orexo

A specialty pharmaceutical company which has developed four products – from idea to patient

Annual Report 2017

Contents

Read more on our websites

Our corporate website, www.orexo.com, is our foremost communication channel. For more information about Zubsolv and opioid dependence in the US, see the websites targeting insurance companies, healthcare professionals and patients, www.rise-us.com and www.zubsolv.com.

Other channels that are updated continuously with information regarding our business or our environment are: YouTube

2017 – Geared for growth

Key events during the year

Q1
- For the second time in a short period of time Orexo completed a bond buyback program amounting to a nominal value of SEK 59 million[1)]
- Orexo commenced a patent infringement litigation against Actavis for their generic versions of Suboxone® and Subutex® tablets in the US

Q2
- Orexo's partner AstraZeneca advanced OX-CLI into clinical trials which triggered a milestone payment of USD 2.5 million
- Based on positive data a new project, OX382 – oral formulation, was added to the pipeline
- Orexo joined the UN Global Compact, and commits to their ten principles on anti-corruption, human rights, environment and labor

Q3
- CVS Caremark announced that Zubsolv® has gained a preferred position on their formulary list, as of January 1, 2018. The formulary targets commercial clients providing pharmaceutical benefits for over 25 million patients.
- The Committee for Medicinal Products for Human Use, CHMP, announced a positive opinion for treatment of opioid dependence with Zubsolv in Europe
- An asset purchase agreement was signed with Gesynta Pharma AB for OX-MPI
- Orexo announced that the aim of the early stage project OX382 is to be first-to-market with a swallowable formulation of buprenorphine
- The final hearing was held regarding Orexo's appeal against the decision whereby one of three patents expiring in 2032 and protecting Zubsolv in the US was declared invalid

Q4
- Issued bonds amounted to a nominal value of SEK 325 million. The proceeds were used towards full redemption of the 2014 corporate bond.
- AstraZeneca decided to discontinue OX-CLI and Orexo will not reacquire the rights to the program
- Zubsolv was approved for treatment of opioid dependence in Europe by the European Commission[2)]
- Announcement of the improved market access position for Zubsolv in the US, as of January 1 and July 1, 2018. Mainly explained by exclusive contracts signed with Humana Medicare Part D, Humana Commercial, Envision RX and a preferred position at CVS Caremark and Ohio FFS Medicaid

SEK 78 m
EBITDA

SEK 147 m
Cash flow from operating activities

Zubsolv was approved for treatment of opioid dependence in Europe by the European Commission.[2)]

Key Figures

	2017	2016	2015	2014	2013
Net revenues, SEK million	643.7	705.9	646.2	570.3	429.4
Growth, %	-8.8[3)]	9.2	13.3	32.8	31.6
Net earnings for the year, SEK million	23.2	29.0	–210.0	–56.6	–154.9
Earnings per share, before dilution, SEK	0.67	0.84	–6.09	–1.70	–5.16
Earnings per share, after dilution, SEK	0.67	0.84	–6.09	–1.70	–5.16
Cash and cash equivalents, SEK million	327.9	282.4	198.1	284.5	105.6
Shareholders' equity, SEK million	329.1	310.3	270.1	467.9	161.5
Average number of employees	96	99	98	111	106
Number of employees at year-end	90	102	90	108	108

[1)] The first bond buyback program was completed on December 20, 2016, and amounted to SEK 99 million
[2)] Orexo's partner Mundipharma, which owns the rights for Zubsolv outside the US, is planning to initiate the launch of Zubsolv in Europe in the first half of 2018
[3)] Lower milestone payments in 2017 explains the decline

A fully integrated specialty pharmaceutical company

Orexo develops improved pharmaceuticals based on innovative drug delivery technologies. The focus is primarily on opioid dependence and pain but the aim is to address therapeutic areas where our competence and technologies can create value. The products are commercialized by Orexo in the US or via selected partners worldwide. The main market today is the American market for the treatment of opioid dependence, where Orexo sells the product Zubsolv®. Total net sales for 2017 amounted to SEK 643.7 million and the number of employees was 90.[1)] Orexo is listed on the Nasdaq Stockholm Mid Cap (ORX) and is available as ADRs on OTCQX (ORXOY) in the US. The head office, where research and development is also performed, is situated in Uppsala, Sweden.

[1)] As of December 31, 2017

"Orexo as a workplace is rated in the top tier of comparable companies by our employees."

Nikolaj Sørensen, President and CEO

We are helping patients suffering from opioid dependence

Opioid abuse is today the most common cause of death from drug overdose. The problem is greatest in the US, where just over 60,000 Americans died of an overdose in 2016, mainly caused by use of opioids. Orexo's key market today is the American market for the treatment of opioid dependence using buprenorphine/naloxone. Orexo operates in the market through the commercialization of Zubsolv, which is an effective drug for people with opioid dependence. Several important federal initiatives have been taken to increase access to treatment, and this creates scope for continued strong growth. The main market has a value of around 2.6 billion dollars, and in 2017 the average reached 11 percent.

Read more, on pages 13–14

+11% **the average annual growth in the American market for buprenorphine/naloxone products in 2017**

Products approved worldwide

Orexo has developed four products from idea to patient. The products have proved to be of considerable value for patients worldwide.

Product	Zubsolv		Abstral		Edluar	Diabact[1]
Indication	Opioid dependence		Breakthrough cancer pain		Sleeping problems	Diagnosing stomach ulcer bacteria
Partnership	orexo	mundipharma	SENTYNL THERAPEUTICS, INC.	KYOWA KIRIN	Mylan	Several external partners
Commercial rights	US	Worldwide ex US	US	Worldwide ex US	Worldwide	Worldwide

1) Diabact® is a product that belongs to Kibion, a subsidiary that Orexo sold in 2015

High activity in the pipeline

Orexo´s pipeline contains projects in different development phases, with a primary therapeutic focus around addiction in all phases, from prevention to treatment.

Read more, on pages 10–12

Core values

- Customer focus
- Engagement
- Flexibility
- Simplicity

Our drug delivery technologies improve pharmaceuticals

Orexo's development is based on innovations that have been made possible by the interaction between skillful researchers and experts from different scientific backgrounds. This innovative climate still characterizes Orexo in its work to develop products and helping patients worldwide through even better drugs.

Orexo develops improved products by combining well-known and well-documented substances with in-house innovative drug delivery technologies. Several important steps have been taken towards future formulation technologies, with the aim of developing innovative technologies for both oral and sublingual formulation of drugs.

Read more, on page 9

4 **Orexo has developed four products from idea to patient**

We strengthened the foundation for future growth

2017 can be characterized as a year with several concrete advancements that contributed to a more solidified foundation for our future corporate growth journey. We have reported the second profitable year, we have secured our long-term financing, we have new projects in our pipeline and Zubsolv® has been approved in Europe. Additionally we have successfully improved market access for Zubsolv significantly in the US for 2018.

I am proud to report that in 2017 we reached or exceeded nearly all of our objectives, both operationally and financially. The only setback is the lack of market share and volume growth for Zubsolv in the US, but long term it is more important that we managed to strengthen our foundation for future growth considerably during 2017.

We have continued to show positive cash flow from operations, which is critical to enable increased efforts to accelerate the development of the pipeline and investments in business development. However, the most important events in 2017 to prepare Orexo for growth in 2018 were the significant improvements in market access, the approval of Zubsolv in Europe and efficiency improvements in our supply chain, significantly reducing the future manufacturing costs of Zubsolv.

Addressing the challenges from 2016

In the Annual Report for 2016, I highlighted two noteworthy challenges, the loss of Zubsolv's reimbursement at CVS Caremark and the negative decision for one of three patents covering Zubsolv in the US until 2032, a decision rendered by the district court of Delaware in November 2016. I am proud to report one of them is solved, the loss of reimbursement by CVS Caremark, and we have taken great steps forward to address the second, the patent dispute.

In 2016 we saw the impact of the loss of the CVS Caremark contract at the beginning of the year, which in 2017 remained a hurdle to growing market share. Regaining preferred status with CVS Caremark was thus a key objective for 2017. We reached this objective in August, and were added back to the Formulary List of Covered Drugs for 2018 in a preferred position.

The appeal to revert the negative patent decision has been finalized and we are now waiting for the decision. The final event in the appeal in 2017 was a hearing with the three judges of the Court of Appeal in October. We remain confident in the strength of our patents.

Increased focus on addiction in R&D and business development

After more than four years in the American pharmaceutical market we find that the patients suffering from addiction are vastly underserved. During 2017 the suffering from addiction, and in particular opioid addiction, finally received appropriate attention in the US on all political levels and we are optimistic this will lead to increased access to treatment. I believe there are few diseases creating so much suffering as addiction, affecting so many people and causing great costs for society. With no indication of a solution and to date limited interest in the disease from most of the pharmaceutical industry, I believe this represents an opportunity for Orexo to take a leading position and to contribute to society in the US and Europe to solve one of the fastest growing health issues, with staggering costs for governments all over the world. You can read more about how Orexo takes responsibility for challenges faced by society in our first sustainability report, see pages 29–36.

OX382 could be the first swallowable formulation of buprenorphine

Our approach to expanding our pipeline has been to look at the patients suffering from addiction and find ways where our technologies can improve existing therapies.

"I believe there are few diseases creating so much suffering as addiction, affecting so many people and causing great costs for society."

Photo: Mats Lundqvist

One result of this has been the OX382 project, which could become the first swallowable formulation of buprenorphine. This will take away the need for patients to wait for a sublingual formulation to dissolve. In supervised treatment settings for opioid dependence, a swallowable product would reduce time needed for staff to oversee administration, enabling a broader usage of buprenorphine products.

In addition we are working on several other project ideas within the addiction area, but adhere to a principle of communicating these projects when they have passed the first proof of concept phase and we have filed a first patent on the products. Our ambition is to add at least one project to our pipeline during 2018 if the proof of concept studies are positive.

We continue the search for expansion of our commercial platform

During 2017 we intensified our efforts to expand the commercial platform in the US, through business and corporate development. However, while we have been in discussions with other companies during 2017 we did not find the opportunities attractive enough for our shareholders. Similar to our R&D efforts, our search for business development opportunities has been based on patients suffering from addiction, from treatment of the addiction to addressing our health concerns associated with addiction.

The continued strengthening of our financial position improves our ability to compete for business development opportunities. In addition our share price has suffered after the negative decision by the district court of Delaware. This has reduced our ability to take larger steps to expand our commercial platform. If we achieve a positive decision in the Court of Appeals, we will be able to initiate a broader strategic review of the business and consider the best options available to expand the commercial infrastructure and create shareholder value.

Zubsolv with the best market access position since launch

I have continuously repeated that market access and reimbursement are the key prerequisites for success and 2017 once again reflected this. The changes in market shares in the market have not been significant and the most noteworthy change is the increase in market share of the generic versions of Suboxone tablets. However looking behind the numbers, this change can be attributed to market access changes by one Managed Medicaid provider in Ohio blocking all other products than generics and market growth in the public segment favoring generic alternatives. Thus to improve Zubsolv's market share a key objective in 2017 was improving market access for 2018.

We have been very successful in achieving this objective and have laid a strong foundation for growth in 2018. The main drivers of market share and volume growth will be the exclusive agreements with the managed care providers Humana and Envision Rx and the preferred position with CVS Caremark, as of January 2018, and for all Medicaid patients in Ohio from July, 2018. With these exclusive agreements Zubsolv will become exclusively preferred for all patients covered by these managed care programs. This will double the share of the current market where Zubsolv is exclusively preferred.

The market access position for Zubsolv is unique for a branded product in a category with significant competition from other established branded and generic alternatives and places Zubsolv in a strong position with the launch of new significantly more expensive alternatives.

Our employees – the key to success

As a CEO you depend on your team and we have worked intensively to create a culture of engagement at Orexo since I took on the position of CEO in 2013. For me the key to engagement is creating a culture where employees are empowered and have a sincere feeling of responsibility for the company's success. While I and my management team can never relax in creating an attractive work environment and efficient organization, we are proud of the results and the feedback we receive in the annual employee survey. Orexo, as a workplace, is rated in the top tier of comparable companies by our employees.

Uppsala, Sweden, March 2018

Nikolaj Sørensen
President and CEO

Prepared for investments in R&D and business development

A key objective in recent years has been to establish a growing profitable specialty pharmaceutical company, with its own commercial capabilities to bring new products to market. As we have reached profitability, maximizing the potential of our Zubsolv® business continues to be a key objective, and is the enabler of increased investments in R&D and business development, with a focus on addiction.

Strategies

- Grow Zubsolv market share and sales in the US – fully leverage the improved market access through investments in the field force
- Improve efficiencies in the supply chain to lower Cost of Goods Sold (COGS)
- Make Zubsolv available to patients in new markets together with our partner Mundipharma – support Mundipharma in the registration process and establish an efficient supply chain for Zubsolv outside the US
- Improve profit contribution from Zubsolv – continued focus on efficient and diligent cost management, from improved manufacturing to continued monitoring of the return on investment of the sales and marketing activities

Objectives

1

Maximize Zubsolv's potential

- Increase the business development activities – find commercial stage opportunities to address the needs of patients suffering from addiction and exploit scale and synergy opportunities in the US commercial organization

2

Expand the commercial platform in the US

- Increase the number of pipeline projects within the key therapeutic area of addiction – develop new approaches to treatment, improve existing treatment options and find ways to limit patients' risk of developing an addiction, either through internal development or in-licensing
- Increase breadth of technologies available for new product ideas – seek collaboration with partners where their technologies can accelerate development, address identified patient needs not met with Orexo's internal technologies, lower the development risks or strengthen the intellectual properties
- In-license complementary projects – a business case will be developed for each opportunity, reviewing the potential revenues, investment need and risk. Orexo will have a focus on later stage opportunities

3

Expand the pipeline of clinical stage projects

Proven business model

Today Orexo is a fully integrated pharmaceutical company where research and development is conducted in Uppsala, Sweden. The US business contributes with increasingly more profit and cash and enables further development of the business.

Orexo's business model is based on two cornerstones – the American organization that commercializes Zubsolv® in the US today and the research and development organization in Uppsala, Sweden, which works on developing new products for the treatment of addiction.

This business model has proved to be profitable over the past two years and today revenues fully finance investments in the in-house development projects.

KEY INPUTS

- Based on its presence in the US Orexo has in-depth understanding of patient needs in addiction
- Experience from taking four products from idea to patient has created a strong understanding of the requirements to get a product approved
- Strong financial platform with the core Zubsolv business contributing with cash flow and profit
- Experienced leadership with many years of international experience
- All employee surveys show a highly committed and engaged organization

WHAT WE DO

- Commercialize Zubsolv with our fully owned US subsidiary generating cash flow to enable investments in R&D focusing on addiction
- Based on patient needs develop a pipeline of products addressing the needs of addiction patients
- Work actively to find ways to expand our pipeline of new treatment options and our commercial platform in the US with new projects

HOW WE GENERATE REVENUE

- Commercialization of Zubsolv in the US through our fully-owned US subsidiary. Zubsolv is sold to wholesalers distributing Zubsolv to pharmacies. Final sales of Zubsolv depend on patients' receiving a prescription from a physician
- Royalty from partnered products outside the US
- Milestone payments related to development projects and products launched through collaboration with partners in markets outside the US

Next generation technologies

With its proprietary formulation technology, Orexo has developed four innovative products from idea to patient. Patients´ needs have always been central in development, and they are also of great importance when the future oral and sublingual formulation technologies are being developed to improve drugs within the therapeutic area of addiction.

Oral formulation technology

Many active ingredients face major challenges when administered by the oral route. For example, incomplete dissolution in the GI-tract, poor intestinal absorption and extensive metabolism may all limit the bioavailability. Consequently, many drugs are not effective when administered orally. Orexo is currently developing a new formulation technology that can overcome these issues, thereby enabling oral administration of drugs for which this route is not feasible today. Several active ingredients have been identified as promising candidates for this technology.

One project that is based on this new technology is OX382 which is an oral formulation of buprenorphine. The aim is to be first to market in this new product class and to offer clear benefits over today's treatment options for certain patient categories and treatment settings.

Sublingual formulation technology

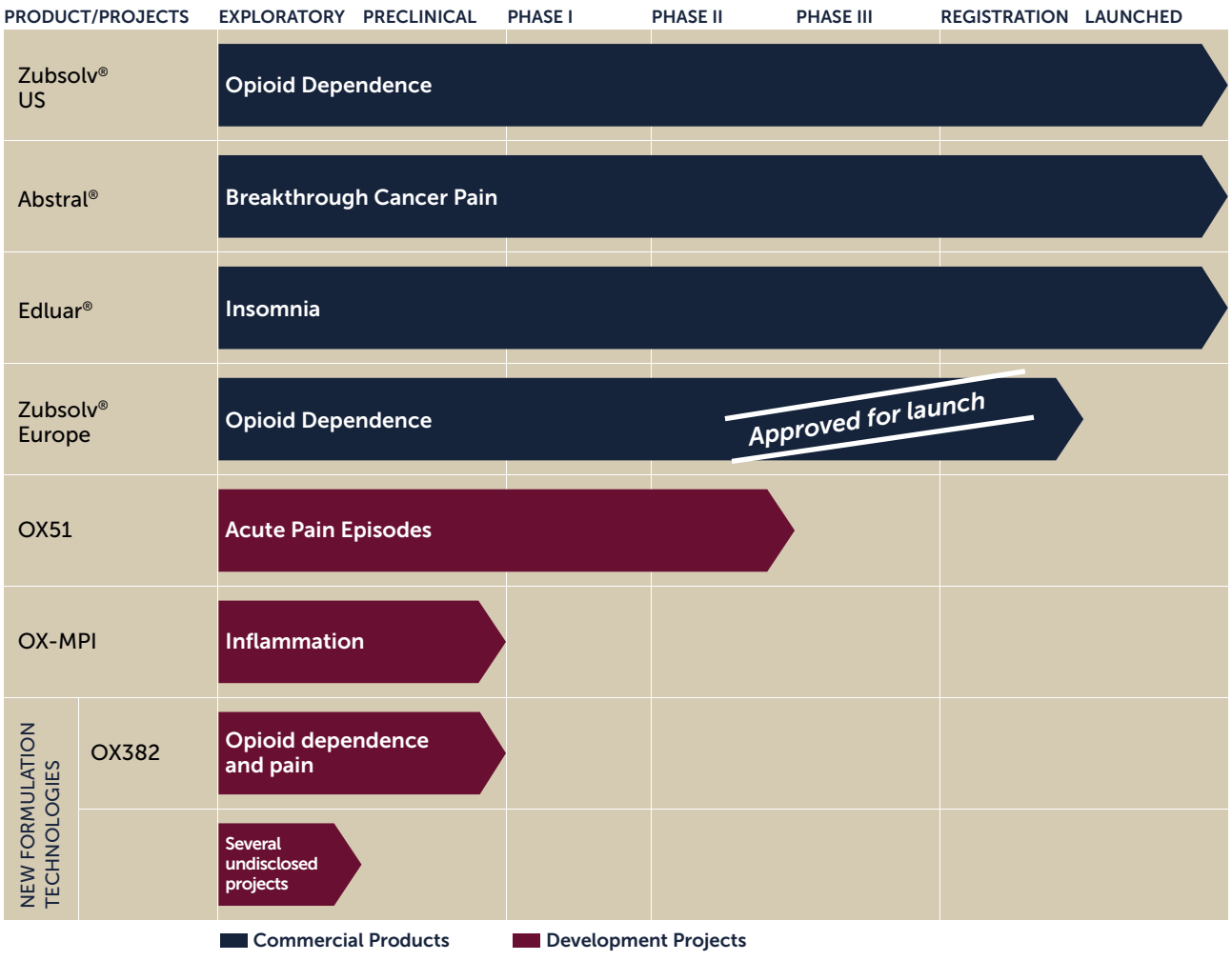
The sublingual space represents numerous opportunities as well as challenges for the delivery of drugs. Sublingual products need to be well tolerated by patients and properties such as taste and mouth feel are critical for successful treatment. Furthermore, the amount of saliva available under the tongue is limited, which makes significant demands of the formulation in order to act efficiently. Orexo is recognized as a world leader in the development of efficient sublingual products. Zubsolv®, Abstral® and Edluar® all utilize Orexo's proprietary sublingual formulation platform based on interactive mixture principles, providing rapid onset and efficient absorption of the drug across the sublingual mucosa.

In Zubsolv, this concept has been further refined, resulting in a product with highly efficient absorption across the sublingual mucosa. This enabled the development of a product with significantly improved efficiency compared with those of competitors.

Orexo is currently developing its second-generation sublingual formulation technology. The aim is to perfect the sublingual delivery of drugs, thereby unlocking new active ingredients that are currently not possible to administer sublingually. Several active ingredients have been identified as promising candidates for this technology.

High activity in the pipeline

Orexo's portfolio contains commercial products approved in multiple markets worldwide and projects in different phases of development. Commercially the current focus is on opioid dependence and pain while our research and development is primarily focused on addiction in all phases, from prevention to treatment.



Development projects, mainly in early stages, are associated with relatively high risk.

Commercial Products

ZUBSOLV

Zubsolv®
– treatment of opioid dependence
Zubsolv is a product for the treatment of opioid dependence. Zubsolv has comparable efficacy and safety as well as the same active components as previously approved buprenorphine/naloxone sublingual formulations. However, Zubsolv offers unique advantages specifically designed to meet the needs of our patients:

- Higher bioavailability
- Fast dissolve time
- Preferred menthol flavor
- Broadest range of dose strengths

The broad choice of six different strengths offers the potential for finer titration and individualized dosing with potentially fewer tablets compared with existing substitution treatments.

In July 2013, Zubsolv was approved for the maintenance treatment of opioid dependence by the US Food and Drug Administration, FDA, and in August 2015 the product also received approval for induction treatment of the same patient population. In November 2017 the EU-commission approved Zubsolv for treatment of opioid dependence in Europe. Zubsolv should be used as part of a comprehensive treatment plan, which includes counseling and psychosocial support. Treatment should be initiated under the direction of certified physicians.

Product	Zubsolv
Indication	Opioid dependence
Commercial rights	Orexo, US. Mundipharma, Worldwide ex US[1)]
Partner	mundipharma

ABSTRAL

Abstral®
– treatment of breakthrough cancer pain
Abstral is a rapidly disintegrating sublingual tablet for management of breakthrough cancer pain in patients already being treated with opioids. The product contains the pain-relieving substance fentanyl. Abstral allows doses to be customized according to individual requirements, which is essential for achieving optimal pain relief. Product advantages include:

- Rapid disintegration and absorption over mucous membrane under the tongue
- Fast onset of pain relief
- User friendly – tablet easy to dose, store and handle

The product was initially approved for sales in Europe in 2008. Approval and launch in other major territories has followed, and Abstral is currently available in key markets such as the US, Japan, Canada among others. Globally, the market for Abstral has continued to grow rapidly over the years, and in Europe Abstral is the market leader among all fast-acting fentanyl-based products.

Product	Abstral
Indication	Breakthrough cancer pain
Commercial rights	Sentynl Therapeutics,[2)] US. Kyowa Kirin, Worldwide ex US
Partner	SENTYNL THERAPEUTICS, INC. KYOWA KIRIN

EDLUAR

Edluar®
– treatment of short-term insomnia
Edluar is based on Orexo's sublingual tablet technology and the active substance zolpidem. The product offers treatment for short-term insomnia. Zolpidem is a well-documented substance that has been used in the treatment of insomnia for a long time. The Edluar tablet is placed under the tongue, where it rapidly dissolves and the active ingredient is absorbed through the mucous membrane. Edluar was approved by the US Food and Drug Administration, FDA, in March 2009. In June 2012 Edluar was approved for registration in Europe.

Product	Edluar
Indication	Insomnia
Commercial rights	Mylan, Worldwide
Partner	Mylan

[1)] Approved for treatment of opioid dependence in the US and Europe. Other markets are under evaluation.
[2)] Sentynl Therapeutics is a fully owned subsidiary of Zydus Cadila.

Development projects

OX382
– oral formulation

Orexo is developing a swallowable formulation of buprenorphine (OX382). The aim is to be first-to-market in this new product class and to offer clear benefits over today's treatment options for certain patient categories and treatment settings.

For most treatments without need for immediate absorption of the active ingredient, a swallowable formulation is preferred and generally recognized as the standard formulation. Buprenorphine has poor and unreliable absorption in the gastrointestinal (GI) tract which has so far been the major hurdle to developing a swallowable formulation. Orexo has filed a patent application for an innovative technology that could address these hurdles and deliver buprenorphine in a controlled and reliable maner in the GI tract.

This new formulation is expected to have several convincing advantages over currently available buprenorphine formulations. Swallowable pharmaceuticals are generally preferred by patients over sublingual or buccal products as they do not have issues with bad taste or local irritation in the mouth. In addition, OX382 would offer specific benefits wherever patients receive their opioid dependence treatment under supervision of a health care professional or a pharmacist. With OX382, there would be no need to wait for a sublingual or buccal formulation to dissolve in the mouth, allowing for much more efficient processes in the respective clinics. Supervised (opioid dependence) treatment is common in the US, e.g. for patients who receive treatment in methadone clinics, and is particularly common in Europe where about half of opioid dependent patients receive treatment in a monitored setting.

The new unique product could be used in both opioid dependence and pain treatment. The development program is approaching the first clinical study in humans (Phase I), which is expected to be completed in H1, 2018. With a positive result of the phase I study Orexo will outline the development plan and priority of potential indications, which will enable more firm guidance on the commercial potential and development risks.

A swallowable formulation of buprenorphine

OX382

with the aim to be first-to-market in this new product class

OX51
– acute pain episodes

OX51 is a new sublingual tablet formulation containing alfentanil. The project has been developed to meet the rapidly growing demand for effective pain relief during short surgical and diagnostic procedures.

A placebo-controlled dose-finding study in patients undergoing prostate biopsy was completed in 2013. The results supported a continuation of the development of OX51 to the next phase in development towards a new product.

The search for a phase III and commercialization partner is ongoing.

OX-MPI
– inflammation

The lead candidate drug in the OX-MPI program, BI1029539, has been identified as a highly selective anti-inflammatory compound targeting microsomal prostaglandin E synthase (mPGES-1).

The OX-MPI program was acquired by Gesynta Pharma AB on September 29 2017. Gesynta Pharma AB is a recently formed research company located in Stockholm, Sweden, and among the founders are highly reputed executives from the biotech industry and experienced researchers at the Karolinska Institute within the field of arachidonic acid pathways and inflammatory diseases. At the time of the acquisition the project was in the preclinical phase and Gesynta Pharma AB will progress the candidate drug into proof of concept clinical trials.

Under the terms of the agreement Orexo will receive a tiered double-digit share of the future revenues that Gesynta Pharma AB generates from the OX-MPI project.

New formulation technologies

Novel oral formulation technology

See development project, OX382, above.

2nd generation sublingual formulation technology

Orexo is currently developing its second-generation sublingual formulation technology. The aim is to perfect the sublingual delivery of drugs, thereby unlocking new active ingredients that can not currently be administered sublingually. The project is in the exploratory phase, and several active ingredients have been identified as promising candidates for this new technology.

In addition, Orexo has two non-disclosed projects, both of which will also fall into the addiction category and with the aim of providing clear clinical differentiation versus currently available treatment alternatives. Orexo will disclose more details once the final feasibility tests are completed and have shown positive results.

Read more on our website, www.orexo.com

Pipeline:
Innovation is our legacy

Opioid crisis a global problem which is accelerating in the US

Opioid abuse is today the most common cause of death from drug overdose. The problem is greatest in the US, where the number of deaths from overdoses increased by 21 percent in 2016.[1] The opioid crisis in the US is epidemic in nature and costs society a great deal of resources. There is an excessive need for more and better treatment of those suffering from opioid dependence and the buprenorphine/naloxone market is growing by just over 10 percent per year.[2]

Opioid dependence a growing global concern

There are 25 million people in the world who are dependent on opioids.[3] The problem exists in both developed countries and in less developed countries but is by far the greatest in the US, where a fifth of those dependent on opioids live.[4] Heroin continues to be the predominantly abused opioid outside the US while Americans have developed dependence largely due to treatment with opioid prescription painkillers. Opioids, including heroin and synthetic illegal opioids, are the most harmful drugs. Worldwide at least 190,000 people die prematurely each year as a result of drugs and the majority of the deaths are caused by the use of opioids.[5] The problem is acute in the US where just over 60,000 Americans died of an overdose in 2016.[6] In 2017 the opioid crisis was classified as a Public Health Emergency, which means that resources should be allocated to avert or avoid public health crises.

In Europe, with an estimated 1.3 million high-risk opioid users,[7] opioid dependence has not reached the epidemic proportions seen in the United States. However, there are several alarming signs that the problem is getting worse. The number of overdose-related deaths has increased for the third consecutive year[8] and misuse of synthetic illegal opioids is a growing health threat.[9]

Misuse of opioids costs societies a great deal of resources

From an economic point of view opioid dependence is an extensive problem. In addition to loss of life and lower quality of life, large costs are associated with lower productivity and a lack of resources, and there are also increased healthcare and legal systems costs. In the US costs related to opioid dependence are enormous and considerably higher than previously calculated. The Council of Economic Advisors, which is an advisory committee to the American President, came out in 2017 with the report entitled "The Underestimated Costs of the Opioid Crisis". This report shows that the cost to society of the opioid crisis amounted to USD 504 billion in 2015, or 2.8 percent of GDP. This amount is six times higher than the most recent calculation, where loss of life as a result of overdoses has not been taken into account.

American market characterized by strong growth

A sharp increase in prescription painkillers over a little more than two decades is the primary reason that today there are an estimated 10 million high-risk users of opioids in the US. Half of these have developed dependence and just over 16 percent are undergoing treatment. One of the most common and effective treatment alternatives is maintenance treatments based on the substances buprenorphine/naloxone. The market for buprenorphine/naloxone products has grown substantially in recent years. Annual growth is just over 10 percent and the value of the market is estimated to be more than USD 2.6 billion.[10] Considerable political and media focus has increased knowledge and awareness of opioid dependence and its risks, which has led to more people seeking help. The Affordable Care Act, ACA, has resulted in more people gaining access to subsidized care. In spite of the work done, it is still only a small percent who receive treatment. The development of the market is primarily impacted by continued improved access to treatment, which is made possible by a good range of cost-effective treatment and drugs but also by the fact that more doctors and nurses have gained approval to treat and that they are beginning to treat more patients.

1) https://www.cdc.gov/nchs/products/databriefs/db294.htm
2) IMS Data
3) World Drug Report 2016
4) UNODC World Drug Report 2014
5) World Drug Report 2017
6) https://www.cdc.gov/nchs/products/databriefs/db294.htm
7) European Drug Report 2017
8) European Drug Report 2017
9) European Drug Report 2017
10) IMS Data

Market consists of three payer segments, where Public segment is the largest

The market consists of three payer segments. Commercial, which comprises private insurance companies, Cash & Vouchers, where patients themselves finance their care, and Public, where care is financed by public sector payers such as Managed Medicaid, FFS Medicaid and Medicare Part D. Public differs from the other segments in that it is to a great extent stringently controlled by payers with regard to what drugs may be prescribed and which physician you as a patient can choose. Pharmacy Benefit Managers (PBM) play an important role, as they are responsible for assessing on behalf of the insurance companies and employers which drugs are to be covered by insurance.

The public segment is the largest and comprises of 46 percent of the market for buprenorphine/naloxone products, while the corresponding figure for the Commercial and Cash segments is 39 percent and 15 percent, respectively.

Publicly financed care growing fastest and characterized by price pressure

The Public segment has grown the fastest in recent years, driven by the fact that more and more people have gained access to publicly financed healthcare through the ACA and due to the fact that employers have become more restrictive in offering private healthcare insurance.

The market is generally characterized by price pressure. This is above all true in the Public segment, which is stringently controlled and which has seen discount levels increase. In comparison with other pharmaceutical markets, generics have not had a significant price pressure effect.

However, generics are favored by the fact that many insurance companies in the Public segment automatically give generics priority and thus indirectly put pressure on companies with new products to lower the price if insurance companies are to deviate from this principle. Since the launch of Zubsolv® the list price of generics has been on a par with or a little higher than that of the drugs sold under patent-protected brand names, but recently there have been campaigns from individual generic companies which have reduced the price to patients in the Cash segment to somewhat lower levels.

Market players

The leading player has a strong position and a market share of just under 70 percent.[11] However, development of the market share displayed a negative trend during 2017. There are multiple generic company players and their combined market share amounts to 25 percent.[12] Orexo's share of the market is just over 5 percent.[13] There is also a smaller company in the market, selling under its own brand. Their share of the market is approximately 0.5 percent.[14]

Painkiller abuse can open the door to heroin

The lack of treatment availability has given rise to the growth of the illegal market. Prescription painkiller drugs are frequently bought on the illegal market and the price is governed by the quantity of active substance per unit in the drug, which means that drugs with a higher bioavailability fetch a lower "street" price. Increased focus on the control of the prescription of drugs containing opioids, in combination with the fact that the price of heroin and synthetic illegal opioids is most often lower, has resulted in opioid dependent patients running an increased risk of beginning to use more heroin[15] and/or illegal synthetic opioids. Two thirds of today's heroin abusers have previously abused prescription opioid painkillers.[16] Heroin gives a faster high, but the strength of each dose varies greatly and may be mixed with synthetic illegal opioids, which is one of the main reasons for the explosive increase in the number of overdoses and deaths.

In 2016

63,632

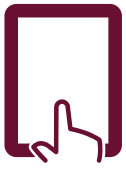
Americans died of an overdose, mainly caused by use of opioids

21%

The increase in number of overdose related deaths in the US in 2016

USD 2.6 billion

The value of the American market for buprenorphine/naloxone products (gross)



Read more on our website, www.orexo.com

Investors:
Global forces increasing abuse of opioids and other drugs

Read more on Twitter, @orexoabpubl

[11], [12], [13], [14] IMS Data

[15] https://www.drugabuse.gov/publications/research-reports/heroin/how-heroin-linked-to-prescription-drug-abuse

[16] Grace Chang, MD MPH Professor of Psychiatry, Harvard Medical School, The Opioid Crisis in America, 11 October 2016

Entering 2018 with a strengthened position

Successful negotiations with payers during 2017 secured a substantially stronger position for Zubsolv in the US ahead of the new year. To meet greater demand, sales to wholesalers increased at the end of the year, which together with lower rebates impacted sales positively and enabled a modest growth year over year.

Sales of Zubsolv in the US amounted to SEK 485.8 million, slightly above the previous year's level. The buprenorphine/naloxone market, where Zubsolv operates, showed strong growth of 11 percent for the year. Most of the growth, however, was realized in the public segments of the market. With Orexo's relatively low access to the public segment during 2017 the massive growth diluted Zubsolv's market share, which ended the year just over 5 percent. Only the generic products, which benefited from their good access to the public segment, gained market share during 2017.

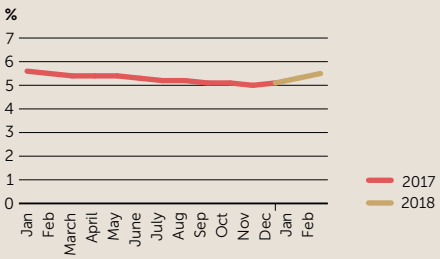
Zubsolv sales development during the year was mainly driven by the market access situation and specific market access events. Orexo did not lose any access contracts during the year. However the development was negatively impacted by the fact that the United Health Group insurance company, UHG, decided to terminate healthcare insurance related to the Affordable Care Act, ACA, in almost all states and by the fact that some healthcare providers decided to leave Wellcare at the beginning of the year. The state of Maryland's decision to add as of July 1, 2017 all buprenorphine/naloxone drugs to their formulary list also impacted gross sales negatively. However this was off-set by lower rebate levels.

A very successful market access effort during 2017 secured a much improved position going into 2018 and in anticipation of increased Zubsolv demand in 2018 the wholesalers increased their inventory levels late in 2017. This inventory increase, together with lower rebate levels post the Maryland decision, helped compensate for the negative factors and enabled a modest growth year over year.

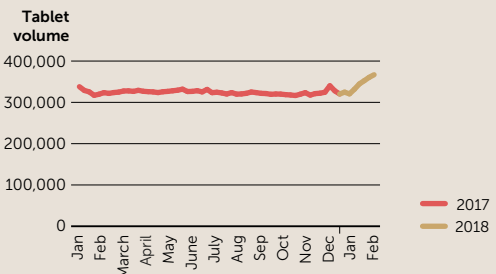
Opioid crisis given Public Health Emergency status

The opioid crisis is accelerating in the US. More than 60,000 Americans died of an overdose in 2016, an increase of 21 percent compared with 2015 and most of the deaths are attributable to opioid abuse. To put this into perspective it means that every third week as many people die from an overdose as died in the terrorist attack on September 11, 2001. In order to combat the growing crisis in the longer term, the new American administration established an advisory commission, the President's Commission on Combating Drug Addiction and the Opioid Crisis. The American President also declared the opioid crisis a Public Health Emergency situation, which in general means that state resources should be allocated to avert or avoid public health crises.

ZUBSOLV MARKET SHARE[1], 2017 AND BEGINNING OF 2018



ZUBSOLV TABLET VOLUME[1], 2017 AND BEGINNING OF 2018



Source: IMS Data

1) Four week rolling average.

More physicians and nurses certified

At the end of the year more than 3,700 physicians had been certified to expand their patient cap from 100 to 275 patients and 3,800 nurses and physician assistants had been certified to write buprenorphine/naloxone prescriptions to treat opioid dependence. This development is an effect of several federal decisions made in 2016 whereby a physician applying for certification may treat 275 patients instead of 100 and certified nurses and physicians' assistants may also write prescriptions within limits. These changes improve the underlying financial dynamics of running treatment clinics and increase the financial feasibility for physicians to open or expand clinics and offer more service as they can treat more patients. However, the physicians need time to adapt their work and patient population and the expected impact will most likely happen gradually.

Zubsolv® back on CVS Caremark's formulary

In August CVS Caremark, who are one of the largest so-called Pharmacy Benefit Managers (PBM), with great influence over several insurance companies in the US, announced that Zubsolv will once again be included on the list of preferred buprenorphine/naloxone drugs. This new position is effective as of January 1, 2018 and means that Zubsolv may be chosen by almost all of CVS Caremark's insurance companies, who together covers more than 25 million people. The regained position allows Orexo to compete on equal terms with another patented drug. Despite the change in the formulary on January 1, 2016, when Zubsolv lost its position as the only preferred drug, many doctors and patients have remained loyal to Zubsolv and kept the drug as their first choice among patented products. These patients' and doctors' confidence in Zubsolv creates further grounds for regaining some of the previous sales.

Best market access ever at beginning of 2018

Entering 2018 Zubsolv will have a stronger market access position than ever in the US. In the Commercial segment Zubsolv's formulary access will be the best of any buprenorphine/naloxone product, branded or generic, with 96 percent coverage. The strong position is attributable to new exclusive contracts with Humana Commercial and Envision RX and to its preferred status with CVS Caremark. In the fastest growing Public segment, access to patients will also increase, from 28 to 34 percent. This progress can mainly be explained by an exclusive contract with Humana Medicare Part D. In addition, Ohio FFS Medicaid has announced that Zubsolv will be a preferred product in parity with another branded product on their formulary as from July 1, 2018. The agreement with Ohio FFS Medicaid means that access to the public segment will increase to more than 40 percent.

Increased access to fast growing insurance companies

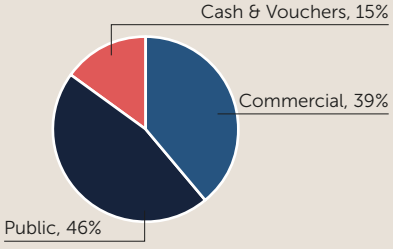
The new contracts' impact on sales is largely dependent on the insurance companies' ability and willingness to control prescriptions. History has shown that there can be great variation in the market share Zubsolv will capture within each insurance plan. The new agreements will open the doors for Zubsolv to some of the fastest growing plans in the segment.

In order to take advantage of the considerably improved market position in 2018 Orexo is planning to increase investments in sales and marketing in the US in areas that are impacted by the improved access and where profitable growth opportunities exist.

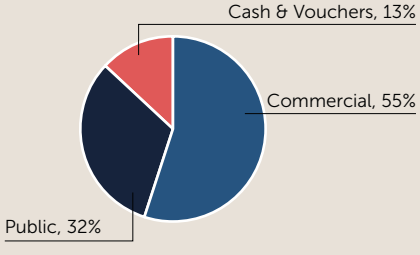
"We have a 9/11 scale loss every three weeks."

July 31, 2017, Chris Christie, who chairs President Trump's advisory commission to combat the opioid crisis.

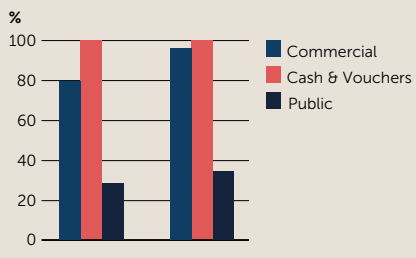
TOTAL MARKET VOLUME PER PAYER SEGMENT



TOTAL ZUBSOLV VOLUME PER PAYER SEGMENT



ZUBSOLV'S MARKET ACCESS PER PAYER SEGMENT



Source: IMS Data

Ready to launch Zubsolv® in Europe in 2018

During Q4, 2017, the EU Commission approved Zubsolv for the treatment of opioid dependent patients in Europe. Zubsolv is the first buprenorphine/naloxone drug to be approved in Europe with six different dosages. This allows individually tailored dosages, with potentially fewer tablets compared with existing substitute therapies. This approval is a first important step towards a global launch of Zubsolv. Orexo's partner Mundipharma, who own the commercial rights to Zubsolv outside the US, have the ability to cover all important markets where Zubsolv is not available today, due to their network of independent associated companies in 48 countries.

The launch in Europe is planned to begin in the first half of 2018 and the development of sales will depend on the re-imbursement outcome in individual markets.

Zubsolv is the first buprenorphine/naloxone drug to be approved in Europe with six different dosages

Continued strong development for Abstral®

Abstral is a drug helping patients who are suffering from breakthrough cancer pain.

In the European Union, where Abstral is the market leader, sales increased by 7 percent compared to 2016 and amounted to EUR 91 million (85). Orexo receives royalties on sales exceeding EUR 42.5 million, which was achieved, in July 2017. Variable royalty revenues were received during the year from Abstral's sales corresponding to SEK 74.9 million, an increase of 29 percent.

Sales of Abstral in the RoW region, that is markets outside the EU and US, have continued to grow. Development was driven above all by strong demand in South Korea, Israel and Australia. Total sales in the region amounted to USD 12 million (9), an increase of 33 percent compared to 2016.

The American market continued to be characterized by tough competition and greater restrictions on the prescription of products containing fentanyl, which resulted in negative market growth.

Edluar's royalty increased

Orexo´s partner Mylan owns the global rights for Edluar®, which is a drug for treatment of short-term insomnia. Royalty revenues for Edluar during the year amounted to SEK 17.3 million (14.8), an increase of 17 percent. As Mylan at the time of publication of the Annual Report had not given any information about total sales for 2017, the figure has been estimated on the basis of sales in the third quarter of 2017.

The share

Orexo´s share is listed on Nasdaq Stockholm and is available as American Depository Receipts (ADR) on OTCQX in the US. In 2017 the share price developed positively and the number of shares traded increased. In total Orexo had 7,115 shareholders and foreign ownership amounted to 57 percent.

The Orexo share is listed on Nasdaq Stockholm Mid Cap under the symbol ORX and available as ADRs on OTCQX under the symbol ORXOY. During the year the share price increased by 9.57 percent and the last price paid in 2017 was SEK 41.20 (37.60). This corresponds to a market capitalization of SEK 1,423 million (1,298). The highest closing price during the year for the Orexo share was SEK 52.00 quoted on October 27. The lowest quotation was SEK 26.40 on May 8.

Liquidity

In total 28 million (21) shares in Orexo were traded in 2017, corresponding to a value of approximately SEK 1,065 million (967). The daily average trading volume was 112,528 shares, corresponding to a value of SEK 4.2 million.

Ownership

At year-end, Orexo had 7,115 shareholders (7,021), of which 760 were registered as legal entities and 6,355 as private individuals. Of the share capital, 43 percent (48) is held by shareholders registered in Sweden and 57 percent (52) by non-Swedish shareholders. The largest proportion of shareholders registered outside Sweden can be found in Denmark at approximately 29 percent (35).

The list on page 19 is by shareholder group, where a number of legal entities may be part of each group.

Issue and repurchase class C share

Orexo announced on June 16, 2017, that the company had resolved to issue and immediately thereafter repurchase 230,000 class C shares. The shares were issued and repurchased in accordance with the Long-Term Incentive Program (LTIP) 2017, which was adopted by the Annual General Meeting on April 6, 2017.

Danske Bank subscribed for the entire issue of new class C shares at a subscription price of SEK 0.40 per share, equal to the quota value of the shares. The entire issue of class C shares was thereafter repurchased by Orexo for SEK 0.40 per share.

The purpose of the share issue was to enable the future delivery of ordinary shares to participants in LTIP 2017. The class C shares will be converted into ordinary shares prior to delivery to qualifying participants in LTIP 2017. The Class C shares do not entitle to dividends.

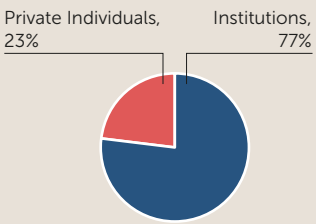
Analysts monitoring Orexo

- ABG Sundal Collier, Sten Gustafsson
- Carnegie, Erik Hultgård
- Edison Group, Andy Smith and Alice Nettleton
- Nordea, Hans Mähler
- Redeye, Klas Palin

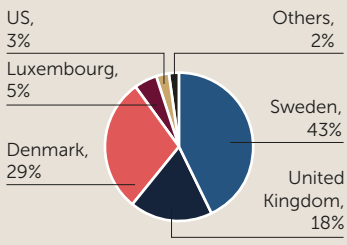
KEY FACTS

Orexo Share	
Listing:	Nasdaq Stockholm, Sweden
Number of shares:	35,104,585, of which 565,000 C shares
Market Capitalization, December 31, 2017:	SEK 1,423,031
ISIN code:	SE0000736415
Ticker code:	ORX
Orexo ADR	
Trading platform:	OTC, US
Deposit bank:	Citibank N.A.
ISIN code:	US68616W1027
Ticker code:	ORXOY
Ratio:	1:1

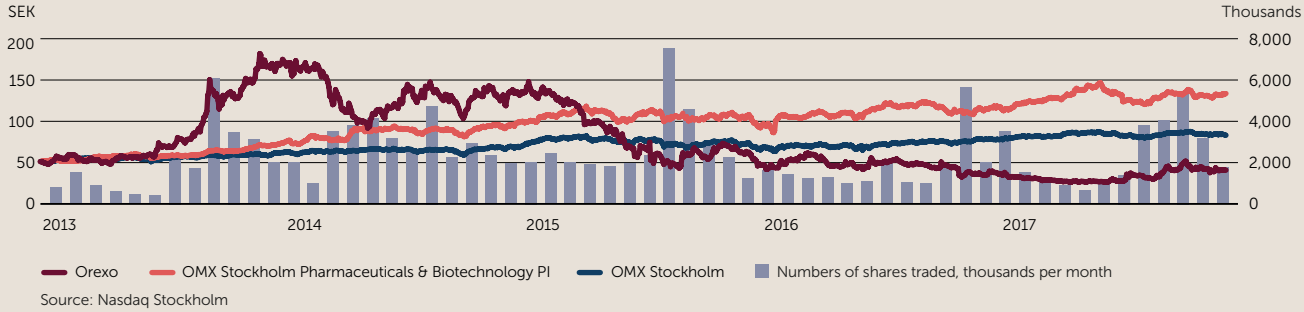
OWNERSHIP CATEGORIES, DECEMBER 31, 2017



OWNERSHIP DISTRIBUTIONS PER COUNTRY, DECEMBER 31, 2017

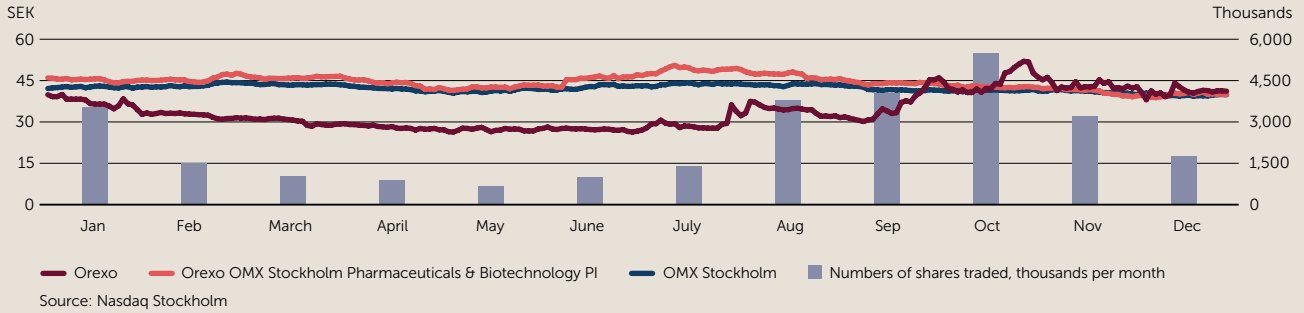


FIVE-YEAR PERFORMANCE



Source: Nasdaq Stockholm

PERFORMANCE IN 2017



Source: Nasdaq Stockholm

SHAREHOLDERS, DECEMBER 31, 2017

	No. of Shares	Share Capital %
Novo Holding A/S	9,643,184	27.5
HealthCap	3,960,020	11.3
Arbejdsmarkedets Tillaegspension (ATP)	2,040,633	5.8
Anders Walldov direct and indirectly	1,500,000	4.3
Försäkringsaktiebolaget, Avanza Pension	1,291,070	3.7
Clearstream Banking S.A.	605,010	1.7
Nordnet Pensionsförsäkring AB	515,186	1.5
Pension Danica	447,230	1.3
Thomas Lundqvist	397,702	1.1
Eccenovo AB	350,000	1.0
Banque de Luxembourg	315,422	0.9
Lancelot Asset Management Avalon	250,000	0.7
SEB Investment Management	249,296	0.7
Others	13,539,832	38.5
Total number of shares[1)]	**35,104,585**	**100.0**

[1)] As of December 31, 2017, the number of shares outstanding in the company was 35,104,585 of which 34,539,585 were common shares and 565,000 were C shares. All common shares carry one voting right and the C shares carry 1/10 of a voting right each. Thus there were 34,596,085 votes in the company as of December 31, 2017.
Source: Euroclear Sweden AB

OWNERSHIP STRUCTURE, DECEMBER 31, 2017

	No. of Shareholders	No. of Shares	Share Capital %
1–500	4,574	738,664	2.1
501–1,000	938	782,710	2.2
1,001–5,000	1,162	2,809,576	8.0
5,001–10,000	211	1,595,719	4.6
10,001–15,000	68	870,312	2.5
15,001–20,000	39	703,581	2.0
20,001–	123	27,604,023	78.6
Total	**7,115**	**35,104,585**	**100.0**

Read more on our website, www.orexo.com

Investors:
Investor Dialogue

In the **Investor Dialogue** we share the most frequently asked questions by investors and analysts with a broader audience.

Shareholder Information

2018 Annual General Meeting
The Annual General Meeting of Orexo AB will be held on Thursday, April 12, 2018 at 4.00 pm CET at Orexo AB, Virdings allé 32A in Uppsala, Sweden. The visiting address is Rapsgatan 7E.

Registration, etc.
Shareholders who wish to participate in the meeting must be recorded in the share register maintained by Euroclear Sweden AB on Friday, April 6, 2018, and notify Orexo of their intention to attend the meeting not later than the same day, Friday, April 6, 2018 by post to Orexo AB, P.O. Box 303, SE 751 05 Uppsala, Sweden, by telephone +46 (0) 18 780 88 00, or by e-mail to lena.wange@orexo.com.

The notification shall set forth the name, personal/corporate identity number, the number of shares held, telephone number (daytime) and, where applicable, number of assistants (not more than two) that the shareholder intends to bring to the meeting. Shareholders to be represented by proxy should submit a power of attorney (original document) and a certificate of registration or equivalent together with the notification of attendance. A proxy form is available at www.orexo.com.

Shareholders whose shares are registered in the name of a nominee/custodian must temporarily re-register their shares in their own names to be entitled to participate in the meeting. Shareholders must inform their nominee/custodian of such reregistration well before Friday, April 6, 2018 by which date such re-registration must have been executed.

Full information about the Annual General Meeting can be found on the company's website, www.orexo.com.

Contact Investor Relations
+46 (0)18 780 88 00
ir@orexo.com or
lena.wange@orexo.com

Financial Calendar 2018

2018 Annual General Meeting	April 12, 2018, at 4.00 pm CET
Interim Report Q1 2018	April 26, 2018 at 8.00 am CET
Interim Report Q2 2018	July 11, 2018 at 8.00 am CET

Board of Directors Report

The Board of Directors and the President of Orexo AB (publ), corporate registration number 556500-0600, hereby submit the Annual Report and consolidated financial statements for the fiscal year January 1–December 31, 2017. Orexo's registered office is in Uppsala, Sweden.

Operations

Orexo develops improved pharmaceuticals based on innovative Drug Delivery technologies. The current focus is primarily on opioid dependence and pain but it is our aim to address other areas where our competence and technologies can create value. The products are commercialized by Orexo in the US or via selected partners worldwide. The main market today is the American market for buprenorphine/naloxone products, where Orexo sells Zubsolv® for treatment of opioid dependence. Zubsolv was approved by the US Food and Drug Administration (FDA) on July 3, 2013, and launched on the US market on September 16, 2013.

Orexo has to date developed the following proprietary commercial products:

- Zubsolv, for treatment of opioid dependence, is approved for use in the US and the EU. In the US the product is commercialized by Orexo whereas Mundipharma owns the rights to Zubsolv outside of the US. Launch of Zubsolv in the EU is expected during the first half of 2018.
- Abstral®, for the treatment of breakthrough pain in cancer patients, is approved for use in the EU, the US, Canada, Japan and a few additional markets. The product is sold in the US by Sentynl Therapeutics and outside of the US by Kyowa Kirin.
- Edluar®, a sublingual tablet containing zolpidem to treat short-term insomnia, is approved for use in the US, Canada and the EU and sold in these markets by Mylan.
- Diabact®, a tablet for diagnosis of the gastric ulcer bacterium helicobacter pylori. This product was divested together with the subsidiary Kibion in 2015.

The company focuses on developing and commercializing new, improved pharmaceuticals by combining well-known substances with innovative and proprietary formulation technologies. This results in new, patentable products that improve patient care and convenience.

Orexo's business model provides the opportunity to develop products with a lower level of development risk, and in a shorter time, compared to the development of new chemical substances.

Orexo's revenues derive from launched products and royalties and milestone payments from licensing agreements.

Organization

The US subsidiary, Orexo Inc., is responsible for the US commercialization of Zubsolv and possesses a full commercial infrastructure. Since July 1, 2014 Orexo's partner inVentiv Health has acted as contracted sales force partner with leadership and day-to-day management of field based activities conducted by Orexo. Sales force leadership is employed directly by Orexo and ensures full control of all sales & marketing activities. As part of an incentive scheme top performing sales representatives are on a regular basis offered transfer of employment from inVentiv Health to Orexo. The mix of rented and Orexo employed sales force resources enables high flexibility and full control. During the year a key focus area for the commercial organization was to improve the market access situation for Zubsolv in the US.

The development organization focused during the year on progressing the pipeline of internal development projects. As a result, in the Q3 2017 Interim Report, Orexo was able to announce the OX382 project, a swallowable formulation of buprenorphine. Another key focus area for the organization was the work to improve efficiencies within manufacturing with the aim of reducing cost of goods sold. During the year Orexo also worked closely together with Mundipharma on the application for market authorization for Zubsolv in the EU. On November 20, Orexo could finally announce the approval of Zubsolv for treatment of opioid dependence in the EU.

Orexo has broad-based competence throughout the value chain, with a focus on pharmaceutical formulation, clinical development, registration, pharmaceutical manufacturing and commercialization.

Orexo works with highly competent external partners for the manufacture of products for commercial use, clinical trials and manufacturing.

Orexo also collaborates with contract research organizations for certain aspects of drug development, such as

clinical studies. Orexo deploys a project led organization, in which skills are combined based on the specific demands of individual projects.

Orexo has established a Supplier Code of Conduct that will guide in the procurement of goods and services and align requirements and expectations between Orexo and suppliers. All new potential suppliers are assessed in accordance with the Supplier Code of Conduct. The assessment includes key suppliers sustainability efforts and performance.

At year end, Orexo had a total of 90 employees.

Key events

2017 was the second consecutive year with full year positive earnings and positive cash flow and Orexo made progress on several fronts. The pipeline of internal projects progressed well, market access for Zubsolv® in the US was significantly improved with impact from 2018 and the financial situation was improved with continued positive cash flow and early refinancing of the 2014 corporate bond.

Update on the OX-CLI project with partner AstraZeneca

In June, 2017, Orexo was informed by AstraZeneca that the OX-CLI project had progressed into clinical phase I studies. This triggered a milestone payment of USD 2.5 million to Orexo. Later, during the fourth quarter, Orexo was informed that AstraZeneca had decided to discontinue the project due to the unsatisfactory outcome of the phase I trials. Orexo decided not to reacquire the project and the discontinuation has no financial impact on Orexo.

Refinancing process

During Q4, 2017, Orexo completed the issue of a new corporate bond and the redemption of the 2014 corporate bond. The 2014 corporate bond was redeemed at 101 percent of the nominal amount. Before the redemption Orexo had bought back part of the 2014 bond in two rounds. A new four year, non-secured, corporate bond with a nominal value of SEK 325 million and a floating interest of STIBOR 3M + 4.5 percent per year was issued. The refinancing has secured a solid financial foundation for Orexo to continue pursuing the strategy.

Paragraph IV litigation against Actavis regarding Zubsolv in the US

On December 7 2016, Orexo appealed the District Court's decision relating to the validity of the '330 patent to the Court of Appeals for the Federal Circuit. Actavis did not appeal the District Court's decision relating to the validity and infringement of the '996 patent, securing Zubsolv exclusivity on the US market until at least September 24, 2019. An oral session was held in the US Court of Appeals for the Federal Circuit on October 4 2017. Due to the current workload a decision from the Court could take up to 9 months from the date of the oral session. Orexo has no influence on the timing of the decision and the decision can come earlier without prior notification to Orexo.

On March 1, 2017, Orexo announced that it had filed a patent infringement action against Actavis, alleging that Actavis' generic versions of Suboxone and Subutex tablets infringe Orexo's US patent no. 8,454,996. Orexo is seeking compensation for damages caused by the infringement.

Orexo signs asset purchase agreement with Gesynta Pharma AB for OX-MPI

On October 2, 2017, Orexo announced that an asset purchase agreement with Gesynta Pharma AB, a recently formed research company, had been signed for the OX-MPI asset. Under the terms of the agreement Orexo will receive tiered double digit share of any future revenue that Gesynta Pharma AB generates from the OX-MPI project.

Zubsolv received authorization for treatment of opioid dependence in Europe

Following a positive opinion from the Committee for Medicinal Products in September, 2017, the European Commission approved Zubsolv for treatment of opioid dependence in Europe on October 20, 2017.

Zubsolv US market access update

During the year Orexo improved the market access for Zubsolv in the US significantly. Existing access was secured for 2018 and in the second half of 2017 Orexo announced new market access wins, including exclusive agreements with Humana Medicare Part D, Humana Commercial and Envision Rx Commercial as well as a preferred position with CVS Caremark.

Financial Performance

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

MSEK	2017	2016
Net revenues	643.7	705.9
Cost of goods sold	–164.4	–149.6
Gross profit	479.3	556.3
Selling expenses	–190.5	–240.6
Administrative expenses	–96.1	–161.6
Research and development costs	–134.2	–132.3
Other operating income and expenses	–1.1	29.9
Operating earnings	57.4	51.7
Net financial items	–27.7	–16.1
Earnings after financial items	29.7	35.6
Income tax	–6.5	–6.5
Net earnings for the period	23.2	29.0

Revenues

Net revenues

Net revenues were distributed as follows:

NET REVENUES

MSEK	2017	2016
Zubsolv US	485.8	481.8
Zubsolv – Rest of World	5.6	65.9
Zubsolv - Total	**491.4**	**547.7**
Abstral – royalty	113.2	100.4
Milestone payment Abstral	–	2.2
Abstral – Total	**113.2**	**102.6**
Edluar – royalty	17.3	14.8
Milestone payment OX-CLI	21.8	40.8
Total	**643.7**	**705.9**

Launched products

Total net revenues for the year amounted to SEK 643.7 million (705.9). Lower milestone revenue in 2017 explains the decline. Excluding the milestone income net revenue grew by 4.2 percent, driven by Zubsolv® and Abstral®.

Zubsolv US revenue ended at SEK 485.8 million (481.8), slightly above the previous year's level. The US buprenorphine/naloxone market grew by low double digit rates. However, more than 80 percent of the absolute growth took place in the public segments which Zubsolv had relatively low access to. From July 1, 2017, the Maryland FFS formulary opened up for all branded products. Zubsolv had an exclusive position in this plan during the prior 12 months and the change in the Maryland formulary caused loss of volume during the second half-year. However, this was compensated for by better net prices as the average rebate level was reduced. During the second half-year Orexo secured the best ever market access for Zubsolv in the US, starting from January 2018. Within the commercial segment Zubsolv will be nearly universally reimbursed in 2018, primarily driven by the new preferred position within CVS Caremark and with the exclusive preferred positions within Envision Rx and Humana. In the public segment Zubsolv will have much improved access as well with the exclusive position with the Humana Medicaid Part D plan from January 1, 2018, and the preferred position on all Ohio state Medicaid formularies from July 1, 2018.

During Q4 Orexo shipped the first Zubsolv batches to Mundipharma to prepare for their launch of Zubsolv in Europe. These products were invoiced at cost according to the agreement. Future cost of goods savings will enable a positive margin on the supply of products to Mundipharma.

Total Abstral royalties and milestone payments during the year amounted to SEK 113.2 million (102.6), with Europe continuing to be the key growth driver.

Royalty revenues from Edluar® during the year amounted to SEK 17.3 million (14.8).

OX-CLI contributed with revenue of SEK 21.8 million (40.8) derived from a clinical phase I milestone payment. As OX-CLI has been discontinued there will be no more income from this project.

Expenses and earnings

Cost of goods sold

Cost of goods sold amounted to SEK 164.4 million (149.6). Approximately SEK 6 million relates to Zubsolv which was supplied to Mundipharma. The rest relates to Zubsolv for the US market.

Selling expenses

Selling expenses amounted to SEK 190.5 million (240.6). The lower expense level in 2017 was the result of tight cost control and a very targeted investment approach focusing on US districts with good market access and growth opportunities.

Administrative expenses

Administrative expenses amounted to SEK 96.1 million (161.6). The lower expense level in 2017 is explained by significantly higher costs related to protection of IP rights in 2016.

Research and development costs

Research and development costs amounted to SEK 134.2 million (132.3). During 2017 the focus was mainly on OX382, progressing other early stage projects and the supply chain optimization project.

Expenses for the long-term incentive program

The Group's total costs for employee share-based incentive programs amounted to SEK 3.0 million (0.7).

The table below shows how expenses for the long-term incentive program are distributed:

EXPENSES FOR THE LONG-TERM INCENTIVE PROGRAM

MSEK	2017	2016
Administrative expenses	–1.4	–0.7
Research and development costs	–1.2	–2.0
Selling expenses	–0.4	2.0
Total costs incentive programs	**–3.0**	**–0.7**

Other income and expenses

Other income and expenses amounted to SEK –1.1 million (29.9). Included are exchange-rate gains/losses derived from revaluation of operating receivables and payables in foreign currency and income/expenses from activities outside the scope of normal business operations.

Depreciation

Depreciation and amortization amounted to SEK 20.8 million (21.4). This includes amortization of previously capitalized R&D expenses related to the Zubsolv induction label.

Net financial items

Net financial items amounted to SEK –27.7 million (–16.1). This relates to financing activities, including interest expenses and exchange-rate gain/losses derived from foreign currency bank accounts.

Income tax
Income tax for the year amounted to SEK –6.5 million (–6.5) and is mainly attributable to Orexo's operations in the US. However the 2017 number includes the impact from creation of a deferred tax asset in Orexo AB and reduction of the deferred tax asset in Orexo Inc following the new US tax bill.

Net earnings
Net earnings amounted to SEK 23.2 million (29.0).

Financial position
On December 31, 2017, cash and cash equivalents amounted to SEK 327.9 million (282.4) and interest-bearing liabilities to SEK 319.1 million (397.8).

The interest-bearing liabilities are all associated with corporate bonds. During Q4, 2017, Orexo refinanced the 2014 corporate bond by issuing a new SEK 325 million bond and redeeming the 2014 bond.

Positive cash flow from operating activities for the year amounted to SEK 146.6 million (156.2) and was driven by a positive contribution from both earnings and changes in working capital.

Shareholders' equity on December 31, 2017 was SEK 329.1 million (310.3) and the equity/assets ratio was 33 percent (30).

The refinancing process and the current cash position have secured Orexo a strong financial platform for the execution of the company's strategy.

Investments
Gross investments in tangible and intangible fixed assets amounted to SEK 1.6 million (1.3).

Parent Company
Net revenues amounted to SEK 477.8 million (379.3), of which group internal sales amounted to SEK 319.9 million (155.2). Earnings after financial items were SEK 35.1 million (–95.7). During the first half of the year 37 de-blistered batches of Zubsolv® were sold back to Orexo Inc. These transactions had a positive impact on Parent Company revenue, margin and net earnings. As of December 31, 2017, cash and cash equivalents in the Parent Company amounted to SEK 215.1 million (211.7).

Outlook 2018
For 2018 Orexo expects to continue to deliver positive EBITDA on a full year basis, primarily driven by Zubsolv US revenue growth and continued focus on cost control. The impact from new Zubsolv US market access agreements will ramp up during the year. A negative EBITDA is expected for Q1 2018.

With the improved market access situation for Zubsolv US, Orexo expects to gain volume and market share during 2018. The total milestone payment level in 2018 is expected to be slightly above the 2017 level.

Manufacturing efficiency programs aimed at reducing COGS are expected to have an effect from the second half of 2018.

Full year operating expenses are expected to be approximately SEK 500 million. The increase over 2017 is driven by expansion of the US commercial footprint and the progression of development projects. Only a limited amount has been included for the Actavis litigation regarding Zubsolv, assuming a positive outcome.

The outlook is based on current exchange rates (January 2018).

Risks
Significant risks and uncertainties
Significant risks are essentially the same for the Parent Company and the Group. The risks may be classified as financial and operational. The financial risks are described in Note 3 on pages 50-51. A summary description of the operational risks attributable to research and development, production, sales and other risks is presented below.

Market risks
The main market risks for Orexo are price pressure, reimbursement restrictions by payers and the launch of new and competing products.

For Zubsolv to be successful in the US, it is of the utmost importance that Zubsolv has access to patients and reimbursement to the same extent as competitors.

The US payer structure and reimbursement system is very large and complex and therefore Orexo has established its own team of experienced people focusing only on improving market and reimbursement access for Zubsolv. The payers are constantly reviewing their formularies and this can lead to significant changes in market access. In 2016 Zubsolv became the exclusive preferred product on the FFS Medicaid plan with the state of Maryland. However, effective from July 1,2017, this plan opened up for all products. This change in market access caused a reduction in Zubsolv volume, which was, however, compensated for by lower rebate levels. During 2017 the organization worked hard to improve the market access and reimbursement situation for Zubsolv in the US and in the second half of 2017 several positive changes could be announced. From January 1, 2018, Zubsolv will be nearly universally covered in the commercial segment, primarily driven by the pharmacy benefit manager (PBM) CVS Caremark making Zubsolv a preferred product. Access to the public segment will be improved significantly from 2018 as well with the exclusive agreement with Humana Medicare Part D plan being the main driver.

Orexo's products are sold in a highly competitive market, with competition from both other products and other treatment methods, and the launch of new products by competitors is an inherent market risk. In all markets for Orexo's products there is intensive development of new and improved treatments, which may prove to have a better clinical effect than those of today.

Orexo is constantly working to proactively analyze these risks and develop action plans for alternative market scenarios. This is being done together with local external expertise.

R&D does not achieve the expected results
Development of a new product is by nature a complicated and risky process that requires considerable financial resources. Orexo's strategy is to develop improved products at a lower cost, in a shorter period of time and at a lower risk by combining previously known substances with proprietary technologies. The process is controlled by a multidisciplinary organization that handles all critical issues during the development process on the way to an approved product. As Orexo is a relatively small organization, it is necessary to focus on a small number of prioritized projects with high market potential.

The development of these prioritized projects towards an approved product may fail or be delayed due to several factors, such as:

- unfavorable results in clinical trials
- failure to gain the authority approval required for sales of the pharmaceutical product
- a change in the requirements of the regulatory authorities

Focus during 2017 was on the EU regulatory submission of a Marketing Authorization Application for Zubsolv® and on progressing the pipeline of internal development projects. In Q4, 2017, Zubsolv was approved by the EU for treatment of opioid dependence and in the Q4 Interim Report, 2017, Orexo announced the new OX382 project aiming to develop a swallowable buprenorphine formulation. OX382 commenced clinical phase I trials in January, 2018. While Orexo believes it has found a method of overcoming the problems associated with oral formulations of buprenorphine the project is still at an early stage and has a risk of failure. Besides OX382 Orexo's R&D focus is directed towards exploratory work to develop new formulation platforms and products. As soon as any of the exploratory work shows proof of principle and intellectual rights have been secured details will be shared with the public. As with other R&D activities, there is a risk that the desired results are not met.

In addition to the development of its own products, Orexo has historically had a number of development projects licensed to partners, where the partner in each case has complete responsibility for development. If these projects fail or for some reason are terminated, there are no future one-time payments and royalties. During Q4 Orexo was informed by AstraZeneca that they had terminated the OX-CLI project due to the unsatisfactory outcome of clinical phase I studies.

Difficulties in obtaining and protecting patents
Being able to obtain and maintain patents and other intellectual property rights protecting Orexo's technologies and products is an important part of Orexo's ability to create long-term value for its shareholders. Obtaining patents related to pharmaceuticals is a complex process that involves both scientific and legal expertise. Even if a patent has been granted, it may later be challenged legally, declared invalid or bypassed, which may limit Orexo's ability to market its new products.

On June 27, 2014 Orexo announced that it had filed a patent infringement action in the US against Actavis Elizabeth LLC and its parent company Actavis, Inc. related to Zubsolv. The decision in this litigation process was issued on November 15, 2016, by the US District Court of Delaware. The District Court held that Orexo's patent 8,454,996 is valid and infringed by Actavis and that patent 8,940,330 is invalid. On December 7, 2016, Orexo appealed the District Court's decision relating to the validity of the '330 patent. On October 4, 2017, an oral session was held at the Court of Appeals and Orexo is now awaiting the decision of the court. Orexo has initiated litigation processes against Actavis for infringement of two newer patents, but these processes are on hold until the outcome of the Court of Appeals is clear.

In March 2017 Orexo filed a patent infringement action in the United States against Actavis Elizabeth LLC, Actavis Pharma Inc and their parent company Teva alleging that their generic versions of Suboxone and Subutex tablets infringe Orexo's US patent ´996. Orexo is seeking compensation for damages caused by this alleged infringement.

Production process
Production and packing of Orexo's products is today done entirely by external partners.

Zubsolv is manufactured and packed by third party contractors located in the US and the manufacturing and packing facilities are carefully assessed against Orexo's Supplier Code of Conduct.

High demands are placed on methods and processes and these must meet "Good Manufacturing Practice" standards (GMP). Orexo constantly evaluates the fulfilment of GMP both internally and by all strategic subsuppliers. Orexo and its subsuppliers may be inspected by different authorities that have the power to grant approval. Orexo's production comprises highly potent controlled substances. There are strict rules and laws for these regarding manufacturing, storage, handling, freight, import and export, and waste management. Access to pharmaceutical ingredients may be uncertain and entail long delivery times. Orexo must therefore ensure that it can gain access to these substances at an early stage.

To ensure safe supply of products that are vital to patients a significant inventory of Zubsolv must be maintained. Carrying a high inventory level creates a risk of write-offs of expired products. Orexo is constantly working to minimize this risk by managing the inventory according to demand and by working to improve the product´s lifetime. During 2017 Orexo continued to improve the product´s lifetime and also to reduce the inventory level to an appropriate level.

Effect of political and regulatory decisions
The pharmaceutical market is greatly affected by political decisions that may affect, for example, reimbursement levels for pharmaceutical expenses and limits for the prescription of products. Especially the market for controlled substances is under tight surveillance and control by authorities who can change the market conditions with

new policies and legislation. During 2016 the US Department of Health and Human Services (HHS) announced an increase in the buprenorphine patient cap from 100 to 275 patients and during 2017 HHS further allowed certified physician assistants and nurses to start prescribing buprenorphine for treatment of opioid dependence. These changes are examples of political decisions with positive impact on the market for Zubsolv®.

Dependence on key persons
Orexo is dependent on a number of key persons within various different areas. The ability to recruit and retain qualified staff is of very great importance for ensuring that there is adequate expertise in the company. Orexo has also outsourced a number of activities critical to the business to external consultants and partners. One example of this is the commercial partnership that Orexo has entered with inVentiv Health, where the partner is responsible for the execution of certain field-based Zubsolv activities in the US. Where consultants and partners cannot deliver services in time and of the necessary quality, this may have a negative impact on the results of the business.

Employees
Orexo offers a dynamic and innovative place to work. The company fosters an environment where employees respect each other's views, competences and decisions. At Orexo, employees are given substantial responsibility and every person's contribution is important. At end of period Orexo had 90 employees.

Environmental work
The company has prepared a Sustainability Report in accordance with the Swedish Annual Accounts Act and according to the reporting guidelines of the United Nations Global Compact. See pages 29-36.

Remuneration
Principles and guidelines for remuneration to senior executives
The Board of Directors proposes that the Annual General Meeting resolve to approve the Board of Directors' proposal concerning principles and guidelines for the remuneration of the company's management in accordance with what is stated below, to apply until the Annual General Meeting in 2019. The Board's proposal principally conforms to guidelines previously applied to the remuneration of the company's management. "Management" here refers to the Chief Executive Officer and the other members of the management group, which in addition to the Chief Executive Officer comprised five persons at the end of 2017.
The Board has appointed a Remuneration Committee to draw up proposals regarding remuneration and other terms of employment for the management.
Orexo shall offer terms of employment that are in line with market rates so that the company can recruit and retain skilled personnel. Remuneration to the management shall comprise a fixed salary, variable remuneration, long-term incentive programs, pensions and other customary benefits. Remuneration is based on the individual's commitment and performance in relation to previously established goals, individual goals and goals for the entire company. Individual performance is continuously evaluated.

Fixed salary
Fixed salary is generally reviewed on an annual basis and shall be based on the qualitative performance of the individual. The fixed salary of the Chief Executive Officer and the management shall be in line with market conditions.

Variable remuneration
Variable remuneration shall take into account the individual's level of responsibility and degree of influence. The size of variable remuneration is based on the percentage of set goals met by the individual. Variable remuneration shall amount to no more than 40 percent of the fixed salary of the Chief Executive Officer and 30 percent of the fixed salary for the other members of the management. Furthermore, the Board of Directors shall have the option of allocating further variable non recurring remuneration to the management when the Board deems it to be appropriate.

Long-term incentive programs
Orexo has adopted equity-based incentive programs intended to promote the company's long-term interests by motivating and rewarding the management of the company, among others. All incentive programs are performance driven to align participant's interest with shareholder interest. For a description of the company's Long-Term Incentive Programs, please refer to Note 24, and to the company's website, www.orexo.com.

Other remuneration and terms of employment
The Chief Executive Officer and the other members of the management are covered by defined contribution pension plans. The pension premiums paid by the company to the Chief Executive Officer and other members of management amount to not more than 20 percent of the annual salary.

The employment agreement with the Chief Executive Officer may be terminated with six months' notice. Employment agreements with the other members of the management may be terminated with a notice of between zero and six months. The Chief Executive Officer is entitled to severance pay equivalent to six months' salary if employment is terminated by the company. The other members of the management are entitled to severance pay equivalent to between 3 and 12 months' salary if employment is terminated by the company.

The Board is entitled, if it assesses that this is warranted in an individual case, to assign company work to a Board member over and above the Board assignment, in which case the Board member may be granted reasonable remuneration.

Divergence from guidelines
The Board is entitled to deviate from the above guidelines if the Board determines that there are special reasons in an individual case that warrant such action.

In 2017 the Board approved bonus beyond the guidelines for the two US participants of the Management Team. This was done as part of a special bonus scheme driven by US profit contribution to secure focus on profitability.

Largest shareholders
At year-end 2017 Orexo had two large shareholders with holdings of more than 10 percent of the total number of shares; Novo Holding A/S 27.5 percent with 9,643,184 shares, and HealthCap 11.3 percent with 3,960,020 shares.

Dividend
The Board of Directors proposes that no dividend is paid for the financial year 2017.

Number of shares
Company shares total 35,104,585 – whereof 34,539,585 are ordinary shares and 565,000 class C shares. There are 34,596,085 votes in the company.

Proposed appropriation of profit
The following funds are at the disposal of the Annual General Meeting:

SEK	
Share premium reserve	1,196,121,316
Profit carried forward	–1,234,120,791
Profit/loss for the year	42,619,439
Total	**4,619,963**

The Board proposes that the funds at their disposal SEK 4,619,963 be carried forward.

Corporate Governance
Information on Orexo's application of the Swedish Code of Corporate Governance and more can be found in the corporate governance report on page 76.

Financial information in brief
Group

STATEMENT OF OPERATIONS INFORMATION

MSEK	2017	2016	2015	2014	2013
Net revenues	643.7	705.9	646.2	570.3	429.4
Cost of goods sold	–164.4	–149.6	–150.2	–107.4	–29.3
Gross Profit	**479.3**	**556.3**	**496.0**	**462.9**	**400.0**
Selling expenses	–190.5	–240.6	–297.5	–193.6	–125.1
Administrative expenses	–96.1	–161.6	–141.5	–113.0	–126.4
Research and development costs	–134.2	–132.3	–172.6	–197.8	–238.1
Other operative income and expenses	–1.1	29.9	–65.0	16.5	–50.1
Operating earnings	**57.4**	**51.7**	**–180.6**	**–25.0**	**–139.7**
Net financial items	–27.7	–16.1	–23.0	–27.6	–13.7
Earning after financial items	**29.7**	**35.6**	**–203.6**	**–52.6**	**–153.4**
Income tax	–6.5	–6.5	–6.4	–4.0	–1.5
Net earning for the year	**23.2**	**29.0**	**–210.0**	**–56.6**	**–154.9**

BALANCE SHEET INFORMATION

MSEK	2017	2016	2015	2014	2013
Intangible fixed assets	121.0	138.2	155.5	259.2	194.8
Tangible fixed assets	20.1	22.1	24.7	29.1	33.3
Deferred tax	28.3	24.8	18.0	3.0	–
Other financial assets	7.1	7.9	2.1	1.2	–
Inventories	250.2	344.2	402.6	488.2	383.4
Account receivable	218.4	178.5	167.8	142.1	36.1
Other current assets	30.9	20.7	51.2	31.5	19.1
Cash and bank balance	327.9	282.4	198.1	284.5	105.6
Total assets	**1,003.9**	**1,018.8**	**1,020.0**	**1,238.8**	**772.3**
Shareholders' equity	329.1	310.3	270.1	467.9	161.5
Interest-bearing liabilities	319.1	397.8	494.4	493.8	241.1
Non-interest bearing liabilities and provisions	355.7	310.7	255.5	277.1	369.7
Total shareholders' equity and liabilities	**1,003.9**	**1,018.8**	**1,020.0**	**1,238.8**	**772.3**

CASH FLOW INFORMATION

MSEK	2017	2016	2015	2014	2013
Cash flow from operating activities before changes in working capital	110.3	67.5	–47.2	–35.5	–61.9
Cash flow changes in working capital	36.3	88.7	–62.0	–451.8	–201.3
Cash flow from operating activities	146.6	156.2	–109.2	–487.3	–263.2
Acquisition of tangible and intangible assets	–1.6	–1.4	–4.0	–71.7	–107.5
Sale of tangible assets	–	1.9	–	–	–
Sale of subsidiary	–	5.0	21.8	–	–
Cash flow after investing activities	145.0	161.7	–91.4	–559.0	–370.7
Amortization of loans	–404.7	–92.8	–1.2	–102.4	–3.0
Borrowings	319.2	–	–	500.0	234.7
New share issues	0.1	2.2	3.8	189.7	19.4
Sales of treasury shares	–	–	–	152.0	–
Cash flow for the year	59.6	71.1	–88.8	180.3	–119.6
Cash and cash equivalents at year-end	327.9	282.4	198.1	284.5	105.6

KEY FIGURES

	2017	2016	2015	2014	2013
EBIT margin, %	9	7	–28	–4	–33
Return on shareholder equity, %	7	10	–57	–18	–88
Net debt, MSEK	–8.8	115.4	296.3	211.7	135.5
Debt/equity ratio, %	97	128	183	106	149
Equity/assets ratio, %	33	30	26	37	21
Number of shares, before dilution	34,561,142	34,477,423	34,478,622	32,700,348	31,790,784
Number of shares, after dilution	34,671,706	34,574,337	34,478,622	32,700,348	31,790,784
Earnings per share, before dilution, SEK	0.67	0.84	–6.09	–1.70	–5.16
Earnings per share, after dilution, SEK	0.67	0.84	–6.09	–1.70	–5.16
Number of employees at the end of the period	90	102	90	108	108
Shareholders' equity, MSEK	329.1	310.3	270.1	467.9	161.5
Capital employed, MSEK	648.2	708.1	764.5	961.7	402.6
Working capital, MSEK	477.5	516.3	570.9	678.2	47.2

For alternative key figures see definitions and reconciliations of key figures on page 73

Sustainability Report 2017

A sustainable business platform is essential for maintaining business credibility and Orexo shall be a company with sustainable values that acts responsibly and is accountable for its actions. To support and enforce this statement, Orexo joined the United Nations Global Compact in 2017, an initiative that has now gathered over 9,500 companies in pursuit of a sustainable future.

This is Orexo's first Sustainability Report in accordance with the new Swedish Annual Accounts Act and also our first Communication on Progress according to the reporting guidelines of the Global Compact. I am pleased to reaffirm Orexo's support of the Ten Principles in the areas of Human Rights, Labor, Environment and Anti-Corruption.

Yours sincerely
Nikolaj Sørensen
President and CEO

This sustainability report includes the parent company Orexo AB and its subsidiaries.

Sustainability at Orexo

"Orexo wants to be recognized for the value our pharmaceutical products bring to the patients and to be trusted for the way we work and operate in delivering benefits to patients, society, partners and other stakeholders."

Orexo Quality Policy.

Orexo's efforts to create added value for patients and other stakeholders and to ensure access to quality pharmaceutical products has a positive impact on several sustainability aspects. In general the historic importance of adherence to local and global legislation and standards with regards to good practices within pharmaceutical development and international business conduct, has pushed the Company towards a more sustainable business. The threshold for being classified as a sustainable company is constantly increasing and Orexo is committed to continuously addressing its footprint on environmental and social aspects.

In April 2017, Orexo signed a letter of commitment to support the ten principles in the areas of Anti-Corruption, Human Rights, Environment and Labor and thus participate in the United Nations Global Compact. The participation facilitates Orexo's commitment to sustainable development by adopting globally recognized frameworks and initiatives in order to achieve the global sustainable goals.

Orexo's sustainability agenda

In order to define corporate sustainability priorities for the fiscal year Orexo drafted an activity plan early in 2017 based on an internal stakeholder dialogue. The plan was endorsed by Orexo's Board of Directors in the spring of 2017 and it sets out Orexo's ambitions and targets within the following four areas:

- Anti-corruption, see page 33.
- Human rights, see page 33.
- Environment, see page 34.
- Labor, see page 34.

Sustainability management and policies

To demonstrate and implement Orexo's commitment to sustainable development and to raise knowledge internally about the subject, Orexo established a Sustainability Group at the beginning of the year. The group reports on an as-needed basis to the Board of Directors and includes relevant corporate functions that can influence corporate policies and strategies. The group is led by Orexo's Chief Financial Officer and is convened by Orexo's Sustainability Manager.

The Swedish organization comprises Research and Development and Corporate Headquarters, and is responsible for maintaining policies on a corporate level and enforcing global and local policies mainly in Sweden. The majority of Orexo's commercial activities are managed by Orexo US, Inc., which utilizes and enforces a Comprehensive Compliance Policy Program adapted for federal and state-level law and expectations.

Business Compliance and Ethics Code

Orexo's Business Compliance and Ethics Code acts as an umbrella policy for all other policies and is based on legislation, corporate values and recognized international standards, such as the International Bill of Human Rights, the Declaration of Helsinki[1] and the UN Global Compact, and applies to all directors, officers, employees, consultants and temporary staff at Orexo AB and its subsidiaries. The code also exhorts individuals to raise questions and report suspected violation of ethical business conduct, without retaliation or any threat of retaliation.

Supplier Code of Conduct

As a company with most of its activities outsourced, Orexo's main sustainability impacts and risks are within the supply of goods and services. Orexo's supplier management is based on the company's Supplier Code of Conduct, which describes Orexo's expectations for suppliers in a variety of sustainability aspects.

In order to enforce the Supplier Code of Conduct, Orexo utilizes processes and procedures to ensure that patient safety, occupational safety and health, product quality and other applicable business compliance and ethics aspects of suppliers are acceptable. The processes and the procedures also ensure that applicable commercial aspects like supplier reliability, financial stability and future commercial implications for the supply chain are adequately considered.

US Comprehensive Compliance Policies

Orexo US, Inc. adheres to rules and regulations set out on a federal and state level by enforcing a comprehensive policy program that addresses the approach to marketing and promotion of pharmaceutical products, including, but not limited to, aspects as expense and aggregate spend reporting and interaction with governments and healthcare professionals.

Safety, Health and Environment Policies

The Safety, Health and Environment policies and guidelines support managers and employees in their pursuit of a workplace free of injuries and illnesses and support the company's precautionary approach to environmental challenges.

Human Resources Policies

The policies describe the relationship between the employer and the employees and their respective obligations and rights. They cover matters such as recruitment, equal opportunities, discrimination, conflict of interest and health insurance and other employment benefits.

[1] A recognized statement of ethical principles for medical research involving human subjects developed by the World Medical Association (WMA)

#OPIOIDCRISIS

Substance use and substance-use disorders have created a significant public health burden. In 2008, the number of deaths in the United States involving prescription opioids exceeded the aggregated number of deaths from heroin and cocaine. In 2016 more than 64,000 deaths in the US were related to drug overdose and the economic cost of the opioid epidemic in 2015 is estimated to $504.0 billion. The statistics leave no doubt, but they do not capture the full extent of the problem. Information indicates that tens of millions of Americans abuse prescription opioids, sedatives and stimulants and globally around 75 per cent of the burden of disease caused by drug-use disorders is associated with opioids. Meanwhile, the availability and access to scientific evidence-based treatment remains limited in many countries and only about 1 in 6 people worldwide suffering from drug-use disorders receives treatment.[2) 3) 4) 5)]

Orexo's key therapeutic area is within treatment of opioid dependence and ever since Zubsolv® was launched in the US, one of Orexo's main objectives has been to make treatment available for more people. Multiple initiatives have been launched and are still maintained; *RISE* allows patients to choose from a selection of online tools and resources and build the plan they feel is most helpful to their recovery and the purpose of the *REZOLV* study is to inform physicians, payers and patients about factors that may have a positive effect on the treatment outcome. Furthermore, Orexo's *Out the Monster* campaign counters stigmatization associated with opioid dependence and the *Patients Savings Program* helps patients afford medication through lower out-of-pocket costs.

Through *The National Alliance of Advocates for Buprenorphine Treatment* Orexo also contributed to the increase in the number of patients that certified physicians are allowed to treat concurrently. As a result of the signing of the *Comprehensive Addiction and Recovery Act* into law in 2016 certified nurse practitioners and physician assistants are now also allowed to prescribe medication for opioid dependence treatment.[6)]

During 2017 the main target was to further improve Orexo's chain of supply, in order to maintain an affordable choice for payers and patients. In addition to the Patients Savings Program, the market access agreements in the US for 2018 will give patients in the commercial segment greater access to treatment with Zubsolv, which means most patients can obtain treatment under their commercial insurance plans. The approval of Zubsolv in the EU in November 2017 also gives the prescribers in the EU increased ability to treat the estimated 1.3 million high-risk opioid users in Europe.[7)]

[2)] Progress towards the Sustainable Development Goals E/2016/75
[3)] Centers for Disease Control and Prevention, Annual Surveillance Report of Drug-Related Risks and Outcomes — United States, 2017.
[4)] United Nations Office on Drugs and Crime, World Drug Report 2017
[5)] The Council of Economic Advisers, The Underestimated Cost of the Opioid Crisis
[6)] The National Alliance of Advocates for Buprenorphine Treatment (NAABT)
[7)] European Drug Report 2017: Trends and Developments

Sustainable Development Goal #3 – Good Health and Well-being

The 2030 Agenda for Sustainable Development and the 17 Sustainable Development Goals were adopted by the United Nations in 2015. The goals and their specific targets together aim at ending poverty, protecting the planet and ensuring prosperity for all.

Sustainable Development Goal number 3 and its target 3.5 is of especial importance to Orexo. The goal seeks to ensure health and well-being for all, at every stage of life and addresses all major health priorities, including universal health coverage and access for all to safe, effective, quality and affordable medicines. The target is intented to strengthen the prevention and treatment of substance abuse, including narcotic drug abuse and harmful use of alcohol.

ANTI-CORRUPTION

A recognized risk for businesses within the healthcare sector is ethics and compliance violations in interactions with Healthcare Professionals (HCP), Healthcare Organizations and Government Officials. The legislation in this area is comprehensive in the US with the Physician Payments Sunshine Act as an example where transparent disclosure of expenses in relations with HCPs is required. In order to complement the legislation and to communicate internally and externally what values should permeate Orexo's business conduct, Orexo formed the global and local policy program that was described earlier in the report.

Commitment	Target 2017	Progress
We are recognised as a reliable and professional partner with high integrity	Initiate, approve and implement new Corporate Code of Conduct	Target met on-time in-full

During 2017, Orexo revised its Business Compliance and Ethics Code to further integrate the Ten Principles of the UN Global Compact. The Code was endorsed by Orexo's Board of Directors in June 2017 and implementation was conducted continuously during the fall of 2017, peaking with a celebration of the UN Human Rights and Anti-Corruption days in December. Through this and previous implementation sessions 89 percent of the organization have participated in training on compliance and ethics within business conduct.

For the future, Orexo aims to strengthen its efforts within this area and perform a more comprehensive implementation for employees that are at higher risk of being exposed to certain situations related to anti-corruption and other sustainability issue areas.

Orexo US, Inc. adheres to rules and regulations set out on a federal and state level by enforcing a comprehensive policy program that addresses the approach to marketing and sales of products, including, but not limited to, aspects such as expense and aggregate spend reporting and interaction with governments and healthcare professionals.

At the end of 2017 Orexo US, Inc. also deployed an updated ethics compliance hotline with the ability to file confidential, anonymous reports via either the telephone or the Internet and the possibility for reporters to anonymously track the progress of their reports.

Performance indicators	2017 (year-end data) Parent company	Group
Implementation of Code of Conduct (of employees)	81%	89%

HUMAN RIGHTS

Through the Business Compliance and Ethics Code Orexo supports the International Bill of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work. The company's highest risks of violation of these rights are, however, in the Supply Chain, beyond the direct control of the company. Hence, in the Human Rights issue area the company works with enhancing external performance and the commitment is enforced through the Supplier Code of Conduct and the Supplier Management Principles.

All suppliers are categorized in segments based on their complexity and criticality (Tier A-D; A highest, D lowest) and initial and continual assessments are performed accordingly. The sustainability assessments currently focus on a handful of strategic suppliers and depending on the nature of the business and location of the assessed partner different sustainability aspects are evaluated and audited.

Orexo's main target for 2017 was to further integrate sustainability assessments into the Supplier Management Processes and the activity is still ongoing. Although the Company aims to strengthen its efforts within this area, it is important to emphasize that sustainability aspects are separately assessed when handling new and existing suppliers. The next step is to standardize and integrate these assessments into the established Supplier Management Principles, not the least to improve the efficiency of the processes.

In the end of 2016 all existing tier A suppliers had been

Commitment	Target 2017	Progress
We train our employees and assess our partners to reduce risks	Full integration of applicable Safety, Health and Environment issues in Orexo's tiered Corporate Social Responsibility due diligence process Approved Tier A and new suppliers assessed according to integrated process	Process remains to be fully integrated

off-site audited with regard to all four sustainability issue areas (Environment, Human Rights, Labor and Anti-Corruption), with some minor remarks that are being monitored. New partnerships are assessed continuously and will be disclosed as applicable through primary channels of communication.

The partnership with Orexo's Swedish Facility Services supplier (a Tier B supplier) was updated with a separate Supplier Account Plan where Orexo's sustainability ambitions in the collaboration are more visible. The supplier is also a signee of the UN Global Compact.

Performance of Orexo's Supplier Management Process with regards to sustainability

Performance indicators	Number of approved Suppliers			Sustainability Assessments performed		Number of approved Suppliers with open Sustainability issues		
	1-6	7-14	15-	Result	Target 2017	Major	Moderate	Minor
Tier A	•	–	–	100 %	100 %	NONE	NONE	3
Tier B	–	•	–	0 %	0 %			
Tier C	–	•	–	0 %	0 %		*Not available*	
Tier D	–	–	•	0 %	0 %			

ENVIRONMENT

Orexo focuses its efforts within the Environmental Management to where the greatest risks of adverse environmental impact are found. This risk-based approach points out the supply of goods, product development and the handling of chemicals. Within these areas, the company is committed to monitoring and improving energy efficiency, consumption of materials and waste management and keeping emissions of pharmaceutical substances at low levels. The parent company has an Environmental Management System based upon ISO 14001 (not certified).

In 2016 the organization finalized an Environmental Aspect Assessment (EAA) that pointed out areas where Orexo has the highest potential environmental impact and is able to get the most return on invested efforts. The analysis is an effective tool to see where 'violation' of a sustainability aspect is more likely to occur and also to address potential legislative compliance issues. The tool is at present not fully utilized in order to identify improvements beyond legislation.

During 2017 the main target was to use the information from the EAA as a base, and complement it with a higher degree of detail and find certain areas where Orexo could advance a greater environmental responsibility.
In parallel, measures were taken to enhance the Corporate Risk Management Procedures and the activity remains to be finalized. Accordingly, the environmental risk and benefit analysis is yet to be finalized.

In order to realize Orexo's strategies of expanding the development pipeline, the R&D site in Sweden has intensified its research activities. In 2017 the number of produced R&D-units was increased by 208% compared to 2016 and the parent company's waste generation decreased by 18%.

Commitment	Target 2017	Progress
We are aware of our operational footprint and we continuously assess and minimize our environmental impact	Initiate and finish a risk benefit analysis to assess Orexo´s current Environmental footprint and thus find improvement opportunities	Environmental risk and benefit analysis ongoing, but not finalized
	Environmental issues to be further integrated in Orexo's supplier due diligence activities	For Supplier due diligence, see Human Rights section

Performance indicators

	2016	2017
Energy intensity [1] in R&D facility [MWh/SEK million turnover]	3,9	3,9
Combustible waste [kg/employee at parent company]	69,8	53,8

[1] Includes heating, cooling and electricity

LABOR

Through the Business Compliance and Ethics Code Orexo supports the International Labour Organization's Fundamental Principles and Rights at Work. Since the impacts of Orexo's outsourced business conduct are managed within the Human Rights issue area this section comprises information on the performance within the Orexo Group.

Orexo has a workforce of approximately one hundred people evenly distributed between Sweden and the United States. As a company with its roots in Sweden and a subsidiary in another developed country, fundamental labor rights standards such as the abolition of child labor, maintaining freedom of association and elimination of forced and compulsory labor are generally both ethically and legislatively well developed. Orexo, however, recognizes the local and global challenges of inequality in respect of employment and occupationally inflicted health issues.

Through the Business Compliance and Ethics Code Orexo condemns any form of harassment or discrimination including such characteristics protected by applicable laws and regulations. To enforce the policy the Swedish organization maintains an equal opportunities plan which is updated every three years and will be updated again in 2018. Data such as differences in sick leave, remuneration, recruitment, work load and parental leave/absence due to care of children are analyzed and actions are described in the plan if significant discrepancies are found.

In September and October 2017 a revised Safety & Health Risk Management Report and a new incident reporting procedure were launched in Sweden. Through the Risk Management Report Orexo identified nine areas where the risk profiles were not acceptable to the Occupational Safety and Health Committee and mitigation activities are still ongoing. The new incident reporting tool raised the number of near misses reported from zero (2016) to three (2017).

Incentive	Target 2017	Status
Our work on safety and health engages all employees	Enhancement of incident and accident reporting tool to foster a proactive safety culture	New reporting process implemented on time, in full
	Safety & Health Risk Management Report to be reviewed and further utilized to drive activities within prioritized areas	S&H risk management file updated and multiple improvement activities initiated

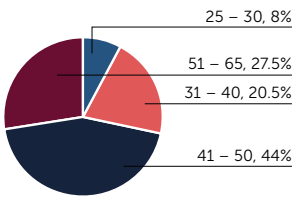
In order to identify and act on possible breaches of the Code of Conduct, the US subsidiary launched a new third-party solution for the registration and handling of anonymous reports from employees.

Performance indicators

	2016 (year-end data)		2017 (year-end data)	
	Parent company	Group	Parent company	Group
Employment[1]				
Number of employees	55	102	53	90
- employees with a permanent contract	95%	97%	98%	99%
- employees with a temporary contract	5%	3%	2%	1%
Temporary workers	4%	24%	10%	32%
Gender equality				
Female employees	44%	57%	51%	56%
- women in management positions	50%	28%	44%	47%
- women in executive management team	-	0%	-	0%
Women in board of directors	-	29%	-	29%
Other data				
Employee satisfaction index[2]	82	Not available	80	Not available
Employee absence due to illness[3]	4%	Not available	2%	1%

[1] Employees include workers with employment at the parent company Orexo AB and the subsidiary Orexo US, Inc., Temporary workers are excluded
[2] Springlife – A score of 70 and above is classified as a high score and indicates that the conditions for employees carrying out their work are very good
[3] Includes employees only

OREXO GROUP AGE RANGES



orexo

UN GLOBAL COMPACT

COMMUNICATION ON PROGRESS

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

Read more on our websites

Our corporate website, www.orexo.com, is our foremost communication channel. For more information about Zubsolv and opioid dependence in the US, see the websites targeting insurance companies, healthcare professionals and patients, www.rise-us.com and www.zubsolv.com.

Other channels that are updated continuously with information regarding our business or our environment are:

Financial Reports 2017

Consolidated Statement of Operations

MSEK	Notes	2017	2016
Net revenues	5,6	643.7	705.9
Cost of goods sold	7	–164.4	–149.6
Gross profit		**479.3**	**556.3**
Selling expenses	7,9,10,11,12,33	–190.5	–240.6
Administrative expenses	7,9,10,11,12,31,33	–96.1	–161.6
Research and development costs	7,9,10,11,12,33	–134.2	–132.3
Other operating income	8,13	38.2	79.8
Other operating expenses	7,13	–39.3	-49.9
Operating earnings		**57.4**	**51.7**
Financial income	14	0.2	6.2
Financial expense	14	–27.9	–22.3
Earnings after financial items		**29.7**	**35.6**
Tax	15	–6.5	–6.5
Net earnings for the year		**23.2**	**29.0**
Earnings for the year attributable to:			
Parent Company shareholders		23.2	29.0
Non–controlling interests		–	–
Earnings per share during the year attributable to Parent Company shareholders (expressed in SEK)			
– before dilution	16	0.67	0.84
– after dilution	16	0.67	0.84

Consolidated Statement of Comprehensive Income

MSEK	Notes	2017	2016
Net earnings for the year		**23.2**	**29.0**
Other comprehensive income			
Items that may subsequently be reversed to the statement of operations:			
Reclassification assets available for sale		–	–0.9
Translation differences	17	–7.5	6.2
Other comprehensive earnings for the year, net after tax		**–7.5**	**5.3**
Comprehensive earnings for the year		**15.7**	**34.3**
Comprehensive earnings attributable to:			
Parent Company shareholders		15.7	34.3
Non–controlling interests		–	–

Consolidated Balance Sheet

MSEK	Notes	2017	2016
ASSETS			
Fixed assets			
Tangible fixed assets	9,11	20.1	22.1
Intangible assets	10,11	121.0	138.2
Deferred tax assets	32	28.3	24.8
Other financial assets	18	7.1	7.9
Total fixed assets		**176.5**	**193.0**
Current assets			
Inventories	19	250.2	344.2
Accounts receivable	20	218.4	178.5
Other receivables	21	7.4	5.6
Prepayment and accrued income	22	23.5	15.1
Cash and cash equivalents	18,23	327.9	282.4
Total current assets		**827.4**	**825.8**
TOTAL ASSETS		**1,003.9**	**1,018.8**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	24	14.1	13.9
Other contributed capital	24	1,851.6	1,848.6
Reserves	17,22	–7.3	0.2
Profit carried forward including net earnings for the year	24	–1,529.3	–1,552.4
Total shareholder's equity		**329.1**	**310.3**
Long–term liabilities and provisions			
Provisions	25	5.8	1.2
Interest bearing liabilities	18,26	319.1	397.8
Total long–term liabilities		**324.9**	**399.0**
Current liabilities			
Accounts payable	18,27	45.5	36.0
Provisions	25	200.9	163.9
Other liabilities	27	14.2	10.6
Accruals	27	89.3	99.0
Total current liabilities		**349.9**	**309.5**
Total liabilities		**674.8**	**708.5**
Total shareholders' equity and liabilities		**1,003.9**	**1,018.8**

Changes in Consolidated Shareholders' Equity

Attributable to Parent Company shareholders[1] MSEK	Notes	Share capital	Other contributed capital	Reserves	Profit carried forward	Total share-holders' equity
Opening balance at January 1, 2016		**13.8**	**1,842.8**	**–6.0**	**–1,580.5**	**270.1**
Comprehensive income						
Net earnings for the year					29.0	29.0
Other comprehensive income						
Translation differences				6.2		6.2
Reclassification assets available for sale					–0.9	–0.9
Total comprehensive income		**13.8**	**1,842.8**	**0.2**	**–1,552.4**	**304.4**
Transactions with shareholders						
Share based compensation	24		3.7			3.7
Buyback of company's own shares			–0.1			–0.1
New share issues		0.1	2.2			2.3
Total transactions with shareholders		**0.1**	**5.8**			**5.9**
Opening balance at January 1, 2017		**13.9**	**1,848.6**	**0.2**	**–1,552.4**	**310.3**
Comprehensive income						
Net earnings for the year					23.2	23.2
Other comprehensive income						
Translation differences				–7.5		-7.5
Total comprehensive income		**13.9**	**1,848.6**	**–7.3**	**–1,529.3**	**325.9**
Transactions with shareholders						
Share based compensation	24		3.0			3.0
New share issues		0.1				0.1
Total transactions with shareholders		**0.1**	**3.0**			**3.1**
Closing balance at December 31, 2017		**14.1**	**1,851.6**	**–7.3**	**–1,529.3**	**329.1**

[1] There are no non–controlling interests

The number of outstanding shares has increased from 34,870,326 per 31 December 2016 to 35,104,585 per 31 December 2017. This has been done through issuance of 230,000 C shares and 4,259 from exercise of options. The quota value per share on December 31, 2017 is 0.4.

Consolidated Cash Flow Statement

MSEK	Notes	2017	2016
Operating earnings		57.4	51.7
Adjustment for non–cash items	28	87.9	44.1
Interest received		0.2	0.6
Interest paid		–15.6	–21.4
Tax paid		–19.6	–7.5
Cash flow from operating activities before changes in working capital		**110.3**	**67.5**
Changes in working capital			
Change in inventories		83.2	71.7
Change in receivables		–70.5	29.5
Change in current liabilities		23.6	–12.5
Cash flow from operating activities		**146.6**	**156.2**
Investing activities			
Acquisition of tangible fixed assets	9	–1.1	–1.1
Disposal of tangible fixed assets		–	1.9
Acquisition of intangible assets	10	–0.5	–0.3
Disposal of subsidiary		–	5.0
Cash flow from investing activities		**–1.6**	**5.5**
Financing activities			
New share issue		0.1	2.2
Issuance of corporate bonds	26	319.2	–
Buyback of corporate bonds	26	–404.7	–92.8
Cash flow from financing activities		**–85.4**	**–90.6**
Cash flow for the year		**59.6**	**71.1**
Cash and cash equivalents at the beginning of the period		282.4	198.1
Exchange–rate differences in cash and cash equivalents		–14.1	13.2
Change in liquidity		45.5	84.3
Cash and cash equivalents at the end of the period	23	**327.9**	**282.4**

Parent Company Statement of Operations

MSEK	Notes	2017	2016
Net revenues	5,6	477.8	379.3
Cost of goods sold	7	–167.4	–83.6
Gross profit		**310.4**	**295.7**
Selling expenses	7,9,10,11,12,33	–73.3	–105.7
Administrative expenses	7,9,10,11,12,31,33	–67.3	–129.1
Research and development costs	7,9,10,11,12,33	–105.3	–141.8
Other operating income	8,13	38.1	73.8
Other operating expenses	7, 13	–39.3	–49.5
Operating earnings		**63.3**	**–56.6**
Other interest income and similar income	14	1.0	15.7
Other interest expenses and similar expenses	14	–29.2	–54.8
Net financial items		**–28.2**	**–39.1**
Earnings before tax		**35.1**	**–95.7**
Tax on earnings for the year	15	7.6	–
Net earnings for the year		**42.7**	**–95.7**

Parent Company Statement of Comprehensive Income

MSEK	Notes	2017	2016
Net earnings for the year		42.7	–95.7
Other comprehensive income for the period, net after tax		–	–
Total comprehensive income for the period		**42.7**	**–95.7**

Parent Company Balance Sheet

MSEK	Notes	2017	2016
ASSETS			
Fixed assets			
Patents and intellectual property rights and proprietary intangible asset	10,11	121.0	138.2
Equipment, renovation of the property of others	9,11	19.8	21.6
Deferred tax assets	32	7.6	–
Shares and participations in group companies	29	150.6	149.7
Total fixed assets		**299.0**	**309.5**
Current assets			
Inventories	19	186.3	269.6
Accounts receivable	20	61.1	51.4
Tax claims	15	2.7	2.7
Other receivables	21	4.7	2.9
Receivables from group companies		79.1	12.1
Prepaid expenses and accrued income	22	10.8	7.7
Cash and bank	23	215.1	211.7
Total current assets		**559.8**	**558.1**
TOTAL ASSETS		**858.8**	**867.6**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Restricted shareholders' equity			
Share capital	24	14.1	13.9
Statutory reserve		290.8	290.8
Total restricted shareholders' equity		**304.9**	**304.7**
Non–restricted shareholders' equity			
Share premium reserve	24	1,195.9	1,192.9
Accumulated deficit		–1,234.1	–1,138.4
Net earnings for the year		42.7	–95.7
Total non–restricted shareholders' equity		**4.5**	**–41.2**
Total shareholders' equity		**309.4**	**263.5**
Long–term liabilities			
Other provisions	25	4.9	1.3
Long–term liabilities	26	319.1	397.8
Total long–term liabilities		**324.0**	**399.1**
Current liabilities			
Accounts payable		28.9	20.4
Other liabilities	27	6.6	7.0
Liabilities to group companies		169.1	152.5
Accrued expenses and deferred income	27	20.8	25.1
Total current liabilities		**225.4**	**205.0**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**858.8**	**867.6**

Changes in Parent Company Shareholders' Equity

MSEK	Notes	Share capital	Statutory reserve	Share premium reserve	Accumulated deficit	Total share-holders' equity
Opening shareholders' equity at January 1, 2016		**13.8**	**290.8**	**1,186.9**	**–1,138.3**	**353.4**
Net earnings for the year					–95.7	–95.7
Other comprehensive income						–
Total comprehensive income					**–95.7**	**–95.7**
Share based compensation	24			3.7		3.7
New share issues		0.1		2.3		2.3
Buyback of shares					–0.1	–0.1
Closing shareholders' equity at January 31, 2016		**13.9**	**290.8**	**1,192.9**	**–1,234.1**	**263.5**
Net earnings for the year					42.7	42.7
Other comprehensive income						–
Total comprehensive income					**42.7**	**42.7**
Share based compensation	24			3.0		3.0
New share issues		0.1				0.1
Closing shareholders' equity at December 31, 2017		**14.1**	**290.8**	**1,195.9**	**–1,191.4**	**309.4**

Parent Company Cash Flow Statement

MSEK	Notes	2017	2016
Operating activities			
Operating earnings		63.3	–56.6
Adjustment for non–cash items	28	30.4	2.5
Interest received		0.9	5.1
Interest paid		–15.6	–21.4
Tax paid		–	–
Cash flow from operating activities before change in working capital		**79.0**	**–70.4**
Change in working capital			
Change in inventories		83.3	7.2
Change in accounts receivable and other current receivables		–85.5	225.7
Change in current liabilities		19.7	14.2
Cash flow from operating activities		**96.5**	**176.7**
Investing activities			
Acquisition of tangible fixed assets	9	–1.1	–1.1
Acquisition of intangible fixed assets	10	–0.5	–0.3
Divestment of subsidiary		–	5.0
Cash flow from investing activities		**–1.6**	**3.6**
Financing activities			
New share issue		0.1	2.2
Issuance of corporate bonds	26	319.2	–
Buyback of corporate bonds	26	–404.7	–92.8
Cash flow from financing activities		**–85.4**	**–90.6**
Cash flow for the year		**9.5**	**89.7**
Cash and cash equivalents at beginning of period		211.7	114.0
Exchange–rate differences in cash and cash equivalents		–6.1	8.0
Change in liquidity		3.4	97.7
Cash and cash equivalents at end of period	24	**215.1**	**211.7**

Notes

NOTE 1 GENERAL INFORMATION

Orexo AB (publ) 556500-0600, the Parent Company, and its subsidiaries (together the Group) are together an integrated pharma company with commercial operations in the United States and R&D in Sweden. The company develops improved products based on proprietary drug delivery technology. Orexo is responsible for the commercialization of its proprietary product Zubsolv®, for treatment of opioid dependence, on the American market.

The Parent Company is the limited liability company Orexo AB (publ), with its registered office in Uppsala, Sweden. The address of the company's head office is Virdings allé 32 A, Uppsala, Sweden.

The Parent Company's share is listed on Nasdaq Stockholm.

The Board of Directors approved these consolidated financial statements for publication on March 20, 2018

The statement of operations and balance sheet will be presented to the Annual General Meeting on April 12, 2018 for adoption.

NOTE 2 SUMMARY OF IMPORTANT ACCOUNTING POLICIES

The most significant accounting policies applied during the preparation of these consolidated financial statements are specified below. Unless otherwise stated, these policies have been applied consistently for all years presented.

2.1 Basis for preparation of the financial statements

The consolidated financial statements for Orexo were prepared in accordance with the Swedish Annual Accounts Act, RFR 1 Supplementary Accounting Rules for Groups, as well as International Financial Reporting Standards (IFRS) and interpretations as adopted by the EU. It has been prepared in accordance with the cost method unless otherwise stated below

The Parent Company applies the same accounting policies as the Group. Any deviations that occur between the policies of the Parent Company and the Group are due to restrictions in the ability to apply IFRS to the Parent Company pursuant to the Swedish Annual Accounts Act (ÅRL) and the Pension Obligations Vesting Act and, in some instances, for tax purposes.

2.1.1 Amendments to accounting policies and disclosures

A number of new and changed IFRS have not yet come into force and have not been applied in advance in the presentation of the Group's and the Parent Company's financial reports. Below are described the IFRS that may in the future have an impact on the Group's or the Parent Company's financial reports. Other new or changed standards or interpretations that IASB has published are not expected to have an impact on the Group's or the Parent Company's financial reports.

(a) New and amended standards applied by the Group

No new or changed standards have been applied by the Group during the fiscal year.

(b) New standards and interpretations of existing standards that have not yet been applied by the Group

- IFRS 9 Financial instruments covers the recognition of financial assets and liabilities and replaces IAS 39. As in IAS 39 financial assets are classified into different categories, of which some are measured at amortized cost and others at fair value. To assess how financial instruments are to be recognized pursuant to IFRS 9, a company must consider the contractual cash flows and the business model under which the instrument is held. IFRS 9 also introduces a new model for impairment of financial assets. The purpose of the new model is, amongst other things, that credit losses shall be recognized earlier than under IAS 39. For financial liabilities IFRS 9 is by and large consistent with IAS 39. Changed criteria for hedge accounting can lead to more financial hedging strategies meeting the requirements for hedge accounting pursuant to IFRS 9 compared to under IAS 39. IFRS 9 comes into force on January 1, 2018. The standard will be applied by the Group and the Parent Company as from January 1, 2018 and will not have a significant impact on the Group's or the Parent Company's financial reports.
- IFRS 15 Revenue from contracts with customers replaces all previously issued standards and interpretations that deal with revenues in a coherent model of revenue recognition. The standard is based on the principle that a revenue shall be recognized when promised goods or services have been transferred to the customer, that is when the customer has gained control of them, which may occur over a period of time or at a given point in time. The revenue shall be the amount that the company expects to receive in exchange for the goods or services supplied. IFRS 15 comes into force for fiscal years beginning on January 1, 2018 or later. The standard will be applied by the Group and the Parent Company as from January 1, 2018 and will not have a significant impact on the Group's or the Parent Company's financial reports except an increased disclosure requirement.
- IFRS 16 Leases will replace IAS 17. According to the new standard, most leased assets must be recognized in the balance sheet and the lessee shall divide the cost into interest payments and depreciation of the asset. IFRS 16 will come into force for fiscal years beginning on January 1, 2019 or later, but early application is expected to be possible if IFRS 15 is also applied. The standard will be applied by the Group and the Parent Company as from January 1, 2019. During the year the Group began to evaluate the effects of the standard. Orexo's preliminary assessment is that most of the leasing agreements that are recognized as operational leasing agreements in these financial reports will be recognized in the balance sheet. This will also mean that the cost of these will be recognized, divided up into interest payments and depreciation.

2.2 Consolidated financial information

Subsidiaries

Subsidiaries are all companies where the Group has a controlling interest. The Group controls a company when it is exposed to or is entitled to a variable return from its holding in the company and is able to impact the return through its interest in the company.

Subsidiaries are included in the consolidated financial statements as of the date on which the controlling interest is transferred to the Group. They are excluded from the consolidated financial statements as of the date on which the controlling interest ceases to apply.

The purchase method is used to recognize the Group's business combinations.

Intra-Group transactions, balance-sheet items and non-realized gains and losses resulting from intra-Group transactions are eliminated. Where necessary, the accounting policies for subsidiaries have been adjusted to guarantee consistent application of the Group's policies.

2.3 Segment reporting
Operating segments are recognized in a manner that corresponds to the structure of internal reports submitted to the chief operating decision maker. The chief operating decision maker is responsible for the allocation of resources and assessment of the operating segments' results. For the Group, this function has been identified as Executive Management. Executive Management assesses the operation in its entirety, i.e. as one segment.

2.4 Translation of foreign currency
(a) Functional currency and reporting currency
Items included in the financial reports of the different units in the Group are valued in the currency used in the economic environment in which each company mainly operates (functional currency). In the consolidated financial statements SEK is used, which is the Parent Company's functional currency and reporting currency.

(b) Transactions and balance sheet items
Transactions in foreign currencies are translated to the functional currency using the exchange rates prevailing on the transaction date. Exchange-rate gains and losses arising from the payment of such transactions and in the translation of monetary assets and liabilities in foreign currency at the closing date are recognized in the statement of operations among Other operating income and Other operating expenses.

The parent company's bank balances in foreign currency are translated to the functional currency according to the exchange rates applicable on the transaction date. Exchange-rate gains and losses arising from the translation are recognized in the statement of operations financial income and expenses.

(c) Group companies
The earnings and financial position of all Group companies (none of which use a high inflation currency as their functional currency) that use a functional currency other than the reporting currency are restated at the Group's reporting currency as follows:
- assets and liabilities for each of the balance sheets are restated at the exchange rate applicable on the closing date;
- income and expenses for each of the statements of operations are translated at an average currency exchange rate, and
- all exchange-rate differences are recognized in other comprehensive income

Exchange-rate differences arising as a consequence of the translation of net investment in foreign operations for such investments are recognized in the consolidated financial statements. An accumulated gain or loss in shareholders' equity is recognized in the statement of operations when a foreign operation is divested either wholly or in part.

Goodwill and adjustments of fair value arising in the event of acquisition of a foreign operation are treated as assets and liabilities for this operation and translated at the exchange rate on the closing date.

2.5 Tangible fixed assets
Tangible fixed assets are recognized at cost, less depreciation. Subsequent expenditures are added to the carrying amount of the asset or recognized as a separate asset, depending on which is appropriate, only when it is probable that the future economic benefits related to the asset will accrue to the Group and the cost of the asset can be measured reliably. Expenses incurred for repairs and maintenance are recognized as costs.

Tangible fixed assets are depreciated over the estimated useful life of the asset. When the depreciation amount for assets is determined, the asset's residual value is taken into account where appropriate.

Straight-line depreciation methods are used for all types of tangible fixed assets. The following depreciation periods are applied:

Improvements leasehold	20 years
Machinery and equipment	5 years
Computers	5 years

In the event that an asset's carrying amount exceeds its estimated recoverable value, the asset is immediately impaired to its recoverable value under "Other operating income" and "Other operating expenses".

The residual value and useful life of assets are tested on every closing date and adjusted where necessary.

Gains and losses from sales are determined by means of a comparison between the sales proceeds and carrying amount and are recognized as "Other operating income" and "Other operating expenses" in the statement of operations.

2.6 Intangible assets
Intangible assets are recognized in the balance sheet when it is probable that the future economic benefits related to the asset will accrue to the Group and the asset's value can be measured reliably. Development expenses are capitalized and recognized in the balance sheet as intangible assets if the criteria for recognition in the balance sheet as stipulated in IAS 38 Intangible Assets are satisfied.

Group intangible fixed assets consist of:

(a) Acquired research and development
Acquired R&D consists of acquired individual projects and the surplus values arising in conjunction with business combinations. Ongoing R&D projects acquired through business combinations are recognized at cost as "Acquired R&D". Expenses for continuing research in acquired projects are booked as they arise until the project reaches the stage that the activation criterias under IAS 38 are met. Following initial recognition, the assets are recognized in line with the cost method, meaning that Acquired R&D is recognized at cost after deductions for any accumulated amortization and impairment. Amortization according to plan commences when the R&D project in question results in a product that can be used.

(b) Patents and rights
Patents and rights are recognized at cost. Patents and rights have a limited useful life and are recognized at cost less accumulated amortization. Amortization is applied straight-line in an effort to distribute the cost of patents and rights across their estimated useful life. The following amortization periods are applied:

Patents and rights	3–5 years
IT systems	5 years

(c) Proprietary intangible asset
The proprietary intangible asset consists of clinical studies and registration expenses for these that are considered to contribute to future economic advantages for the Group. These studies are linked to products that have already been approved and commercialized. Other clinical studies are carried as an expense.

The assets have a limited useful life and are recognized at cost less accumulated amortization. Amortization is applied straight-line in an effort to distribute the cost of proprietary intangible assets across their estimated useful life, which for held assets is 10 years.

2.7 Impairment of non-financial assets
Assets with an indeterminate useful life are not depreciated/amortized in consolidation but are instead reviewed annually, or in the event of any indication of a decline in value, to identify any impairment requirement. Assets that are depreciated/amortized are assessed in terms of the value of decline whenever events or conditions indicate that the carrying amount is perhaps no longer recoverable. An impairment loss is recognized in the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less selling expenses and value in use. In the case of assets other than financial assets that were previously impaired, a test is conducted on the closing date to determine whether a reversal is warranted.

2.8 Inventories
Inventories are recognized at the lower of cost and net sales value. Cost is determined on the basis of the first in, first out (FIFO) principle. The cost for finished products and work in progress consists

of raw materials, direct salaries, other direct costs and attributable indirect manufacturing costs (based on normal manufacturing capacity). The net sales value is the estimated sales price in current operations, less deductions for applicable variable selling expenses. Tests for obsolete stock is performed on quarterly basis based on sales forecast and shelf life of material in inventory.

2.9 Financial instruments
Financial instruments are recognized in the balance sheet when the Group becomes a party in accordance with the contractual terms of the instrument. The purpose for which the financial asset or liability was acquired determines classification. Group financial assets and liabilities are classified in the categories shown below:

- Loan receivables and accounts receivable
- Financial assets that can be sold
- Other financial liabilities

The Group's operations primarily focus on the development, production and sale of the Group's products and services. The Group does not actively trade in financial instruments that are not related to the Group's operations. Because of this, the financial assets and liabilities recognized in the balance sheet are primarily cash and cash equivalents, accounts receivable, accounts payable and interest-bearing liabilities.

Loans and receivables are reported at amortized cost. These are classified as current assets, if they have a due date of up to 12 months after the balance sheet date. If the due date is more than 12 months after the balance sheet date, the asset is classified as a fixed asset. Loan receivables and accounts receivable are recognized initially at their fair value plus transaction costs and, following the acquisition date, at amortized cost using the effective interest method. Financial assets that can be sold are assets that are not derivatives and where it is identified that the assets can be sold. They are included in fixed assets if Executive Management does not intend to divest the asset within 12 months.

2.10 Offset of financial instruments
Financial assets and liabilities are offset and recognized at a net amount in the balance sheet only when there is a legal right to offset the recognized amounts and an intention to settle with a net amount or simultaneously realize the asset and settle the liability.

2.11 Cash and cash equivalents
Cash and cash equivalents include cash, bank balances and other current investments that mature within three months of the date of acquisition and which are exposed only to a minor risk of value fluctuation.

2.12 Accounts receivable
Accounts receivable are reported at amortized cost less depreciation. A provision for value loss in accounts receivable is made when there is objective evidence that the Group will not receive all the amounts due pursuant to the original conditions underlying the receivables. The size of the provision is determined as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted using an effective rate of interest. The provision amount is recognized in the statement of operations.

2.13 Provisions
Provisions are recognized in the balance sheet when the Group has a legal or informal undertaking as a result of an event that has occurred and when it is probable that an outflow of resources will be required to settle the undertaking.

The provision is recognized in the amount expected to be required to settle the undertaking.

2.14 Interest-bearing liabilities
Interest-bearing liabilities are reported at accrued acquisition value. Borrowings are subsequently recognized at amortized cost and any difference between the amount received (net after transaction costs) and the repayment amount is recognized in the statement of operations allocated over the borrowing period by applying the effective interest method.

Borrowings are classified as a current liability unless the Group has an unconditional right to defer payment of the liability by at least 12 months.

2.15 Shareholders' equity
Transaction costs that may be directly attributed to the issuance of new shares or options are recognized net after tax in shareholders' equity as a deduction from the issue proceeds.
The following are recognized as "Other contributed capital":

- The difference between the share's quotient value and the redemption price of exercised warrants.
- The difference between the share's quotient value and the calculated value of newly issued shares and warrants (option premium).
- Employee stock options, value of employees' services.

2.16 Current and deferred income tax
The tax expense for the period comprises current tax calculated on the basis of the taxable earnings for the period according to current tax rates. The current tax expense is adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and non-utilized losses.

The current tax expense is estimated on the basis of the tax regulations on the closing date that are decided, or have essentially been decided, in the countries in which the Parent Company and its subsidiaries are active and generate taxable income.

Deferred tax is recognized on all temporary differences that arise between carrying amounts of assets and liabilities and their value for tax purposes in the consolidated financial statements.

Deferred income tax is calculated using tax rates (and legislation) that have been decided or announced by the closing date and are expected to apply when the deferred tax asset in question is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is likely that future taxable income will be available, against which temporary differences can be used.

Current and deferred tax is recognized in the statement of operations, except when the tax refers to items that are recognized directly against shareholders' equity or in other comprehensive income. In these cases, tax is also recognized in shareholders' equity or in other comprehensive income.

2.17 Employee benefits
(a) Pension obligations
A defined-contribution pension plan is a pension plan according to which the Group pays fixed fees to a publicly or privately administrated pension insurance scheme and for which the Group has no further payment obligations once the fees are paid.

The Group uses only defined-contribution pension plans. Prepaid fees are recognized as an asset to the extent that cash repayments or a reduction in future payments may be credited to the Group.

(b) Share-based payments
The Group has a number of share-based payment plans whereby the company receives services in return for the Group's equity instruments. Information on these can be found in Note 25.

Employee stock options program
The value of the employee stock options program is recognized as a personnel cost, with a corresponding increase in share equity. The total amount that is expensed is based on the fair value of the allotted options:

- including all market-related conditions,
- excluding any effect of service conditions and non-market-related vesting conditions (for example, the employee remains employed at the company for a stipulated period of time), and excluding the effect of conditions that are not vesting conditions,
- including internal operational targets approved by the Board.

Non-market-related vesting conditions are taken into account in the assumption of the number of options that are expected to be vested. The

total cost is recognized over the entire vesting period, which is the period during which all of the stipulated vesting conditions are to be fulfilled. At the end of each reporting period, the company reviews its assessment of how many shares can be expected to be vested based on the non market-related vesting conditions. Any divergences from the original assessments prompted by the review are recognized in the statement of operations and a corresponding adjustment is made in shareholders' equity.

The company issues new shares when the stock options are exercised. Received payments, after deductions for any directly attributable transaction costs, are credited to share capital (the quotient value) and other contributed capital when the stock options are exercised.

Social security expenses on the benefits that are expected to arise in conjunction with value increases are recognized over the vesting period with due consideration of value changes.

Share awards

The fair value of the performance based share awards that are allotted to employees free of charge are entered as an expense over the vesting period, which corresponds to the period when the remuneration is vested and the services are performed. The fair value is calculated as of the day the share awards are allotted and recognized in shareholder equity. Assessment of how many shares are expected to be vested is based on non-market-related vesting conditions. Estimates are reconsidered at the end of each reporting period and any deviations are recognized in the statement of operations and corresponding adjustments are made in shareholders' equity.

Social security expenses on the benefits that are expected to arise in conjunction with value increases are recognized over the vesting period with due consideration of value change.

(c) Severance payments

Severance payments are made when the Group serves notice to an employee prior to the normal pension date or when an employee voluntarily accepts redundancy in exchange for such remuneration. The Group recognizes severance payments when it is clearly obliged to give notice to an employee according to a detailed formal plan with no possibility of it being revoked, or to provide remuneration in conjunction with termination of employment as a result of an offer made to encourage voluntary redundancy.

(d) Accounting policies for bonus plans

The Group has a bonus system that covers members of the Executive Management team and key persons. The bonus system is based on achievement of company goals and is paid out in proportion to annual salary. During the fiscal year, the estimated bonuses vested for the year are calculated and expensed.

2.18 Revenue recognition

Revenues comprise the fair value of goods and services sold, excluding value-added tax, rebates, returned goods and after eliminated intra-Group sales. Revenues are recognized as follows:

a) Sale of goods

Revenues from the sale of goods are recognized on the date of delivery to the customer, that is, the date on which ownership rights are transferred to the customer, who thereby assumes the financial risk. Net revenues are defined as gross revenues less deductions for sales rebates, sales allowances, distribution, sales returns and other relevant deductions. These deductions are partly based on estimates, e.g. around expected payer split. Refer to paragraph about assessments for further information.

b) License revenues

Orexo's license agreements usually include one or more of the following types of income:

- A lump-sum payment on the signing of the agreement This normally pertains to the right to register, market and sell Orexo's patent-protected products within a particular geographic area, or it may also constitute payment for the transfer of technology or know-how to the business partner. In the event a lump-sum payment covers more than one delivery (for example, the transfer of rights and technology), income is distributed on the basis of the fair value for each part delivery.
- Payment for research collaboration. These payments are received on an ongoing basis and are recognized over the period to which they pertain and during which the work is conducted. Milestone payments are triggered when a research target or sales target is attained in line with the definitions in each agreement, such as the granting of a patent, termination of clinical testing or approval of registrations. Such payment is recognized when all the terms and conditions pursuant to the agreement have been met.

c) Royalty revenues

Royalties are normally received on a rolling basis when distributors recognize sales. Recognition is in the same period during which sales were made. When royalties are paid in advance, the revenue is recognized in the periods that sales are recognized. In cases where royalty income for the period is not known, these are estimated based on the company's forecast.

d) Interest income

Interest income is recognized over the time to maturity using the effective interest method.

2.19 Leasing

Leases where the lessor maintains all risks and benefits of ownership of the asset or assets are classified as operating leases. Leasing fees are expensed on a straight-line basis in the income statement during the contract period. Initial consideration is given to any incentives received upon the signing of the lease. Orexo has only entered into leases that are reported as operating leases.

2.20 Cost of goods sold

Cost of goods sold consists of the cost of goods for the products that the Group sells. This includes costs for raw materials, direct and indirect cost of goods.

2.21 Basis for preparation of the financial statements for Parent Company

Orexo AB, the Parent Company, has prepared its annual accounts in accordance with the Swedish Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendations RFR 2. RFR 2 stipulates that the Parent Company must apply International Financial Reporting Standards (IFRS) as adopted by the EU, to the extent that this is possible within the framework of the Swedish Annual Accounts Act and the Pension Obligations Vesting Act and taking into account the relationship between accounting and taxation. The recommendation specifies the exceptions and additions to be made in relation to IFRS.

Consequently, the Parent Company applies the policies presented in the consolidated financial statements, with the exceptions outlined below. The policies are applied consistently to all years presented, unless otherwise stated.

Preparing financial statements that comply with applicable regulations requires the use of some important estimates for accounting purposes. Furthermore, it is required that Executive Management conducts certain assessments in the application of the company's accounting policies. The areas that involve a high degree of complex assessment or areas in which assumptions and estimates are of material importance for the company's Annual Report are outlined in Note 4.

Presentation forms

The statement of operations and balance sheet comply with the forms set down in the Swedish Annual Accounts Act.

a) Shares and participations in subsidiaries

Shares and participations in subsidiaries are recognized at cost with deductions for any impairment.

When there are indications that shares and participations in subsidiaries have declined in value, an estimate is made of the recoverable amount. If this is lower than the carrying amount, impairment is applied. Impairment losses are recognized in the items "Results from participations in Group companies".

b) Group and shareholders' contributions
Shareholders' contributions granted are recognized as an increase in the value of shares and participations. An assessment is then made as to whether there is a need for impairment of the value of the shares and participations in question.

In the recognition of Group contributions, the Group can either apply the main rule or the alternative rule. The rule chosen shall be applied consistently to all Group contributions.

Under the main rule, Group contributions received from subsidiaries are recognized as revenue in the Parent Company's statement of operations and Group contributions granted by the Parent Company are recognized as an increase in participations in affiliated companies.

Under the alternative rule, both contributions received and contributions granted are recognized as appropriations. The Group did not have any Group contributions during the period.

c) Deferred income tax
Amounts allocated to untaxed reserves represent taxable temporary differences. Due to the relationship between accounting and taxation, however, in a legal entity deferred tax liabilities on untaxed reserves are recognized as part of untaxed reserves.

d) Leasing
All leasing agreements, irrespective of whether they are financial or operational, are recognized as operational leasing (rental agreements).

NOTE 3 FINANCIAL AND OPERATIONAL RISK MANAGEMENT

The Group's operations are exposed to a number of risks. These risks can be categorized into operational risks and financial risks. The financial risks are described below.

Financial risks and policies
To efficiently manage financial risks, Orexo has drawn up a series of guidelines and a detailed financial policy in respect of the manner in which such risks are to be managed and mitigated. Orexo's financial policy also establishes the distribution of responsibility and reporting instructions for Executive Management. The main purpose of Orexo's financing operation is to limit negative deviations in the results, shareholders' equity and cash flow as the result of fluctuations in interest rates or exchange rates and underlying market conditions.

The President of the Group is responsible for producing, implementing and following up the Group's financial policy, which is subsequently approved by the Board of Directors. The Group's CFO is responsible for the day-to-day financial administration and reports regularly to the Group President.

3.1. Currency risks
Orexo's financial statements are prepared in SEK. The Group sells its products in countries other than Sweden and receives revenues in currencies other than SEK, primarily in dollars and euros. Revenues and expenses in foreign currency give rise to transaction exposure. The Group has assets (accounts receivable) and liabilities (accounts payable) in foreign currencies, as well as investments in the form of net wealth in foreign subsidiaries. This gives rise to translation exposure.

A substantial share of Orexo's currency exposure is attributable to the sale and manufacture of Zubsolv® in the US and royalty income for the Group's products in currencies other than SEK. The license agreements written with counterparties are frequently denominated in some other currency than SEK, primarily USD and EUR.

The Group has the option of hedging transaction exposure. The financial policy permits exchange-rate hedging instruments to be used to eliminate or minimize the currency risks arising in the Group. Currency hedging must always be linked to a confirmed underlying exposure. The permitted hedging instruments are currency futures, acquired currency options (call and put options), currency accounts and loans in foreign currency. No hedging instruments have been used by the Group during the year.

A substantial share of Orexo's operating expenses is in currencies other than SEK, primarily USD, which leads to a certain amount of currency hedging. During the 2017 fiscal year, sales in USD accounted for 83 (78) percent of net revenues and sales in EUR accounting for 17 (22) percent. During the same period, 77 (86) percent of total operating expenses were in foreign currency with 74 (98) percent in USD and 1 (1) percent in EUR

In currencies in which the Group has flows in the same currency, the flows are to be matched to the greatest extent possible.

A change in the value of USD against SEK of 10 percent and with balance sheet exposure at the closing date entails a change in other operating income and expenses of approximately MSEK 3. The corresponding change in EUR entails a change of approximately MSEK 0.3 and has no material impact. The effect of the change in the value of USD on earnings is primarily due to the fact that a large part of the Group's internal receivables and liabilities are attributable to Orexo Inc in the USA. Translation exposure arises when the Group's equity is influenced by exchange-rate fluctuations when assets and liabilities for foreign subsidiaries are translated to SEK. This exposure is not hedged at present. A 10 percent movement in USD entails an impact on equity of approximately MSEK 7.2.

3.2 Interest-rate risk
The primary objective of Orexo's interest-rate risk management is to reduce the negative effects of interest-rate movements on earnings. To reduce the impact of interest-rate movements on earnings, Orexo mainly uses short-term investments and aims for the time to maturity of financial liabilities to correspond as far as possible to the time to maturity of financial assets. At year-end, all of Orexo's cash and cash equivalents were invested in short-term assets.

Orexo's policy is that all financial investments apart from bank balances must be made in financial instruments with high liquidity and low credit risk.

The Group had interest-bearing liabilities totaling MSEK 319.1 on December 31, 2017 and these are attributable to a corporate bond loan. This loan has a variable interest rate, STIBOR + 4.5 percent (STIBOR is calculated as zero at the lowest).

The impact on earnings of a change in interest rates of 0.5 percent would entail an increase/decrease of MSEK 1.6.

3.3 Credit risk and counterparty risk
Credit and counterparty risk is the risk that the counterparty will not fulfill its undertakings to repay a liability or pay interest on such a liability and the risk associated with balances with credit institutions.

For the Group, there are mainly three categories of payment flows in which credit risks could arise: in the subsidiary Orexo US Inc's sales to distributors, in the payment flows from Orexo's license agreements with other parties and in the investment of surplus liquidity in bank instruments.

With regard to Orexo US Inc's distributors, credit risks are reviewed on an ongoing basis based on the customer's financial position and other factors.

An extensive evaluation of the counterparty is always undertaken prior to the signing of a license agreement.

Accounts receivable are continuously monitored, with checks performed on due customer invoices. Of total accounts receivable at December 31, 2017, the four largest customers accounted for 87 percent. No other single customer accounted for more than 2 percent of total accounts receivable. Note 19 presents the amounts due.

The Group's financial transactions shall only be carried out with banks or financial instruments with an official rating not below A1/P1/K1.

3.4 Liquidity risk

Liquidity risk is defined as the risk that Orexo will be unable to fulfill its undertakings to repay or refinance its debts on time or at a reasonable cost. Liquidity risk is managed by means of sufficient cash and cash equivalents to ensure continuing operations.

Cash flow forecasts are prepared each month. Executive Management continuously monitors forecasts to ensure that the Group has sufficient cash funds to meet the requirements of continuing business operations.

The table below shows the Group's contractual non-discounted cash flows from financial liabilities, distributed on the basis of the period remaining to maturity on the closing date.

At December 31, 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Accounts payable	45.5	—	—
Accrued costs	103.3	—	—
Borrowings	14.6	14.6	352.5

At December 31, 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Accounts payable	36.0	—	—
Accrued costs	109.9	—	—
Borrowings	16.0	407.1	—

3.5 Commercial market risk and inventory risk

Orexo's most important market risks are price pressure, limited reimbursements and the launch of new competing products.

To be successful in the US it is of the utmost importance that Zubsolv® obtains reimbursements on a par with those of competitors. Due to the complex American market, with many different payers and a complicated reimbursement system, Orexo has established a professional team focusing only on improving market access and reimbursement for Zubsolv. The payers are constantly reviewing their formularies and this can lead to significant changes in market access.

By the end of 2017 Zubsolv had access to 79 percent of the commercial segment and 28 percent of the public segment in the US.

Orexo's products are sold in a market characterized by tough competition from other products and methods of treatment and there is always a risk that competitors launch new products. In all of Orexo's markets there is intense development of new and improved treatments that can prove to have a better clinical effect than those that already exist.

Orexo is constantly and proactively working to analyze these risks and develops action plans for different market scenarios. This work is done in collaboration with local external specialists.

In order to secure delivery of the products which are critical for patients, Orexo must hold considerable inventories of Zubsolv. High inventory levels entail a risk of impairment of products that have expired. Orexo is constantly working to minimize this risk by adapting inventories to demand, and through the work on improving the product's shelf life.

Being able to obtain and maintain patents and other intellectual property rights protecting Orexo's technologies and products is an important part of Orexo's strategy of creating long-term value for its business. Obtaining patents related to pharmaceuticals is a complex process that involves both scientific and legal expertise. Even if a patent has been granted, it may later be challenged legally, declared invalid or bypassed, which may limit Orexo's ability to market new products. For an update on ongoing litigation cases see the section 'Corporate Governance Report 2017'.

3.6 Capital structure

The Group's objective for its capital structure is to safeguard the Group's ability to continue its operations so it can generate a return for the shareholders and benefits for other stakeholders, as well as maintain an optimum capital structure to keep capital costs down.

The Group's capital is assessed on the basis of its equity/assets ratio. The equity/assets ratio at December 31, 2017 and 2016 is presented in the table below:

	2017	2016
Shareholders' equity	329.1	310.3
Total assets	1,003.9	1,018.8
Equity/assets ratio	**33%**	**30%**

NOTE 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events deemed reasonable under prevailing circumstances.

4.1 Critical estimates and assessments for accounting purposes
The Group makes assessments and assumptions about the future. The resulting accounting estimates will, by definition, seldom correspond to the actual results. Estimates and assumptions that entail a significant risk of material adjustment to the recognized amounts of assets and liabilities during the next fiscal year are outlined below.

(a) Impairment testing of proprietary intangible assets
Amortization of proprietary intangible assets was begun in August 2015 after the FDA approved Zubsolv® for initiation of buprenorphine for maintenance treatment of patients with opioid dependence. Impairment will be carried out over a period of 10 years. Testing to ensure that the carrying amount does not exceed the recoverable amount is thereby only carried out in the event of a negative event that can create an urgent need for impairment. This impairment testing comprises a risk analysis that includes experience-based estimates of the amount of future incoming and outgoing payments. The probability of the occurrence of income-generating events and the probability that the projects will result in products that reach the market are estimated based on available industry statistics. These probabilities vary depending on the phase of development that the R&D projects are in. Future incoming and outgoing payments are adjusted to the level of probability and subsequently discounted by applying an interest rate that reflects the cost of capital and risk.

No indication of impairment need has been identified during the year.

(b) Research and development
Costs attributable to research are expensed as they arise. Assessments of which costs can be capitalized or not are done continuously. Costs attributable to development projects are recognized as intangible assets in the balance sheet when these costs are expected to generate financial benefits in the future. Other development costs are expensed as they arise. Development costs that are expensed are not recognized as an asset in subsequent periods. In 2017 these costs amounted to MSEK 134.2 (132.3).

(c) Royalty revenues
Royalties may be impacted by external factors, including sales limitations or price regulations initiated by authorities in the countries in which sales are conducted. This is out of the control of the company and information of this nature does not normally reach the company until it has occured. When reporting the royalty income, an estimate of the sale of the period is required.

(d) Revenues from sale of goods
Revenues from Zubsolv are recognized when they are delivered to wholesalers. Revenues for Zubsolv are calculated as gross income invoiced to wholesalers, with a deduction for actual and estimated discounts to public and private insurance providers ("the payers"), provisions for potential returns, costs for patient support programs and fees to wholesalers and distributors. Since not all of the volume invoiced to wholesalers has reached patients at the closing date, several of the deductions from gross income are partly based on estimates.

(e) Inventory valuation
In order to ensure safe supply of Zubsolv in the American market, Orexo has established inventory level of raw materials, semi-finished products and finished products. The valuation of the inventory and the assessment of the risk of potential depreciation of receivables is based on continually updated market forecasts and assumptions regarding the shelf-life of various chemical compounds. The shelf-life of semi-finished products and finished products is based on documented stability studies.

(f) Deferred tax assets
Orexo has significant loss carry-forwards as historically the company has made losses. Carry-forwards losses are activated only to the extent that it is probable that the deductions can be offset against surplus on future taxation. The loss carry-forwards for tax purposes in the Group amounted to MSEK 1,459 (1,517) at December 31, 2017 from which MSEK 7.6 has been activated.

4.2 Critical judgments in the application of the company's accounting policies

(a) Assessment as to whether a license agreement entails the divestment or a transfer of rights
Certain license agreements entail that global rights are transferred to a business partner. Since Orexo retains the intellectual property rights, which may also be retrieved under certain circumstances, these agreements are not recognized as though the licensing agreement implies a divestment. For Orexo, this means that these assets remain in the balance sheet item "Acquired research and development"

(b) Revenue recognition
Executive Management assesses the probability of whether future financial value will accrue to the Group on the basis of a number of factors, such as the customer's payment history and credit worthiness. If the Group deems a receivable to be doubtful, a provision is made until it is possible to determine whether or not the Group will receive payment.

During the year, the Group received lump-sum payments from a number of collaboration partners. These payments have been in the form of payments both with and without demands for future services in return from the Group. A licensing agreement permits Orexo's partners to register, market and sell the Group's patented products within a certain geographic area for a specified time. Lump-sum payments received and considered remuneration for this exclusivity are recognized directly. Wherever lump-sum payments are considered to be remuneration for future services in return, the revenue is distributed over time based on the implications of such services, e.g. when a lump-sum payment is received and a research collaboration agreement is in place, remuneration is distributed straight-line over the time the research collaboration continues.

A milestone payment is an item of revenue related to achieved goals specified in the agreement with the partner in question. Such goals may include the start of clinical trials or the granting of product registration approval by an authority. Revenues from intermediate milestone payments are recognized once the goal has been achieved and the Group has fulfilled its undertakings.

NOTE 5 GEOGRAPHIC DISTRIBUTION OF REVENUES

Sales distributed geographically	Group		Parent Company	
	2017	2016	2017	2016
Sweden	39.1	55.6	39.1	55.6
UK	104.1	155.5	104.1	155.5
East Asia	4.0	3.6	4.0	3.6
US	496.5	491.2	330.6	164.6
Total	**643.7**	**705.9**	**477.8**	**379.3**

The company's four largest customers combined account for 84 (75) percent of the company's net revenues. They contribute 25 (22) percent, 23 (22) percent, 19 (17) percent and 16 (13) percent, respectively. Fixed assets outside Sweden amount to MSEK 0.2 (0.4). Geographical distribution of royalties and licence revenue are based on the conterparts registered office.

NOTE 6 DISTRIBUTION OF REVENUES PER CATEGORY

	Group		Parent Company	
	2017	2016	2017	2016
Sales, products	491.4	481.8	325.5	155.3
Royalties	130.5	115.2	130.5	115.2
License revenues	–	68.0	–	68.0
Other	21.8	40.8	21.8	40.8
Total	**643.7**	**705.9**	**477.8**	**379.3**

Other revenues refers to collaboration agreement of project OX-CLI that was aquired by AstraZeneca in March 2016.

NOTE 7 COSTS BY TYPE OF COST

	Group		Parent Company	
	2017	2016	2017	2016
Raw materials and consumables	147.6	124.0	150.6	58.0
Other external expense	298.9	425.9	212.7	372.5
Personnel costs	157.2	162.6	68.8	58.4
Depreciation/amortization and impairment	20.8	21.4	20.6	20.8
Total	**624.5**	**733.9**	**452.7**	**509.7**

NOTE 8 OTHER OPERATING INCOME

	Group		Parent Company	
	2017	2016	2017	2016
Exchange gains	13.3	71.2	13.3	71.2
Other incom	0.2	3.6	0.2	2.6
Gains on disposal of assets	24.6	5.0	24.6	–
Total	**38.1**	**79.8**	**38.1**	**73.8**

NOTE 9 TANGIBLE FIXED ASSETS

Group	Equipment and machinery	Computers	Improvement expenses other's property	Total
Fiscal year 2016				
Opening balance	33.4	2.9	36.2	72.5
Acquisitions	0.3	0.7	–	1.0
Outgoing accumulated acqusitions	**33.7**	**3.6**	**36.2**	**73.5**
Ingoing depreciation	–30.3	–2.4	–15.1	–47.8
Depreciation	–1.3	–0.6	–1.6	–3.5
Accumulated depreciation	**–31.6**	**–3.0**	**–16.7**	**–51.3**
At December 31, 2016				
Cost	33.7	3.6	36.1	73.5
Accumulated depreciation and impairment	–31.6	–3.0	–16.8	–51.4
Carrying amount	**2.1**	**0.6**	**19.4**	**22.1**
Fiscal year 2017				
Opening balance	33.7	3.6	36.2	73.5
Acquisitions	1.1	–	–	1.1
Outgoing accumulated acqusitions	**34.8**	**3.6**	**36.2**	**74.6**
Ingoing depreciation	–31.6	–3.0	–16.8	–51.4
Depreciation	–0.9	–0.4	–1.8	–3.1
Accumulated depreciation	**–32.5**	**–3.4**	**–18.6**	**–54.5**
At December 31, 2017				
Cost	34.8	3.6	36.2	74.6
Accumulated depreciation and impairment	–32.5	–3.4	–18.5	–54.5
Carrying amount	**2.3**	**0.2**	**17.7**	**20.1**

Parent Company	Equipment and machinery	Computers	Improvement expenses other's property	Total
Fiscal year 2016				
Opening balance	29.9	1.1	36.2	67.2
Acquisitions	0.3	0.7	–	1.0
Outgoing accumulated acqusitions	**30.2**	**1.8**	**36.2**	**68.2**
Ingoing depreciation	–27.5	–0.8	–15.1	–43.4
Depreciation	–1.2	–0.2	–1.6	–3.1
Accumulated depreciation	**–28.7**	**–1.0**	**–16.7**	**–46.5**
At December 31, 2016				
Cost	30.2	1.8	36.2	68.2
Accumulated depreciation and impairment	–28.7	–1.0	–16.7	–46.5
Carrying amount	**1.5**	**0.8**	**19.5**	**21.8**
Fiscal year 2017				
Opening balance	30.2	1.8	36.2	68.2
Acquisitions	1.1	–	–	1.1
Outgoing accumulated acqusitions	**31.3**	**1.8**	**36.2**	**69.3**
Ingoing depreciation	–28.7	–1.0	–16.7	–46.5
Depreciation	–0.7	–0.4	–1.8	–2.9
Accumulated depreciation	**–29.4**	**–1.4**	**–18.5**	**–49.4**
At December 31, 2017				
Cost	31.3	1.8	36.2	69.3
Accumulated depreciation and impairment	–29.4	–1.4	–18.5	–49.4
Carrying amount	**1.9**	**0.4**	**17.7**	**19.8**

NOTE 10 INTANGIBLE FIXED ASSETS

Group	Acquired R&D	Patents and rights	Proprietary intellectual property right	Other	Total
Fiscal year 2016					
Opening balance	435.1	27.4	153.6	11.9	628.0
Acquisitions	–	–	–	0.3	0.3
Outgoing accumulated acqusitions	**435.1**	**27.4**	**153.6**	**12.2**	**628.3**
Accumulated amortization and impairment	–435.1	–27.4	–6.4	–3.5	–472.4
Amortization	–	–	–15.4	–2.3	–17.7
Accumulated amortization and impairment	**–435.1**	**–27.4**	**–21.8**	**–5.8**	**–490.1**
At December 31, 2016					
Cost	435.1	27.4	153.6	12.2	628.3
Accumulated amortization and impairment	–435.1	–27.4	–21.8	–5.8	–490.1
Carrying amount	**0.0**	**0.0**	**131.8**	**6.4**	**138.2**
Fiscal year 2017					
Opening balance	435.1	27.4	153.6	12.2	628.3
Acquisitions	–	–	–	0.5	0.5
Outgoing accumulated acqusitions	**435.1**	**27.4**	**153.6**	**12.7**	**628.8**
Accumulated amortization and impairment	–435.1	–27.4	–21.8	–5.8	–490.1
Amortization	–	–	–15.3	–2.4	–17.7
Accumulated amortization and impairment	**–435.1**	**–27.4**	**–37.1**	**–8.2**	**–507.8**
At December 31, 2017					
Cost	435.1	27.4	153.6	12.7	628.8
Accumulated amortization and impairment	–435.1	–27.4	–37.1	–8.2	–507.8
Carrying amount	**0.0**	**0.0**	**116.5**	**4.5**	**121.0**

Parent company	Acquired R&D	Patents and rights	Proprietary intellectual property right	Other	Total
Fiscal year 2016					
Opening balance	435.1	27.4	153.6	11.9	628.0
Acquisitions	–	–	–	0.3	0.3
Outgoing accumulated acqusitions	**435.1**	**27.4**	**153.6**	**12.2**	**628.3**
Accumulated amortization and impairment	–435.1	–27.4	–6.4	–3.5	–472.4
Amortization	–	–	–15.4	–2.3	–17.7
Accumulated amortization and impairment	**–435.1**	**–27.4**	**–21.8**	**–5.8**	**–490.1**
At December 31, 2016					
Cost	435.1	27.4	153.6	12.2	628.3
Accumulated amortization and impairment	–435.1	–27.4	–21.8	–5.8	–490.1
Carrying amount	**0.0**	**0.0**	**131.8**	**6.4**	**138.2**
Fiscal year 2017					
Opening balance	435.1	27.4	153.6	12.2	628.3
Acquisitions	–	–	–	0.5	0.5
Outgoing accumulated acqusitions	**435.1**	**27.4**	**153.6**	**12.7**	**628.8**
Accumulated amortization and impairment	–435.1	–27.4	–21.8	–5.8	–490.1
Amortization	–	–	–15.3	–2.4	–17.7
Accumulated amortization and impairment	**–435.1**	**–27.4**	**–37.1**	**–8.2**	**–507.8**
At December 31, 2017					
Cost	435.1	27.4	153.6	12.7	628.8
Accumulated amortization and impairment	–435.1	–27.4	–37.1	–8.2	–507.8
Carrying amount	**0.0**	**0.0**	**116.5**	**4.5**	**121.0**

Note 10 cont.

Proprietary intangible asset at December 31, 2017
A proprietary intangible asset amounting to MSEK 117.0 (131.8) is attributable to expenses for clinical studies and a registration expense for these studies. Executive Management assesses that these will give the Group future economic benefits in the form of expanded use of Zubsolv®. The expanded label (initiation of treatment of opioid dependence) was approved by the FDA, the US Food and Drug Administration, in August 2015 and in conjunction with this amortization was begun and will occur over a time period of 10 years. During the year there was no impairment of proprietary intangible assets.

Research and development costs
Research and development costs during the period amounted to MSEK 134.2 (132.3).

Parent Company intangible assets comprise patents, rights, a proprietary intellectual property right and IT systems. Most of the assets that were capitalized during the year are proprietary intellectual property and IT systems.

NOTE 11 DEPRECIATION/AMORTIZATION AND IMPAIRMENT

Depreciation, amortization and impairment are divided up by function as follows:

	Group		Parent Company	
	2017	2016	2017	2016
Tangible fixed assets				
Sales	0.2	0.5	–	–
Administration	1.8	1.8	1.8	1.7
Research and development	1.1	1.4	1.1	1.4
Total tangible fixed assets	**3.1**	**3.7**	**2.9**	**3.1**
Intangible assets				
Administration	0.1	0.1	0.1	0.1
Research and development	17.6	17.6	17.6	17.6
Total intangible assets	**17.7**	**17.7**	**17.7**	**17.7**
Total depreciation/amortization and impairment	**20.8**	**21.4**	**20.6**	**20.8**

NOTE 12 REMUNERATION TO EMPLOYEES

Average number of employees

Group	2017 Average number of employees	Of whom men	2016 Average number of employees	Of whom men
Sweden	54	24	53	22
USA	42	18	46	22
Total for Group	**96**	**42**	**99**	**44**

Parent Company	2017 Average number of employees	Of whom men	2016 Average number of employees	Of whom men
Sweden	54	24	53	22
Total for Parent Company	**54**	**24**	**53**	**22**

Note 12 cont.

Costs and remuneration to all employees and Board, SEK thousand	Group 2017	Group 2016	Parent Company 2017	Parent Company 2016
Salaries, remuneration and social security fees				
Salaries and other remuneration to the Board, President and Executive Management[1]	27,922	20,685	16,288	11,583
Salaries and other remuneration to other employees	89,186	97,318	29,562	31,634
Pension cost for the Board, President and Executive Management[2]	1,565	1,683	1,288	1,394
Pension cost for other employees[3]	9,580	9,209	7,183	6,492
Social security fees for the Board, President and Executive Management[2]	5,626	1,573	4,972	2,219
Social security fees for other employees[2]	13,687	11,599	9,870	6,876
Other personnel costs	16,165	18,520	3,391	4,387
Total	**163,731**	**160,587**	**72,554**	**64,584**

[1] The increase in salaries and other remuneration to the Board, President and Executive Management is primarily driven by a 12 month inclusion for one member of management in 2017 and only 3 months in the prior year. Further, sales and other remuneration paid in USD, EUR and DKK have been impacted by changes in exchange rates versus SEK.
[2] Pertains in its entirety to defined-contribution pension plan.
[3] Pertains to estimated costs for social security fees for employee stock option program.

Costs and remuneration to the Board, President and senior executives 2017, SEK thousands

SEK thousands	Basic salary/ Board fees	Variable remuneration	Other benefits	Pension costs	Share-based payment	Other remuneration	Total remuneration
Board of directors							
Martin Nicklasson, Chairman	650	–	–	–	122	–	772
Michael Shalmi, Board member	200	–	–	–	–	–	200
Raymond Hill, Board member	200	–	–	–	–	–	200
Staffan Lindstrand, Board member	250	–	–	–	–	–	250
Kristina Schauman, Board member	400	–	–	–	–	–	400
David Colpman, Board member	200	–	–	–	–	176	376
Kirsten Detrick, Board member (9 months)	200	–	–	–	–	–	200
Subtotal	**2,100**	**0.0**	**0.0**	**0.0**	**122**	**176**	**2,398**
President and senior executives							
Nikolaj Sørensen, President and CEO	3,501	1,159	102	647	506	–	5,465
Other senior executives (5)	14,407	4,975	256	918	1,009	–	21,565
Total	**19,558**	**6,134**	**358**	**1,565**	**1,637**	**176**	**29,428**

Costs and remuneration to the Board, President and senior executives 2016, SEK thousands

SEK thousands	Basic salary/ Board fees	Variable remuneration	Other benefits	Pension costs	Share-based payment	Other remuneration	Total remuneration
Board of directors							
Martin Nicklasson, Chairman	700	–	–	–	85	–	785
Michael Shalmi, Board member	200	–	–	–	–	–	200
Raymond Hill, Board member	200	–	–	–	–	–	200
Staffan Lindstrand, Board member	200	–	–	–	–	–	200
Kristina Schauman, Board member	400	–	–	–	–	–	400
David Colpman, Board member	200	–	–	–	–	–	200
Kirsten Detrick, Board member (9 months)	133	–	–	–	–	–	133
Subtotal	**2,033**	**0.0**	**0.0**	**0.0**	**85**	**0.0**	**2,118**
President and senior executives							
Nikolaj Sørensen, President and CEO	2,991	1,059	102	610	556	–	5,318
Other senior executives (5)	11,364	2,647	211	1,073	2,033	–	17,328
Total	**16,388**	**3,706**	**313**	**1,683**	**2,674**	**0.0**	**24,764**

Board members and senior executives	2017 Number on the closing date	2017 of whom men	2016 Number on the closing date	2016 of whom men
Group (incl. subsidiaries)				
Board members	7	71%	10	80%
President and other senior executives	6	100%	6	100%
Parent Company				
Board members	7	71%	7	71%
President and other senior executives	4	100%	4	100%

Note 12 cont.

Other benefits refers primarily to company car and travel between the place of residence and the workplace.

Other senior executives, as of December 31, 2017 refers to the 5 people presented on page 83.

The number of shares and options held by the President and senior executives is shown in the information regarding the Board on page 82 and Management on page 83. Refer to Note 24 for a description of the share-based remuneration.

NOTE 13 EXCHANGE-RATE DIFFERENCES

The statement of operations includes exchange-rate differences on operating receivables and operating liabilities as follows:

Restated	Group		Parent Company	
	2017	2016	2017	2016
Other operating income	13.3	56.4	13.3	56.4
Other operating expenses	–17.4	–42.6	–17.4	–42.6
Total	**–4.1**	**13.9**	**–4.1**	**13.9**

NOTE 14 FINANCIAL INCOME AND EXPENSES

	Group		Parent Company	
	2017	2016	2017	2016
Financial income				
Interest income from group	–	–	0.1	3.9
Other interest income	0.1	–	0.1	–
Earnout sale of subsidiary	–	–	–	5.0
Buy-back bond	0.1	6.2	0.1	6.2
Other financial income	–	–	0.7	0.6
Total financial income	**0.2**	**6.2**	**1.0**	**15.7**
Financial expenses				
Interest expense from corporate bonds	–14.8	–20.1	–14.8	–20.1
Other interest expense	–	–	–	–
Borrowingcosts, corporate bonds	–7.1	–2.6	–7.1	–2.6
Capital gain from shares	–	0.9	–	–
Exchange rate effect	–6.0	–	–7.3	–32.1
Other	–	–0.5	–	–
Total financial expenses	**–27.9**	**–22.3**	**–29.2**	**–54.8**
Finance net	**–27.7**	**–16.1**	**–28.2**	**–39.1**

NOTE 15 TAX

	Group		Parent Company	
	2017	2016	2017	2016
Current tax	–10.0	–13.3	–	–
Deferred tax	3.5	6.8	7.6	–
Total	**–6.5**	**–6.5**	**7.6**	**0.0**
Difference between the Group's tax expense and tax expense based on current tax rate				
Recognized pre-tax earnings	29.7	35.6	35.1	–95.8
Tax under current tax rate	–6.5	–7.8	–7.7	21.1
Tax effect of foreign tax rates	–5.0	0.2	–	–
Tax effect of non-taxable income	–	1.1	–	1.1
Tax effect of non-deductible costs	–0.2	–	–0.2	–
Recognized carry-forward losses	7.6	–	7.6	–
Unrecognized carry-forward losses	7.9	–	7.9	–
Unactivated carry-forward losses	–	–	–	–22.2
Effect of change in tax rate	–10.3	–	–	–
Tax on earnings for the year according to the statement of operations	**–6.5**	**–6.5**	**7.6**	**0.0**

NOTE 16 EARNINGS PER SHARE

Earnings per share before dilution are calculated by dividing the earnings attributable to the Parent Company by a weighted average number of common shares outstanding during the period, as shown in the presentation below.

	Group	
	2017	2016
Earnings used for the calculation of earnings per share before dilution, MSEK	23.2	29.0
Average number of shares before dilution	34,561,142	34,477,423
Earnings per share before dilution (SEK per share)	0.67	0.84
Average number of shares after dilution	34,671,706	34,574,412
Earnings per share after dilution (SEK per share)	0.67	0.84
Options outstanding	1,664,510	1,784,794

For calculating the earnings per share after dilution, the weighted average number of common shares outstanding is adjusted for the dilution effects of all potential common shares. The potential common shares in the Parent Company are represented by employee stock options and share rights.

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	2017	2016
Average number of shares before dilution	34,561,142	34,477,423
Potential shares from options and share rights	110,563	96,988
Average number of shares after dilution	34,671,705	34,574,412

NOTE 17 RESERVES

	Translation reserve	Total
Opening balance at January 1, 2016	**–6.0**	**–6.0**
Translationdifferences	6.2	6.2
Closing balance at December 31, 2016	**0.2**	**0.2**
Translationdifferences	–7.5	–7.5
Closing balance at December 31, 2017	**–7.3**	**–7.3**

NOTE 18 INFORMATION ON FINANCIAL INSTRUMENTS IN THE GROUP

Classification and categorization of assets and liabilities in the Group 2017

December 31, 2017	Loans and accounts receivable	Total financial assets	Non-financial assets	Total
Assets				
Tangible fixed assets	–	**0.0**	20.1	**20.1**
Intangible fixed assets	–	**0.0**	121.0	**121.0**
Deferred tax asset	–	**0.0**	28.3	**28.3**
Inventories	–	**0.0**	250.2	**250.2**
Financial assets	7.1	**7.1**	–	**7.1**
Accounts receivable	218.4	**218.4**	–	**218.4**
Other current receivables	–	**0.0**	7.4	**7.4**
Prepaid expenses and accrued income	–	**0.0**	23.5	**23.5**
Cash and cash equivalents	327.9	**327.9**	–	**327.9**
Total assets	**553.4**	**553.4**	**450.5**	**1,003.9**

December 31, 2017	Financial libaili-ties measured at amortized cost	Total financial liabilities	Non-financial liabilities	Total
Shareholders' equity and liabilities				
Shareholders' equity	–	**0.0**	329.1	**329.1**
Long-term liabilities, provision	–	**0.0**	5.8	**5.8**
Borrowings	319.1	**319.1**	–	**319.1**
Accounts payable	45.5	**45.5**	–	**45.5**
Provisions	–	**0.0**	200.9	**200.9**
Other current liabilities	2.0	**2.0**	12.2	**14.2**
Prepaid expenses	86.4	**86.4**	2.9	**89.3**
Total shareholders' equity and liabilities	**453.0**	**453.0**	**550.9**	**1,003.9**

Note 18 cont.

Classification and categorization of assets and liabilities in the Group

December 31, 2016	Loans and accounts receivable	Total financial assets	Non-financial assets	Total
Assets				
Tangible fixed assets	**–**	**0 0**	22.1	**22.1**
Intangible fixed assets	**–**	**0 0**	138.2	**138.2**
Deferred tax asset	**–**	**0.0**	24.8	**24.8**
Inventories	**–**	**0.0**	344.2	**344.2**
Financial assets	7.9	**7.9**	–	**7.9**
Accounts receivable	178.5	**178.5**	–	**178.5**
Other current receivables	–	**0.0**	5.6	**5.6**
Prepaid expenses and accrued income	–	**0 0**	15.1	**15.1**
Cash and cash equivalents	282.4	**282.4**	–	**282.4**
Total assets	**468.8**	**468.8**	**550.0**	**1,018.8**

December 31, 2016	Financial libaili-ties measured at amortized cost	Total financial liabilities	Non-financial liabilities	Total
Shareholders' equity and liabilities				
Shareholders' equity	**–**	**0.0**	310.3	**310.3**
Long-term liabilities, provision	**–**	**0.0**	1.2	**1.2**
Borrowings	397.8	**397.8**	–	**397.8**
Accounts payable	36.0	**36.0**	**–**	**36.0**
Provisions	–	**0**	163.9	**163.9**
Other current liabilities	6.2	**6.2**	4.4	**10.6**
Prepaid expenses	77.1	**77.1**	21.9	**99.0**
Total shareholders' equity and liabilities	**517.1**	**517.1**	**501.8**	**1,018.8**

For all items above, with the exception of borrowings and bonds, the carrying amount is an approximation of the fair value, and therefore these items are not divided up into levels in the measurement hierarchy. The bond whose fair value is valued according to Level 2 amounted to MSEK 377 (based on liquid trading price), the carrying value amounted to MSEK 397.8.

Other borrowings have variable interest rates so book values in all material deemed to approximate fair values. Description of Company's borrowings can be found in Note 26.

NOTE 19 INVENTORIES

	Group		Parent Company	
	2017	2016	2017	2016
Raw materials	124.4	132.6	124.4	132.6
Work in progress	60.5	109.3	60.6	109.3
Finished products	65.3	102.3	1.3	27.6
Total	**250.2**	**344.2**	**186.3**	**269.5**

The cost of goods from inventory expensed in the Group amounted to MSEK 148.0 (144.1) and in the Parent Company to MSEK 153.8 (78.1).

NOTE 20 ACCOUNTS RECEIVABLE

Impairment losses on accounts receivable amounted to MSEK 0.0 (0.2) in the Group. The carrying amount corresponds to fair value since all receivables are current and are due within one year.

In the Parent company Impairment losses on accounts receivable amounted to MSEK 0.0 (0.0). The carrying amount corresponds to fair value.

Carrying amounts in SEK per currency for the Group's accounts receivable are as follows:

	Group		Parent Company	
	2017	2016	2017	2016
SEK	–	0.4	–	0.4
USD	164.0	133.3	6.7	6.2
EUR	54.4	44.9	54.4	44.9
Total	**218.4**	**178.5**	**61.1**	**51.4**

Credit concentration

The Group has a limited number of customers, which means that a certain risk of credit centration exists.

Of the Group's total accounts receivable, MSEK 190.1 (157.8) is held by the Group's four largest customers. Each of the following:

	Group	
	2017	2016
Customer 1	67.7	51.2
Customer 2	48.4	43.8
Customer 3	46.3	36.3
Customer 4	27.8	26.5
Total	**190.1**	**157.8**

Note 20 cont.

Accounts receivable due

At December 31, 2017, accounts receivable amounting to MSEK 12.5 (0.6) fell due for payment without any impairment requirement being considered necessary.

These apply to a few independent customers who have previously settled their overdue invoices.

An age analysis of these accounts receivable is presented below:

	Group		Parent Company	
	2017	2016	2017	2016
Less than 30 days	9.9	0.1	–	0.1
31 days and older	2.6	0.5	–	–
Total	**12.5**	**0.6**	**0.0**	**0.1**

NOTE 21 OTHER RECEIVABLES

	Group		Parent Company	
	2017	2016	2017	2016
VAT receivable	2.1	2.7	2.1	2.7
Tax receivable[1]	2.7	2.7	–	–
Other	2.6	0.2	2.6	0.2
Total	**7.4**	**5.6**	**4.7**	**2.9**

[1]See note 15.

NOTE 22 PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
	2017	2016	2017	2016
Prepaid rents	4.1	4.1	4.1	4.1
Other interim receivables	19.4	11.0	6.7	3.6
Total	**23.5**	**15.1**	**10.8**	**7.7**

NOTE 23 CASH AND CASH EQUIVALENTS

	Group		Parent Company	
	2017	2016	2017	2016
Cash and bank balances	327.9	282.4	215.1	211.7
Total	**327.9**	**282.4**	**215.1**	**211.7**

The Group has no unused credit facilities at December 31, 2017.

NOTE 24 SHARE-RELATED PAYMENTS

Orexo has introduced share-based payments in the form of share awards and employee stock options designed to motivate and reward through ownership, thereby promoting the company's long-term interests. Share awards and employee stock options are vested provided that the holder remains employed or is a Board member in Orexo on this date, see below for detailed descriptions of the performance criterias for the specific programs.

As of December 31, 2017 there were a total of 1,664,510 options outstanding, providing entitlement to subscription for 868,976 new shares in Orexo and 494,334 provide entitlement to an exchange for shares in Orexo. The number of share awards is 494,334 and each share award provides entitlement to one share. Options and share awards are paid for through shareholders' equity.

Options and share options whose earnings are dependent on non-market conditions of performance are valued with the Black & Scholes model, and options and share options whose earnings are dependent on performance conditions that are market terms are valued through Monte Carlo simulations

The share price and the risk-free rate used are the valid ones at the valuation date. The volatility taken into account in the valuation is based on the historical volatility of the stock over a period of 2-7 years.

Cost per fiscal year	Total cost
2016	–0.7
2017	-3.0

Employee stock options/share awards allotted	Number	Exercise price, weighted average
At Dec 31, 2015	**1,859,092**	**71**
Allotted during the period	270,200	–
Redeemed during the period	–93,322	29
Forfeited during the period	–251,176	72
At Dec 31, 2016	**1,784,794**	**63**
Allotted during the period	298,000	–
Redeemed during the period	–20,871	23
Forfeited during the period	–397,413	80
At Dec 31, 2017	**1,664,510**	**75**

Employee stock options/share awards per year	Number outstanding at Dec 31, 2017	Number vested at Dec 31, 2017	Exercise price, range	Value per allotted option, range	Volatility, option, weighted average	Value per share, range	Value per option weighted average	Maturity date
2009 (LTIP2008)	31,250	31,250	51.0	12.0	35%	45.8	45.8	2018-12-31
2011 (LTIP2011)	95,909	95,909	29.0-47.8	7.4	35%	28.2	28.2	2021-02-16
2011 Board	4,118	4,118	0.4	43.3	35%	43.7	43.7	2018-12-31
2013 (LTIP2011)	662,178	533,178	51.8–131.6	15.5–44.0	35%	24.2–130.6	53.6	2021-02-16
2013 Board	157,300	157,300	52.4	15.5–19.7	35%	57.2	57.2	2018-04-11
2014 (LTIP2011)	219,421	47,221	112.9–165.1	25.7–57.0	35%	106.6–166.8	151.3	2021-02-16
2015 (LTIP2015)	24,297	–	0	13.3–78.8	35%	78.9	78.9	2018-06-18
2016 (LTIP2016)	179,787	–	0	20.4–49.5	35%	49.5	49.5	2019-05-30
2017 (LTIP2017)	290,250	–	0	7.5–27.4	35%	27.4	27.4	2020-06-21
Total employee stock options/share awards	**1,664,510**							

Employee stock options/share awards per year	Number outstanding at Dec 31, 2016	Number vested at Dec 31, 2016	Exercise price, range	Value per allotted option, range	Volatility, option, weighted average	Value per share, range	Value per option weighted average	Maturity date
2008	19,000	19,000	44.0	11.5	25%	45.3	45.3	2017-12-31
2009	31,250	31,250	51.0	12.0	35%	45.8	45.8	2018-12-31
2010	4,358	4,358	0.4	37.9	35%	38.2	38.2	2017-12-31
2011	219,926	213,676	29.0–47.8	6.2–19.2	35%	28.2–39.7	33.8	2021-02-16
2011 Board	4,118	4,118	0.4	43.3	35%	43.7	43.7	2018-12-31
2013	724,332	511,332	51.8–131.6	15.5–44.0	35%	24.2–130.6	53.6	2021-02-16
2013 Board	162,916	162,916	52.4	15.5–19.7	35%	57.2	57.2	2018-04-11
2014	290,762	43,962	112.9–165.1	25.7–57.0	35%	106.6–166.8	151.3	2021-02-16
2015 Old program	23,750	1,250	129.2	27.4–32.6	35%	121.3	121.3	2021-02-16
2015 New program	34,182	0	0.0	13.3–78.8	35%	78.9	78.9	2018-06-18
2016	270,200	0	0.0	20.4–49.5	35%	49.5	49.5	2019-05-30
Total employee stock options/share awards	**1,784,794**							

During 2017 the company allotted 298,000 employee stock options, of which the CEO and other senior executives were allotted 141,000, corresponding to 47 percent. The financial and operational targets set by the Board for 2017 reached a score of 88 percent and hence 12 percent of the allocated share awards pertaining to performance target 1 will forfeit in 2018. In total 397,413 options were forfeited during 2017.

Changes in and holdings of employee stock options/share awards at the closing date for the CEO and Board members.

Note 24 cont.

Owned by	Number outstanding at Jan 1, 2017	Change	Number outstanding at Dec 31, 2017
CEO Nikolaj Sörensen	387,388	24,106	411,494
Board member Martin Nicklasson	162,917	–5,616	157,301
Board member Michael Shalmi	–	–	–
Board member Raymond Hill	8,476	–4,358	4,118
Board member Staffan Lindstrand	–	–	–
Board member Kristina Schauman	–	–	–
Board memberDavid Colpman	–	–	–

Performance criteria LTIP 2011
LTIP2011 is a stock option program where half of the options are vested based on the stock price development and the remaining are vested based on the company's operational performance and time.

Performance criterion 1
For any vesting of share-price based performance shares to occur, the increase in the share price shall correspond to the amounts set forth below. The increase in the share price as set forth below shall be calculated for a period not exceeding five years, meaning that the share price must have been achieved within a continuous five-year period.

Increase Share price	Vesting percent of Shareprice shares (also stipulated in fulfillment of Performance criterion 2 below)
> 60 percent	33 percent
> 100 percent	66 percent
> 150 percent	100 percent

These categories correspond to an average annual return over five years of approximately 10, 15 and 20 percent respectively.

Performance criterion 2
In addition to satisfaction of Performance Criterion 1, for any vesting to occur the share price shall have outperformed the NASDAQ OMX Stockholm Biotechnology PI Index for a 90-day period immediately prior to such day when Performance Criterion 1 above is satisfied. The determination of satisfaction of Performance Criterion 2 shall be made continuously as long as Performance Criterion 1 is satisfied, where the above-mentioned 90-day period shall be the period immediately prior to each such determination. The Board shall be entitled to determine that the Performance Shares have not been vested to the extent that it has been established that vesting has occurred on the basis of manifestly misstated information.

Performance criteria LTIP 2015, LTIP 2016 and LTIP 2017
LTIP2015, LTIP2016 and LTIP2017 are share-based programs where half of the shares are vested based on the share price development and the remaining vested based on the company's operational performance and time.

Performance criterion 1
This target pertains to the fulfilment of the financial and operational targets for the financial year 2015 as established by the Board of Directors and relates to Orexo's key KPIs such as revenue, profitability and achieved milestones, etc. Performance achievement of individual targets is weighted into an overall average performance achievement. The outcome will be measured linearly, meaning that none of the Share Awards will vest unless a minimum threshold of 100 percent of the overall average performance of the financial and operational targets is achieved for LTIP2015 and LTIP2016. For LTIP 2017, 80 percent of the overall average performance of the financial and operational targets has to be acheived. All Share Awards will vest and entitle to one share each if 100 percent of the overall average performance is acheived. When calculating the overall performance achievement, individual targets may account for a maximum of 120 percent achievement, but the overall average performance is capped at 100 percent. If the minimum threshold is achieved, 80 percent of Share Awards subject to Performance Target 1 will vest.

Performance criterion 2
This target pertains to the development of the Orexo share price over the period from the date of the 2015 Annual General Meeting up to and including April 14, 2018 for LTIP 2015, from the date of the 2016 Annual General Meeting up to and including April 14, 2019 for LTIP 2016 and from the date of the 2017 Annual General Meeting up to and including April 5, 2020 for LTIP 2017. The share price will be measured as the volume weighted average share price 20 trading days prior to the measurement date for LTIP2015 and as the volume weighted average share price 60 trading days prior to the measurement date for LTIP2016 and LTIP2017. The measurement dates are date defined as the date of the 2015 Annual General Meeting and April 14, 2018. Should the Orexo share price increase by 60 percent, then 100 percent will be allotted, 66 percent will be allotted should the Orexo share price increase by 40 percent and 33 percent will be allotted should the Orexo share price increase by 20 percent. In between these figures, allotment of shares on the basis of the Share Awards will occur linearly. These categories correspond to a three-year average annual increase of approximately 17 percent, 12 percent and 7 percent per annum. In addition to satisfaction of Performance Target 2 set out above, for any vesting to occur, the developmentof the Orexo share price shall have outperformed the Nasdaq Stockholm Pharmaceuticals & Biotechnology PI during the measurement period from the date of the 2015 Annual General Meeting up to and including April 14, 2018 for LTIP 2015, from the date of the 2016 Annual General Meeting up to and including April 14, 2019 for LTIP 2016 and from the date of the 2017 Annual General Meeting up to and including April 5, 2020 for LTIP 2017.

NOTE 25 PROVISIONS

	Group		Parent Company	
Long-term provisions	**2017**	**2016**	**2017**	**2016**
On January 1, 2017	**1.2**	**6.7**	**1.3**	**6.7**
Additional provisions	7.7	0.7	3.7	–3.1
Utilized during the year	–0.1	–0.7	–0.1	–0.7
Reversed unused amounts	–3.0	–5.5	–	–1.6
Per December 31 2017	**5.8**	**1.2**	**4.9**	**1.3**

Long-term provisions primarily refer to estimated costs for social security fees in respect of employee stock option programs.

	Group		Parent Company	
Short-term provisions, rebates and chargebacks	**2017**	**2016**	**2017**	**2016**
On January 1, 2017	**163.9**	**121.8**	**0.0**	**0.0**
Additional provisions	521.2	494.8	–	–
Utilized during the year	–477.3	–429.9	–	–
Reversed unused amounts	8.7	–31.2	–	–
Exchange rate difference	–15.6	8.4	–	–
Per December 31 2017	**200.9**	**163.9**	**0.0**	**0.0**

Short-term provisions primarily refer to estimated costs for accrued rebates and pass-through.

NOTE 26 BORROWINGS

	Group	Parent Company
January 1, 2016	**497.3**	**497.3**
Repurchase bond	–92.8	–92.8
Net gain/loss from repurchase	–6.2	–6.2
Interest expenses	20.1	20.1
Interest paid	–21.4	–21.4
Recognition of loan issuance costs	2.6	2.6
Other non-cash items	1.0	1.0
January 1, 2017	**400.6**	**400.6**
Repurchase bond	–404.7	–404.7
Net gain/loss from repurchase	–0.1	–0.1
Issuance of bonds	319.2	319.2
Interest expenses	14.8	14.8
Interest paid	–15.6	–15.6
Recognition of loan issuance cost	7.1	7.1
Other non-cash items	–0.2	–0.2
December 31, 2017	**321.1**	**321.1**

The long-term portion consists of a bond loan amounting to a total of MSEK 325. It matures on November 13, 2021. The loan has a variable interest rate of STIBOR 3 months +4.5 percent (STIBOR is calculated as zero at the lowest) and has a total framework amount of MSEK 500. There are no covenants. The loan agreement contains limitat limitations regarding any change in the company's ownership structure, so-called change-of-control.

In 2017, the company redeemed the previous bond of MSEK 342.

	Group	Parent Company
2016-12-31		
Borrowings	397.8	397.8
Accrued interest costs	2.8	2.8
	400.6	**400.6**
2017-12-31		
Borrowings	319.1	319.1
Accrued interest costs	2.0	2.0
	321.1	**321.1**

NOTE 27 ACCRUED EXPENSES AND OTHER LIABILITIES

	Group		Parent Company	
Other liabilities	**2017**	**2016**	**2017**	**2016**
Employee withholding tax	1.1	1.6	1.5	1.2
Deduction, social security fees	1.2	0.9	1.2	0.9
Deduction, special salary tax	2.1	1.9	2.1	1.9
Other current liabilities	9.9	6.2	1.9	3.0
Sum Other liabilities	**14.2**	**10.6**	**6.6**	**7.0**

	Group		Parent Company	
Accrued expenses	**2017**	**2016**	**2017**	**2016**
Accrued salaries	12.3	14.0	2.9	2.2
Accrued vacation pay	5.3	5.3	5.3	5.3
Accrued social security fees	2.7	2.6	2.7	2.6
Accrued expenses interest rates	2.0	2.9	2.0	2.9
Other accrued expenses	8.0	12.1	8.0	12.1
Trade allowance	43.2	47.3	–	–
Wholesaler fee reserve	15.9	14.8	–	–
Sum Accrued expenses	**89.3**	**99.0**	**20.8**	**25.1**
Sum Other liabilities and Accrued expenses	**103.6**	**109.6**	**27.4**	**32.1**

NOTE 28 DISCLOSURES ON THE CASH FLOW STATEMENT

	Group		Parent Company	
	2017	**2016**	**2017**	**2016**
Adjustments for items not included in cash flow comprise the following:				
Depreciation and impairment	20.8	25.0	19.6	24.4
Gain/loss on disposal	–	–5.0	–	–
Change in provisions	59.9	42.0	3.9	–2.6
Change in fair value of financial instruments	–	0.2	–	–
Share based payments	3.0	3.7	3.0	2.5
Exchange rate income and expense	4.2	–21.8	3.9	–21.8
Total	**87.9**	**44.1**	**30.4**	**2.5**

NOTE 29 SHARES IN SUBSIDIARIES AND JOINT VENTURES

Direct and indirect holdings Dec 31, 2016	Corp. Reg. No.	Reg. office	Number of shares	Shareholding	Cost/Contribution	Accumulated impairment	Carrying amount
Pharmacall AB	556569-1739	Uppsala	1,000	100%	0.1	–	0.1
Biolipox AB	556588-3658	Stockholm	12,883,944	100%	505.8	–399.8	106.0
Orexo US Inc	101013414	USA	100	100%	44.6	–	44.6

All holdings are owned directly.

Change in carrying amount of direct holdings

2016	Opening carrying amount	Acqusition	Contribution	Sales	Impairment	Closing carrying amount
Pharmacall AB	0.1	–	–	–	–	0.1
Orexo US Inc	42.5	–	1.2	–	–	43.7
Biolipox AB	106.0	–	–	–	–	106.0
Total	**148.6**	**0.0**	**1.2**	**0.0**	**0.0**	**149.8**

2017						
Pharmacall AB	0.1	–	–	–	–	0.1
Orexo US Inc	43.7	–	0.8	–	–	44.5
Biolipox AB	106.0	–	–	–	–	106.0
Total	**149.8**	**0.0**	**0.8**	**0.0**	**0.0**	**150.6**

Pharmakodex Ltd was liquidated during the year. The result of the liquidation amounted to non-significant amounts.

NOTE 30 PLEDGED ASSETS AND CONTINGENT LIABILITIES

	Group		Parent Company	
	2017	2016	2017	2016
Chattel mortgages for bank commitment	–	–	–	–
Guarantee commitment	–	–	–	–
Total	**0.0**	**0.0**	**0.0**	**0.0**

No collateral or contingent liabilities exist as at 31 December 2017

NOTE 31 AUDITORS' FEES

	Group		Parent Company	
	2017	2016	2017	2016
Audit assignment				
Ernst & Young	3.1	1.9	3.1	1.9
PWC[1]	–	0.1	–	–
Non-auditing assignments				
Ernst & Young	0.1	3.2	0.1	3.2
PWC[1]	–	0.8	–	0.8
Tax advice				
Ernst & Young	0.1	0.3	0.1	0.3
Other services				
Ernst & Young	0.3	–	0.3	–
Total	**3.6**	**6.3**	**3.6**	**6.1**

1) The amounts for 2016 PWC relates to time spent before the annual general meeting.

NOTE 32 DEFERRED TAX

The tax-loss carry-forward in the Group amounts to MSEK 1,459 (1,517) and refers to the Swedish companies. Of these, MSEK 7.6 has been activated in 2017. There is no time limit for when the remaining loss carryforwards can be utilized.

The following table specifies the tax of the Group's temporary differences.

	Group		Parent Company	
	2017	2016	2017	2016
Deferred tax assets				
Capitalized tax loss carryforwards	7.6	–	7.6	–
Temporary differences in current provision	20.7	24.8	–	–
Total	**28.3**	**24.8**	**7.6**	**0.0**

Temporary differences for short-term provisions are related to non-deductible short-term provisions for sales rebates, returns, distribution and other relevant deductions in Orexo Inc. Deferred tax of MSEK 7.6 relating to Swedish companies in the Group has been activated during the period.

Deferred tax assets have, in view of the taxable income attributable to the Swedish companies in recent years, been reported only insofar as management estimates that there are factors convincingly suggesting that sufficient taxable surpluses will be generated in the future.

NOTE 33 UNDERTAKINGS

Undertakings relating to operational leasing in which Group companies are the lessees

The Group leases various types of machinery and other technical plant in accordance with cancelable operational leasing agreements.

Leasing expenses relating to leasing of equipment, machinery and computers amounting to SEK 0.4 (0.4) million and leasing expenses relating to rental agreements amounting to 16.1 (15.3) are included in the income statement.

The Orexo Group has two rental agreements. Orexo AB has entered into a rental agreement that runs until December 31, 2019. Orexo US Inc's rental agreement runs until December 31, 2018. The nominal value of future leasing fees for lease agreements that cannot be terminated is as follows:

	Group		Parent Company	
	2017	2016	2017	2016
Falls due for payment within one year	19.0	18.0	16.8	15.6
Falls due for payment later than one year but within five years	35.2	36.0	35.2	31.1
Falls due for payment later than 5 years	–	–	–	–
Total	**54.2**	**54.0**	**52.0**	**46.7**

NOTE 34 RELATED PARTY TRANSACTIONS

Purchases and sales between Group companies

The following transactions took place between the companies in the Group:	2017	2016
Forward invoicing of costs		
Orexo US Inc	0.4	4.5
Sale of goods and services		
Orexo US Inc	318.7	123.1
Total	**319.1**	**127.6**

The Group has no losses or doubtful credits on receivables from related parties.

Remuneration and other commitments regarding pensions and similar benefits to Board members and the President and CEO, see Note 12.

There have been no other related party transactions.

NOTE 35 EVENTS AFTER THE CLOSING DATE

No significant events, in addition to the ordinary activities, have occurred after the end of the financial year.

NOTE 36 APPROPRIATION OF PROFIT

Proposed appropriation of profit

The following funds are at the disposal of the Annual General Meeting:

SEK

Share premium reserve	1,196,121,316
Profit carried forward	-1,234,120,791
Profit/loss for the year	42,619,439
Total	**4,619,963**

The Board proposes that the funds at their disposal SEK 4,619,963 be carried forward.

Assurance of the Board of Directors and President

The Board of Directors and President hereby give their assurance that the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and present a true and fair view of the Group's financial position and earnings. The Annual Report has been prepared in accordance with generally accepted accounting principles and presents a true and fair view of the Parent Company's financial position and earnings.

The Board of Directors' Report for the Group and the Parent Company presents a true and fair review of the Group's and the Parent Company's operations, financial positions and earnings and describes the significant risks and uncertainties facing the Parent Company and the companies included in the Group.

Uppsala, Sweden, March 20, 2018

Orexo AB (publ)

Martin Nicklasson
Chairman of the Board

Raymond G. Hill
Board member

Staffan Lindstrand
Board member

Kristina Schauman
Board member

Michael Shalmi
Board member

David Colpman
Board member

Kirsten Detrick
Board member

Nikolaj Sørensen
President and CEO

Our audit report was submitted on March 20, 2018

Ernst & Young Aktiebolag

Björn Ohlsson
Authorized Public Accountant

Auditor's Report

To the general meeting of the shareholders of Orexo AB,
corporate identity number 556500-0600.

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Orexo AB for the year 2017 except for the statutory sustainability report on pages 29–36. The annual accounts and consolidated accounts of the company are included on pages 21–68 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the statutory sustainability report on pages 29–36. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.
We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of

Revenue recognition

Description	How our audit addressed this key audit matter
Sales revenues for 2017 were MSEK 643.7 in the consolidated income statement and MSEK 477.8 MSEK in the parent company income statement. Revenue from the sale of goods is recognized at the time of delivery to the customer, which is the point in time when ownership is transferred to the customer who then also assumes the economic risk. Revenue from one-time licenses fees are allocated based on the fair value of each delivery, and revenues from research collaborations are recognized over the period which they relate to. Royalty revenue is recognized when distributors report sale of goods that generates royalty for Orexo. Revenue from the sale of goods is calculated net of deductions including actual and estimated rebates to public and private insurers, provisions for potential returns and fees to wholesalers and distributors. The gross-to-net adjustments are based partly on management's estimates. The extent of deductions of revenue from rebates, returns etc. and the accounting for royalty connected to licensing agreements are affected by assessments and estimates made by management. A description of the judgments on which revenue recognition is based is provided in the section "Important estimations and judgments for accounting purposes" in Note 4. In summary, revenue recognition for the group contains significant elements of judgment, and for this reason revenue recognition has been determined to be a key audit matter.	In our audit we have reviewed the company's processes over revenue recognition, and reviewed significant agreements to assess whether the accounting for these is compliant with relevant standards. We have also performed sample testing of accruals. We have also reviewed the calculation models on which the deductions from gross sales are based, as well as the reasonableness of key assumptions on which the calculations are based, such as the distribution between different payer categories and expected future returns. Finally, we have assessed whether disclosures provided are adequate.

Inventory valuation

Description	How our audit addressed this key audit matter
Inventory is recorded at MSEK 250.2 in the group balance sheet and at MSEK 186.3 in the parent company balance sheet per 31 December 2017, and consists of raw materials, in-process-products and finished goods. Inventory valuation is based on acquisition cost with deduction of obsolescence charges, if any. The valuation of inventory at acquisition cost is performed based on calculation models where direct and indirect production-related costs are associated to goods produced. In the calculation models there are a number of assessments which needs to be performed by management which affects the recorded values. Key areas are the determination of method to apply the FIFO principle, and determining normal product levels and the allocation keys for direct and indirect costs. In inventory valuation there are additional assessments which are partly subjective, such as the calculation of net realizable value for the application of the net realizable value principle including estimating obsolescence. The assessment of net realizable value and the risk of obsolescence are based on continuously updated market forecasts and assumptions regarding the remaining shelf-life for various chemical compounds. The shelf-life of inventory is based on, among other factors, documented stability studies. The estimates and assumptions which management make regarding direct and indirect production costs as well as the shelf-life of inventory may have a significant impact on the value of inventories, and for this reason we have determined that inventory valuation is a key audit matter. A description of the assumptions on which management's judgments are based is described in the section "Important estimations and assumptions for accounting purposes" in Note 4.	In our audit we have assessed and reviewed the inventory valuation models which the company utilizes. We have assessed the company's processes and routines for the treatment of inventory including applied calculation models for in-process-products and finished goods. We have also reviewed the company's routines for in- and outbound deliveries from inventory, the routines for inventory counts and for ensuring that inventory differences are resolved. We have also performed acquisition cost testing procedures, reviewed calculation models for in-process-products and finished goods, and reviewed assessments applied in the allocation of indirect production costs. We have also assessed and reviewed management's process for determining whether there is an obsolescence-related write-down need. Our procedures included assessing assumptions made regarding market forecasts and stability studies. Finally, we have assessed whether disclosures provided are adequate.

material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–20 and 73–84. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, 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.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. 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 annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden 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 annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, 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 opinions. 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 the company's internal control relevant to our 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 company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and 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 annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. 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 a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors 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 the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Orexo AB for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated (loss be dealt with) in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

The auditor´s opinion regarding the statutory sustainability report

The Board of Directors is responsible for the statutory sustainability report on pages 29–36, and that it is prepared in accordance with the Annual Accounts Act.

My (Our) examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor´s opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

Ernst & Young AB, Jakobsbergsgatan 24, 111 44, Stockholm, was appointed auditor of Orexo AB by the general meeting of the shareholders on the 6 April 2017 and has been the company's auditor since the 15 April 2016.

Uppsala, Sweden, March 20, 2018
Ernst & Young AB

Björn Ohlsson
Authorized Public Accountant

Reconciliations and Definitions of Key Figures

Group

Key figures and certain other operating infromation per share are reconciled as follows:

EBITDA MSEK	2017	2016
EBIT	57.4	51.7
Depreciation and amortization	20.8	21.4
EBITDA	**78.2**	**73.1**

Return on shareholders' equity	2017	2016
Average shareholders' equity	319.7	290.2
Net earnings	23.2	29.0
Return on shareholders' equity %	**7.3**	**10.0**

Net debt MSEK	2017	2016
Current and long-term interest-bearing liabilities including pension liabilities	319.1	397.8
Cash and cash equivalents.	–327.9	–282.4
Net debt	**-8.8**	**115.4**

Operating expenses MSEK	2017	2016
Selling expenses	–190.5	–240.6
Administrative expenses	–96.1	–161.6
Research and development costs	–134.2	–132.3
Other operating income and expenses	–1.1	29.9
Operating expenses	**–421.9**	**–504.6**

Key figures and certain other operating information per share are defined as follows:

Margins	Definition/calculation	Purpose
Gross margin	Gross profit divided by net revenues	Gross Margin is used to measure the relative direct profitability from sold products
Operating margin (EBIT margin)	Operating earnings as a percentage of net revenues	Operating profit margin is used for measuring the operational profitability
Return	**Definition/calculation**	**Purpose**
Return on equity	Net earnings for the period as a percentage of average shareholders' equity	Return on equity is used to measure profit generation, given the resources attributable to the owners of the Parent Company
Capital structure	**Definition/calculation**	**Purpose**
Net Debt	Current and long-term interest-bearing liabilities including pension liabilities, less cash and cash equivalents	The net debt is used as an indication of the ability to pay off all debts if these became due simultaneously on the day of calculation, using only available cash and cash equivalents
Debt/equity ratio	Total liabilities divided by shareholders' equity	The debt/equity ratio measures how much debt a company is using to finance its assets relative to the amount of value represented in shareholder's equity.
Equity/assets ratio	Shareholders' equity as a percentage of total assets	This ratio is an indicator of the company's leverage used to finance the firm
Working capital	Current assets less current liabilities	Working capital is used to measure the company's ability, besides cash and cash equivalents, to meet current operational obligations
Capital employed	Interest-bearing liabilities and shareholders' equity	Capital employed measures the amount of capital used and serves as input for the return on capital employed
Gross investments	Value of investment before amortization	Gross investments is a measure of the company's investments in tangible and intangible fixed assets
Data per share	**Definition/calculation**	**Purpose**
Number of shares after dilution	Shares at the end of the period adjusted for the dilutive effect of potential shares	Is used to calculate earnings per share after dilution
Earnings per share, before dilution	Net earnings for the period after tax divided by the average number of shares outstanding before dilution during the period	The earnings per share before dilution measures the amount of net profit that is available for payment to its shareholders per share before dilution
Earnings per share, after dilution	Net earnings for the period after tax divided by the average number of shares outstanding after dilution during the period	The earnings per share after dilution measures the amount of net profit that is available for payment to its shareholders per share after dilution
Other definitions	**Definition/calculation**	**Purpose**
Gross Revenues	Grand total of all invoiced sales transactions reported in a period, without any deductions	Reflects the company's invoiced revenues without any deductions
Net Revenues	Gross Revenues less deductions for sales rebates, sales allowances, distribution, sales returns and other relevant deductions	Reflects the company's invoiced revenues after deductions
Gross to net ratio	Net Revenues divided by Gross Revenues	Reflects a relative portion of net revenue as percentage of gross revenue
Operating expenses	An expense incurred in daily operating activities. Expense related to financing is not considered part of daily operating activities.	Operating expenses reflect costs for selling, administration, research and development, depreciation and other operating income and operating expenses
EBIT	Earnings before net financial items and tax, the same as Operating earnings	This measure enables the profitability to be compared across locations where corporate taxes differ and irrespective the financing structure of the company
EBITDA	Earnings before interest, taxes, depreciation and amortization. EBIT plus depreciation	Profit measure which is more closely correlated with cash flow as non-cash items like Depreciation and Amortization are excluded
Earnings after financial items	Operating earnings (EBIT) plus financial income less financial expense	Earnings after financial items reflects earnings after, any results from participations in Group and associated companies, results from securities and receivables that fall within the type of fixed assets as well as interest expenses and interest income

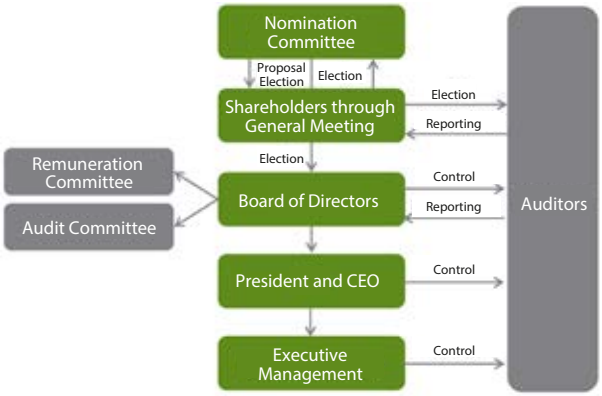
Corporate Governance 2017

Corporate Governance Report for Orexo AB (publ)

Orexo is a Swedish public limited liability company, with its registered office in Uppsala, Sweden. The company's shares are listed on Nasdaq (Mid Cap) Stockholm under the symbol ORX and with American Depositary Receipts (ADRs) traded on OTCQX under the symbol ORXOY. Corporate Governance in Orexo is based on applicable laws, rules and recommendations such as the Swedish Code of Corporate Governance ("the Code"), Orexo's articles of association and internal regulations and guidelines.

The aim of corporate governance at Orexo is to create a clear division of roles and responsibilities between shareholders, the Board of Directors and Management.

Internal governance, control and risk management concerning financial reporting are fundamental factors in Orexo's business control.



The governance, management and control of Orexo are divided between the General Meeting of Shareholders, the Board of Directors and the President.

Examples of external regulations influencing corporate governance

- Swedish Companies Act
- Regulations governing external reporting, such as the accounting law and the Annual Report law
- Nasdaq Stockholm rules for issuers
- OTCQX rules for companies trading ADRs on OTCQX
- Swedish Code of Corporate Governance (the Code, www.bolagsstyrning.se)

Examples of internal rules of significance for corporate governance

- Articles of Association
- Formal work plan for the Board of Directors (including terms of reference for Board Committees)
- Terms of reference for the President
- Guidelines for remuneration of senior executives
- Finance policy
- IT policy
- Financial guidelines
- HR guidelines
- Business Compliance and Ethics code

Shareholders

Orexo's share has been listed on Nasdaq Stockholm since 2005. At year-end, the total number of shares amounted to 35,104,585 (34,870,326), distributed among 7,115 shareholders (7,021).

The 10 largest shareholders held 59.1 percent (60.5) of the outstanding shares, management 0.2 percent (0.2) and other shareholders 40.7 percent (39.3). At December 31, 2017, two shareholders each held shares representing 10 percent or more of the company – Novo Holding A/S, 27.5 percent, and HealthCap, 11.3 percent. Non-Swedish shareholders accounted for approximately 57 percent (52) of the total number of shares. Institutions and industrial owners hold the majority of shares. At year-end, 77 percent (76) of the shares were held by legal entities, and 23 percent (24) by private individuals. Since November 13, 2013, the share is available in the US as an ADR on the OTCQX market.

Articles of Association
The Articles of Association are adopted by the General Meeting of Shareholders and outline a number of mandatory tasks of a fundamental nature for the company. Notification of the convening of the General Meetings is issued through an advertisement being placed on Orexo's website and in Post- och Inrikes Tidningar (Official Swedish Gazette). Confirmation that a General Meeting has been convened shall be announced in the Svenska Dagbladet newspaper. The Articles of Association state that Orexo shall conduct research and development, and manufacture, market and sell pharmaceuticals and diagnostic preparations. Orexo's Articles of Association also state that the Board of Directors shall have its registered office in Uppsala, Sweden, and shall consist of a minimum of three and a maximum of nine members, with a maximum of three deputies. The Articles of Association contain no special provisions on the appointment or dismissal of Board members. Amendments to the Articles of Association are made in accordance with the provisions of the Swedish Companies Act following a resolution of the General Meeting. The complete Articles of Association are available at www.orexo.com.

Annual General Meeting
Orexo's highest decision-making body is the General Meeting, at which every shareholder who is entered in the share register and who has provided notification of their attendance within the stipulated time is entitled to participate and vote for the amount of shares held. Shareholders can also be represented by proxy at General Meetings. One share entitles the holder to one vote at General Meetings, and there are no limits as to how many votes each shareholder can cast at a General Meeting. Resolutions at General Meetings are passed with a simple majority, unless the Companies Act stipulates a higher percentage of the shares and votes represented at the Meeting.

The Annual General Meeting elects members to the Board of Directors and sets Board fees. The other mandatory tasks of the Annual General Meeting include adopting the company's balance sheet and income statement, passing resolutions on the appropriation of earnings from operations, remuneration guidelines for senior executives and decisions concerning discharge from liability for Board members and the President. The Annual General Meeting also elects the company's auditor and sets the auditors' fees. In accordance with the Articles of Association, the Annual General Meeting shall be held in either Uppsala or Stockholm.

Annual General Meeting 2017
The Annual General Meeting was held on Thursday, April 6, 2017 in Uppsala. At the Meeting:
• Raymond G. Hill, Staffan Lindstrand, Martin Nicklasson, Kristina Schauman, Michael Shalmi, and David Colpman and Kirsten Detrick were re-elected as Board members. Martin Nicklasson was re-elected as Chairman of the Board.
• Ernst and Young Aktiebolag was re-elected as auditor.
• A resolution was adopted that fees for Board members should amount to a total of SEK 2,100,000, with SEK 600,000 paid to the Chairman of the Board, SEK 200,000 to each of the other Board members, and a total of SEK 300,000 distributed between the members of the Audit Committee, so that the Chairman of the committee receives SEK 200,000 and SEK 100,000 is distributed between the other committee members for their work on the committee. The fee may be invoiced by a company in such a way that it is cost-neutral for Orexo.
• The Board's motion concerning guidelines for remuneration to the management was approved.
• The motion concerning the appointment of a Nomination Committee for AGM 2018 was approved.
• The balance sheet and income statement for the Parent Company and the Group for the 2016 fiscal year were adopted.
• The Annual General Meeting granted Board members and the President discharge from liability for the 2016 fiscal year.
• A resolution was adopted in accordance with the Board's proposal concerning authorization of the Board to resolve to issue shares.
• A resolution was adopted in accordance with the Board's proposal concerning authorization of the Board to repurchase and transfer the company's own shares.
• The Board's motion concerning a long-term incentive program for senior executives and key employees was approved.
• A resolution was adopted in accordance with the Board's proposal concerning authorization of the Board to issue and repurchase Class C shares and transfer of own ordinary shares.

Complete information about the 2017 Annual General Meeting can be found at www.orexo.com.

Annual General Meeting 2018
The Annual General Meeting of Orexo will be held on Thursday, April 12, 2018, at 4:00 p.m. at the company's premises at Virdings allé 32 A, Uppsala, Sweden.

Nomination Committee
The 2017 Annual General Meeting adopted a resolution that the Company should have a Nomination Committee. The Nomination Committee represents the company's shareholders. It is tasked with creating the best possible basis for the General Meeting's resolutions regarding the election of Board members and Board fees and with submitting proposals concerning, for example, the appointment of auditors and auditors' fees. The Nomination Committee comprises representatives of the three largest shareholders in terms of voting rights on the final banking day in August 2017, in addition to the Chairman of the Board. The composition of the Nomination Committee was announced on Orexo's website and in a press release on October 3, 2017. The Committee held 1 (1) meeting during the year.

Through the Chairman of the Board, the Nomination Committee reviewed the evaluation of the Board's work and received information regarding developments in the company.

The principal requirements to be imposed on the Board of Orexo and the importance of independent Board members were discussed. No special remuneration was paid for participation in the Nomination Committee.

Nomination Committee for the Annual General Meeting 2018

Name	Representatives
Kasim Kutay	Novo Holding A/S, and Chairman of the Nomination Committee
Björn Odlander	HealthCap
Claus Berner Møller	Arbejdsmarkedets Tillaegspension (ATP)
Martin Nicklasson	Chairman of the Board of Orexo

Combined, the Nomination Committee represents about 45 percent of the number of shares and votes in the company, based on shareholder data at the time of appointment.

Board of Directors

The Board of Directors have a responsibility to the shareholders for the Group´s management and organization. They monitor the president´s work and continuously follows the business development and the reliability of the internal control within the company. The Board's responsibility is regulated in the Companies Act and the formal work plan that is established annually. The formal work plan establishes the division of the Board's work between the Board in its entirety and the Board's various committees and between the Board and the President. It also sets out the items to be addressed at Board meetings and the manner in which the President provides the Board with information and reports. The Board has appointed Audit and Remuneration Committees from within its ranks.

At year-end, Orexo's Board of Directors consisted of Chairman Martin Nicklasson and Board members David Colpman, Raymond G. Hill, Staffan Lindstrand, Michael Shalmi, Kristina Schauman and Kirsten Detrick. For a more detailed description of Board members, please refer to page 82.

The work of the Board

The Board's formal work plan establishes the items to be addressed at the scheduled Board meetings. Following presentations by the Audit Committee and President, the Board reviews all interim reports prior to publishing. The company's long-term targets and strategy and its budget are evaluated and approved by the Board. At each Board meeting, the President or another senior executive reports on the business situation and the status of relevant projects.

In addition to the statutory Board meeting, at least six scheduled Board meetings must be held. At the Board meeting during which the annual audit is to be considered, the Board meets with the auditors without the participation of the company's management.

It is incumbent upon the Board to ensure that the guidelines for remuneration to senior executives approved by the Annual General Meeting are followed and that the Annual General Meeting proposes guidelines for remuneration to senior executives.

Each year, the Board's work is evaluated by way of discussions and through external assessment. The results of the evaluation are presented to the Board and Orexo's Nomination Committee and form the basis for proposals for Board members. In matters concerning ownership.

Orexo is represented by the Chairman of the Board. During the year, the Board held 16 (17) meetings, of which 8 (11) were telephone conferences or meetings by circulation. The Board mainly addressed and resolved on issues concerning the company's strategic direction, the status of projects, the follow-up of financial performance, financing, investment matters, external reporting, budget planning and follow-up. These issues are addressed by the Board in its entirety. Orexo's auditor participated at the Board meeting that approved the financial statements and presented the audit at this meeting.

Remuneration of the Board

The 2017 Annual General Meeting resolved that Board fees should amount to SEK 2,100,000, of which SEK 600,000 was to be paid to the Chairman of the Board, SEK 200,000 to each of the other Board members, and a total of SEK 300,000 to be divided among the members of the Audit Committee, so that the Chairman of the committee receives SEK 200,000 and the other committee members share SEK 100,000.

Composition of the Board

Board members, their positions and whether or not they are considered to be independent in relation to Orexo, its

COMPOSITION OF THE BOARD

Name	Function	Independent	Elected	Present at Board meetings	Present at Remuneration Committee	Present at Audit Committee
Martin Nicklasson	Chairman of the Board		2012	16/16	2/2	4/4
David Colpman	Board member		2015	16/16	–	–
Kristina Schauman	Board member		2012	16/16	–	4/4
Michael Shalmi	Board member		2010	10/16	2/2	–
Raymond G. Hill	Board member		2008	15/16	2/2	–
Staffan Lindstrand	Board member		2002	13/16	–	4/4
Kirsten Detrick	Board member		2016	14/16	–	–

Independent in relation to Orexo and its management

Independent in relation to Orexo, its management and the company's largest shareholders

management and the company's largest shareholders are stated in the table on page 19. Orexo's Board of Directors is deemed to have satisfied the requirements of the Code in respect of independence, as all members elected by the Meeting have been deemed to be independent in relation to Orexo and its management and all of these members, with the exception of two, have also been deemed to be independent in relation to the company's largest shareholders.

Audit Committee
Orexo's Audit Committee is primarily concerned with ensuring compliance with established principles for financial reporting and internal controls. The Audit Committee must also remain informed about the audit of the Annual Report and consolidated accounts, inspect and monitor the impartiality and independence of the auditor, paying particularly close attention to instances where the auditor provides the company with services outside the scope of the audit, and assist in the preparation of proposals to the General Meeting in respect of auditor selection. The Audit Committee presents the final version of Orexo's interim reports and of the Annual Report to the Board for approval and publication. The Audit Committee meets prior to the publication of each interim report, in connection with the auditor's review of the internal control over the financial reporting and when otherwise necessary. The aforementioned issues are addressed by the Committee and the Board makes resolutions on the basis of the proposals produced. Orexo's auditor attends the meetings of the Audit Committee before the publishing of the interim reports and to present the outcome of the review of the internal control. Matters addressed in the Audit Committee is reported to the Board on a regular basis and the minutes are distributed to the Board.

During the year, the Audit Committee was convened on 4 (6) occasions. At least one of the members of the Committee must be independent in relation to the company and Executive Management, and also be independent in relation to the company's largest shareholders and have accounting or auditing expertise. The Committee is currently made up of Kristina Schauman (Chairman), Martin Nicklasson and Staffan Lindstrand.

Remuneration Committee
The Remuneration Committee is tasked with addressing matters concerning salaries and other terms of employment, pension benefits and bonus systems, including any allocation of equity instruments under the terms of approved incentive programs for the President and the senior executives and managers, as well as remuneration issues of principle nature. The Committee shall meet as often as required. The above issues are addressed by the Committee and the Board makes resolutions on the basis of the proposals from the Committee. The Committee should possess the requisite knowledge and expertise to deal with issues related to the remuneration of senior executives. The Remuneration Committee comprises Martin Nicklasson (Chairman), Michael Shalmi and Raymond G. Hill. During the year, the Remuneration Committee was convened on 2 (1) occasion and managed other issues with written communication.

Evaluation of the Board's and President´s work
The work of the Board, similar to that of the President, is evaluated annually in a systematic and structured process. The Nomination Committee is informed of the results of the evaluation.

Auditors
Orexo´s auditors is the auditing firm EY, with Authorised Public Accountant Björn Ohlsson as auditor in charge. At the Annual General Meeting 2017 EY was re-elected as auditors until the Annual General Meeting 2018. The external auditors discuss the external audit plan and risk management with the Audit Committee. The auditors perform a review of the interim report for the third quarter, and audit the annual accounts and consolidated financial statements. The auditors also express an opinion on whether this Corporate Governance Report has been prepared in accordance with, and whether certain disclosures herein are consistent with, the annual accounts and consolidated financial statements. The auditors report the results of their audit of the annual accounts and consolidated financial statements, their review of the Corporate Governance Report in the auditor´s report, and a separate opinion on the Corporate Governance Report, in a presentation to the AGM. In addition, the auditors present detailed findings from their reviews to the Audit Committee three times per year, and to the Board in its entirety once per year.

For information regarding fees for the company's auditors, see Note 31.

President and the Management
The President leads the work of the Management Team and makes decision in consultation with them. At the end of 2017 the Management Team consisted of five persons in addition to the President. The Management Team hold regular meetings under the supervision of the President. For a more detailed description of the CEO and the management, see page 83.

Board of Directors' Report on Internal Control and Risk Management regarding Financial Reporting
The aim of Orexo's risk management systems and processes is to ensure that the shareholders can have the utmost confidence in the financial operation and presented reports, including the information given in this Annual Report and all interim reports. Orexo has established a methodology for developing, implementing, driving and evaluating internal controls and risk management in respect of all parts of the company, including financial reporting.

This methodology conforms to internationally established standards in the industry and comprises a framework with five principal components: control environment, risk assessment, control activities, information and communication, and follow-up and evaluation.

Control environment
Pursuant to the Swedish Companies Act, the Board of Directors is responsible for the internal control and governance of the company. To maintain and develop a functional control environment, the Board has implemented a process of risk mapping and established a num-

ber of basic control documents and procedures that are of importance to financial reporting. These include the formal work plan for the Board of Directors and the terms of reference for the President, which are reviewed and approved annually by the Board.

In addition, the control environment is continuously updated and secured by means of continuous monitoring and regular evaluations of risk profiles within various functions.

Responsibility for the daily work of maintaining the control environment is primarily incumbent on the President. He reports regularly to the Board of Directors and the Audit Committee pursuant to established procedures. In addition, the Board also receives regular reports directly from the company's auditor. Company managers have defined authorities, control functions and responsibilities within their respective areas for financial and internal controls.

Risk assessment

Orexo regularly conducts evaluations of financial risks and other risks that may impact financial reporting. These reviews extend to all parts of the company and are carried out to ensure that there is no significant risk of errors occurring in financial reporting. There are several areas where the control of financial information is particularly important, and Orexo has established a risk map that highlights a number of key potential risks in the financial reporting system.

The company continuously monitors and evaluates these areas and regularly examines other areas in order to create a set of control procedures that will minimize the risks and impact in these areas. In addition, new and existing risks are identified, addressed and regulated through a process of discussion in forums such as the the Management Team, The Board of Directors and Audit Committee.

Control activities

In light of the risks identified on the risk map, and the continuous monitoring of the methods used to manage financial information, Orexo has developed control activities that ensure good internal control of all aspects of financial reporting. A number of policy documents and procedures have been applied throughout the year to manage reporting and accounting. Standard procedures, attestation systems, financial guidelines and the risk map are examples of such policy documents.

The finance and and controller functions are responsible for ensuring that financial reporting is correct, complete and timely. Orexo strives to continually improve its internal control systems and has, on occasion, engaged external specialists when validating these controls.

Information and communication

Orexo is a listed company in one of the most regulated markets in the world – healthcare. In addition to the highly exacting requirements that Nasdaq Stockholm and the supervisory authorities impose on the scope and accuracy of information, Orexo also employs internal information and communication control functions designed to ensure that correct financial and other corporate information is communicated to employees and other stakeholders.

The Board receives monthly reports concerning financial performance, commercial performance and the status of Orexo's development projects and other relevant information.

The corporate intranet provides detailed information about applicable procedures in all parts of the company and describes the control functions and how they are implemented.

The security of all information that may affect the market value of the company and mechanisms to ensure that such information is communicated in a correct and timely fashion are the cornerstones of the company's undertaking as a listed company. These two factors, and the procedures for managing them, ensure that financial reports are received by all players in the financial market at the same time, and that they provide an accurate presentation of the company's financial position and performance. These procedures are continuously updated to secure compliance with the EU Market Abuse Regulation (MAR).

Follow-up

Orexo's management conducts bi-weekly performance follow-up, with an analysis of deviations from the budget and plans. Orexo's controller function also conducts monthly controls, evaluations and follow-ups of financial reporting. Because much of the company's product development is carried out in project form, this is followed up on a continuous basis from a financial perspective. Routines and reporting is implemented to secure continuous follow-up on all aspects of the Zubsolv business, e.g. manufacturing, sales performance, wholesaler orders, sales force performance, inventory levels etc. The Board of Directors and the Audit Committee review the Annual Report and interim reports prior to publication. The Audit Committee discusses special accounting policies, internal control framework, risks and other issues associated with the reports. The company's external auditor also participates in these discussions.

Internal audit

Orexo has no separate internal audit function. The Board annually evaluates the need for such a function and, considering the size and structure of the company, has found no basis for establishing a separate internal audit function. The Board of Directors monitors the internal control over financial reporting through regular follow-ups by the Audit Committee and the Board.

Further information about Orexo's corporate governance

The following information is available at www.orexo.se (in Swedish) and www.orexo.com (in English):

- Articles of Association
- Information about the Swedish Code of Corporate Governance
- Information from General Meetings of previous years
- Information from the Nomination Committee
- Information about remuneration principles for senior executives
- Corporate governance reports from 2009 onwards
- Information for the 2018 Annual General Meeting (convening notice, Nomination Committee proposals, presentation of the work of the Nomination Committee, etc.)

Auditor's Report on the Corporate Governance Statement

To the general meeting of the shareholders of Orexo AB,
corporate identity number 556500-0600.

Engagement and responsibility
It is the Board of Directors who is responsible for the corporate governance statement for the year 2017 on pages 75–80 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit
Our examination has been conducted in accordance with FAR's auditing standard RevU 16 *The auditor's examination of the corporate governance statement*. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinions
A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Uppsala, Sweden, March 20, 2018
Ernst & Young AB

Björn Ohlsson
Authorized Public Accountant

Board of Directors







Martin Nicklasson, Chairman of the Board of Directors (b. 1955)

Board member since 2012
M.Sc. Pharm. PhD and Associate Professor at the Faculty of Pharmacy, Uppsala University.
Other appointments: Chairman of the Board of Zealand Pharma A/S and Kymab Ltd. Board member of Basilea Pharmaceutica Ltd. Member of the Royal Academy of Engineering Sciences (IVA).
Previous appointments: CEO at Swedish Orphan Biovitrum AB 2007–2010. Astra/AstraZeneca 1978–1989 and 1991–2007, e.g. responsible for global drug development and marketing and business development within AstraZeneca Ltd., and CEO of AstraZeneca Sweden AB. CEO of Astra Hässle AB and responsible for R&D within KABI.
Holds 14,300 shares and stock options entitling to 157,300 shares.[1)]

David Colpman (b. 1961)

Board member since 2015.
B.Sc. Pharmacy.
Other appointments: Director of Colpman Consulting Ltd since 2014. Member of the Royal Pharmaceutical Society. Board member of HRA Pharma.
Previous appointments: Former Head of Global Business Development 2012–2014, Senior Vice President of Business Development at Shire plc 1999–2012. Various business development and commercial positions at Glaxo Wellcome, Novo Nordisk and Boots Pharmaceuticals.
Holds 1,580 shares in Orexo.[1)]

Kirsten Detrick (b. 1965)

Board member since April 2016.
MBA.
Other appointments: Managing Director at Takeda Austria GmbH and Takeda Osteuropa Holding GmbH since July, 2016.
Previous appointments: Vice President Global Marketing, Therapeutic Area Commercial Lead – GI at Takeda Pharmaceuticals, Executive Director positions within US as well as Global Marketing and Commercialization at Amgen Inc. 2004–2013, Various marketing and commercial positions at Bristol-Myers Squibb 1991–2004. Former member of the Board of Southern California Biomedical Council and member of Healthcare Businesswomen's Association.
Does not hold any shares in Orexo.

Raymond G. Hill (b. 1945)

Board member since 2008
B. Pharm., Ph.D., D.Sc (Hon) F. Med. Sci.
Other appointments: Visiting Professor at Bristol and Imperial Universities. Member of UK Government Advisory Council on Misuse of Drugs. President Emeritus at the British Pharmacological Society; Member of the Pharmaceutical Sciences Expert Advisory Panel, Royal Pharmaceutical Society. Non-Executive Director of Covagen (sold to J&J Sep 2014), Asceneuron, Addex and Avilex.
Previous appointments: 25 years of experience from pharmaceuticals industry, mostly in basic drug discovery research, initially for Parke Davis, followed by Smith Kline & French and then Merck. Executive Director of Pharmacology at the Neuroscience Research Centre 1990–2002, followed by a position as Executive Director, Licensing and External Research, Europe for Merck until 2008.
Holds stock options entitling to 4,118 shares.[1)]

Staffan Lindstrand (b. 1962)

Board member since 2002.
M.Sc. in Engineering.
Other appointments: Partner of HealthCap since 1997, Board member of HealthCap AB, PulmonX Inc., Doctrin AB and The Swedish Association of Exchange-listed Companies.
Previous appointments: Ten years in investment banking.
Holds 981 shares.[1)]

Kristina Schauman (b. 1965)

Board member since 2012.
B.Sc. Business and Economics.
Other appointments: Board member and Chairman of the Audit Committee of Apoteket AB, ÅF AB, BillerudKorsnäs AB, Coor Service Management AB and Ellos Group Holding AB. Board member of Livförsäkringsbolaget Skandia and BEWi Group AB.
Previous appointments: CFO at OMX, Carnegie, Apoteket AB, CEO at Apoteket AB and Group Treasurer at Investor AB.
Holds 20,000 shares (and 4,000 by legal entity).[1)]

Michael Shalmi (b. 1965)

Board member since 2010.
M.D., MBA.
Other appointments: Managing Director and Head of Large Investments, Novo Holdings A/S.
Previous appointments: 15 years at Novo Nordisk; V.P. International Marketing, Corporate VP Haemostasis and Chief Medical Officer BioPharm, V.P. of Haematology Business Unit, V.P. BioPharm Business Unit, and Corporate V.P. Global Development, Clinical Operations Management at Novo Nordisk HQ.
Does not hold any shares in Orexo.

[1)] As per December 31, 2017

Management






Nikolaj Sørensen (b. 1972)

Chief Executive Officer since February 2013, employed since 2011.
B.Sc., and M.Sc., Copenhagen Business School, Denmark.
Previous appointments: Several senior management positions both international and in Sweden at Pfizer Inc and the Boston Consulting Group (BCG).
Holds 33,000 shares and stock options/share awards entitling to 411,494 shares.[1)]

Robert A. DeLuca (b. 1961)

President of Orexo US Inc. since 2013.
R. Ph.
Other appointments: Member of the St. John's College of Pharmacy Dean's Advisory Board, American Society of Addiction Medicine, Academy of Managed Care Pharmacy and the American and New Jersey Pharmacists Associations.
Previous appointments: Extensive experience establishing commercial operations in the US with a combined background in market access, marketing, and sales. Has held leadership positions at multinational pharmaceutical companies including Sanofi-Aventis, ScheringPlough, Berlex and Pharmacia, and most recently served as Chief Commercial Officer at Archimedes Pharmaceuticals.
Holds 2,703 shares and stock options/share awards entitling to 247,767 shares.[1)]

Johannes Doll (b. 1981)

EVP and Head of Corporate Development since 2016. Has worked as an advisor to Orexo since 2013. Member of the management team since, 2016.
Master in Management (Dipl. Kaufmann), WHU Otto Beisheim School of Management, Germany.
MBA, McCombs School of Business at the University of Texas, US.
Previous appointments: Extensive experience from the global pharmaceutical industry and the private equity sector working with McKinsey & Company, 2005–2013.
Holds 10,000 shares and stock options/share awards entitling to 27,225 shares.[1)]

Henrik Juuel (b. 1965)

EVP and Chief Financial Officer since 2013.
M.Sc., University of Aarhus, Denmark and University of Leuven, Belgium.
Previous appointments: Extensive relevant experience from senior international management positions within the life science industry, including senior finance positions for Novo Nordisk and positions as CFO for NNE Pharmaplan and GN Resound.
Holds 25,000 shares and stock options/share awards entitling to 170,382 shares.[1)]

Jesper Lind (b. 1960)

Chief Operating Officer since November 2013.
M.Sc., Royal Institute of Technology Stockholm, Sweden and Sydney University, Sydney, Australia.
Previous appointments: Extensive senior management position experience in global pharmaceutical manufacturing and supply chain from AstraZeneca, Astra and Pharmacia Biosensor.
Holds 2,000 shares and stock options/share awards entitling to 79,692 shares.[1)]

Michael Sumner (b. 1965)

Chief Medical Officer since 2013.
MB BS, MRCP (UK), MBA.
Other appointments: Scientific Advisory Board FirstString Research Inc.
Previous appointments: Extensive experience within the pharmaceutical industry from Novartis Pharmaceuticals, Aventis Behring, Novo Nordisk and prior to joining Orexo held the position of Vice President Clinical and Medical Affairs at Shire.
Holds 2,300 shares and stock options/share awards entitling to 92,268 shares.[1)]

[1)] As per December 31, 2017

Glossary

Alfentanil
A potent synthetic opioid analgesic drug, used for anesthesia in surgery.

American Depositary Receipt (ADR)
An instrument that is issued by a depositary bank that represents ownership of a company's underlying shares. ADR programs are created to facilitate US investors to hold shares in non-US companies and trade them in the same way as US securities.

ANDA
An Abbreviated New Drug Application (ANDA) is an application for a US generic drug approval for an existing licensed medication or approved drug.

Anesthesia
Procedure for lowering a patient's consciousness to enable a Medical procedure to proceed without pain for the patient.

Breakthrough pain
A short, intensive period of pain that occurs in addition to chronic levels of long-term pain even though these are treated by regular painkillers.

Buprenorphine
A potent opioid partial agonist first used as a pain-relieving substance, but now most commonly used to help patients withdraw from more addictive opioid drugs such as morphine.

CARA
The Comprehensive Addiction and Recovery Act (CARA) became law in the US in July 2016. CARA authorizes a series of grants aimed at among other things developing treatment programs which further expands buprenorphine prescribing rights to nurse practitioners and physician assistants.

Cash & vouchers segment
One of the three distinct payer segments in the market for treatment of opioid dependence. In this segment, the patient is paying for the prescriptions out of pocket

CHMP
The Committee for Medicinal Products for Human Use.

CLI
Cysteinyl Leukotriene Inhibitor.

Clinical studies/Clinical trials
Studies of the safety and efficacy of a drug in human beings.

Commercial segment
One of the three distinct payer segments in the market for treatment of opioid dependence. The commercial segment is funded by private insurances or employers.

Drug delivery
The process through which a pharmaceutical may be introduced to the patient that enables the active compound to function as intended.

EMA
The European Medicine Agency.

FDA
The US Food and Drug Administration.

Fentanyl
An opioid with a similar effect on human patients as morphine. Used mainly within anesthesia and analgesia.

GMP
Good Manufacturing Practice.

HHS
The US Department of Health and Human Services.

IP
Intellectual Properties.

Naloxone
An opioid inverse agonist used to counter the effects of opioids.

NCE
New Chemical Entity.

Opioids
Collective term for compounds that act via opioid receptors on nerve cells, mainly in the central nervous system.

PBM (Pharmacy Benefit Manager)
Responsible for management of costs associated with prescription pharmaceuticals and recommendations on behalf of insurance companies and employers in the US.

PGE
Prostaglandin (PG) E2 – biologically active mediator derived from arachidonic acid and involved in inflammatory conditions.

Phase I studies
Studies mainly of the safety of a drug. Performed on healthy human volunteers.

Phase II studies
Studies of the safety and efficacy of a drug in appropriate doses. Performed on a limited number of patients.

Phase III studies
Studies of the safety and efficacy of a drug in a clinical setting. Performed on a large number of patients.

Preclinical development/Preclinical studies
Studies of the safety and efficacy of a drug prior to evaluation in humans. Can be performed on animals and in various cell systems.

Public segment
One of three distinct payer segments in the market for treatment of opioid dependence. The public segment covers state and federal funded reimbursement programs i.e. Managed Medicaid, FFS Medicaid, Medicare Part D.

Reimbursement
Contribution from the state or insurance company in order to reduce the price of drugs / treatment for the patient.

REZOLV
The REZOLV (Retrospective Evaluation of Zubsolv® Outcomes – A Longitudinal View) study is a medical record review conducted to examine and characterize the impact of treatment and psychosocial factors on the early outcomes of patients who utilized Zubsolv therapy for opioid dependence. The data was collected from 1,080 patients being treated by 134 physicians across 87 US treatment sites of which 80 were private practices and 7 were institutional sites.

Sublingual
Under the tongue.

UNODC
United Nations of Drugs and Crime.

Zolpidem
A pharmaceutical substance used to treat temporary or short-term insomnia.

www.orexo.com

About Orexo
Orexo develops improved pharmaceuticals based on innovative drug delivery technologies. The focus is primarily on opioid dependence and pain but the aim is to address therapeutic areas where our competence and technologies can create value. The products are commercialized by Orexo in the US or via selected partners worldwide. The main market today is the American market for the treatment of opioid dependence, where Orexo sells the product Zubsolv®. Total net sales for 2017 amounted to SEK 643.7 million and the number of employees was 90.1) Orexo is listed on the Nasdaq Stockholm Mid Cap (ORX) and is available as ADRs on OTCQX (ORXOY) in the US. The head office, where research and development is also performed, is situated in Uppsala, Sweden.

For more information about Orexo please visit, www.orexo.com. You can also follow Orexo on Twitter, @orexoabpubl, LinkedIn and YouTube. For more information about Zubsolv in the US, see the product and market websites www.zubsolv.com and www.rise-us.com.

Production Solberg