016 and 2015–2017 is based on the total return on Orion Corporation B shares.

The plan that commenced in 2016 includes earning periods, and the Board of Directors has decided or shall decide annually on the beginning and duration of the earning periods in 2016, 2017 and 2018. The Board of Directors shall decide on the earning criteria and targets to be established for them at the beginning of each earning period. Two earning periods, calendar year 2016 and calendar years 2016–2018, commenced upon implementation of the plan. The reward under the plan for the earning period 2016 is based on the Orion Group's operating profit. The reward for the earning period 2016–2018 is based on the total return on Orion Corporation B shares.

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

Earning period	Reward paid on / potential reward to be paid in
2013	3 Mar 2014
2014	2 Mar 2015
2013–2015	1 Mar 2016
2015	1 Mar 2016
2014–2016	2017
2016	2017
2015–2017	2018
2016–2018	2019

Shares received based on the one-year earning periods under the plan that commenced in 2013 cannot be transferred during the restricted period defined for the plan. For the three-year earning periods, there is no restricted period.

The target group of the plan that commenced in 2013 consists of approximately 35 people. The total maximum amount of rewards to be paid on the basis of the plan is 500,000 Orion Corporation B shares and a cash payment corresponding to the value of the shares. By 31 December 2016, a total of 320,475 Orion Corporation B shares had been paid as rewards under this plan.

The target group of the plan that commenced in 2016 consists of no more than 50 people. The total maximum amount of rewards to be paid on the basis of the plan is 500,000 Orion Corporation B shares and a cash payment corresponding to the value of the shares. By 31 December 2016, no rewards had yet been paid under this plan.

5. Finance income and expenses

EUR million	2016	2015
Income from Group companies	15.3	18.8
Income from other non-current investments		
Dividend income from other shares and equity	0.1	0.2
Interest income from Group companies	0.0	0.0
Other interest and finance income		
Interest income from Group companies	0.0	0.0
Interest income from other companies	0.1	0.1
Other finance income	7.1	5.2
Interest expenses and other finance expenses		
Interest expenses to Group companies	-0.1	-0.3
Interest expenses to others	-4.5	-5.0
Other finance expenses	-6.8	-5.2
Total	11.3	13.8

Finance income and expenses include

EUR million	2016	2015
Income from equity in other companies	15.5	19.0
Interest income	0.1	0.1
Interest expenses	-4.7	-5.3

6. Appropriations

EUR million	2016	2015
Change in cumulative accelerated depreciation	-3.7	-7.0
Group contribution received	21.0	22.0
Total	17.3	15.0

7. Income taxes

EUR million	2016	2015
Income tax on ordinary activities	53.6	44.9
Tax adjustments for previous financial years	0.1	0.0
Total	53.7	44.9

Deferred tax liability and deferred tax asset

No deferred tax liability or deferred tax asset of the Parent company has been recorded in the Company’s Balance sheet.

Deferred tax asset

EUR million	2016	2015
Provisions	0.2	0.1
Total	0.2	0.1

Deferred tax liability

EUR million	2016	2015
Appropriations	19.2	18.5
Revaluations	3.3	3.3
Total	22.5	21.8

8. Intangible assets

	Intangible rights		Goodwill		Other capitalised expenditure		Total	
EUR million	2016	2015	2016	2015	2016	2015	2016	2015
Acquisition cost at 1 Jan[1]	118.9	129.2	68.3	68.3	55.8	54.9	242.9	252.3
Additions	4.8	4.2			0.8	0.9	5.7	5.2
Disposals	-3.3	-14.6			-0.5		-3.8	-14.6
Transfers between Balance Sheet items		0.1						0.1
Acquisition cost at 31 Dec	120.5	118.9	68.3	68.3	56.1	55.8	244.9	242.9
Accumulated amortisation and impairment at 1 Jan[1]	-86.8	-92.1	-68.3	-68.3	-53.4	-52.3	-208.5	-212.6
Accumulated amortisation on disposals	3.3	14.6			0.5		3.7	14.6
Amortisation for the financial year	-7.9	-8.0			-0.9	-1.1	-8.7	-9.2
Impairment	-0.3	-1.3					-0.3	-1.3
Accumulated amortisation and impairment at 31 Dec	-91.8	-86.8	-68.3	-68.3	-53.8	-53.4	-213.9	-208.5
Book value at 1 Jan	32.0	37.1			2.4	2.6	34.4	39.7
Book value at 31 Dec	28.7	32.0			2.3	2.4	31.0	34.4
Accumulated difference between total and planned amortisation at 1 Jan	3.2	3.3			0.3	0.4	3.5	3.7
Change in cumulative accelerated amortisation, increase (+) / decrease (-)	-0.1	-0.1			-0.1	-0.1	-0.2	-0.2
Accumulated difference at 31 Dec	3.0	3.2			0.2	0.3	3.3	3.5

[1] Initial values include fixed asset items with remaining useful life and fully depreciated asset items still in operational use. Accumulated depreciation is calculated in the corresponding way.

9. Tangible assets

EUR million	Land and water 2016	Land and water 2015	Buildings and structures 2016	Buildings and structures 2015	Machinery and equipment 2016	Machinery and equipment 2015	Other tangible assets 2016	Other tangible assets 2015	Advance payments and construction in progress 2016	Advance payments and construction in progress 2015	Total 2016	Total 2015
Acquisition cost at 1 Jan[1]	3.5	3.5	244.8	231.7	248.0	239.5	2.6	2.4	17.2	15.2	516.1	492.3
Additions			4.4	7.6	10.3	8.4	0.0	0.1	10.8	11.7	25.5	27.8
Disposals			-0.0	-0.1	-10.7	-3.8		-0.0	-0.1		-10.8	-3.9
Transfers between Balance Sheet items			4.6	5.7	8.4	4.0	0.0	0.0	-13.0	-9.7		-0.1
Acquisition cost at 31 Dec	3.5	3.5	253.8	244.8	256.0	248.0	2.6	2.6	14.9	17.2	530.8	516.1
Accumulated depreciation at 1 Jan[1]			-119.1	-113.4	-173.8	-162.6	-1.3	-1.3			-294.2	-277.3
Accumulated depreciation on disposals and transfers			0.0	0.1	9.6	3.1		0.0			9.6	3.2
Depreciation for the financial year			-6.4	-5.8	-14.6	-14.2	-0.1	-0.1			-21.1	-20.1
Accumulated depreciation at 31 Dec			-125.5	-119.1	-178.7	-173.8	-1.4	-1.3			-305.6	-294.2
Book value at 1 Jan	3.5	3.5	125.7	118.2	74.2	76.9	1.2	1.2	17.2	15.2	221.9	215.0
Book value at 31 Dec	3.5	3.5	128.3	125.7	77.2	74.2	1.1	1.2	14.9	17.2	225.2	221.9
Accumulated difference between total and planned depreciation at 1 Jan			41.8	37.3	46.9	44.2	0.1	0.1			88.8	81.5
Change in cumulative accelerated depreciation, increase (+) / decrease (-)			1.3	4.5	2.7	2.7	0.0	0.0			4.0	7.3
Accumulated difference at 31 Dec			43.1	41.8	49.6	46.9	0.1	0.1			92.8	88.8

[1] Initial values include fixed asset items with remaining useful life and fully depreciated asset items still in operational use. Accumulated depreciation is calculated in the corresponding way.

The book value of production machines and equipment at 31 December 2016 was EUR 58.1 (2015: 55.1) million. The revaluation included in the acquisition cost of land was EUR 0.1 (2015: 0.1) million and in the acquisition cost of buildings EUR 16.5 (2015:16.5) million.

10. Investments

	Shares in Group companies		**Receivables from Group companies**		**Holdings in associated companies**		**Receivables from associated companies[1]**		**Other shares and equity**		**Loan receivables[1]**		**Total**	
EUR million	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Acquisition cost at 1 Jan	121.8	121.8	4.3	4.9	1.3	1.3		0.6	0.5	0.5	1.8	0.2	129.7	129.2
Additions		0.0		1.0					0.0	0.0		1.6	0.0	2.7
Disposals		-0.0		-1.6	-1.3			-0.6	-0.1		-0.2	-0.0	-1.6	-2.2
Acquisition cost at 31 Dec	121.8	121.8	4.3	4.3		1.3			0.4	0.5	1.6	1.8	128.1	129.7
Accumulated impairment at 1 Jan	-40.0	-40.0	-2.9	-2.9									-42.9	-42.9
Change during the period														
Accumulated impairment at 31 Dec	-40.0	-40.0	-2.9	-2.9									-42.9	-42.9
Book value at 1 Jan	81.8	81.8	1.4	2.0	1.3	1.3		0.6	0.5	0.5	1.8	0.2	86.8	86.3
Book value at 31 Dec	81.8	81.8	1.4	1.4		1.3			0.4	0.5	1.6	1.8	85.2	86.8

[1] A loan receivable and a receivable from an associated company (in the beginning of 2015) are equity loan receivables under the Companies Act.

11. Inventories

EUR million, 31 Dec	2016	2015
Raw materials and consumables	26.6	24.6
Work in progress	13.3	11.9
Finished products/goods	125.7	107.9
Other inventories	4.0	3.4
Total	169.6	147.8

12. Non-current receivables

EUR million, 31 Dec	2016	2015
Other receivables from Group companies	0.0	0.0
Loan receivables from associated companies	0.6	0.6
Other loan receivables	0.0	0.0
Other non-current receivables	1.5	1.5
Total	2.1	2.2

13. Current receivables

EUR million, 31 Dec	2016	2015
Trade receivables	128.6	128.3
Receivables from Group companies		
Trade receivables	36.6	32.7
Loan receivables	0.5	0.5
Prepayments and accrued income	21.0	22.0
Total	58.2	55.2
Loan receivables from associated companies	0.1	0.1
Other loan receivables	0.1	0.2
Other receivables	4.1	6.0
Prepayments and accrued income	19.7	16.9
Total	210.9	206.6

Material items included in prepayments and accrued income

EUR million, 31 Dec	2016	2015
Prepayments for R&D costs	5.4	2.8
Receivables from royalties	4.3	4.4
Pending price difference payments	3.9	2.5
Prepaid remunerations under incentive plan	1.9	1.7
Prepayments for services and maintenance	1.8	1.6
Pending compensations	0.7	0.7
Pending contributions	0.5	1.0
Receivables based on derivative contracts	0.1	0.3
Other prepayments and accrued income	1.1	1.7
Total	19.7	16.9

14. Investments

EUR million, 31 Dec	2016	2015
Other securities: interest instruments	33.0	3.0
Total	33.0	3.0

Difference between market value and book value

EUR million, 31 Dec	2016	2015
Market value	33.0	3.0
Corresponding book value	-33.0	-3.0
Accrued interest from interest instruments included in prepayments and accrued income	-0.0	-0.0
Difference	0.0	-0.0

15. Shareholder's equity

Share capital

EUR million	2016	2015
Share capital at 1 Jan	92.2	92.2
Share capital at 31 Dec	92.2	92.2

Fair value reserve

EUR million	2016	2015
Fair value reserve at 1 Jan		-0.1
Interest rate swaps		0.1
Fair value reserve at 31 Dec		

Expendable fund

EUR million	2016	2015
Expendable fund at 1 Jan	0.5	0.5
Expendable fund at 31 Dec	0.5	0.5

Reserve for invested unrestricted equity

EUR million	2016	2015
Reserve for invested unrestricted equity at 1 Jan	0.9	0.9
Reserve for invested unrestricted equity at 31 Dec	0.9	0.9

Retained earnings

EUR million	2016	2015
Retained earnings at 1 Jan	272.4	254.6
By decision of Annual General Meeting		
dividends distributed	-183.3	-183.1
donations made	-0.4	-0.3
share rewards paid	4.5	4.1
treasury shares	-16.8	
Unpaid dividends	0.2	0.1
Profit for the financial year	240.6	196.9
Retained earnings at 31 Dec	317.3	272.4

Parent company share capital by share class

	2016		2015	
31 Dec	number	EUR	number	EUR
A shares (20 votes/share)	38,294,154		38,906,154	
B shares (1 vote/share)	102,963,674		102,351,674	
Total	141,257,828	92,238,541.46	141,257,828	92,238,541.46

During the financial year 1 January to 31 December 2016 a total of 612,000 A share were converted into B shares.

16. Appropriations

EUR million, 31 Dec	2016	2015
Cumulative accelerated depreciation	96.0	92.3
Total	96.0	92.3

17. Provisions

EUR million, 31 Dec	2016	2015
Pension provisions	0.6	0.6
Other	0.2	0.1
Total	0.8	0.7

18. Non-current liabilities

EUR million, 31 Dec	2016	2015
Loans from financial institutions		28.0
Bonds	149.5	149.3
Total	149.5	177.3

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

19. Current liabilities

EUR million, 31 Dec	2016	2015
Loans from financial institutions		8.7
Advances received	6.8	10.5
Trade payables	88.3	82.6
Liabilites to Group companies		
Trade payables	11.5	12.1
Other liabilities	45.3	81.5
Accruals and deferred income		
Total	56.8	93.6
Other liabilities	9.3	7.7
Accruals and deferred income	84.8	82.5
Total	246.0	285.5

Material items included in accruals and deferred income

EUR million, 31 Dec	2016	2015
Liabilities from share-based incentive plan	23.7	19.0
Other accrued salary, wage and social security payments	17.4	17.0
Accrued price adjustments	9.7	20.1
Accrued tax	8.4	
Sales revenue received in advance	7.8	12.0
Accrued R&D expenses	5.3	3.6
Accrued price reductions	2.4	2.7
Accrued interest	2.3	2.3
Accrued litigation costs	2.3	1.4
Accrued royalties	2.2	2.3
Accrued sales compensations	1.1	
Compensation related to royalties	0.7	0.7
Liabilities on derivative contracts	0.2	0.4
Other accrued liabilities and deferred income	1.2	1.0
Total	84.8	82.5

Liabilities include

EUR million, 31 Dec	2016	2015
Non-current interest-bearing liabilities	149.5	177.3
Current interest-bearing liabilities	46.5	90.4
Current non-interest-bearing liabilities	199.5	195.1
Total	395.5	462.8

20. Notes relating to members of administrative bodies

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

EUR million	2016	2015
President and CEO and members of Board of Directors	2.0	1.9

No partial remuneration has been paid.

No loans have been granted to the members of administrative bodies.

Management pension commitments

The retirement age of the Company's President and CEO is agreed to be 60 years and the pension level 60% of the agreed pensionable salary. In addition, one of the members of the Executive Management Board has the right to retire at the age of 60 years, the pension level being 60% of the pensionable salary.

21. Contingencies

Guarantees on behalf of Group companies

EUR million, 31 Dec	2016	2015
Guarantees given	3.6	4.6

Total guarantees

EUR million, 31 Dec	2016	2015
Total guarantees	3.6	4.6

22. Liabilities and commitments

Lease agreements

EUR million, 31 Dec	2016	2015
Payments payable under lease agreements		
within next 12 months	1.7	1.2
later than 12 months	2.0	1.7
Total	3.6	2.9

The terms of lease agreements are normal.

Other liabilities

EUR million, 31 Dec	2016	2015
Drug damage liability	0.3	0.3

VAT liability for real estate investments

The company is liable to review VAT deductions made for real estate investments completed in 2008–2016 if the use subject to VAT decreases during the review period. The maximum liability is EUR 14.9 million and the last review year is 2025.

23. Financial risks

The objective of the financial risk management is to decrease the negative effects of market and counterparty risks on the Group's profits and cash flows and to ensure sufficient liquidity.

The main principles for financial risk management are defined in the Group Treasury Policy approved by the Board of Directors of the parent company, and the Group Treasury is responsible for its implementation. Treasury activities are centralised in the Group Treasury.

More information on the Company's financial risks can be found in the consolidated financial statements. The most significant difference between the Company's and the Group's risk positions is in the reported currency position in that the parent company hedges the Group's currency risk centrally without internal hedges with subsidiaries applied separately.

24. Derivatives

Nominal values and maturity of derivatives

EUR million, 31 Dec	2016	2015
Currency derivatives		
Currency forward contracts and currency swaps	25.1	49.1
Currency options	31.7	39.2
Interest rate swaps		11.6

All derivatives have a maturity less than one year.

Fair values of derivatives

EUR million, 31 Dec	2016			2015
Non-hedge-accounting derivatives	Positive	Negative	Netto	Netto
Interest-rate swaps				-0.0
Currency forward contracts and currency swaps	0.1	-0.1	-0.1	-0.0
Currency options	0.1	-0.1	-0.0	-0.0

Fair value measurement and hierarchy

Financial instruments measured at fair value in the stament of financial position are grouped as follows into three hierarchy levels depending on the valuation technique

EUR million, 31 Dec 2016	Level 1	Level 2	Level 3	Total
Derivatives				
Currency derivatives		0.1		0.1
Available-for-sale financial assets				
Shares and investments			0.4	0.4
Assets total		0.1	0.4	0.5
Derivatives				
Currency derivatives		-0.2		-0.2
Liabilities total		-0.2		-0.2

EUR million, 31 Dec 2015	Level 1	Level 2	Level 3	Total
Derivatives				
Currency derivatives		0.3		0.3
Available-for-sale financial assets				
Shares and investments	6.6		0.3	6.9
Assets total	6.6	0.3	0.3	7.2
Derivatives				
Currency derivatives		-0.4		-0.4
Interest rate swaps		-0.0		-0.0
Liabilities total		-0.4		-0.4

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

The Group applies the principle of recognising transfers between levels of fair value hierarchy on the date on which the event triggering the transfer occurred.

25. Holdings in other companies

See Note 28 Group companies in the Notes to the Consolidated financial statements for the Parent Company’s holdings in other companies.

Account books and document types 1 January–31 December 2016

Account books

Journal	electronic filing	10 years
General ledger	electronic filing	10 years

Types of accounting record

	Document number	Document type		
Fixed asset entries	0400000000–0499999999	AA	paper record/electronic filing	6 years
Catering	0700000000–0799999999	07	paper record/electronic filing	6 years
Sales invoices, manual entry	1100000000–1199999999	DA, DG, DR	paper record/electronic filing	6 years
Rent invoicing	1100000000–1199999999	ZB	paper record/electronic filing	6 years
Accounts receivable allocations, money received	1210000000–1219999999	DZ	paper record/electronic filing	6 years
Accounts payable allocations	1210000000–1219999999	KZ	paper record/electronic filing	6 years
Purchase invoices	1300000000–1399999999	KA, KG, KR, KF	paper record/electronic filing/ CD_ROM	6 years
Inventory price differences	1500000000–1599999999	PR	paper record/electronic filing	6 years
Purchase invoices, orders	1600000000–1699999999	RE, RA, RZ	paper record/electronic filing	6 years
Payroll interface, salaries and wages	1700000000–1799999999	01	paper record/electronic filing	6 years
Manual corrections to salaries and wages	1700000000–1799999999	Z1	paper record/electronic filing	6 years
Depreciation on fixed asset disposals	1700000000–1799999999	AG	paper record/electronic filing	6 years
Foreign exchange rate setting	1700000000–1799999999	SA	paper record/electronic filing	6 years
Representative offices	1800000000–1899999999	ZR	paper record/electronic filing	6 years
Inventory entries	1900000000–1999999999	WA, WE, WI, WL	electronic filing	6 years
Travel interface	2000000000–2999999999	04	paper record/electronic filing	6 years
Sales invoices, automatic entry	3200000000–3299999999	RV	paper record/electronic filing	6 years
Banking days, money going out	3300000000–3399999999	AB	paper record/electronic filing	6 years
Automatic entry of account statements	3300000000–3399999999	EB	paper record/electronic filing	6 years
GR / IR corrections	3600000000–3699999999	RN	paper record/electronic filing	6 years
Self invoicing	3700000000–3799999999	ZN	paper record/electronic filing	6 years
Group invoicing	3800000000–3899999999	IC	paper record/electronic filing	6 years
Memo vouchers	6100000000–6199999999	ZM	paper record/electronic filing	6 years
Memo vouchers, regular accruals	8100000000–8199999999	ZI	paper record/electronic filing	6 years
Memo vouchers, accruals	8100000000–8199999999	ZJ	paper record/electronic filing	6 years
Payroll interface, holiday pay accrual	8200000000–8299999999	03	paper record/electronic filing	6 years
Holiday pay accrual, manual correction	8200000000–8299999999	Z3	paper record/electronic filing	6 years
Payroll interface, bonus accrual	8300000000–8399999999	05	paper record/electronic filing	6 years
IFRS records	9100000000–9199999999	ZX	paper record/electronic filing	6 years
Depreciation and amortisation, plus depreciation difference	9300000000–9399999999	AF	paper record/electronic filing	6 years

Proposal by the Orion Corporation Board of Directors on use of profit funds from the financial year

The parent company's distributable funds are EUR 318,637,450.47, including EUR 240,587,853.53 of profit for the financial year. The Board of Directors proposes that the distributable funds of the parent company be used as follows

• distribution of EUR 1.35 per share and in addition of extra EUR 0.20 special dividend per share to commemorate Orion's centenary year, in total EUR 1.55 per share. No dividend shall be paid on treasury shares held by the Company on the record date for dividend payment. On the day when the profit distribution was proposed, the number of shares conferring entitlement to receive dividend totalled 140,474,462, on which the total dividend would be	EUR 217,735,416.10
• Donations to medical and other purposes of public interest as decided by the Board of Directors	EUR 300,000.00
• retention in equity	EUR 100,602,034.37
	EUR 318,637,450.47

There have been no material changes in the Company's financial position since the end of the financial year. The liquidity of the Company is good and, in the opinion of the Board of Directors, the proposed profit distribution would no compromise the liquidity of the Company.

Signatures for the Financial Statements and Report by the Board of Directors

The Board of Directors submits these Financial Statements and the Report by the Board of Directors to the Annual General Meeting of Shareholders for approval.

Espoo 8 February 2017

Hannu Syrjänen
Chairman

Timo Maasilta
Vice chairman

Sirpa Jalkanen

Eija Ronkainen

Mikael Silvennoinen

Heikki Westerlund

Jukka Ylppö

Timo Lappalainen
President and CEO

An auditors' report has been issued today.

Espoo 8 February 2017

PricewaterhouseCoopers Oy
Authorised Public Accountants

Kalle Laaksonen
Authorised Public Accountant

Auditor's report

(Translation from the Finnish Original)

To the Annual General Meeting of Orion Oyj

Report on the audit of the financial statements

Opinion

In our opinion,

- the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU

- the financial statements give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

What we have audited

We have audited the financial statements of Orion Oyj (Business ID: 1999212-6) for the year ended 31 December, 2016. The financial statements comprise:

- the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements; and

- the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements

Basis for opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the parent company and of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Finland, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Materiality

- Overall group materiality: EUR 15 million, which represents approximately 5% of profit before tax

Group audit scope

- We performed an audit of the complete financial information of Orion Group entities, whose net revenue in total covers 85% of Group's revenue.

Key audit matters

- Revenue recognition
- Carrying value of intangible assets

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	EUR 15 million
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

Group audit scope

We tailored the scope of our audit, taking into account the structure of Orion Group, the accounting processes and controls, and the industry in which the Group operates.

We performed an audit of the complete financial information of Orion Group entities, whose net revenue in total covers 85% of Group's revenue. We have considered that the remaining entities don't present a reasonable risk of material misstatement for consolidated financial statements and thus our procedures have been limited to analytical procedures performed at Group level.

By performing the procedures above, we have obtained sufficient and appropriate evidence regarding the financial information of Orion Group entities and operations to provide a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter	How our audit addressed the Key audit matter
Revenue recognition	
Refer to Accounting policies and note 1 (Segment reporting) Consolidated net sales include revenue from sales of goods and services adjusted for indirect taxes, discounts and currency translation differences on sales in foreign currencies. Net sales also include milestone payments under contracts with marketing partners, which are paid by the partner as a contribution to cover the R&D expenses of a product during the development phase and are tied to certain milestones in research projects. In addition, net sales include royalties from the products licensed out by Group companies to companies outside the Group. We focused on customer contracts that include various types of sales price components and goods delivery terms. We also focused to customer contracts that include milestone or royalty payments because the recognition of these requires, to some extent, judgment from management	We reviewed the appropriateness of the Group’s revenue recognition accounting policies including those relating to sales price components, milestones and royalties. We assessed compliance with the policies in terms of applicable accounting standards. We tested the Group’s controls surrounding revenue recognition of sales of goods, incl. systems-based controls in the order-to-cash transaction cycle. We assessed sales transactions taking place close to the balance sheet date as well as credit notes issued after the year end date to assess whether that revenue has been recognized in the correct period. We tested correct timing of revenue recognition of milestones and royalties and traced the terms and conditions to the related agreements.
Carrying value of intangible assets	
Refer to Accounting Policies, note 3 (Depreciation, amortisation and impairment) and note 9 (Intangible assets) The Group has intangible assets arising from product rights, marketing authorisations, trademarks, patents and paid-up policies with carrying amount of EUR 37,9 million. Other intangible assets in total of EUR 2.5 million include development costs for software paid to external parties and entry fees. All these intangible assets have been obtained through acquisition and are depreciated during defined useful life. The Group has no internally produced intangible assets. Recoverability of these assets is based on forecasting and discounting future cash flows, which are inherently judgmental. For acquired early-phase technologies the main risk is successful commercialisation of the technology.	Our audit procedures included, among others, testing the Group’s controls surrounding intangible asset impairments and evaluating the management assumptions used in assessing the recoverability of intangible assets. We assessed the company’s assumptions for reasonableness of individual intangible assets where we considered a higher risk of impairment. We also assessed the adequacy of related disclosures in the Group’s financial statements.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

Responsibilities of the Board of Directors and the Managing Director for the financial statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance good auditing practice, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting requirements

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the annual report, but does not include the financial statements and our auditor's report thereon. We obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual report is expected to be made available to us after the date of this auditor's report

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors our responsibility also includes considering whether the report of Board of Directors has been prepared in accordance with the applicable legal requirements.

In our opinion,

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable legal requirements

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Opinions

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet and the distribution of other unrestricted equity is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

Espoo, 8 February 2017

PricewaterhouseCoopers Oy
Authorised Public Accountants

Kalle Laaksonen
Authorised Public Accountant