

# 2018

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## Annual Report



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# Chairman's message



In 2018, Fagron has shown a strong performance both in terms of turnover growth and results development.

In addition, the organisation took important strategic steps in order to take optimal advantage of the growth opportunities offered by the market for personalised medication. Therefore, significant investments were made in the facilities, qualified people and the organisation.

Healthcare continues to move more towards a patient-oriented system, where Fagron focuses its propositions and innovations. I am confident that Fagron is well-positioned to achieve further growth. In addition, by increasing access to personalised medication for patients, Fagron substantially contributes to the health and well-being of patients.

In 2018, a number of Board and management changes took place. First, the Board of Directors decided to definitively appoint Rafael Padilla as CEO and to co-opt him as Fagron executive director. Mr Padilla has been employed at Fagron since 2002 and has shown that he has great strength and unwavering energy. The Board of Directors is convinced that Mr Padilla, together with the experienced leadership team, is capable of further expanding the company's leading positions.

During the Annual Shareholders' Meeting where the co-option of Rafael Padilla as executive director was endorsed, the appointment of Veerle Deprez as independent non-executive director was also approved by the shareholders.

Unfortunately, the Board of Directors also had to bid farewell to a valued non-executive director in 2018. The Board of Directors was deeply touched by the sudden death of Ms Nathalie Clybouw on 28 May 2018. As non-executive director of Fagron, Ms Clybouw made a significant contribution in the past years to Fagron's development and growth. In accordance with Article 15 of the Fagron Articles of Association, the Board of Directors decided to co-opt Ms Judy Martins as non-executive director of Fagron. The final appointment of Mrs Martins will be submitted to the next general meeting of shareholders of Fagron.

Also in 2018, the broader leadership team was further strengthened with the appointment of Hal Weaver as President of Fagron North America. With his 17 years of experience in the pharmaceutical industry, Mr Weaver has the right experience and skills with which to further expand Fagron's commercial and strategic position in this important growth market. Fagron has demonstrated strong performance in North America over the past year.

Quality is central at Fagron and is embedded at all levels and in all processes in the organisation. Increasing quality requirements and regulations make quality control more complex and critical. With Jason McGuire's appointment as Global Quality Director, this will be guaranteed further.

Investment in innovation has also been made at the global level with the appointment of Savvas Koulouridas as Global Innovations Director.

Innovation is an essential part of Fagron's strategy and contributes to Fagron's distinctive strength. Savvas Koulouridas will not only drive the innovation pipeline, but also focus on further expanding the patent portfolio.

Finally, Baris Arican was appointed Chief Information Officer at the beginning of 2019.

Fagron has further strengthened its position in 2018 through innovation-driven organic growth and the integration of strategic acquisitions. This development, and our confidence in Fagron's future growth, has led us to propose a dividend of 0.12 euros per share to the General Meeting of Shareholders, a 20% increase compared to last year.

I am grateful to all our stakeholders for the confidence afforded us. In particular, I would like to express my gratitude for the effort and commitment from all the employees building a healthy future together.

**Koen Hoffman**

Chairman of the Board of Directors

# CEO's message



Fagron demonstrated strong performance in 2018. Turnover increased 8.8% in 2018 to 471.7 million euros. At constant exchange rates, the increase was 14.5%. REBITDA increased to 99.1 million euros, at constant exchange rates an increase of 8.8%.

We are very satisfied with the developments in the past year. North America showed very strong organic turnover growth, with the second half of the year showing a clear acceleration compared to the first half of the year. We also see clear growth acceleration in Europe in the second half of the year. The decision to temporarily reduce capacity at one of the sterile compounding facilities in the Netherlands has had a negative effect on both turnover growth and profitability. In South America, we were able to further strengthen our leading market position in 2018, driven primarily by strong growth in the Brazilian compounding market, good product availability and the focus on development and introduction of innovative and distinctive Brands.

In 2018, we once again took steps in our buy-and-build strategy. The activities of Kemig and All Chemistry, which were acquired in 2017, have been successfully integrated in the past year. In April 2018, Fagron acquired Humco, a leading player in the United States with a high-quality portfolio of pharmaceutical branded products and widely used patented vehicles. Our leading worldwide market positions enable us to also introduce these products outside of the U.S. The integration of Humco is virtually

complete and will produce clear synergies starting in 2019.

We have also taken important steps in the area of innovation. Fagron Genomics made its start in the last quarter of 2018. Fagron Genomics specialises in the development, production and marketing of innovative genetic tests. The genetic analysis takes place in the state-of-the-art laboratory of Fagron Genomics in Barcelona (Spain). The genetic tests of Fagron Genomics allow the prescriber to prescribe the most suitable personalised therapy to his/her patients. In 2018, Fagron Genomics introduced the TrichoTest™ in Europe and South Africa.

The coming years, we will continue to expand our leading market positions in Europe, North America and South America through organic growth and strategic acquisitions. Our strategic focus directed on innovation and quality provides us with a clear competitive advantage, especially for the increasingly strict quality requirements set in our industry.

In view of our rapid growth, partly through acquisitions, ensuring our corporate identity is critical. We recently reformulated our purpose, "Together we create the future of personalised medicine" and our values. Our renewed corporate identity and brand promise will provide a boost to our positioning.

I am very grateful to our employees for their contribution to Fagron's development. Their limitless effort, innovative strength and expertise are essential in delivering on our promise

to improve personalised pharmaceutical care and to make it accessible worldwide.

Given the positive developments and opportunities in the market for personalised medicine, we are convinced that our strategic focus provides us a strong position to achieve significant value in 2019.

**Rafael Padilla**  
Chief Executive Officer

Fagron is a leading global company active in personalised medicine.



### TURNOVER

(x million euros)

471.7

### REBITDA

(x million euros)

99.1

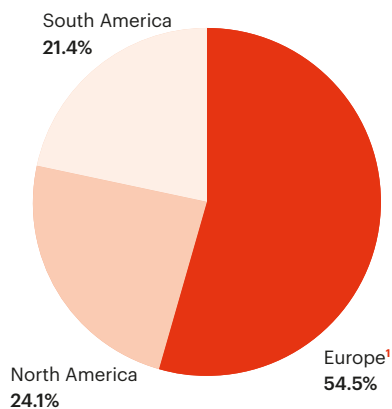
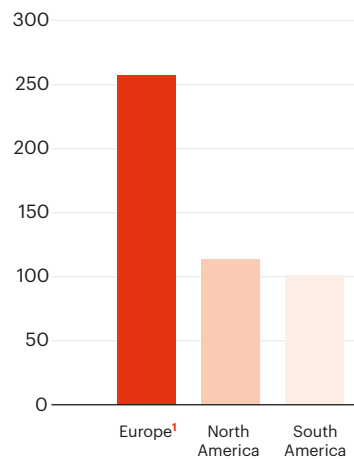
### EBIT

(x million euros)

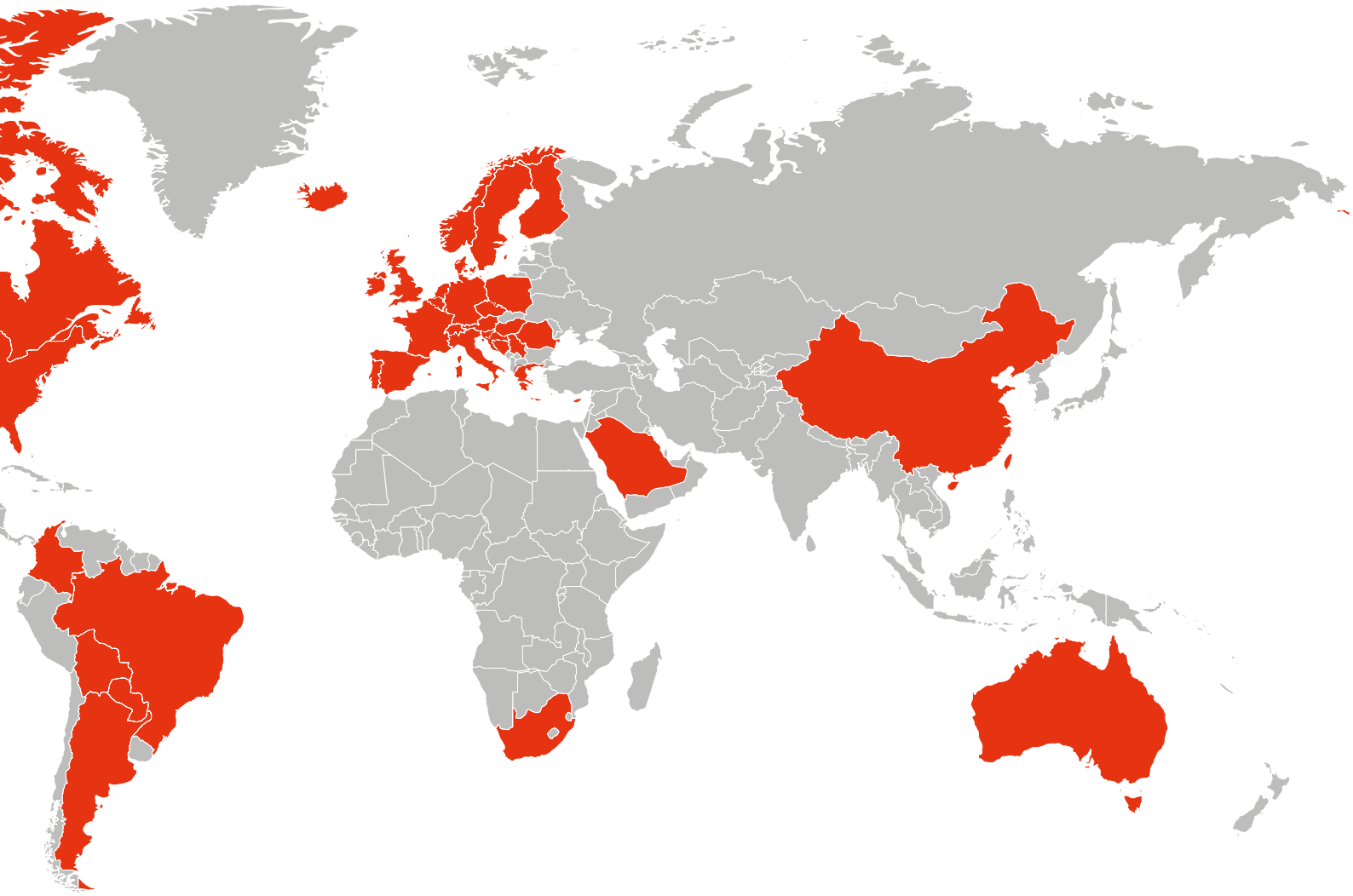
73.5

### Turnover 2018

(x million euros)



<sup>1</sup> Including HL Technology and Rest of the World.



**NET PROFIT**  
(x million euros)

42.9

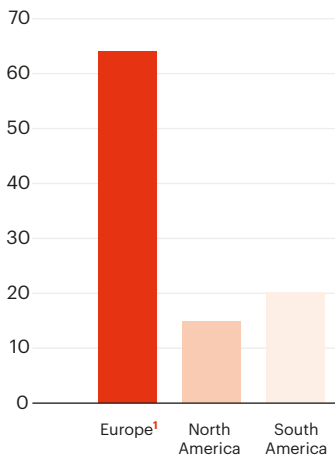
**RECURRENT NET PROFIT**  
(x million euros)

49.5

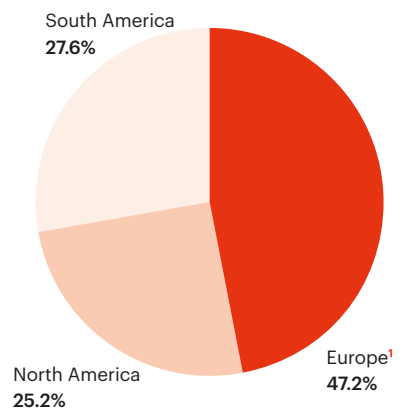
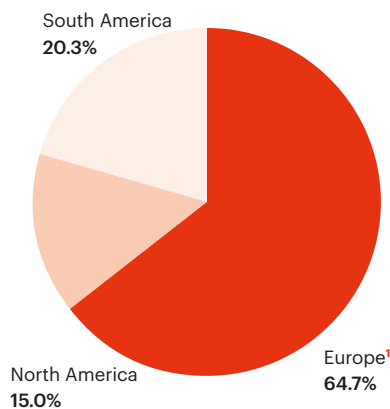
**NUMBER OF EMPLOYEES**  
(FTE at year-end 2018)

2,360

**REBITDA 2018**  
(x million euros)



**Number of FTE**  
(end of year 2018)

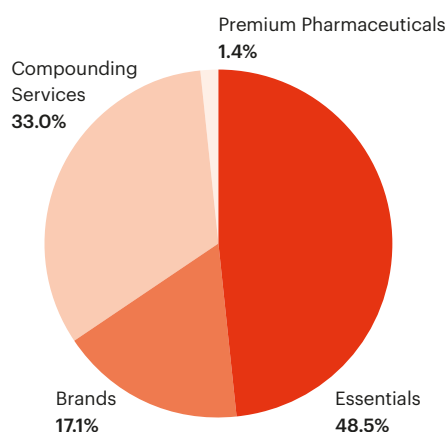


<sup>1</sup> Including HL Technology and Rest of the World.

# Who we are and what we do

Fagron is a leading global company active in pharmaceutical compounding. Fagron focuses on delivering personalised medicine to hospitals, pharmacies, clinics and patients in the core markets of Europe, North America and South America.

## Turnover 2018<sup>1</sup>



<sup>1</sup> Excluding HL Technology.

Africa, which supply personalised medication to pharmacies, hospitals and clinics, as well as directly to patients in South Africa and Colombia.

### Prescribers

In close cooperation with pharmacists, prescribers and universities, Fagron develops new and innovative vehicles and (total) concepts in order to meet the growing demand for personalised medication. Fagron itself develops innovative administration vehicles such as emulsions, powder mixtures and creams. In addition to supplying vehicles, Fagron also provides customers with added value in the form of formulations and compounding protocols.

### Essentials

Essentials are conditioned (repackaged) pharmaceutical raw materials, necessities and equipment that pharmacists worldwide need in order to compound medication. Essentials are sold to pharmacies, hospitals and the pharmaceutical industry. Compounding Services uses Essentials and Brands for its compounding activities.

Fagron's activities are subdivided into the geographical segments of Fagron Europe, Fagron South America and Fagron North America.

## Profile

Fagron is worldwide market leader and its products are sold to more than 200,000 customers in over 60 countries.

Fagron's purpose is: "Together we create the future of personalised medicine". Fagron strives to improve, together with prescribers, pharmacists and customers, personalised medicine by leveraging the company's innovative strength.

Fagron is a vertically integrated player that covers the entire value chain of pharmaceutical compounding. The company delivers Premium Pharmaceuticals, Compounding Services, Brands and Essentials to its customers.

### Premium Pharmaceuticals

In 2017, Fagron made the strategic decision to register a limited number of non-sterile compounds that are delivered to pharmacies in the Netherlands. A registered medicine is a medicine that has been assessed by the College ter Beoordeling van Geneesmiddelen (CBG) and receives a Dutch registration. The turnover that is realised with the sale of registered medicines is reported under Premium Pharmaceuticals.

### Compounding Services

Compounding Services prepares ready-to-use and ready-to-administer personalised medication that meets the specific needs of patients. Fagron has sterile and non-sterile compounding facilities in Europe, the United States, Colombia and South



## Strategy

Personalised medication is a growing market, driven by various trends. Through progressive technology and data analysis, healthcare is shifting towards an increasingly patient-oriented system. By personalising medication, a drug is made suitable for a patient (group) by adjusting, for example, the dosage, administration form or formulation. As a result, demand arises for medicines that must be prepared in small(er) batches, for which (generic) large pharmaceutical companies are not set up, and complexity increases.

In addition, care for (clinical) disorders is increasingly provided outside of the hospital. This increases patients' quality of life and at the same time, reduces the costs of healthcare in general, but also sets requirements on the form in which medication must be made available.

Increasing (quality) requirements and regulations regarding pharmaceutical compounding also require high investments, for which (hospital) pharmacies (often) have insufficient scale.

As partner to prescribers, hospitals and pharmacists, Fagron responds to these developments by making personalised medication accessible for patients through its state-of-the-art facilities that are optimally organised for that purpose. Through international expansion, combined with continuous investments in innovation, quality and efficiency, Fagron has the scale and business model in order to further strengthen its unique position in the value chain.

### Purpose

Fagron's purpose is: "Together we create the future of personalised medicine". Fagron strives to improve, together with prescribers, pharmacists and customers, personalised medication by leveraging the company's innovative strength. As a pharmaceutical company, Fagron has a unique position in the entire value chain of pharmaceutical compounding. Fagron increases the access to personalised care for patients and with

that, has a significant impact on the health and welfare of people.

### Values

The company values are central in the execution of the strategy. The core values are putting the customer first, speed of execution, entrepreneurship, creativity and quality.

### Executive Strategy

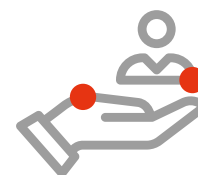
Fagron wants to strengthen its leading position in the market for personalised medication by realising sustainable, innovation-driven and profitable growth. The strategic focus on innovation of products and concepts (and their protection), the organising of Fagron Academies for prescribers and pharmacists and the response to trends are the foundation for Fagron's further growth. Fagron conducts an active buy-and-build strategy.

### Innovation

Innovation is the driving force behind Fagron's growth and is essential in Fagron's strategy to meet the worldwide growing demand for personalised medication. By continuously focusing on the development of innovative products and concepts with added value in existing and new indication areas, Fagron stands out from its competitors. The innovations developed by Fagron are protected as well as possible through the use of, among other things, international patents and trademark registrations. Fagron currently has more than 20 patents in its patent portfolio.

### Product Development

As a leading player, we want to drive and take the responsibility to further shape the world of personalised medication and allow it to grow. In addition to responding to new needs with product development, this also means anticipating new laws and regulations, which is essential in order to strengthen the leadership position.



### The customer is number 1

We listen to our customers and use this information to keep improving our products and services. We are committed to meeting the demand of our customers and are always focused on customer satisfaction.



### Quality

Quality lies at the heart of everything we do and is our most important benchmark. We strive to excel, nothing less will do. Top quality includes continuously improving our standards and processes. Quality is rooted in our work and our values.



### Creativity

Creativity is the key to improving healthcare and achieving sustainable growth and profitability. We are always looking for new solutions to satisfy the growing demand for personalised medication.



### **Speed of execution**

We take decisions and initiate immediate action. We act with urgency, work smart and have the courage to change our course if necessary.



### **Entrepreneurship**

We are always one step ahead. We take responsibility, have an entrepreneurial spirit, challenge our competitors and inspire others. We take the initiative to develop innovative solutions and explore new markets.

### **Fagron Academy**

An integral part of Fagron's strategy is to provide information to prescribers and pharmacists about pharmaceutical compounding by organising Academies in the countries in which we operate. Fagron Academy organises courses and training programs to increase and improve prescribers' and pharmacists' knowledge and skills in relation to compounding. Fagron believes that it offers the most extensive training and educational opportunities for, among other things, compounding techniques, the use of materials, administration forms and quality and safety procedures.

### **Buy-and-Build**

In addition to strong innovation-driven organic growth, Fagron wants to grow with targeted acquisitions in the core markets of Europe, North America and South America. Fagron's business model is scalable. This allows for commercial and operational benefits to be gained as soon as a takeover is integrated. Moreover, cross-selling offers the possibility to introduce innovative products and concepts in new markets.

## **2018 Progress**

### **Strategic acquisitions**

Fagron acquired the American company Humco at the beginning of April 2018. Humco is a leading developer, manufacturer and supplier of patented vehicles (administration forms) and pharmaceutical branded products to more than 45,000 pharmacies in the United States (US). The high-quality portfolio of pharmaceutical branded products and widely used patented vehicles, which are supplied to a broad customer base of pharmacy chains and wholesalers in the US, are an important addition to Fagron's extensive range of pharmaceutical raw materials. As a result, a highly competitive company with significant scale has been created that significantly strengthens Fagron's market position in the US. Fagron's leading market positions in Europe and South America also offer cross-selling opportunities. Humco's innovative pharmaceutical branded products and

vehicles will be introduced outside of the US. The integration of Humco began in 2018 and is running according to schedule.

### **Quality Requirements**

Fagron continually anticipates trends, including the increasingly strict quality requirements. For example, Fagron invested substantially in facilities, people and the organisation in 2018 in order to meet these requirements and to further enhance its distinguishing position compared to its competitors.

### **Product Development**

Fagron makes a significant effort in new product development. Fagron Genomics made its start in the last quarter of 2018. Fagron Genomics specialises in the development, production and marketing of innovative genetic tests. The genetic analysis takes place, with algorithm-based software developed by Fagron, in Fagron Genomics' state-of-the-art laboratory in Barcelona (Spain). The genetic tests of Fagron Genomics allow the prescriber to prescribe the most suitable personalised therapy to his/her patients.

With FagronLab, with its R&D and analytical services for personalised medications, and Fagron Tech, software and digital technology solutions for personalised medications, Fagron leads in the developments in personalised medication.

### **Rebranding**

A rebranding process was started for Fagron in 2018. The new brand identity was launched at the beginning of 2019. The aforementioned core values played an important role in the rebranding and form the basis of Fagron's brand promise. The new brand identity consists of a powerful logo, a new brand architecture and a brand line. The entirety is one distinctive global brand and supports Fagron's strategic vision to create the future of personalised medicine.

## Focus in 2019

We will continue to expand our leading market positions in Europe, North America and South America in 2019 through organic growth and strategic acquisitions.

Given the positive developments and opportunities in the personalised medication market, we are convinced that our strategic focus provides us a strong position to achieve significant value in 2019.



## Why personalised medication?

There are several reasons why patients might need compounded, personalised medication, including:

- Dose adjustment. Children and the elderly require a smaller dose of most medicines than the average adult. Smaller doses are often not generally available and must therefore be specially prepared. In addition, oncology patients also receive a personalised dose based on their height and weight in order to provide the optimal balance between toxicity and effectiveness.
- Need for a different means of administering. A large share of the population has difficulty swallowing tablets and capsules, including children under six, oncology patients and hospitalised patients receiving tube feeding.
- The medication is simply not available or no longer available on the market. This occurs when there are too few patients for it to be commercially attractive to large pharmaceutical companies to register a medication, or to continue to produce it.
- Instability. The medication is chemically and/or physically unstable in its final form.
- Home care. Compounded products can help terminally ill patients or patients with an infection who must be treated intravenously at home (instead of in the hospital) for a longer period of time. 'Hospital in the Home' is an example of clinical care focused on reducing or entirely preventing the need for hospital admission. There are a number of clinical disorders that can be treated effectively and safely without hospital visits or admission. This not only improves the patient's quality of life, but also lowers healthcare costs in general.
- Personalised and fewer side effects. The one-size-fits-all character of many mass-produced medications means that some patients' needs are not met. Pharmaceutical compounding allows pharmacists to work together with the patient and prescriber to create a medication that satisfies the specific needs of the patient and takes into account allergies and other intolerances. Also, these patients often encounter fewer side effects with personalised compounded products than with generic medication.
- New or unavailable treatment is needed. If the patient does not respond to an available treatment, while there is a medication available in a different territorial jurisdiction or a medication is described in the literature, in many cases a pharmacist can prepare this medication for the patient.



Pharmaline manufacturing process – Netherlands.

## What is pharmaceutical compounding?

Pharmaceutical compounding involves the creation of unlicensed (unregistered or not patent-protected) pharmaceutical preparations by or upon request of pharmacies, hospitals or other healthcare institutions, with the purpose of creating a customised or personalised medicine (that is not commercially available) based on a doctor's prescription. Pharmaceutical compounding can be non-sterile as well as sterile.

Although a pharmaceutical compound is a personalised medicine, pharmaceutical compounding companies like Fagron can prepare medications on a large scale, for example to provide inventory to hospital pharmacies of the most commonly prescribed personalised medicines. Even for these types of common medicines, the batch is generally too small to make such compounds a lucrative market for traditional pharmaceutical

companies (including manufacturers of generic medications).

Pharmaceutical compounding offers prescribers the opportunity to offer patients a personalised treatment. Preparing a drug allows a prescriber to prescribe other means of administering and other dosages that are appropriate to the specific needs of a patient. Many patients are unable to use the commercially available administration forms of existing medications, for example, due to problems with swallowing or side effects. In addition, an alternative form of dosage, such as a topical form of dosage, can reduce side effects and the potential for addiction and deliver the medication directly to the location of the condition, for example when treating pain.

### **Non-sterile compounds**

Non-sterile pharmaceutical compounds include tablets,

capsules, liquids, suppositories, creams/ointments and suspensions. These options are usually prepared using APIs (Active Pharmaceutical Ingredients) in powder form. For example, existing commercial medications can also be included in ointments, creams or suspensions, such as grinding and mixing of tablets in an ointment base.

### **Sterile compounds**

Sterile compounds are usually medications that are injected or infused and which entail a higher risk of infection and other negative side effects. Sterilisation, the active validated process to kill microorganisms, is the most critical step in preparing sterile products. Examples of sterile pharmaceutical compounds are injections packaged in syringes, vials, ampoules and IV bags.

# Key figures

Results (x 1,000 euros)	2017 <sup>1</sup>		2015 <sup>2</sup>		2014 <sup>3</sup>		
	2018	revised	2017	2016	revised	2015	2014
Turnover	471,679	433,529	436,934	421,839	427,560	472,996	447,056
REBITDA <sup>4</sup>	99,059	95,727	95,727	90,597	98,733	106,546	118,450
EBITDA	93,047	92,157	92,157	87,364	92,294	98,845	113,361
Impairment	0	0	0	-48,364	-47,338	-225,564	0
EBIT	73,472	74,607	74,607	17,881	28,845	-150,338	94,336
Net profit (loss) <sup>11</sup>	43,282	47,047	47,047	-18,112	-24,948	-202,283	43,190
Recurrent net profit <sup>5</sup>	49,491	49,060	49,060	29,603	44,249	44,249	46,688
Gross margin	61.6%	61.5%	61.8%	62.9%	63.1%	65.4%	64.5%
REBITDA margin	21.0%	22.1%	21.9%	21.5%	23.1%	22.5%	26.5%
EBITDA margin	19.7%	21.3%	21.1%	20.7%	21.6%	20.9%	25.4%

## Balance sheet

(x 1,000 euros)	2018	2017	2016	2015	2014
Total assets	682,772	594,047	868,053	689,381	973,752
Equity	209,716	184,881	152,875	-64,772	156,948
Operational working capital <sup>6</sup>	49,029	36,135	39,770	38,298	44,078
Net operational capex <sup>7</sup>	15,694	10,032	14,777	22,052	12,492
Net financial debt <sup>8</sup>	252,294	236,197	285,408	523,846	448,663
Net financial debt / annualised REBITDA	2.63	2.48	3.18	-	3.18
Average number of shares	71,740,277	71,740,277	53,956,847	31,303,765	30,758,685

## Cash flow

(x 1,000 euros)	2018	2017	2016	2015 <sup>9</sup>	2014
				revised	
Cash flow from operating activities	73,278	84,247	67,504	73,311	101,696
Cash flow from investing activities	-54,611	-11,741	-22,932	-46,276	-193,785
Cash flow from financing activities	1,789	-304,391	171,438	-61,460	64,990
Net cash flow for the period	20,456	-231,885	216,010	-34,426	-27,099

## Data per share

(euros)	2018	2017	2016	2015 <sup>10</sup>	2014
				revised	
Net profit <sup>11</sup>	0.60	0.65	-0.38	-6.46	1.41
Recurrent net profit	0.69	0.68	0.55	1.41	1.52
Dividends	0.12	0.10	0.00	0.00	1.00
Closing price (year-end)	14.28	11.42	9.71	7.06	34.72
Market capitalisation <sup>12</sup>	1,025,930,949	820,098,164	697,819,840	226,709,499	1,091,296,819

Personnel	2018	2017	2016	2015 <sup>13</sup>	2014
				revised	
FTEs as at 31 December <sup>14</sup>	2,360	2,054	1,991	2,017	2,143

<sup>1</sup> The consolidated income statement over 2017 has been revised for the application of IFRS 15.

<sup>2</sup> 2015 results are on the basis of continued operations. The consolidated income statement has been revised for the application of IFRS 5.

<sup>3</sup> 2014 results are on the basis of continued operations.

<sup>4</sup> In 2014 through 2018, REBITDA refers to EBITDA after corporate costs and before non-recurrent result.

<sup>5</sup> Recurrent net profit is defined as net profit before non-recurring items and the revaluation of financial derivatives, corrected for taxes.

<sup>6</sup> Operational working capital is the sum of stock and trade receivables, less trade payables.

<sup>7</sup> Net operational capex is defined as intangible fixed assets and property, plant and equipment that have been acquired or produced (excluding acquisitions), less assets sold.

<sup>8</sup> Net financial debt is the sum of long-term and short-term financial liabilities, less cash (excluding financial instruments) and cash equivalents.

<sup>9</sup> The 2015 cash flows have been revised for application of IFRS 5.

<sup>10</sup> The 2015 data per share has been revised for application of IFRS 5.

<sup>11</sup> Net profit is on the basis of continued operations.

<sup>12</sup> Market capitalisation is calculated by multiplying the number of shares outstanding at year-end by the closing price of the share on 31 December.

<sup>13</sup> The 2015 FTEs have been revised for the application of IFRS 5.

<sup>14</sup> FTEs are on the basis of continued operations.



Repackaging of pharmaceutical raw materials at Fagron Hellas – Greece.

# Fagron Europe

# Fagron Europe

The Europe segment covers the activities in Europe, South Africa and Australia. Since the foundation of the company in 1990, Fagron has been active in Europe.

## Financial

- Organic turnover growth of 2.7% in 2018, acceleration of turnover growth in the second half of the year (+3.5%)
- Negative impact of 4.0 million euros on turnover due to the temporary capacity reduction of a compounding facility in the Netherlands
- REBITDA margin decreased by 50 basis points to 25.3%

## Strategic and operational

- Successful integration of Kemig (Croatia)
- Launch of Fagron Genomics in Barcelona
- Brands grow to 11% of total turnover (2017: 8%)
- Investments in sterile compounding facility in the Netherlands in order to further improve quality and processes
- FSBA facility in the Netherlands received GMP status

## REBITDA

(x 1,000 euros)	2018	2017	Δ
Turnover	250,086	245,769	+1.8%
REBITDA <sup>1</sup>	63,313	63,301	0.0%
REBITDA margin	25.3%	25.8%	

<sup>1</sup> EBITDA before non-recurrent result.

## Profile

The company is active with the sale of Essentials and Brands in the entire European segment. Fagron also offers Compounding Services to its customers in the Netherlands, Belgium, the Czech Republic and South Africa. In 2018, the Europe segment generated turnover of 250.1 million euros (53% of the group turnover).

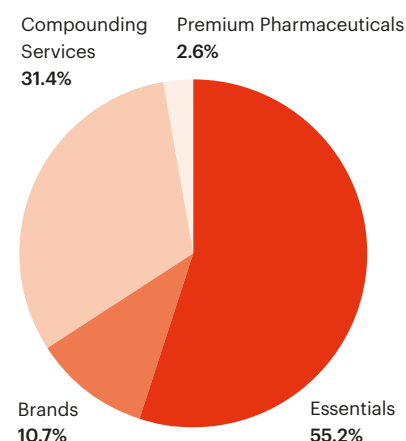
Fagron has branches in Europe in the Netherlands (9), Belgium (2), Denmark (1), Germany (1), France (1), Greece (1), Italy (1), Croatia (1), Poland (2), Spain (1),

Czech Republic (2) and the United Kingdom (1). The Fagron shared service centre is based in Rotterdam (the Netherlands).

## Financial

The Europe segment turnover increased by 1.8% in 2018 (+1.7% at constant exchange rates) to 250.1 million euros. Adjusted for the acquisition of Kemig (Croatia) in August 2017 and the divestment of the compounding facility in Paris (France) in June 2017, the organic turnover

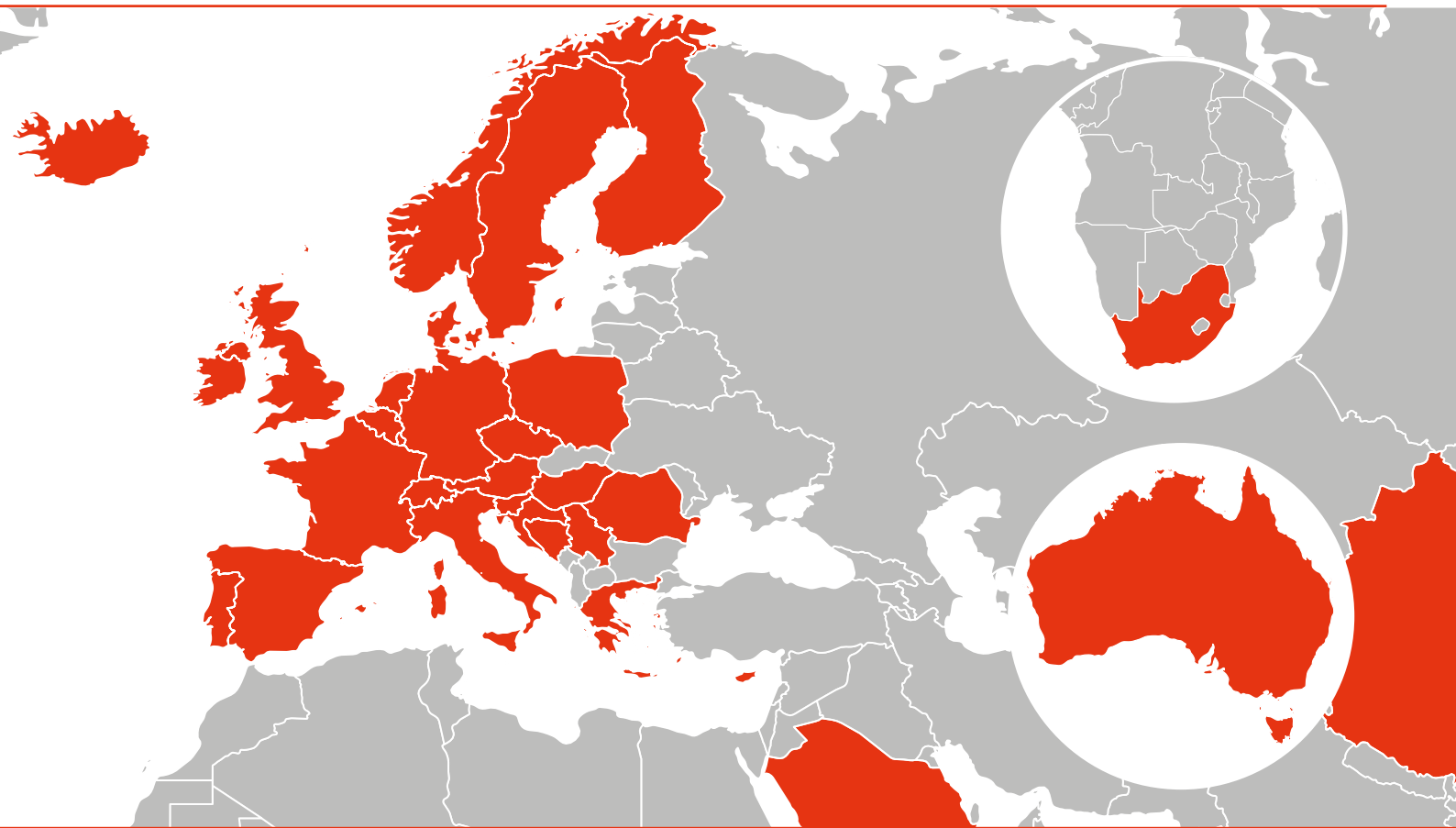
## Turnover 2018



growth was 2.7% (+2.7% at constant exchange rates). In the second half of 2018, organic turnover growth at constant exchange rates was 3.5%, compared to 1.9% in the first half of 2018. The REBITDA amounted to 63.3 million euros. REBITDA as a percentage of turnover decreased by 50 basis points to 25.3%.

The focus on Brands has led to strong turnover growth in this segment in 2018. Almost 11% of the European turnover in 2018 was realised with Brands, compared to 8.4% in 2017. Essentials showed healthy organic growth in 2018. The turnover decline in Compounding Services is the result of the temporary reduction in capacity at the compounding facility in the Netherlands and the divestment in France.





## Strategic and operational

### Compounding Services

The organic turnover growth and profitability of the Europe segment in 2018 was held back by the decision to temporarily reduce the capacity at one of the sterile compounding facilities in the Netherlands. The negative impact on the turnover in 2018 was 4.0 million euros. This project, which was started

in April 2018, aims to further increase the quality of the facility as well as the processes. With these investments, Fagron responds effectively to the increasingly stricter quality requirements that inspections set for the compounding of personalised medication; a development that is an increasingly larger threshold (to entry) for many market parties, but also hospitals. The compounding facility is

expected to be fully operational again in the course of the second half of 2019.

### GMP status for Hoogeveen compounding facility

The sterile compounding facility that opened in 2017 in Hoogeveen (Netherlands) obtained GMP (Good Manufacturing Practice) status from the Dutch inspection in 2018.

Brands:



## Brands & Essentials

The strategic focus at the end of 2017 on the development and introduction of distinctive innovative products has been clearly successful in Europe. This fact is reflected in the strong turnover growth of Brands in Europe.

In the first quarter of 2018, the turnover growth in Europe was still affected by the limited product availability of pharmaceutical raw materials (Essentials) that arose in 2017. This created backlogs in the delivery of raw materials to customers. A structural solution was found by increasing the capacity for analysing raw materials and at the same time, reducing the dependency on external parties. There has been no further impact on turnover development in 2018 starting from the second quarter of 2018.

### Successful integration of Kemig in Croatia

The integration of Kemig, a leading supplier of pharmaceutical raw materials and packaging materials to pharmacies and wholesalers in Croatia and Bosnia and Herzegovina, acquired in August 2017, was successfully completed on time. The economies of scale in purchasing, analysis and repackaging of raw materials will be fully utilised starting in the fourth quarter of 2018. The Kemig assortment was expanded in 2018 with Fagron products.

### Fagron Genomics

Fagron Genomics started in Barcelona (Spain) in the last quarter of 2018. Fagron Genomics specialises in the development, production and marketing of innovative genetic tests. The genetic analysis takes place in the state-of-the-art laboratory of Fagron Genomics in Barcelona. This analysis is done with algorithm-based software developed by Fagron. The genetic tests, through which genetic variations can be identified, allow the prescriber to prescribe the most suitable and effective personalised therapy to his/her patients. In 2019, Fagron Genomics will launch, among other things, a genetic test that allows anaesthesiologists to administer the optimal medication to patients.

## Product introductions

Several local and worldwide innovative product introductions occurred again in 2018, including the introduction of glass syringes and mini-tablets on the Dutch market. In Italy, the product EcciVar® was introduced. EcciVar® was also included in the veterinary product line of administration vehicles developed by Fagron that will be introduced worldwide in 2019.

The sterile compounding facility opened in 2017 in Hoogeveen (Netherlands) specialises in the compounding of long shelf-life, pre-filled (sterile) glass syringes for the hospital market. These syringes have unique features, including colour coding, Tall Man lettering and 2D coding to register the administration, which contribute to optimal medical safety. In 2018, among others, syringes with Metoclopramide (for treating vomiting and nausea), Morphine (pain reliever) and Dexamethasone (anti-inflammatory) were developed and marketed. In this way, ready-to-use sterile injections are manufactured, which contribute positively to patient safety.

Tablets are the easiest way to take medication. However, children and older people often have swallowing problems. For these types of situations, an oral administration form is often used. However, the taste can be an aversion. In 2018, Fagron started compounding mini-tablets for standard doses and unpleasant tasting medicines. This offers a solution for children and older people with swallowing problems or for unpleasant tasting medicines.

In 2018, Fagron developed a complete range of oral and transdermal administration vehicles for the veterinary compounding market. One of the products is EcciVar®, developed in Italy. EcciVar® is a powder product that forms the basis for the compounding of a veterinary administration form. The powder is mixed with a drug and packaged in capsules. After adding water to the mixture, an extremely suitable administration vehicle for animals is obtained.

## European market for personalised medicine

In 2017, the size of the European pharmaceutical market was 164 billion euros (source: European Federation of Pharmaceutical Industries and Associations, The Pharmaceutical Industry in Figures, 2017). Fagron estimates that approximately 1.5% – 2% of all prescriptions in Europe involved pharmaceutical compounds. This means that the European market for sterile and non-sterile pharmaceutical compounds was worth approximately 2.7 billion euros in 2017 (including pharmaceutical compounding in hospital pharmacies and public pharmacies). This is the available market for Compounding Services in Europe. Furthermore, the Group estimates (based on the

cost of goods sold in the Group's compounding facilities) that in 2018, approximately 10% of this market, or approximately 270 million euros, regards the costs of pharmaceutical raw materials and administration vehicles, the available market of Brands and Essentials.

Based on these estimates, Fagron believes that it has a market share in 2018 of approximately 45% in Europe with Brands and Essentials. Most of the Compounding Services activities take place in the Netherlands. Fagron believes that it has a market share of approximately 50% in Compounding Services in the Netherlands.



Production of long shelf-life sterile glass syringes at FSBA – Netherlands.



Fagron  
**neogen™**

**NeoWash™**  
Shampoo

Shampoo with patented TrichoTech™  
technology based on plant extracts,  
100% natural

200 ml e

Fagron  
**neogen™**

**NeoCond™**  
Conditioner

Conditioner with patented TrichoTech™  
technology, based on plant extracts,  
100% natural

200 ml e

Fagron  
**neogen™**

**NeoOil™**  
Oil

Hair oil with a patented TrichoTech™  
technology, based on plant extracts,  
100% natural

4x5 ml e

Fagron

South America

# Fagron South America

The South America segment includes the activities in Brazil (Essentials and Brands), where Fagron is market leader, and Colombia (Compounding Services). In 2018, the South America segment generated turnover of 100.9 million euros (21% of the group turnover).

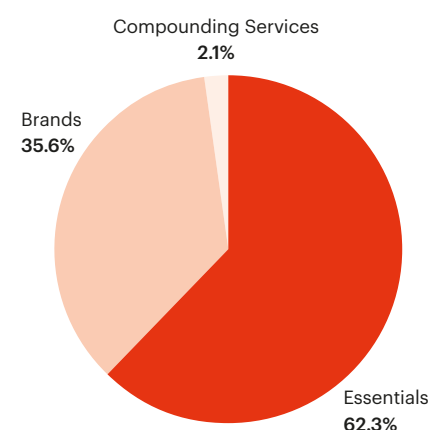
## Financial

- Organic turnover growth of 12.7% (at constant exchange rates)
- The weakening of the Brazilian real had a negative impact on the reported turnover (in euros)
- REBITDA margin decreases slightly to 19.9%

## Strategic and operational

- All Chemistry successfully integrated and continues under the name Organic Compounding
- Strong focus on Brands yields positive results; Brands grows to almost 36% of turnover

## Turnover 2018



## REBITDA

(x 1,000 euros)	2018	2017	Δ
Turnover	100,930	103,190	-2.2%
REBITDA <sup>1</sup>	20,107	20,815	-3.4%
REBITDA margin	19.9%	20.2%	

<sup>1</sup> EBITDA before non-recurrent result.

## Financial

The South America segment turnover increased in 2018 by 16.6% at constant exchange rates. The organic turnover growth, excluding All Chemistry (now: Organic Compounding) which was acquired in October 2017, was 12.7% at constant exchange rates. This turnover growth was driven primarily by Fagron's ability to leverage the strong, Fagron-driven growth of the compounding market in Brazil. In addition, good product availability and the focus on developing and introducing innovative and distinctive Brands also contributed to the turnover growth. However, the weakening of the Brazilian real had a negative impact on the reported turnover (in euros). Turnover decreased by 2.2% to 100.9 million euros.

## Profile

Fagron has been active in South America since 2010. Fagron is active in Brazil with the brands Fagron (São Paulo), Infinity Pharma (Campinas), Florien (Piracicaba City), Via Farma (São Paulo) and Organic Compounding (São Paulo). The repackaging of pharmaceutical raw materials takes place in the GMP sterile compounding facilities of Fagron Services in Anápolis (Brazil). Fagron Technologies,

developer of digital solutions and other innovative tools for compounding pharmacies and prescribers, is situated in Jundiai (Brazil). Fagron's compounding facilities in Colombia are located in Bogota and Medellin. Fagron South America's shared service centre is situated in São Paulo (Brazil).



The turnover growth of the Compounding Services activities in Colombia was 14.4% (at constant exchange rates) in 2018.

The REBITDA decreased by 3.4% to 20.1 million euros. The REBITDA as a percentage of the turnover decreased by 30 basis points to 19.9%.

## Strategic and Operational

### Brands & Essentials

The average available income is increasing in Brazil, which is associated with an increasing life expectancy and the rise of lifestyle-related disorders, providing growth in the segments in which Fagron South America operates. In 2018, Fagron benefited from the growing compounding market and

further strengthened its market leadership by developing innovative products and concepts for new indication areas and thereby increasing the compounding market. The strong focus on the development and introduction of innovative and distinctive Brands has yielded positive results. Almost 36% of the turnover in 2018 in South America was realised from Brands.

During the Consulfarma (largest trade fair for pharmaceutical compounding worldwide) in June 2018, the five brands with which Fagron operates in the Brazilian market introduced a total of 25 innovations (Brands), including Pomage™ (against ageing), Miodesin™ (endometriosis) and Pinetonina™ (against stress and insomnia). Many of the Brands developed by Fagron in

Brazil are also marketed in Europe and North America.

During the Consulfarma, Fagron Technologies, market leader in software and digital solutions for compounding pharmacies, launched new versions of FórmulaCerta™ (software for financial, technical and operational management of pharmacies), mobyPharma™ (software for contact with patients, linked to FórmulaCerta™) and LogiPrix™ (software for calculating the sales price of compounds).

In the second quarter of 2018, the integration process of All Chemistry, acquired in October 2017, was completed. The back office of All Chemistry is centralised in the shared services centre of Fagron in São Paulo,

Brands:



while the repackaging activities have been moved to the GMP facilities of Fagron in Anápolis. During the Consulfarma, the name change to Organic Compounding and a complete rebranding were introduced.

### Compounding Services

In 2018, there was much focus in Colombia on developing a clear strategy where a key role was for Brands developed by Fagron, such as SyrSpend® and Pentravan®. The new strategy has been implemented by a renewed leadership. The clear strategy, strong leadership and focus on innovations have led to double digit turnover growth in Colombia.

The strong turnover growth in Colombia gives us an increasingly better picture of the very interesting compounding market in Central America, which offers opportunities for further growth.

Distinctive and innovative Brands are also widely deployed in these new markets for Fagron.

## South American market for personalised medication

Fagron estimates that the total market for pharmaceutical raw materials and vehicles in Brazil was approximately 180 million euros in 2018. This estimate is based on the total turnover of the Group and that of its main competitors. Based on its knowledge of the situation and pricing in the local market, the Group estimates that the market for pharmaceutical raw material and pharmaceutical compounding represented approximately 10% of the Brazilian market for pharmaceutical compounding in 2018. Based on these estimates of the available market, the Group believes that it had a market share in Brazil of more than 50% through Brands and Essentials.

Given the growing number of pharmacies where only pharmaceutical compounds are available, Fagron will not develop any Compounding Services in Brazil. Due to the highly successful activities of market players such as Fagron, which – by developing and marketing innovations for new applications and indications for pharmaceutical compounds – have expanded the market for compounding, the Brazilian market for Brands and Essentials is expected to continue to grow in the coming years.

The logo for PINETonina features the word "PINETonina" in a bold, sans-serif font. The "PINET" part is in blue and orange, while "onina" is in blue. A registered trademark symbol (®) is located at the top right of the word.

Pinetonina™ is a natural solution from Fagron. The unique characteristics of the essential oils, combined with the innovative nasal administration route, make Pinetonina™ a unique product for use in stress, anxiety and poor sleep quality.



Miodesin™ is Fagron's natural solution for the treatment of uterine leiomyomas, a disorder of the female reproductive system. The natural ingredients of Miodesin™ can be administered locally, after they have been combined with Pentravan® cream.





Launch of Miodesin – Fagron Brazil.



Fagron Sterile Services – United States.

Fagron

North America

# Fagron North America

The North America segment comprises the Fagron activities in the United States, where it sells Brands, Essentials and Compounding Services. In 2018, the North America segment generated turnover of 113.5 million euros (24% of the group turnover).

## Financial

- Turnover increased by 45.9% (+52.7% at constant exchange rates) to 113.5 million euros; organic growth was 19.5% (+25.1% at constant exchange rates)
- REBITDA increased by 29.5% to 14.8 million euros
- Turnover as well as the REBITDA margin showed a positive trend throughout the year

## Strategic and operational

- Fagron North America is well-positioned to benefit from the ongoing hospital outsourcing trend
- The new 503B facility in Wichita showed strong growth; on schedule for reaching the turnover target of 100 million US dollars
- In 2018, operations began in Canada to leverage growth potential for Essentials and Brands from Fagron and Humco in this market

## REBITDA

(x 1,000 euros)	2018	2017	Δ
Turnover	113,488	77,769	+45.9%
REBITDA <sup>1</sup>	14,847	11,461	+29.5%
REBITDA margin	13.1%	14.7%	

<sup>1</sup> EBITDA before non-recurrent result.

## Profile

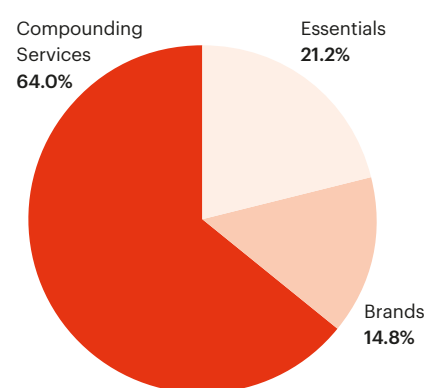
Fagron has been active in Compounding Services in the United States since 2010, with the Fagron Sterile Services and AnazaoHealth brands, operating four compounding facilities. The two Fagron Sterile Services facilities are located in Wichita (Kansas). The two

AnazaoHealth facilities are located in Las Vegas (Nevada) and Tampa (Florida). The Las Vegas and Wichita facilities are registered with the FDA as a Section 503B<sup>1</sup> facility, the facility in Tampa complies with Section 503A of the Federal Food, Drug and Cosmetic Act (FD&C Act).

With the Fagron, Humco and B&B Pharmaceuticals brands, Fagron is

<sup>1</sup> A facility for preparing sterile drugs that is registered as a Human Drug Compounding Outsourcing Facility Under Section 503B of the Federal Food, Drug and Cosmetic Act

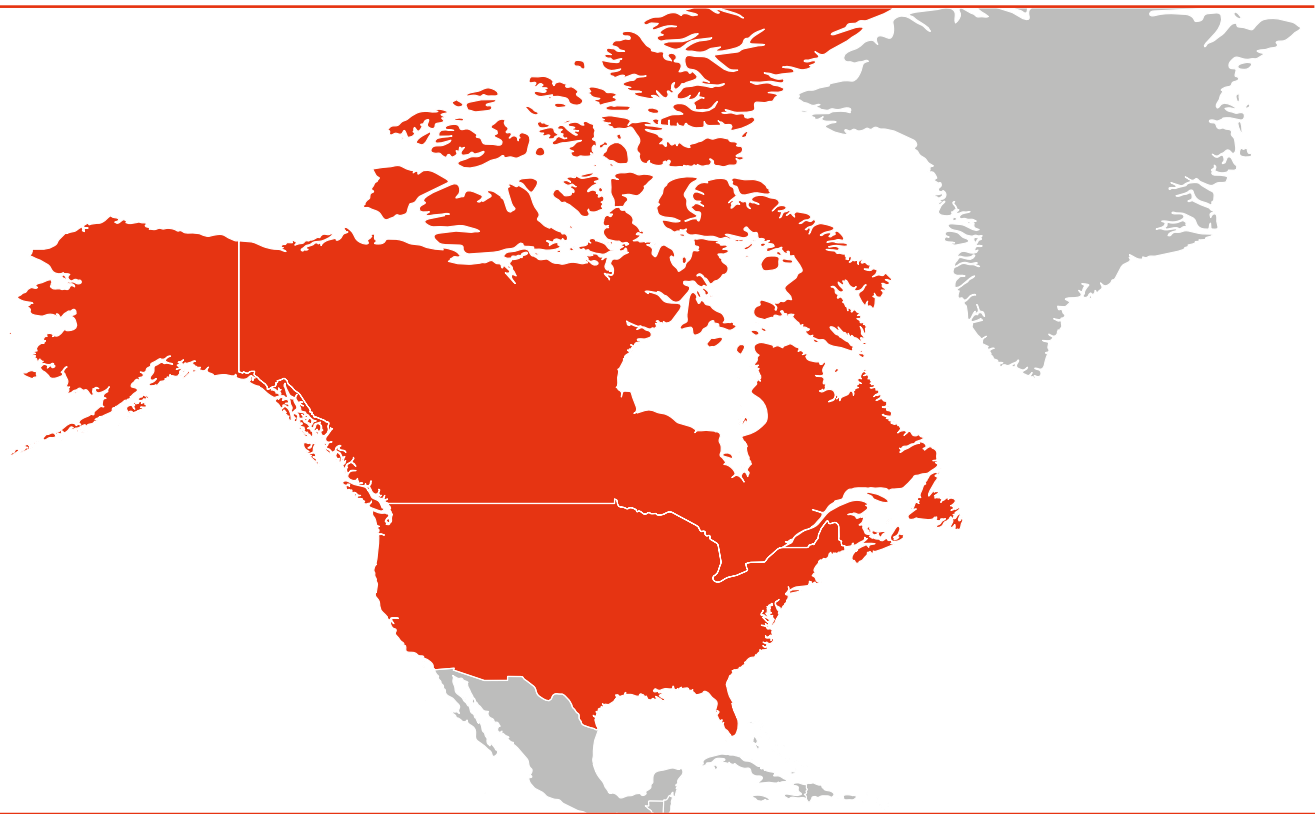
## Turnover 2018



active in the United States in the development and sale of Essentials and Brands to pharmacies and hospitals. Fagron is located in St. Paul (Minnesota). B&B Pharmaceuticals is located in Denver (Colorado). Humco, acquired in April 2018, has offices in Austin and Texarkana (Texas).

## Financial

The North America segment turnover increased by 45.9% in 2018 (+52.7% at constant exchange rates) to 113.5 million euros. Adjusted for the acquisition of Humco, the organic turnover growth was 19.5% (+25.1% at constant exchange rates), where the growth accelerated during the course of the year.



The REBITDA increased by 29.5% to 14.8 million euros. Although the REBITDA margin increased over 2018, it decreased by 160 basis points to 13.1% compared to 2017. This margin decrease was the result of the growth of the workforce in the sterile compounding activities in Wichita in order to be able to accelerate the expansion of our sterile compounding offerings.

The Fagron (Compounding Services) sterile activities in the United States performed in line with expectations, realising a 24.2% growth in turnover in 2018 (+30.0% at constant exchange rates).

The sales of Brands and Essentials increased by 112.3% in 2018 (+122.1% at constant exchange rates) compared to 2017. Organic growth, excluding the Humco acquisition of April 2018, amounts to 5.7% (+10.6% at constant exchange rates).

## Strategic and operational

### Compounding Services

The turnover growth of the sterile compounding facilities in Wichita was 65.2% (+72.8% at constant exchange rates) in 2018, on track for realising the turnover target of 100 million US dollars. The strong growth in Wichita was driven by the further expansion of the product range and the increase in the number of customers. In order to take maximum advantage of the growth opportunities in the market and to accelerate expansion of its product offerings, Fagron has invested in the organisation and new personnel.

In addition, this facility will benefit from the increasingly stricter laws and regulations and the increasing control by authorities regarding compliance with these laws and regulations.

In 2018, licences were received from the states of California and Indiana,

which means the number of states is now at 49. With this, Wichita has nearly full coverage in the United States and its competitive position is further strengthened.

In the US market, together with the fast growing trend of outsourcing sterile compounds, the increasing focus on prevention and lifestyle and the shortage of certain drugs has highlighted the demand for sterile compounds. Sterile compounds provide an important alternative to shortages and limited availability.

### Brands & Essentials

In 2018, Fagron acquired the American Humco, a leading developer, manufacturer and supplier of innovative patented vehicles (including creams, syrups and suspensions) and pharmaceutical branded products that are paid in cash by the client (no reimbursement). Humco's pharmaceutical products are an

Brands:



important addition to Fagron's offerings. In addition, the broad customer base of more than 45,000 pharmacies and wholesalers offers an attractive additional distribution channel.

The Humco acquisition has created a strong foundation to further strengthen the market position in the United States. In 2018, Humco was almost fully integrated in Fagron's North American operations to achieve maximum leverage with commercial synergies and economies of scale. As a result, a highly competitive company with significant scale has been created that significantly improves Fagron's market position in the US.

The growth of Brands and Essentials increased in 2018. A multi-brand strategy was successfully implemented, complementing and strengthening the Fagron and Humco product portfolio. In addition, the innovative pharmaceutical branded products and Humco's vehicles have been successfully introduced outside of the United States by Fagron Europe and Fagron South America.

In 2018, activities were initiated in Canada. The Canadian compounding market has shown strong development over the past years and offers significant growth potential for Fagron and Humco in terms of Essentials and Brands.

#### Product Introductions

Many innovative product introductions again occurred in 2018. At Fagron Sterile Services in Wichita, the focus was on expanding the supply of sterile medications for hospitals, especially products for ophthalmology, dialysis and urology. Several syringes were also developed and launched for use during surgery. In April 2019, the first pain medication syringes will be launched by Fagron Sterile Services.

Commercially available medication and dosage forms often do not satisfy patients' needs. Children and elderly patients often have difficulty swallowing and doses can vary depending on body weight, an underdeveloped or impaired metabolism and an increased risk of

side effects. In some cases, adjusted doses are required for the treatment of vulnerable patient groups such as children, the elderly, patients with neurological problems and patients who are resistant to certain medications. In these cases, a liquid oral dosage form simplifies the administration of medication, allows individual and flexible dosing and prevents metabolic complications and side effects. Compounds, such as suspensions, are therefore essential for patient-specific solutions.

SyrSpend® SF is a series of innovative vehicles developed by Fagron for compounding a liquid formulation for oral administration. SyrSpend® SF uses an innovative, patented "active suspension technology" that guarantees accuracy and consistency during dosing. SyrSpend® SF also contains only ingredients designated by the WHO, EMEA and FDA as safe for use in children and newborns. SyrSpend® SF has a pleasant taste and is easy to administer. SyrSpend® SF is compatible with a wide range of Active Pharmaceutical Ingredients (APIs).

In 2017, Fagron expanded the SyrSpend® Concept with UniSpend®. UniSpend® is an elegant, user-friendly and natural vehicle for the compounding of liquid oral administration forms for human and veterinary use. UniSpend® uses triglycerides that are resistant to oxidation and that do not contain preservatives. UniSpend® is anhydrous and therefore ideal for APIs that are not stable in water, contains no preservatives, allergens, colouring agents and is free of BHT.

SyrSpend® Neo was introduced in 2018. This vehicle offers the possibility to make several preserved compounds. Preserved compounds are extremely suitable for use in young children.

### North American market for personalised medication

The North American pharmaceutical market was 374 billion euros in 2017 (source: European Federation of Pharmaceutical Industries and Associations, The Pharmaceutical Industry in Figures, 2017). Fagron estimates that approximately 1.2% of all prescriptions in North America involved pharmaceutical compounds. This means that the North American market for sterile and non-sterile pharmaceutical compounds was worth approximately 4.0 billion euros in 2017. This is the available market for Compounding Services in North America. Furthermore, the Group estimates (based on the cost of goods sold in the Group's

compounding facilities) that in 2018, approximately 10% of this market, or approximately 400 million euros, regards the costs of pharmaceutical raw materials and administration forms, the available market of Brands and Essentials.

Based on these estimates, Fagron believes that it has a market share in 2018 of approximately 12% in North America with Brands and Essentials. Furthermore, Fagron estimates that it has a market share of approximately 7% of the available market of sterile compounds that hospitals outsource to 503B compounding facilities.



Sterile syringes manufactured by the Fagron compounding facilities in Wichita – United States.



Implant Buddy is a concept developed by HL Technology to easily and efficiently confirm implants.



# HL Technology

# HL Technology

The HL Technology segment focuses on the development, manufacturing and introduction of innovative precision components and orthopaedic tools for the dental, medical and watch industries.

## Financial

- Turnover increased at constant exchange rates by 9.7% to 7.2 million euros
- REBITDA increases from 0.2 million euros to 0.8 million euros

## REBITDA

(x 1,000 euros)	2018	2017	Δ
Turnover	7,174	6,802	+5.5%
REBITDA <sup>1</sup>	791	150	+428.6%
REBITDA margin	11.0%	2.2%	

<sup>1</sup> EBITDA before non-recurrent result.

## Profile

HL Technology has multiple competences, including design, engineering, project management and the development of master files for CE marking and FDA approval. HL Technology has numerous manufacturing possibilities, including cleanroom assembly and final validation of the finished products. This approach makes HL Technology a unique partner throughout the entire process from development to commercialisation. From the customer's perspective, the one-stop shop principle reduces the complexity.

HL Technology is based in La Chaux-de-Fonds (Switzerland).

## Financial

The HL Technology segment turnover increased by 5.5% in 2018 (+9.7% at constant exchange rates) to 7.2 million euros. The REBITDA increased by 0.6 million euros to 0.8 million euros. The positive impact from the cost savings programme carried out in 2017 and the modernisation measures implemented has clearly continued in 2018.



The XXL developed by HL Technology is a torque wrench that is mainly used during hip operations.



The Lucky developed by HL Technology is a torque wrench for use during mouth, jaw and face surgery.



The Easy developed by HL Technology is a patented torque wrench for the orthopaedic market.





# Information about the Fagron share

# Information about the Fagron share

## Stock exchange listing

Fagron shares are listed on Euronext Brussels and Euronext Amsterdam. The share is included in the BEL Mid index and the Amsterdam Smallcap Index (AScX). Options on ordinary Fagron shares are traded on Euronext Derivatives Brussels, Euronext's derivatives market. These American-style options expire on the third Friday of the contract month and have initial terms of 1, 2, 3, 6, 9 and 12 months. Each option represents 100 Fagron shares and is cleared by LCH.Clearnet SA.

As of 31 December 2018, Fagron's market capitalisation amounted to 1,025.9 million euros, an increase of 25.1% compared to 31 December 2017. There were 71,843,904 shares issued on 31 December 2018.

## Average number of shares outstanding

The number of voting securities was 71,843,904 on 31 December 2018. The total number of voting rights (denominator) is 71,843,904. The authorised capital amounts to 494,192,221.68 euros.

### Shares

ISIN code: BE0003874915  
Euronext: FAGR

### Options

ISIN code: BE0003874915  
Euronext Derivatives Brussels: RCU

### Trading price

The closing price of the Fagron share in 2018 was 14.28 euros per share, 25.1% higher than the closing price in 2017 (11.42 euros per share). In the same period, the BEL Mid index decreased by 6.7% while the AScX index decreased by 18.9% in 2018.

## Shareholder structure

Fagron received notifications of shareholding pursuant to the Belgian Law of 2 May 2007 concerning the disclosure of major shareholdings in listed companies. The table below shows the shareholder structure as of 12 April 2019. Article 11 of Fagron's Articles of Association stipulates that shareholdings must be disclosed as soon as a threshold of 3%, 5% and multiples of 5% has been exceeded.

	Number of shares	% of effective voting rights
Waterland Private Equity Fund VI C.V., Filip Balcaen and Fagron NV	22,656,725	31.54%
Alychlo NV/ Marc Coucke	10,749,267	14.96%
Evermore Global Advisors, LCC	2,203,472	3.07%
Carmignac Gestion*	1,492,006	4.65%

\* The notification of Carmignac Gestion's participating interest was received on 18 March 2016 and is based on a denominator of 32,111,827.

## Dividends

Fagron's Board of Directors will propose to the General Meeting of Shareholders on 13 May to pay a gross dividend of 0.12 euro per share over the 2018 financial year, an increase of 20% compared to 0.10 euro per share over the 2017 financial year.

## Investor Relations Policy

Fagron attaches substantial value to good, open and timely communications with its investors, analysts and others with (financial) interests in the company with the aim of informing them as effectively and as promptly as possible about policies and developments in the company. Fagron actively seeks to engage in

dialogue with existing and potential investors, as well as with analysts that follow the company's share. This annual report is one of those forms of communication. All other relevant information, such as the annual and half-year figures, trading updates, press releases and background information, is available at [investors.fagron.com](http://investors.fagron.com).

Investors and potential investors, analysts, journalists and other interested parties are invited to direct questions to:

Constantijn van Rietschoten  
Chief Communications Officer  
+31 6 53 69 15 85  
[constantijn.van.rietschoten@fagron.com](mailto:constantijn.van.rietschoten@fagron.com)

## Financial calendar

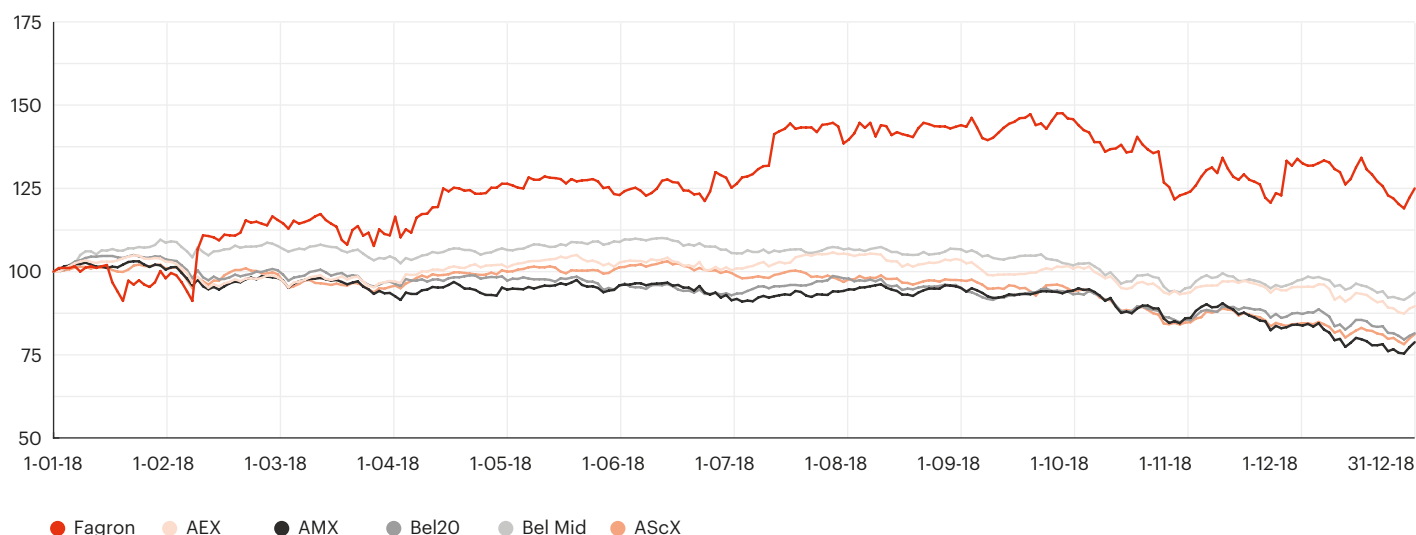
13 May	Annual General Meeting of Shareholders
5 August*	Half-year figures 2019
11 October*	Trading update, third quarter 2019

\* Results and trading updates are published at 7:00 CET.

## Trading

	2018	2017	2016	2015	2014
Highest price	€ 17.10	€ 13.50	€ 10.59	€ 43.92	€ 44.98
Lowest price	€ 10.02	€ 9.00	€ 4.08	€ 3.70	€ 24.63
Closing price end of the financial year	€ 14.28	€ 11.42	€ 9.71	€ 7.06	€ 34.72
Highest day volume	1,370,323	1,758,530	1,729,879	5,759,396	705,581
Lowest day volume	23,859	45,321	56,184	8,792	13,635
Average day volume	177,612	212,951	351,225	328,233	99,032
Dividends	€ 0.12	€ 0.10	-	-	€ 1.00
Dividend yield at closing price	0.8%	0.9%	-	-	2.9%
Market capitalisation at the end of the financial year	€ 1,025,930,949	€ 820,098,164	€ 697,819,840	€ 226,709,499	€ 1,091,296,819

## Development in Fagron share price and the indices in 2018





Pharmaline – Netherlands



# Report of the Board of Directors

# Report of the Board of Directors on the consolidated financial statements

## Consolidated income statement

Fagron's total turnover in 2018 was 471.679 million euros, an increase of 8.8% compared to 433.529 million euros in 2017. The turnover growth was carried by all of the regions where Fagron is active.

### Fagron Europe (including RoW)

The Europe segment turnover increased by 1.8% in 2018 (+1.7% at constant exchange rates) to 250.086 million euros. Corrected for the acquisition of Kemig (Croatia) and the divestment of the compounding facility in Paris (France), the organic turnover growth was 2.7% (+2.7% at constant exchange rates). In the second half of 2018, organic turnover growth at constant exchange rates was 3.5%, compared to 1.9% in the first half of 2018. The REBITDA amounted to 63.313 million euros. REBITDA as a percentage of the turnover decreased by 50 basis points to 25.3%.

In 2018, the organic turnover growth and profitability of the Europe segment was held back by the decision to temporarily reduce the capacity at one of the sterile compounding facilities in the Netherlands in order to be able to invest in further improving the quality of the facility and the processes. As a result, the negative impact on the turnover in 2018 was 4.0 million euros. The compounding facility is expected to be fully operational again in the course of the second half of 2019.

The focus on Brands has led to strong turnover growth in this segment in 2018. Almost 11% of the turnover in Europe in 2018 was realised with Brands, compared to 8.4% in 2017.

Essentials showed healthy organic growth in 2018. The decline in Compounding Services turnover was the result of the temporary reduction in capacity at the compounding facility in the Netherlands, the sale of a compounding facility in France in July 2017 and the strategic decision to register a limited number of non-sterile compounds in the Netherlands (Premium Pharmaceuticals).

### Fagron South America

The South America segment turnover increased in 2018 by 16.6% at constant exchange rates. The organic turnover growth was 12.7% at constant exchange rates. This growth in turnover was mainly driven by the strong growth of the compounding market in Brazil, good product availability and the focus on the development and introduction of innovative and distinctive Brands. However, the further weakening of the Brazilian real has had a negative impact on the reported turnover (in euros). Turnover decreased by 2.2% to 100.930 million euros.

In the fourth quarter of 2018, the Compounding Services activities in Colombia continued the strong growth of the third quarter. This turnover growth was 14.4% in 2018 at constant exchange rates. The strong growth in turnover in Colombia gives us an increasingly clear picture of the very interesting compounding market in Central America, which offers opportunities for further growth.

The REBITDA decreased by 3.4% to 20.107 million euros. The REBITDA as a percentage of the turnover decreased by 30 basis points to 19.9%.

### Fagron North America

The North America segment turnover increased by 45.9% in 2018 (+52.7% at constant exchange rates) to 113.488 million euros. Adjusted for the acquisition of Humco, the organic turnover growth was 19.5% (+25.1% at constant exchange rates). The REBITDA increased by 29.5% to 14.847 million euros. The REBITDA margin decreased by 160 basis points to 13.1% compared to 2017. This margin decrease was the result of the growth in the workforce at the sterile compounding operations in Wichita in order to be able to accelerate the expansion of the sterile compounding offerings.

The Fagron (Compounding Services) sterile activities in the United States performed in line with expectations, realising a 24.2% growth in turnover in 2018 (+30.0% at constant exchange rates). In the second half of 2018, the turnover increased at constant exchange rates by 32.6%, a clear acceleration compared to 27.5% in the first half of 2018. The turnover growth of the sterile compounding facilities in Wichita was 65.2% (+72.8% at constant exchange rates) in 2018, on track for realising the turnover target. The strong growth in Wichita was driven by the further expansion of the product range and the increase in the number of customers.

The sales of Brands and Essentials increased by 112.3% in 2018 (+122.1% at constant exchange rates) compared to 2017. The organic growth, excluding the Humco acquisition in April 2018, amounted to 5.7% (+10.6% at constant exchange rates). The integration of Humco is on track.

## HL Technology

The HL Technology segment turnover increased by 5.5% in 2018 (+9.7% at constant exchange rates) to 7.174 million euros. The REBITDA increased 0.641 million euros to 0.791 million euros.

The consolidated gross margin (the difference between turnover on the one hand and trade goods on the other) amounted to 290.735 million euros in 2018. This represents 61.6% of the turnover compared to a gross margin of 61.5% in 2017.

The total operational costs, defined as services and various goods, personnel costs and other operational costs minus other operating income, were 197.379 million euros, an increase of 13.7% compared to 2017. The cost coverage, defined as operational costs versus gross margin, was 68.0% in 2018.

Depreciation and amortisation increased by 11.5% from 17.550 million euros in 2017 to 19.575 million euros in 2018.

The operating profit amounted to 73.472 million euros in 2018, a decrease of 1.5% or 1.135 million euros compared to 2017.

The financial result amounted to -18.636 million euros, which is at the same level as in 2017.

The result before taxes amounted to 54.835 million euros, a decrease of 1.130 million euros compared to 2017. The effective tax rate as a percentage of the profit before taxes was 21.1% in 2018 compared to 15.9% in 2017. Taxes increased in 2018 to 11.553 million euros compared to 8.918 million euros in 2017.

The net result is 42.905 million euros, a decrease of 4.142 million euros or 8.8% compared to 2017.

## Consolidated statement of financial position

The consolidated balance sheet total increased by 14.9% from 594.047 million euros in 2017 to 682.772 million euros in 2018.

### Assets

Total non-current assets were 483.046 million euros, an increase of 55.429 million euros compared to 2017.

Intangible fixed assets increased by 46.893 million euros to 391.388 million euros. This increase was mainly caused by the recognition of goodwill as a result of the acquisition of Humco in the United States.

Property, plant and equipment increased by 3.904 million euros to 73.439 million euros.

The net operational capex amounted to 15.694 million euros or 3.3% of the turnover in 2018. The net operational capex consist primarily of investments in facilities in the United States and Brazil and automation of logistics processes and software implementations. In addition, approximately 1.5 million euros were invested in the start-up of Fagron Genomics and in a Dutch sterile compounding facility in order to further improve the quality of the facility and the processes.

The financial fixed assets, consisting of financial fixed assets and other fixed assets available for sale, amounted to 2.158 million euros in 2018, a decrease of 0.074 million euros compared to 2017.

Deferred tax assets represented a value of 16.061 million euros.

The total current assets amount to 199.726 million euros in 2018 compared to 166.430 million euros in 2017, an increase of 33.296 million euros. Inventories increased by 11.793 million euros, trade receivables increased by 6.069 million euros, the other receivables were 1.374 million euros less, while cash and cash equivalents increased by 16.808 million euros.

### Equity and liabilities

Total equity amounted to 209.716 million euros. This is an increase of 24.835 million euros compared to 2017. This increase was caused by the 2018 result (30.994 million euros), the dividend made payable (7.184 million euros) and share-based payments (1.025 million euros).

Total liabilities increased from 409.166 million euros in 2017 to 473.056 million euros in 2018. This is an increase of 63.890 million euros.

Provisions increased by 1.283 million euros to 13.759 million euros.

Pension obligations in 2018 were 5.183 million euros, an increase of 0.450 million euros compared to 2017.

Deferred tax liabilities relate to, among other things, temporary differences between reporting and tax accounting at the local entities. These amounted to 0.259 million euros in 2018 compared to 0.198 million euros in 2017.

Non-current interest-bearing financial liabilities (long-term borrowings) amounted to 265.917 million euros in 2018, a decrease of 17.601 million euros compared to 2017. Current interest-bearing financial liabilities (short-term loans) amounted to 63.955 million euros in 2018, an increase of 50.505 million euros compared to 2017.

At 31 December 2018, the net financial debt (total current and non-current interest-bearing financial liabilities plus other long-term liabilities less cash and cash equivalents) amounted to 252.294 million euros, compared to 236.197 million euros at end of year 2017.

The short-term trade payables were 4.968 million euros higher than in 2017 and amounted to 63.918 million euros.

Current tax on profit, remuneration and social security amounted to 31.395 million euros, an increase of 4.227 million euros compared to 2017.

Other (current) debt amounted to 28.538 million euros in 2018 compared to 8.673 million euros in 2017.

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## Consolidated cash flow statement

The consolidated cash flow statement begins with the result before taxes of 54.458 million euros.

This amount is decreased by the outgoing cash flows before taxes of 11.928 million euros. Subsequently, the elements from operating activities not having a cash flow effect or not directly related to operating activities are reintroduced. This was a total of 38.473 million euros. This amount is made up of depreciations and impairments on tangible and intangible non-current assets, interest paid and changes in provisions and deferred taxes. The changes in working capital are then adjusted in the cash flow statement (a negative effect of 7.727 million euros). The total cash flow from operating activities amounted to 73.278 million euros, a decrease of 13.0% compared to 84.247 million euros in 2017.

Total cash flows from investment activities produced an outflow of 54.611 million euros related to net investments of 15.694 million euros and payments for existing (subsequent payments) and new holdings of 38.917 million euros.

The total of cash flows from financing activities represented an inflow of 1.789 million euros. The recognised financing resulted in an inflow of 71.624 million euros. The outgoing cash flows consisted of the payment of interest on loans and other financial elements such as financial discounts of 18.371 million euros, the payment of the dividend (7.174 million euros) and the repayment on loans of 44.290 million euros.

In total, the cash and cash equivalents increased in 2018 by 20.456 million euros: from 60.771 million euros at the start of the period to 77.579 million euros at the end of the period.

The difference of 3.648 million euros between the changes in cash and cash equivalents of 77.579 million euros and the increase in cash and cash equivalents of 16.808 million euros was caused by currency translation differences.

## Significant events after balance sheet date

For significant events after the balance sheet date, see Note 31 as included in the Notes to the consolidated financial statements.

## Description of risk management

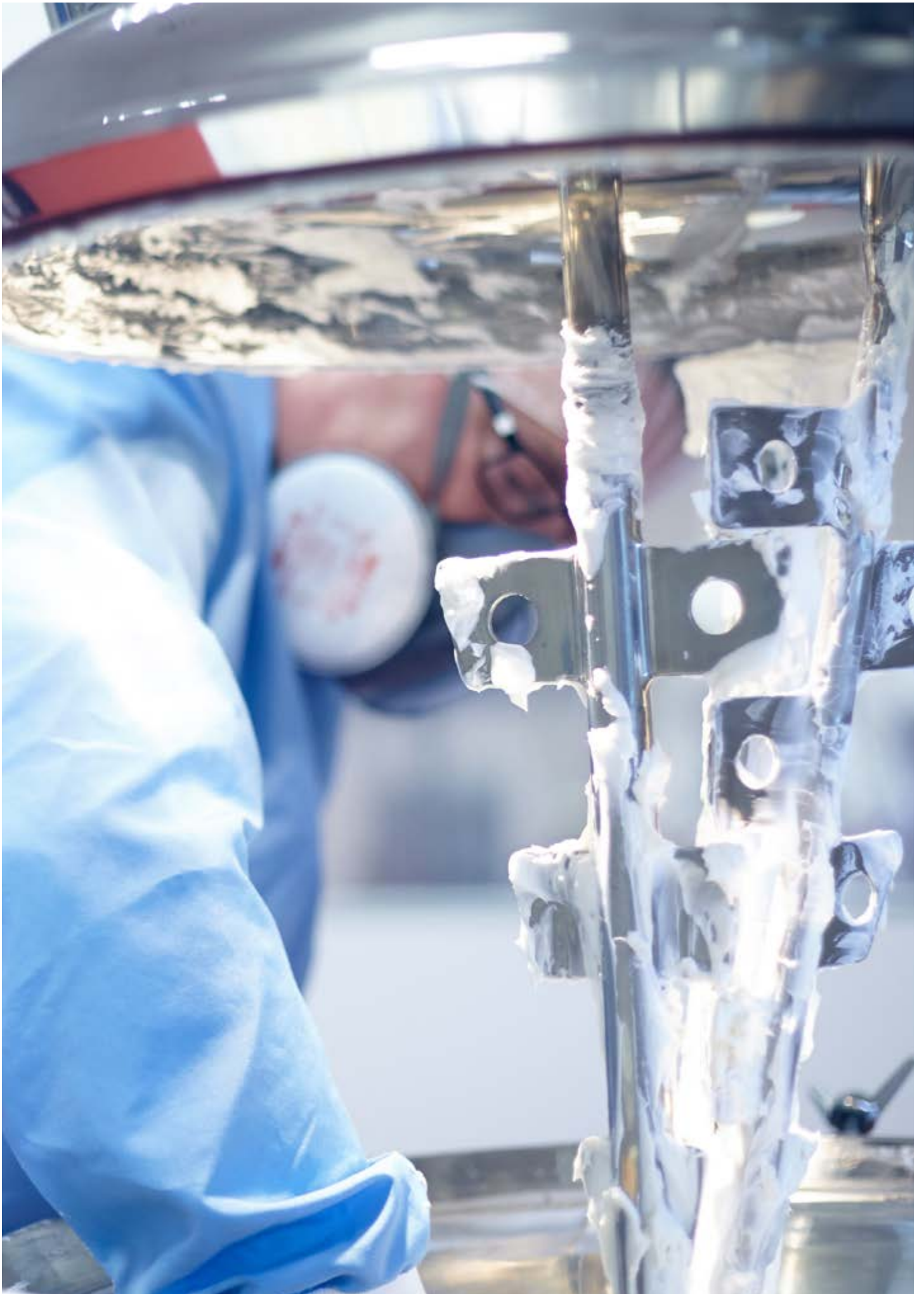
See Note 3 as included in the Notes to the consolidated financial statements.

## Non-financial information

The non-financial information is included in the chapter "Non-financial information and information regarding diversity".



FagronLab capsule machine.



Production of creams and ointments at Pharmaline – Netherlands.

# Corporate Governance Statement

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# Application of the Belgian Corporate Governance Code

Fagron NV (the 'Company') adheres to the Belgian Corporate Governance Code 2009 as a reference code. This code is available at the website [www.corporategovernancecommittee.be](http://www.corporategovernancecommittee.be) in the section 'Code 2009'. Fagron adheres to the 'comply-or-explain' principle. Fagron believes that for the 2018 financial year, it satisfies all principles and provisions from the Belgian Corporate Governance Code 2009, with one exception: no independent internal audit function was set up. In 2018, the Audit Committee decided to take the first steps in 2019 to establish an internal audit function.

## Composition of the Board of Directors

On 14 May 2018, the General Meeting confirmed the co-options of Management Deprez BVBA, permanently represented by Ms Veerle Deprez and Mr Rafael Padilla as Directors. In addition, the mandates of Management Deprez BVBA, permanently represented by Ms Veerle Deprez, Mr Rafael Padilla and Ms Karin de Jong, were renewed for a period of four years, to be terminated immediately after the Annual Meeting in 2022.

On 28 May 2018, the Board of Directors was deeply affected by the sudden death of Ms Nathalie Clybouw, permanent representative of WPEF VI Holdco III BE B.V. Ms. Clybouw made a major contribution to Fagron's development and growth in the past years as non-executive Director of Fagron. On 1 August 2018, the Board of Directors decided to co-opt Ms Judy Martins as non-executive Director of

Fagron in order to complete the term of WPEF VI Holdco III BE B.V., permanently represented by Ms Nathalie Clybouw. The final appointment of Ms Martins will be submitted to the next General Meeting of Shareholders.

The current mandates of AHOK BVBA, permanently represented by Mr Koen Hoffman and Vanzel G. Comm.V., permanently represented by Ms Giulia Van Waeyenberge, terminate after the General Meeting in 2019.

The reappointment of both Directors for a period of four years will be submitted to the General Meeting of Shareholders.

The current mandates of Alychlo NV, permanently represented by Mr Marc Coucke, Mr Marc Janssens, Holdco FV

B.V., permanently represented by Mr Frank Vlayen, Mr Matthias Geysens, Ms Judy Martins (on condition of confirmation by the General Meeting) and Michael Schenck BVBA, permanently represented by Mr Michael Schenck, terminate after the General Meeting in 2020.

## Composition of the Executive Committee

There were no changes in the composition of the Executive Committee during the financial year 2018.

## Composition of the Executive Committee

Composition during the financial year 2018

Name and position	Term of the position
<b>Rafael Padilla</b> – Chief Executive Officer	4 years
<b>Karin de Jong</b> – Chief Financial Officer	4 years
<b>Constantijn van Rietschoten</b> – Chief Communications Officer	4 years

## Composition of the Board of Directors

Composition during the financial year 2018

	Term of the position	Independent director	Nomination and Remuneration Committee	Audit Committee
Rafael Padilla – CEO	AGM 2022			
Karin de Jong - CFO	AGM 2022			
Management Deprez BVBA, permanently represented by Mrs Veerle Deprez	AGM 2022	●		
AHOK BVBA, permanently represented by Mr Koen Hoffman – Chairman of the Board of Directors	AGM 2019	●	●	●
Vanzel G.Comm.V., permanently represented by Ms Giulia Van Waeyenberge	AGM 2019	●	●	
Holdco FV B.V., permanently represented by Mr Frank Vlayen	AGM 2020		●	
Matthias Geysens	AGM 2020			●
WPEF VI Holdco III BE B.V., permanently represented by Ms Nathalie Clybouw	Term ended: 28 May 2018			
Marc Janssens	AGM 2020			
Alychlo NV, permanently represented by Mr Marc Coucke	AGM 2020			
Michael Schenck BVBA, permanently represented by Mr Michael Schenck	AGM 2020			●
Judy Martins	AGM 2020 (subject to confirmation by the AGM)			

## Abbreviated curricula vitae

Below are summarised the curricula vitae of the members of the most important management bodies or their permanent representatives.



### **AHOK BVBA, permanently represented by Koen Hoffman (1968): Chairman of the Board of Directors**

Koen Hoffman obtained a master's degree in Applied Economic Sciences from the University of Ghent in 1990 and an MBA from the Limerick Business School in 1991. Mr Hoffman was appointed Chief Executive Officer of Value Square in August 2016. He previously served as Chief Executive Officer of KBC Securities and member of the Supervisory Board of Patria Securities. Mr Hoffman started his career in the corporate finance department of KBC Bank in 1992. Mr Hoffman is also an independent Director at Greenyard Foods, Mithra Pharmaceuticals, MDX Health and Snowworld, among others.



### **Rafael Padilla (1978): Chief Executive Officer**

Rafael Padilla obtained a degree in Pharmaceutical Sciences from the University of Barcelona and followed a Programme for Management Development (PMD) at the IESE Business School. He started his career in 2002 with Fagron in the Netherlands and is a member of the Executive Committee of Fagron. Mr Padilla has a long-time operational and commercial track record throughout the Fagron organisation. Under the leadership of Mr Padilla, Fagron has been able to successfully expand its activities in Southern Europe and South America since 2010 through strong organic growth and acquisitions.



### **Karin de Jong (1979): Chief Financial Officer**

Karin de Jong has been CFO of Fagron since May 2016. Mrs De Jong has been with Fagron since 2008, when she started as corporate controller; she was appointed group controller in 2013. After finishing her degree in business administration, accounting and control, Mrs De Jong completed the post-doctoral registered controller program at Erasmus University Rotterdam.



### **Management Deprez BVBA, permanently represented by Veerle Deprez (1960)**

In 1987, Veerle Deprez, together with her brother, laid the foundations of what would later become the Univeg Group. Univeg became a vertically integrated group through acquisitions, specialised in the production, packaging and distribution of fruit and vegetables. In 2003 and 2004, Univeg Peltracom acquired Peltracom and Agrofino, manufacturers of potting soil, soil improvers and substrates. In 2005, the Deprez family expanded their activities to Pinguin (listed on Euronext), market leader in frozen vegetables. The range was expanded with preserved vegetables by the acquisition of Noliko in 2011. In 2015, the three branches, Univeg, Pinguin and Peltracom, were merged under the name Greenyard. Greenyard is a market leader in fresh, freshly frozen and prepared vegetables and fruit, flowers and plants, growing media and substrates and serves the majority of European retailers. As permanent representative of Management Deprez BVBA, Veerle has been a non-executive director of Greenyard since 2005. Ms Deprez is also, directly or indirectly via Management Deprez BVBA, Director of DS Consult NV, De Kraaiberg NV, Nova Natie NV, De Weide Blik NV, The Fruit Farm Group BV, Deprez Holding NV, Deprez Invest NV and Food Invest International NV.



**Vanzel G.Comm.V., permanently represented by Giulia Van Waeyenberge (1982)**

Giulia Van Waeyenberge obtained a master's degree in Electrical Engineering from the Catholic University of Leuven in 2005 and a master's degree in Applied Economic Sciences from Singapore Management University in 2006. Mrs Van Waeyenberge works as a Senior Investment Manager at investment company Sofina. She worked previously at family-run investment business De Eik and at Sofina as Investment Manager. Prior to that she served as vice president at Bank of America Merrill Lynch, both in London and Singapore. She started her career in investment banking at ABN AMRO Singapore. Mrs Van Waeyenberge has already served on a number of boards, among others at Flemish employer's organisation Voka, and is a member of the Board of Directors of Havenbedrijf Antwerpen NV.



**Holdco FV B.V., permanently represented by Frank Vlayen (1965)**

Frank Vlayen is currently CEO at Waterland Private Equity. In this position, Mr Vlayen serves on Waterland's investment committee and is responsible for Waterland's day-to-day management and its strategy. He is also responsible for investor relations and for Waterland's (investment) activities in Belgium. Mr Vlayen started his career in the corporate finance and trade finance departments at Generale Bank. His positions following that included vice president at Tractebel's international energy division, where he held a number of senior positions in operational management, business development and corporate and project finance. Before joining Waterland, he worked as Engagement Partner at Accenture UK, where he advised utility companies and industrial businesses on mergers and acquisitions and corporate strategy, and prior to that at Citigroup in London, where he was responsible for corporate development within the European consumer division. Mr Vlayen has worked in Belgium, the United Kingdom, Hong Kong and Central and Eastern Europe.



**Matthias Geysens (1984)**

Matthias Geysens is currently Investment Director at Waterland Private Equity in Belgium. Prior to this, he worked at Deloitte Corporate Finance in London as Assistant Director, in which position he advised companies in Europe on mergers and acquisitions. Mr Geysens started his career at Deloitte as an auditor and later moved to the corporate finance division. Mr Geysens obtained a degree in Management Science and Finance from the University of Kent and an MBA from Cambridge University. He worked as a consultant at Warburg Pincus during his MBA study.



**Judy Martins (1971)**

Ms Martins has been working at Waterland since 2006 and currently fulfils the role of General Counsel and Compliance Officer for the Waterland Group. Before this, she worked for ten years in the trust sector, at Rokin Corporate Services (Stibbe) and ATC Trustees (now Intertrust). She studied Dutch Law (Corporate Law) at the Free University of Amsterdam. Before the Dutch Law degree, she completed the propaedeutic course in Cultural Anthropology at the University of Amsterdam and subsequently followed higher education Culture, Organization and Management, at VU University Amsterdam with a focus on accounting management.



**Marc Janssens (1959)**

Marc Janssens has been director of asset management and member of the Executive Committee at Baltisse since 2015. Baltisse is the family-run investment business of Filip Balcaen and family. In 1988, Mr Janssens joined Petercam (now DeGroef Petercam), where he became partner in 1996 and was appointed to the Board of Directors in 2011. From 1984 to 1988, he served as economics editor at the Belgian newspaper De Standaard. Mr Janssens graduated in Economic Sciences from the Catholic University of Leuven.



**Alychlo NV, permanently represented by Marc Coucke (1965)**

Marc Coucke is the founder of Omega Pharma. Since its sale, he has invested in various listed and non-listed companies via Alychlo NV, at which he serves as chairman. Mr Coucke graduated as a pharmacist from the University of Ghent and obtained an MBA from the Vlerick Management School in Ghent.



**Michael Schenck BVBA, permanently represented by Michael Schenck (1982)**

Michael Schenck is currently Investment Manager at Alychlo NV, the investment company of Marc Coucke. Mr Schenck previously served as Investment Manager at Waterland Private Equity. He started his career in corporate finance in France and has worked in Africa as both volunteer and entrepreneur. Mr Schenck holds master's degrees in business administration and international management from Erasmus University Rotterdam and HEC Paris.



**WPEF VI Holdco III BE B.V., permanently represented by Nathalie Clybouw (1965 - 2018) – mandate ended: 28 May 2018**

Until her death, Nathalie Clybouw was Associate Principal at Waterland Private Equity NV in Belgium. Over the past 10 years, Mrs Clybouw has served as CFO and M&A professional and has held various management positions in a number of business sectors including outdoor retail, building materials and telecommunications. Prior to that, she served as CFO at Latexco, global market leader in the manufacturing of latex mattresses, senior investment manager at Fortis Private Equity (ex-VIV) and auditor at Arthur Anderson. Ms Clybouw earned a Master's degree in Applied Economics with a major in Accountancy from the University of Antwerp, as well as an Executive Master's degree in Interim Management from the University of Antwerp Management School.

# Board of Directors

The composition and operation of the Fagron Board of Directors satisfies all provisions of the Belgian Corporate Governance Code 2009.

The Company's Board of Directors consists of at least five and no more than eleven members, with at least one third of the members of the Board of Directors being of a different gender than the other members. The Board of Directors is composed of executive, non-executive and independent directors, who do not necessarily have to be shareholders.

## Appointment of the members of the Board of Directors

Non-executive directors must hold at least half of the seats on the Board of Directors and at least three directors must be independent, within the meaning of Article 526ter of the Belgian Companies Code.

In accordance with Article 518bis of the Belgian Companies Code, at least one third of the members of the Board of Directors must be of a different gender than the other members. Executive and non-executive directors are appointed by a meeting of shareholders for a renewable term of a maximum of four years. If a seat becomes available on the Board before the end of the term, the remaining directors have the right to temporarily appoint a new director to fill that position until the shareholders decide to appoint a new director at the next meeting of shareholders. This matter must be included in the agenda for the next meeting of shareholders. There is no age limit for directors.

## Function and role of the Board of Directors

The Board of Directors established its internal regulations as part of its preparation of the Corporate Governance Charter. In addition to what it is legally obligated to do, the Board of Directors is specifically responsible for the following: determining the strategy, the risk profile, the values and the main high-level policies, ensuring that the necessary financial and human resources are available to achieve the objectives, supervising and assessing the financial and operational performance and development of the Group's operating results, approving the framework for internal control and risk management, structuring the Executive Committee, establishing its powers and duties and evaluating its performance, supervising the quality and completeness of financial announcements as well as the integrity and prompt publication of the financial statements and other substantive financial and non-financial information, determining the corporate governance structure and supervising compliance with the provisions of the Corporate Governance Code, installing specialised Committees, establishing their internal regulations and assessing their effectiveness, promoting an effective dialogue with the shareholders and potential shareholders, approving the contracts for the appointment of the CEO and other members of the Executive Committee, selecting the Statutory Auditor upon nomination from the Audit Committee and supervising his/her performance and supervising the internal audit function if an independent internal audit function was established.

The Corporate Governance Charter and the internal regulations of the Board of Directors can be accessed on the corporate website ([www.fagron.com](http://www.fagron.com)) in the section entitled "Corporate Governance".

## Specialised Committees within the Board of Directors

These Committees have an advisory role. They assist the Board of Directors in specific circumstances which they monitor carefully and for which they submit recommendations to the Board of Directors. The ultimate decision-making is the responsibility of the Board of Directors. The composition, powers and operation of the Committees are described in their respective internal regulations, which are available at the corporate website ([www.fagron.com](http://www.fagron.com)) in the section entitled "Corporate Governance". The Committees report to the Board of Directors after every meeting.

### Audit Committee

The composition of the Audit Committee complies with all provisions of the Belgian Corporate Governance Code 2009.

All members of the Audit Committee have sufficient bookkeeping and auditing experience. The Audit Committee is the primary point of contact for the internal audit function (if an independent internal audit function has been established) and the Statutory Auditor. Without prejudice to the statutory duties of the Board of Directors, the Audit Committee is responsible for developing an audit program that covers all activities of the

Company in the long-term and is specifically responsible for:

1. determining the internal financial reporting to the Board of Directors;
2. monitoring the financial reporting process;
3. monitoring the effectiveness of the Company's internal control and risk management systems;
4. monitoring the internal audits and their effectiveness;
5. monitoring the statutory audit of the financial statements and the consolidated financial statements, including follow-up to questions and recommendations as stated by the Statutory Auditor;
6. assessing and monitoring the independence of the Statutory Auditor, taking particular note of additional services provided to the Company.

After internal discussion, the Audit Committee found that there was no need to set up an independent internal audit function for 2018.

### **Nomination and Remuneration Committee**

In 2010, the Board of Directors decided to merge the Nomination Committee and the Remuneration Committee. The composition of the Nomination and Remuneration Committee complies with all provisions of the Belgian Corporate Governance Code 2009.

The members have the necessary expertise in the field of remuneration policy.

The main duties with regard to nominations consist of: drawing up the appointment procedures for the members of the Board of Directors and for the members of the Executive Committee, nominating suitable candidates for vacant directorships, formulating proposals for reappointments, evaluating and making recommendations about the composition of the Board of Directors and its Committees, providing advice about proposals concerning the appointment or dismissal of directors and members of the Executive Committee and evaluating potential candidates for a position within the Executive Committee.

The main duties with regard to remuneration consist of:

1. preparing, assessing and making proposals to the Board of Directors regarding the remuneration policy to be implemented regarding the directors, the members of the Executive Committee, the other executives specified in Article 96 §3, last paragraph, of the Belgian Companies Code and the persons responsible for the daily management and, where applicable, regarding the ensuing proposals that must be presented to the shareholders by the Board of Directors;
2. preparing, assessing and making proposals to the Board of Directors about the individual remuneration of the directors, the members of the Executive Committee, the other executives specified in Article 96 §3, last paragraph, of the Belgian Companies Code and the persons responsible for the daily management, including variable remuneration and long-term premiums, which may or may not be associated with shares, in the form of share options or other financial instruments, as well as severance payments and, where applicable, regarding the ensuing proposals that must be presented to the shareholders by the Board of Directors;
3. preparing recommendations regarding performance targets for the CEO and the other members of the Executive Committee and other key managers;
4. preparing recommendations regarding the allocation of bonuses and long-term incentives for the CEO and the other members of the Executive Committee;
5. discussing the operation and performance of the Executive Committee;
6. reviewing both the operation and performance of the Executive Committee with the CEO at least once per year;
7. preparing the remuneration report to be added to the Corporate Governance Statement by the Board of Directors and disclosing the remuneration report to the Works Council, or, if there is no

Works Council, to the employee representatives in the Committee for prevention and protection at work, or, if there is no such committee, to the union representatives;

8. providing an explanation of the remuneration report at the annual General Meeting of Shareholders.

## **Executive Committee**

### **Appointment of the members of the Executive Committee**

The composition and operation of the Executive Committee complies with all provisions of the Belgian Corporate Governance Code 2009.

The Company has established an Executive Committee in the sense of the Corporate Governance Act of 2 August 2002.

The Board of Directors appoints the members of the Executive Committee based on the recommendations from the Nomination and Remuneration Committee. The members are appointed for a four-year term.

### **Role of the Executive Committee**

The Executive Committee is responsible for the management of the Company. It exercises the management powers that the Board of Directors has delegated to it (within the limits of the general and strategic policy and if not expressly reserved for the Board of Directors by law or otherwise).

This means that the Executive Committee exercises the most extensive powers in daily management, mergers, acquisitions, investments and divestments, research and product development, distribution, purchasing and production, marketing and sales, logistics and information technology, accounting, administrative and financial matters, treasury, supervision and control of the business units (managers), legal matters, intellectual property, environment and permits, human resources, insurance, tax and subsidy matters and the creation of press releases and the financial statements.

More detailed information can be found in the internal regulations of the Executive Committee, which is an annex to the Corporate Governance Charter and is available on the corporate website ([www.fagron.com](http://www.fagron.com)) in the section entitled "Corporate Governance". The Executive Committee meets as often as the interests of the Company require, within fourteen days after a request for that purpose from two members of the Executive Committee. The Executive Committee also provides quarterly reports on its activities to the Board of Directors.

## Activity report from the Board of Directors and the Committees in 2018

### Board of Directors

In 2018, in addition to discussing the financial reporting, the Board of Directors devoted a great deal of attention to determining the corporate strategy, its organisation, taking into account the future, the strengthening of the company's balance sheet and the further expansion of the Company's growth and acquisition strategy.

The executive and non-executive members of the Board of Directors convened ten times in 2018 (6 February, 22 February (via conference call), 28 March, 9 April, 13 April (via conference call), 14 May, 1 August, 23 October, 5 December and 20 December (via conference call)).

All directors were present at these meetings, unless stated otherwise below:

- 6 February 2018: WPEF VI Holdco III BE B.V., permanently represented by Ms Nathalie Clybouw, was unable to attend;
- 14 May 2018: WPEF VI Holdco III BE B.V., permanently represented by Ms Nathalie Clybouw, was unable to attend;
- 1 August 2018: Mr Marc Janssens and Ms Judy Martins were excused;

The non-executive directors convened separately on two occasions in 2018 (28 March and 23 October). The key

topics discussed were the organisation, taking into account the future, the company's remuneration policy and the further expansion of the Company's growth and acquisition strategy. All non-executive members of the Board of Directors were in attendance at these meetings.

### Audit Committee

The Audit Committee, consisting of Mr Matthias Geysens (Chairman), Michael Schenck BVBA, permanently represented by Mr Michael Schenck and AHOK BVBA, permanently represented by Mr Koen Hoffman, met four times in 2018 (6 February, 28 March (via conference call), 1 August and 5 December). All members of the Audit Committee in office attended these meetings. Also in attendance at these meetings, upon the Audit Committee's request, were Mr Padilla and Ms De Jong.

### Nomination and Remuneration Committee

The Nomination and Remuneration Committee, consisting of Holdco FV B.V., permanently represented by Mr Frank Vlayen (Chairman), AHOK BVBA, permanently represented by Mr Koen Hoffman and Vanzel G.Comm.V., permanently represented by Ms Giulia Van Waeyenberge, convened three times in 2018 (28 March, 9 May (via conference call) and 5 December). All members of the Nomination and Remuneration Committee in office attended these meetings.

## Process for the evaluation of the Board of Directors and its Committees

Under the leadership of the Chairman, the Board of Directors conducts an evaluation every two years of its scope, composition and operation and that of its Committees, as well as its interaction with the Executive Committee. The Chairman of the Board of Directors and the performance of his/her role within the Board of Directors are also evaluated. This evaluation has four objectives:

1. to assess the operation of the Board of Directors and the Committees;
2. to determine whether key issues are thoroughly prepared and discussed;
3. to assess the actual contribution from each director to the work of the Board of Directors, his or her presence at the Board and Committee meetings and his or her constructive involvement in the discussions and the decision-making process;
4. to assess the existing composition of the Board of Directors and the Committees in light of the required composition of the Board of Directors and of the Committees.

The evaluation of the operation of the Board of Directors in terms of its scope, composition, operation and that of its Committees, as well as of its interaction with the Executive Committee, took place on 28 March 2018 under the leadership of the Chairman of the Board of Directors. This evaluation resulted in a positive assessment with a number of less significant points to be worked on.

The CEO and the Nomination and Remuneration Committee assess the operation as well as the performance of the Executive Committee on an annual basis. The evaluation of the Executive Committee occurs in the context of determining the variable remuneration of the Executive Committee members.



## Policy on transactions and other contractual relationships between the Company and its directors or members of the Executive Committee not covered by the conflicts of interest arrangement

The Board of Directors has drawn up a number of guidelines for transactions and other contractual relationships between the Company and its Board members or members of the Executive Committee that are not covered by the conflicts of interest regulation.

All members of the Board of Directors and the Executive Committee are expected to avoid actions, positions or interests that are contrary to, or appear to be contrary to, the interests of the Company or of one of the Companies of the Group. Furthermore, all transactions between the Company and members of the Board of Directors or the Executive Committee (or their permanent representatives) require the approval from the Board of Directors. When the members of the Board of Directors or the Executive Committee (or their permanent representatives) identify a possible conflict of interest with respect to a Company decision or activity, they must also notify the Chairman of the Board of Directors as quickly as possible.

If Article 523 of the Belgian Companies Code is applicable, the director in question must also refrain from participating in the relevant deliberations and the voting.

## Rules for the prevention of insider trading and market abuse

The Board of Directors has established rules in order to prevent privileged information from being used illegally by directors, shareholders, members of the management, employees and certain third parties (jointly referred to as the "Insiders"). These rules are an integral part of the Corporate Governance Charter and can be accessed on the corporate website ([www.fagron.com](http://www.fagron.com)) in the section entitled "Corporate Governance". The Board of Directors has also appointed a Compliance Officer in this

context, who, among other things, monitors the observance of the rules by the Insiders. The position of Compliance Officer is currently performed by Ms De Jong. Insiders and persons closely related to them may not conduct any transactions with respect to the Company's securities during the so-called Closed Periods and Blocked Periods.

A Closed Period is:

- (i) the period of 30 calendar days before the publication of the Company's annual results for the previous financial year;
- (ii) the period of 30 calendar days before the publication of the Company's semi-annual results for the previous six months; and
- (iii) the period of 15 days immediately preceding the publication of the Company's quarterly results, or, if shorter, the period starting from the closing date of the relevant quarter up to and including the moment of publication of the quarterly results.

The Blocked Period is considered to be the period that is communicated as such by the Compliance Officer upon the instructions from the Board of Directors or the Executive Committee and which commences from the date on which the Insider Knowledge becomes known to the Board of Directors or the Executive Committee and lasts until immediately after the Insider Knowledge has been announced or until the date on which the Insider Knowledge is no longer price-sensitive in nature.

Certain transactions, to be stated specifically, remain possible in exceptional cases during the Closed Periods and Blocked Periods. Insiders who wish to acquire or sell Company securities must notify the Compliance Officer in writing of this intention prior to the transaction. In response to this notification, the Compliance Officer may issue a negative recommendation with respect to the planned transaction. In that case, the Insider must consider this recommendation as an explicit rejection of the transaction by the Company. Every request and every recommendation from the Compliance Officer is recorded in a

special register. Transactions that can reasonably be expected to have a sensitive impact on the stock market price of the Company's shares will be announced in accordance with the rules regarding the occasional provision of information.

## Description of the main features of the internal control and risk management systems

The Board of Directors is responsible for the strategy and the accompanying risk profile, and for the design and operation of the internal risk management and control systems. The purpose of these systems is (1) to be continually aware, with a reasonable degree of certainty, of the extent to which Fagron is achieving its strategic and operational objectives, (2) to guarantee the reliability of the financial reporting, and (3) to act in accordance with the laws and regulations applicable to Fagron.

The design of these internal risk management and control systems, in relation to Fagron's strategic, operational, compliance and financial reporting risks, has high priority within Fagron and remains continually subject to further refinement and improvement, also considering the development of the environment and the company itself.

The design and operation of these internal risk management and control systems is continually evaluated. Nevertheless, these systems can never guarantee with absolute certainty that no material inaccuracies can arise at Fagron. Fagron gives priority to internal control and management. The internal control and management is continually assessed and further professionalised, with attention devoted to the governance structure, processes, systems and controls, as well as to awareness by management and employees regarding the importance their proper application. In concrete terms, the Fagron internal governance is constructed from the following elements:

### **Development of strategy**

Fagron's strategy and the associated objectives and aims are critically assessed each year, and adjusted where necessary, on the basis of market developments, the opportunities and threats that are identified, an analysis of strengths and weaknesses and a strategic risk assessment. The Board of Directors is responsible for this task.

### **Budgets**

The strategic objectives, including the main opportunities and risks, are discussed with the Executive Committee. Fagron's strategic objectives constitute the basis for the budgets of the business units. In addition to a financial budget, the budget for each business unit contains a number of concrete business objectives that are translated into Key Performance Indicators (KPIs), which are consistently monitored for progress during the year.

### **Reporting, analysis and review**

The financial results and forecasts are analysed each month at local as well as central level, using the Fagron Management Information System. This system is available to the management and the business controllers, as well as to the Executive Committee and the Corporate Controlling department.

The management and the business controllers report to the Executive Committee and the Corporate Controlling department on a monthly basis regarding the progress in achieving their business plans, the resulting KPIs and financial performance. Progress meetings based on these reports are held on a regular basis, where at least the following is discussed: the actions agreed upon in earlier reviews, the financial results, the updated forecasts, employee turnover and recruitment and the progress and developments in the business.

### **Global Policies and Code of Ethics**

Responsibilities, powers, guidelines and procedures at Fagron have been clearly established in an accessible manner in Fagron's Global Policies and Code of Ethics. Every important

process is addressed.

The management and business controllers of the business units are responsible for the proper application of the processes and systems. Acquisitions, as soon further integration takes place, are also integrated in terms of guidelines, procedures, processes and systems.

### **Diversity information**

Diversity is very important at Fagron. For further explanation, please refer to the Chapter "Non-financial information and information regarding diversity", starting on page 67 of this Annual Report.

### **Compliance reviews and external audits**

In addition to the external audits, various compliance reviews are performed on the quality system used, the administrative organisation and the financial results.

The Statutory Auditor focuses on the proper application and operation of internal control measures that are important for the creation of the financial statements. The results from the Statutory Auditor's audits are reported verbally and in writing to Corporate Controlling, the CFO and the Audit Committee. The compliance reviews are performed by Corporate Controlling and also address the proper application of and compliance with internal procedures and guidelines. They focus on both financial and operational audits. The aim is to achieve continual further professionalising of our internal controls on the basis of the results. These instruments also contribute towards a continual increase in risk awareness within Fagron.

The Audit Committee found that there was no need to establish an independent internal audit function for 2018.

# Corporate Governance information

## Corporate Governance Charter

The Board of Directors approved the first version of the Company's Corporate Governance Charter on 4 October 2007. This Charter was supplemented with the internal regulations of the Board of Directors, the Executive Committee, the Audit Committee, the Nomination Committee and the Remuneration Committee. The Charter also includes the policy established by the Board of Directors for transactions and other contractual relations between the Company and its directors and members of the Executive Committee. The Board of Directors had furthermore established rules to prevent insider trading. The Charter was based on the provisions of the Belgian Corporate Governance Code 2004, with the Board of Directors making compliance with the principles and provisions of this Code, as fully and closely as possible, its primary goal. On 24 April 2008, the Board of Directors then approved an updated version of the Company's Corporate Governance Charter, in which a number of general points were further refined.

The Corporate Governance Charter was subsequently adapted to the Belgian Corporate Governance Code of 12 March 2009 and the Board of Directors then approved the revised version of the Corporate Governance Charter on 23 March 2010. In a decision by the Board of Directors on 27 October 2010, the Nomination Committee and the Remuneration Committee were formally merged to create the Nomination and Remuneration Committee. After that, the definition of "Closed Period" was

amended and the Corporate Governance Charter was aligned with the new mandatory provisions of the Belgian Companies Code.

In the subsequent decision by the Board of Directors on 14 May 2012, Article 3.3.2. of Annex 3 to the Corporate Governance Charter (Rules for the prevention of insider trading and market manipulation) was amended to allow not only the exercise of warrants, but also the exercise of stock options during a Closed Period or Blocked Period.

Finally, in the decision by the Board of Directors on 6 February 2017, the Corporate Governance Charter was updated and, in particular, Articles 3.1 through 3.7 of Annex 3 (Rules for the prevention of insider trading and market manipulation) were amended in accordance with the provisions of the Market Abuse Regulation. The current version of the Corporate Governance Charter was approved by the Board of Directors on 6 February 2017.

The Company is of the opinion that it satisfies all of the principles and provisions of the Belgian Corporate Governance Code 2009 (with one specific exception being the lack of an internal audit function), as well as all of the provisions of the Act of 6 April 2010.

The complete Corporate Governance Charter, including the Annexes, is available on the corporate website ([www.fagron.com](http://www.fagron.com)) in the section entitled "Corporate Governance".

Future changes to the Charter will also be published on the corporate website.

## General Meeting

The General Meetings are convened by the Board of Directors or the Statutory Auditor(s) (or, as the case may be, the liquidators).

The annual General Meeting will be held on the second Monday of May at 3 p.m. If that day is an official public holiday, the General Meeting is held at the same time on the next working day. The venue is Fagron NV's registered office or the venue as stated in the convocation notice for this meeting.

Convocation notices for the General Meetings are in the form and within the time limits as set out in the Belgian Companies Code and the convocation notices must at least contain the details as set out in Article 533bis of the Belgian Companies Code. The right to attend the General Meeting and to exercise voting rights shall be granted solely based on the administrative registration of the shares in the shareholder's name on the fourteenth day before the General Meeting at midnight, Belgian time, either through the shareholder's registration in the Company's shares register, or by their registration in the accounts of a certified account holder or intermediary, irrespective of the number of shares that the shareholder is holding on the actual date of the General Meeting. The date and time as aforementioned serve as the registration date. Shareholders shall report, to the Company or to the relevant person appointed by the Company, their intention to attend the General Meeting no later than the sixth day before the date of the meeting. The certified account holder or intermediary shall provide the

shareholder with a certificate from which it is apparent with how many dematerialised shares, registered in its accounts in the shareholder's name on the registration date, the shareholder has indicated to wish to participate in the General Meeting.

For each shareholder who expressed a wish to attend the General Meeting, a register designated by the Board of Directors will serve to record his/her name and address or registered office, the number of shares in his/her possession on the registration date and with which he/she has indicated for participation in the General Meeting, as well as a description of the documents that prove that he/she held the relevant shares on that registration date.

Holders of bonds, warrants or certificates issued with the Company's cooperation are permitted to attend the General Meeting with an advisory vote, on the condition that the admission conditions which apply to the shareholders are fulfilled. Every shareholder with a right to vote may be represented by a natural person or legal entity at the General Meeting in accordance with the applicable provisions in the Belgian Companies Code. In the convocation notice, within the limits as specified in the Belgian Companies Code, the Board of Directors defines the procedure for voting by proxy and the proxy form that must be used when granting the proxy. The Company must receive the proxies no later than on the sixth day before the date of the General Meeting, in accordance with the procedure established by the Board of Directors. The calculation of the rules regarding quorum and majority shall be based solely on the proxies from the shareholders that comply with the admission formalities as specified in the Articles of Association.

One or more shareholders, who together hold at least 3% of the authorised share capital, may have items placed on the agenda of the General Meeting and may submit motions for a vote in relation to the agenda items or items to be placed on the agenda. This article does not apply for a General Meeting convened in the application of Article 533 §2,

paragraph 2, of the Belgian Companies Code.

On the date that shareholders submit an agenda item or motion to vote, the relevant shareholders must prove that they satisfy the 3% threshold, either based on a certificate of registration of the relevant shares in the Company's shares register, or based on a certificate issued by a certified account holder or intermediary institution from which it is apparent that the relevant number of dematerialised shares has been registered to their name and account. The subjects to be placed on the agenda and the motions to vote that have been placed on the agenda will only be discussed if the aforementioned 3% of the capital has been registered in accordance with Article 536 §2 of the Belgian Companies Code.

The requests must be made in writing and must be accompanied by the text of the subjects to be discussed and the associated motions to vote, or by the text of the motions to vote to be placed on the agenda. A mailing address or email address must be included, to which the Board of Directors will send the confirmation of receipt of these requests.

The Company must receive these requests no later than on the 22nd day before the date of the General Meeting. Requests are sent to the Company in an electronic format to the address stated in the convocation notice for the General Meeting.

The Company shall confirm receipt of the requests within a period of forty-eight hours to be calculated as of that receipt.

Upon receipt of the requests, the Company shall act in accordance with the Belgian Companies Code, in particular, in accordance with Article 533ter §3 of the Belgian Companies Code.

The provision contained in Article 533ter of the Belgian Companies Code must be applied in good faith by the shareholders as well as by the Company. It may only be invoked in the interest of the Company.

The directors shall answer the questions that are asked by the shareholders during the meeting or in writing regarding their report,

or regarding the agenda items, insofar as the communication of information or facts would not be detrimental to the Company's business interests or to the confidentiality to which the Company, its directors or the Statutory Auditor(s) are obligated.

During the meeting, the Statutory Auditor(s) shall answer the questions asked verbally by the shareholders during the meeting or in writing regarding its/their report.

If there are various questions regarding the same subject, the directors and Statutory Auditor(s) may answer these in a single response.

As soon as the convocation notice has been published, the shareholders may submit the questions specified in the first paragraph in writing and these shall be answered in the meeting by, as the case may be, the directors or the Statutory Auditor(s), to the extent the relevant shareholders complied with the formalities that had to be completed before being admitted to the meeting. The questions may be sent electronically to the Company address as stated in the convocation notice for the General Meeting.

The Company must have received the questions in writing no later than on the sixth day before the meeting.

Fagron NV's Articles of Association were amended during the Extraordinary General Meetings: On 14 May 2012, in order to satisfy the mandatory provisions of the Act of 20 December 2010 (Act regarding the exercise of certain rights of shareholders of listed companies).

On 12 December 2014, concerning the:

- Change of the company name from Arseus to Fagron;
- Renewal of the authorisation for the acquisition and disposal of treasury shares;
- Amendment of the provisions in the Articles of Association concerning the discontinuation of bearer shares (Act of 14 December 2005);
- Amendment of the provisions in the Articles of Association concerning the liquidation procedure in accordance with the stipulations of the Belgian Companies Code (Acts of 19 March 2012 and 25 April 2014).

On 29 June 2015, in order to increase the capital within the context of the authorised capital through contribution in kind upon the issuance of new shares.

On 5 August 2015, in order to increase the capital within the context of the authorised capital through contribution in kind upon the issuance of new shares.

On 20 May 2016, in order to increase the capital against the issuance of new shares, as approved during the Extraordinary General Meeting of 4 May 2016.

On 1 July 2016, in order to reduce the capital by making up transferred losses without the cancellation of shares.

On 7 July 2016, in order to increase the capital against the issuance of new shares, as approved during the Extraordinary General Meeting of 4 May 2016.

On 8 May 2017, in order to renew the authorisation in the context of the authorised capital for a period of five years.

The coordinated Articles of Association can be accessed on the corporate website ([www.fagron.com](http://www.fagron.com)) in the section entitled "Corporate Governance".

## Consultation of the Company's documents

The stand-alone and consolidated financial statements, Articles of Association, annual reports and other information that is disclosed for the benefit of the shareholders are available free of charge from the Company's registered office.

The Articles of Association can be accessed on the corporate website ([www.fagron.com](http://www.fagron.com)) in the section entitled "Investors".

## Number of shares and authorised capital

Fagron NV was founded on 29 June 2007 (under its previous name of Arseus NV). Upon incorporation, the share capital was 61,500 euros, represented by 100 registered shares without nominal value, fully paid-up in

cash, where each share represents an identical fraction of the Fagron share capital.

On 7 September 2007, the Fagron NV Extraordinary Shareholders Meeting, subject to completion of the IPO, decided to increase the share capital through a contribution in kind, consisting of the following components:

(i) a contribution in kind by Omega Pharma in the form of Fagron BV (previously Arseus BV) shares and (ii) the contribution of claims held by the contributors.

This resulted in the issuance of (i) 6,000,000 and (ii) a) 24,999,900 and b) 195,121 shares.

This brought the total number of Fagron shares to 31,195,121 and the authorised capital to 319,810,475.00 euros.

On 16 February 2011, there were 1,018 new shares issued as a result of the exercise of warrants under the Warrant Plan of the Offer. Non-exercised warrants under the Warrant Plan of the Offer have lapsed. After this issue, the number of Fagron voting securities amounted to 31,196,139. The total number of voting rights (denominator) amounted to 31,196,139. The authorised share capital amounted to 319,820,911.43 euros at that time.

On 16 June 2011, there were 20,749 new shares issued as a result of the exercise of warrants under the Warrant Plan 1 and 2, both approved by the Board of Directors on 6 September 2007. The number of Fagron voting securities amounted to 31,216,888. The total number of voting rights (denominator) amounted to 31,216,888. The authorised share capital amounted to 320,023,050.35 euros.

On 14 June 2012, there were 61,626 new shares issued as a result of the exercise of warrants under the Warrant Plan 1 and 2, both approved by the Board of Directors on 6 September 2007. The number of Fagron voting securities amounted to 31,278,514. The total number of voting rights (denominator) amounted to 31,278,514. The authorised share capital amounted to 320,601,893.93 euros.

On 13 June 2013, there were 79,844 new shares issued as a result of the exercise of warrants under the Warrant Plan 1 and 2, both approved by the Board of Directors on 6 September 2007. The number of Fagron voting securities amounted to 31,358,358. The total number of voting rights (denominator) amounted to 31,358,358. The authorised share capital amounted to 321,384,974.57 euros.

On 13 June 2014, there were 73,002 new shares issued as a result of the exercise of warrants under the Warrant Plan 1 and 2, both approved by the Board of Directors on 6 September 2007. The number of Fagron voting securities amounted to 31,431,360. The total number of voting rights (denominator) amounted to 31,431,360. The authorised share capital amounted to 322,111,645.98 euros.

On 5 June 2015, there were 12,301 new shares issued as a result of the exercise of warrants under the Warrant Plan 1 and 2, both approved by the Board of Directors on 6 September 2007. The number of Fagron voting securities amounted to 31,443,661. The total number of voting rights (denominator) amounted to 31,443,661. The authorised share capital amounted to 322,217,493.06 euros.

On 29 June 2015, 224,133 new shares were issued in the context of the authorised capital. The number of voting securities of Fagron amounted to 31,667,794. The total number of voting rights (denominator) amounted to 31,667,794. The authorised share capital amounted to 324,514,856.31 euros in order to increase the capital within the context of the authorised capital through contribution in kind upon the issuance of new shares.

On 4 August 2015, 444,033 new shares were issued in the context of the authorised capital. The number of voting securities of Fagron amounted to 32,111,827. The total number of voting rights (denominator) amounted to 32,111,827. The authorised share capital amounted to 329,066,194.56 euros in order to increase the capital within the context of the authorised

capital through contribution in kind upon the issuance of new shares.

On 20 May 2016, there were 22,626,387 new shares issued in the context of the decisions made for that purpose by the Extraordinary General Meeting of 4 May 2016. The number of Fagron voting securities amounted to 54,738,214. The total number of voting rights (denominator) amounted to 54,738,214. The authorised share capital amounted to 460,109,177.55 euros.

On 1 July 2016, the authorised share capital was reduced by 54,182,316.27 euros by making up transferred losses without the cancellation of shares. The number of Fagron voting securities amounted to 54,738,214. The total number of voting rights (denominator) amounted to 54,738,214. The authorised share capital amounted to 405,926,861.28 euros.

On 7 July 2016, there were 17,105,690 new shares issued in the context of the decisions made for that purpose by the Extraordinary General Meeting of 4 May 2016. The number of Fagron voting securities amounted to 71,843,904. The total number of voting rights (denominator) amounted to 71,843,904. The authorised share capital amounted to 494,192,221.68 euros.

At the time of creation of this annual report, the capital therefore amounts to four hundred ninety-four million one hundred ninety-two thousand two hundred twenty-one euros and sixty-eight euro cents (494,192,221.68 euros), represented by seventy-one million eight hundred forty-three thousand nine hundred four (71,843,904) shares, without indication of nominal value but with an accounting par value of one seventy-one million eight hundred forty-three thousand nine hundred fourth (1/71,843,904th) part of the capital.

## Shareholder structure and notifications of shareholding

Based on the notifications of shareholding received by the Company up to 12 April 2019 and taking into account the denominator, the Company's shareholder structure is as shown in the table below.

The notifications are also available on the corporate website ([www.fagron.com](http://www.fagron.com)), in the section entitled "Investors".

In accordance with Article 11 of the Company's Articles of Association, the applicable quota for the application of Articles 1 through 4 of the Act of 2 March 1989 on the disclosure of significant participations in listed companies and regulation of public acquisition bids are specified at 3%, 5% and multiples of 5%.

## Conflicts of interest

The procedure from Article 523 of the Belgian Companies Code was applied twice in 2018, specifically during the meeting of the Board of Directors on 13 April (Approval of "Warrant Plan 2018") and 14 May (Granting discharge to the members of the Executive Committee). The passage from the minutes of the particular decision is presented verbatim below, stating the reasons for the conflict of interest as well as the explanation and property law consequences for the Company.

### Extract from the minutes of the Board of Directors of 13 April 2018: Approval "Warrant Plan 2018"

Before the discussion regarding the agenda commences, Mr Rafael Padilla and Ms Karin de Jong announce that they believe a conflict of interest of a property law nature could arise in relation to the decisions that the Board of Directors will make considering the approval of the "Warrant Plan 2018", since they are also beneficiaries of that plan.

	Number of shares	% of effective voting rights
Waterland Private Equity Fund VI C.V., Filip Balcaen and Fagron NV	22,656,725	31.54%
Alychlo NV/ Marc Coucke	10,749,267	14.96%
Evermore Global Advisors, LCC	2,203,472	3.07%
Carmignac Gestion*	1,492,006	4.65%

\* The notification of Carmignac Gestion's participating interest was received on 18 March 2016 and is based on a denominator of 32,111,827.

The Board of Directors takes note of this conflict of interest and the fact that this was also communicated by the relevant directors to the Company's Statutory Auditor. In accordance with the provisions of Article 523 of the Belgian Companies Code - and taking into account the fact that the Company has drawn publicly on the savings system - the relevant directors were asked to refrain from participating in the further deliberations and vote regarding the approval of the "Warrant Plan 2018".

The relevant directors consequently refrained from participating in the deliberations and the vote regarding that agenda point.

#### The grounds for justification concerning the aforementioned conflict of interest are:

The initiative taken by the Board of Directors on the proposal of the Nomination and Remuneration Committee to launch the "Warrant Plan 2018" has the objective of encouraging the beneficiaries of the plan to contribute to the growth of the business on the one hand, and to promote and strengthen their loyalty to the business on the other.

#### The financial consequences are as follows:

The financial consequences for the Company arising from the fact in order to grant warrants to the aforementioned executive directors are at a minimum, taking into account that the granting of the warrants to the aforementioned executive directors in fact regards the granting by the Board of Directors of a variable remuneration, where the Company will transfer new shares in the context of exercising of the warrants by the aforementioned directors, as a result of which a limited dilution will occur under existing shares due to this issue of new shares.

#### Interest of the Company:

The Board of Directors refers to the recommendation from the Nomination and Remuneration Committee as a result of the issuance of the "Warrant Plan 2018", which indicates that the work, the initiative and the entrepreneurship of each of the beneficiaries make an important

contribution to the development of the Company's activities and results and that they therefore want to give the beneficiaries the chance to acquire (additional) shares in the Company at a registration price specified in advance so that they can participate financially in the Company's added value and growth.

After all, experience over the past years has shown that options and warrants and participation as shareholders are important elements of motivation and involvement for the Company's employees regarding the business. Such a plan has the objective of promoting the effort and motivation in the longer term, allowing the effort to contribute to implementing the strategy and to the success and growth of the enterprise.

#### Extract from the minutes of the Board of Directors of 14 May 2018: Granting of Discharge to Executive Members

Prior to the discussion of this agenda item, Mr Rafael Padilla and Ms Karin de Jong reported that they may have a conflict of interest in the sense of Article 523 of the Belgian Companies Code when granting discharge to Mr Rafael Padilla and Ms Karin de Jong, respectively, in their capacity as members of the Company's Executive Committee during the 2017 financial year.

For both Rafael Padilla and Karin de Jong, this conflict of interest stems from the fact that on the one hand, they are directors of the Company and on the other hand, served as members of the Company's Executive Committee during the 2017 financial year.

The relevant directors will notify the Company's Statutory Auditor of their conflict of interest.

Mr Rafael Padilla and Ms Karin de Jong will not participate further in the deliberation nor in the vote about granting discharge to Mr Rafael Padilla and Ms Karin de Jong, respectively, and each will leave the meeting when the decision about the discharge to Rafael Padilla and Karin de Jong, respectively, is made.

#### Description of the decision and justification:

The proposed decision regards the granting of discharge to each of the Executive Committee members individually for the manner in which he/she performed his/her mandate as director during the 2017 financial year.

During the course of the 2017 financial year, the Board of Directors was given full insight at regular times into all important resolutions by the Executive Committee and the Board of Directors, on this basis, was able to determine sufficiently that each of the individual members of the Executive Committee performed his/her assignment properly during the 2017 financial year.

#### The financial consequences of granting discharge are as follows:

The consequence of granting discharge is that none of the Executive Committee members can be held personally financially liable by the Board of Directors for errors and breaches committed in the performance of his or her duties.

**Resolution:** In individual votes (one for each Executive Committee member), the Board of Directors unanimously resolved to grant discharge individually to each member of the Executive Committee (Rafael Padilla, Karin de Jong, Constantijn van Rietschoten, Rita Hoke, Hans Stols (through 27 November 2018), Kalman Petro (through 12 October 2017) and Michaël Hillaert (through 6 February 2017) for the manner in which they performed their mandate and duties during the 2017 financial year.

#### Acquisition of treasury shares

The Extraordinary General Meeting of 16 June 2009 granted the Company's Board of Directors the additional authorisation to buy back treasury shares for a period of five years starting from 16 June 2009, for a price of no less than one euro and no more than the average of the closing prices in the ten working days prior to the date of the acquisition or exchange, plus 10%, in such a manner that the Company shall at no time own shares

in its own capital with an accounting par value in excess of 20% of the Company's issued capital.

This authorisation expired on 16 June 2014, and the Extraordinary General Meeting of 12 December 2014 subsequently granted the Board of Directors a new authorisation to buy back treasury shares up to a maximum of ten percent (10%) of the issued capital, through acquisition or exchange, directly or through an intermediary acting on its own account or on the company's behalf, for a price of no less than one euro and no more than the average of the closing prices in the ten working days prior to the date of the acquisition or exchange, plus 10%, in such a manner that the Company shall at no time own shares in its own capital with an accounting par value in excess of 10% of the Company's issued capital.

It shall be proposed to the Extraordinary General Meeting to approve a new authorisation to purchase treasury shares for a period of five years.

The Company did not purchase any treasury shares in 2018 and did not provide any treasury shares. As of 31 December 2018, Fagron held 103,627 treasury shares.

## Warrants

On 3 June 2014, the Company's Board of Directors approved the 2014 Warrant Plan for employees and managers/consultants of Fagron NV and/or its subsidiaries, which decision was ratified by the Board of Director's resolution of 2 September 2014 in the presence of Civil-law Notary, Luc De Ferm. The Board of Directors is of the opinion that the option for employees and managers/consultants to participate is a key stimulus for the Company's further expansion and growth.

On 13 June 2016, the Company's Board of Directors approved the Warrant Plan 2016 for employees and managers/consultants of Fagron NV and/or its subsidiaries, which decision was ratified by resolution by the

Extraordinary General Meeting of 1 July 2016 in the presence of Civil-law Notary, Liesbet Degroote, where it was resolved to issue 1,000,000 warrants. In accordance with its authority in Articles 8 and 10.1 of the "Warrant Plan 2016", the Board of Directors resolved to change the time period of the existing exercise period and to add an additional exercise period in Article 8.1 of the "Warrant Plan 2016", in particular, on 1 July 2021. The Board of Directors is of the opinion that the option for employees and managers/consultants to participate is a key stimulus for the Company's further expansion and growth.

On 13 April 2018, the Company's Board of Directors approved the Warrant Plan 2018 for employees and managers/consultants of Fagron NV and/or its subsidiaries, where this decision was ratified by resolution of the Extraordinary General Meeting of 14 May 2018 in the presence of Civil-law Notary, Liesbet Degroote, where it was resolved to issue 1,300,000 warrants.

For further details regarding the conditions of the Warrant Plans 2014, 2016 and 2018 and the movements in the number of warrants during the 2018 financial year, see Note 21 to the consolidated financial statements.

## Stock options

On 27 October 2011, the Company's Board of Directors approved the Stock Option Plan 2011 for consultants and employees of Fagron NV and/or its subsidiaries, under the suspensive condition of approval by the General Meeting. The Stock Option Plan 2011 was presented for approval to the Annual General Meeting of 14 May 2012, which approved the Stock Option Plan 2011.

In the context of the Stock Option Plan 2011, the Board of Directors intends to (i) better align the new managers joining the group (through acquisitions or otherwise) with Fagron's long-term success and (ii) be able to offer existing managers an extra financial incentive when they are promoted by offering options.

The Stock Option Plan 2011 can be viewed on the corporate website ([www.fagron.com](http://www.fagron.com)) in the section entitled "Investors".

In 2012, a total of 250,000 stock options were allocated under the Stock Option Plan 2011.

In 2014, there were 22,500 stock options exercised and 4,650 stock options allocated under the Stock Option Plan 2011.

In 2015, there were 27,500 stock options exercised under the Stock Option Plan 2011.

Since 2016, there have been no stock options exercised under the Stock Option Plan 2011.

For further details regarding the conditions of the Stock Option Plan 2011 and the movements in the number of stock options during the 2017 and 2018 financial years, see Note 21 to the consolidated financial statements.

## Authorised capital

The Extraordinary General Meeting on 8 May 2017 resolved to renew the Board of Directors' authorisation to increase the authorised share capital, with a majority of at least three-fourths of the votes and within the limits of the authorisation specified in Article 5bis of the Articles of Association, in one or more rounds by a maximum amount of 494,192,221.68 euros, within a period of five years starting from the date of publication of the decision in the Appendices to the Belgian Official Gazette (19 May 2017).

The authorised capital authorisation was not used during the 2018 financial year.

If the capital is increased within the limits of the authorised capital, then the Board of Directors will be competent to request payment of a share premium. If the Board of Directors so decides, then this issue premium will be deposited into a blocked account, called "issue premium", which will constitute the guarantee of third parties to the same extent as the authorised capital, and which can only be accessed, subject to the option to convert this



premium into capital, in accordance with the conditions for reducing the authorised capital stipulated by the Belgian Companies Code.

This power of the Board of Directors will apply to capital increases that are subscribed to in cash or in kind, or that result from capitalisation of reserves with or without the issue of new shares. The Board of Directors is permitted to issue convertible bonds or warrants within the limits of the authorised capital.

This Board of Directors' authorisation to increase the authorised share capital, within a period of five years starting from the date of publication of the decision in the Appendices to the Belgian Official Gazette (19 May 2017), with a majority of at least three-fourths of the votes and within the limits of the authorisation specified in Article 5bis of the Articles of Association, expires on 19 May 2022.

## Statutory Auditor

Fagron's Statutory Auditor is CVBA PricewaterhouseCoopers Bedrijfsrevisoren, a company governed by Belgian law with registered office at Woluwedal 18, 1932 Sint-Stevens-Woluwe. This company has designated Peter Van den Eynde, Auditor, as representative who is authorised to represent the company and who is charged with performing the mandate in the name of and for the account of the CVBA.

CVBA PricewaterhouseCoopers Bedrijfsrevisoren was appointed starting in 2016 as Fagron's Statutory Auditor for a term of three financial years, ending on the date after the Annual General Meeting to be held in 2019.

PricewaterhouseCoopers received a total annual Audit fee of 475,976 euros in 2018. Of this amount, 113,975 euros regarded Fagron NV. It will be proposed to the General Meeting of Shareholders on 13 May 2019 to approve this remuneration. Details about the remuneration of the Statutory Auditor in 2018 are contained in Note 30 to the financial statements.

It will be proposed to the General Meeting of 13 May 2019 to appoint Deloitte Bedrijfsrevisoren CVBA, with registered office at Luchthaven Brussel Nationaal 1, Bus 1J, 1930 Zaventem and registered in the K.B.O. (Kruispuntbank van Ondernemingen [Crossroads Bank for Enterprises]) under number 0429.053.863, represented by Ms Ine Nuyts, as the Company's Statutory Auditor for a period of three years for the period 2019-2021 to be terminated immediately after the 2022 Annual Meeting.

The Statutory Auditor's remuneration for the financial year 2019 for the group will be 451,000 euros (excluding expenses and VAT), of which 118,000 euros is for the Company's statutory audit. This amount can be adjusted in mutual consultation between parties or based on the consumer pricing index.

## Remuneration report

### Remuneration for non-executive directors

The non-executive directors do not receive any performance-based remuneration, nor any benefits in kind or benefits that are tied to pension schemes.

The Chairman of the Board of Directors receives an annual remuneration of 100,000 euros, regardless of the number of Committees of which the Chairman is a member and the Company's other non-executive directors receive an annual remuneration of 30,000 euros, plus 7,200 euros for each Committee of which they are a member. In concrete terms, this means that the remunerations as shown in the table on page 64 were paid in 2018.

### Remuneration policy for executive directors and members of the Executive Committee

The remuneration for executive directors entirely results from their executive positions. The members of the Executive Committee do not receive any separate remuneration for their membership in the Board of Directors. The following principles were applied in 2018 for the policy

regarding executive directors and members of the Executive Committee:

On the one hand, there is a fixed remuneration. This remuneration is based on market rates, taking into account the size of the company, the industry, the growth profile and the profitability. On the other hand, there is also variable remuneration in cash.

For the CEO, this remuneration amounts to a maximum of 120% of the fixed annual remuneration. For the other members of the Executive Committee, this remuneration amounts to a maximum of 50% of the fixed annual remuneration.

The executive directors and members of the Executive Committee do not receive any long-term results-related share-related incentive programmes. Currently, there is no intention to implement any amendments to the remuneration policies in the next two years for the executive directors and the members of the Executive Committee.

On 2 September 2014, the Board of Directors approved and signed the Warrant Plan 2014 for consultants and employees of Fagron NV and/or its subsidiaries.

This warrant plan aims to provide an additional incentive to the Company's directors and management. The Warrant Plan 2014 can be viewed on the corporate website ([www.fagron.com](http://www.fagron.com)) in the section entitled "Investors".

Since 2015, no warrants were allocated under the Warrant Plan 2014 to specific directors and the Company's management.

During the year 2018, no warrants were exercised under the Warrant Plan 2014 by the executive members of the Board of Directors and members of the Executive Committee.

The Extraordinary General Meeting of 1 July 2016 approved the Warrant Plan 2016 for consultants and employees of Fagron NV and/or its subsidiaries.

This warrant plan aims to provide an additional incentive to the Company's directors and management. The Warrant Plan 2016 can be viewed on the corporate website ([www.fagron.com](http://www.fagron.com)) in the section entitled "Investors".

During the year 2016, there were 983,091 warrants allocated under the Warrant Plan 2016 to specific directors and the Company's management. During the years 2017 and 2018, no warrants were exercised under the Warrant Plan 2016 by the executive members of the Board of Directors and members of the Executive Committee.

The Extraordinary General Meeting of 14 May 2018 approved the Warrant Plan 2018 for consultants and employees of Fagron NV and/or its subsidiaries. This warrant plan aims to provide an additional incentive to the Company's directors and management. The Warrant Plan 2018 can be viewed on the corporate website ([www.fagron.com](http://www.fagron.com)) in the section entitled "Investors". During the year 2018, there were 1,300,000 warrants allocated under the Warrant Plan 2018 to specific directors and the Company's management. During the year 2018, no warrants were exercised under the Warrant Plan 2018 by the executive members of the Board of Directors and members of the Executive Committee.

For further details regarding the warrants/ stock options, see Note 21 to the consolidated financial statements.

#### **Evaluation criteria for bonuses paid to members of the Executive Committee on the basis of the performance of the Company or its business units**

The criteria to be taken into account in 2018 for the allocation of performance-related bonuses to the members of the Executive Committee are based on financial targets, particularly on (1) turnover, (2) REBITDA, and (3) working capital.

The variable remuneration is allocated on the basis of these financial targets that are established and evaluated on an annual basis. The management agreements do not explicitly provide a right of reclaim for the Company regarding any variable remunerations that have been allocated on the basis of incorrect financial data.

Article 520ter of the Belgian Companies Code states that as of the 2011 financial year, except where the Articles of Association explicitly state otherwise or upon explicit approval by the General Meeting, the variable remunerations must be distributed over time as follows:

- 50% of the variable remunerations may be related to performance in the relevant year (in this case, 2018) and will therefore be paid out after one year;
- the remainder must be distributed over at least the next two years, whereby at least 25% must be based on performance over a period of at least three years, therefore 25% in 2019 and 25% in 2020. This mandatory distribution does not apply if the variable remuneration amounts to 25% or less of the annual remuneration. However, the Nomination and Remuneration Committee is of the opinion that there are justified reasons why it would not be expedient for Fagron to change its current bonus system based on annual targets, and to link it to long-term objectives over two and

three years for the sake of the following reasons, and has therefore recommended that Fagron's current bonus system based on annual targets be retained:

- First of all, Fagron's Executive Committee is already well aligned with Fagron's long-term performance via the current warrant and stock option plans;
- In addition, Fagron also pursues an active buy-and-build strategy, which makes it neither simple nor opportune to set long-term targets relevant for Fagron in advance.

The use of long-term turnover, net income or EBIT targets would, for example, be pointless if significant acquisitions were to take place over the course of the next years.

The Extraordinary General Meeting of 14 May 2012 gave its approval for the amendment of Article 26 of the Articles of Association to allow the Board of Directors to forgo application of the distributed variable remuneration as specified in Article 520ter of the Belgian Companies Code.

(in euros)

AHOK BVBA, permanently represented by Mr Koen Hoffman	100,000
Vanzel G.Comm.V., permanently represented by Ms Giulia Van Waeyenberge	37,200
Deprez Management BVBA, permanently represented by Ms Veerle Deprez	30,000
Holdco FV B.V., permanently represented by Mr Frank Vlayen	37,200
Matthias Geysens	37,200
WPEF VI Holdco III BE B.V., permanently represented by Ms Nathalie Clybouw*	17,500
Marc Janssens	30,000
Alychlo NV, permanently represented by Mr Marc Coucke	30,000
Michael Schenck BVBA, permanently represented by Mr Michael Schenck	37,200
Judy Martins*	12,500

\* Amounts prorated to the term served by the directors.

## Remuneration of the CEO and the other members of the Executive Committee

The first table on page 65 provides information regarding the remuneration package for 2018.

The second table on page 65 provides information regarding the allocated warrants and the allocated stock options.

Note 21 to this Annual Report contains a further explanation regarding the warrants and the stock option plan.

## Information regarding severance pay

Since 1 January 2015, none of the members of the Executive Committee is entitled to a severance package that exceeds an amount equal to 12 months of fixed and variable remuneration.

## Annual information

A summary of the “annual information”, as specified in Title X of the Prospectus Act in accordance with the Belgian Act of 16 June 2006 on the public offer of investment instruments and the acceptance of trading investment instruments on the regulated market

(the “Prospectus Act”), is provided below. All of this information can be viewed on the corporate website ([www.fagron.com](http://www.fagron.com)) in the section entitled “Investors”. Some of this information may now be out of date.

### Prospectus

Fagron NV (at the time: Arseus NV) issued a prospectus on 11 September 2007 for the IPO as an independent company. On 12 June 2012, Fagron NV (at the time: Arseus NV) issued a prospectus with a view to the Public Offering and admission to the trading of Bonds on the regulated market of Euronext Brussels. On 16 June 2016, Fagron NV issued a prospectus with a view to the Public Offering and

## Remuneration package

Information about remuneration (in euros)	CEO	Total excluding CEO	Note
<b>Base salary/remuneration</b>		510,000	Regards gross salary of the other members of the Executive Committee for the duration of the mandate.
Rafael Padilla	457,750		
Variable remuneration	270,000	99,000	Regards the variable remuneration over 2018 for the duration of the mandate, paid out in 2019.
<b>Pension and other components</b>		61,732	Regards costs for pensions, insurance and the cash value of the other benefits in kind. A maximum pensionable salary of 100,000 euros applies.
Rafael Padilla	13,571		
Share options/warrants	0	0	

## Information regarding stock options / warrants

Information regarding stock options / warrants	Balance as of 31/12/2017	Allocated in 2018	Exercised in 2018	Expired in 2018	Balance as of 31/12/2018
CEO – Rafael Padilla	275,000 (warrants)	250,000	0	0	525,000 (warrants)
CFO – Karin de Jong	85,000 (warrants)	100,000	0	0	185,000 (warrants)
Other members of the Executive Committee (as of 31 December 2018)	80,000 (warrants)	50,000	0	0	130,000 (warrants)

admission to the trading of new shares on the regulated market of Euronext Brussels.

#### **Information to the shareholders**

Is part of the prospectus of 11 September 2007 and of 16 June 2016.

#### **Periodic press releases and information in 2018**

7 February 2018	Annual figures 2017: Fagron turnover increased by 3.6% to 436.9 euros million and net profit increased to 47.0 million euros
12 April 2018	Trading update, first quarter 2018: Fagron realises organic turnover growth of 6.8%
3 August 2018	Semi-annual figures 2018: Fagron realised organic turnover growth of 8.5%
11 October 2018	Trading update, third quarter 2018: Fagron continues strong turnover growth of first semester in the third quarter of 2018

#### **Periodic press releases and information in the period from 1 January 2019 through 12 April 2019**

7 February 2019	Annual figures 2018: Fagron realised turnover growth of 14.5%; REBITDA increased to 99.1 million euros
12 April 2019	Trading update, first quarter 2019: Fagron continued strong turnover growth in first quarter of 2019

#### **Occasional press releases and information in 2018**

3 April 2018	Fagron strengthens strategic position in USA through highly complementary acquisition of Humco
13 April 2018	Fagron NV: Convocation annual general meeting and extraordinary general meeting
14 May 2018	Fagron NV: Disclosure of received notification
15 May 2018	Fagron shareholders approve all proposed resolutions
26 June 2018	Fagron NV: Disclosure of received notifications
31 July 2018	Fagron NV: Disclosure of received notification
31 August 2018	Fagron NV: Disclosure of received notification
23 October 2018	Fagron NV: Disclosure of received notification

#### **Occasional press releases and information in the period from 1 January 2019 through 12 April 2019**

7 February 2019	Fagron launches new brand identity and purpose
11 April 2019	Fagron NV: Disclosure of received notification

#### **Received notifications of shareholding in 2018**

10 May 2018	JPMorgan Asset Management Holdings Inc.
21 June 2018	JPMorgan Asset Management Holdings Inc.
22 June 2018	JPMorgan Asset Management Holdings Inc.
26 July 2018	JPMorgan Asset Management Holdings Inc.
28 August 2018	Adrianus van Herk

#### **Received notifications of shareholding in the period from 1 January 2019 through 12 April 2019**

8 April 2019	JPMorgan Asset Management Holdings Inc.
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# Non-financial information and information regarding diversity

## Introduction of non-financial information

Since 2017, Fagron also reports non-financial information in the annual report, in line with the EU Directive (2014/95/EU) that requires large organisations in Europe to report on non-financial information such as environment, social policy and diversity at the top. This European Directive was translated into national law in Belgium at the end of 2017. Fagron meets the legal requirements that are set on these reports and will develop a reporting framework in the coming years, including application of the GRI standards.

The next paragraphs explain the relevant environmental, social and personnel aspects, human rights, corruption and bribery issues.

Information related to Fagron's business model is located in the chapter, "Who we are and what we do".

## Quality and safety are foremost (social issues)

Our greatest impact on the user of our products is that on the health and welfare. In the pharmaceutical industry, quality is then also equal to safety: we can only guarantee the health of end users with the highest quality standards.

### Quality Processes

In order to make our products, more than 2,500 raw materials are purchased in bulk from selected and qualified suppliers and manufacturers. All of the purchased raw materials and packaging materials go through an

acceptance and quality control in accordance with the most recent guidelines or pharmacopoeia, and are provided with an analysis certificate after release by a Qualified Person (QP), as certification of a comprehensive quality management system. The products are released by the Qualified Person (QP). Approximately 270 employees in local quality departments and the Global Quality Management Team are continuously working in this area, starting from the selection and on-site audit inspection of manufacturers up to the delivery at the customer.

The facilities of Fagron and of its suppliers must satisfy manufacturing and (inter-)national GMP (Good Manufacturing Practices) quality standards, such as the standards of the European Union, the American FDA, the Brazilian ANVISA and other supervisory bodies. Our manufacturing facilities are GMP-certified and quality processes are arranged in compliance with regulations and other quality standards, such as GDP (Good Distribution Practices) and constantly anticipate changes in laws and regulations. Fagron and supervisory bodies inspect the facilities on a periodic basis in order to check compliance. All audits conducted by customers and by authorities, frequently at Fagron itself, have been completed successfully.

The quality and safety is guaranteed through robust quality systems and registration of all observations, including laboratory analyses and internal and external complaints and their monitoring. We analyse the quality and safety of our products

using the internal and external complaints.

### Product Availability

In many cases, end users of our products depend on our products. Availability of our products is therefore important for the health of our end users. Timely delivery of products can be disrupted by circumstances at our suppliers, including market conditions, natural disasters, strikes, local quality problems and (temporary) closings of facilities. These situations can result in shortages and potential product liability claims. Fagron intends to overcome this issue by carefully selecting multiple suppliers for its products in order to guarantee product availability as much as possible.

### Chain Responsibility

In order to guarantee quality in the chain, an integral part of our strategy is informing prescribers and pharmacists about pharmaceutical compounding techniques. We do this via the organisation of Fagron Academies and via other relevant organisations and institutes in the countries where we operate. Fagron Academy organises courses and training programs to increase and improve prescribers' and pharmacists' knowledge and skills in relation to compounding. Fagron believes that it offers the most extensive training and educational opportunities for, among other things, compounding techniques and the use of materials.

## Our people (personnel issues)

### Diversity

Fagron embraces diversity in the broadest sense of the word and strives to create a positive, transparent work environment that is free from discrimination and provides equal opportunities for all employees, regardless of gender, age, religion or (ethnic) background.

At the end of 2018, there were 2,360 FTE employed at Fagron (2017: 2,054 FTE), of whom 42.9% were male and 57.1% were female (2017: 42.5% male and 57.5% female). Fagron considers this ratio to be balanced and it also reflects the diversity policy. Diversity is considered important at all layers of our organisation, but also once again in management positions and in the composition of the Board of Directors. In accordance with Article 518bis of the Belgian Companies Code, Fagron will at all times endeavour to have at least one-third of the members of the Board of Directors of a different gender than that of the other members. In 2018, the Board of Directors consisted of four women and seven men.

Fagron also has a good balance between male and female managers in its management positions, including 11 female Business Leaders who are responsible for activities in Brazil (3), Italy (1), the Netherlands (5), Poland (1) and the United States (1).

Fagron also has a diverse workforce in terms of age and nationality. In 2018, the average age was 40.1 years (2017: 40.5 years) and at least 21 nationalities were represented.

### Space for people with poor job prospects

Fagron's subsidiary Spruyt hillen, focuses on wholesale pharmaceutical packaging materials, raw materials and other products that are used in pharmaceutical compounding. In collaboration with Stichting Reinaerde (Reinaerde Foundation), we offer work here for people with a mental or physical impairment. Eight employees here make customised small packaging for Fagron. They do this very precisely and to the great satisfaction of all parties involved.

At Fagron in Belgium, we also offer employment for people with a mental or physical disability. Fagron works with three social workshops where we send bulk orders for repackaging of, among other things, bottles, capsules and caps. Depending on the size of the order, an average of six to eight people work on one order. It is also possible that a full social workshop is working on our orders. In total, the social workshops provide an average of 10 to 15 pallets on a weekly basis to Fagron.

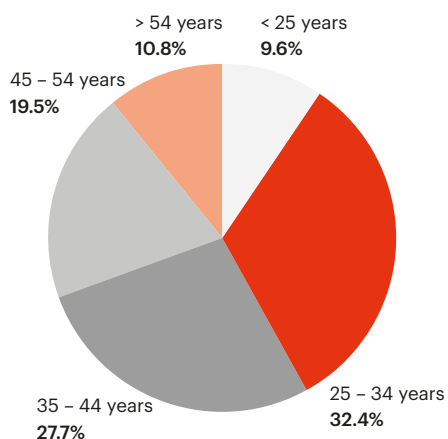
### Recruitment, retention and development of personnel

In order to be able to continue to develop new products, concepts and dosage forms, Fagron is constantly searching for the best people in order to further expand the leading market positions. This is sometimes a challenge because we are operating in a labour market with many competitors in which specialised personnel are scarce, including laboratory technicians, pharmacists with commercial experience and employees who have been trained to deal with and manufacture pharmaceutical compounds in GMP and GDP environments. Fagron's success depends on our ability to recruit and to retain senior management and other key employees with considerable experience and expertise, particularly in view of the continuing developments and changes in the business. That is why in terms of HR, we focus on, among other things, the retention of our employees. Fagron offers talented employees the opportunity to grow and to develop themselves as broadly as possible within the company. Using talent reviews, we identify ambition and potential and the proper ways in which we can best utilise that talent.

In 2018, the average employment was 7.0 years (2017: 7.2 years) and employees remained on average 4.1 years (2017: 4.5 years) in the same position.

In order to recruit (future) talent, Fagron builds a strong employer branding in order to allow potential employees to get to know Fagron. This includes, but is not limited to, the organisation of "Meet Fagron" events, where we invite students with a pharmaceutical education to become acquainted with Fagron as a company and employer. We also offer students the opportunity to gain work experience by providing them with an internship. In 2018, we welcomed 39 interns worldwide.

## Diversity according to age



### **Workplace safety**

Fagron endeavours to have a safe and healthy work environment. In addition, in terms of safety, health and welfare (SHW), we use quality standards such as GMP and local standards and regulations are met. At all of our facilities, procedures and emergency response plans are in place to ensure the safety, health and welfare of our employees. In 2018, there were no safety-related incidents.

### **Employee involvement**

Every two years, we measure the satisfaction of all of our employees. We do this through an anonymous questionnaire, conducted by a well-established external party. In addition to the level of involvement, we also examine how our employees view the content of their work, their salary and other terms and conditions of employment, health at work and leadership development.

In the examination conducted in 2018, Fagron scored 79% on level of involvement. Compared to the survey in 2016, there was clearly a better score on communication and salary and other terms and conditions of employment. Training opportunities and leadership development still show room for improvement. Based on the insights obtained, a two-year action plan has been created with initiatives at global and local level in order to achieve further improvements.

## **Integrity**

Fagron endeavours to do business in an ethical, honourable and responsible manner. Fagron has a Code of Conduct & Ethics that describes the policy regarding, among other things, conflict of interests, bribery and corruption. This Code is applicable to all employees from the various companies within the Fagron Group, regardless of the type of contract that the employees may have.

### **Compliance with the Code of Conduct**

Management and Business Controllers of the business units are responsible for the compliance with the Code of Conduct. Employees must formally

sign the Code of Conduct with which they commit themselves to compliance. Employees are encouraged to report suspicious situations regarding (potential) conflicts of interest to their immediate supervisor or to the Human Resources department. During 2019, employees will be given the opportunity to make reports anonymously. In 2018, we investigated to what extent new and existing employees are familiar with the Code of Conduct. As a follow-up, employees will be periodically invited to attend online training in support of the Code of Conduct and other policies regarding fraud and human rights. In this way, we try to identify and to manage risks that exist regarding unethical behaviour.

Unethical or dishonest behaviour can include, for example, errors or negligence in the compliance with pharmaceutical regulations, the provision of incorrect (financial) information or data to supervisory bodies and other stakeholders and the performance of unauthorised activities. Extensive laws and regulations against fraud, bribes, acting in own interest and other forms of misuse are applicable for the healthcare sector. These laws and regulations restrict or prohibit a large number of activities regarding price setting, discounts, marketing, promotional activities, sales commissions, customer incentive programmes and other corporate regulations. Although the risk of unethical behaviour is not completely excluded, Fagron reduces this risk by establishing guidelines and procedures in a clear and accessible manner.

### **Corporate Governance and additional conduct rules**

In addition to the Code of Conduct, Fagron has established additional rules of conduct regarding conflict of interests and abuse of insider knowledge for the Board of Directors and the Executive Committee. In 2018, there were two occurrences of members of the Board of Directors not participating in deliberations or voting due to conflict of interests. In both cases, the law was fully complied with. The specifics of the procedures

followed are explained in detail in the Corporate Governance Statement. By doing so, Article 523 from the Belgian Companies Code has been satisfied.

As soon as further integration takes place, acquisitions are also aligned in terms of guidelines, procedures, processes and systems. This creates a uniform policy for the entire group.

### **Human rights**

Part of the Code of Conduct is our belief that respecting human rights, as defined by the United Nations in its Universal Declaration of Human Rights, serving as a standard to which all employees must adhere. We also encourage our supply chain partners to respect these rights by committing to them. The respect for human rights is integrated into our business operation and our conduct rules. Below we explain the areas regarding human rights.

### **Chain Risk and Certification**

Fagron has a complete view of the supply chain of more than 2,500 pharmaceutical raw materials, which results in 100% traceability. Fagron employs a comprehensive supplier selection procedure. New suppliers are screened extensively, of which the compliance with social standards is a part. All of our suppliers must be ISO 9001 or GMP certified. Suppliers of specific products that have a higher risk profile are audited on site, in addition to a "paper audit", by the Fagron Quality department. These audits focus primarily on the quality and safety of the product, but in accordance with the comprehensive requirements of GMP certification, they also evaluate the presence of training procedures and aspects regarding health, safety and the environment. Human rights risks are virtually excluded due to the stringent GMP requirements.

In addition, Fagron actively ensures that our products are not used for, or are not delivered to, parties that make products for the implementation of the death penalty. Fagron attaches great value and interest to the medically responsible use of its

products in order to improve the lives and quality of life of patients.

### **Confidential (personal) data**

For our patient-specific compounding activities, we use confidential medical and other health-related information. Fagron also uses data collected and anonymised for research and analysis purposes.

In this respect, applicable privacy laws are strictly observed. Following the implementation of the GDPR, the General Data Protection Regulation (GDPR), that took effect in May 2018, processes and procedures have been evaluated in this regard and adjusted as necessary to protect (personal) data at all times.

### **How we deal with our environmental impact (environmental issues)**

Compliance with national and international environmental laws and regulations is central to our processes. It regards requirements for air emissions, discharge of waste water, health and safety of the employees and use, manufacture, management, storage, processing, transport, treatment and disposal of hazardous substances and other materials. In addition, Fagron works to reduce its footprint by minimising energy use and waste.

For some years, the local Fagron subsidiaries have developed and implemented their own region-specific sustainability initiatives in order to reduce their impact on the living environment. For example, the Fagron subsidiaries in Brazil have a major focus on rainwater recuperation and reuse. The American subsidiaries focus particularly on recycling and separation of waste regarding ink cartridges, laboratory clothing and laboratory materials and the European subsidiaries focus primarily on the use of green energy.

Currently, however, there is still no group-wide environmental policy and we do not yet direct our environmental performance at group level. The activities that have been developed at group and local level are

explained below. We want to develop these initiatives in the next year into a scalable environmental policy at group level in which the existing local initiatives are rolled out worldwide, supported by a group-wide policy that will be measured and for which objectives will be specified on an annual basis.

The first environmental aspect for which a group-wide policy will be developed is climate change. The identification of our greenhouse gas emissions (Scope 1 and 2 in accordance with the GHG Protocol) began in 2018. In addition to the emissions in Scope 1 (natural gas use, diesel use, own transport and coolants) and Scope 2 (electricity), which are associated with energy use (direct as well as electricity use), the emissions from business travel are also included (air travel as well as cars). The 2017 carbon footprint is expected to be available in April 2019. The follow-up steps that will be taken in 2019 are:

- Establish a monitoring protocol so that the annual carbon footprint can be easily calculated and monitored per year.
- Establish a strategic step-by-step plan with clear short-term and long-term goals for reducing the carbon footprint. This step-by-step plan looks at possible measures and takes into account their cost effectiveness and the impact on the current business operations.
- Define associated KPIs so that performance in the future can be monitored. This will make it clearer where there is potential for improvement and what the possible risks might be in this regard.
- Begin the first initiatives for reducing carbon footprint.



# Consolidated Financial Statements 2018

# Financial Annual Report 2018

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# Consolidated financial statements

The Report from the Board of Directors and the Corporate Governance Statement, as reported before, constitute an integral part of the consolidated financial statements.

## Statement

We declare that, to the best of our knowledge, the consolidated financial statements for the year ended 31 December 2018, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the legal and regulatory requirements applicable in Belgium, reflect a true and fair view of the equity, the financial situation and the results of the Company and the companies that are included in the consolidation, and that the Annual Report provides a true and fair view of the development and the results of the company and of the position of the Company and the companies included in the consolidation, and provides a description of the main risks and uncertainties that they face.

In the name and on behalf of the Board of Directors,

Rafael Padilla, CEO  
Karin de Jong, CFO  
12 April 2019

# Consolidated income statement

(x 1,000 euros)	Note	2018	2017 <sup>1</sup>
<b>Operating income</b>		<b>473,395</b>	<b>438,145</b>
Turnover	6	471,679	433,529
Other operating income	7	1,716	4,616
<b>Operating expenses</b>		<b>399,923</b>	<b>363,538</b>
Trade goods		181,253	167,718
Services and other goods		82,144	76,454
Employee benefit expenses	8	112,573	100,700
Depreciation and amortisation	9	19,575	17,550
Other operating expenses	10	4,379	1,116
<b>Operating profit</b>		<b>73,472</b>	<b>74,607</b>
Financial income	11	643	3,154
Financial expenses	11	-19,279	-21,796
<b>Profit before income tax</b>		<b>54,835</b>	<b>55,965</b>
Taxes	12	11,553	8,918
<b>Net profit for the year from continued operations</b>		<b>43,282</b>	<b>47,047</b>
Net result from discontinued operations (attributable to equity holders of the company)	13	-377	0
<b>Net result</b>		<b>42,905</b>	<b>47,047</b>
<b>Attributable to:</b>			
Equity holders of the company (net result)		42,486	46,658
Non-controlling interest		419	389
<b>Earnings (loss) per share from continued and discontinued operations attributable to owners of the parent during the year</b>			
<b>Profit (loss) per share (in euros)</b>	14	<b>0.59</b>	<b>0.65</b>
From continued operations	14	0.60	0.65
From discontinued operations	14	-0.01	0.00
<b>Diluted profit (loss) per share (in euros)</b>	14	<b>0.59</b>	<b>0.65</b>
From continued operations	14	0.60	0.65
From discontinued operations	14	-0.01	0.00

<sup>1</sup> The 2017 figures have been adjusted for the application of IFRS 15.

# Consolidated statement of comprehensive income

(x 1,000 euros)	Note	2018	2017
<b>Net result for the financial year</b>		<b>42,905</b>	<b>47,047</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>	23		
• Remeasurements of post-employment benefit obligations		-352	1,497
• Tax relating to items that will not be reclassified		88	-374
<b>Items that may be subsequently reclassified to profit or loss</b>			
• Currency translation differences		-11,647	-16,534
<b>Other comprehensive income for the year net of tax</b>		<b>-11,911</b>	<b>-15,411</b>
<b>Total comprehensive income for the year</b>		<b>30,994</b>	<b>31,636</b>
<b>Attributable to:</b>			
Equity holders of the company		30,575	31,237
Non-controlling interest		419	399
<b>Total comprehensive income for the year</b>		<b>30,994</b>	<b>31,636</b>
<b>Total comprehensive income for the year attributable to equity holders of the company:</b>			
From continued operations		30,952	31,237
From discontinued operations	13	-377	0
<b>Total comprehensive income for the equity holders</b>		<b>30,575</b>	<b>31,237</b>

The unrealised currency translation differences of -11.6 million euros in 2018 (2017: -16.5 million euros) are primarily the result of the weakening of the Brazilian real compared to the euro in 2018 and 2017.

# Consolidated statement of financial position

(x 1,000 euros)	Note	2018	2017
<b>Non-current assets</b>		<b>483,046</b>	<b>427,617</b>
Intangible fixed assets	15	391,388	344,495
Property, plant and equipment	16	73,439	69,535
Financial fixed assets	17	2,158	2,232
Deferred tax assets	18	16,061	11,355
<b>Current assets</b>		<b>199,726</b>	<b>166,430</b>
Inventories	19	74,658	62,865
Trade receivables	20	38,289	32,220
Other receivables	20	9,200	10,574
Cash and cash equivalents	20	77,579	60,771
<b>Total assets</b>		<b>682,772</b>	<b>594,047</b>
<b>Equity</b>	21	<b>209,716</b>	<b>184,881</b>
Shareholders' equity (parent)		205,841	181,398
Non-controlling interest		3,875	3,483
<b>Non-current liabilities</b>		<b>285,250</b>	<b>300,925</b>
Provisions	22	13,759	12,476
Pension obligations	23	5,183	4,733
Deferred tax liabilities	18	259	198
Borrowings	24	265,917	283,518
Financial instruments	24	131	0
<b>Current liabilities</b>		<b>187,806</b>	<b>108,241</b>
Borrowings	24	63,955	13,450
Trade payables	25	63,918	58,950
Taxes, remuneration and social security	18	31,395	27,168
Other current payables	26	28,538	8,673
<b>Total liabilities</b>		<b>473,056</b>	<b>409,166</b>
<b>Total equity and liabilities</b>		<b>682,772</b>	<b>594,047</b>

# Consolidated statement of changes in equity

(x 1,000 euros)	Note	Share capital & share premium	Other reserves	Treasury shares	Retained earnings	Total	Non-controlling interest	Total equity
<b>Balance as of 1 January 2017</b>		<b>561,852</b>	<b>-218,174</b>	<b>-18,823</b>	<b>-175,063</b>	<b>149,792</b>	<b>3,083</b>	<b>152,875</b>
Profit for the period		0	0	0	46,658	46,658	389	47,047
Other comprehensive income		0	-15,422	0	0	-15,422	10	-15,411
<b>Total comprehensive income for the period</b>		<b>0</b>	<b>-15,422</b>	<b>0</b>	<b>46,658</b>	<b>31,236</b>	<b>399</b>	<b>31,636</b>
Declared dividends	21	0	0	0	0	0	0	0
Share-based payments	21	0	370	0	0	370	0	370
Reclassification		-54,182	0	0	54,182	0	0	0
<b>Balance as of 31 December 2017</b>		<b>507,670</b>	<b>-233,226</b>	<b>-18,823</b>	<b>-74,223</b>	<b>181,398</b>	<b>3,483</b>	<b>184,881</b>
Profit for the period		0	0	0	42,486	42,486	419	42,905
Other comprehensive income		0	-11,884	0	0	-11,884	-27	-11,911
<b>Total comprehensive income for the period</b>		<b>0</b>	<b>-11,884</b>	<b>0</b>	<b>42,486</b>	<b>30,602</b>	<b>392</b>	<b>30,994</b>
Declared dividends	21	0	0	0	-7,184	-7,184	0	-7,184
Share-based payments	21	0	1,025	0	0	1,025	0	1,025
Reclassification		0	0	0	0	0	0	0
<b>Balance as of 31 December 2018</b>		<b>507,670</b>	<b>-244,085</b>	<b>-18,823</b>	<b>-38,921</b>	<b>205,841</b>	<b>3,875</b>	<b>209,716</b>

# Consolidated cash flow statement

(x 1,000 euros)	Note	2018	2017
<b>Operating activities</b>			
Profit before income taxes from continued operations		54,835	55,965
Profit before income taxes from discontinued operations		-377	0
Taxes paid		-11,928	3,398
Adjustments for financial items		18,636	18,643
Total adjustments for non-cash items		19,837	16,169
Total changes in working capital		-7,727	-9,927
<b>Total cash flow from operating activities</b>		<b>73,278</b>	<b>84,247</b>
<b>Investment activities</b>			
Capital expenditure		-15,694	-10,032
Proceeds from sold shareholdings		0	6,400
Investments in existing shareholdings (subsequent payments) and in new holdings		-38,917	-8,109
<b>Total cash flow from investment activities</b>		<b>-54,611</b>	<b>-11,741</b>
<b>Financing activities</b>			
Dividends		-7,174	0
New borrowings	24	71,624	122,193
Reimbursement of borrowings	24	-44,290	-398,023
Interest received		643	3,154
Interest paid		-19,014	-31,713
<b>Total cash flow from financing activities</b>		<b>1,789</b>	<b>-304,391</b>
<b>Total net cash flow for the period</b>		<b>20,456</b>	<b>-231,885</b>
Cash and cash equivalents – start of the period		60,771	295,585
Gains (or losses) on currency translation differences		-3,648	-2,929
Cash and cash equivalents – end of the period		77,579	60,771
<b>Changes in cash and cash equivalents</b>		<b>20,456</b>	<b>-231,885</b>
<b>Net cash flow from discontinued operations</b>			
Total cash flow from operating activities		-377	0
Total cash flow from investment activities		0	0
Total cash flow from financing activities		0	0
<b>Total net cash flow from discontinued operations</b>		<b>-377</b>	<b>0</b>

In April 2016, the Board of Directors decided to close Bellevue Pharmacy. The Bellevue Pharmacy cash flows were classified in 2018 under net cash flows from discontinued operations and are related to limited additional costs for Bellevue Pharmacy.

The item “adjustments for financial items” relates to interest paid and received and to other financial expenses and income that are not cash flows, such as the revaluation of the financial instruments. The item “total adjustments for non-cash flow items” relates in particular to depreciation and amortisation and changes in provisions. The item “total changes in working capital” concerns movements in the inventories, trade receivables and payables, other receivables and debts and all other balance sheet elements that are part of the working capital. The aforementioned changes are adjusted as necessary for non-cash flow items as presented above, for conversion differences and for changes in the consolidation scope.



# Notes to the consolidated financial statements

## 1 General information

Fagron is a leading global company active in pharmaceutical compounding, focusing on delivering personalised pharmaceutical care to hospitals, pharmacies, clinics and patients in 35 countries around the world.

The Belgian company Fagron NV is located at Venecoweg 20A, 9810 Nazareth, Belgium. The company's registration number is BE 0890 535 026. Fagron's operational activities are driven by the Dutch company Fagron BV. Fagron BV's head office is located in Rotterdam.

Fagron NV shares are listed on Euronext Brussels and Euronext Amsterdam.

These consolidated financial statements were approved for publication by the Board of Directors on 11 April 2019.

## 2 Financial reporting principles

The principal accounting policies applied in preparing these consolidated financial statements are detailed below. These policies have been consistently applied by all of the consolidated entities, including subsidiaries, for all of the years presented, unless stated otherwise.

The Fagron consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The consolidated financial statements have been prepared on the basis of the historical cost convention, with the exception of derivative financial instruments and contingencies which are listed at fair value.

The consolidated financial statements for Fagron NV and its subsidiaries for the entire year of 2018 have been prepared on the going concern basis, which assumes that the company will continue to be able to meet its liabilities as they become due in the foreseeable future.

### IFRS developments

The following amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2018 and have been approved by the EU.

<b>IFRS 9 Financial Instruments</b> 1 January 2018	<p>In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replace IAS 39 and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the financial instruments project: classification and valuation, impairment and hedge accounting. IFRS 9 is applicable for financial years beginning on or after 1 January 2018, with earlier application being permitted. With the exception of hedge accounting, retroactive application is required, but providing comparative information is not mandatory. For hedge accounting, the requirements are typically applied proactively, with some limited exceptions.</p> <p>This standard, which regards financial instruments on the asset side as well as liability side, describes the conditions for incorporation, classification and disposal of this type of instrument, as well as the permitted valuation methods.</p>	<p>Fagron has determined that the application of this standard has an effect on the classification of financial instruments and the amortisation of financial assets. Changes related to classification do not impact the valuation of the financial instruments and as a result, no adjustments have been made to the opening balance. Fagron applies the IFRS 9 simplified approach method, which uses the lifetime expected loss allowance for all trade receivables, in order to value the expected credit losses. The new model has no significant impact on the methodology that is used within the Fagron Group. The comparative figures have accordingly not been adjusted.</p>
<b>IFRS 15 Revenue from contracts with customers</b> 1 January 2018	<p>The IASB and FASB have jointly published a standard regarding the recognition of turnover from contracts with customers. The standard will improve the financial reporting of turnovers and deliver a better global comparison of the turnovers that are reported in the financial statements. Entities that apply IFRS are required to apply this standard.</p>	<p>Fagron conducted an analysis on the 2017 comparative figures. Only the presentation of the figures was adjusted. The turnover and operating expenses (services and other goods) were reduced by 3.4 million euros. The full retrospective method was applied after it was apparent from the analysis that specific costs for a number of contracts should be presented net of turnover.</p>
<b>Amendments to IFRS 15 Revenue from contracts with customers – clarification</b> 1 January 2018	<p>These amendments clarify the identification of the various performance liabilities, the accounting for licenses relating to intellectual property and the differences between principal and agent relations. The amendment also contains examples for clarification.</p>	<p>See IFRS 15 Revenue from contracts with customers</p>
<b>IFRIC 22 Foreign currency transactions and advance payments</b> 1 January 2018	<p>This interpretation relates to transactions in foreign currencies or parts of transactions in foreign currencies where the advance payment is expressed in a foreign currency. The interpretation contains additional information if a single payment/receipt occurs as well as if multiple payments/receipts occur. The purpose of this interpretation is to reduce the current diversity in the processing of these transactions.</p>	<p>Fagron has established that the application of these standards will not have a material impact on the consolidated financial statements.</p>
<b>Annual improvements to IFRS standards 2014-2016</b> 1 January 2018	<p>Applicable to the standards in which the changes in IFRS 1 and IAS 28 take effect as of 1 January 2018 and the changes in IFRS 12 will be applicable as of 1 January 2017. The improvements are explained in relation to the scope of IFRS 12 "Explanation of interests in other entities". These adjustments should be applied retrospectively for the financial year starting on 1 January 2017.</p>	<p>Fagron has determined that the application of these standards does not have any material effect on the consolidated financial statements.</p>
<b>Amendments to IFRS 2 Share-based payments</b> 1 January 2018	<p>The amendment clarifies the valuation method for cash-settled share-based payment transactions and the accounting for adjustments of the payment transaction of cash-settled to equity-settled share-based payment transactions. The amendment also provides for deviation from the IFRS 2 principles to regard a payment transaction for which the employer must withhold part of the payment for tax reasons and must pay this to the tax authorities as an equity-settled share-based payment transaction.</p>	<p>Fagron has established that the application of these standards will not have a material impact on the consolidated financial statements.</p>

The following new standards, changes to standards and interpretations have been issued and approved by the EU, but are not yet mandatory for the first time for the financial year beginning 1 January 2018.

**Issued and approved by the EU, but not yet mandatory**

		<b>Anticipated impact</b>
<b>IFRS 16 Lease agreements</b> 1 January 2019	The standard replaces the current standard, IAS 17, and is a major change to the accounting processing for lease agreements by the lessee. According to IAS 17, the lessee had to make a distinction between a financial lease (to be recognised in the balance sheet) and an operational lease (should not be recognised in balance sheet). IFRS 16, on the other hand, requires the lessee to recognise a debt in the balance sheet equal to the future lease payments and a right-of-use asset for virtually all leases. For lessors, the recording in the accounts remains almost entirely the same. However, the IASB has amended the definition of a lease (as well as the sections regarding the combination and segregation of contracts), as a result of which lessors are also impacted by the new standard. According to IFRS 16, a contract contains a lease if the contract includes a right to control an identified asset for a specified period of time in exchange for compensation.	Fagron has determined that the application of this standard will have a material effect on the consolidated financial statements. Fagron will apply the modified retrospective method, where the lease obligation and right-of-use asset are equal. Fagron elects to use the exemptions for lease agreements, where the lease period ends within 12 months after the date of first application and lease agreements where the underlying assets have a low value. On the balance sheet date, Fagron has operational leases of 43 million euros that cannot be annulled, on which the exemptions can be partially applied. Fagron expects to recognise right-of-use assets and lease liabilities of approximately 38 million euros on 1 January 2019. The net result is expected to decrease by approximately 1 million euros as a result of the application of the new regulation. Fagron expects REBITDA to increase by approximately 7 million euros since the operational lease payments were part of the REBITDA but the depreciation and interest related to the lease obligation were not part of this.
<b>Changes to IFRS 9 Prepayment features with negative compensation</b> 1 January 2019	Amendment that allows companies to value certain advance payable financial assets with so-called negative compensation at amortised cost price or at fair value via unrealised results, instead of at fair value through profit or loss, as they would otherwise not pass the SPPI test. In addition, this amendment explains an aspect of the accounting treatment of a change to a financial liability.	Fagron has established that the application of these standards will not have a material impact on the consolidated financial statements.
<b>IFRIC 23 Uncertainty regarding the treatment of income taxes</b> 1 January 2019	This interpretation clarifies the accounting treatment of uncertainties regarding income taxes. This interpretation must be applied for the determination of taxable profits (tax losses), the taxable basis, tax losses not used, tax credits and tax bases not used, in the event of any uncertainty regarding its treatment under IAS 12.	Fagron will review the effects of these amendments and process them if applicable.

The following new standards, changes to standards and interpretations have been issued, not yet approved by the EU and are not yet mandatory for the first time for the financial year beginning 1 January 2018.

**Published, not yet approved by the EU and not yet mandatory**

**Anticipated impact**

<b>Published, not yet approved by the EU and not yet mandatory</b>		<b>Anticipated impact</b>
<p><b>Changes to IAS 28 Long-term interests in associates and joint ventures</b> 1 January 2019</p>	<p>Clarification with regard to the treatment of long-term interests in an associated entity or joint venture on which the equity method is not applied under IFRS 9. More specifically whether the valuation and reduction in value of such interests should have to occur using IFRS 9, IAS 28 or a combination of both.</p>	<p>Fagron will review the effects of these amendments and process them if applicable.</p>
<p><b>Changes to IAS 19 Plan amendment, containment or settlement</b> 1 January 2019</p>	<p>The changes require that an entity use updated assumptions to determine the current pension costs and the net interest value allocated to the service year for the remaining period after a change, containment or settlement of the plan. In addition, an entity must include any reduction in the proceeds in the income statement as part of the pension costs of elapsed service time or as a profit or loss upon settlement, even if that excess was not previously recorded due to the impact of the asset ceiling. The changes affect any entity that modifies the terms and conditions or the membership of a defined benefit plan in such a way that there are past service pension costs or a profit or loss at the settlement.</p>	<p>Fagron will review the effects of these amendments and process them if applicable.</p>
<p><b>Changes to IFRS 3 Business Combinations</b> 1 January 2020</p>	<p>These changes revise the definition of "a company". The new guideline provides a framework in order to evaluate when an input and substantive process are present (including start-up companies that have not yet generated any outputs). In order to be a company without output, there must now be an organised workforce. The changes in the definition of a company will likely result in more acquisitions being considered "asset acquisitions" in all sectors, but particularly in the real estate, pharmaceutical and petrochemical sectors. Application of the changes will also affect the processing of disposal operations.</p>	<p>Fagron will review the effects of these amendments and process them if applicable.</p>
<p><b>Changes to the definition of "material" in IAS 1 and IAS 8</b> 1 January 2020</p>	<p>The changes clarify the definition of "material" and increase the consistency between the IFRS. The amendment clarifies that the reference to unclear information regards situations in which the effect is comparable to omission or misrepresentation of that information. It also states that an entity assesses materiality in the context of the financial statements as a whole. In addition, the change also clarifies the meaning of "primary users of financial statements for general purposes to whom those financial statements are directed", by defining them as "existing and potential investors, credit providers and other creditors" who must appeal to the financial statements in order to also obtain a large portion of the financial information they need. The changes are not expected to have any significant impact on the preparation of the financial statements.</p>	<p>Fagron has determined that the application of these changes to these standards does not have any material effect on the consolidated financial statements.</p>

**Annual improvements to IFRS standards 2015-2017**

1 January 2019

- IFRS 3 “Business Combinations” and IFRS 11 Joint Arrangements. The amendments regarding IFRS 3 clarify that when an entity acquires control over a joint operation, previous interests in that company must be revalued. The amendments regarding IFRS 11 clarify that when an entity acquires joint control over a joint operation, the entity does not revalue the previous interests in that company.
- IAS 12 Income taxes. The amendments clarify that all dividend consequences on the income taxes must be recognised in the income statement, regardless of how this tax arises.
- IAS 23 “Borrowing costs”. The amendments clarify that if one of the loans remains open after the relevant asset is ready for its intended use or sale, this loan will belong to the funds that an entity normally borrows for calculating capitalisation interest rate on general loans.

Fagron has established that the application of these standards will not have a material impact on the consolidated financial statements.

Fagron has established that the application of these standards will not have a material impact on the consolidated financial statements.

Fagron has established that the application of these standards will not have a material impact on the consolidated financial statements.

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The other new standards, amendments of standards and interpretations that were published but are not yet mandatory for this financial year starting 1 January 2018, are not applicable for Fagron.

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### Consolidation criteria

The consolidated financial statements comprise Fagron and its subsidiaries. Subsidiaries are entities which the Group controls. The Group controls an entity when the Group has power over the entity and is exposed to, or has rights to, variable income from the entity and has the ability to affect the amount of variable income through its power over the entity. Subsidiaries are fully consolidated as of the date on which control is transferred to Fagron. They are no longer consolidated as of the date on which Fagron no longer has control.

Any contingent consideration to be entered into by the Group is recognised at fair value on the acquisition date. Changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognised in accordance with IFRS 9 in the income statement. Contingent considerations that are classified as equity are not revalued and its subsequent settlement is accounted for within equity.

An acquisition is recognised using the purchase method. The cost price of an acquisition is defined as the fair value of the assets given, shares issued and liabilities assumed on the date of the exchange. Identifiable assets acquired and liabilities and contingencies assumed in a business combination are initially recognised at their fair value on the acquisition date. For each business combination, Fagron values any minority interest in the party acquired at fair value or at the proportional share in the identifiable net assets of the party acquired. The acquisition costs already incurred are recognised as expenses. The positive difference between the acquisition price and the fair value of the share of Fagron in the net identifiable assets of the acquired subsidiary on the date of acquisition constitutes goodwill and is recognised as an asset.

Intra-group transactions, balances and unrealised gains on transactions between companies of the Group are eliminated. Unrealised losses are also eliminated, but are considered to be an indication of an impairment. Where necessary, the accounting basis for amounts reported by subsidiaries have been adjusted in accordance with the accounting policies of Fagron.

Transactions with minority interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with shareholders in their capacity as shareholders. For purchases from minority interests, the difference between the price that was paid and the corresponding share acquired against the carrying amount of the net assets of the subsidiary is recognised in equity. Gains or losses on disposals to minority interests are also recognised in equity.

### Foreign currency translation

Items included in the financial statements of all Fagron entities are measured using the currency of the primary economic environment in which the company operates ("the functional currency"). The consolidated financial statements are presented in euros, the presentation currency of Fagron. To consolidate Fagron and each of its subsidiaries, the respective financial statements are converted as follows:

- Assets and liabilities at the year-end rate;
- Income statement at the average exchange rate for the year;
- Equity components at their historical exchange rates.

Exchange rate differences arising from the conversion of the net investment in foreign subsidiaries at year-end exchange rate are recognised as shareholders' equity elements under "Cumulative conversion differences".

### Transactions in foreign currencies

Transactions in foreign currencies are converted to the functional currency using the exchange rates that apply on the transaction date. Profits and losses from exchange rate differences resulting from settling these transactions and from the

conversion of monetary assets and liabilities in foreign currencies at exchange rates valid at year-end are recognised in the income statement.

### Exchange rates of key currencies

	Balance sheet		Income statement	
	2018	2017	2018	2017
US dollar	1.145	1.199	1.181	1.129
Brazilian real	4.444	3.973	4.306	3.603
Polish zloty	4.301	4.177	4.261	4.257
Swiss franc	1.127	1.17	1.155	1.111

### Fixed assets held for sale and discontinued operations (13)

Non-current assets and groups of assets to be sold are classified as fixed assets held for sale when the book value will be recovered principally through a sales transaction or through continued use of that asset.

In order to be classified as fixed asset held for sale, the following criteria must be satisfied in accordance with IFRS 5:

- Management has committed to the sale;
- An active programme is initiated to locate a buyer for the assets;
- The assets (or groups of assets that will be sold) are immediately available for sale, taking into account the usual conditions for sale;
- The sale is highly probable, expected to occur within 12 months after first classification as fixed asset available for sale;
- The asset is offered for sale in the market at a reasonable price; the price is in line with the fair value;
- The actions required to complete the sale of the assets indicate that it is unlikely that the plan will significantly change or be withdrawn.

If Fagron has committed to a plan to sell a subsidiary which results in Fagron relinquishing control over a subsidiary and the aforementioned criteria are satisfied, then all of the assets and liabilities from that subsidiary are classified as fixed assets held for sale and liabilities related to assets held for sale, regardless of whether Fagron will retain a non-controlling interest after the sale.

Assets held for sale and liabilities related to assets held for sale (or groups of assets that will be sold) are recognised at the lower of the original book value and the fair value less the costs to sell the asset.

A discontinued operation is a component of the Group that represents a separate, important operation or geographic business area, is part of a single coordination plan to dispose of a separate, important operation or geographic business area, or concerns a subsidiary that was acquired exclusively with the intention of selling it.

The classification as a discontinued operation will occur on the date when the transaction satisfies the conditions in order to be recognised as being held for sale or when an operation has been sold.

When an operation has been classified as a discontinued operation, the result from the discontinued operations over the reporting period will be presented separately in the income statement and in the statement of comprehensive income.

In addition to the requirements for the presentation in the balance sheet of groups of assets that will be sold, comparable figures are included in the income statement and in the statement of comprehensive income for the presentation of the results of discontinued operations. Furthermore, the net cash flows that can be attributed to the operating, investment and financing activities of the discontinued operations are reported separately.

## Intangible fixed assets (15)

Intangible fixed assets are valued at cost price less accumulated amortisation and impairment. All Intangible fixed assets are checked for impairment when there is an indication that the intangible asset may require impairment.

### Goodwill

Goodwill represents the positive difference between the cost of an acquisition and the fair value of the Fagron share in the net identifiable assets of the acquired subsidiary on the acquisition date. Goodwill on acquisitions of subsidiaries is recognised under Intangible fixed assets. Goodwill is checked at least once per year for impairment, but also each time a trigger event occurs. Goodwill is recognised at cost price less accumulated impairment losses. Impairment losses on goodwill are never reversed. Gains and losses on the disposal of an entity include the book value of goodwill relating to the entity sold.

### Brands, licences, patents and other

Intangible fixed assets are recognised at cost, provided this cost is not higher than the reported economic value and the cost price is not higher than the recoverable value. No other intangible fixed assets with an unlimited useful life were identified. The costs of brands with a definite useful life are capitalised and amortised on a straight-line basis over a period of 5 to 7 years. When a part of the acquisition price of a business combination relates to trade names, brand names, formulas and customer files, these will be considered an intangible asset.

### Research and development

Research costs related to the prospect of gaining new scientific or technological knowledge and understanding are recognised as costs at the moment they are incurred.

Development costs are defined as costs incurred for the design of new or substantially improved products and for the processes preceding commercial production or use. They are capitalised when, among other things, the following criteria are met:

- Technical feasibility of the project;
- Intention to complete and to use or sell the asset;
- Ability to use or sell the asset;
- Likelihood that the asset will generate future economic benefits;
- Adequate resources to complete the asset;
- Ability to measure the reliability of the costs.

Development costs are amortised using the straight-line method over the period of their expected benefit, which is currently a maximum of 5 years. Amortisation starts at the moment these assets are ready for use.

### In-house development

Unique products developed in-house, including software controlled by Fagron, which are expected to generate future economic benefits, are capitalised at the cost directly related to their production. The software is depreciated over its useful life, which is currently estimated at 5 years.

### Software

Acquired software is capitalised at cost price and then valued at cost price less accumulated depreciations and impairment losses. The assets are depreciated over the useful life, which is currently estimated at 5 years.

### Impairment

Assets that have an indefinite useful life are not subject to amortisation and are checked for impairment on an annual basis. Amortised assets are reviewed for impairment when events or changes in circumstances indicate that the book value may not be recoverable. An impairment loss is recognised for the amount by which the asset's book value exceeds its recoverable amount. The recoverable amount is



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the greater of an asset's fair value less the sale costs and its value in use. For the purpose of amortisation, the assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units).

#### **Property, plant and equipment (16)**

Property, plant and equipment are valued at the acquisition value or production costs plus directly attributable costs, if applicable. Depreciation is calculated pro rata based on the useful life of the asset in accordance with the following amortisation parameters: 3 to 5 years for equipment and machinery and between 25 and 33 years for buildings. Land is not depreciated.

All assets are depreciated using the straight-line method, based on the estimated economic life. Any residual value taken into account when calculating the depreciation is reviewed on an annual basis. Assets that have been acquired in the context of financial lease agreements will be depreciated over the economic usage period. This period may exceed the duration of the lease if it is practically certain that the ownership will be acquired at the end of the lease.

#### **Financial fixed assets (17)**

Fagron classifies its non-derivative financial assets into the following categories: loans and receivables and financial assets available for sale. Management determines the investment classifications of its (non-derivative) financial assets at initial recognition and evaluates them once again at each reporting date. The Group does not have any financial fixed assets in the category that is held until maturity or any (non-derivative) financial fixed assets that are designated at fair value for which any changes in value have to be included in the income statement. Financial assets are initially valued at fair value and subsequently valued at amortised costs. Fagron does not use enforceable master netting agreements.

#### **Loans and receivables**

Loans and receivables are non-derivative financial fixed assets with fixed or determinable payments that are not quoted in an active market and that are not intended to be traded. Loans and receivables are included in current assets, except for those maturing more than 12 months after the balance sheet date. Loans and receivables are measured at amortised costs using the effective interest method.

#### **Taxes, remuneration and social security (18)**

Income taxes as recognised in the income statement include the income tax on the current year and deferred taxes. Current income taxes include the expected tax liabilities on Fagron's taxable income for the financial year, based on the applicable tax rates at balance sheet date, and any adjustments from previous years. Income tax due on dividends is recognised when a liability to pay the dividend is recognised.

Deferred taxes are recognised using the balance sheet liability method and are calculated on the basis of the temporary differences between the book value and the tax basis. This method is applied to all temporary differences arising from investments in subsidiaries and associates, except for differences where the timing of settling the temporary difference is controlled by Fagron and where the temporary difference is not likely to be reversed in the near future. The calculation is based on the tax rates as enacted or substantially enacted at balance sheet date and expected to apply when the related deferred tax is realised or the deferred tax liability is settled. Under this calculation method, Fagron is also required to account for deferred taxes relating to any difference between the fair value of the net acquired assets and their book value for tax purposes resulting from any acquisitions. Deferred taxes are recognised to the extent that the tax losses carried forward are likely to be offset in the foreseeable future. Deferred income tax receivables are fully written off when it ceases to be likely that the corresponding tax benefit will be realised.

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Fagron will offset tax assets and tax liabilities if, and only if, Fagron has a legally enforceable right to offset the recognised amounts and either (a) intends to settle on a net basis or (b) to realise the asset and settle the liability simultaneously.

#### **Inventories (19)**

Raw materials, auxiliary materials, and trade goods are valued at the acquisition value in accordance with the FIFO method or the net realisable value (NRV) at the balance sheet date, whichever is lower. Work in progress and finished products are valued at production cost. In addition to the purchasing cost of raw materials and auxiliary materials, production costs and production overhead costs directly attributable to the individual product or the individual product group are included.

#### **Trade receivables (20)**

Trade receivables are initially valued at fair value. Provisions are made based on the lifetime expected loss allowance for all customers based on historical payment behaviour.

If trade receivables are transferred to a third party (through factoring), the trade receivables are taken off the balance sheet provided that (1) there is no longer a right to receive cash flows and (2) Fagron has substantially transferred all risks and rewards.

#### **Cash and cash equivalents (20)**

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and are valued at acquisition at fair value and subsequently recognised at cost. Adjustments are made to the book value when at balance sheet date the realisation value is less than the book value.

#### **Capital (21)**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares or options are recognised in the equity as a deduction, net of taxes, from the proceeds.

If a company of Fagron purchases share capital of Fagron (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the shareholders of Fagron until the shares are cancelled, reissued or disposed of. If such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and related income tax effects, is included in equity attributable to the shareholders of Fagron.

#### **Provisions (22)**

Provisions exist for restructuring costs, legal claims, risk of losses or costs potentially arising from personal securities or collateral constituted as guarantees for creditors or commitments to third parties, from liabilities to buy or sell non-current assets, from the fulfilment of completed or received orders, technical guarantees associated with turnover or services already completed by Fagron, unresolved disputes, fines and penalties related to taxes, or compensation for dismissal. Fagron recognises a provision if:

- Fagron has an existing legal or actual obligation as a result of past events;
- it is more likely than not that an outflow of resources will be necessary to fulfil the obligation; and
- the amount can be estimated reliably.

Provisions for restructuring costs comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are recognised based on management's best estimate of the expenditure required to settle the present obligation at balance sheet date.

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The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

### **Employee benefit expenses**

#### **Share-based payments (21)**

Fagron operates an equity-based compensation plan, which is paid in shares. The total amount to be recognised as costs over the vesting period is determined by reference to the fair value of the warrants or options granted, excluding the impact of any non-market unconditional commitments (for example, profitability and turnover growth targets). Non-market unconditional commitments are included in the assumptions about the number of warrants or options expected to become exercisable. At each balance sheet date, Fagron revises its estimates of the number of warrants or options expected to become exercisable. Fagron recognises any impact of the revision of original estimates in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the warrants are exercised. The modalities of the existing plans were not changed this year.

#### **Pension obligations (23)**

The companies of Fagron operate various pension schemes. The pension schemes are funded through payments to insurance companies, determined by periodic actuarial calculations. Fagron has both defined benefit and defined contribution plans.

The liability recognised on the balance sheet in respect of defined benefit plans is the present value of the future defined benefit liabilities less the fair value of the plan assets. The obligation is calculated periodically by independent actuaries using the 'projected unit credit' method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately, in the period in which they arise, being added or deducted to or from the equity via the unrealised result.

For defined contribution plans, Fagron pays contributions to insurance companies. Once the contributions have been paid, Fagron ceases to have any liabilities. Contributions to defined contribution plans are recognised as costs in the income statement at the moment they are made.

#### **Borrowings (24)**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently recognised at amortised costs; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities, unless Fagron has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Consultancy costs for the refinancing are part of the financial costs.

#### **Lease contracts – Operating leases (24)**

Lease contracts in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are made on a straight-line basis over the life of the operating lease.

### **Lease contracts – Financial leases (24)**

Lease contracts regarding property, plant and equipment whereby Fagron retains virtually all risks and rewards of ownership are classified as financial leases. Financial leases are capitalised at the inception of the lease contract at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between liability and financing costs, so as to achieve a constant amount on the outstanding financing balance.

The corresponding rental liabilities, net of financing costs, are included in the non-current (payable after 1 year) and current (payable within the year) borrowings. The interest component of the financing costs is recognised in the income statement over the lease period, so as to achieve a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset. This may exceed the remaining duration of the lease if it is fairly certain that the property will be acquired at the end of the lease.

### **Derivative financial instruments (24)**

Fagron uses derivative financial instruments to limit risks relating to unfavourable fluctuations in interest rates and exchange rates. No derivatives are employed for trade purposes.

Derivative financial instruments are recognised at fair value on the balance sheet. Fair values are derived from market prices. Since the Fagron derivative contracts do not satisfy the criteria as specified in IFRS 9 to be considered as hedging instruments, changes in the fair value of derivatives are recognised in the income statement.

### **Revenue recognition**

Fagron uses the five-step model in order to recognise revenue that result from sales to customers. The revenue is recognised at the value that we expect to receive for the delivery of the goods or services. Any liabilities related to these sales will be deducted here. Contracts for the sale of goods to customers have only one performance obligation.

Sales of goods are recognised at the moment that control over the goods has transferred to the customer, the customer has accepted the goods and the related receivables are likely to be collectable. This is normally the case at the time the goods are delivered. Turnover of services is recognised in the accounting period in which the services have been provided. Turnover from the sale of software is recognised as turnover at the time of delivery. The turnovers from software service contracts are recognised over the term of the contract.

### **Segment reporting**

IFRS 8 defines an operating segment as:

- a component of an entity that engages in business activities from which it may earn turnovers and incur expenses;
- whereby the operating results are regularly reviewed by the entity's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which concrete financial information is available.

Fagron determines and presents operational segments based on the information that is provided internally to the Executive Committee, Fagron's decision-making body in 2018. An operating segment is a group of assets and activities engaged in providing products or services that are the basis of the internal reporting to Fagron's Executive Committee.

The reporting structure and presentation of the financial results per Fagron segment are in line with the way in which the business is managed. The financial

information of the Fagron segments provided to the Executive Committee is split into Fagron Europe, Fagron North America, Fagron South America and HL Technology.

#### **Earnings per share (EPS) (14)**

Fagron presents basic and diluted earnings per share (EPS) for common shares. Basic EPS is calculated by dividing the profit or loss for the period attributable to holders of common shares by the sum of the weighted average number of common shares outstanding during the period. Dividend distribution to the shareholders of Fagron is recognised as a liability in the financial statements in the period in which the dividends are approved by the shareholders.

For the purpose of calculating diluted EPS, the profit or loss for the period attributable to holders of common shares adjusted for the effects of all dilutive potential shares is divided by the sum of the weighted average number of outstanding ordinary shares used in the basic EPS calculation and the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

### **3 Risk management**

Adequate and reliable financial reporting is essential for both the internal management reports and the external reporting. Group-wide reporting guidelines have been drawn up within Fagron to this end, based on IFRS and internal information needs.

Risk management is extremely important for Fagron in order to secure the long-term business objectives and the value creation of the company. The policy of Fagron is to focus on identifying all major risks, on developing plans to prevent and manage these risks, and on putting in place measures to contain the consequences should such risks effectively occur. Still, Fagron cannot conclusively guarantee that such risks will not occur or that there will be no consequences when they occur.

All entities periodically prepare business plans, budgets and interim forecasts at predetermined moments. Discussions with management of the entities take place periodically on the general course of affairs, including the realisation and feasibility of the forecasts issued and strategic decisions. With regard to tax regulations, Fagron makes use of the possibilities offered by the tax laws and regulations without taking any unnecessary risks in doing so. Fagron has the support of external tax advisers in this regard.

In addition to strategic and operational risks, Fagron is also subject to various financial risks. To sustain its day-to-day operations, Fagron has the following credit facilities at its disposal.

#### **Multi-currency facility**

On 16 December 2014, Fagron NV amended and extended the existing credit facility with an originating amount of 150 million euros and maturity date in July 2017. The amended multi-currency facility of 220 million euros was given a term until December 2019 with two one-year extension options via a consortium of existing and new international banks. In 2016, this facility was extended until April 2021 by exercising the extension options. In August 2018, the size of the facility increased further from 220 million euros to 245 million euros.

The financial covenants were established once again in 2016 in order to give Fagron extra latitude with regard to the original levels of the financial covenants. The extra latitude in the financial covenants decreases with every six-month test period until the test period ending on 30 June 2018. For every test period ending after 30 June 2018, the levels of both financial covenants revert to the original

levels. At the end of 2018, the original financial covenants will again be in force. In addition, the total EBITDA, calculated as result before interest, taxes, depreciation and amortisation, of the guarantors should be at least 70 per cent of the consolidated Group EBITDA.

#### Term Loan Facility

In the last quarter of 2017, Fagron agreed a term loan for 80 million euros with a syndicate of banks. The term of this loan is equal to the multi-currency facility and has an expiration date in April 2021. The repayment will take place at the end of the term and the agreements on financial covenants are the same as those of the multi-currency facility.

#### Privately placed loans (senior unsecured notes)

Fagron NV issued a series of privately placed loans pursuant to a loan agreement originally dated 15 April 2014, which includes 45.0 million US dollars 4.15% Series A Senior Notes due 15 April 2017, 22.5 million euros 3.55% Series B Senior Notes due 15 April 2017, 15.0 million euros 4.04% Series C Senior Notes due 15 April 2019, 5.0 million euros Floating Rate Series D Senior Notes due 15 April 2019, 20.0 million US dollars 5.07% Series E Senior Notes due 15 April 2019 and 60.0 million US dollars 5.78% Series F Senior Notes due 15 April 2021. The Series A Senior Notes and the Series B Senior Notes were fully repaid in 2017.

The agreement dated 15 April 2014 was amended in 2016 as a result of the long-term waiver of 5 May 2016. The key covenants of this credit facility are the net financial debt/recurring EBITDA ratio and the recurring EBITDA/net interest expenses ratio. The financial covenants were adjusted to give Fagron extra latitude with respect to the original levels of the financial covenants. The extra latitude in the financial covenants decreases with every six-month test period until the test period ending on 30 June 2018. For every test period ending after 30 June 2018, the levels of both financial covenants revert to the original levels. In addition, the total EBITDA, calculated as result before interest, taxes, depreciation and amortisation, of the guarantors should be at least 70 per cent of the consolidated Group EBITDA.

#### Financial covenants credit facilities

Test period	Net financial debt/REBITDA	REBITDA/net interest expenses
After 30 June 2018	Max. 3.25x	Min. 4.00x

At the end of 2018, an amount of 131 million euros had been withdrawn under the multi-currency facility (2017: 114 million euros).

#### Capital management

The Group's objectives in relation to capital management are:

- to safeguard the company's equity in order to guarantee its continuity; and
- to maintain the best possible capital structure so as to reduce capital costs.

The amount to be paid on dividends can be adjusted by the Group (see note 21) in order to retain or adjust the capital structure. It may also issue new shares or dispose of assets in order to reduce indebtedness.

In keeping with the conditions governing the largest credit facilities, the Group is obliged to comply with the following financial covenants:

- a) a maximum net financial debt/recurring EBITDA ratio of 3.25; and
- b) a minimum interest coverage ratio of 4.0, measured by dividing the recurrent EBITDA with the consolidated net interest expenses.

Fagron has a dividend policy that takes into account the profitability of the company and its underlying growth, as well as capital requirements and cash

flows, where sufficient liquidity is maintained in order to follow the buy-and-build strategy. Fagron hereby expects to reinvest most of its free cash flow in the coming years and to pay out a relatively low, steady level of dividends to its shareholders.

#### Cash pool

Fagron manages the cash and financing flows and the risks arising from these by means of a group-wide treasury policy. In order to optimise the financial position and keep the related interest charges to a minimum, the cash flows of the companies are centralised as much as possible by means of domestic and cross border cash pooling. Fagron has a total of three local cash pools in the regions of North America and Europe (the Netherlands and Belgium). These are used by the operating companies, whereby zero balancing is applied in Europe and target balancing in North America. The three local cash pools are pooled daily into one central notional cash pool.

#### Liquidity risk

Liquidity risk is the risk that Fagron is unable to meet its financial liabilities. The expected cash flow is assessed and analysed on a regular basis. The goal is to have sufficient financial resources available at all times to meet the liquidity needs.

#### Credit risk

Credit risk involves the risk that a debtor or other counterparty is unable to fulfil its payment liabilities to Fagron, resulting in a loss for Fagron. Fagron has an active credit policy and strict procedures to manage and limit credit risks. No individual customers make up a substantial part of either turnover or outstanding receivables. Fagron has an active policy to reduce operational working capital. From this perspective the Group aims to reduce the accounts receivable balance.

#### Interest risk

Fagron regularly assesses the maintained mix of financial debts with fixed and variable interest rates. At this moment, the financing consists in part of financing with a variable interest rate ranging from 1 to 6 months. A higher Euribor rate of 10 basis points would have increased the variable interest charges of approximately 137 thousand euros before tax (2017: 167 thousand euros).

#### Exchange rate risk

The exchange rate risk is the risk on results due to fluctuations in the exchange rates. Fagron reports its financial results in euros and is, because of the international distribution of its activities, subject to the potential impact of currencies on its profits. Exchange rate risk is the result on the one hand of several entities of Fagron operating in a functional currency other than euros and on the other hand of the circumstance that purchasing and retail prices of Fagron have foreign currencies as reference. The risk regarding the Fagron entities that operate in a functional currency other than the euro involves entities that operate in US dollars, Brazilian reals, Polish zloty, Czech crowns, Swiss francs, British pounds, Danish crowns, Colombian pesos, Chinese yuan, South African rand, Australian dollars, Croatian kuna, Canadian dollars and Argentinian pesos. In 2018, these entities collectively represent 59.4% of the consolidated turnover.

Some of the Group's turnover is realised in currencies other than the euro, such as in Brazil, the United States, Poland and Switzerland. The table below shows the hypothetical supplementary effect of the euro strengthening or weakening by 10% against the US dollar, the Brazilian real, the Polish zloty and the Swiss franc for the year 2018 and the effect on profit before tax.

(x 1,000 euros)	Profit before tax	
	Strengthening	Weakening
US dollar	379	-463
Brazilian real	-1,567	1,916
Polish zloty	-1,190	1,454
Swiss franc	100	-123

The company also incurs indirect currency risk as a large part of its purchases in Brazil are actually transactions in US dollars. This means that the Group's products become relatively more expensive to Fagron's customers each time the US dollar rises against the Brazilian real. The risk is difficult to quantify, as such price increases are directly charged to the consumer entirely or partly.

Currency risks in relation to debt in foreign currency, privately placed loans (senior unsecured notes), some of which were borrowed in US dollars, have been hedged in part with intercompany loans to the US subsidiary.

#### **Fair value risk**

In 2018, Fagron used financial derivatives in order to hedge interest and currency risks. Fagron hedged the variable interest rate for 42.5 million US dollars of financing. In accordance with IFRS, all financial derivatives are recognised either as assets or as liabilities. In accordance with IFRS 9, financial derivatives are recognised at fair value. Changes in fair value are recognised by Fagron directly in the income statement because these are financial derivatives that do not qualify as cash flow hedging instruments.

## **4 Critical accounting estimates and judgments**

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

#### **Critical estimates and judgments**

Fagron makes estimates and judgments concerning the future. The resulting estimates will, by definition, rarely match the related actual results. Those estimates and assumptions that entail a significant risk of causing the need for a material adjustment of the book value of assets and liabilities within the next financial year are discussed below.

#### **Estimated impairment loss for goodwill and other intangible fixed assets**

Fagron performs an annual goodwill impairment test in accordance with the accounting policies specified in note 15. The recoverable amount of cash flow-generating units is the higher of the asset's fair value less the costs of sales and enterprise value. These calculations require the application of estimates. In 2017 and 2018, no impairment loss was recognised.

#### **Estimated deferred tax assets**

Deferred tax assets are mainly accounted for by differences in depreciation rates, tax deductible losses and goodwill acquired in business acquisitions. The tax deductible losses are tested twice a year for impairment. If these losses may not be offset within a reasonable time, they will be written off. A deferred tax asset is recognised when the book value of goodwill is less than the tax base and it is expected that taxable profits will arise against which the temporary differences can be utilized.

#### **Pension liabilities**

The present value of the pension liabilities depends on a number of actuarially determined factors based on a number of assumptions. The assumptions applied to determine net costs (net income) for pensions include expected rates for salary increases, price inflation, pension increases and the discount rate. Any changes in these assumptions will impact the book value of pension liabilities. The gross defined benefit obligation is calculated periodically by independent actuaries.

The book value of pension liabilities as of 31 December 2018 is 5.2 million euros (2017: 4.7 million euros).



### Provisions for disputes

As stated, provisions are valued at present value of the best estimate by management of the expenditure required to settle the existing obligation at the balance sheet date. Provisions for disputes require significant professional judgment in terms of the ultimate outcome of administrative law rulings or court judgments. Estimates are always based on all available information at the moment the financial statements are prepared. However, the need for significant adjustments cannot be absolutely precluded if a ruling or judgment proves not as expected. Judgments and estimates are continuously evaluated on the basis of past experience and other factors, including projected development of future events that are regarded as reasonable given the circumstances.

### Uncertain tax positions

The company is subject to tax on profits in different jurisdictions. Significant judgments must be made in determining the provision for tax on profits. There are some transactions and calculations for which the ultimate taxable amount is uncertain. When the final income tax is determined, the deviations will affect the current and deferred taxes and liabilities for the period in which the determination is made.

## 5 Segment information

Effective 2017, Fagron has adjusted the reporting structure and presentation of the financial results per segment to bring these in line with the way in which the business is managed. Fagron's results are reported in the segments Fagron Europe, Fagron North America, Fagron South America and HL Technology. This structure is tailored to the various activities of Fagron and also supports effective decision-making and individual responsibility. This is in accordance with IFRS 8, which states that the operational segments must be determined on the basis of the components that the Executive Committee applies to assess the performance of the operational activities and on which the decisions are based.

Fagron is organised into four main operational segments:

1. **Fagron Europe** refers to Fagron's European activities in the Netherlands, Belgium, Poland, Germany, Italy, Czech Republic, Spain, France, Denmark, Greece, Croatia and the United Kingdom, as well as the activities in South Africa and Australia. Fagron Europe is active in every Fagron activity category;
2. **Fagron North America** encompasses all Fagron activities in the United States and Canada. Fagron North America is also active in every Fagron activity category;
3. **Fagron South America** refers to all Fagron activities in Brazil and Colombia. In South America, Fagron is primarily active in Fagron Brands and Fagron Essentials; and
4. **HL Technology** is located in Switzerland and develops and produces innovative precision components and orthopaedic tools for dental and medical industry professionals.

Fagron's activities can be subdivided into four categories:

1. **Fagron Compounding Services** refers to all personalised medication that is prepared in Fagron's sterile and non-sterile facilities;
2. **Fagron Brands** encompasses the innovative concepts, products and vehicles developed by Fagron, often in close cooperation with prescribers, pharmacies and universities;
3. **Fagron Essentials** refers to all pharmaceutical raw materials, equipment and supplies that a pharmacist needs in order to prepare medication himself/herself in the pharmacy; and
4. **Fagron Premium Pharmaceuticals** is a limited number of non-sterile drugs registered by Fagron in the Netherlands.

The segment results for continued operations for the period ending 31 December 2018 are as follows:

<b>2018</b> (x 1,000 euros)	Fagron Europe	Fagron North America	Fagron South America	HL Technology	Total
Turnover	250,086	113,488	100,930	7,174	471,679
Intersegment turnover	468	248	34	0	751
<b>Total turnover</b>	<b>250,554</b>	<b>113,736</b>	<b>100,964</b>	<b>7,174</b>	<b>472,430</b>
Operating result per segment	54,862	2,366	17,259	-1,015	73,472
Financial result					-18,636
Profit before taxes					54,835
Taxes on profits					11,553
<b>Net result from continued operations</b>					<b>43,282</b>

The segment results for continued operations for the period ending 31 December 2017 are as follows: These results have been revised for the application of IFRS 15.

<b>2017</b> (x 1,000 euros)	Fagron Europe	Fagron North America	Fagron South America	HL Technology	Total
Turnover	245,769	77,769	103,190	6,802	433,529
Intersegment turnover	399	138	44	0	581
<b>Total turnover</b>	<b>246,168</b>	<b>77,906</b>	<b>103,234</b>	<b>6,802</b>	<b>434,111</b>
Operating result per segment	53,859	3,763	17,541	-556	74,607
Financial result					-18,643
Profit before taxes					55,965
Taxes on profits					8,918
<b>Net result from continued operations</b>					<b>47,047</b>

Other segmented items recognised in the income statement for continued operations are as follows:

<b>2018</b> (x 1,000 euros)	Fagron Europe	Fagron North America	Fagron South America	HL Technology	Total
Depreciation and amortisation	6,549	7,218	2,126	345	16,237
Write-down on inventories	910	588	0	1,299	2,796
Write-down on receivables	68	434	39	0	542

<b>2017</b> (x 1,000 euros)	Fagron Europe	Fagron North America	Fagron South America	HL Technology	Total
Depreciation and amortisation	6,792	5,210	2,560	528	<b>15,091</b>
Write-down on inventories	512	291	421	810	<b>2,034</b>
Write-down on receivables	-7	303	128	0	<b>424</b>

The assets and liabilities, and the capital expenditure (investments) are as follows:

<b>2018</b> (x 1,000 euros)	Fagron Europe	Fagron North America	Fagron South America	HL Technology	Unassigned/ intersegment elimination	Total
Total assets	293,608	214,453	129,085	6,111	39,514	<b>682,772</b>
Total liabilities	53,752	176,495	20,101	2,466	220,242	<b>473,056</b>
Capital expenditure	7,005	6,251	2,916	1,506	0	<b>17,678</b>

<b>2017</b> (x 1,000 euros)	Fagron Europe	Fagron North America	Fagron South America	HL Technology	Unassigned/ intersegment elimination	Total
Total assets	290,159	126,423	133,786	5,507	38,172	<b>594,047</b>
Total liabilities	78,687	90,653	25,800	897	213,130	<b>409,166</b>
Capital expenditure	4,054	2,502	2,603	447	0	<b>9,607</b>

The segment assets consist primarily of property, plant and equipment, intangible fixed assets, inventories, receivables and cash from operations. The difference between the aforementioned capital expenditure and the capital expenditure in the cash flow statement relates particularly to the impact of capital expenditure still to be paid at the end of 2017 and 2018 and proceeds from disposals.

Fagron has a broad customer base in which no customer accounts for more than 10% of turnover.

## 6 Turnover

(x 1,000 euros)	2018	2017
Sale of goods	471,679	433,529
<b>Turnover</b>	<b>471,679</b>	<b>433,529</b>

The 2017 turnover was revised for the application of IFRS 15.

## 7 Other operating income

(x 1,000 euros)	2018	2017
Gain on disposal of fixed assets	267	695
Other operating income	1,449	3,920
<b>Total other operating income</b>	<b>1,716</b>	<b>4,616</b>

The decrease in other operating income mainly relates to higher proceeds in 2017 as a result of the sale of activities in the past.

## 8 Employee benefit expenses

(x 1,000 euros)	2018	2017
Wages and salaries	76,732	68,283
Social security costs	14,172	14,577
Pension costs – defined benefit plans	432	483
Pension costs – defined contribution plans	2,339	2,045
Other post-employment benefit contributions	2,168	3,451
Other employee expenses	16,731	11,863
<b>Total employee benefit expenses</b>	<b>112,573</b>	<b>100,700</b>

On 31 December 2018, Fagron's workforce (fully consolidated companies) for continued operations amounted to 2,488 (2017: 2,172) employees or 2,360.4 (2017: 2,053.9) full-time equivalents. The distribution of the number of full-time equivalents per operating segment is as follows:

Full-time equivalents (rounded to one unit)	2018	2017
Europe (incl. Rest of the World)	1,057	997
North America	596	379
South America	651	622
HL Technology	56	56
<b>Total</b>	<b>2,360</b>	<b>2,054</b>

## 9 Depreciation, amortisation and impairment

(x 1,000 euros)	2018	2017
Depreciation and amortisation	16,237	15,091
Write-down on inventories	2,796	2,034
Write-down on receivables	542	424
<b>Depreciation and amortisation</b>	<b>19,575</b>	<b>17,550</b>

Depreciation, amortisation and impairment increased in 2018, partly due to the acquisition of Humco and investments in the United States.

## 10 Other operating expenses

(x 1,000 euros)	2018	2017
Increase (decrease) in provisions for current liabilities	-625	-1,889
Increase (decrease) in provisions for pension liabilities	82	103
Taxes and levies (excluding income tax)	985	940
Other operating expenses	3,937	1,962
<b>Total other operating expenses</b>	<b>4,379</b>	<b>1,116</b>

The decrease in provisions for current liabilities in 2017 mainly relates to a release of a provision relating to the lapsing of social and tax risks and the use for loss-making contracts in the United States. This decrease was compensated in part by the creation of a provision for a tax assessment in Brazil (0.8 million euros). The decrease in provisions for current liabilities in 2018 relates to several smaller items.

The other costs in 2017 primarily relate to the termination of a contract with a third party. Other costs in 2018 relate primarily to a settlement that was made with the former owners of JCB Laboratories in the United States.

## 11 Financial result

The financial results are presented in the consolidated income statement as follows:

(x 1,000 euros)	2018	2017
Financial income	643	2,441
Revaluation of financial derivatives	0	713
<b>Total financial income</b>	<b>643</b>	<b>3,154</b>
Financial expenses	-4,921	-4,212
Interest expenses	-11,174	-17,124
Currency translation differences	-3,054	-461
Revaluation of financial derivatives	-131	0
<b>Total financial expenses</b>	<b>-19,279</b>	<b>-21,796</b>
<b>Total financial result</b>	<b>-18,636</b>	<b>-18,643</b>

The revaluation of financial derivatives of -0.1 million euros in 2018 (2017: 0.7 million euros) relates to the change in the market value of the interest rate hedges that are not a cash flow and cannot be presented as a hedge instrument in accordance with IFRS 9. The interest hedging instruments are valued on the basis of discounted cash flows.

The financial result, excluding the revaluation of the financial derivatives, amounts to -18.5 million euros in 2018 (2017: -19.4 million euros). This decrease was primarily due to lower interest charges as a result of a lower average interest rate (-11.2 million euros). The financial proceeds decreased by 2.5 million euros to 0.6 million euros. The negative currency translation differences increased by 2.5 million euros to -3.1 million euros.

## 12 Income taxes

Income taxes from continued operations are as follows:

(x 1,000 euros)	2018	2017
Current tax expenses	15,918	11,666
Deferred taxes	-4,364	-2,748
<b>Tax on profits</b>	<b>11,553</b>	<b>8,918</b>
Effective tax rate	21.07%	15.93%
<b>Profit before income tax from continued operations</b>	<b>54,835</b>	<b>55,965</b>
Tax calculated at weighted Fagron NV's statutory tax rate	16,220	19,022
Effect of rate differences compared with foreign jurisdictions	-1,350	-4,238
Income not subject to taxes	-695	-3,477
Expenses not deductible for tax purposes	1,669	1,359
Tax on profit previous years	-4	52
Other	-4,287	-3,800
<b>Tax on profits</b>	<b>11,553</b>	<b>8,918</b>

The 'Tax calculated based on Fagron NV's statutory tax rate' is the taxes expected based on the Belgian statutory rate. The 'Effect of rate differences compared with foreign jurisdictions' pertains to the impact of the statutory rates to which the entities in the Group are subject compared to the Belgian statutory rate.

The 'Income not subject to taxes' concerns the exempt income and expenses and is mainly related to ICMS in Brazil.

The 'Expenses not deductible for tax purposes' are all costs that are not tax-deductible and relate mainly to non-deductible intercompany expenses and other non-deductible expenses.

The 'Tax on profit previous years' is a reflection of all adjustments to earlier estimates for taxes.

The item 'Other' concerns all other movements that impact the effective tax rate. This primarily pertains to the use of tax losses that were not recognised earlier as a deferred tax claim and tax losses in the current year which have not been recognised because of insufficient expected future tax profits.

### 13 Discontinued operations

Fagron announced in April 2016 it would be closing Bellevue Pharmacy. The changed reimbursement system in the United States had a major impact on the turnover and profitability of Bellevue Pharmacy. After the impairment on Bellevue Pharmacy at the end of 2015 and the losses in the first quarter of 2016, the Group decided to close Bellevue Pharmacy. Bellevue was included in the discontinued operations since 2016. Because Bellevue Pharmacy is being shut down, it has not been included as an asset or liability held for sale.

The total result for the discontinued operations and the total of cash flows from the discontinued operations are shown below. The result in 2018 relates to various costs related to Bellevue Pharmacy.

#### Net result from discontinued operations

(x 1,000 euros)	2018	2017
<b>Operating income</b>	<b>0</b>	<b>0</b>
Turnover	0	0
Other operating income	0	0
<b>Expenses</b>	<b>377</b>	<b>0</b>
<b>Profit before income tax</b>	<b>-377</b>	<b>0</b>
Attributable income taxes	0	0
Profit / (loss) from revaluation to fair value, settlement costs and costs of sale	0	0
<b>Profit / (loss) for the year from discontinued operations (attributable to the company's shareholders)</b>	<b>-377</b>	<b>0</b>

#### Net cash flows from discontinued operations

(x 1,000 euros)	2018	2017
Total cash flow from operating activities	-377	0
Total cash flow from investment activities	0	0
Total cash flow from financing activities	0	0
<b>Total net cash flows from discontinued operations</b>	<b>-377</b>	<b>0</b>

## 14 Earnings per share

(in euros)	2018	2017
<b>Basic earnings (loss) per share</b>	<b>0.59</b>	<b>0.65</b>
• from continued operations	0.60	0.65
• from discontinued operations	-0.01	0.00
<b>Diluted earnings (loss) per share</b>	<b>0.59</b>	<b>0.65</b>
• from continued operations	0.60	0.65
• from discontinued operations	-0.01	0.00

The earnings used in the calculations are as follows:

(x 1,000 euros)	2018	2017
<b>Profit (loss) attributable to equity holders of the company</b>	<b>42,486</b>	<b>46,658</b>
• from continued operations	42,863	46,658
• from discontinued operations	-377	0

The diluted earnings are equal to the 'basic' earnings.

The weighted average number of shares used in the calculations is as follows:

(number of shares x 1,000)	2018	2017
Weighted average number of ordinary shares	71,740	71,740
Effect of warrants and stock options	229	137
<b>Weighted average number of ordinary shares (diluted)</b>	<b>71,969</b>	<b>71,877</b>

No ordinary share transactions were executed after the balance sheet date which have impacted on earnings per share. The number of warrants and stock options that do not have any dilutive impact during the period, but which could possibly have an impact in the future, is equal to 415,150. These are warrants and stock options for which the exercise price is higher than the average Fagron stock price in 2018.

## 15 Intangible fixed assets

(x 1,000 euros)	Goodwill	Development	Concessions & patents	Brands and customer relations	Software	Other	Total
<b>Net book value as at 1 January 2017</b>	<b>342,785</b>	<b>3,797</b>	<b>1,368</b>	<b>17,447</b>	<b>5,610</b>	<b>0</b>	<b>371,006</b>
Investments	0	1,328	56	49	910	17	2,360
Acquisitions	4,738	0	13	0	6	0	4,758
Transfers and disposals	-5,105	-4	-21	-1	-1	1	-5,133
Amortisation	0	-1,240	-183	-3,607	-1,745	0	-6,775
Exchange differences	-19,581	-10	-33	-1,763	-334	-2	-21,722
<b>Net book value as at 31 December 2017</b>	<b>322,837</b>	<b>3,870</b>	<b>1,200</b>	<b>12,125</b>	<b>4,447</b>	<b>16</b>	<b>344,495</b>
<b>Gross book value</b>	<b>571,881</b>	<b>6,980</b>	<b>2,113</b>	<b>81,812</b>	<b>16,980</b>	<b>38</b>	<b>679,803</b>
Accumulated amortisation	-249,043	-3,110	-913	-69,687	-12,533	-22	-335,309
<b>Net book value</b>	<b>322,837</b>	<b>3,870</b>	<b>1,200</b>	<b>12,125</b>	<b>4,447</b>	<b>16</b>	<b>344,495</b>
<b>Net book value as at 1 January 2018</b>	<b>322,837</b>	<b>3,870</b>	<b>1,200</b>	<b>12,125</b>	<b>4,447</b>	<b>16</b>	<b>344,495</b>
Investments	0	2,289	4	242	1,474	25	4,035
Acquisitions	44,404	0	0	6,087	545	0	51,036
Transfers and disposals	0	143	-2	0	736	-13	865
Amortisation	0	-1,185	-187	-4,424	-1,832	-2	-7,629
Exchange differences	-2,106	15	0	854	-176	0	-1,413
<b>Net book value as at 31 December 2018</b>	<b>365,135</b>	<b>5,132</b>	<b>1,015</b>	<b>14,884</b>	<b>5,195</b>	<b>26</b>	<b>391,388</b>
<b>Gross book value</b>	<b>614,179</b>	<b>9,254</b>	<b>2,020</b>	<b>91,202</b>	<b>20,074</b>	<b>48</b>	<b>736,776</b>
Accumulated amortisation	-249,043	-4,122	-1,005	-76,317	-14,879	-22	-345,388
<b>Net book value</b>	<b>365,135</b>	<b>5,132</b>	<b>1,015</b>	<b>14,884</b>	<b>5,195</b>	<b>26</b>	<b>391,388</b>

The intangible fixed assets have not been encumbered with collateral.

The category 'Development' consists mainly of unique software developed in-house in full control of Fagron. The development costs were fully capitalised in 2017 and 2018. These are mainly related to employee costs.

### Impairment

Goodwill is tested at least once per year for impairment, but also each time a trigger event occurs. In 2017 and 2018, this did not lead to an impairment of the goodwill.

### Goodwill

Goodwill acquired in business mergers and acquisitions is allocated to cash-generating units or groups of cash-generating units which are expected to have future economic benefits following the merger or acquisition. Goodwill is recognised at cost price less accumulated impairment losses.



The net book value of goodwill was attributed as follows to the cash-generating units:

(x million euros)	December 2018	December 2017
Fagron Europe Essentials and Brands	112.5	113.4
Fagron Europe Compounding Services and Premium Pharmaceuticals	58.7	58.7
Fagron United States Essentials and Brands	76.3	27.2
Fagron Sterile Services	16.8	16.1
AnazaoHealth	30.1	28.7
Fagron Brazil Essentials and Brands	63.1	70.6
Fagron Rest of the World	7.6	8.2
<b>Total</b>	<b>365.1</b>	<b>322.8</b>

The increase in goodwill relates primarily to the acquisition of Humco in the United States.

### Goodwill impairment test

The methodology for testing impairment is in accordance with IAS 36. Goodwill is tested at least annually for impairment with respect to cash-generating units and consistently when a trigger event occurs during the year which may result in an impairment loss. When the goodwill impairment test is conducted, the realisable value, being the value in use, is calculated per cash-generating unit.

The key judgments, estimates and assumptions that are commonly used are as follows:

- The first year of the model is based on detailed financial budgets approved by management and the Board of Directors.
- The year-one budget figures are extrapolated for the years two to five, taking into account an internal growth rate or using a business plan. The figures take into account economic assumptions and historical experience of market share, turnover and expenses, capital expenditures and working capital.
- For the following years, an estimate of the perpetual growth is used. For the main cash flow-generating units, the following long-term growth rates were used: 2% for Fagron Europe Compounding Services and Premium Pharmaceuticals, Fagron Europe Essentials and Brands, Fagron United States Essentials and Brands, Fagron Sterile Services and AnazaoHealth and 7% for Fagron Brazil Essentials and Brands. The same growth rates were used in 2017.
- Projections made for Brazil and the United States are done in their functional currency unit and are discounted at the weighted average capital cost of the unit. For the main cash flow-generating units, the following weighted average cost of capital was used: 8.9% (pre-tax: 11.3%) for Fagron Europe Compounding Services and Premium Pharmaceuticals, 8.9% (pre-tax: 11.3%) for Fagron Europe Essentials and Brands, 10.3% (pre-tax: 12.5%) for Fagron United States Essentials and Brands, 10.3% (pre-tax: 13.2%) for Fagron Sterile Services, 10.3% (pre-tax: 12.4%) for AnazaoHealth and 16.3% (pre-tax: 21.9%) for Fagron Brazil Essentials and Brands.
- The corporate assets and goodwill have been allocated on the basis of the turnover to the cash flow-generating units Fagron Europe Compounding Services and Premium Pharmaceuticals and Fagron Europe Essentials and Brands. It would have no material impact on the results if the assets and goodwill were allocated to all cash-generating units.

Of the main cash flow-generating units, Fagron United States Essentials and Brands has the smallest relative difference between the net book value of the asset and its enterprise value. The difference is estimated at 26.2 million euros and 52.4 million euros, respectively. The following changes in assumptions could individually decrease the enterprise value to its net book value.

	Increase in maintenance capex as % of sales (basis points)	Increase in discount rate (basis points)	Decrease in long-term growth (basis points)	Decrease in gross margin (basis points)
Fagron United States Essentials and Brands	1,544	242	353	389
Fagron Brazil Essentials and Brands	2,090	574	973	737

The outcome of the impairment test for Fagron Europe Compounding Services and Premium Pharmaceuticals, Fagron Europe Essentials and Brands, Fagron Sterile Services, AnazaoHealth and Fagron Brazil Essentials and Brands shows that a reasonable change in the assumptions used will not lead to an impairment.

## 16 Property, plant and equipment

(x 1,000 euros)	Land and buildings	Machinery and installations	Furniture and vehicles	Leasing and other similar rights	Other tangible assets	Assets under construction	Total
<b>Net book value as at 1 January 2017</b>	<b>38,485</b>	<b>16,587</b>	<b>4,713</b>	<b>153</b>	<b>2,915</b>	<b>10,026</b>	<b>72,879</b>
Investments	872	2,568	1,149	26	248	2,383	7,247
Acquisitions	2,448	274	50	105	0	16	2,894
Transfers and disposals	4,782	324	-50	0	-438	-6,724	-2,107
Depreciation	-2,993	-3,378	-1,453	-77	-414	0	-8,316
Exchange differences	-1,164	-1,079	-289	-14	-70	-446	-3,062
<b>Net book value as at 31 December 2017</b>	<b>42,431</b>	<b>15,297</b>	<b>4,120</b>	<b>192</b>	<b>2,241</b>	<b>5,255</b>	<b>69,535</b>
<b>Gross book value</b>	<b>60,286</b>	<b>41,979</b>	<b>15,724</b>	<b>322</b>	<b>6,749</b>	<b>5,255</b>	<b>130,315</b>
Accumulated depreciation	-17,855	-26,682	-11,604	-131	-4,508	0	-60,780
<b>Net book value</b>	<b>42,431</b>	<b>15,297</b>	<b>4,120</b>	<b>192</b>	<b>2,241</b>	<b>5,255</b>	<b>69,535</b>
<b>Net book value as at 1 January 2018</b>	<b>42,431</b>	<b>15,297</b>	<b>4,120</b>	<b>192</b>	<b>2,241</b>	<b>5,255</b>	<b>69,535</b>
Investments	3,376	4,972	1,769	0	143	3,383	13,643
Acquisitions	544	324	144	0	0	0	1,012
Transfers and disposals	-1,269	2,210	587	413	28	-3,879	-1,910
Depreciation	-2,791	-3,719	-1,474	-233	-390	0	-8,608
Exchange differences	-82	181	-148	-235	17	34	-233
<b>Net book value as at 31 December 2018</b>	<b>42,209</b>	<b>19,264</b>	<b>4,998</b>	<b>137</b>	<b>2,039</b>	<b>4,793</b>	<b>73,439</b>
<b>Gross book value</b>	<b>62,640</b>	<b>52,953</b>	<b>18,234</b>	<b>316</b>	<b>7,049</b>	<b>4,793</b>	<b>145,985</b>
Accumulated depreciation	-20,431	-33,689	-13,236	-179	-5,010	0	-72,546
<b>Net book value</b>	<b>42,209</b>	<b>19,264</b>	<b>4,998</b>	<b>137</b>	<b>2,039</b>	<b>4,793</b>	<b>73,439</b>

The Group's liability regarding financial leasing is guaranteed on account of the lessor holding the legal property title to the leased assets. The other property, plant and equipment have no restrictions on the title of ownership. These assets have also not been pledged as security for liabilities, with the exception of the buildings owned by HL Technology and Fagron Services BV, see note 32: additional notes.

## 17 Financial fixed assets

(x 1,000 euros)	Financial fixed assets available for sale	Loans and receivables	Total
<b>Net book value as at 1 January 2017</b>	<b>1,271</b>	<b>853</b>	<b>2,123</b>
Investments	26	442	467
Transfers and disposals	-83	-234	-229
Other movements	0	-42	-130
<b>Net book value as at 31 December 2017</b>	<b>1,214</b>	<b>1,018</b>	<b>2,232</b>
Investments	0	76	76
Transfers and disposals	-271	144	-127
Other movements	0	-22	-22
<b>Net book value as at 31 December 2018</b>	<b>943</b>	<b>1,216</b>	<b>2,158</b>

The assets available for sale consist primarily of a minority participation of 0.8 million euros, where the fair value through P&L method is used. However, this asset is valued at cost due to the lack of reliable information about its fair value.

An analysis of the aforementioned assets showed that none of these assets needs to be impaired in 2017 and 2018.

Loans and receivables concern receivables with different due dates. The book value approximates the fair value.

## 18 Taxes, remuneration and social security

### a) Current taxes, remuneration and social security

(x 1,000 euros)	2018	2017
Tax liabilities for the current year	9,454	6,984
Other current tax and VAT payable	8,418	9,320
Remuneration and social security payable	13,522	10,863
<b>Current taxes, remuneration and social security</b>	<b>31,395</b>	<b>27,168</b>

In particular, the increase in tax liabilities related to the current year regards the increased profitability in Europe. The increase in employee remuneration and social charges to be paid can be explained by the FTE increase.

### b) Deferred tax assets

(x 1,000 euros)	Differences in depreciation rates	Employee benefits	Provisions	Tax losses	Other	Total
<b>Balance on 1 January 2017</b>	<b>1,721</b>	<b>952</b>	<b>1,348</b>	<b>7,943</b>	<b>-2,266</b>	<b>9,698</b>
Result	-448	327	-1,008	4,893	-433	3,330
Change in scope of consolidation	0	0	0	0	0	0
Impairment	0	0	0	-1,673	0	-1,673
<b>Balance at 31 December 2017</b>	<b>1,273</b>	<b>1,279</b>	<b>340</b>	<b>11,162</b>	<b>-2,699</b>	<b>11,355</b>
Result	-672	-1,194	539	4,160	1,713	4,546
Change in scope of consolidation	160	0	0	0	0	160
Impairment	0	0	0	0	0	0
<b>Balance on 31 December 2018</b>	<b>761</b>	<b>85</b>	<b>879</b>	<b>15,322</b>	<b>-986</b>	<b>16,061</b>

The category 'Other' mainly concerns netting with deferred tax liabilities.

An impairment test on tax losses is performed twice per year. If it becomes clear that the losses cannot be offset within a reasonable time, they are written off. This calculation is based on result projections with a five-year forecast horizon, based on detailed financial budgets approved by the management for the first year and an extrapolation of these figures for the second through fifth year. Extending the result projection for one year in the region with the most significant deferred tax asset will result in its increase by approximately 4.9 million euros.

Based on the impairment test in 2018 on tax losses, no impairment occurred. At the end of 2018, the tax losses came to 269.9 million euros, of which 67.0 million euros were assessed, resulting in a deferred tax asset of 15.3 million euros.

### c) Deferred tax liabilities

(x 1,000 euros)	Differences in depreciation rates	Other	Total
<b>Balance on 1 January 2017</b>	<b>2,679</b>	<b>-2,443</b>	<b>236</b>
Result	273	-311	-38
Change in scope of consolidation	0	0	0
Discontinued operations	0	0	0
<b>Balance at 31 December 2017</b>	<b>2,952</b>	<b>-2,754</b>	<b>198</b>
Result	61	0	61
Change in scope of consolidation	0	0	0
Discontinued operations	0	0	0
<b>Balance on 31 December 2018</b>	<b>3,013</b>	<b>-2,754</b>	<b>259</b>

The category 'Other' mainly concerns netting with deferred tax assets.

On the balance sheet date, the Group has not included any deferred tax liability for taxes payable as the result of any dividend payment. The Group has not included any deferred tax liability because no adopted intercompany dividend policy applies, and an autonomous decision can therefore be made as to when a dividend will be paid and in what amount. In addition, due to a change in tax legislation in Belgium starting 1 January 2018, corporate income tax is no longer due on intercompany dividends received. The unvalued deferred tax liability is nil.

### 19 Inventories

(x 1,000 euros)	2018	2017
Raw materials	27,146	17,881
Work in progress	369	1,086
Finished goods	15,199	9,416
Trade goods	31,944	34,482
<b>Inventories</b>	<b>74,658</b>	<b>62,865</b>

The increase in inventories is primarily explained by the increased product availability in Brazil and the Humco acquisition. The inventories are not encumbered with collateral.

## 20 Trade receivables, other receivables, cash and cash equivalents

### a) Trade receivables and other receivables

(x 1,000 euros)	2018	2017
Trade receivables	40,989	34,761
Provision for impairment of receivables	-2,701	-2,541
<b>Total trade receivables</b>	<b>38,289</b>	<b>32,220</b>
<b>Other receivables</b>	<b>9,200</b>	<b>10,574</b>

There is no concentration of credit risk with respect to trade receivables, as a large number of Fagron's customers are internationally dispersed. If there are indications that trade receivables will be uncollectible, a provision has been made.

The decrease in the other receivables is mainly attributable to the receipt of a large part of the income taxes that can be claimed back in the United States (nil in 2018, 1.9 million euros in 2017). Other receivables also include value-added tax, prepayments and various smaller receivables.

Fagron applies a strict credit policy with regard to its customers, ensuring that the company controls and minimises credit risk. No individual customers make up a substantial part of either turnover or outstanding receivables. Fagron uses factoring. The factoring balance on 31 December 2018 amounted to 22.2 million euros.

(x 1,000 euros)	Carrying amount	Of which not overdue at year-end	Of which due at year-end			
			Less than 30 days	Between 31 and 90 days	Between 91 and 150 days	More than 150 days
Trade receivables at 31 December 2018	38,289	24,311	9,799	3,189	618	372
Trade receivables at 31 December 2017	32,220	21,222	6,673	3,124	827	374

(x 1,000 euros)	Provision for impairment of receivables
<b>Balance as of 1 January 2017</b>	<b>-2,496</b>
Additions:	
• Through business combinations	0
• Other	-429
Amounts used	192
Sale of operations	16
Other	176
<b>Balance as of 31 December 2017</b>	<b>-2,541</b>
Additions:	
• Through business combinations	-191
• Other	-506
Amounts used	589
Sale of operations	0
Other	-51
<b>Balance as of 31 December 2018</b>	<b>-2,701</b>

There is no major depreciation on trade receivables that have not expired.

## Cash and cash equivalents

(x 1,000 euros)	2018	2017
Investments with a maturity of less than three months	2,505	855
Cash and cash equivalents	75,074	59,916
<b>Cash and cash equivalents</b>	<b>77,579</b>	<b>60,771</b>

The increase in cash and cash equivalents is explained primarily by the positive cash flow from operations.

The majority of the cash comprises cash and cash equivalents in bank accounts and cash. The cash and cash equivalents are centralised as much as possible in a cash pool, held in accounts with banks that mostly have an A-rating. All new bank accounts are only opened with banks awarded at least an A-rating.

Trade receivables, other receivables and cash and cash equivalents are generally within a close range of their maturities. Therefore, the carrying amount approximates their fair value.

## 21 Equity

### Authorised capital

The Extraordinary General Meeting decided on 14 May 2012 to renew the Board of Director's authorisation to increase the authorised share capital, such within the limits of the existing authorisation as set out in Article 5bis of the Articles of Association, in one or more rounds by a maximum amount of 320,023,050.35 euros, such within a period of five years from the date of announcing such a decision in the Annexes of the Belgian Bulletin of Acts, Orders and Decrees. This proxy to increase the capital may be exercised only subject to the approval of at least three fourths (3/4) of the directors present or lawfully represented.

On 29 June 2015, 224,133 new shares were issued in the context of the authorised capital. The number of voting securities of Fagron amounted to 31,667,794. The total number of voting rights (denominator) amounted to 31,667,794. The authorised capital amounted to 322,217,493.06 euros in order to increase the capital by 2,297,363.25 euros in the context of the authorised capital by contribution in kind upon the issue of new shares bringing it to 324,514,856.31 euros.

On 4 August 2015, 444,033 new shares were issued in the context of the authorised capital. The number of voting securities of Fagron amounted to 32,111,827. The total number of voting rights (denominator) amounted to 32,111,827. The authorised capital amounted to 324,514,856.31 euros in order to increase the capital by 4,551,338.25 euros in the context of the authorised capital by contribution in kind upon the issue of new shares bringing it to 329,066,194.56 euros.

Since the granting of the authorised capital authorisation to the Board of Directors, the Company's capital was therefore increased by 6,848,701.50 euros (on 29 June 2015 and 4 August 2015). The authorised capital authorisation was not used during the 2018 financial year.

If the capital is increased within the limits of the authorised capital, then the Board of Directors will be competent to request payment of a share premium. If the Board of Directors adopts this decision, then this share premium will be deposited into a blocked account, the balance of which may only be reduced or transferred on the basis of a resolution adopted by a General Meeting of Shareholders in accordance with the clauses governing an amendment of the Articles of Association.

This power of the Board of Directors will apply to capital increases that are subscribed to in cash or in kind, or that result from capitalisation of reserves with or without the issue of new shares. The Board of Directors is permitted to issue convertible bonds or warrants within the limits of the authorised capital.

### Statement of changes in the capital and in the number of shares

The movements in this balance sheet item are presented in the statement of changes in equity. No treasury shares were bought back in 2018 (2017: nil). As of 31 December 2018, Fagron NV owned 103,627 treasury shares (2017: 103,627). In accordance with IFRS, these shares are deducted from equity and do not affect the income statement. No new shares were issued in the context of warrant plans in 2018 (2017: nil). The nominal number of shares on 31 December 2018 was 71,843,904 (2017: 71,843,904). The total number of outstanding shares on 31 December 2018 was 71,740,277 (2017: 71,740,277).

Number of ordinary shares and the equity value thereof	2018		2017	
	Number of shares x 1,000	x 1,000 euros	Number of shares x 1,000	x 1,000 euros
Issued shares as at 1 January	71,844	507,670	71,844	507,670
Issue of shares in relation to capital increases	0	0	0	0
<b>Issued shares as at 31 December</b>	<b>71,844</b>	<b>507,670</b>	<b>71,844</b>	<b>507,670</b>
Treasury shares as at 31 December	104	18,823	104	18,823
<b>Shares outstanding as at 31 December</b>	<b>71,740</b>	<b>488,847</b>	<b>71,740</b>	<b>488,847</b>

All ordinary shares are fully paid. The ordinary shares have no nominal value denotation but have an accounting par value of 1/71,843,904th of the capital as of 31 December 2018 (2017: 1/71,843,904th). Each ordinary share carries one vote and a right to dividends.

### Share-based payments

On 3 June 2014, the company's Board of Directors approved the Warrant Plan 2014 for employees, directors and consultants of the company and/or its subsidiaries. The warrants were issued in response to the decision taken by the Board of Directors dated 2 September 2014 in the presence of notary Luc De Ferm. In total 2,140,000 warrants were issued. In 2015 50,000 warrants were granted at an exercise price of 38.06 euros.

On 13 June 2016, the Company's Board of Directors approved the Warrant Plan 2016 for employees and managers/consultants of Fagron NV and/or its subsidiaries, where this decision was ratified by resolution of the Extraordinary General Meeting of 1 July 2016 in the presence of Civil-law Notary, Liesbet Degroote, where it was resolved to issue 1,000,000 warrants. In 2016, there were 983,091 warrants granted at an exercise price of 7.38 euros.

On 13 April 2018, the Company's Board of Directors approved the Warrant Plan 2018 for employees and managers/consultants of Fagron NV and/or its subsidiaries, where this decision was ratified by resolution of the Extraordinary General Meeting of 14 May 2018 in the presence of Civil-law Notary, Liesbet Degroote, where it was resolved to issue 1,300,000 warrants. In 2018, there were 1,294,500 warrants granted at an exercise price of 13.94 euros and 5,500 warrants granted at an exercise price of 16.31 euros.

The condition for vesting warrants for employees is that they still have an employment contract with the company; for directors and consultants the condition is that their relationship with the company has not been terminated. The costs of the warrants have been determined at the warrants' real value on

grant date and are spread over the vesting period of the warrants. The costs are incorporated in other employee benefit expenses and amount to 1.0 million euros for the 2018 financial year and 1.0 million euros for the 2017 financial year. A release of 0.6 million euros occurred in 2017 for expired warrants. The warrants are settled via equity instruments.

In 2018, no shares (2017: nil) were issued as a result of the exercise of warrants under the Warrant Plan 2014 or the Warrant Plan 2016. The number of Fagron shares with voting rights is currently 71,843,904 (2017: 71,843,904). The total number of voting rights (denominator) is currently 71,843,904 (2017: 71,843,904). The authorised capital amounts to 494,192,221.68 euros (2017: 494,192,221.68 euros).

The movements in the number of outstanding warrants under Warrant Plan 2014, Warrant Plan 2016, Warrant Plan 2018 and their related weighted average exercise prices are as follows:

	Average exercise price in euros	Number of warrants
<b>Outstanding as at 1 January 2017</b>	<b>18.10</b>	<b>1,456,091</b>
Forfeited	39.37	-73,000
Forfeited	7.38	-578,091
<b>Outstanding as at 31 December 2017</b>	<b>23.87</b>	<b>805,000</b>
Granted	13.94	1,294,500
Granted	16.31	5,500
Forfeited	13.94	-14,500
Forfeited	39.37	-10,000
<b>Outstanding as at 31 December 2018</b>	<b>17.67</b>	<b>2,080,500</b>

The weighted average exercise price per share at year-end amounted to 17.67 euros in 2018 (2017: 23.87 euros). All warrants are equity settled plans.

As of 31 December 2018, the total number of warrants not yet exercised that could give cause to the issuance of the same number of Company shares amounted to 2,080,500. Their average exercise price amounts to 17.67 euros. Outstanding warrants at year-end have the following expiry dates and exercise prices:

Expiry date	Average exercise price in euros	Number of warrants
2019 – March (Warrant Plan 2014)	39.37	405,000
2019 – November (Warrant Plan 2016)	7.38	270,000
2020 – November (Warrant Plan 2016)	7.38	60,000
2021 – July (Warrant Plan 2016)	7.38	60,000
2021 – May (Warrant Plan 2018)	13.94	640,000
2021 – May (Warrant Plan 2018)	16.31	2,750
2022 – May (Warrant Plan 2018)	13.94	640,000
2022 – May (Warrant Plan 2018)	16.31	2,750
	<b>17.67</b>	<b>2,080,500</b>

### Stock option plan

On 27 October 2011, the company's Board of Directors approved the Stock Option Plan 2011 for consultants and employees of Fagron NV and/or its subsidiaries, such under the suspensive condition of approval by the General Meeting. The Stock Option Plan 2011 was approved by the Annual General Meeting of 14 May 2012. In 2012, the procedure of Article 523 of the Belgian Companies Code was applied.



In June 2012, 250,000 stock options were granted at an exercise price of 13.73 euros. The options are settled via equity instruments. In 2014, 4,650 stock options were granted at an exercise price of 32.82 euros. No new stock options were granted in 2018.

During the financial years 2017 and 2018, the following number of options expired with their corresponding average exercise price:

	Average exercise price in euros	Number of stock options
Outstanding as at 1 January 2017	14.19	192,150
Forfeited	13.73	-187,500
<b>Outstanding as at 31 December 2017</b>	<b>32.82</b>	<b>4,650</b>
<b>Outstanding as at 31 December 2018</b>	<b>32.82</b>	<b>4,650</b>

Outstanding stock options at year-end have the following theoretical expiry dates and exercise prices:

Theoretical expiry date	Average exercise price in euros	Number of stock options
2019 – April	32.82	3,488
2020 – April	32.82	1,163
	<b>32.82</b>	<b>4,650</b>

### Fair value

The fair value of the warrants and stock options was determined using the 'Black & Scholes' valuation model at grant date. The main data used in the model were the share price at grant date, the above-mentioned exercise price, the standard deviation of Fagron share price returns during option life and expected dividend, the option life specified above, and the annual risk-free interest rate.

### Dividends

A dividend of 7.2 million euros was made payable in 2018 (2017: nil). A gross dividend of 0.12 euros per share will be proposed for 2018 at the Annual General Meeting of 13 May 2019, which represents a total dividend of 8.6 million euros. This dividend is not included in this financial statement.

A further explanation of the equity is included in the Corporate Governance Statement.

### Other reserves

(x 1,000 euros)	Consolidated reserves	Cumulative conversion differences	Transactions with non-controlling interest	Remeasurements of post-employment benefit obligations	Share-based payments	Total
<b>Balance as of 1 January 2017</b>	<b>-195,967</b>	<b>-32,222</b>	<b>-377</b>	<b>-1,996</b>	<b>12,387</b>	<b>-218,174</b>
Other comprehensive income	0	-16,534	0	1,123	0	-15,411
Share-based payments	0	0	0	0	370	370
Change in non-controlling interest	0	-10	0	0	0	-10
<b>Balance as of 31 December 2017</b>	<b>-195,967</b>	<b>-48,766</b>	<b>-377</b>	<b>-873</b>	<b>12,757</b>	<b>-233,226</b>
Other comprehensive income	0	-11,647	0	-264	0	-11,911
Share-based payments	0	0	0	0	1,025	1,025
Change in non-controlling interest	0	27	0	0	0	27
<b>Balance as of 31 December 2018</b>	<b>-195,967</b>	<b>-60,386</b>	<b>-377</b>	<b>-1,137</b>	<b>13,782</b>	<b>-244,085</b>

## 22 Provisions

(x 1,000 euros)	Taxes	Disputes	Other	Total
<b>Balance as of 1 January 2017</b>	<b>991</b>	<b>1,426</b>	<b>10,359</b>	<b>12,776</b>
Additions:				
• Through business combination	0	0	0	0
• Other	2,855	96	0	2,951
Amounts used	0	-50	-938	-988
Release	0	-991	0	-991
Currency translation differences	-115	-92	-1,066	-1,273
<b>Balance as of 31 December 2017</b>	<b>3,731</b>	<b>390</b>	<b>8,356</b>	<b>12,476</b>
Additions:				
• Through business combination	0	0	0	0
• Other	1,746	4	0	1,750
Amounts used	-3	-211	-369	-583
Release	0	0	-50	-50
Currency translation differences	-51	-23	240	166
<b>Balance as of 31 December 2018</b>	<b>5,423</b>	<b>160</b>	<b>8,177</b>	<b>13,759</b>

The US government is conducting an investigation into the pricing of pharmaceutical products in the period primarily prior to the acquisition of Bellevue Pharmacy and Freedom Pharmaceuticals. The investigation relates to the sector as a whole. In order to limit the uncertainty and further attorneys' fees and (internal) investigation costs, Fagron is currently in discussion with the American government in order to reach a settlement. Despite the fact that these conversations occur, there is currently no certainty regarding the effective outcome of these discussions. Any settlement with the American government could have an important impact on the Fagron group's financial position.

The opening balance sheet of Bellevue Pharmacy included a provision of 10 million US dollars for costs arising from this investigation. The provision is an estimate of the legal and (internal) research costs and the costs of a possible settlement with the government and will be further evaluated in relation to new facts. At the end of 2018, the provision is 7.3 million euros, which is our best estimate at the balance sheet date. It is expected that this provision will be used further in 2019. The same expectation applies for the other long-term provisions.

## 23 Pension obligations

### Pension obligations and costs

The amounts recognised in the balance sheet are determined as follows:

(x 1,000 euros)	2018	2017
Defined benefit pension plans	4,229	3,880
Defined benefit pension plans	954	853
<b>Pension obligations</b>	<b>5,183</b>	<b>4,733</b>

The category 'Defined benefit liabilities' include Fagron's Dutch defined benefit plans held by Fagron Services BV and Spruyt hillen BV. The 'Other defined benefit liabilities' include multiple smaller defined benefit plans, which are not further disclosed due to their limited size.

In accordance with IAS19, defined benefit liabilities are estimated using the Projected Unit Credit method. Under this method, each participant's benefits under the plan are attributed to years of service, taking into consideration future

salary increases and the plan's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited services. If an employee's service in later years will lead to a materially higher level of benefit than in earlier years, these benefits are attributed on a straight-line basis.

All defined benefit plans are final salary pension plans paid on a monthly basis. The amounts pertaining to post-employment medical plans are included in the liability but are not significant. There are no informal constructive liabilities.

The amounts recognised regarding the Dutch defined benefit plans held by Fagron Services BV and Spruyt hillen BV are determined as follows:

(x 1,000 euros)	2018	2017
Present value of defined benefit obligations	20,218	20,725
Fair value of plan assets	-15,989	-16,845
Present value of net defined benefit obligations	4,229	3,880
<b>Net liability arising from defined benefit obligations</b>	<b>4,229</b>	<b>3,880</b>

Movements in the present value of the defined benefit liabilities and the fair value of the plan assets were as follows:

(x 1,000 euros)	Present value of defined benefit obligations	Fair value of plan assets	Total
<b>Balance as of 1 January 2017</b>	<b>21,644</b>	<b>-16,739</b>	<b>4,905</b>
<b>Pension costs attributed to the year of service</b>			
Interest expense (income)	428	-330	98
Remeasurements:			
• Return on plan assets (excluding interest income)	0	-261	-261
• Actuarial (gains)/losses arising from changes in demographic assumptions	0	0	0
• Actuarial (gains)/losses arising from changes in financial assumptions	-862	0	-862
• Actuarial differences as a result of adjustments in experience	0	0	0
Employer contributions			
Plan contribution	-485	485	0
<b>Balance as of 31 December 2017</b>	<b>20,725</b>	<b>-16,845</b>	<b>3,880</b>
<b>Pension costs attributed to the year of service</b>			
Interest expense (income)	449	-364	85
Remeasurements:			
• Return on plan assets (excluding interest income)	0	827	827
• Actuarial (gains)/losses arising from changes in demographic assumptions	-203	0	-203
• Actuarial (gains)/losses arising from changes in financial assumptions	-209	0	-209
• Actuarial differences as a result of adjustments in experience	-151	0	-151
Employer contributions			
Plan contribution	-393	393	0
<b>Balance as of 31 December 2018</b>	<b>20,218</b>	<b>-15,989</b>	<b>4,229</b>

The assets comprise qualifying insurance policies and are not part of the in-house financial instruments of Fagron. The pension insurer fully invested the assets in Aegon Strategic Allocation Fund 80/20. This fund has a market quotation.

### Actuarial assumptions

The principal actuarial assumptions used for the actuarial valuations are:

	31 December 2018	31 December 2017
Weighted average discount rate	2.20%	2.20%
Expected rate of salary increase	N/A	N/A
Expected rate of price inflation	N/A	N/A
Future rate of pension increases actives	1.75%	2.00%

The life expectancy is determined on the basis of the AG2018 Forecast Table.

### Realised and unrealised result

The amounts recognised in the realised and unrealised result in respect of these defined benefit plans are as follows:

(x 1,000 euros)	31 December 2018	31 December 2017
Interest expense	85	98
<b>Pension costs defined benefit plans recognised in the income statement</b>	<b>85</b>	<b>98</b>
Remeasurement on the present value of unfunded liabilities:		
Return on plan assets (excluding interest income)	827	-261
Actuarial (gains)/losses arising from changes in demographic assumptions	-203	0
Actuarial (gains)/losses arising from changes in financial assumptions	-209	-862
Actuarial differences as a result of adjustments in experience	-151	0
<b>Pension costs defined benefit plans recognised in other comprehensive income</b>	<b>264</b>	<b>-1,123</b>
<b>Total defined benefit costs</b>	<b>349</b>	<b>-1,025</b>

There were no new entrants to the defined benefit plan; further accrual only takes place in a defined contribution plan. New employees are offered a defined contribution plan.

The expected defined benefit costs for 2018 are 0.1 million euros and only concern interest costs.

### Sensitivity analysis

The sensitivity analysis shows the sensitivity of the defined benefit obligation on 31 December 2018 and the "Pension costs attributed to the year of service" compared to the principal actuarial assumptions.

The following table shows the defined benefit obligation on 31 December 2018 for each principal actuarial assumption compared to the corresponding amounts if the actuarial assumption of the relevant scenarios would be applied. Salary increases are not included in the sensitivity analysis.

	Base scenario	Increase in base scenario	Decrease in base scenario
Weighted average discount rate	2.20%	2.70%	1.70%
Defined benefit obligation	20,218	18,416	22,297
Inflation increase	1.75%	2.25%	1.25%
Defined benefit obligation	20,218	20,647	19,823
Life expectancy	+/- 0 year	+ 1 year	- 1 year
Defined benefit obligation	20,218	20,726	19,703

### Pension plans in Belgium

Fagron has nine pension plans in place in Belgium which are legally structured as defined contributions plans. Because of a previous legislative amendment in Belgium applicable to 2nd pillar pension plans (the Supplementary Pensions Act), all Belgian Defined Contribution plans have to be considered as defined benefit plans under IFRS. The Supplementary Pensions Act was established in 2015 as follows:

- The employer must continue to guarantee a minimum return of 3.75% on employee contributions and 3.25% on employer contributions made until 31 December 2015;
- As of 2016, the employer must guarantee a minimum return ranging between 1.75% and 3.75% for all contributions, depending on the development of the average interest on OLO 10 years over a period of 24 months. The current guaranteed minimum return is 1.75%.

Because of this minimum guaranteed return for defined contributions plans in Belgium, the employer is exposed to a financial risk. The employer has a legal obligation to pay further pension contributions in the financing fund if the fund does not hold sufficient assets to pay all current and future pension commitments. These Belgian defined benefit contribution plans should therefore be classified as defined benefit plans under IAS 19.

In the past, Fagron did not apply the defined benefit accounting for these plans because higher discount rates were applicable and the return on plan assets provided by insurance companies was sufficient to cover the minimum guaranteed return. As a result of continuous low interest rates on the European financial markets, the employers in Belgium effectively assumed a higher financial risk related to the pension plans with a minimum fixed guaranteed return than in the past. As a result, these plans need to be considered defined benefit plans.

Management made an estimate of the potential additional liabilities as of 31 December 2018. Based on this estimation, it has been established that there are no substantive liabilities. The 2018 employer contribution for these Belgian pension plans amounts to 0.1 million euros (2017: 0.1 million euros). The employee contribution for 2018 is nil (2017: nil), the employee contribution was stopped in 2014. The total amount of the fund investments as of 31 December 2018 amounts to 1.0 million euros (2017: 1.0 million euros).

## 24 Financial debt and financial instruments

(x 1,000 euros)	2018	2017
<b>Non-current</b>		
Financial lease liabilities	35	74
Bank borrowings	265,682	283,344
Other borrowings	201	100
<b>Total non-current</b>	<b>265,917</b>	<b>283,518</b>
<b>Current</b>		
Financial lease liabilities	66	65
Bank borrowings	63,889	13,386
<b>Total current</b>	<b>63,955</b>	<b>13,450</b>
<b>Total financial debts</b>	<b>329,872</b>	<b>296,968</b>

(x 1,000 euros)	2018		2017	
	Financial leases	Bank borrowings	Financial leases	Bank borrowings
<b>Non-current borrowings by term</b>				
More than 1 year but less than 5 years	35	261,558	74	282,113
More than 5 years	0	2,163	0	1,331
<b>Total non-current borrowings</b>	<b>35</b>	<b>265,883</b>	<b>74</b>	<b>283,444</b>

(x 1,000 euros)	2017	Cash flow from financing activities	Non-cash change		2018
			Acquisitions	Exchange rates	
Non-current borrowings	283,518	-21,933	0	4,333	265,917
Current borrowings	13,450	49,267	0	1,238	63,955
<b>Total borrowings</b>	<b>296,968</b>	<b>27,334</b>	<b>0</b>	<b>5,570</b>	<b>329,872</b>

### a. Bank borrowings and financial instruments

The book value of the bank borrowings is expressed in euros. The effective interest rate on the balance sheet date on 31 December 2018 was 2.80% (2017: 3.32%). The increase in the loans (in total) is due to higher drawdowns on the multi-currency facility. The decrease in long-term loans is due to a shift from private USPP loans to current liabilities.

On 15 April 2014, Fagron NV issued a series private loans comprising of 45.0 million US dollars 4.15% Series A Senior Notes due 15 April 2017, 22.5 million euros 3.55% Series B Senior Notes due 15 April 2017, 15.0 million euros 4.04% Series C Senior Notes due 15 April 2019, 5.0 million euros Floating Rate Series D Senior Notes due 15 April 2019, 20.0 million US dollars 5.07% Series E Senior Notes due 15 April 2019 and 60.0 million US dollars 5.78% Series F Senior Notes due 15 April 2021. Both the Series A and Series B notes were fully repaid at maturity. The total EBITDA, calculated as result before interest, taxes, depreciation and amortisation, of the guarantors is at least 70 per cent of the consolidated Group EBITDA.

On 16 December 2014, Fagron NV amended and extended the existing credit facility with an originating amount of 150 million euros and maturity date in July 2017. The amended multi-currency facility of 220 million euros was given a term until December 2019 with two one-year extension options via a consortium of existing and new international banks. In 2016, this facility, along with the long-term waiver of 5 May 2016, was renewed until April 2021 by exercising the extension

options. In August 2018, the size of the facility increased further from 220 million euros to 245 million euros.

In the last quarter of 2017, Fagron agreed a term loan for 80 million euros with a syndicate of banks. The term of this loan is equal to the multi-currency facility and has an expiration date in April 2021. The repayment will take place at the end of the term and the agreements on financial covenants are the same as those of the multi-currency facility.

The key covenants of the credit facilities are the net financial debt/recurring EBITDA ratio and the recurring EBITDA/net interest expenses ratio. The financial covenants were adjusted in 2016 to give Fagron extra latitude with respect to the original levels of the financial covenants. The extra latitude in the financial covenants decreases with every six-month test period until the test period ending on 30 June 2018. For every test period ending after 30 June 2018, the levels of both financial covenants revert to the original levels. At the end of 2018, the original financial covenants will again be in force. In addition, the total EBITDA, calculated as being the result before interest, taxes, depreciation and impairment of the guarantors should be at least 70 percent of the consolidated EBITDA of the total Group.

### Financial covenants credit facilities

Test period	Financial covenants	
	Net financial debt/REBITDA	REBITDA/net interest expenses
After 30 June 2018	Max. 3.25x	Min. 4.00x

In 2018, the interest risk relating to 42.5 million dollars of the loans has been hedged with financial derivatives. These instruments were valued in accordance with a Level 2 method. This implies that the valuation was based on inputs other than the listed prices in active markets such as included in Level 1. The fair values of all derivatives held for hedging purposes were based on valuation methods. These methods maximise the use of detectable market data where available, and minimise the impact of the company's estimates and projections. The interest hedging instruments are valued on the basis of discounted cash flows. The parameters used for these models are those applicable as at year-end and are therefore classified as Level 2. The valuation was calculated using the discounted cash flows of the nominal value and interest flows. The term to maturity of the financial derivatives runs until March 2021.

The fair value of financial derivatives at the end of 2018 was -0.1 million euros (2017: nil). In 2018, the financial instruments relating to the hedging of the interest risk decreased as a result of the settlement of these financial derivatives. Fagron has no other financial derivatives.

All financial instruments are valued at amortised cost except for derivative financial instruments and contingent considerations for acquisitions, which are valued at fair value. The fair value of the financial instruments valued at the amortised cost price approximates the carrying amount.

As do the borrowing companies, Fagron NV and Fagron Capital NV, the following companies serve as guarantors for the bank loan and bond loan concluded by Fagron:

**Company name of guarantors**

ACA Pharma NV	Freedom Pharmaceuticals Inc.
Arseus België NV	Galfarm Sp. Z.o.o,
B&B Pharmaceuticals Inc.	Infinity Pharma BV
Fagron België NV	Pharma Cosmetic K,M, Adamowicz Sp. Z.o.o.
Fagron GmbH & Co KG	Pharmaline BV
Fagron Inc.	SM Empreendimentos Farmaceuticos Ltda
Fagron Nederland BV	Spruyt hillen BV
Fagron Sp. Z.o.o.	

**b. Financial leases**

Property, plant and equipment include the following amounts where Fagron is a lessee under a financial lease.

(x 1,000 euros)	2018	2017
Acquisition value – leasing and similar rights	316	322
Accumulated depreciation	-179	-131
<b>Net amount of assets in leasing</b>	<b>137</b>	<b>192</b>

The Group's liability regarding financial leasing is guaranteed on account of the lessor holding the legal property title to the leased assets. The fair values of the bank borrowings and financial leasing liabilities have been calculated based on the present value of the future payments associated with the debt.

The net amount of the financial leases concerns the following investments:

(x 1,000 euros)	2018	2017
Machinery and installations	122	124
Furniture and vehicles	14	68
<b>Net amount of assets in leasing</b>	<b>137</b>	<b>192</b>

Financial lease liabilities – minimum lease payments:

(x 1,000 euros)	2018	2017
Within 1 year	72	71
More than 1 year but less than 5 years	43	93
<b>Total</b>	<b>115</b>	<b>164</b>
Future financing costs on financial leases	14	25
<b>Present value of future financial leases</b>	<b>101</b>	<b>139</b>

**c. Operating leases**

Operating lease liabilities – minimum lease payments:

(x 1,000 euros)	2018	2017
Within 1 year	7,824	7,423
More than 1 year but less than 5 years	23,657	22,666
More than 5 years	11,446	8,478
<b>Total</b>	<b>42,928</b>	<b>38,567</b>



Most of the lease agreements relate to buildings in the United States and Benelux. The increase in the operational leases in 2018 is caused by the acquisition of Humco.

## 25 Trade payables

(x 1,000 euros)	2018	2017
Trade payables	62,701	58,205
Investment payables	1,217	745
<b>Total trade payables</b>	<b>63,918</b>	<b>58,950</b>

Trade payables generally have due dates that are close to each other. The reported values approximate their fair values. The increase compared to the previous year can be explained, in particular, by the acquisition of Humco.

## 26 Other current payables

(x 1,000 euros)	2018	2017
Prepayments	77	11
Other payables	22,995	2,763
Accrued expenses	5,467	5,899
<b>Other current payables</b>	<b>28,538</b>	<b>8,673</b>

The other debts relate to amounts still to be paid for existing participations (subsequent payments) for 20.0 million euros (2017: 1.0 million euros). This explains the increase compared to 2017.

The accrued expenses include an amount of 1.9 million euros (2017: 2.1 million euros) related to interest still to be paid. The remainder of this item concerns various accruals and deferrals.

The debts generally have due dates that are close to each other. The reported values approximate their fair values.

## 27 Contingencies

Fagron runs certain risks for which no provision has been made (such as the possible tax liabilities with regard to ICMS in Brazil or VAT in Poland) because it is unlikely that these risks will have a negative impact for the group. ICMS is a business tax incentive programme called Produzir for companies based in the Brazilian state of Goiás. This is contested by several Brazilian states.

In Poland, a VAT audit was started in 2017 at two subsidiaries. The VAT percentage applied to almost all the products sold by the Polish subsidiaries is being questioned by the Polish tax authority. We are contesting this assertion. At one of the subsidiaries an assessment of PLN 4 million was issued for the February 2017 period. Fagron objected to the imposed assessment, which was rejected in January 2019. Fagron appealed to the administrative court in February 2019 against this pronouncement. An assessment of 3.6 million PLN was imposed at the other company. Fagron will object to the imposed assessment.

Fagron received a tax assessment of 15.4 million euros in July 2018 regarding the amortisation of goodwill due to mergers in Brazil. We are disputing this assessment. Fagron objected to the imposed assessment and has not made any provision in this regard.

Fagron is also involved in a number of claims, disputes and legal proceedings within the normal conduct of its business. Management is of the opinion that it is unlikely that these claims, disputes and lawsuits will have a negative impact on the financial situation at Fagron. A provision has been made for claims where it is deemed probable that they will lead to a payment, and for which a reliable estimate can be made (see note 22).

## 28 Related parties

The overall remuneration package for members of the Executive Committee and the CEO individually, as well as the non-executive directors, is shown below for the financial years 2018 and 2017:

(x 1,000 euros)	Fixed remuneration component	Variable remuneration component	Other remuneration components <sup>1</sup>
<b>2017 financial year</b>			
Hans Stols, CEO until 24 November 2017	550	0	33
Rafael Padilla, CEO as from 27 November 2017	35	0	2
Executive Committee, including the CEO	1,824	155	165
Non-executive members of the Board of Directors	334	0	0
Severance pay, Hans Stols	1,303	0	0
<b>2018 financial year</b>			
Rafael Padilla, CEO	458	270	14
Executive Committee, including the CEO	968	369	75
Non-executive members of the Board of Directors	369	0	0

<sup>1</sup> Includes costs for pensions, insurance and the cash value of the other benefits in kind.

The variable remuneration component regards the bonus realised over 2018 that is paid out in 2019. The Nomination and Remuneration Committee annually prepares proposals for the remuneration policy and/or other benefits for members of the Executive Committee and the CEO.

In 2018, there were 400,000 warrants and no stock options granted to the members of the Executive Committee, in the composition in effect on 31 December 2018. Mr Padilla and the other members of the Executive Committee did not exercise any stock options or warrants in 2018. None of the stock options and warrants owned by Mr Padilla and the other members of the Executive Committee expired in 2018. The members of the Executive Committee, in the composition in effect on 31 December 2018, together hold 840,000 stock options and warrants.

## 29 Business combinations

Fagron completed one acquisition in the 2018 financial year. Fagron announced the acquisition of Humco at the beginning of April 2018. Humco is a leading developer, manufacturer and supplier of patented vehicles (means of administering) and pharmaceutical brand products to more than 45,000 pharmacies in the United States (US).

### Fair value of the acquired Humco assets and liabilities

The acquisitions were paid with approximately 57.6 million euros of cash and cash equivalents, representing an increase in goodwill of 44.4 million euros. The goodwill is expected to not be tax-deductible. The provisional fair value of the acquired assets and liabilities is detailed below.

(x 1,000 euros)	
Intangible fixed assets	6,632
Property, plant and equipment	993
Deferred tax assets	160
Inventories	4,626
Trade receivables	3,137
Other receivables	293
Cash and cash equivalents	996
<b>Total assets</b>	<b>16,837</b>
Trade payables	2,153
Other current payables	1,483
<b>Total liabilities</b>	<b>3,636</b>
<b>Net acquired assets</b>	<b>13,201</b>
Goodwill	44,410
<b>Total acquisition amount</b>	<b>57,611</b>

Humco was included in the consolidated figures as of April 2018. The fair value of the acquired assets and liabilities has been provisionally determined for the activity acquired in 2018. The fair values indicated are provisional, because the integration process of the acquired entity and their activities is still ongoing. The provisional fair values of the intangible and property, plant and equipment, deferred taxes and working capital may still change when the acquired assets and liabilities have been definitively determined. Currently, we do not expect any substantial changes in the acquired assets and liabilities.

#### Fair value of the acquired assets and liabilities of other companies

The limited activities acquired in 2017 in Brazil and Croatia were paid with approximately 7.6 million euros of cash and cash equivalents, representing an increase in goodwill of 4.7 million euros. The goodwill is expected to not be tax-deductible. The final fair value of the acquired assets and liabilities is detailed below.

(x 1,000 euros)	2018	2017
Intangible fixed assets	19	19
Property, plant and equipment	2,913	2,894
Other non-current assets	10	10
Deferred tax assets	13	13
Inventories	1,323	1,323
Trade receivables	1,472	1,472
Other receivables	558	558
Cash and cash equivalents	293	293
<b>Total assets</b>	<b>6,602</b>	<b>6,584</b>
Borrowings	1,653	1,653
Trade payables	1,096	1,083
Other current payables	942	942
<b>Total liabilities</b>	<b>3,691</b>	<b>3,678</b>
<b>Net acquired assets</b>	<b>2,912</b>	<b>2,906</b>
Goodwill	4,732	4,738
<b>Total acquisition amount</b>	<b>7,644</b>	<b>7,644</b>

The final determination of the fair value of assets and liabilities acquired through the minor acquisitions in 2017 mentioned earlier did not result in any adjustment of goodwill.

At the end of the year, the Group had an amount of approximately 20.0 million euros in liabilities outstanding to former shareholders, which were determined on the basis of business plans at the time of acquisition, see also Note 26. The increase compared to 2017 is due primarily to the acquisition of Humco in the United States.

The retrospective payments for business combinations relate to Brazil, Croatia and the United States. It is expected that these will be paid in 2019 and 2020.

The retrospective payments for business combinations range from 0 euros to a maximum of 20.0 million euros. The retrospective payments are valued at fair value at the moment of acquisition. This is estimated based on the maximum compensation if the conditions are met. The current expectation is that the remunerations will be paid on the expiration dates.

### 30 Information on the Statutory Auditor, his remuneration and related services

The Company's Statutory Auditor is PricewaterhouseCoopers Bedrijfsrevisoren CVBA, represented by Mr Peter Van den Eynde.

(x 1,000 euros)	2018	2017
<b>Audit fee for the Group audit</b>		
Fagron Group	476	450
Audit fee for PricewaterhouseCoopers Bedrijfsrevisoren	287	263
Audit fee for parties linked to PricewaterhouseCoopers Bedrijfsrevisoren	189	187
<b>Remuneration for additional services rendered by the Statutory Auditor to Fagron</b>		
Other audit assignments	13	5
Other non-auditing assignments	8	3
<b>Remuneration for additional services rendered by parties linked to the Statutory Auditor</b>		
Tax advisory assignments	48	33
Other non-auditing assignments	108	35

The other audit assignments outside of the strictly financial auditing work in 2017 relate primarily to special reports in the context of the compliance certificate, guarantor coverage schedule and EMIR. In 2018, these relate to reports in the context of due diligence work.

### 31 Significant events after the balance sheet date

No significant events occurred after the balance sheet date.

## 32 Additional notes

### 1. Off-balance sheet rights and liabilities – collateral:

HL Technology SA has a current liability in the amount of 1.7 million euros (1.9 million Swiss francs), the initial mortgage loan amounts to 2.0 million Swiss francs. Fagron Services BV has a liability in the amount of 0.5 million euros, the initial mortgage loan amounts to 2.0 million euros. The Group does not have any material liabilities to purchase fixed assets at the moment.

### 2. Fagron NV signed a liability statement on behalf of a number of Dutch subsidiaries, specifically:

Fagron Brazil Holding BV  
Fagron BV  
Fagron Nederland BV  
Fagron Services BV  
Fagron Steriele Bereidingsapotheek BV  
Infinity Pharma BV  
Fagron Holding NL BV  
Pharmaline BV  
Pharma Assist BV  
Spruyt hillen BV  
Twipe BV

### 3. Exemption from a German subsidiary:

Fagron GmbH & Co KG in Barsbüttel (Germany) is exempt from the obligation to set up its financial statements and financial report according to §264b of the German commercial code, and to audit and publish these in line with the applicable regulations for businesses.

## 33 List of the consolidated companies

Name	Address	Ownership
ABC Chemicals NV	Venecoweg 20A, 9810 Nazareth (Belgium)	100.0%
ABC Dental & Pharmaceutical Consultancy NV	Venecoweg 20A, 9810 Nazareth (Belgium)	100.0%
ACA Pharma NV	Venecoweg 20A, 9810 Nazareth (Belgium)	100.0%
All Chemistry Do Brasil Ltda	Rua Cocais 300 – Jardim Oriental, 04347-170 São Paulo (Brazil)	100.0%
AnazaoHealth Inc.	5710 Hoover Boulevard, 33634 Tampa, Florida (United States)	100.0%
ApodanNordic PharmaPackaging A/S	Kigkurren 8M 2. Sal, 2300 Copenhagen (Denmark)	100.0%
Arseus België NV	Venecoweg 20A, 9810 Nazareth (Belgium)	100.0%
Arseus Capital NV	Venecoweg 20A, 9810 Nazareth (Belgium)	100.0%
Arseus Dental Solutions SAS	37 Rue Helene Muller, 94320 Thiais (France)	100.0%
B&B Pharmaceuticals Inc.	8591 Prairie Trail Drive, 80112 Englewood, Colorado (United States)	100.0%
Coast Quality Pharmacy LLC	5710 Hoover Boulevard, 33634 Tampa, Florida (United States)	100.0%
DPI Inc.	5967 S. Garnett Rd., 74146 Tulsa, Oklahoma (United States)	100.0%
Ducere LLC	5710 Hoover Boulevard, 33634 Tampa, Florida (United States)	100.0%
Dynaceuticals Ltd	55 14th Avenue, Northcliff, Gauteng (South Africa)	100.0%
Fagron a.s.	Holická 1098/31M, 77900 Olomouc (Czech Republic)	73.1%
Fagron Academy LLC	1111 Brickell Avenue, Suite 1550, 33131 Miami, Florida (United States)	100.0%
Fagron Belgium NV	Venecoweg 20A, 9810 Nazareth (Belgium)	100.0%
Fagron Brazil Holding BV	Lichtenauerlaan 182, 3062 ME Rotterdam (The Netherlands)	100.0%
Fagron BV	Lichtenauerlaan 182, 3062 ME Rotterdam (The Netherlands)	100.0%
Fagron Canada Inc.	1 Place Ville-Marie, Porte 1300, H3B 0E6, Montréal, Quebec (Canada)	100.0%
Fagron Colombia SAS	Calle 90 19A-49 Bogota (Colombia)	100.0%
Fagron Compounding Services LLC	8710 E. 34th St. N., 67226 Wichita, Kansas (United States)	100.0%
Fagron Compounding Services NV	Woestijnstraat 53, 2880 Bornem (Belgium)	100.0%
Fagron Compounding Supplies Australia Pty Ltd	Atkinson Road 2/16, Taren Point, 2229 Sydney (Australia)	100.0%
Fagron Essentials Holding LLC	2400 Pilot Knob Road, 55120 St. Paul, Minnesota (United States)	100.0%
Fagron Genomics S.L.U.	Carrer de Josep Tapiolas 150, 08226 Terrassa (Spain)	100.0%
Fagron GmbH & Co KG	Von-Bronst-Straße 12, 22885 Barsbüttel (Germany)	100.0%
Fagron Hellas A.B.E.E.	12km NR, 42100 Trikala-Larissa (Greece)	100.0%

Name	Address	Ownership
Fagron Hrvatska d.o.o.	Donjozelinska ul. 114, 10382 Donja Zeline (Croatia)	100.0%
Fagron Holding NL BV	Lichtenauerlaan 182, 3062 ME Rotterdam (The Netherlands)	100.0%
Fagron Holding USA LLC	2400 Pilot Knob Road, 55120 St. Paul, Minnesota (United States)	100.0%
Fagron Iberica SAU	Carrer de Josep Tapiolas 150, 08226 Terrassa (Spain)	100.0%
Fagron Inc.	2400 Pilot Knob Road, 55120 St. Paul, Minnesota (United States)	100.0%
Fagron Italia Srl	Via Lazzari 4-6, 40057 Granarolo Dell'Emilia, Quarto Inferiore (Italy)	100.0%
Fagron Lékárna Holding s.r.o.	Holická 1098/31M, 77900 Olomouc (Czech Republic)	73.1%
Fagron Nederland BV	Venkelbaan 101, 2908 KE Capelle aan den IJssel (The Netherlands)	100.0%
Fagron Nordic A/S	Kigkurren 8M 2. Sal, 2300 Copenhagen (Denmark)	100.0%
Fagron NV	Venecoweg 20A, 9810 Nazareth (Belgium)	100.0%
Fagron Sarl	Intendente Neyer 924, B1643 Beccar (Argentina)	100.0%
Fagron SAS	37 Rue Helene Muller, 94320 Thiais (France)	100.0%
Fagron Services Brazil Ltda	Via Primaria 5D, Daia, 75132-120 Anapolis (Brazil)	100.0%
Fagron Services BV	Molenwerf 13, 1911 DB Uitgeest (The Netherlands)	100.0%
Fagron SH Ltd	2315 Ocean Tower, 550 Yan An East Road, 200001 Shanghai, (China)	100.0%
Fagron South Africa Ltd	55 14th Avenue, Northcliff, Gauteng (South Africa)	100.0%
Fagron Sp. z o.o.	Ul. Pasternik 26, 31354 Krakau (Poland)	100.0%
Fagron Steriele Bereidingsapotheek BV	Siemensstraat 4, 7903 AZ Hoogeveen (The Netherlands)	100.0%
Fagron Technologies Ltda	Avenida 9 de Julho 3575, 13208-056 Jundiai (Brazil)	100.0%
Fagron UK Ltd	4B Coquet Street, NE1 2QB Newcastle upon Tyne (United Kingdom)	100.0%
Fagron Verwaltungsgesellschaft mbH	Von-Bronst-Straße 12, 22885 Barsbüttel (Germany)	100.0%
Florien Fitoativos Ltda	Estrada Vicente Bellini 175, 13427-225 Piracicaba City (Brazil)	100.0%
Freedom Pharmaceuticals Inc.	801 W. New Orleans Street, 74011 Broken Arrow, Oklahoma (United States)	100.0%
Galfarm Sp. z.o.o.	Ul. Przemystowa, 12, 30701 Krakow (Poland)	100.0%
HL Technology SA	Rue Jardiniere 153, 2300 La Chaux-de-Fonds (Switzerland)	100.0%
Humco Holding Group Inc.	201 W. 5th Street, 12th floor, 78701 Austin, Texas (United States)	100.0%
Humco Qsub 1 Inc.	7400 Alumax Drive, 75501 Texarkana, Texas (United States)	100.0%
Infinity Pharma BV	Steenovenweg 15, 5708 HN Helmond (The Netherlands)	100.0%
JCB Laboratories LLC	7335 W. 33rd Street. North, 67205 Wichita, Kansas (United States)	100.0%
Jupiter Health Holding LLC	Millwell Drive 212, Maryland Heights, 63043 Missouri (United States)	100.0%
Liberty Rx LLC	Millwell Drive 212, Maryland Heights, 63043 Missouri (United States)	100.0%
Link Medical LLC	Millwell Drive 212, Maryland Heights, 63043 Missouri (United States)	100.0%
Mar-Kem Ltd	Main Road 20, Knysna, 6570 George (South Africa)	100.0%
Mercury Innovations LLC	Millwell Drive 212, Maryland Heights, 63043 Missouri (United States)	100.0%
Midwest Rx LLC	Millwell Drive 212, Maryland Heights, 63043 Missouri (United States)	100.0%
Northern Rx LLC	Millwell Drive 212, Maryland Heights, 63043 Missouri (United States)	100.0%
Pharma Assist BV	Dieselstraat 3, 7903 AR Hoogeveen (The Netherlands)	100.0%
Pharmacy Services Inc.	Millwell Drive 212, Maryland Heights, 63043 Missouri (United States)	100.0%
Pharmaline BV	Munsterstraat 4, 7575 ED Oldenzaal (The Netherlands)	100.0%
Pierson Laboratories Inc.	7400 Alumax Drive, 75501 Texarkana, Texas (United States)	100.0%
PSI Services Inc.	Millwell Drive 212, Maryland Heights, 63043 Missouri (United States)	100.0%
Rausa Kem Pharmacy Ltd	Clarendon Street 61, Parow Valley, 7500 Kaapstad (South Africa)	100.0%
SM Empreendimentos Farmaceuticos Ltda	Rua Olimpiadas 66, 7th floor – Vila Olimpia, 04555-010 São Paulo (Brazil)	100.0%
Southern Rx LLC	Millwell Drive 212, Maryland Heights, 63043 Missouri (United States)	100.0%
Spruyt hillen BV	Tinbergenlaan 1, 3401 MT IJsselstein (The Netherlands)	100.0%
Texas Southern Rx LLC	Millwell Drive 212, Maryland Heights, 63043 Missouri (United States)	100.0%
Twipe BV	Tinbergenlaan 1, 3401 MT IJsselstein (The Netherlands)	100.0%

# Statutory Auditor's Report

## **Statutory auditor's report to the General Shareholders' Meeting of the company Fagron NV on the consolidated accounts for the year ended 31 december 2018**

We present to you our statutory auditor's report in the context of our statutory audit of the consolidated accounts of Fagron NV (the "Company") and its subsidiaries (jointly "the Group"). This report includes our report on the consolidated accounts, as well as the other legal and regulatory requirements. This forms part of an integrated whole and is indivisible.

We have been appointed as statutory auditor by the general meeting d.d. 9 May 2016, following the proposal formulated by the board of directors and following the recommendation by the audit committee. Our mandate will expire on the date of the general meeting which will deliberate on the annual accounts for the year ended 31 December 2018. We have performed the statutory audit of the consolidated accounts of Fagron NV for 12 consecutive years.

### **Report on the consolidated accounts**

#### **Unqualified opinion**

We have performed the statutory audit of the Group's consolidated accounts, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statement and statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information, and which is characterised by a consolidated statement of financial position total of EUR 682.8 million and a profit for the year of EUR 42.5 million.

In our opinion, the consolidated accounts give a true and fair view of the Group's net equity and consolidated financial position as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

#### **Basis for unqualified opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Belgium. Furthermore, we have applied the International Standards on Auditing (ISAs) as approved by the IAASB for the years ending as from 31 December 2018, which are not yet approved at the national level. Our responsibilities under those standards are further described in the "Statutory auditor's responsibilities for the audit of the consolidated accounts" section of our report. We have fulfilled our ethical responsibilities in accordance with the ethical requirements that are relevant to our audit of the consolidated accounts in Belgium, including the requirements related to independence.

We have obtained from the board of directors and Company officials the explanations and information necessary for performing our audit.

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

### Key audit matters

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

#### Litigation and claims – note 22

##### Key audit matter

Fagron holds provisions for an amount of EUR 13.8 million, among others in respect of the ongoing US government investigation and legal proceedings. Disclosures have been made in Note 22 in relation to these provisions.

We considered the provisions, including the ongoing US government investigation, to be a key audit matter, because the position taken by management is based on judgement and estimates. Any new developments in the ongoing investigation might have a significant impact on the financial statements of the Fagron Group.

##### How our audit addressed the key audit matter

We discussed pending claims and legal proceedings with management and Fagron's general counsel. We assessed the completeness by reading the minutes of meetings of the Board of Directors and by obtaining and reviewing the external lawyer confirmations.

We also discussed the latest status in the US government investigation with management and Fagron's external company lawyer. We assessed the reasonableness of managements' position and the provision accounted for as per 31 December 2017, taking into account the information known to date. We draw your attention to Note 22 (Provisions) of the consolidated financial statements in which management describes the state of affairs regarding a possible outcome of the discussions aiming for a settlement in the ongoing investigation. Any settlement with the US government could have an important impact on the Fagron Group's financial position.

As a result of our audit procedures, we found the judgements, estimates and provisions reasonable and the disclosures appropriate.

#### Impairment assessment of goodwill and other intangible fixed assets – Note 15

##### Key audit matter

As per 31 December 2018, the amount of goodwill and other intangible fixed assets amounts to EUR 391.4 million. Goodwill and other intangible assets are tested annually for impairment at the level of cash generating units. The key judgements are the discount rate, the long term growth rate, the gross margin growth rate and future results.

We consider the annual impairment test of goodwill and other intangible assets as a key audit matter because of the complexity and the fact that a high level of management judgement is involved. Considering the material size of these financial statement line items, a potential impairment might have a significant impact on the annual accounts.

We focused our impairment assessment on the Fagron US Essentials and Trademarks cash generating unit, which has a goodwill carrying value of EUR 76.3 million. The 2018 impairment assessment did not result in an additional impairment.

##### How our audit addressed the key audit matter

Our audit procedures consisted of the evaluation of the impairment methodology, testing of the key assumptions and the supporting calculations. Supported by valuation specialists, we compared the key assumptions to external market data (for example growth expectations) and own independent considerations (for example the discount rate). We have reconciled the data to the approved budget and internal forecasts and assessed the historical accuracy of management's



estimates and internal forecasts. We also assessed the adequacy of the disclosures (Note 15) in the financial statements. We further focused on the sensitivity by evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount and thus result in an impairment.

As a result of our testing, we found that management's assertion, that no impairments are required, is supported by reasonable assumptions and that the disclosures in the financial statements are appropriate.

### **Responsibilities of the board of directors for the preparation of the consolidated accounts**

The board of directors is responsible for the preparation of consolidated accounts that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated accounts, the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### **Statutory auditor's responsibilities for the audit of the consolidated accounts**

Our objectives are to obtain reasonable assurance about whether the 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 opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 consolidated accounts.

In performing our audit, we comply with the legal, regulatory and normative framework applicable to the audit of the consolidated accounts in Belgium.

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 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 opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 .
- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 statutory auditor's report to the related disclosures in the

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consolidated accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our statutory auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated accounts, including the disclosures, and whether the 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 financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the board of directors and the audit committee 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 and the audit committee, we determine those matters that were of most significance in the audit of the consolidated accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## **Other legal and regulatory requirements**

### **Responsibilities of the board of directors**

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated accounts, the separate report on non-financial information and the other information included in the annual report.

### **Statutory auditor's responsibilities**

In the context of our mandate and in accordance with the Belgian standard (Revised in 2018) which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, the directors' report on the consolidated accounts, the separate report on non-financial information and the other information included in the annual report and to report on these matters.

### **Aspects related to the directors' report on the consolidated accounts and to the other information included in the annual report**

In our opinion, after having performed specific procedures in relation to the directors' report on the consolidated accounts, this report is consistent with the consolidated accounts for the year under audit, and it is prepared in accordance with article 119 of the Companies' Code.

In the context of our audit of the consolidated accounts, we are also responsible for considering, in particular based on the knowledge acquired resulting from the audit, whether the directors' report on the consolidated accounts and the other information included in the annual report on the consolidated accounts is materially misstated or contains information which is inadequately disclosed or otherwise misleading. In light of the procedures we have performed, there are no material misstatements we have to report to you.

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The non-financial information required by virtue of article 119, §2 of the Companies' Code is included in the directors' report on the consolidated accounts. The Company has prepared the non-financial information without the use of a recognized reference framework.

**Statement related to independence**

- Our registered audit firm and our network did not provide services which are incompatible with the statutory audit of the consolidated accounts, and our registered audit firm remained independent of the Group in the course of our mandate.
- The fees for additional services which are compatible with the statutory audit of the consolidated accounts referred to in article 134 of the Companies' Code are correctly disclosed and itemized in the notes to the consolidated accounts.

**Other statements**

- This report is consistent with the additional report to the audit committee referred to in article 11 of the Regulation (EU) N° 537/2014.

Antwerp, 12 April 2019

The statutory auditor  
PwC Bedrijfsrevisoren CVBA  
Represented by

Peter Van den Eynde  
Réviseur d'Entreprises/Bedrijfsrevisor



Fagron Sterile Services – United States.

# Statutory Financial Statement

# Condensed stand-alone income statement

## Fagron NV

(x 1,000 euros)	2018	2017
<b>Operating income</b>	<b>5,611</b>	<b>4,133</b>
Turnover	0	0
Other operating income	5,611	3,833
Non-recurring operating income	0	300
<b>Operating expenses</b>	<b>6,355</b>	<b>4,807</b>
Trade goods, raw and auxiliary materials	0	0
Services and other goods	3,264	3,240
Employee benefit expenses	3,012	571
Depreciation and amortisation	12	28
Provisions for risks and costs	-8	-8
Other operating expenses	1	3
Non-recurring operating expenses	74	972
<b>Operating result</b>	<b>-744</b>	<b>-674</b>
<b>Financial result</b>	<b>15,862</b>	<b>1,770</b>
Recurring financial result	15,862	1,770
Non-recurring financial result	0	0
<b>Profit for the financial year before taxes</b>	<b>15,118</b>	<b>1,095</b>
Tax on the result	0	1
<b>Net result for the financial year</b>	<b>15,118</b>	<b>1,094</b>

# Condensed stand-alone balance sheet Fagron NV

(x 1,000 euros)

	2018	2017
<b>Non-current assets</b>	<b>498,076</b>	<b>423,407</b>
Formation expenses	0	0
Intangible fixed assets	4	16
Property, plant and equipment	0	0
Financial fixed assets	498,072	423,391
<b>Current assets</b>	<b>225,129</b>	<b>503,960</b>
Debtors due after one year	0	0
Inventories and orders in progress	0	0
Debtors due within one year	194,161	470,392
Investments	1,480	1,183
Cash and cash equivalents	28,264	31,396
Other receivables	1,224	990
<b>Total assets</b>	<b>723,205</b>	<b>927,367</b>
<b>Equity</b>	<b>503,178</b>	<b>496,681</b>
Capital	494,192	494,192
Share premiums	0	0
Legal reserves	1,124	368
Unavailable reserves	1,480	1,183
Available reserves	6,382	938
Profit carried forward	0	0
<b>Provisions and deferred tax</b>	<b>5</b>	<b>13</b>
Provision for other risks	5	13
<b>Liabilities</b>	<b>220,022</b>	<b>430,673</b>
Creditors due after one year	52,402	86,706
Creditors due within one year	166,365	341,592
Other current payables	1,255	2,375
<b>Total liabilities</b>	<b>723,205</b>	<b>927,367</b>

# Appropriation of profits Fagron NV

(x 1,000 euros)	2018	2017
<b>Profit to be appropriated</b>	<b>15,118</b>	<b>1,094</b>
Profit for the year to be appropriated	15,118	1,094
Profit carried forward from the previous year	0	0
<b>Transfers from capital and reserves</b>	<b>0</b>	<b>6,145</b>
From the capital and share premiums	0	0
From the reserves	0	6,145
<b>Addition to capital and reserves</b>	<b>6,497</b>	<b>55</b>
To the legal reserves	756	55
To the other reserves	5,741	0
<b>Profit to be carried forward</b>	<b>0</b>	<b>0</b>
Profit to be carried forward	0	0
<b>Profit to be distributed as dividends</b>	<b>8,621</b>	<b>7,184</b>
Dividend	8,621	7,184

## Accounting policies

The accounting policies used for the stand-alone statutory financial statements of Fagron NV are in accordance with the KB of 31.01.2001 implementing the Belgian Companies Code.

## Statutory financial statements of Fagron NV

As required under Article 105 of the Belgian Companies Code, this annual report is a condensed version of the Statutory financial statements of Fagron NV. The annual report and the Statutory Auditor's report will be filed and will be available for inspection at the company's registered office.

The Statutory Auditor has expressed its unqualified opinion on the Fagron NV statutory financial statements for the 2018 financial year.



# Alphabetical terminology list

In addition to the terms as defined in IFRS, this annual report also includes other terms. These 'alternative performance indicators' are defined below. The IFRS terminology is in italics.

Operating profit	<i>Result of operating activities, EBIT ('Earnings Before Interests and Taxes')</i>
Gross margin	<i>Turnover less acquired trade goods, raw and auxiliary materials and adjusted for changes in inventories and work in progress as a percentage of turnover</i>
EBIT	<i>'Earnings Before Interests and Taxes', Profit (loss) from operating activities</i>
EBITDA	<i>'Earnings Before Interests, Taxes, Depreciations and Amortisations', Profit (loss) from operating activities plus depreciations and amortisations, including write-downs on inventories and receivables</i>
Financial result	<i>Net financing costs, balance of financing income and financing costs</i>
Net operational capex	<i>Net capital expenditures, intangible assets and property, plant and equipment (excluding acquisitions) that have been acquired and manufactured, less assets sold</i>
Net financial debt	<i>Non-current and current financial liabilities, less cash and cash equivalents (excluding financial instruments)</i>
Non-recurring items	<i>One-off revenue and expenses not related to ordinary operations</i>
Net result	<i>Profit (loss) for the reporting period, consolidated result</i>
Operational working capital	<i>Inventories + Trade receivables – Trade payables</i>
REBITDA	<i>'Recurring Earnings Before Interests, Taxes, Depreciations and Amortisations', Profit (loss) from operating activities plus depreciations and amortisations and adjusted for all non-recurring items</i>
Recurrent net profit	<i>Profit (loss) for the reporting period, adjusted for non-recurring items</i>

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## Forward-looking statements caution

This annual report may contain forward-looking statements. Forward-looking statements are statements that are not historical facts, containing information such as, but not limited to, communications expressing or implying beliefs, expectations, intentions, forecasts, estimates or predictions (and the assumptions on which they are based) on the part of Fagron. Forward-looking statements by definition involve risks and uncertainties. The actual future results or circumstances may therefore differ materially from those expressed or implied in forward-looking statements. Such a difference may be caused by a range of factors (such as, but not limited to, evolving statutory and regulatory frameworks within which Fagron operates, claims in the areas of product liability, currency risk, etcetera).

Any forward-looking statements contained in this annual report are based on information available to the management of Fagron at date of publication. Fagron cannot accept any obligation to publish a formal notice each time changes in said information occur or if other changes or developments occur in relation to forward-looking statements contained in this annual report.

In the event of differences between the English translation and the Dutch original of this annual report, the latter prevails.

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