KARO PHARMA

ANNUAL REPORT 2017

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SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of Karo Pharma AB (publ) will be held at 4 p.m. on Thursday, 3 May 2018 at Näringslivets Hus, Storgatan19, Stockholm, Sweden. The convening notice for the AGM will be published on Karo Pharma's website, www.karopharma.se

Shareholders that are firstly recorded in the share register maintained by Euroclear Sweden AB on Friday, 27 April 2018, and secondly by no later than 27 April 2018, no later than 4 p.m., have notified Karo Pharma of their participation, are entitled to participate in the AGM.

Notice of participation in the AGM should be in writing with name, personal/corporate identity number, address, e-mail address and phone number to the following mail address: Karo Pharma AB, FAO: Camilla Lönn, Nybrokajen 7, 111 48 Stockholm, Sweden, or by email to: camilla.lonn@karopharma.se.

For entitlement to participate in the Meeting, shareholders with nominee-registered holdings with bank trust departments or other managers, must temporarily register their shares in their own name. Such registration must be complete by no later than Friday 27 April, which means the shareholder must inform their nominee in good time prior to this date.

ÖVRIG FINANSIELL INFORMATION

Interim Report Jan-Mar	26 April 2018
Interim Report Jan-Jun	19 July 2018
Interim Report Jan-Sep	1 November 2018
Financial Statements 2018	14 February 2019

Financial reports, press releases, convening notices for shareholders' meetings and other information are available at Karo Pharma's website www.karopharma.se from publication. Karo Pharma's financial reports and press releases can be subscribed and downloaded from its website. Karo Pharma utilizes electronic distribution as its main distribution channel for financial reports. The Annual Report will be mailed to those shareholders and other stakeholders that so request. Hard copy interim reports can be sent by mail on request.

For more information, please contact Camilla Lönn, CFO on tel: +46 (0)76 002 6010, or email: investor@karopharma.se

Anders Lönner, Executive Chairman

CHAIRMAN'S STATEMENT

Karo Pharma is positioned to enable strong progress through the coming years. We have altered the company's direction to become a leading specialty pharma company in the Nordics. We now enjoy good profitability, a result of organic and acquisition-led growth. We have reduced the risk in early research phases. The Pfizer agreement/ROR Gamma is a high priority, without us needing to allocate resources to this project, because our partner is dealing with this. Karo Pharma should now be regarded as a specialty pharma company with a clear focus on pharmaceuticals, both prescription- as well as non-prescription pharmaceutecials (called OTC pharmaceuticals).

We're often asked whether finding acquisition targets is getting more difficult. The truth is that I have never witnessed so many attractive and profitable acquisition projects as at present.

But this requires a serious and disciplined approach. The share issue we executed is inherently aggressive. The acquisition of Weifa rests on secure commercial foundations. The two companies are good mutual complements in terms of product portfolios and geography. The integration of Weifa into Karo Pharma is complete, and the related restructuring expenses have been taken—extraordinary expenses affecting comparability of some MSEK 28 were charged to the fourth quarter.

Our plan is to consolidate our position in the Nordics further, primarily within OTC pharmaceuticals, and niche prescription pharmaceuticals. The next phase will also involve us taking a step outside the Nordics. We'll be able to launch several products next year, one interesting example being the pharmaceutical combination of paracetamol and ibuprofen for treating pain. This pharmaceutical has medical approval in the Nordic countries, and may be launched in 2018.

We have reinforced our organization to address our new challenges. Karo Pharma has all the potential to achieve great success.

I'd like to say a big thank you to our shareholders, and the members of our organization for this vital year of building up Karo Pharma.

In 2018, the company has acquired a product portfolio from the Danish pharmaceutical company LEO. This means that we have taken yet another big step as a leading Specialty Pharma company in the Nordics and have initiated the build-up in Europe. See essential events after the end of period.

Anders Lönner

Executive Chairman

Stockholm, Sweden, 28 March 2018

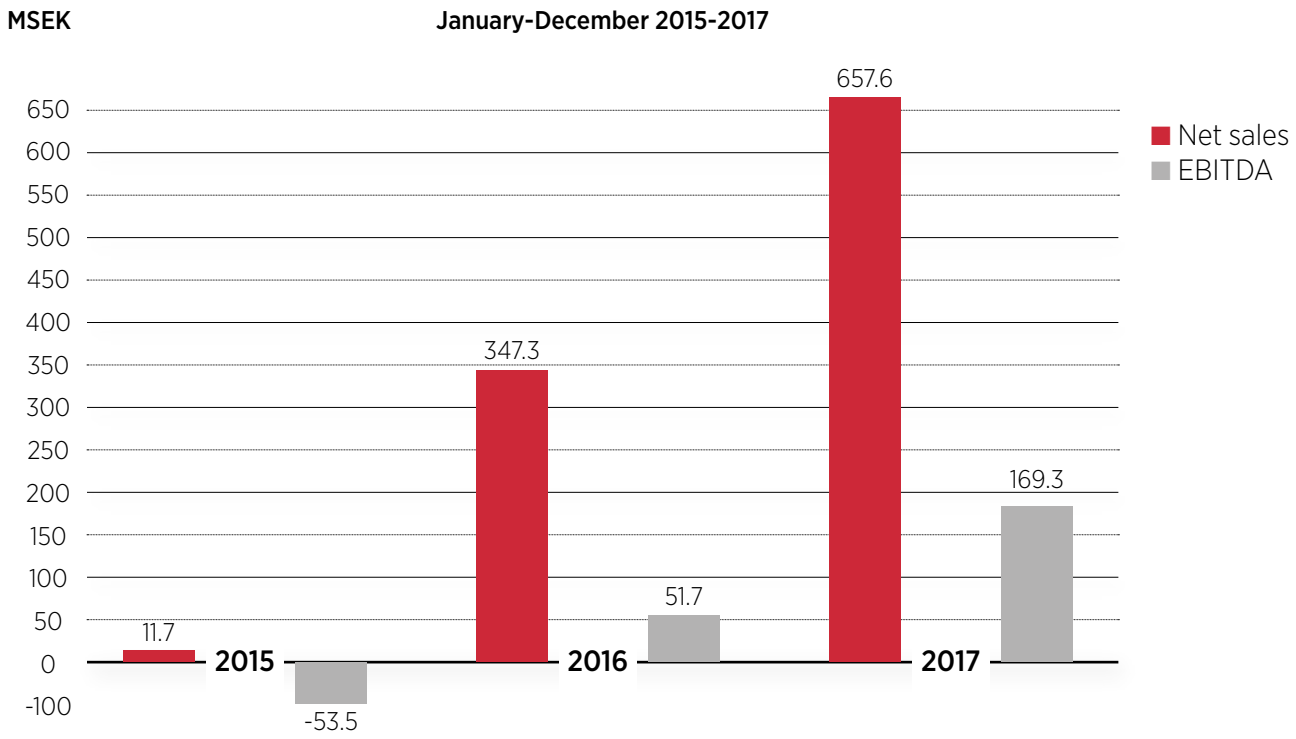
BUSINESS HIGHLIGHTS IN 2017

- **Weifa** was acquired, one of the leading pharmaceutical companies in Norway, with a portfolio of mainly analgesic pharmaceuticals. This acquisition means us reinforcing our Nordic operation, and securing strong position on the Norwegian market. We took the highest share of integration expenses in the fourth quarter.
- **Rapid integration** of BioPhausia
- **Pfizer** made a MUSD 2 milestone payment for the ROR Gamma project
- **Reinforced** organization
- **New share issue** raised MSEK 794.3 for the company before issue expenses of MSEK 48.3. The issue was 98.7% subscribed through subscription rights, and was oversubscribed by 170% in total.

"We're seeing an ageing population, which increases demand for pharmaceuticals and medical devices. Karo Pharma is acyclical."

THE YEAR IN FIGURES

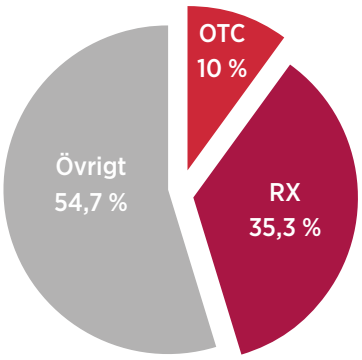
- **Net sales** increased to MSEK 657.6 (347.3).
- **EBITDA** was MSEK 169.3 (51.7) before non-recurring items



FINANCIAL DATA

MSEK	2017	2016	2015	2014	2013
Net sales	657.6	347.3	69.1	30.1	47.0
Cost of goods sold	-315.7	-198.5	-40.5	–	–
Operating expenses	-262.0	-119.2	-103.5	-89.5	-69.3
—of which R&D expenses	-4.4	-5.3	-35.0	-68.6	-52.5
Net earnings/loss	14.5	95.6	-78.2	-59.3	-22.1
Earnings per share (SEK)	0.17	1.59	-1.73	-0.09	-0.04
Cash flow from operating activities	33.5	-36.1[1)]	-52.2	-46.3	-33.4
Cash and cash equivalents and other investments in securities, etc.	838.6	121.3	76.5	51.6	22.8

1) Excluding settlement of MSEK 26 of current liabilities relating to financing acquisitions, cash flow was MSEK -10.



Sales by category (MSEK)	2017	2016	2015	2014	2013
RX (prescription pharmaceuticals)	232.0	8.9	0	0	0.0
OTC (over-the-counter)	66.0	3.7	0	0	0.0
Other	359.6	334.7	69.1	30.1	47.0
Total	**657.6**	**347.3**	**69.1**	**30.1**	**47.0**

"Karo Pharma's goal is to create shareholder value."

VISION

Karo Pharma should be an attractive alternative for shareholders that want to invest in the specialty pharma sector, and in acyclical segments. The company will have stable earnings and a very promising portfolio of both well-known brands and new products.

BUSINESS MODEL

STRATEGY

The company will grow organically and through acquisitions:

- Established operations with products enjoying stable earnings potential
- Innovative projects with low development risk and short time to market

COMMERCIAL APPROACH

- A streamlined, highly skilled organization
- Discipline in acquisition situations

MARKET

Market

The market for health care products sold through pharmacies and direct to the health care sector covers a broad spectrum of products. It includes OTC and prescription pharmaceuticals, medical devices, various types of aid, consumables, diagnostics and instruments.

To create a clear impression of the markets the company addresses, we divide the market for health care products between OTC pharmaceuticals, prescription pharmaceuticals (RX) and medical devices. OTC pharmaceuticals are not subject to drug discounting and indirect price controls, unlike prescription pharmaceuticals. The volume of pharmaceuticals sold on the global drug market is forecast to grow by 3% yearly until 2021.

The value of the Nordic health care market is estimated at some SEK 86 billion, corresponding to average growth of 3.3%. The Swedish market has an average growth rate of 3.7%, which makes it the second-highest growth market in the Nordics, after Norway, which grew by 5.5% in 2012-2016.

Growth

The market for OTC drugs consists of the sale of non-prescription pharmaceuticals. Retailing OTC drugs in the Nordic countries is subject to regulation.

In 2016, Nordic OTC market value was SEK 19.5 billion, which equates to yearly average growth of 3.0% since 2012, when market value was SEK 17.3 billion. Euromonitor forecasts the value of the Nordic OTC market at SEK 21.5 billion in 2021, equating to an average growth rate of 2.0% between 2016-2021. The largest constituent market is Sweden, whose value was SEK 7.8 billion in 2016.

County health authorities

Healthcare operations are conducted by public and private sector providers, and largely funded by tax revenues. Procurement is through well-structured processes often regulated by legislation, such as Sweden's Public Procurement Act. All sales with hospitals as end-customers are via county health authorities.

DRIVERS ON THE NORDIC MARKET

Higher average age

The Nordic countries have ageing populations, and historically, the Scandinavian population has one of the world's highest life expectancies. The most important reason is improved health care. The increased average age in society is accentuating the need for health care, and with it, the demand for pharmaceuticals.

SPECIALTY PHARMA CORPORATION

The company focuses on three main areas within prescription (RX), non-prescription drugs (OTC) and other sales. Focus for these main goalsis to offer products that can help people improve their health and simplify their everyday health.

SELECTED PRODUCTS AND BRANDS

BabySlide

BabySlide is a medical device that reduces perineal tearing in women during childbirth. The positive efficacy has been documented in a clinical trial conducted in over 1,000 labors at natal clinics in Helsingborg, Lund and Malmö, Sweden. This product offers international potential.

Respiratory organs

Within the cold- and respiratory system area the drug ***Mollipect*** is available. It eases mucal flow, relieves swelling in the throat, and is active against cough. This pharmaceutical is sold in Sweden. The company also offers the pharmaceutical ***Theo-Dur***, which is used against asthma and tracheal catarrh. This pharmaceutical is sold in Sweden, Norway and Denmark.

Cardiovascular

Suscard is one of the pharmaceuticals in the cardiovascular therapy area is against angina. This pharmaceutical operates by dilating blood vessels and thus easing cardiac load. It is sold in Sweden. ***Nitroglycerin BioPhausia***, administered against vascular spasm and a cardiac vasodilator, is also in this category. Sales of this pharmaceutical are in Sweden. ***Digoxin BioPhausia*** is used against heart disorders such as cardiac insufficiency, cardiac fibrillation and cardiac arrhythmia. This pharmaceutical is sold in Sweden.

Gastrointestinal

The pharmaceutical ***Laxabon*** is for intestinal lavage, and is sold in Sweden and Norway. Apart from Laxabon, the company also offers ***Egazil*** in the digestive tract segment. Egazil is used for propensity for cramping and abdominal pain in the digestive tract and biliary passages. This pharmaceutical is sold in Sweden, Norway and Denmark.

Pain relief

The company offers ***Citodon*** and ***Morfin Special*** in pain relief. Citodon is an analgesic and antipyretic. This pharmaceutical is sold in Sweden and Norway. Morfin Special has strong analgesic efficacy and can be used post-surgery or for external injuries. This pharmaceutical is sold in Sweden.

CNS (central nervous system)

Lithionit is a prophylactic against manic (abnormal exhilaration) and depressive phases in patients suffering from bipolar disorder. This pharmaceutical is sold in Sweden and Norway.

Mabs

Mabs compression socks are based on tried-and-tested and well-documented methodology to promote blood circulation in the legs. All Mabs compression socks are classified as class 1 medical compression stockings. The Mabs product range has been evolved in recent years to attract a broader target group. There are now compression socks for women and men, specially produced for different segments such as air travel, sport and everyday use. The range has also been extended with support stockings and foot care products, to aid healing and relieve pain. These products are classified as medical devices.

SELECTED DEVELOPMENT PROJECTS AND PARTNERSHIPS

Licensing and collaborative agreement with Pfizer on RORgamma
In December 2011, the company entered a research collaboration and licensing agreement with the American company Pfizer, one of the world's largest drug companies. The aim of this agreement is to discover and develop compounds that inhibit the activity of the nuclear hormone receptor RORgamma, for treating autoimmune disease. The initial research partnership has been concluded, and development work is currently being conducted in-house by Pfizer pursuant to the terms of the agreement. Pfizer has global exclusive rights to use, develop, manufacture and commercialize the compounds and products developed in the agreement, and holds patents relating to the compounds and products developed.

Karo Pharma can receive up to MUSD 200 when Pfizer achieves specific development and sales milestones on this project.

In the first half-year, 2017, Karo Pharma received a MUSD 2 payment at the achievement of a milestone in the agreement.

ERbeta MS—multiple sclerosis project
There is an array of existing MS therapies on the market that counter the effects of the disease, or delay its course. However, there is no cure for MS, and the need for new, more effective therapies remains substantial. Karo Pharma has developed ERbeta compounds, which in preclinical models, have demonstrated the ability to delay, and actually reverse, the course of MS. Proof of concept in an animal model of the disease has been obtained. The objective of Karo Pharma's ERbeta MS project is to out-license it to a pharmaceutical company who can continue to develop the project towards approval and launch.

Cancer
Karo Pharma's compound in the ERbeta program, KB 9520, was sold to Oasmia in 2016. Oasmia intends to continue the project's development in-house. KP is entitled to 20% of the revenues the project generates for Oasmia, while Oasmia will cover all expenses.

NEW PRODUCT IN 2018

Karo Pharma will be launching a new combination treatment including paracetamol and ibuprofen, the first of its kind in the Nordics. This combination is supported by several clinical trials, and protected by a global patent held by AFT Pharma (New Zealand).

The medicine is on prescription and has regulatory approval in all Nordic countries. The use is expected to be within moderate pain and replace products with Codeine. The market for pain is estimated at approximately SEK 1.4 billion per year in the Nordic region.

ACQUISITION OF WEIFA

Built on secure commercial foundations. This acquisition consolidates Karo Pharma's position on the Nordic markets, where the combined product portfolio, including new launches in 2018, enjoys greater chances of making positive progress. This acquisition is fully consistent with Karo Pharma's strategy of being the specialty pharma care leader.

Weifa is one of Norway's leading pharmaceutical corporations. Its product portfolio features pain relief pharmaceuticals.

Market positioning
Weifa is one of the largest vendors of OTC pharmaceuticals in Norway, controlling 15.2% of the Norwegian OTC market, and 8.1% of the Norwegian consumer health market in 2017.

Business areas
Treatment of pain is Weifa's largest and main business segment, representing 88% of sales in 2016. This business area includes all products available to consumers through pharmacies, the retail sector and convenience stores. It covers everything from prescription pharmaceuticals (RX) to OTC drugs, as well as other treatments such as wound care and food supplements, often designated as OTX products.

There are four main product categories:

- Pain and fever – leaders on the Norwegian market with sales of MNOK 291.0 in 2016, or some 73% of sales.
- Dermatology – leaders in the disinfection segment with sales of NOK 59.8 in 2016, or some 15% of sales.
- Cold—strong positioning in part of this segment, with sales of NOK 28.8 in 2016, or some 7% of sales.
- Vitamins and minerals—leaders in specific niche segments with sales of MNOK 14.9 in 2016, or some 4% of sales.

SELECTED PRODUCTS AND BRANDS

Pain and fever

Paracet is Norway's most popular pain relief tablet in the OTC segment of paracetamol. Paracet is suitable for adults and children, with fast onset and long-lasting efficacy. The product is used for mild-to-moderate pain, such as headaches, muscle and joint pain, fever, influenza, cold, period pain and toothache. Other strong brands in pain and fever are Paracetduo, Ibux and Proxan.

Cold

Bronkyl is an effective OTC expectorant and anti-cough product. The product contains acetylcysteine to counter bronchitis.

Solvivo is a cold pharmaceutical that relieves throat and neck discomfort.

Weifa ASA changed corporate name to Karo Pharma AS in the first quarter of 2018.

KARO PHARMA SUPPORTS OPERATION SMILE

Karo Pharma has decided to support aid organization Operation Smile by donating a MSEK 2.5 lump sum. Karo Pharma's Executive Chairman will be matching this donation personally, to make up a total of MSEK 5. The company has also decided to donate 3% of the net sales of BabySlide to the organization over three years.

"It's great to be able to make this donation to Operation Smile, which makes such a vital effort for children with cleft lip and palate," commented Karo Pharma's Executive Chairman Anders Lönner.

Operation Smile is a medical aid organization that performs free surgery on children and young people with serious facial deformation, primarily cleft lip and palate. Operation Smile was founded by US plastic surgeon Bill Magee, and nurse and social worker Kathy Magee, in 1982.

The Operation Smile Sweden foundation was created in 2010, with the aim of supporting international activities through financial donations, and by recruiting Nordic volunteers, all of whom help make a difference to children all over the world. There are currently 225 volunteers in the Nordics, including plastic surgeons, pediatricians, anesthetists, nurses, dentists and speech therapists. Volunteers work completely pro bono, and travel in their leisure and vacation time.

Operation Smile executes a great many medical missions each year. When on the ground, volunteers encounter long queues of hopeful families—parents of children born with cleft lip and palate, who as a result, have often been abandoned by their families and neighbors, kept out of sight, and unable to attend school due to severe harassment.

Read more at: www.operationsmile.org

KEY FACTS—CLEFT LIP AND PALATE:

- A child with cleft palate is born every third minute. About one child in every 500-700.
- These children often live in very difficult circumstances, including harassment and isolation.
- The surgical procedure on a child with a cleft lip usually takes less than an hour, and the surgery costs as little as SEK 2,400.

BUSINESS HIGHLIGHTS AFTER THE END OF THE PERIOD

Karo Pharma signed an agreement with Danish pharmaceutical company LEO Pharma A/S in March 2018, involving Karo Pharma acquiring a portfolio of pharmaceuticals for MEUR 260, and taking possession on 4 April 2018.

The acquired portfolio generated sales of some MSEK 700 in 2017. Half of sales are in the Nordics, while the rest of Europe represent some MSEK 266, and the rest of the world, some MSEK 84.

The portfolio consists of ten established brands, mainly in the therapy areas of infection, cardiovascular and dermatology. These products feature stable sales and profitability. The gross margin of the acquired portfolio is some ten percentage points higher than Karo Pharma's operations in 2017.

The product portfolio includes the brands Selexid, Burinex and locobase that represents 60% of portfolio sales. Other pharmaceuticals are Conotrane, Fonx, Condyline, Synalar, Mildison, Centyl and Kaleorid.

This transaction is an acquisition of assets, which will generate lower tax by enabling the utilization of previous research losses (SEK 2.6 billion). The transaction also includes no staff or manufacturing facilities. Organizational expenses are estimated to increase by some MSEK 50 annualized, as marketing and sales organizations are expanded.

LEO have commited to a recompense of (5-7%) of the growth to handle the portfolio until Karo Pharma have seized the products

Strategically, the company makes further advances in Scandinavia, where we secure leadership in Denmark, Sweden and Norway. Aggregate sales also justify the expansion of our proprietary organization in Finland.

Taking a step into Europe with established products will also offer Karo Pharma the opportunity to start up operations on major markets in this region profitably. Sales in the rest of the world will be through distributor.

SHARE AND SHAREHOLDERS

LISTING

Karo Pharma's share has been quoted on Nasdaq Stockholm since 1998, with the ISIN code SE0007464888, and is in the Mid Cap segment.

SHARE PRICE AND TRADING

Karo Pharma's share price increased by 19.2% in 2017, from SEK 28.10 to SEK 33.50. The high of SEK 45.90 was set on 12 July, and the low on 27 January, at SEK 24.10. The OMX Stockholm Healthcare PI increased by 6.5% in the same period. Total turnover was 83.7 million shares in the year, which means the share stock changed hands 1.0 times. Karo Pharma judges that trading on other marketplaces in the year was negligible. At year-end, market capitalization was MSEK 2,309.

SHAREHOLDERS

The shareholder base was fairly stable in the year, with 16,268 shareholders at the beginning of the year, and 17,049 at year-end. The largest shareholder by December 29 is Anders Lönner, insurance company Avanza pension with 7.4% and Nordea Investment Funds with 3.9%. The ten largest shareholders held 31.5% (29.4) of the total number of shares at year-end. Shareholders with holdings of 500 shares or less held 1.3% (1.6) of shares.

SHARE ISSUES

Karo Pharma conducted a rights issue of MSEK 374 before issue expenses in 2017. 18,259,197 shares were issued in this transaction, and the issue price was SEK 20.50. A rights issue of MSEK 794 before issue expenses was commenced in December 2017, and registered in January 2018. 27,388,797 shares at a price of SEK 29 were issued in this transaction.

SHARE AND SHARE CAPITAL

Karo Pharma's share capital was SEK 32,866,194 as of 31 December 2017. The number of shares increased from 63,907,193 to 82,166,391 during the year. The average number of shares was 84,217,424. The shares have a quotient value of SEK 0.399996.

INCENTIVE PROGRAMS

An incentive program for employees was introduced in 2016, involving the subscription of a total of 4,600,000 share warrants of a total available of 5,200,000. All subscribed share warrants expired on 26 February 2018 without being exercised.

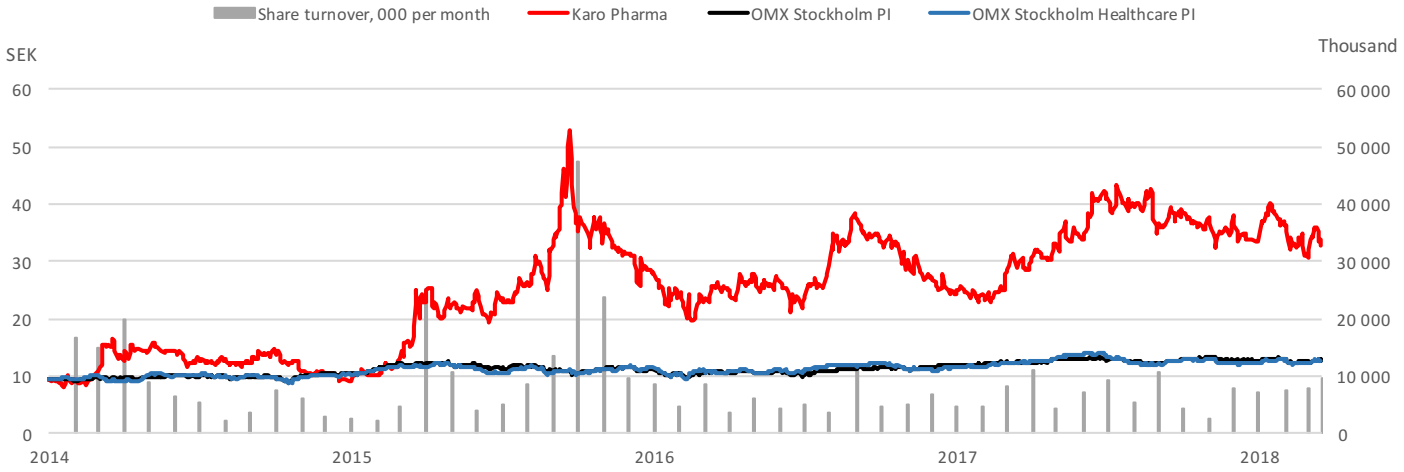
DIVIDEND

Against the background of the company's earnings capacity, the Board has decided to propose a dividend of SEK 0.30 to the AGM.

COMMUNICATION WITH THE FINANCIAL MARKETS

Karo Pharma endeavors to maintain an open dialogue with current and potential shareholders, and to provide its observers with a good insight into, and understanding of, its business operations. The current status of projects in its development portfolio and other operations are reviewed in each Interim Report. In 2017, Karo Pharma held open conference calls in tandem with the publication of its four interim reports. Recordings of these conferences are available on its website.

SHARE PRICE PERFORMANCE



LARGEST SHAREHOLDERS AS OF 29 DECEMBER 2017

Shareholder	No. of shares	Percentage of capital and votes
Lönner, Anders	6 645 852	8.1
Försäkringsaktiebolaget, Avanza Pension	6 080 280	7.4
Nordea Investment Funds	3 237 185	3.9
Nordnet Pensionsförsäkring AB	2 439 244	3.0
Nomic AB	2 141 665	2.6
Swedbank Försäkring	1 375 387	1.7
SIX SIS AG, W8imy	1 119 134	1.4
Handelsbanken Liv	947 027	1.2
Öhman Bank S.A.	943 124	1.1
Ålandsbanken on behalf of shareholders	922 794	1.1
Total, 10 largest shareholders	**25 851 692**	**31.5**
Total, other shareholders	56 314 699	68.5
Total, 29 Dec. 2017	**82 166 391**	**100**

LARGEST CHANGES

	Change	Change. %	Holding
Morgan Stanley & Co Intl Plc, W-8Ben	-440 942	86.45	69 124
J.p. Morgan Securities Plc (Custody)	295 453	91189.20	295 777
SEB	252 132	504.26	302 132
Länsförsäkrningar Sverige Indexnara	234 461	100	234 461
Swedbank Robur Access Sverige	203 160	100	203 160

NUMBER OF SHAREHOLDERS

	Change	Holding
No. of shareholders	17 049	82 166 391
New shareholders	655	1 455 369
No longer shareholders	733	1 464 247

FIVE-YEAR SUMMARY

MSEK unless otherwise stated	2017	2016	2015	2014	2013
Income Statement					
Net sales	657.6	347.3	69.1	30.1	47.0
Cost of goods sold	-315.7	-198.5	-40.5	0.0	0.0
Selling expenses	-198.6	-112.8	-26.7	0.0	0.0
Administrative expenses	-43.7	-28.7	-27.2	-21.0	-20.4
Research and development expenses	-4.4	-5.3	-35.0	-68.6	-52.5
EBIT	79.9	29.6	-74.9	-59.4	-22.3
Earnings/loss after tax	14.5	95.6	-78.2	-59.2	-22.1
Balance Sheet					
Total non-current assets	3 017.3	1 482.1	481.3	4.1	4.5
Other current assets	286.0	169.4	84.7	4.9	13.0
Cash and cash equivalents	838.6	121.3	76.5	51.6	22.8
Total current assets	1 124.6	290.7	161.2	56.5	35.8
Total assets	4 141.8	1 772.8	642.5	60.6	40.3
Equity	1 586.5	717.0	364.6	40.9	23.8
Non-current liabilities	1 542.2	599.3	56.3	0.0	0.0
Current liabilities	1 013.2	456.6	221.6	19.7	16.5
Total equity and liabilities	4 141.8	1 772.8	642.5	60.6	40.3
Cash Flow Statement					
Cash flow from operating activities	33.5	-36.1	-52.2	-46.3	-33.4
Cash flow from investing activities	-1 245.8	-995.9	-220.8	-1.5	23.9
Cash flow from financing activities	1 931.1	1 076.4	297.9	76.6	4.3
Cash flow for the year	718.8	44.4	24.9	28.8	-5.2
Operating cash flow	29.8	-45.0	-52.5	-47.8	-35.6

MSEK unless otherwise stated	2017	2016	2015	2014	2013
Key indicators					
Equity/assets ratio, %	38.3	40.4	56.7	67.5	59.1
Average number of employees	90.8	69.0	72	39.0	40.0
Data per share					
Earnings per share (SEK)					
- average number of shares	0.17	1.42	-1.73	-1.67	-0.70
- number of shares at year-end	0.18	1.50	-1.57	-1.60	-0.69
Operating cash flow per share (SEK)					
- average number of shares	0.40	-0.75	-1.06	-1.35	-1.12
- number of shares at year-end	0.41	-0.70	-1.05	-1.29	-1.12
Equity per share at year-end	19.31	11.22	7.30	1.11	0.75
Share price at year-end	33.50	28.10	33.90	11.16	11.35
Number of shares (million)					
Average number of shares	84 217	67 440	41 892	35 472	31 772
Average after full dilution	84 217	67 440	41 892	35 472	31 772
Number of shares at year-end	82 166	63 907	49 926	36 975	31 886
Number of shares after full dilution	82 166	63 907	49 926	36 975	31 886

DEFINITIONS

In its Annual Accounts, Karo Pharma presents key indicators that complement the financial metrics defined pursuant to IFRS, known as alternative performance measures, APM. Karo Pharma judges these key indicators to provide valuable information to investors and management because they enable evaluation of the group's performance, trends, ability to service debt, invest in new business opportunities and reflect the group's acquisition-intensive business model. Because not all companies compute financial key indicators in the same way, they are not always comparable. Accordingly, they should not be viewed as a substitute for key indicators defined pursuant to IFRS. Definitions, most of which are APMs, are presented below.

AVERAGE NUMBER OF SHARES

Weighted average number of shares outstanding in the year.

CASH AND CASH EQUIVALENTS

Cash and bank balances, and investments in securities, etc. with maturities of less than 90 days.

EARNINGS PER SHARE

Net earnings per average number of outstanding shares

EQUITY/ASSETS RATIO

Equity as a percentage of total assets

EQUITY PER SHARE

Shareholders' equity per share at year-end.

NUMBER OF SHARES AFTER FULL DILUTION

Number of shares, including share warrants, outstanding at year-end.

NUMBER OF SHARES AT YEAR-END

Number of shares outstanding at year-end.

OPERATING CASH FLOW

Cash flow from operating activities and cash flow from investments in plant and equipment.

OPERATING CASH FLOW PER SHARE

Cash flow from operating activities and cash flow from investments in plant, equipment and licenses per share.

WEIGHTED AVERAGE NUMBER OF SHARES AFTER FULL DILUTION

Weighted average of number of shares, including share warrants, outstanding in the year.

STATUTORY ADMINISTRATION REPORT

The Board of Directors and Chief Executive Officer of Karo Pharma AB (publ), corporate identity number 556309-3359 and registered office in Stockholm, Sweden, hereby present the Annual Accounts for the operations of the group and parent company for the financial year 1 January to 31 December 2017. All figures are for the group for the financial year 2017, unless otherwise stated. Unless otherwise stated, comparisons are with the financial year 2016.

The group consists of parent company Karo Pharma AB and its subsidiaries Karo Pharma Sverige AB, Karo Pharma AS, BioPhausia AB, Weifa Holding AS, Karo Pharma Med AB, Medireduce AB, Karo Bio Discovery AB, Karo Pharma Research AB, and MedCore AB. The latter five entities are dormant. Karo Pharma Sverige has two subsidiaries, Swereco Industri AB and Swereco Fastighet AB, and Weifa Holding AS has the subsidiary Weifa AS. In February 2018, Weifa Holding AS, Weifa AS and Karo Pharma AS changed corporate names to Karo Pharma Norge AS, Karo Pharma AS and Karo Pharma Oslo AS.

OPERATIONS

Karo Pharma markets and sells products for pharmacies and the health care sector, mainly on markets in Sweden and Norway. Karo Pharma changed strategic direction in 2014 and 15, with the aim of becoming a specialty pharma company, which markets and develops products for pharmacies, and direct to the health care sector. The product portfolio includes over-the-counter and prescription pharmaceuticals, medical devices, proprietary and under license. The company also has an autoimmune disease project, which Pfizer is licensing and developing. The company is currently in stable growth with good profitability through sales of established brands, which are generating positive cash flows. The objective is to grow through acquisitions that fit the company's structure, combined with organic growth. Since the company altered its strategic direction, its net sales and EBITDA margins have increased through strategic acquisitions.

Karo Pharma was incorporated in 1987, and has been listed on Nasdaq Stockholm since 1998.

Significant events in 2017

A rights issue was executed in February, which raised the company MSEK 348.8 after deducting for issue expenses. The purpose of this issue was to finance part of the acquisition of BioPhausia, a transaction executed in December 2016. Another rights issue was commenced in December 2017. This issue was registered in January 2018, and increased the company's shareholders' equity by MSEK 567.9 as of 31 December 2017. After fully deposited issue proceeds in January 2018, the issue increased equity by MSEK 745 after deducting for issue expenses.

In October, Karo Pharma acquired 100% of Weifa Holding AS (Weifa ASA) for MSEK 1,323. Weifa is one of the leading pharmaceutical companies in Norway. The product portfolio consists of pharmaceuticals in pain relief and fever, cold, wound care, muscles and joints, vitamins and minerals and intimate products.

Significant events after the end of the financial year 2017

The rights issue that commenced in December 2017 was completed in early-January 2018. The issue proceeds were MSEK 794 before transaction expenses of some MSEK 48.8. The rights issue was conducted with the aim of repaying a bridging loan arranged in tandem with the acquisition of Weifa. This issue was 98.7% subscribed through subscription rights, and in total, was 170% oversubscribed.

On 1 March, Karo Pharma acquired a product portfolio from Danish pharmaceutical company LEO Pharma A/S for MEUR 260, taking possession on 4 April 2018.

This acquisition is a transfer of assets, and primarily involves the acquisition of product rights. Accordingly, no personnel or manufacturing facilities are included in the transaction.

This acquisition will be financed through a combination of new loans and a rights issue. See also note 31.

Chairman of the Board Anders Lönner increased his holdings in Karo Pharma AB (publ), so that as of 6 March, he held 10,966,345 shares of the company. This corresponds to 10.0% of the votes and capital of the company.

Organization

Operations are conducted within the parent company Karo Pharma AB and the subsidiaries Karo Pharma Sverige AB, Karo Pharma AS, BioPhausia AB and Weifa AS. The head office is in Stockholm, Sweden.

Management has five members: the Executive Chairman, Chief Executive Officer, Chief Operating Officer, the President of Karo Pharma AS and the Chief Financial Officer.

At year-end, Karo Pharma had 80 (69) permanent employees.

Sales and earnings

The group's net sales increased to MSEK 657.6 (347.3) in 2017. Of total revenues, MSEK 17.9 are a milestone payment from Pfizer, and the remainder is mainly product sales. Cost of goods sold was MSEK 315.7 (198.5), equating to a gross margin earnings of MSEK 341.9 (148.7) and a gross margin of 52.0% (42.8).

Operating expenses including depreciation and amortization were MSEK 262.0 (119.2). Sales overheads increased to MSEK 198.6 (112.8), primarily due to the acquisition of BioPhausia, and the acquisition of Weifa. Research and development expenses decreased to MSEK 4.4 (5.3). Going forward, partners will develop these projects and meet the expenses.

EBIT was MSEK 79.9 (29.6). Expenses relating to the acquisition of Weifa, and restructuring expenses in tandem with the acquisition of Weifa, had a MSEK 28 effect on fourth-quarter EBIT.

Earnings for the year were MSEK 14.5 (95.6). In addition to the EBIT effect, earnings for the year were also affected by a loss on the sale of shares in Oasmia, of MSEK 10.5. The previous year's earnings were positively impacted by MSEK 75 as a result of reported tax assets related to the parent company's loss carry-forwards, which to some extent, are expected to be utilizable due to the acquisition conducted in 2016.

Earnings per share were MSEK 0.17 (1.42). No dilution effect arises as a result of issued share warrants.

Weifa, acquired in October, has been consolidated into the group's earnings in the fourth quarter.

Investments

Investments amounted to MSEK 1,245.8 (937.8), with the acquisition of Weifa representing the majority. The significant asset item in Weifa's product rights, including products such as Paracet, Ibux and Asan.

Acquisition analysis

Karo Pharma acquired 97.1% of the shares of pharmaceutical company Weifa ASA on 6 October 2017. Karo Pharma holds 100% of the shares of Weifa on a fully diluted basis effective 17 October 2017. The acquisition of Weifa is built on secure commercial foundations. The two companies are good mutual complements in terms of product portfolios and geography. Karo Pharma judges that there are important synergy gains to be realized through the acquisition. The deal also secures Karo Pharma's positioning on the Nordic market, for reasons including the shared product portfolio, including several new launches over the next year, enjoying better prospects of positive progress. The acquisition of Weifa brings the company stronger positioning and the opportunity of higher profitability on the Nordic domestic market. Karo Pharma will have better potential to take its next step towards expansion on more markets, and secure collaborations outside the Nordics. For more information, see note 11.

Cash flow and financial position

Cash flow from operating activities was in SEK 33.5 (-36.1). the group's cash and cash equivalents at the end of the period were MSEK 838.6 (121.3), and were then affected by the rights issue that commenced in December 2017.

The acquisition of Weifa made a significant contribution to total assets increasing to MSEK 4,141.8 (1,772.8). Intangible assets represented MSEK 2,923.1 (1,432.0). As a result of the acquisition, the group's non-current liabilities increased to MSEK 1,452.6 (539.9), and current liabilities to MSEK 1,013.2 (456.6). MSEK 700 of current liabilities were amortized in January 2018.

The equity/assets ratio was 38.3% (40.4).

Equity and share capital

The company executed a new share issue in February 2017, totaling 18,259,197 shares at a subscription price of SEK 25.00, equating to total issue proceeds of some MSEK 374 before issue expenses. This share issue increased the number of Karo Pharma shares from 63,907,193 to 82,166,391.

Share capital increased by some SEK 7,303,598.

Karo Pharma commenced another new share issue in December 2017, which was completed in January 2018. On 31 December 2017, a portion of issue proceeds was deposited by shareholders, which affected equity by MSEK 567.9. The remainder was deposited in January 2018, and the issue affected equity by a total of MSEK 745 after deducting for issue expenses of MSEK 48.8.

In 2017, the company paid a dividend of SEK 0.50 per share, at a total amount of MSEK 41.1.

The group's equity increased to MSEK 1,587.4 (717.0), which after considering earnings for the year, was SEK 19.14 (11.97) per share.

Parent company

The parent company's net sales for 2017 were MSEK 39.4 (48.9). The profit/loss after financial items was MSEK -46.1 (0.9). The parent company's cash and cash equivalents and other investments in securities, etc. amounted to MSEK 695.2 (85.7) at year-end.

REMUNERATION GUIDELINES FOR SENIOR EXECUTIVES

The Board of Directors proposes that the AGM on 3 May 2018 resolves on the following guidelines for determining salary and other benefits to senior executives of Karo Pharma, to apply until the AGM in 2019.

Fundamentally, the proposed guidelines are the same as those adopted by the AGM 2017, which are reviewed in note 2.

General

Karo Pharma should offer the remuneration levels and employment terms necessary to hire and retain a management with good skills and the capability to achieve operational objectives. Accordingly, market terms should be the overall principle governing salary and other benefits to senior executives. Senior executives should also be able to work on a consulting basis, with compensation for consulting subject to the framework and compensation due on employment.

Basic salary
Compensation in the form of basic salary should be payable for satisfactory work.

Variable remuneration
There should be a facility to offer variable remuneration that rewards clear, goal-related performance in straightforward and transparent structures, in addition to basic salary. Executives' variable remuneration should be founded on the extent to which stated operational objectives are achieved. Karo Pharma's obligation for variable compensation should be limited in relation to basic salary, and not exceed 40% of basic annual salary, before allowing for social security contributions, for each executive during the current period. The outcome of compensation should include pension and vacation pay in accordance with the relevant legislation, and accordingly, is not pensionable. Total variable remuneration given a maximum outcome of 40% of basic annual salary at 2017 levels, would amount to MSEK 3.0 including social security contributions.

Pension benefits
Senior executives' pensions should be market-based in relation to what is generally applicable to corresponding executives on the market, and should be based on defined contribution pension solutions, or linked to the ITP (Supplementary Pensions for Salaried Employees) plan. Pension benefits should be based on a retirement age of 65.

Non-monetary benefits
Senior executives' non-monetary benefits (such as company cars and healthcare) should facilitate performance of their duties and correspond to what is considered reasonable in terms of market practice, and benefit to the company.

Remuneration on termination and severance pay
Overall, remuneration and on termination and severance pay should not exceed 12 months' salary for each executive.

The circle of eligible executives
The guidelines should cover the Chief Executive Officer of Karo Pharma AB, and members of group management that report directly to the CEO, as well as the Managing Directors of Karo Pharma's subsidiaries.

Information on previously decided remuneration that has not yet become due for payment
There is no remuneration that is not due for payment that departs from the guidelines resolved by previous AGMs.

Consulting fees to directors
To the extent Directors render service on behalf of the company in addition to serving on the Board of Directors, market consulting fees should be payable.

Departures from guidelines in special circumstances
The Board is entitled to depart from the guidelines if there are special circumstances in an individual case.

INFORMATION ON KARO PHARMA'S SHARES

On 31 December 2017, there was a total of 82,166,391 (63,907,193) shares with a quotient value of SEK 0.40. Each share carries one vote, and equal entitlement to the company's unappropriated earnings.

There are no limitations to the transferability of Karo Pharma's shares due to legal restrictions or stipulations of the Articles of Association. To the best of Karo Pharma's knowledge, there have been no agreements between shareholders that could limit the transferability of shares.

As of 31 December 2017, there were no shareholders that solely control 10% or more of the total number of shares of Karo Pharma. As of 6 March 2018, Anders Lönner holds 10.2%.

Share-related incentive programs

An incentive program for the group's employees was introduced in 2016. This program consists of 5,200,000 share warrants, with each share warrant conferring entitlement to subscribe for one new share of the company for SEK 74, for a period of 18 months from issuance of the options. The exercise price has been restated pursuant to the terms of the completed new issue, see note 27.

The group's employees subscribed for a total of 4,600,000 share warrants.

Senior executives subscribed for 3,900,000 share warrants, with the company's executive Chairman Ander Lönner subscribing for 2,740,000 share warrants. All share warrants were subscribed in August 2016.

Upon full subscription for shares through all share warrants, the share capital would increase by SEK 2,080,000, which on the program's introduction, corresponds to dilution of some 7.5% of the share capital and votes. All outstanding share warrants expired on 26 February 2018 without being exercised.

Authorization to issue new shares

The AGM 2017 authorized the Board to decide on the issue of shares on one or more occasions until the next AGM. The number of shares that may be issued supported by this authorization should not exceed 10% of the registered share capital at the time of the decision to issue. Such issue should be possible with or without waiving shareholders' preferential rights, and with or without decisions on contribution in kind, set-off or other terms.

The purpose of this authorization is to increase the company's financial flexibility and enable acquisitions through payment in shares. If the Board decides to issue shares waiving shareholders' preferential rights, the reason may be to provide the company with new capital and/or new shareholders of strategic significance to the company and/or acquisitions of other companies or operations. When departing from shareholders' preferential rights, the issue price should be set on an arm's length basis. The Board of Directors is permitted to decide on other terms and conditions.

The Board of Directors did not utilize this mandate in 2017.

DIVIDEND

Against the background of the company's earnings capacity, the Board of Directors decided to propose a dividend of SEK 0.30 per share.

CORPORATE GOVERNANCE REPORT

Karo Pharma's Corporate Governance Report is available at the company's website www.karopharma.se, and is also attached to this Annual Report.

Internal control and risk management systems

The group's systems for internal control and risk management in tandem with the preparation of the consolidated accounts are reviewed in Karo Pharma's Corporate Governance Report under the Internal control and risk management in financial reporting heading.

SUSTAINABILITY REPORT

Karo Pharma's Sustainability Report is available at the company's website www.karopharma.se.

FUTURE PROGRESS

The company's Board of Directors has an express objective to create a profitable company and increase shareholder value.

RISK FACTORS

The group's operations may be affected by a variety of events. The main risks potentially having a material impact on financial position, results of operations and/or reputation follow. These risks have not been stated in any particular order of priority. Other risks, which are either unknown or currently not considered material to Karo Pharma, could have a similar impact on operations.

Risks related to the market and company

Acquisition-related risks

The company is executing an active acquisition strategy, and in addition to the above acquisitions, may acquire new, more mature projects, and enter collaborative agreements with partners with the aim of creating cash flows for the company within the auspices of the company's business strategy. Karo Pharma continuously screens potential acquisitions. If Karo Pharma is unable to find suitable acquisition targets and/or find the necessary funding of future acquisition targets on acceptable terms, this may result in Karo Pharma's growth declining, which may have a negative impact on the company's operations, financial position and results of operations. If the company is able to identify a suitable acquisition target, there is a risk that competitors are also interested in the same target, which may mean that the company is not successful in acquiring the target, or on terms that are unfavorable to the company. Acquisitions may also be obstructed by competition legislation. There is also a risk that executed acquisitions are not received positively by the market. This may have a negative impact on the company's operations, financial position and results of operations.

Generally, acquisitions imply integration risks. Over and above company-specific risks, the acquired company's relationships with key individuals, customers and suppliers may be negatively affected. There is also a risk that the integration processes take more time, or prove costlier, than estimated. Additionally, the expected synergies and targets of the transaction may not be realized, wholly or partly. The integration of acquisitions can mean organizational changes, which in the short term, delay the implementation and execution of plans and objectives. Upon consummation, all these risks may have a negative impact on Karo Pharma's operations, financial position and results of operations.

Product launches

Launching a new pharmaceutical and/or other product takes time and can involve significant investments in marketing, product inventories before launch and other types of expense. There is a risk that launches of new products on existing or new markets are unsuccessful. If Karo Pharma's launches of forthcoming products are unsuccessful, this may exert a negative impact on operations, financial position and results of operations.

Some of the company's products are available on prescription only, and sold exclusively through pharmacy chains. There is a risk that physicians decide not to prescribe the company's pharmaceuticals to their

patients, which could imply declining sales for the company's prescription pharmaceuticals. Regardless of whether a physician prescribes one of the company's pharmaceuticals, each pharmacy chain is free to offer patients whichever corresponding compound they prefer. If one or several pharmacy chains discontinue offering patients Karo Pharma's pharmaceuticals, this may exert a material negative impact on operations, financial position and results of operations. Side effects; the portfolio consists largely of pharmaceuticals. There is always a risk side effects not known or occurring when many drugs used (interaction). Reporting on side effects occurs with the Medicines Agency as soon as they are discovered

Competitive market
A large number of companies that provide healthcare products, or compounds and therapies, or are active in research and development of compounds and therapies, may compete with products from Karo Pharma or its potential collaborative partners. Some of these companies may have significantly greater financial and/or other resources than Karo Pharma, and accordingly, enjoy better potential to achieve success in contact with regulatory authorities, for example, and in marketing, sales and distribution resources, as well as in research and development. More intense competition may imply a risk that Karo Pharma is unable to maintain its current margins on its products, which may exert a negative impact on operations, financial position and results of operations.

There is also a risk that candidate drugs or products developed by collaborative partners do not achieve preference above currently extant or new products. Some of Karo Pharma's products are procured, or confer entitlement to compensation for end-customers from, the paying third party. Changes to such structures may imply negative commercial and financial effects for Karo Pharma.

Intense competition may impact Karo Pharma's operations, financial position and results of operations negatively.

Rapid changes in the pharmaceutical industry
One of the distinguishing features of the sector where Karo Pharma is active is its changeability and rapid rate of development. This means that products and improve therapeutic methods are continuously emerging.

There is a risk that Karo Pharma does not develop at the same rate, or its products do not satisfy the standards the market is applying. If Karo Pharma is unable to satisfy the market's new standards, there is a risk that operations, financial position and results of operations are negatively impacted.

Key individuals and recruitment
The company's business strategy, which involves a focus on sales, unlike previously, where the emphasis was on research and development, has resulted in Karo Pharma now being more dependent on employees with specialist marketing and sales skills. There is a risk that the company is unable to adapt its organization correspondingly, which may result in increased expenses, and management's focus moving from operating activities. This may have a negative impact on operations, financial position and results of operations.

Karo Pharma is heavily dependent on a number of key individuals, particularly individuals in management, who possess substantial experience, and considerable specialist knowledge, of the development of pharmaceutical companies, as well as the acquisition and integration of new businesses. The potential departure of one or more of these individuals may have negative financial and commercial effects.

The ability to hire and retain qualified professionals is extremely important to ensuring the skills level of the organization. There is a risk that Karo Pharma is not successful in attracting and retaining qualified professionals on acceptable terms, or at all, which may have a negative impact on operations, financial position and results of operations.

Finance
Some one-half of the acquisition of Weifa was financed through a bank loan. There is a risk that in future, Karo Pharma is unable to generate sufficient cash flow to meet the expenses associated with this bank loan. There is also a risk that the terms of the loan alter, or that Karo Pharma breaches current covenants and obligations in the loan agreement. An inability to satisfy the covenants in the loan agreement may imply that Karo Pharma is compelled to repay part, or all, of the outstanding debt. If one or more of these risks is actualized, operations, financial position and results of operations may be significantly negatively impacted.

Need for additional finance
Karo Pharma may need to approach the capital markets to arrange financing through loans or similar arrangements. There is a risk that it is unable to access new capital when the need arises, that it cannot be secured on favorable terms, or such raised capital is not sufficient to finance operations as planned. If Karo Pharma is unsuccessful in raising further capital, this may have implications including the company foregoing potential acquisitions or other opportunities on the market, which may have a negative impact on operations, financial position and results of operations. An inability to raise capital on favorable terms, may also have a negative impact on financial position and results of operations.

Supplier and collaborative agreements
The group's products consist of raw materials and input goods from several different suppliers. To ensure its sales, the group is dependent on deliveries from third parties being consistent with agreed volumes, quality and delivery requirements. Incorrect or missed deliveries from suppliers may mean production being delayed, which in the short term, may reduce sales.

Karo Pharma's operations are partly dependent on agreements with medical device companies that confer Karo Pharma with rights to market and sell medical devices on the Nordic market, known as sales agencies. There is always a risk that these are cancelled, or that disputes regarding these agreements arise. If agreements are cancelled, there is a risk that Karo Pharma loses future revenues and earnings, which may have a negative impact on operations, financial position and results of operations.

Some of Karo Pharma's customers are county health authorities and pharmacy chains. Agreements with these customers on the delivery of these products involve public tendering procedures, which as a rule, are conducted every second or third year. If Karo Pharma is not successful in these tendering rounds, the company will lose sales in the relevant period. Such lost sales may impact operations, financial position and results of operations negatively.

Commercialization of pharmaceutical compounds
There is a risk that some of Karo Pharma's pharmaceutical compounds do not achieve commercial success. Enabling the commercialization of pharmaceutical compounds requires the company to enter collaborations with major pharmaceutical companies. There is a risk that the company is unsuccessful entering the necessary collaborations, and that it does not enter these collaborations, resulting in Karo Pharma being unable to realize the values in its projects. Even if the company successfully enters collaborations, there is a risk that they do not result in projects being commercialized. Collaborative agreements mean that the rights of decisions over the project transfer to the counterparty, and there is a risk that the counterparty does not fulfil its obligations, which may impact Karo Pharma's operations, financial position and results of operations negatively.

Risk of production disruptions
Production consists of a chain of processes, in which downtime or disruptions at any link may have consequences for its ability to manufacture the company's products to the extent required. Such downtime may have a negative impact on operations, financial position and results of operations.

Product liability insurance
Karo Pharma's operations involve a risk of product liability. There is a risk of claims relating to damages arising as a result of using the company's products so substantial that they are not covered by insurance. A damages claim not covered by insurance may impact operations, financial position and results of operations negatively. Additionally, claims, even if covered by insurance, may result in an increase of the premiums the group pays pursuant to its insurance arrangements. There is also risk that in future, the group is unable to arrange or retain the necessary insurance cover on acceptable terms. Significant increases to insurance premiums or insurance arranged on unfavorable terms may have a negative impact on operations, financial position and results of operations.

Intellectual property
Karo Pharma has acquired intellectual property developed by other companies. There is a risk that one of these brands is affected by reputational damage, which may have a negative impact on the sales potential of the pharmaceutical involved. Karo Pharma's potential for success is partly dependent on its ability to arrange and defend patent protection for potential and/or existing products, and also put patent protection for these products in place.

There is a risk that Karo Pharma or is collaborative partners develop products that cannot be patented, that granted patents cannot be retained, that future discoveries do not result in patents, or that granted patents do not provide sufficient protection for Karo Pharma's rights. There is also risk that patents do not confer a competitive advantage to the company's products, or that competitors are able to circumvent patents. If Karo Pharma is compelled to defend its rights against a competitor, this may generate significant costs, which in turn may have a negative impact on operations, financial position and results of operations.

If, in their research, the company and its collaborative partners utilize compounds or methods that are patented or have patent applications filed by third parties, the holders of these patents could assert that Karo Pharma or its collaborative partner have breached those patents. A third party's patent or patent application, could prevent one of Karo Pharma's licensees from using a licensed compound freely. The expense of such dispute may have a material negative impact on operations, financial position and results of operations.

There is a risk that granted patents do not provide lasting protection, that infringements or other invalidity claims against granted patents may be made after the patents are granted.

Karo Pharma and its subsidiaries own brand registrations for some of its brands. There is always a risk that disputes may arise regarding infringement of brand rights or other intellectual property, or that brand protection is not obtained. Additionally, Karo Pharma is dependent on know-how, and the possibility that competitors develop corresponding know-how or that Karo Pharma is successful in protecting its know-how effectively, which may have a negative impact on operations, financial position and results of operations, cannot be ruled out.

Currency, interest rates and credit risks
Karo Pharma's operations are exposed to exchange rate risks because some of Karo Pharma's purchasing and sales of products is denominated in foreign currencies. Exchange rates can fluctuate significantly, which may impact the company's operations, financial position and results of operations negatively.

Some of the group's operating expenses arise in EUR and USD, while its revenues are generated in SEK and NOK. Altered exchange rates risk having a negative impact on operations, financial position and results of operations.

Because the company's financing currently partly consists of, and may in future consist of, interest-bearing liabilities, the company's net earnings would be negatively affected by changes in general interest rate levels. Altered interest rate levels may have a negative impact on operations, financial position and results of operations.

Credit risk arises through cash and cash equivalents and credit exposure to customers, including outstanding receivables and contracted transactions. There is a risk that the company's risk assessment of a customer's creditworthiness, and credit risk management otherwise, is insufficient, which may have a negative impact on operations, financial position and results of operations.

Tax-related risks
The company conducts, and may in future conduct, its operations in Sweden and other countries. The company intends for its operations to be conducted in accordance with relevant interpretations of tax legislation, tax treaties and other tax regulations in each relevant jurisdiction, and the standpoints the relevant tax agencies apply. Tax regulation is complex and subject to differing interpretations, and accordingly, there is a risk that Karo Pharma's interpretation and application of applicable laws, regulation, legal practice or other practice has not been, or in future may not be, correct.

Additionally, such laws, regulation and practice may also imply that Karo Pharma's current interpretation and application is considered incorrect. In cases where Karo Pharma's interpretation and/or application of tax legislation, tax treaties and other similar tax regulation is incorrect, or if tax agencies succeed in making negative tax adjustments, or the aforementioned laws and regulations are reformed refund with retroactive effect, the company's current and historical treatment of tax issues may come under question. If tax agencies make successful claims, this may result in increased tax expenses, tax surcharges and interest, which may have a material negative impact on operations, financial position and results of operations.

Goodwill and product rights
Karo Pharma reports significant values of goodwill and product rights. Goodwill is the only intangible asset recognized with indefinite useful life. Impairment is reviewed continuously. Significant impairment may arise in the future for different reasons, such as unfavorable market conditions, which either apply to the company specifically, the whole pharmaceutical or healthcare segment, or more generally. Significant investment may be required also be required for other reasons. This may impact Karo Pharma's operations, financial position and results of operations negatively.

Limited number of projects and early developmental phase
Karo Pharma's two research projects that are outlicensed are in an early phase, and there is a risk that these projects are not successful. Additionally, these products may require regulatory approval before they can be commercialized. If regulatory permits are not received, it will not be possible to launch this product, nor will they be able to generate revenues, which may have a negative impact on operations, financial position and results of operations.

Preclinical and clinical trials
There is a risk that a preclinical or clinical trial conducted by collaborative partners cannot commence or be executed as planned, or are able to demonstrate sufficient safety and efficacy to enable the necessary regulatory permits for onward trials, or that trials lead to a pharmaceutical that is saleable on the market. If Karo Pharma and its collaborative partners cannot demonstrate that a potential pharmaceutical is safe and effective with sufficient certainty, or if altered market conditions or the competitive situation apply to a pharmaceutical in development, the planned development of this product may be discontinued or deprioritized on the initiative of Karo Pharma and its collaborative partner. If a project is discontinued, this may imply significant value is loss for Karo Pharma, which in turn, may have a negative impact on operations. Early successes do not necessarily mean positive results in related clinical trials. There are many historical examples of successful outcomes in preclinical stages not being repeated in subsequent clinical trials. This means that the company cannot be certain whether a product or project will be successful, and accordingly whether investment in a development process is justified, before the later clinical trials have been conducted.

Additionally, Karo Pharma or its collaborative partners must demonstrate that potential products are safe and effective on humans for each given indication before sales of new products can commence. If the company or its collaborative partners is unable to demonstrate the potential products are safe and effective on humans for the stated indication so that regulatory approval is granted, the products cannot be sold on the market. This may impact operations, financial position and results of operations negatively.

Agreements with collaborative partners
Karo Pharma may collaborate with other pharmaceutical companies in marketing and development work. The absence of collaborative agreements or inadequate fulfilment of counterparty obligations pursuant to collaborative agreements, or work whose quality does not match the desired level, may have a negative impact on operations, financial position and results of operations.

Regulatory consideration and product standards
Research and development work, as well as the production and marketing of pharmaceuticals, is subject to the control of several regulators. Prior to launch, a pharmaceutical developed by Karo Pharma, its collaborative partners or under license from Karo Pharma, must undergo an extensive process to secure regulatory approval. There is a risk that authorities do not approve pharmaceuticals developed by Karo Pharma, its collaborative partners or under license from the company. There is a risk that the approval process results in a requirement for further trials and additional documentation of a pharmaceutical compound, and expenses and delays on the project, or discontinuation of the project due to unmanageably high development expenses. This may have a material negative impact on operations, financial position and results of operations.

Even if regulatory approval for the launch of the pharmaceutical is obtained, there is a risk that administration on patients has such undesirable effects that the product has to be withdrawn from the market, with lost revenues as a consequence.

If Karo Pharma's products or operations are covered by additional or altered measures or restrictions from regulatory authorities, this may have negative commercial and financial effect for Karo Pharma, which may have a negative impact on operations, financial position and results of operations.

Regulatory and healthcare reform
Future reforms of healthcare systems may occur in those countries where the company and its collaborative partners intend to market pharmaceuticals. Such reforms may affect the sales potential of these products and the ability to secure new collaborative partners.

Patient safety
Access to healthcare and pharmaceuticals is a critical issue for the sector.

Karo Pharma applies stringent standards to ensure the safety and quality of all products the company markets. The Good Manufacturing Practice standard (GMP) applies to all pharmaceutical products, and its requirements are identical wherever production is conducted. Quality and safety guidelines are also in place for non-pharmaceutical products.

Addressing adverse events
All usage of pharmaceuticals is associated with the risk of adverse events of various forms, and of varying severity. Simultaneous administration of several pharmaceuticals, or consumption of food and drink, can also alter pharmaceutical efficacy. Karo Pharma has an in-house function that works to ensure safe usage of pharmaceuticals. Any adverse events are reported to the pharmaceutical regulator. No significant pharmaco-vigilance incidents occurred in 2017.

Regulatory expenses and resources
The pharmaceutical industry that the company operates in is subject to extensive regulation. To succeed in regulatory compliance, Karo Pharma must have the necessary permits and comply with the regulations that its operations are governed by. Such regulatory compliance is resource intensive, financially and operationally, and there is a risk that Karo Pharma is not successful in maintaining the standard necessary for acceptable cost, or at all. If the company is unsuccessful, this may have a material negative impact on operations, financial position and results of operations.

Risks relating to the share

New share issues and sales of securities
Karo Pharma may need to issue additional shares or other securities in future, which may have a negative impact on the market price of outstanding shares. The issue of new shares may also mean existing shares are diluted if they do not utilize, or cannot utilize, preferential rights, or shareholders' meetings resolve to depart from such preferential rights.

Karo Pharma had one outstanding share warrant program at year-end 2017. All outstanding share warrants expired on 26 February 2018 without exercise. In future, the company may also offer share warrants for specific senior executives and other employees of Karo Pharma.

Additionally, significant sales of shares from major shareholders or a general perception that a share issue may occur, may affect the market price of Karo Pharma's shares negatively.

Dividends
Decisions on future dividends are taken by shareholders at the AGM. Potential future dividends, and the scale of such dividends, is dependent on factors including Karo Pharma's future operations, future prospects, results of operations, financial position, unappropriated earnings, cash flow, working capital requirements, and general financial and legal restrictions. There are many risks that may impact Karo Pharma's operations negatively, thus resulting in Karo Pharma not generating earnings that enable a dividend on shares in the future.

Share price performance
Securities trading is always associated with risk and risk-taking. Because an investment in shares can increase and decrease in value, whether an investor is returned all, or even part, of invested capital is uncertain. The pricing of shares may be subject to fluctuations due to altered perceptions on the capital markets regarding the shares or similar securities, due to different circumstances and events, such as reforms of applicable legislation and other regulation that affect the company's operations, or changes to the company's results of operations and business development. From time to time, stock markets can exhibit significant fluctuations in terms of pricing and volume that may not be related to the company's operations or future prospects. Additionally, the company's results of operations and future prospects may fall below the expectations of the capital markets, financial analysts or investors. One or more of these factors may have a negative impact on the share price, in turn causing losses for shareholders. The risk of fluctuations in share prices is greater for shares with low turnover.

Listing standards
The company's shares are listed for trading on Nasdaq Stockholm. The company's shares may be delisted if Karo Pharma does not satisfy the standards applying to shares listed for trading on Nasdaq Stockholm. A delisting would make it more difficult for shareholders to sell their shares in Karo Pharma.

Share liquidity
Karo Pharma cannot predict the extent to which investor interest will result in the development and maintenance of active and liquid trading in the share. If active and liquid trading cannot be maintained, this may imply difficulties in selling shares at a price, and at a time considered appropriate, or at all.

PROPOSED APPROPRIATION OF EARNINGS

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

- Share premium reserve SEK 1,513,158,498
- Retained earnings SEK 33,528,525
- Earnings for the year SEK 19,387,851

Total unappropriated earnings SEK 1,566,074,874

The Board of Directors proposes the following appropriation of unappropriated earnings:

- Dividends to shareholders, SEK 0,30 per share, total SEK 32 866 556
- Carried forward, SEK 1,533,208,318
- Total SEK 1,566,074,874

GROUP AND PARENT COMPANY INCOME STATEMENTS

		GROUP		PARENT COMPANY	
SEK 000	**Note**	**2017**	**2016**	**2017**	**2016**
Net sales	**1.29**	**657 606**	**347 261**	**39 269**	**48 885**
Cost of goods sold	4	-315 703	-198 536	152	-12 567
Gross earnings		341 904	148 725	39 420	36 318
Other operating income/expenses	2-5				
Selling expenses		-198 609	-112 787	-5 518	-4 079
Administrative expenses		-43 650	-28 689	-19 158	-20 126
Research & development expenses		-4 355	-5 259	-4 355	-5 259
Other operating income/expenses	6	-15 385	27 583	-1 444	28 956
		-262 000	-119 152	-30 474	-508
Earnings before interest and taxes		**79 904**	**29 573**	**8 946**	**35 810**
Profit/loss from financial investments					
Profit/loss from participations in group companies		1 159	-	-	-
Impairment of participations in group companies	14	-	-	-	-26 234
Interest income, etc.	7	742	75	933	2
Loss on sale of shares and participations	15	-10 550	-616	-10 550	-616
Interest expenses, etc.	8	-50 405	-9 194	-45 416	-8 090
		-59 053	-9 735	-55 033	-34 938
Profit/loss after financial items		**20 851**	**19 838**	**-46 087**	**872**
		-	-	65 537	-1 260
Appropriations					
Tax	9	-6 346	75 718	-62	75 000
NET EARNINGS/LOSS		**14 505**	**95 556**	**19 388**	**74 612**
Earnings attributable to: Equity holders of the parent		**14 516**	95 556		
Non-controlling interests		-11	0		
Earnings per share attributable to equity holders of the parent (SEK)	10				
- based on weighted average number of outstanding shares before dilution [1]		0.17	1.42		
- based on weighted average number of outstanding shares after dilution [1]		0.17	1.42		

[1] Adjusted for the bonus issue element of the new share issue and the number of outstanding share warrants not having any dilution effect.

GROUP AND PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

		GROUP		PARENT COMPANY	
SEK 000	**Note**	**2017**	**2016**	**2017**	**2016**
Net earnings/loss		14 505	95 556	19 388	74 612
Other comprehensive income for the year, net of tax Translation differences		-20 638	357	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**-6 133**	**95 913**	**19 388**	**74 612**
Total comprehensive income attributable to:					
Equity holders of the parent		-6 122	95 911		
Non-controlling interests		**-11**	2		

Definition of earnings before interest and taxes: earning/loss including all operating income and expenses, i.e. earnings excluding financial items and income tax.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND PARENT COMPANY BALANCE SHEET

ASSETS (SEK 000)		GROUP		PARENT COMPANY	
31 December	**Note**	**2017**	**2016**	**2017**	**2016**
NON-CURRENT ASSETS					
Intangible assets	12				
Capitalized development expenditure		909	619	474	619
Licenses and product rights		1 411 859	700 668	75 806	75 709
Goodwill		1 510 342	730 725		-
Total intangible assets		2 923 110	1 432 012	76 279	76 328
Property, plant and equipment					
Equipment, buildings and land	13	14 498	12 297	16	666
Financial assets					
Participations in group companies	14	-	-	2 646 768	1 308 367
Deferred tax asset	19	79 550	9 444	75 000	75 000
Other financial assets	15	136	28 357	350 389	28 357
Total non-current assets	**29**	**3 017 293**	**1 482 110**	**3 148 452**	**1 488 718**
CURRENT ASSETS					
Current receivables					
Raw materials and consumables			-	-	-
Goods for resale		109 948	79 101	-	-
Accounts receivable		163 342	79 519	173	1 643
Other receivables		7 753	5 037	1 359	1 412
Receivables from group companies		-	-	124 379	58 055
Prepaid expenses and accrued income	16	4 925	5 733	1 163	173
		285 968	**169 390**	**127 074**	**61 283**
Cash and cash equivalents	17	838 586	121 346	695 191	85 743
Total current assets		**1 124 554**	**290 736**	**822 265**	**147 026**
TOTAL ASSETS		**4 141 848**	**1 772 846**	**3 970 715**	**1 635 744**

SHAREHOLDERS' EQUITY AND LIABILITIES (SEK 000)		GROUP		PARENT COMPANY	
31 December	**Note**	**2017**	**2016**	**2017**	**2016**
EQUITY	18				
Share capital		41 367	25 563	41 367	25 563
Other paid-up capital		2 627 016	1 726 100	-	-
Total restricted equity (parent company)				*41 367*	*25 563*
Share premium reserve (parent company)				1 513 158	612 243
Accumulated profit or loss (incl. comprehensive income for the year for the group)		-1 062 069	-1 035 572	33 529	-
Translation difference		-19 839	799		
Non-controlling interests		40	122	-	-
Net earnings/loss (parent company)		0		19 388	74 612
Total non-restricted equity (parent company)				*1 566 075*	*686 855*
Total equity		**1 586 515**	**717 012**	**1 607 442**	**712 418**
LIABILITIES					
Non-current liabilities					
Deferred tax liabilities	19	89 537	59 371	-	-
Liabilities to group companies		-	-	12 271	13 924
Liabilities to credit institutions	20	1 448 352	539 857	1 451 856	524 857
other non-current liabilities	20	4 271	26	26	26
Total non-current liabilities		**1 542 160**	**599 254**	**1 464 153**	**538 807**
Current liabilities					
Liabilities to credit institutions		816 069	375 643	816 069	369 643
Accounts payable		59 167	37 186	1 372	-
Liabilities to group companies			-	7 670	1 350
Other current liabilities	21	22 548	12 160	4 683	2 643
Accrued expenses and deferred income	22	115 388	31 591	69 327	10 883
Total current liabilities		**1 013 172**	**456 580**	**899 122**	**384 519**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**4 141 848**	**1 772 846**	**3 970 715**	**1 635 744**

CONSOLIDATED STATEMENT OF CASH FLOWS AND PARENT COMPANY CASH FLOW STATEMENT

		GROUP		PARENT COMPANY	
SEK 000	**Note**	**2017**	**2016**	**2017**	**2016**
Operating activities					
Earnings before interest and taxes		79 904	29 573	8 946	35 810
Non-cash items					
Depreciation, amortization and impairment	5	63 136	21 937	5 556	4 794
Other	24	-2 575	-28 779	0	-28 952
		140 464	**22 731**	**14 502**	**11 652**
Financial income received	24	352	75	99	2
Financial expenses paid	24	-48 338	-14 694	-39 925	-13 168
Income taxes paid/recovered		-2 292	-2 458	-931	57
Cash flow from operating activities before change in working capital		**90 186**	**5 654**	**-26 255**	**-1 457**
Change in working capital					
Change in inventories		-11 931	-11 688	-	6 575
Change in current operating receivables		-9 060	-15 952	-459	-64 242
Change in accounts payable		264	3 463	1 637	-2 777
Change in other current operating liabilities		-35 940	-17 595	9 197	-9 442
Cash flow from operating activities		**33 519**	**-36 118**	**-15 880**	**-71 343**
Investing activities					
Investments in property, plant and equipment	13	-3 721	-8 836	-	-
Investments in property, plant and equipment	12	-4 075	-61 052	-4 075	-65 417
Investments in other financial assets	15	-115	-	-	-
Investments in business combinations/shares in subsidiaries	11,14	-1 256 086	-926 183	-1 340 426	-926 907
Loans to group companies		-	-	-350 368	-
Sale of financial assets		17 786	-	17 786	-
Sale of property, plant and equipment		397	144	0	-
Cash flow from investing activities		**-1 245 814**	**-995 927**	**-1 677 083**	**-992 324**
Financing activities	24				
New share issue		990 309	279 629	990 309	279 629
Transaction expenses, new share issue		-25 523	-22 071	-25 523	-22 071
Share warrants deposited		-	460	-	460
Dividend paid		-41 083	-	-41 083	-
Transactions with non-controlling interests		-	-1 561	-	-1 561
Borrowings		1 750 368	900 000	1 750 368	900 110
Amortization of loans		-743 017	-80 055	-371 660	-75 889
Cash flow from financing activities		**1 931 054**	**1 076 402**	**2 302 411**	**1 080 678**
CASH FLOW FOR THE YEAR		**718 759**	**44 357**	**609 448**	**17 011**
Cash and cash equivalents at beginning of year	17	121 346	76 490	85 743	68 732
Exchange rate difference in cash and cash equivalents		-1 519	499	-	-
Cash and cash equivalents at end of year	17	838 586	121 346	695 191	85 743

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

GROUP SEK 000	Share capital	New share issue in progress	Other paid-up capital	Accumulated profit or loss	Translation differences	Non-controlling interests	Total
Opening balance as of 1 January 2016	**19 970**	**-**	**1 473 614**	**-1 130 569**	**442**	**1 124**	**364 581**
Comprehensive income	-		-	95 554	357	2	95 913
Transactions with shareholders							
Non-controlling interests arising in business combinations	-		-	-557		-1 004	-1 561
Share warrants	-		520	-		-	520
New share issue (net of transaction expenses)	5 593	-	251 966	-		-	257 559
Total transactions with shareholders	**5 593**	**-**	**252 486**	**-557**	**-**	**-1 004**	**256 518**
Opening balance as of 1 January 2016	**25 563**	**-**	**1 726 100**	**-1 035 572**	**799**	**122**	**717 012**
Comprehensive income	-		-	14 516	-20 638	-11	-6 133
Transactions with shareholders							
Transactions with non-controlling interests				71		-71	0
Dividend				-41 083			-41 083
Guarantee commission				0			0
New share issue in progress (net of transaction expenses)		8 501	559 428				567 929
New share issue (net of transaction expenses)	7 303		341 488				348 791
Total transactions with shareholders	**7 303**	**8 501**	**900 916**	**-41 012**	**-**	**-71**	**875 636**
Closing balance as of 31 DECEMBER 2017	**32 866**	**8 501**	**2 627 016**	**-1 062 068**	**-19 839**	**40**	**1 586 515**

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

PARENT COMPANY SEK 000	Share capital	New share issue in progress	Share premium reserve	Accumulated profit or loss	Net earnings /loss	Total
Opening balance as of 1 January 2016	**19 970**	**0**	**492 867**	**-71 423**	**-61 686**	**379 728**
Comprehensive income	-	-	-	-	74 612	74 612
Transactions with shareholders						
Share warrants	-	-	520	-	-	520
New share issue in business combinations	5 593	-	251 965	-	-	257 558
Appropriation of earnings	-	-	-	-61 686	61 686	-
Utilization of share premium reserve	-		-133 109	133 109	-	-
Opening balance as of 1 January 2017	**25 563**	**-**	**612 243**	**-**	**74 612**	**712 418**
Comprehensive income	-	-	-	-	19 388	19 388
Transactions with shareholders						
New share issue (net of transaction expenses)	7 303		341 487			348 790
New share issue in progress (net of transaction expenses)		8 501	559 428			567 929
Appropriation of earnings				74 612	-74 612	-
Dividend				-41 083		-41 083
Utilization of share premium reserve						-
CLOSING BALANCE AS OF 31 DECEMBER 2017	**32 866**	**8 501**	**1 513 158**	**33 529**	**19 388**	**1 607 442**

ACCOUNTING POLICIES

GROUP

Basis of preparation of the financial statements

The Consolidated Accounts of Karo Pharma have been prepared in accordance with the Swedish Annual Accounts Act, the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups, as well as International Financial Reporting Standards (IFRS), and their IFRIC interpretation statements, as endorsed by the EU. They have been prepared in accordance with the cost method apart from saleable financial assets and financial assets and liabilities measured at fair value through profit or loss.

AMENDMENTS TO ACCOUNTING POLICIES AND DISCLOSURES

New standards, amendments and interpretation statements applied by the group

No standards, amendments and interpretations that come into effect for financial years beginning 1 January 2017 have a material impact on the consolidated financial statements.

New standards, amendments and interpretation statements applied by the group from 1 January 2018

IFRS 15 Revenue from Contracts with Customers formalizes the recognition of revenue. The principles on which IFRS 15 is based should provide readers of financial statements with useful information on the company's revenues. This extended obligation of disclosure stipulates disclosures on revenue class, timing of settlement, uncertainties associated with revenue recognition and cash flows relating to customer contracts. Pursuant to IFRS 15, revenue should be recognized when the customer obtains control over the sold good or service and can use or receive benefits from that good or service. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts, and the associated SIC and IFRIC. IFRS 15 comes into effect on 1 January 2018. Prospective adoption is permitted. The standard was endorsed by the EU on 22 September 2016. The company's project to analyze the effects of the introduction of IFRS 15 concluded in the fourth quarter of 2017. This analysis revealed that there was no material effect on the group's results of operations or financial position. The group will apply the standard effective 1 January 2018.

IFRS 9 Financial Instruments deals with the classification, measurement and presentation of financial assets and liabilities. It replaces those parts of IAS 39 that deal with the classification and measurement of financial instruments. IFRS 9 contains a hybrid measurement approach, but simplifies this approach in certain respects. There will be three measurement categories of financial assets, amortized cost, fair value through other comprehensive income and fair value through profit or loss. How an instrument is classified depends on the company's business model and the characteristics of the instrument. Investments in equity instruments should be recognized at fair value through profit or loss, but there is also an option to measure the instrument at fair value through other comprehensive income on first-time recognition. No reclassification through profit or loss will then occur on disposal of the instrument. IFRS 9 also introduces a new model for measuring the credit loss reserve based on expected bad debt. The classification and measurement of financial liabilities does not change apart from the case when a liability is measured at fair value through profit or loss based on the fair value option. Value changes relating to changes in the entity's own credit risk should then be recognized in other comprehensive income. IFRS 9 reduces the requirement to apply hedge accounting by replacing the 80-125 criterion with the requirement of an economic relationship between the hedging instrument and the hedged item, and that the hedging quotient should be the same as used in risk management. Hedging documentation also alters somewhat compared with that produced pursuant to IAS 39. The new model for measuring the credit loss reserve proceeds from expected credit losses, which may involve earlier recognition of credit losses. The Standard should be applied to financial years beginning 1 January 2018. Earlier adoption is permitted. The standard was endorsed by the EU on 22 November 2016. The company has completed its analysis of the effects the introduction of IFRS 9 will have on the group. This analysis indicates that there will be no material effect on the group's results of operations or financial position.

New standards and interpretation statements that have not yet come into effect but will be adopted during coming periods

A number of new standards and interpretation statements come into effect for financial years that begin after 1 January 2019, and have not been applied in the preparation of these financial statements. None of them are expected to have any material effect on the consolidated financial statements apart from those stated below:

IFRS 16 leases, published by the IASB in January 2016. This standard has been endorsed by the EU and comes into effect on 1 January 2019. The Standard formalizes the recognition of leases and will replace IAS 17 Leases and the associated interpretation statements, IFRIC 4, SIC-15 and SIC-27. The Standard stipulates that assets and liabilities relating to all lease arrangements, with a few exceptions, are recognized in the Balance Sheet. This recognition is based on the view that the lessee has a right to use an asset for a specific period, with a simultaneous obligation to pay for that right. Essentially, for the lessor, accounting will be unchanged. The Standard is applicable for financial years beginning on January 2019 or later. Prospective adoption is permitted. The group has not yet evaluated the effects of IFRS 16, see note 25.

None of the other IFRS or IFRIC interpretation statements that have yet come into effect are expected to have any material effect on the group.

Accounting standards

The Consolidated Accounts have been prepared according to the cost method, with the exception of certain financial investments that are measured at fair value. Amounts are expressed in SEK 000 (thousands of Swedish kronor) unless otherwise stated. MSEK is an abbreviation of millions of Swedish kronor. Amounts or figures in brackets are comparative figures for 2016.

Significant estimates and judgements for accounting purposes

A number of important accounting estimates are necessary when preparing financial statements. This also requires that management makes certain judgements regarding the application of the company's accounting policies. Estimates and judgements are evaluated continuously, and primarily based on historical experience and other factors, including expectations of future events that are considered reasonable in prevailing circumstances.

Those segments involving a high degree of estimation or complexity, or such segments where assumptions and estimates are of material significance to accounting, are measurements of tax loss carry-forwards, impairment testing of goodwill, and the measurements of useful lives of product rights.

When making acquisitions, the group evaluates whether the transac-

tion is a business combination or an acquisition of assets, with the support of IFRS 3 Business Combinations. When a transaction is considered as a business combination, all identifiable assets and liabilities are identified in the acquired company, which are measured at fair value. When fair value cannot be measured reliably, this value is included in goodwill. When a transaction is considered as an asset acquisition, the individual identifiable assets and liabilities taken over are identified and recognized. Cost is allocated between individual assets and liabilities based on their relative fair value at the acquisition date. Asset acquisitions do not give rise to goodwill. For more information, see the following sections and the relevant accounting and measurement policy, as well as note 12.

Consolidated Accounts

The Consolidated Accounts include the Annual Accounts of Karo Pharma AB and its subsidiaries as of 31 December each year. Subsidiary Annual Accounts have been prepared for all accounting years as for the parent company, by utilizing the same accounting policies. All intra-group transactions, revenues and expenses, gains and losses, and balance sheet items from intra-group transactions are eliminated fully in the Consolidated Accounts.

Subsidiaries are all companies over which the group exerts a controlling influence. The group controls a company when it is exposed, or entitled, to variable returns on its holdings in the company and has the ability to influence these returns through its influence over the company. Subsidiaries are included in the Consolidated Accounts from the day controlling influence over them is transferred to the group. They are excluded from the Consolidated Accounts from the date when controlling influence ceases.

Business combinations and goodwill

Acquisitions of subsidiaries are accounted using acquisition accounting. An acquisition is considered as a transaction by which the group indirectly acquires the assets of the subsidiary, and takes over its liabilities and other obligations. The cost of an acquisition consists of the fair value of the assets transferred as compensation, issued equity instruments and liabilities arising or taken over on the transfer date. Identifiable acquired assets and liabilities taken over, and contingent liabilities taken over in a business combination are initially measured at fair value on the acquisition date. The surplus that consists of the difference between the cost and fair value of the group's share of identifiable acquired assets, liabilities and contingent liabilities is recognized as goodwill. Goodwill is recognized as an asset in the Balance Sheet. If the difference is negative, this is recognized directly in profit or loss. Equity in subsidiaries is eliminated wholly on acquisition.

Consolidated equity includes the parent company's equity and that portion of subsidiaries' equity accrued after the acquisition.

Goodwill is subject to impairment tests yearly, or more often if events or changed circumstances indicate that their value is not recoverable, see also note 12. When the recoverable amount is less than the book value, impairment is taken. The recoverable amount means the greater of the asset's fair value less expenses for disposal or sale and value in use. Acquisition-related expenses are expensed when they arise. Conditional purchase considerations are recognized at fair value at the acquisition date. Subsequent adjustments to the fair value of a conditional purchase consideration classified as a liability are recognized in profit or loss.

When a transaction is considered as an asset acquisition, the individual identifiable assets and liabilities taken over are identified and recognized. Cost is allocated between individual assets and liabilities due to their relative fair values on the acquisition date. An asset acquisition does not give rise to goodwill.

Product rights

The measurement of product rights is dependent on specific assumptions. These assumptions relate to forecasts of future sales revenue, contribution margins and expenses for each product. Assumptions are also made regarding discount rates, product useful lies and royalty rates. The maximum duration of the amortization of product rights the group applies is 15 years. The possibility that measurement of product rights may be subject to re-evaluation that has a material effect on the group's financial position and results of operations cannot be ruled out. The group regularly tests product rights for impairment. As of 31 December 2017, the value of product rights was MSEK 1,711.9 (700.7).

Translation of foreign currency

The Consolidated Accounts are presented in Swedish kronor (SEK). Transactions in foreign currency are initially recognized at the rate of exchange of the functional currency ruling on the transaction date. Foreign currency monetary assets and liabilities are translated to the functional currency at closing day rates. Potential exchange rate differences in translation are recognized in profit or loss. Non-monetary assets and liabilities that are recognized at cost are reported at historical exchange rates, i.e. the rates of exchange ruling on each transaction date. Items measured at fair value are translated at rates of exchange ruling on the valuation date. Assets and liabilities in foreign operations, including goodwill and other surplus and deficit values, are translated to Swedish kronor at closing day rates. Revenues and expenses in a foreign operation are translated to Swedish kronor at average rates of exchange, which are in approximation of the rates at each transaction date. Translation differences arising on the currency translation of foreign operations are recognized in other comprehensive income.

Revenue recognition

Revenue is recognized to the extent it is likely that economic benefits will flow to the group and these revenues can be measured reliably.

Goods
Sales of goods are recognized when the essential risks and benefits are transferred from the seller to the buyer in accordance with the terms of sale. Sales are recognized after deducting for value added tax and discounts. A minority of sales are made to external wholesalers. Revenues are restated for the value of potential returns, which are based on historical returns data.

Revenues from strategic research partnerships
Karo Pharma may receive four types of revenue from strategic research partnerships: lump sum payments, milestone payments and royalties. The specific accounting criteria for the different revenue classes stated below must be satisfied before revenue can be recognized.

Remuneration received for research partnerships, relating to contractual undertakings that Karo Pharma has not yet fulfilled, are allocated over the term of the agreement for which Karo Pharma fulfils its commitments.

Milestone payments become due once specific results are achieved, or a specific event has occurred, such as when compounds enter or conclude a significant phase of the development process, pursuant to the definitions of each collaborative agreement. As a rule, these phases are associated with important decision points in the collaborative partner's drug development process. Milestone payments are recognized

when all the terms for entitlement to compensation pursuant to the agreement are satisfied.

Royalties are based on the sale of finished goods sourced from a partnership. Royalties are recognized when they are accounted by the collaborative partner.

Other revenue
Revenue from out-licensing agreements that are not research and development partnerships may either consist of cash deposits, which are recognized as revenue when all the terms for receiving them are satisfied, or license maintenance fees that are allocated over the term of the license. Karo Pharma can also receive compensation for services rendered, which are recognized as revenue when the contractual terms are satisfied. On sale where compensation is received in the form of securities, revenue is recognized at the fair value of the securities on the transaction date.

Central government subsidies and other public support is recognized as other operating income in profit or loss over the same period as the costs of these subsidies are intended to compensate for.

Interest income is recognized in the period it relates to, based on the effective interest method. Interest income is recognized as financial income and not included in earnings before interest and taxes.

Taxes

Income tax
Income tax consists of current and deferred tax. Income tax is recognized in profit or loss considering items recognized in the Income Statement, and is recognized directly against equity when the tax relates to items recognized directly against equity.

Deferred tax is measured as the difference that arises between the carrying amounts and taxable values of assets and liabilities (temporary differences). Deferred tax is measured based on applicable tax rates. Pursuant to IAS 12 Income Taxes, deferred tax liabilities are recognized for all taxable temporary differences using the balance sheet method.

Deferred tax assets relating to un-utilized loss carry-forwards and deductible temporary differences are only recognized to the extent it is likely that they will be utilized against future taxable earnings. For more information, see notes 9 and 19. Because historically, Karo Pharma has incurred losses, deferred tax assets are recognized only when there is compelling evidence that sufficient taxable gains or temporary differences will exist.

Value added tax
Revenues, expenses and assets are recognized excluding VAT. VAT to be recovered from, or paid to, the Swedish Tax Agency is included in the receivables and liabilities in the Balance Sheet.

Intangible assets

Acquired intangible assets are recognized as assets in the Balance Sheet. Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets in a business combination consists of the fair value at the time of acquisition. Subsequently, intangible assets are recognized at cost less accumulated amortization, and any impairment.

The useful life of all the group's intangible assets is judged as limited. Intangible assets with limited useful lives are amortized over their measured useful life, and tested when there are indications of impairment. The amortization term and method for intangible assets is reviewed at least at the end of each financial year. For more information, see note 12.

Changes in expected useful lives or expected patterns of future economic benefits associated with the asset are considered by amending the amortization period or amortization method as required, and treated as changes in accounting estimates. Amortization expenses are recognized in profit or loss in the cost class that corresponds to the intangible asset's function.

Research and development expenses

Pursuant to IAS 38 Intangible Assets, expenditure for development should be capitalized and recognized in the Balance Sheet if certain criteria are satisfied, while expenditure for research is expensed as it arises. An intangible asset based on capitalized development expenses is only recognized when the group can demonstrate that it is technically viable to complete the intangible assets so that it will be available for use or sale; its intention to complete and its ability to use or sell the asset; how the asset will generate future economic benefits; the utilization of resources for completion and the ability to measure development expenses reliably. To date, the group has expensed all development expenses as they arise, because the capitalization criteria have not been satisfied.

Property, plant and equipment

Property, plant and equipment are recognized at cost less accumulated depreciation and potential accumulated impairment. Over and above the purchase price, cost includes expenditure directly related to enable usage of the asset.

The difference between cost and estimated residual value is depreciated on a straight-line basis over the asset's estimated useful life.

The carrying amounts of property, plant and equipment are judged on the basis of value impairment whenever events or changed circumstances indicate that the carrying amount is not recoverable. The residual value of assets and estimated useful lives are tested and adjusted where necessary, at the end of each financial year.

Depreciation and amortization of non-current assets

Property, plant and equipment and intangible assets are depreciated and amortized respectively on a straight-line basis over the estimated useful lives of assets, based on the cost of assets, as follows:

Years	
Licenses	3–10
Conversion of premises, IT equipment and equipment	4
Buildings and land	25
Product rights	15

Impairment of non-current assets

A judgement of whether the value of an asset has decreased is conducted at each reporting date. If there is such an indication, Karo Pharma estimates the asset's recoverable amount. If the carrying amount is greater than the recoverable amount, the asset is impaired to this amount. Impairment of non-current assets in operating activities is recognized as an expense in profit or loss in the cost class that corresponds to the function of the asset in question.

Investments and other financial assets

Financial investments within the auspices of IAS 39 Financial Instruments: Recognition and Measurement are classified either as financial assets measured at fair value through profit or loss, loan receivables and accounts receivable, investments held to maturity or saleable financial assets. When financial assets are initially recognized, they are measured at fair value plus directly attributable transaction expenses, apart from the category of financial assets measured at fair value through profit or loss, for which attributable transaction expenses are recognized in profit or loss. Classification of a financial asset is determined on first-time recognition.

Loan derivatives and accounts receivable are non-derivative financial assets with determined or determinable payments that are not listed on an active marketplace. Such assets are recognized that amortized cost using the effective interest method. On the impairment of the carrying amounts of loan receivables and accounts receivable, impairment is recognized in profit or loss.

Currency forward contracts

Karo Pharma may hedge known future cash flows in foreign currency subject to wide currency fluctuations pursuant to the company's Finance Policy. In this context, a particular level of certainty is necessary to consider potential transactions and the associated cash flows.

Currency hedging is achieved using currency forward contracts. Pursuant to IAS 39, all derivative instruments should be measured at fair value, which Karo Pharma defines as market value. The hedging instruments that Karo Pharma may utilize do not satisfy the standards of hedge accounting pursuant to IAS 39.

Accordingly, the classification of these instruments mean that they are measured at fair value in the Balance Sheet, and that changes in fair value are recognized in other operating income and expenses. There were no outstanding currency forward contracts as of December 2016 or December 2017.

Inventories

Inventories are measured using the first in first out (FIFO) method, at the lower of cost or market on the reporting date. Collective measurement is applied for homogeneous goods groups.

Investments in securities, etc.

Investments in securities etc. may consist of investments in money market instruments, bonds with high liquidity and a maximum duration of five years, and investments in bond and fixed-income funds with high liquidity. Investments in securities, etc. are classified as financial assets measured at fair value through profit or loss (financial assets held for trading). This means that the assets are recognized at fair value in the Balance Sheet, defined as market value. Changes in fair value are recognized in financial income/expense in the Income Statement. Purchases and sales of investments in securities, etc. are recognized on the transaction date, the date when Karo Pharma undertakes to purchase or sell the asset.

Estimation of fair value of financial assets measured at fair value
When the group measures a financial instrument at fair value, fair value is measured on the basis of a valuation hierarchy. The various levels are defined as follows:

- Level 1: quoted prices (unadjusted) on active marketplaces for identical assets or liabilities.
- Level 2: other observable data for the asset or liability other than quoted prices included in level 1, either directly (as price quotations) or indirectly (resulting from price quotations).
- Level 3: data for the asset or liability not based on observable market data.

Karo Pharma's finance policy stipulates that investment of the group's funds should be in financial instruments that are listed on active marketplaces. These financial instruments are divided into different risk categories with defined minimum standard credit ratings for each category. The fair value of these financial instruments traded on an active marketplace is based on quoted market prices on the reporting date. A marketplace is considered active if quoted prices from a stock exchange or other body are readily and regularly available, and these prices represent real and regular market transactions executed on an arm's length basis. See also note 28.

Accounts receivable and other receivables

Accounts receivable, which usually become due for payment after 30 days, are measured at fair value, and subsequently at amortized cost, by applying the effective interest method. Impairment is taken in those cases where there is impartial evidence that Karo Pharma will not be able to collect its receivables.

Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet consist of cash and bank balances and investments insecurities etc. with a maximum maturity of 90 days on purchase. Other investments in securities, etc. are recognized as financial assets measured at fair value through profit or loss. See notes 17 and 28 for more information on the classification of the company's investments.

In the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents pursuant to the above definition. The Statements of Cash Flows for each year illustrate direct cash flows from investing and financing activities. Operating cash flow is based on the indirect method.

Borrowings

Borrowings are initially recognized at fair value, net of transaction expenses. Borrowing is then recognized at amortized cost and potential differences between amounts received (net of transaction expenses) and repayment amounts are recognized in profit or loss allocated over the term of the loan, by applying the effective interest method.

Provisions

Provisions are recognized when the group has a legal or formal undertaking as a result of an event that has occurred, and when it is likely that an outflow of resources will be necessary to fulfil that commitment, and the amount can be measured reliably. Expenses relating to provisions are recognized in profit or loss net of potential settlement. Conditional supplementary purchase considerations are recognized as provisions.

Contingent liabilities

A contingent liability is recognized when there is a potential undertaking sourced from events that have occurred, and whose incidence is confirmed only by one or several uncertain future events, or where there is a commitment that is not recognized as a liability or provision due to it not being likely that an outflow of resources will be required.

Pension expenses and other commitments regarding benefits after terminated employment

For salaried employees in Sweden, the defined benefit pension obligations for retirement and survivors' pensions in the ITP 2 plan (Supplementary Pensions for Salaried Employees) are vested through insurance with Alecta. In accordance with a statement from the Swedish Financial Reporting Board, UFR 3 Classification of ITP Plans Vested through Insurance with Alecta, this is a defined benefit multi-employer plan.

For the financial year 2017, the company did not have access to information enabling it to report its proportional share of plan obligations, plan assets and expenses, which means it was not possible to account the plan as a defined benefit plan. Accordingly, the ITP 2 pension plan, which is vested through insurance with Alecta, is accounted as a defined contribution plan. The premiums for defined contribution retirement and survivors' pensions are individually computed depending on factors including salary, previously vested pension and expected remaining length of service. Expected charges in the next reporting period for ITP 2 insurance policies arranged with Alecta amount to MSEK 0.3 (2016: 0.3). The group's share of the aggregate expenses for the plan amount to 0.002% (2016: 0.003%).

The collective consolidation ratio consists of the market value of Alecta's assets as a percentage of insurance commitments computed according to Alecta's actuarial methods and assumptions, which are not consistent with IAS 19. Normally, the collective consolidation ratio is permitted to vary between 125 and 155%. If Alecta's collective consolidation ratio is below 125% or above 155%, measures should be taken to create the conditions for the consolidation ratio to return to the normal interval. If consolidation is low, one potential action is to increase the contracted pricing of new subscriptions and extension of existing benefits. If consolidation is high, one potential action may be to introduce premium reductions.

Compensation on termination should be paid when employment terminates before normal retirement age, and an employee accepts voluntary termination in exchange for this compensation. Karo Pharma reports this compensation on termination when the company has a demonstrable obligation to either terminate employment of current employees according to a detailed, formal irrevocable plan, or provision compensation on termination as a result of an offering to encourage voluntary termination.

Leases

In a finance lease, all the essential economic risks and benefits ensuing from ownership of the leased item transfer to Karo Pharma. All other lease arrangements are treated as operating leases.

Finance leases are accounted when agreements are entered at the fair value of the leased item, or if lower, the present value of future minimum lease payments. Accordingly, equipment is accounted as an asset and the present value of future minimum lease payments is accounted as a liability. Lease payments are allocated between finance charges and a reduction of the lease liability to obtain a fixed interest rate on the outstanding balance. Financing expenses are charged to earnings.

Assets held through finance leases are depreciated over the shorter period of estimated useful life and the term of the lease, if it is not possible to determine that ownership rights transfer to the group at the end of the lease term with reasonable assurance. Property, plant and equipment are depreciated in accordance with what is stated under the depreciation of non-current assets heading.

Lease payments for operating leases are expensed in the period they relate to.

Share-based incentive programs

The group has one share-based incentive program, where participants are paid for warrants at market price, and accordingly, no expense is recognized in the Income Statement. Warrant premiums paid credited to other paid-up capital.

Segment reporting

Operating segments should be reported in a manner that is consistent with internal reporting provided to the chief operating decision maker. The chief operating decision maker is that function responsible for allocating resources and evaluating the results of operating segments. See note 29.

Share capital

Ordinary shares are classified as shareholders' equity. Transaction expenses directly attributable to the issue of new ordinary shares or options are recognized in equity net of tax, as a deduction from issue proceeds.

PARENT COMPANY

The parent company's Annual Accounts have been prepared in accordance with the Swedish Annual Accounts Act, the Swedish Financial Reporting Board's recommendation RFR2 and statements from the Swedish Financial Reporting Board. The parent company's accounting and valuation policies are consistent with the group's with the exception of leases. In the parent company, all lease arrangements are reported as if they were operating leases. Shares in subsidiaries are accounted in accordance with acquisition accounting (acquisition-related expenses are included in cost).

NOTES

NOTE 1 NET SALES

Sales in 2017 mainly consisted of product sales.

Karo Pharma AB purchased services from subsidiaries in 2017 for SEK 606,000 (0) 2016.

Karo Pharma AB invoiced SEK 21,069,000 (38,467,000), of which SEK 6,068,000 was a management fee and SEK 13,889,000 was compensation for license sales of Allevo products.

NOTE 2 PERSONNEL AND REMUNERATION TO THE BOARD OF DIRECTORS AND SENIOR EXECUTIVES

		2017		2016	
AVERAGE NUMBER OF EMPLOYEES	**Note**	**No. of employees**	**of which men**	**No. of employees**	**of which men**
Parent company	1)	4	1	4	1
Group					
Sweden		54	30	61	32
Norway		32	6	4	3
Total		**91**	**38**	**69**	**36**

		2017		2016	
SALARIES, OTHER BENEFITS AND SOCIAL SECURITY CONTRIBUTIONS	**Note**	**Salaries and other benefits**	**Social security contributions (of which pension expenses)**	**Salaries and other benefits**	**Social security contributions (of which pension expenses)**
Board of Directors and Chief Executive Officer	1)	7 122	2 129	4 778	1 007
			(787)		(391)
Other employees					
Parent company		3 488	2 428	5 581	2 978
			(933)		(958)
Group companies					
Sweden		26 614	12 127	28 001	12 014
			(3 504)		(2 988)
Norway		16 031	3 192	3 440	722
			(503)		(181)
		53 256	19 876	41 800	16 721
			(5 727)		(4 518)

1) SEK 3,337,000 (1,392,000) of salaries and other benefits are for the Chief Executive Officer

Compensation and other benefits to senior executives in 2017

SEK 000		Directors' fees/ basic salary	Variable remuneration	Other benefits	Other compensation	Social security contributions	Pension expenses	Total
Board of Directors								
Anders Lönner		440			2 479 [1)]	72		2 991
Per-Anders Johansson		167			250 [4)]	131		548
Thomas Hedner		167				52		219
Marianne Hamilton		117				19		136
Håkan Åström		117				19		136
Jean Lycke (tom årsstämma 2017)		50						50
Senior executives								
Maria Sjöberg, Chief Executive Officer	Jan-11 maj [2)]	1 425				448	429	2 303
Peter Blom, Chief Executive Officer	Maj-Dec	1 911				601	358	2 870
Other senior executives [3)]		5 033			40	1 157	891	7 122
		9 427	**0**	**0**	**2 769**	**2 499**	**1 678**	**16 373**

1) Over and above this compensation, Anders Lönner received a total of MSEK 52.7 of compensation for guarantee commitments. For more information, see note 30. **2)** Of which severance pay of SEK 850,000 to Maria Sjöberg. **3)** Of which severance pay SEK 550,000 to Henrik Palm.
4) Per Anders Johansson has received a compensation of 250 TSEK for services rendered in connection with the acquisition of Weifa AS.

Compensation and other benefits to senior executives in 2016

SEK 000	Directors' fees/ basic salary	Variable remuneration	Other benefits	Other compensation	Social security contributions	Pension expenses	Total
Board of Directors							
Anders Lönner	420			2 479 [1)]			2 899
Per-Anders Johansson	150				47		197
Thomas Hedner	150				25		175
Jean Lycke	150						150
Göran Wessman (tom årsstämman 2016)	38				6		44
Senior executives							
Maria Sjöberg, Chief Executive Officer	1 392				538	391	2 321
Other senior executives (3)	4 364		29	89	1 397	951	6 829
	6 663	**0**	**29**	**2 567**	**2 013**	**1 342**	**12 614**

1) Over and above this compensation, Anders Lönner received a total of MSEK 18.7 of compensation for guarantee commitments and interest. For more information, see the following under the Transactions with related parties heading.

Remuneration of the Board of Directors

The Board of Directors has five members, appointed by the Annual General Meeting (AGM).

The Chairman of the Board receives an annual fee of SEK 450,000, and each of the other directors that are not employees or have consulting assignments with the company, receive SEK 175,000 SEK in accordance with a resolution by the AGM 2017. A total of SEK 1,057,000 (908,000) was paid as Directors' fees in 2017. Directors are reimbursed for direct expenses such as travel expenses. All committee work is conducted by the whole Board, and accordingly, no dedicated committee fees are payable.

In 2017, the Chairman of the Board received a fee in his capacity as Executive Chairman of a total of SEK 2,479,000 (2,479,000). Total compensation in 2017 to each Director is specified in the above table.

Remuneration of senior executives

The Board of Directors has decided that the whole Board should perform the duties incumbent on a remuneration committee, and thus deal with all matters regarding the compensation and benefits of senior executives.

The remuneration guidelines for senior executives adopted by the AGM 2017 and the Board of Directors' proposed guidelines to be adopted by the AGM 2018 are presented in the Statutory Administration Report. A review of the application of guidelines in 2017 follows.

Senior executives receive fixed basic monthly salary, and certain senior executives enjoyed benefits such as health care insurance in 2017. In 2017, two senior executives were participants in a bonus program. Additionally, senior executives receive pension benefits pursuant to the ITP plan (Supplementary Pensions for Salaried Employees) consistent with other employees in Sweden, unless otherwise stated below. Pension benefits are based on a retirement age of 65 and are life annuities. Salary paid including bonus is pensionable. The ITP plan is defined benefit contribution and currently provides no pension benefits on annual incomes currently exceeding SEK 1,779,000.

Senior executives are entitled to participate in the group-wide share-based incentive programs that may be offered from time to time. An Extraordinary General Meeting (EGM) on 21 July 2016 resolved on an incentive program to employees. At total maximum available of 4,600,000 warrants were subscribed, of which 3,900,000 to senior executives. Executive Chairman Anders Lönner subscribed to 2,740,000 share warrants.

See also note 27 Share warrant program for more information.

At year-end 2017, apart from the Chief Executive Officer, Peter Blom, senior executives were the following five (three) people: Henrik Palm, CFO in Q1-Q3, Camilla Lönn, CFO in Q4, Carl Lindgren, Vice President, Tomas Kraft, Country Manager of Norway and Simen Nyberg-Hansen, Managing Director of Norway.

Agreements on severance pay

The Chief Executive Officer has a notice period of six months and entitlement severance pay corresponding to 6 months' salary on termination by the company. Other senior executives have noticed periods of 6 to 12 months, with no entitlement to additional severance pay.

Transactions with related parties

Karo Pharma has not issued any loans, guarantees or sureties to, or in favor of, any of the company's Directors or senior executives. Anders Lönner provided a guarantee commitment in the rights issue executed in February 2017, and received MSEK 17 for this in the year. Anders Lönner also provided a guarantee commitment for the issue commenced in December 2017, and that was registered in January 2018. Compensation for this latter guarantee commitment was received in January 2018, and amounted to MSEK 35.5.

In 2017, one Karo Pharma subsidiary sold two products under license from a company owned by Anders Lönner (Beampoint AB) and this subsidiary received commission worth SEK 532,000.

NOTE 3 PENSION EXPENSES

Undertakings for retirement and survivors' pensions pursuant to the ITP plan are vested for the parent company's employees, and employees of those companies within the group subject to collective bargaining agreements, through insurance with Alecta. The expenses for pension insurance in the year vested with Alecta amounted to SEK 165,000 (291,000) and to SEK 4,158,000 (4,227,000) to other pension institutions in accordance with the ITP plan.

See also accounting and valuation policies.

NOTE 4 OPERATING EXPENSES BY COST CLASS

Operating expenses are allocated by cost class as follows

		GROUP		PARENT COMPANY	
SEK 000 **Other operating income and expenses**	**Note**	**2017**	**2016**	**2017**	**2016**
Depreciation and amortization		-61 744	-19 744	-4 162	-4 794
Personnel expenses		-70 779	-56 372	-9 019	-10 940
Cost of premises		-4 321	-7 183	-911	-495
External expenses		-109 771	-63 436	-14 938	-13 235
Other operating income and expenses	6	-15 385	27 583	-1 445	28 956
		-262 000	**-119 152**	**-30 474**	**-508**

		GROUP		PARENT COMPANY	
SEK 000 **Cost of goods sold**	**Note**	**2017**	**2016**	**2017**	**2016**
Goods for resale		-315 703	-198 536	152	-12 567
		-315 703	**-198 536**	**152**	**-12 567**

NOTE 5 DEPRECIATION AND AMORTIZATION

Depreciation and amortization are allocated over Karo Pharma's functions and asset classes as follows

		GROUP		PARENT COMPANY	
SEK 000	**Note**	**2017**	**2016**	**2017**	**2016**
Function					
Selling expenses		61 561	18 926	4 154	3 979
Administrative expenses		173	157		154
Research and development expenses		9	661	9	661
		61 743	**19 744**	**4 163**	**4 794**
Asset class					
capitalized development expenses	12	175	109	146	109
Licenses and product rights	12	60 116	17 540	3 979	3 979
Equipment, buildings & land	13	1 452	2 095	38	706
		61 743	**19 744**	**4 163**	**4 794**

NOTE 6 OTHER OPERATING INCOME AND EXPENSES

	GROUP		PARENT COMPANY	
SEK 000	**2016**	**2015**	**2016**	**2015**
Exchange rate gains and losses, net	-3 289	997	-594	4
Shares received [1)]		28 952		28 952
Impairment of product rights and licenses		-2 193	-	-
Acquisition expenses	-13 096	-	-850	-
Municipal subsidies	1 000			
Capital gain/loss, non-current assets		-173	-	-
	-15 385	**27 583**	**-1 444**	**28 956**

1) Shares received as payment for the divested cancer project KB9520, measured at the share price on the transaction date.

NOTE 7 INTEREST INCOME, ETC.

	GROUP		PARENT COMPANY	
SEK 000	**2017**	**2016**	**2017**	**2016**
Interest income, capital gain/loss and dividends from investments in securities, etc.	742	75	933	2
Unrealized gains and losses on market valuation		-		-
	742	**75**	**933**	**2**

NOTE 8 INTEREST EXPENSES, ETC

	GROUP		PARENT COMPANY	
SEK 000	**2017**	**2016**	**2017**	**2016**
Interest expenses, group companies	-	-	-364	-422
Interest expenses	-37 821	-5 677	-35 334	-4 168
Other financial expenses [1)]	-12 584	-4 133	-9 718	-4 116
	-50 405	**-9 810**	**-45 416**	**-8 706**

1) The majority of the other financial expenses item is an arrangement fee for loan finance, which has been allocated over the agreement term of the loan.

NOTE 9 INCOME TAX

	GROUP		PARENT COMPANY	
SEK 000	**2017**	**2016**	**2017**	**2016**
Accounted earnings before tax	20 851	19 838	19 450	-388
Tax at nominal tax rate of 22.0%	-4 589	-4 364	-4 279	85
Tax effect of foreign tax rates	-103	-40	-	-
Tax effect of amended tax rates, Norway	-3 499	-	-	-
Tax effect of deductible non-expensed items	13 495	4 856	13 495	4 856
Tax effect of adjustment of previous year's tax	305	-137	-62	-
Tax effect of other non-deductible items	-3 608	-553	-16	-5 780
Tax effect of non-taxable income	515	117	-	-
Taxable effects from tax assets not assigned value	-8 782	839	-9 200	839
Tax effect of previous, no longer capitalized loss carry-forwards	-80	-	-	-
Tax effect of previously uncapitalized loss carry-forwards	-	75 000	-	75 000
Tax on accounted earnings	**-6 346**	**75 718**	**-62**	**75 000**

The tax expense consists of the following components:

	GROUP		PARENT COMPANY	
SEK 000	**2016**		**2016**	**2015**
Current tax				
On earnings for the year	-485	-799	-	-
Adjustment of previous year's tax	305	-137	-62	-
Total current tax	**-180**	**-936**	**-62**	**-**
Deferred tax:				
Change in temporary differences	9 781	10 878	-	-
Increase in deductible loss carry-forwards	-	75 000	-	75 000
Utilization of deductible loss carry-forwards	-15 947	-9 224	-	-
	-6 166	**76 654**	**0**	**75 000**
Total reported tax	**-6 346**	**75 718**	**-62**	**75 000**

As of 31 December 2017, there were deductible loss carry-forwards of approximately MSEK 3,226 (2,324) in the group and MSEK 2,443 (2,281) in the parent company. Deferred tax assets attributable to deductible loss carry-forwards are only recognized to the extent it is likely that they will be utilized. The change in the accounted accrued deferred tax on loss carry-forwards in the year is wholly attributable to acquired subsidiaries, whose earnings capacity remains favorable and whose accumulated deficits are judged to be usable. See also note 19 Deferred tax.

NOTE 10 EARNINGS PER SHARE

For 2017, 100% of net earnings are attributable to the equity holders of the parent, with the remainder to non-controlling interests. For 2016, 100% of net earnings were attributable to equity holders of the parent.

Earnings per share are computed as earnings for the year in relation to the weighted number of outstanding shares in the year. Information per share has been computed based on the following number of shares. The number of shares for each year before the rights issue have been restated for the bonus issue element of these rights issues, pursuant to IAS 33.

The share warrants acquired by senior executives in 2016 do not imply any dilution effect, see also note 27.

Number of outstanding shares (000)	**2017**	**2016**
At beginning of year	63 907	49 926
Average number	84 217	67 440
At end of year	82 166	63 907

Earnings per share	**2017**	**2016**
Earnings attributable to equity holders of the parent	14 516	95 556
Weighted average number of outstanding shares	84 217	67 440
Basic earnings per share1 [1)]	0,17	1,42
Diluted earnings per share1 [1)]	0,17	1,42

1) Including the bonus issue element of the new issue and outstanding share warrants not having any dilution effect.

NOTE 11 ACQUISITIONS

In October 2017, Karo Pharma AB acquired Weifa ASA for approximately MSEK 1,323. Weifa had sales of just over MNOK 396. Most of the product portfolio consists of well-known Norwegian brands with leading positions in Norway, and a long history of stable sales numbers.

Acquired assets Fair value (SEK 000)	Weifa	Other	Total
Purchase consideration	**1 322 748**	**3 407**	**1 326 155**
Licenses and product rights	775 468	3 776	779 244
Deferred tax asset	87 510	80	87 590
Tangible assets	818		818
Other current assets	96 766	302	97 068
Accounts payable and other liabilities	-102 989	-172	-103 161
Deferred tax liability	-39 322	-582	-39 904
Non-current liabilities and provisions	-359 842		-359 842
Cash and cash equivalents	72 092	2	72 094
Goodwill	792 247		792 247
Total	**1 322 748**	**3 406**	**1 326 154**

Cash flow effect from the acquired operations 2017 SEK 000			
Purchase consideration	**-1 322 748**	**-3 406**	**-1 326 154**
Additional purchase consideration paid in the year		-2 025	-2 025
Cash and cash equivalents in acquired companies	72 092	2	72 094
	-1 250 656	**-5 429**	**-1 256 085**

In October 2017, Karo Pharma acquired all the shares of pharmaceutical company Weifa ASA, which was then listed on the Oslo Stock Exchange. The company was de-listed in October 2017, and changed name to Weifa Holding AS in the fourth quarter of 2017. The acquisition includes a portfolio of well-known pharmaceutical brands on the Norwegian market. The brand portfolio features a long history of stable sales numbers, comprising four key products: Paracet, Ibux, Paralgin and Asan. Karo Pharma and Weifa are mutual complements in terms of product portfolios and geography.

Goodwill relates to expected synergy gains from the shared product portfolio and several new product launches with good prospects of success. A strong and profitable domestic market offers better potential to take the next step to more markets and partnerships outside the Nordics. No portion of accounted goodwill is expected to be tax deductible.

The acquisition analysis of the acquisition of Weifa is preliminary until the definitive allocation between goodwill, product rights and other assets is complete.

The company is currently evaluating the future potential and useful lives of acquired products. The measurement of product rights in the acquisition analysis is based on a preliminary estimate of the future sales and economic useful lives of products. When this in-depth analysis is complete, the acquisition analysis will be finalized, which may mean that the allocation between product rights and goodwill alters. And altered measurement of product rights would also affect the scale of the deferred tax liability. The preliminary acquisition analysis of acquisitions in 2016 was finalized without restatement in 2017.

The operation acquired in 2017 contributed revenues of MSEK 107.5 and profit after financial items of MSEK 0.1 to the group in the period October to December. If the acquisition had been executed as of 1 January 2017, the consolidated pro forma of revenues and EBIT indicates that Weifa contributed net sales of MSEK 408.7 and EBIT of MSEK 26.2. These amounts have been computed by using the subsidiary's earnings adjusted for:

– expenses in Weifa relating to the acquisition.

– the altered amortization that would have occurred assuming that the restatement to fair value and altered amortization period of product rights had been applied from 1 January 2017, as well as related tax effects.

Acquisition-related expenses affecting consolidated EBIT in 2017 amount to MSEK 13.1, see note 6.

NOTE 12 GOODWILL, PRODUCTS, LICENSES AND SIMILAR RIGHTS

	GROUP							
	2017				2016			
	Licenses and product rights	Capitalized development expenditure	Goodwill	Total	Licenser och produkt-rättigheter	Balanserade utgifter för utveckling	Goodwill	Summa
Opening costs	753 982	728	730 725	1 485 435	273 899		236 174	510 073
Increase though business combinations	778 777	465	792 247	1 571 489	479 241		494 551	973 792
Purchases in the year	4 075		-	4 075	1 359	728	-	2 087
Sales/impairment	-1	-	-	-1	-866		0	-866
Translation difference	-12 392	-	-12 630	-25 022	349		-	349
Closing accumulated cost	**1 524 441**	**1 193**	**1 510 342**	**3 035 976**	**753 982**	**728**	**730 725**	**1 485 435**
Opening amortization	-53 314	-109	-	-53 423	-34 418		-	-34 418
Amortization for the year	-60 116	-175	-	-60 291	-17 540	-109	-	-17 649
Impairment for the year	0	-		0	-1 327		-	-1 327
Translation difference	848	-	-	848	-29		-	-29
Closing accumulated amortization	**-112 582**	**-284**	**-**	**-112 866**	**-53 314**	**-109**	**-**	**-53 423**
Closing residual value	**1 411 859**	**909**	**1 510 342**	**2 923 110**	**700 668**	**619**	**730 725**	**1 432 012**

	PARENT COMPANY					
	2017			2016		
	Licenses and product rights	Capitalized development expenditure	Total	Licenses and product rights	Capitalized development expenditure	Total
Opening cost	154 408	728	155 136	148 684		148 684
Increase though business combinations	-	-	0	-		0
Purchases in the year	4 075		4 075	5 724	728	6 452
Sales/impairment	-	-	0	-		0
Translation difference	-	-	0	-		0
Closing accumulated cost	**158 483**	**728**	**159 211**	**154 408**	**728**	**155 136**
Opening amortization	-78 699	-109	-78 808	-74 719		-74 719
Amortization for the year	-3 979	-146	-4 125	-3 980	-109	-4 089
Impairment for the year	-	-	0	-		0
Translation difference	-	-	0	-		0
Closing accumulated amortization	**-82 678**	**-255**	**-82 933**	**-78 699**	**-109**	**-78 808**
Closing residual value	**75 805**	**473**	**76 279**	**75 709**	**619**	**76 328**

Goodwill per cash generating units	**2017**	**2016**
Weifa	779 617	-
BioPhausia	494 551	494 551
Other	236 174	236 174

Material assumptions when measuring value in use

The group conducts impairment tests on goodwill yearly. The goodwill of Weifa has been tested separately in the preparation of the acquisition analysis, see note 11. Other goodwill has been subject to impairment tests for the acquisition of BioPhausia as a single cash-generating unit, and Swereco, Medcore and Apropharm/DNE as a single cash-generating unit. The recoverable amount of these cash-generating units has been determined by computing value in use, which requires certain assumptions. The computations employ cash flow forecasts based on budgets and internal long-term plans for the coming five years. These forecasts are based on growth rates as a parameter, which include assumptions on price growth and sales volumes. The gross margin parameter is also included, which itself incorporates assumptions regarding sales and the increase in the cost of goods, as well as the discount rate parameter.

Cash flow after the five-year term has been extrapolated with the aid of an estimated growth rate of 2% per year. Applying a weighted average cost of capital (WACC before tax) of 10.4% and an estimated gross margin of 69% for BioPhausia and 45% for other entities, the recoverable amount for tested units exceeds the carrying amounts of the tested units. Given a change in the growth rate from 2% to 0% per year, recoverable amounts would still exceed the carrying amounts of the tested units. The company judges that reasonable changes in other parameters would not imply the carrying amount exceeding the recoverable amount. The company's long-term ability to generate future business is an important factor for justifying accounted goodwill.

NOTE 13 EQUIPMENT, BUILDINGS AND LAND, ETC

	GROUP						PARENT COMPANY	
	2017			2016			2017	2016
	Equipment	Buildings & land	Total	Equipment	Buildings & land	Total	Equipment	Equipment
Opening cost	10 728	9 682	20 410	55 380	2 138	57 518	11 116	52 533
Increase through business combinations	987	-	987	153		153	-	-
Purchases in the year	3 722		3 722	1 293	7 544	8 837	-	-
Sales and retirements	-431	-	-431	-46 123	-	-46 123		-41 417
Translation difference	-46	-	-46	25	-	25	-	-
Closing accumulated cost	**14 960**	**9 682**	**24 642**	**10 728**	**9 682**	**20 410**	**11 116**	**11 116**
Opening depreciation	-7 977	-136	-8 113	-51 791	-27	-51 818	-10 450	-51 161
Accumulated depreciation through business combinations	-169		-169		0	0	-	-
Sales and retirements	197		197	45 805	-	45 805		41 417
Depreciation for the year	-1 042	-410	-1 452	-1 986	-109	-2 095	-38	-706
Impairment for the year	-	-	-	-	-	-	-	-
Reclassification	-612	-	-612	-	-	-	-612	-
Translation difference	5	-	5	-5	-	-5	-	-
Closing accumulated depreciation	**-9 598**	**-546**	**-10 144**	**-7 977**	**-136**	**-8 112**	**-11 100**	**-10 450**
Closing residual value	**5 362**	**9 136**	**14 498**	**2 751**	**9 546**	**12 297**	**16**	**666**

NOTE 14 PARTICIPATIONS IN GROUP COMPANIES

	PARENT COMPANY	
	2017	2016
Opening cost	1 343 851	407 038
Acquisitions	1 338 401	928 973
Repaid purchase consideration		-41
Acquisition from minority interest		1 561
Shareholders' contribution paid		6 320
Closing accumulated cost	**2 682 252**	**1 343 851**
Opening impairment	-35 484	-9 250
Impairment	0	-26 234
Closing accumulated impairment	**-35 484**	**-35 484**
Closing book value	**2 646 768**	**1 308 367**

Name	Reg. office	Corporate ID no.	Participating interest	No. of shares	Book value
Karo Pharma Research AB	Huddinge, Sverige	556588-3641	100%	1 000	100
Karo Bio Discovery AB	Huddinge, Sverige	556880-1541	100%	50 000	50
Karo Pharma Med AB	Stockholm, Sverige	556757-3158	100%	1 803	15 000
Karo Pharma Sverige AB	Stockholm, Sverige	556767-3784	100%	157 011	283 074
MedCore AB	Stockholm, Sverige	556470-2065	99%	47 054 878	-
Karo Pharma AS	Oslo, Norge	913 913 914	100%	8 831	81 171
Bio Phausia AB	Stockholm, Sverige	556485-0153	100%	342 564 194	928 973
Medireduce AB	Stockholm, Sverige	556082-8550	100%	9 300	3 407
Weifa Holding AS	Oslo, Norge	983 733 506	100%	36 472 069	1 334 994
Total shares and participations in group companies				**426 319 086**	**2 646 768**

Karo Pharma AS changed corporate name to Karo Pharma Oslo AS in Q1 2018.
Weifa Holding AS changed corporate name to Karo Pharma Norge AS in Q1 2018.

NOTE 15 OTHER FINANCIAL NON-CURRENT ASSETS

	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Opening cost	28 357	21	28 357	21
Purchases for the year		0		0
Received as payment		28 952		28 952
Unrealized loss reported in Income Statement		-616		-616
Receivable, group company			350 368	
Guarantee, Swedish Customs	115			
Divestment of listed shares [1)]	-28 336		-28 336	
Closing accumulated cost	**136**	**28 357**	**350 389**	**28 357**

Received as payment is payment in shares in the acquired company, when Karo Pharma divested the cancer project KB9520 to Oasmia.

1) Divestment of listed shares generated a capital loss of approximately MSEK 10.

NOTE 16 PREPAID EXPENSES AND ACCRUED INCOME

	GROUP		PARENT COMPANY	
SEK 000	**2017**	**2016**	**2017**	**2016**
Prepaid rent	714	815	714	80
Prepaid insurance	809	163	349	82
Prepaid licenses and other IT-related expenses	650	171	90	-
Other	2 752	4 584	10	11
	4 925	**5 733**	**1 163**	**173**

NOTE 17 CASH AND CASH EQUIVALENTS

	GROUP		PARENT COMPANY	
As of 31 December, SEK 000	**2017**	**2016**	**2017**	**2016**
Cash and bank balances [1)]	838 586	121 346	695 191	85 743
	838 586	**121 346**	**695 191**	**85 743**

1) This amount includes blocked funds relating to the current new share issue of SEK 616,295,000. These funds became available to the company in tandem with the share issue being registered in January 2018.

NOTE 18 SHAREHOLDERS' EQUITY

Share capital as of 31 Dec. 2017	**No. of shares**	**Quotient value**	**SEK 000**
Registered share capital			
Ordinary shares	82 166 391	0,40	32 866
	82 166 391	**0,40**	**32 866**

Aktiekapital per 2016-12-31	**No. of shares**	**Quotient value**	**SEK 000**
Registered share capital			
Ordinary shares	63 907 194	0,40	25 563
	63 907 194	**0,40**	**25 563**

A rights issue, which resulted in a total of 18,259,197 new shares, was executed in February 2017. This increased the share capital by a total of SEK 7,304,000 to SEK 32,867,000. A total of SEK 348,790,000 net was raised after transaction expenses of SEK 25,222,000. Another rights issue was commenced in 2017. This new share issue was fully registered on 12 Jan. 2018, see note 31. At year-end, there were 4,600,000 outstanding share warrants. For more information on outstanding share warrants, see note 27.

Management of capital
The group' objective in terms of managing its capital structure is to secure the company's ability to continue operations, so that it can continue to generate returns to shareholders and benefits for other stakeholders, and maintain an optimal capital structure to limit the cost of capital. Like other companies in the sector, the group assesses its capital on the basis of debt/equity ratio. This metric is computed as net debt divided by total capital. The debt/equity ratio as of 31 December 2017 and 2016 was as follows:

SEK 000	**2017**	**2016**
Total borrowings	2 280 725	921 000
Less: cash and cash equivalents	-838 586	-121 346
Less: investments in securities, etc.	-136	-28 357
Net debt	1 442 003	771 297
Total equity	1 586 515	717 012
Total capital	4 141 848	1 772 846
Debt/equity ratio	35%	44%

The change in the debt/equity ratio is mainly a result of the acquisition of a subsidiary, see note 11.

NOTE 19 DEFERRED TAX

Amounts relating to deferred tax assets and liabilities in the Balance Sheet are as follows:

	GROUP		PARENT COMPANY	
SEK 000	**2017**	**2016**	**2017**	**2016**
Deferred tax assets:				
Deferred tax assets to be utilized after more than 12 months	246 988	78 409	75 000	75 000
Deferred tax assets to be utilized within 12 months	26 767	10 911	-	-
	273 755	89 320	75 000	75 000
Offset	-194 205	-79 876	-	0
Accounted deferred tax asset	**79 550**	**9 444**	**75 000**	**75 000**
Deferred tax liability:				
Deferred tax liabilities to be paid after more than 12 months	262 206	119 553	-	-
Deferred tax liabilities to be paid within 12 months	21 536	19 694	-	-
	283 742	139 247	-	-
Offset	-194 205	-79 876	-	-
Accounted deferred tax liabilities	**89 537**	**59 371**	**-**	**-**

Deferred tax assets and tax liabilities recognized in the Balance Sheet are as follows:

	GROUP 2017			GROUP 2016			PARENT COMPANY 2017		
SEK 000	**Receivables**	**Liabilities**	**Net**	**Receivables**	**Liabilities**	**Net**	**Receivables**	**Liabilities**	**Net**
Intangible assets	19 697	276 744	-257 047	4 876	125 157	-120 281	-	-	-
Untaxed reserves	-	6 998	-6 998	-	13 975	-13 975	-	-	-
Loss carry-forwards	253 140	-	253 140	84 444	-	84 444	75 000	-	75 000
Other	918	-	918	-	115	-115	-	-	-
Tax assets and liabilities, net	**273 755**	**283 742**	**-9 987**	**89 320**	**139 247**	**-49 927**	**75 000**	**-**	**75 000**

The change relating to deferred tax is as follows:

SEK 000	**Intangible assets**	**Untaxed reserves**	**Loss carry-forwards**	**Other**	**Total**
As of 31 Dec. 2016	-120 281	-13 975	84 444	-115	-49 927
Acquisition of operations	-142 771	-	188 124	2 333	47 686
Translation difference	1 928	-	-3 481	-27	-1 580
Through profit or loss	4 077	6 977	-15 947	-1 273	-6 166
As of 31 Dec. 2017	**-257 047**	**-6 998**	**253 140**	**918**	**-9 987**

The group has deductible deficits totaling SEK 3,225,628,000, which corresponds to a value for tax purposes of a total of SEK 717,383,000. The group has deferred tax assets relating to loss carry-forwards not recognized in its Balance Sheet of SEK 464,244,000 (426,850,000). The deferred tax assets on loss carry-forwards recognized in the Balance Sheet of SEK 253,140,000 (84,444,000) are those the company judges that it will be able to utilize in the foreseeable future. In its judgement of the possibility of utilizing loss carry-forwards, consideration had been taken to factors limiting Karo Pharma's scope to utilize loss carry-forwards. Important factors for Karo Pharma are that there is no opportunity to utilize loss carry-forwards between different jurisdictions, and limitation rules such as group contribution prevention. See also note 9 regarding loss carry-forwards. The group's existing loss carry-forwards are not subject to any time limitation.

NOTE 20 NON-CURRENT LIABILITIES

	GROUP		PARENT COMPANY	
Amounts as of 31 December, SEK 000	**2017**	**2016**	**2017**	**2016**
After one year, but within five years	1 452 623	539 883	1 451 882	524 883
Later than five years	-	-	-	-
	1 452 623	**539 883**	**1 451 882**	**524 883**
Liabilities to credit institutions	1 464 656	545 357	1 464 656	530 357
Deposit	4 271	26	26	26
Allocated expenses during the term of the loan	-16 304	-5 500	-12 800	-5 500
	1 452 623	**539 883**	**1 451 882**	**524 883**

The group has four loans of different maturities and interest terms. A short-term loan of MSEK 700 that accrues STIBOR +4.5% interest and matures in January 2018. The second is a five-year loan of MSEK 550, arranged in December 2016 that accrues STIBOR +3.5p% interest. The third loan is a five-year loan of MSEK 700, arranged in October 2017 that accrues STIBOR +3.5% interest. The fourth loan is a five-year loan of MNOK 350 that accrues NIBOR +2.80% interest arranged in December 2017. The terms of the above loans require the company to satisfy specific covenants, see below. In 2017, Karo Pharma satisfied its covenants—net debt in relation to EBITDA—cash flow from operating activities in relation to financial expenses (interest coverage ratio).

	GROUP		PARENT COMPANY	
Maturity structure by year, capital and fixed-interest period, SEK 000	**2017**	**2016**	**2017**	**2016**
2017		399 363		392 733
2018	872 902	104 573	872 902	97 133
2019	277 304	100 383	277 304	94 383
2020	269 230	94 633	269 230	91 633
2021	475 166	313 206	475 166	313 206
2022	576 880	-	576 880	-
	2 471 483	**1 012 158**	**2 471 483**	**989 088**

Collateral of MSEK 2,674 (1,368) has been pledged for liabilities to credit institutions. Collateral for borrowing primarily consists of shares in subsidiaries. The fair value of the group's non-current liabilities is consistent with carrying amount because the interest on this borrowing is on a par with current market interest rates. The fair value of borrowings accruing variable interest is MSEK 2,471 (1,012), compared to the carrying amount of MSEK 2,471 (989).

NOTE 21 OTHER CURRENT LIABILITIES

	KONCERNEN		MODERBOLAGET	
SEK 000	**2017**	**2016**	**2017**	**2016**
Unpaid purchase consideration		2 025		2 025
Value added tax, withholding tax, etc.	22 548	10 135	4 683	618
	22 548	**12 160**	**4 683**	**2 643**

Unpaid purchase consideration in 2016 relates to the acquisition of BioPhausia AB, with SEK 2,025,000 paid in January 2017.

NOTE 22 ACCRUED EXPENSES AND DEFERRED INCOME

	GROUP		PARENT COMPANY	
SEK 000	**2017**	**2016**	**2017**	**2016**
Accrued personnel-related items	21 210	12 719	4 493	5 370
Deferred income	0	117		-
Accrued interest expenses	14 080	1 653	14 080	1 653
Accrued customer returns for product expiration	716	1 595		-
Accrued research and development expenses	359	2 300	359	-
Accrued expenses for market support and kickbacks	10 473	5 000		-
New share issue expenses	48 067		48 067	
Other items	20 484	8 207	2 328	3 860
	115 388	**31 591**	**69 327**	**10 883**

NOTE 23 CONTINGENT LIABILITIES, ETC.

	GROUP		PARENT COMPANY	
SEK 000	**2017**	**2016**	**2017**	**2016**
Shares in subsidiaries	2 634 286	1 328 400	2 643 212	1 308 300
Floating charge	40 000	40 000	-	-
Factored accounts receivable		-	-	-
Contingent liabilities		-	-	-

In a potential future launch of BabySlide in the US, Karo Pharma is obligated to pay SEK 500,000 to the originator of the product.

In 2013, Karo Pharma was granted finance with conditional repayment of MUSD 0.5 from the National MS Society. "In the event that Karo Pharma succeeds in out-licensing the ERbeta project, the MS Society is entitled to repayment corresponding to 20% of what Karo Pharma receives from time to time in the form of milestone and similar compensation of an accumulated amount of five times the finance total, or MUSD 2.5.

Agreements with former collaborative partners Abbott Laboratories and Bristol-Myers Squibb remain valid, despite the absence of active collaborative projects. Collaboration agreements have different terms in the event of either party wishing to conclude its participation in the active partnership.

Certain situations stipulate mutual rights of participation in the other partner's future revenues from a concluded collaboration or returned compound. Regarding the agreement with Bristol-Myers Squibb and the compound KB2115 (eprotirome), Karo Pharma is subject to an obligation to pass on a portion of its future revenues from the compound to Bristol-Myers Squibb, firstly in the form of a specific share of lump-sum payment from a collaborative partner, and secondly in the form of royalties on future sales of the product on the market.

In addition, Karo Pharma has entered agreements with a small number of other external partners, conferring them with entitlement to milestone and royalty payments relating to Karo Pharma's future revenues. One agreement entitles the counterparty to milestone and royalty payments relating to Karo Pharma's future revenues in the US from indications in the thyroxin segment. Overall, these payments apply to a limited portion of Karo Pharma's future revenues in the segment. Another agreement confers the counterparty with entitlement to a royalty payment of 5% of Karo Pharma's future revenues from certain indications in the GR segment.

Collateral in subsidiaries relates to the loan arranged for the acquisition of BioPhausia.

NOTE 24 ADDITIONAL INFORMATION, CASH FLOW STATEMENT

	GROUP		PARENT COMPANY	
SEK 000	**2017**	**2016**	**2017**	**2016**
Items not affecting liquidity, other:				
Capital gain/loss, non-current assets	235	173	-	-
Share participations received	-	-28 952	-	-28 952
Liquidation of reserve	-2 300		-	
Other items	-510	-	-	-
	-2 575	**-28 779**	**0**	**-28 952**
Interest received	352	75	99	2
Interest paid	-30 834	-5 694	-25 925	-4 168
Loan arrangement fee paid	-17 504	-9 000	-14 000	-9 000

Reconciliation of net debt (SEK 000)	**Cash and cash equivalents**	**Investments in securities, etc.**	**Liabilities due within one year**	**Liabilities due after one year**	**Total**
Net debt as of 1 Jan. 2017	**121 346**	**28 357**	**-375 643**	**-545 357**	**-771 297**
Cash flow	718 759	-17 671	-88 052	-919 299	-306 263
Exchange rate differences	-1 519	-	2 627	-	1 108
Non-cash items		-10 550			-10 550
Acquisitions of subsidiaries			-355 001		-355 001
Net debt as of 31 Dec. 2017	**838 586**	**136**	**-816 069**	**-1 464 656**	**-1 442 003**

NOTE 25 OPERATING LEASES

	GROUP		PARENT COMPANY	
SEK 000	**2017**	**2016**	**2017**	**2016**
The operating lease payments in the year are for:				
Premises rent	5 824	5 283	894	334
Other lease payments	599	782	1	1
	6 423	**6 065**	**895**	**335**
Future minimum operating lease payments:				
Within one year	7 989	3 244	2 880	254
After more than one year but within five years	25 412	6 557	5 760	572
After more than five years	1 739	-		-
	35 140	**9 801**	**8 640**	**826**

Future minimum operating lease payments are mainly lease contracts on the group's premises at Nybrokajen 7, Stockholm, Sweden and the premises at Östesjöveien 27, Oslo, Norway. The lease contracts expire in 2020 in Stockholm, and in 2023 in Oslo.

NOTE 26 AUDIT FEES

		GROUP			PARENT COMPANY	
SEK 000		2017	2016		2017	2016
PWC						
Auditing	1)	2 208	1 106		1 475	855
Other statutory assignments	2)	405	447	2)	405	355
Tax consultancy			100			29
Other	2)	250	-	2)	250	-
Other audit firms						
Auditing		167	-		-	-
		3 030	**1 653**		**2 130**	**1 239**

1) Statutory audit, of which SEK 1,960,000 is for PWC Sweden. **2)** Other statutory assignments and other services are mainly reviews and other services relating to the prospectus prepared due to the company's new share issues in 2017 and 2016. All fees are to PWC Sweden.

NOTE 27 SHARE WARRANT PROGRAMS

An EGM on 21 July 2016 resolved on an incentive program for employees. A total of 4,600,000 share warrants were subscribed, of a maximum available 5,200,000 share warrants. 3,900,000 share warrants were subscribed by senior executives. Executive Chairman Anders Lönner subscribed for 2,740,000 share warrants. Each share warrant confers the holder with entitlement to subscribe for one new share of the company at a price of SEK 74 per share. After the subscription period, two new share issues were conducted. The first new share issue was conducted in February 2017, and resulted in each share warrant after the new share issue conferring the holder with entitlement to subscribe for one new share of the company at the price of SEK 66.1. The second new share issue was conducted in January 2018. After adjustment, pursuant to the terms and conditions, each share warrant confers entitlement to subscribe for 1.05 shares at the price of SEK 63.1 per share. The price of subscribed share warrants equates to the fair value calculated using the Black-Scholes valuation model. The exercise period for the detachable warrants is 18 months. Upon full subscription of shares through all share warrants, share capital would increase by SEK 2,080,000. The share warrant program concluded on 26 Fairbury 2018 without exercise.

NOTE 28 FINANCIAL INSTRUMENTS AND RISKS, SENSITIVITY ANALYSIS

Financial instruments by category

31 December 2017 (SEK 000)	Loan receivables and accounts receivable	Saleable financial assets	Total
Assets in Balance Sheet			
Accounts receivable and other receivables	171 095	-	171 095
Cash and cash equivalents	838 586	-	838 586
	1 009 681	**0**	**1 009 681**

31 December 2017 (SEK 000)	Other financial liabilities	Total
Liabilities in Balance Sheet		
Borrowings	2 280 725	2 280 725
Short-term liability to related party	-	-
Accounts payable and other liabilities (excluding non-financial liabilities)	81 715	81 715
	2 362 440	**2 362 440**

31 December 2017 (SEK 000)	Loans receivable and accounts receivable	Financial assets measured at fair value through profit or loss	Total
Assets in Balance Sheet			
Shares in listed companies		28 336	28 336
Accounts receivable and other receivables	79 519	-	79 519
Cash and cash equivalents	121 346	-	121 346
	200 865	**28 336**	**229 201**

31 December 2017 (SEK 000)	Other financial liabilities	Total
Liabilities in Balance Sheet		
Borrowing	921 000	921 000
Short-term liability to related party	-	-
Accounts payable and other liabilities (excluding non-financial liabilities)	49 346	49 346
	970 346	**970 346**

Maturity analysis and credit risk

31 December 2017 (SEK 000)	Less than 12 months	Between 1 and 5 years	Between 3 and 5 years	Total contracted cash flows	Carrying amount liabilities
Accounts payable and other liabilities (excluding non-financial liabilities)	81 715	-		81 715	81 715
Borrowing	872 902	546 535	1 052 046	2 471 483	2 280 725
	954 617	**546 535**	**1 052 046**	**2 553 198**	**2 362 440**

Age analysis, accounts receivable

31 December 2017 (SEK 000)	Not overdue	Overdue 0-3 months	Overdue 3-6 months	Overdue +6 months	Total
Accounts receivable one [1)]	126 720	36 514	79	29	163 342
Reserve for doubtful debt					0
	126 720	**36 514**	**79**	**29**	**163 342**

1) Accounts receivable do not contain any items that are judged as impaired. Based on credit history, amounts are expected to be recovered on the due date. The group has not pledged any collateral for these receivables.

Sensitivity analysis
Effect on the group's revenue and EBIT, before hedging transactions, if the Swedish krona appreciates by 10%.

Currency	Revenues	EBIT
NOK	-10.2	-5.2
EUR	-0.2	12.0
USD	-0.2	0.8
Övriga	-1.0	1.1

Financial risks

Like all other business enterprises, Karo Pharma is exposed to various risks, which change over time. Relevant risks in Karo Pharma's case can be divided between business risks and financial risks. Karo Pharma's Finance Policy stipulates the segregation of duties for financing operations, which financial risks the company is willing to assume, and the guidelines on how such risks should be reduced and managed. Financial risk management is centralized, and is the CFO's responsibility. The Policy, which is subject to annual review and approval by Karo Pharma's Board of Directors, has been designed to control and manage the following risks:

- Currency risk
- Financing risk
- Liquidity risk
- Interest risk
- Credit risk
- Price risk

CURRENCY RISK

Fluctuations in exchange rates affect Karo Pharma's earnings and equity in different ways:

- Earnings are affected when revenues and expenses are denominated in different currencies – transaction risk
- Earnings are affected when assets and liabilities are denominated in different currencies – translation risk

Operational currency risks

Karo Pharma is active in an international sector. Most of the group's revenues are denominated in Swedish kronor, and some 66% (69) of expenses arise in Swedish kronor. Most of the remainder of Karo Pharma's expenses are denominated in euro (EUR), Norwegian kroner (NOK), UK sterling (GBP) and US dollars (USD). This results in exposure to currency fluctuations, a combination of translation and transaction risks. Karo Pharma's presentation currency is Swedish kronor.

The table on the following page illustrates the effect on Karo Pharma's revenues and EBIT if the Swedish krona appreciates by 10%. This considers both translation and transaction risks. The total effect on EBIT would be MSEK 8.7 (-2).

There were no forward contracts at year-end 2017. EBIT in 2017 and 2016 were not affected by any maturing forward contracts.

Currency risk is managed in accordance with the company's Finance Policy, which means that to reduce the transaction-related currency risk, the company uses currency accounts for payments made and received in the same currency. To reduce the transaction-related currency risk, foreign currencies are converted to SEK when they are not necessary for payments to be made within the next six months.

Financial currency risks

Currency risks in financial flows that can be attributed to liabilities and investments are reduced by making investments in Swedish kronor, providing such investments in foreign currency do not constitute hedging of existing exposure.

Financing risk

The risk that the company does not have continuous access to necessary finance is defined as financing risk. From time to time, the company has raised additional capital on the capital markets to ensure sufficient funds in terms of the company's operations and stability. The objective is to always maintain capital to enable continued operations for at least 12 months. A continuous review of the need for finance is conducted involving an evaluation of the progress of the capital markets combined with the potential of securing external finance to produce appropriate financing strategies.

Liquidity risk

Liquidity risk is the risk that the company does not have sufficient funds available to meet short-term predicted or unpredicted expenditure. This risk is associated with access to, and the maturity structures of, short-term investments, and the risk that there is no market for a specific instrument that the company intends to sell. Liquidity risk is managed by structuring maturity dates on investments based on cash flow forecasts, and also by limiting investments in bonds with low liquidity on the secondary market. The weighted average remaining maturity on short-term investments at year-end was 0 (0) months.

Interest risk

Interest risk is the risk that changing interest rates have a negative effect on the value of interest-bearing assets and liabilities. According to the Policy, investments are made with differing terms and maturity dates. A momentary effect on short-term investments at the beginning of the year if interest rates decreased by one percentage point is 0% (0), or MSEK 0 (0 and 0 respectively). Interest-bearing short-term borrowing mainly relates to a bridging loan arranged in tandem with the acquisition of Weifa of approximately MSEK 700, which will be fully repaid after the new share issue which was completed in January 2018.

The group's total interest-bearing loans amount to MSEK 2,280.7 (921), and are bank loans, of which the short-term portion is MSEK 816.1. If interest rates were to change by +/-1 percentage point momentarily, Karo Pharma's earnings after tax would change my +/- MSEK 15.9 (5.7) annualized, given loan principals and interest maturities as of 31 December 2017.

Credit risk in investments and accounts receivable

Credit risk is the risk that Karo Pharma does not secure payment for investment. Credit risk is divided between issuer risk and counterparty risk. Issuer risk is the risk that a security that Karo Pharma owns loses value because the issuer is unable to fulfil its commitments in the form of interest payments and payments on maturity. Counterparty risk is the risk that the party that Karo Pharma purchases securities from or sells securities to is unable to supply the security or make payments as agreed.

The Policy deals with credit risk by formalizing which parties Karo Pharma may execute transactions with, and the necessary credit ratings for investments. There is no material concentration of credit risk. Credit risk in accounts receivable is very low because customers are regular, and primarily consist of major pharmacy chains, and purchasing from municipalities and county health authorities.

NOTE 29 SEGMENT INFORMATION

Based on the information processed by the company's management and that is used to make strategic decisions, Karo Pharma's operations consist of one operating segment, the development and sale of products to pharmacies and health care. When evaluating operations, and in strategic discussions and decisions, no breakdown of operations into additional operating segments is conducted. The development of Karo Pharma's pharmaceutical projects is an integrated process in Karo Pharma's operations.

	GROUP	
SEK 000	**2017**	**2016**
Revenues		
Sweden	407 270	241 449
Norway	193 198	70 851
Rest of world	57 139	34 961
	657 607	**347 261**
Non-current assets		
Sweden	1 612 228	1 402 949
Norway	1 405 066	79 161
Rest of world	-	-
	3 017 294	**1 482 110**

No single customer represents more than 10% of the group's external revenues.

NOTE 30 TRANSACTIONS WITH RELATED PARTIES

In the third quarter, Karo Pharma acquired the company Medireduce AB with its product "Kolestemin," which contains a unique patented combination of growth sterols. The acquisition price was approximately MSEK 3.4. Company Director Per-Anders Johansson had a participating interest of 24.2% through his company CIMON i Medireduce AB. Per-Anders Johansson did not participate in the decision to execute the acquisition.

In the period, one of Karo Pharma's subsidiaries sold two products under license from a company owned by Chairman of the Board Anders Lönner, Beampoint. The subsidiary received commission of 15% on sales. The commission amounts to a value of SEK 532,000 for 2017.

In tandem with the rights issue conducted in the first quarter, Chairman of the Board Anders Lönner provided a guarantee of 90% of the rights issue of MSEK374, and received compensation of 5% of the guarantee amount, corresponding to approximately MSEK 17 of guarantee compensation. In addition, Anders Lönner guaranteed all his own holdings of 5% without compensation, as the company director Per-Anders Johansson did for his holding of 3%.

A rights issue, which was completed in January 2018, commenced in December 2017. In tandem with this share issue, Anders Lönner provided the guarantee of 89% of the issue of, MSEK 794. Guarantee compensation was 5%, which meant that MSEK 35.5 was paid to the guarantor in January 2018. Additionally, Anders Lönner and company Director Per-Anders Johansson guaranteed each of their holdings at the time of the issue, without compensation.

In January 2018, the Board of Directors decided to purchase the brand Viruseptin from a company owned by Chairman of the Board Anders Lönner, Beampoint, for SEK 74,000. Anders Lönner did not participate in the decision to purchase V.

Per Anders Johansson have recieved a remuneration of 250 TSEK for services performed in conjunction with the aquisition of Weifa AS.

NOTE 31 SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR 2017

The rights issue that commenced in December 2017 was completed in January 2018, and raised the company MSEK 794.3 before issue expenses, which amounted to MSEK 48.8. The issue was 98.7% subscribed through subscription rights, and in total, was 170.0% oversubscribed. The issue added 27,388,797 shares, and after the issue, the company has 109,555,188 shares.

Bridging finance for the acquisition of Weifa of MSEK 200 was amortized in January 2018.

On 1 March, Karo Pharma acquired a product portfolio from Danish pharmaceutical company LEO Pharma A/S for MEUR 260, taking possession on 4 April 2018. The acquired products generated sales of approximately MSEK 700 in 2017. This portfolio consists of ten established pharmaceuticals, mainly in the infection, cardiovascular and dermatology therapy areas. These products feature stable sales and profitability. The product portfolio includes: Conotrane®, Fonx®, Condyline®, Synalar®, Mildison®, Locobase®, Centyl®, Kaleorid®, Burinex® and Selexid®, of which Selexid®, Burinex® and Locobase®.

This acquisition is a transfer of assets and liabilities, and primarily involved the acquisition of product rights. Accordingly, there are no personnel or manufacturing facilities included in the acquisition. Organizational expenses are expected to increase by some M SEK 50 per year, mainly due to expansion of the marketing organization.

This acquisition will be financed through a combination of new loans and a rights issue. The rights issue is fully guaranteed through subscription commitments and guarantee undertakings from existing shareholders of the company, and is expected to raise some SEK 1.3 billion for Karo Pharma before deducting for issue expenses. The rights issue will be executed in Q2 2018, conditional on AGM approval.

Chairman of the Board Anders Lönner increased his ownership of Karo Pharma AB (publ), which amounted to 10,966,345 shares, or 10.0% of the votes and capital as of 6 March 2018.

NOTE 32 DEFINITIONS OF KEY INDICATORS

Key indicator	Definition	Purpose
Average number of shares	Weighted average number of shares outstanding in the period	
Earnings per share	Net earnings per average number of outstanding shares	
Equity/assets ratio	Equity as a percentage of total assets	Equity/assets ratio is relevant to investors and other stakeholders that want to judge the company's financial stability and its ability to continue as a going concern for the long term.
Gross margin	Gross earnings in relation to net sales.	Gross margin is used to illustrate the company's margin before the effect of expenses such as selling and administrative expenses, and expenditure for research and development.
Adjusted EBITDA	Earnings before interest, taxes, depreciation and amortization excluding expenses affecting comparability	This key indicator illustrates the underlying earnings of operations adjusted for the effects of depreciation and amortization and items affecting comparability over time. This key indicator gives a view of earnings generated from operating activities.
Adjusted EBITDA margin	Adjusted EBITDA in relation to net sales	This key indicator is used to measure operational profitability.

	GROUP	
Reconciliation of adjusted EBITDA	**2017**	**2016**
EBIT	79 904	29 573
Depreciation and amortization	61 744	22 110
Other write-downs and impairment	0	0
Items affecting comparability [1)]	27 615	0
Adjusted EBITDA	**169 264**	**51 683**

1) Items affecting comparability relate to transaction expenses associated with the acquisition and integration of Weifa. Integration expenses primarily consist of restructuring expenses to achieve future synergy effects in operating expenses.

Items affecting comparability are regarded as:

- Transaction expenses associated with acquisitions of product rights, trademarks and brands, licenses or companies.
- Expenses associated with restructuring and reorganization, for example in business combinations.

Q4 report

Weifa's integration into Karo Pharma has been completed, and the related restructuring costs have been expensed. Some MSEK 28 of extraordinary expenses affecting comparability were charged to the fourth quarter.

– Adjusted EBITDA was MSEK 169.3 (51.7), of which the fourth quarter was MSEK 41.8 (28.9), equating to a margin of 25.7% (14.9) for 2017 and 17.5% (29.9) for the fourth quarter. The relatively low margin in the fourth quarter is mainly due to Weifa's lower adjusted EBITDA margin. Restructuring to achieve synergy effects for operating expenses is proceeding as planned.

The Board of Directors and Chief Executive Officer certify that the Consolidated Accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU, and give a true and fair view of the group's financial position and results of operations. The Annual Accounts have been prepared in accordance with generally accepted accounting practice and give a true and fair view of the parent company's financial position and results of operations.

The Statutory Administration Report for the group and parent company gives a true and fair view of the progress of the group's and parent company's operations, financial position and results of operations, and reviews the material risks and uncertainty factors that are facing the parent company and companies in the group. The Income Statements and Balance Sheets will be presented to the AGM on 3 May 2018 for adoption.

STOCKHOLM, SWEDEN, 28 MARS 2018

Peter Blom
Chief Executive Officer

Anders Lönner
Chairman

Thomas Hedner
Director

Per-Anders Johansson
Director

Marianne Hamilton
Director

Håkan Åström
Director

Our Audit Report was presented on 3 APRIL 2018

PricewaterhouseCoopers AB

Mikael Winkvist
Authorized Public Accountant

AUDIT REPORT

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the Annual Accounts and Consolidated Accounts of Karo Pharma AB (publ) for the year 2017. The Annual Accounts and Consolidated Accounts of the Company are included on pages 16–48 of this document.

In our opinion, the Annual Accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and the Consolidated Accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of 31 December 2017 and of their financial performance and cash flows for the year in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the Annual Accounts and Consolidated Accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company, and the income statement and statement of financial position for the Group.

Our opinions in this report on the Annual Accounts and Consolidated Accounts are consistent with the contents of the complementary report that has been presented to the parent company's board of directors pursuant to statutory audit regulation (537/2014) article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the Group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. To the best of our knowledge and belief, this includes no prohibited services as specified in statutory audit regulation (537/2014) article 5.1 being provided to be audited company, or were applicable, its parent company or entities under its control in the EU. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

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

Scope and focus of audit

The group's operations are mainly conducted through wholly owned subsidiaries Karo Pharma Sverige AB and Weifa ASA including subsidiaries, although certain material assets are held by the Swedish subsidiary Biophausia AB. In recent years, the group has undergone a fundamental transformation from a research enterprise without any continuous revenue streams, into a health care company with continuous revenues. By acquiring product rights and companies active in the pharmaceuticals and health care sectors, the group has expanded substantially.

We prepared our audit by defining materiality and evaluating the risk of material misstatement in financial reporting. We focused on areas where the Managing Director and Board of Directors have made subjective judgments, such as key accounting estimates on the basis of assumptions and forecasts of future events, which are by their nature uncertain. Like for all audits, we also considered the risk of the Board of Directors and the Managing Director overriding internal control, and factors such as whether there is any evidence of systematic departures that have given rise to material misstatement resulting from fraud.

We adjusted our audit to conduct an expedient examination in order to comment on the financial statements as a whole, with consideration given to the Group structure, accounting procedures and controls, and the sector in which the Group is active.

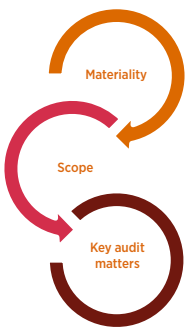
Materiality

The scope and focus of the audit was influenced by our assessment of materiality. An audit is designed to achieve reasonable assurance regarding whether the financial statements contain any material misstatements. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Annual Accounts.

On the basis of our professional assessment, we determined specific quantitative materiality factors, including for financial reporting as a whole. With the help of these and alongside qualitative considerations, we determined the scope and focus of the audit and the character, timing and extent of our audit measures, as well as assessing the effect of individual and aggregate misstatements on the financial statements as a whole.

Audit approach

Overview



- The scope and approach of the audit is affected by our judgement of materiality. We determine the orientation and scope of the audit based on specific quantitative materiality measures and qualitative considerations.

- The group's audit has focused on the parent company and the largest Swedish entity, Karo Pharma Sverige AB, Biophuasia and the recently acquired Norweigan subsidiary entity Weifa AS.

- Värdering av immateriella anläggningstillgångar
- Väsentliga rörelseförvärv

Key Audit Matters

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

KEY AUDIT MATTER	OUR AUDIT APPROACH TO THE KEY AUDIT MATTER
Measurement of intangible assets As stated in the Balance Sheet and note 12, intangible assets amount to MSEK 2,923, which is some 70% of total assets, of which MSEK 1,510 is goodwill and MSEK 1,412 is licenses and product rights. In our audit, we focused on the measurement of intangible assets, because this is a segment that involves significant judgements and estimates made by management regarding future sales and earnings, and the discount factor. The company's intangible assets including goodwill relate to acquisitions conducted in 2015-2017, and accordingly, there is relatively limited information on historical performance against forecasts prepared. Approximately one-half of the intangible assets, some MSEK 1,500 arose in the acquisition of Weifa ASA in the fourth quarter 2017, and accordingly the measurement of this goodwill item and product rights in this acquisition consist of the estimated market values of this operation as of 31 December 2017.	In our audit we gathered management's cash flow forecast and the estimates and judgements they are based on. We reviewed and evaluated the reasonableness of the assumptions of yearly growth rates, sales volumes and the discount rate management presented to us. As part of our review of management's estimates and judgements, we compared the estimates and judgements made in the financial statement 2016 against actual outcomes for 2017, to thereby judge management's ability to make realistic estimates. We also reviewed whether these cash flow forecasts were consistent with the budget and long-term plans management has produced. From this review, nothing has emerged that caused us to report any material observations to the Board of Directors.
Significant business combinations As stated in the Statutory Administration Report and note 11, the company conducted the acquisition of Weifa ASA in the fourth quarter of 2017, for MSEK 1,323. In tandem with the acquisition, the company prepared an acquisition analysis, which measured all acquired assets and liabilities at fair value. The difference between the purchase price and fair value of acquired assets and liabilities consists of goodwill. In our audit, we focused on the company's measurement, mainly of product rights, because this is a segment that includes material judgements and estimates by management, regarding the acquired products' useful lives, future sales and earnings. We evaluated the company's model and methods to measure acquired product rights, and its model for determining the discount factor. We gathered documentation, such as minutes of Board meetings with decision-support data prepared in tandem with the acquisition to corroborate that all identifiable assets were included in the company's valuation model, and that the accounting method is reasonable. We challenged the company's assumptions on the products' useful lives, future sales and overheads based on the seller's historical sales numbers and expenses, and compared them to the company's forecasts. We consider that the company's allocation of surplus values to product rights is within a reasonable interval, albeit in the lower range. We have noted that the acquisition analysis is still preliminary in anticipation of the company's definitive standpoint in terms of the products' expected useful lives and long-term sales trend.

Other Information than the Annual Accounts and Consolidated Accounts

This document also contains other information than the Annual Accounts and Consolidated Accounts and is on pages 2-15. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the Annual Accounts and Consolidated Accounts does not cover this other information and we do not express any form of assurance or conclusion regarding this other information.

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

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these Annual Accounts in accordance with the Annual Accounts Act, and Consolidated Accounts in accordance with IFRS, as adopted by the EU, and the Annual Accounts Act. The Board of Directors and the Managing Director are also responsible for such internal control as they judge as necessary to enable the preparation of Annual Accounts and Consolidated Accounts that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibility

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

An additional review of our responsibility for the audit of the Annual Accounts and Consolidated Accounts is available at the Swedish Inspectorate of Auditors' website: www.revisorsinspektionen.se/revisornsansvar. This review is part of the audit report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the Annual Accounts and Consolidated Accounts, we have also audited the administration of the Board of Directors and the Managing Director of Karo Pharma AB (publ) for the year 2017 and the proposed appropriations of the company's profit or loss. We recommend to the general meeting of shareholders that the profit (loss) be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

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

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

An additional review of our responsibility for the audit of the statutory administration report is available at the Swedish Inspectorate of Auditors' website: www.revisorsinspektionen.se/revisornsansvar. This review is part of the audit report.

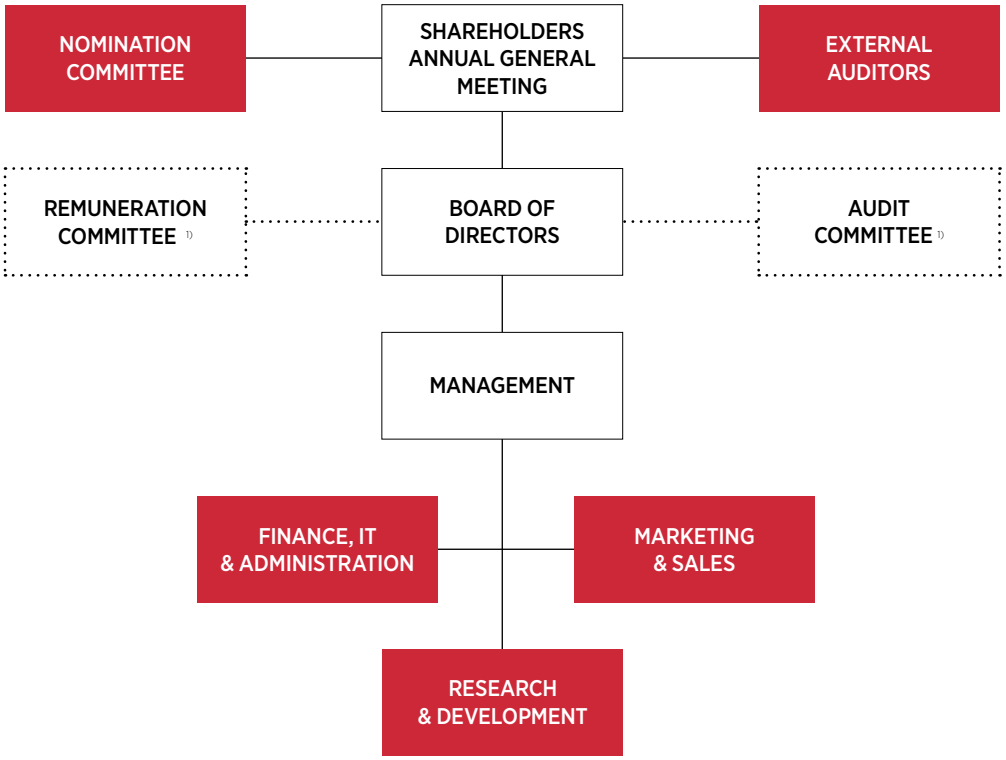
PricewaterhouseCoopers AB, 113 97 Stockholm, Sweden, was appointed as audit firm of Karo Pharma AB (publ) by the general meeting of shareholders on 11 May 2017, and has been the company's auditor since at least 1998. Karo Pharma AB has been a company of general public interest since 1998.

Stockholm, 3 april 2018

PricewaterhouseCoopers AB

Mikael Winkvist

Authorized Public Accountant



KEY EXTERNAL AND INTERNAL REGULATIONS AND POLICIES AFFECTING CORPORATE GOVERNANCE

Material internal regulations and policies

- Articles of Association
- Board of Directors' Rules of Procedure
- Instructions for the Chief Executive Officer including instructions on financial reporting
- Instructions to each Board committee
- Corporate Communication Policy
- Insider Policy
- Finance Policy
- Risk Management Policy
- Accounting Handbook
- Code of Conduct and Business Ethics Regulations

Material external regulation

- Swedish Companies Act
- Swedish Book-keeping Act
- Swedish Annual Accounts Act
- Nasdaq Stockholm's Rulebook for Issuers
- Swedish Code of Corporate Governance

1) All duties of the Committee are dealt with by the whole Board.

CORPORATE GOVERNANCE REPORT

Introduction

The Board of Directors of Karo Pharma hereby present the Corporate Governance Report for 2017 pursuant to the stipulations of the Swedish Annual Accounts Act (ÅRL, chap. 6 §8) and the Swedish Code of Corporate Governance (the "Code", see the Swedish Corporate Governance Board's website www.corporategovernanceboard.se). Karo Pharma has been applying the Code since 1 July 2008.

The Corporate Governance Report has been reviewed by the company's auditor in accordance with the ÅRL. It is not part of the formal annual accounts documentation.

The group consists of the parent company Karo Pharma AB and the subsidiaries Karo Pharma Sverige AB, Karo Pharma Norge AS (formerly Weifa ASA), BioPhausia AB, Karo Pharma Med AB, Karo Pharma Oslo AS (formerly Karo Pharma AS), Medireduce AB, Karo Bio Discovery AB, Karo Pharma Research AB and MedCore AB. The latter four companies are dormant.

Departures from the Code

Karo Pharma complies with the Code's "follow or explain" principle, and there are two instances of non-compliance to report for 2017. The first regards code rule 9.1 that the Board should appoint a Remuneration Committee. The second is code rule 9.7 stipulating that the agreement term of share-based incentive programs should not be less than three years.

Based on its size and composition, the Board of Directors considers that the duties of a remuneration committee and audit committee I'll best performed by the whole Board, and accordingly, had decided not to create any dedicated committees, which is a departure from code rule 9.1 that the Board should constitute a remuneration committee.

The board judges that an agreement period of 18 months is more relevant for the share warrants program introduced in August 2016, which is a departure from code rule 9.7 that the agreement period of share-based incentive programs should not be less than three years.

Shareholders

Karo Pharma AB's shares have been quoted on Nasdaq Stockholm since 1998. There were 17,049 (16,268) shareholders as of 31 December 2017. According to the share register maintained by Euroclear Sweden AB as of 31 December 2017, 8.1% (5.6) of the shares were registered with Anders Lönner, 7.4% (9.0) with Försäkringsaktiebolaget Avanza Pension and 3.9% with Nordea Investment Fund. The 10 largest shareholders held 31.5% (29.4) of the total number of shares.

Since 6 March, one shareholder had holdings exceeding 10% of the capital and votes. From 6 March 2018, Chairman of the Board Anders Lönner has held 10,966,345 Karo Pharma shares, a holding corresponding to 10.0% of the votes and capital.

There are no limitations as to the transferability of Karo Pharma's shares due to legal restrictions or stipulations in the Articles of Association. To the best of Karo Pharma's knowledge, there has been no agreement between any shareholders that could limit the transferability of shares.

No breaches of the listing agreement or of generally accepted practice on the stock market pursuant to the Exchange's disciplinary committee or the Swedish Securities Council occurred in the financial year.

Information on Karo Pharma's shares

There were a total of 63,907,194 shares on 31 December 2016, with a quotient value of SEK 0.40. Each share carries one vote and equal entitlement to the company's distributable earnings.

A rights issue totaling 18,259,197 shares was conducted in February. This new issue was conducted at a subscription price of SEK 20.50, equivalent to issue proceeds of some MSEK 374.3 before transaction expenses.

The number of shares of Karo Pharma on 31 December 2017 was 82,166,391.

A rights issue was commenced in December 2017, and was registered in January 2018. 27,388,797 shares were issued in this transaction. The company has a total of 109,555,188 Shares after this issue, which was registered in January 2018.

Annual General Meeting

The company's chief decision-making body is its Annual General Meeting (AGM), where shareholders exercise their rights in the company. Shareholders that want to participate in the AGM personally or by proxy should be included in the share register maintained by Euroclear Sweden AB five working days prior to the Meeting, and inform the company in accordance with the convening notice.

The convening notice for the AGM is through an announcement on the company's website ((www.karopharma.se). The AGM should be held within six months of the end of the financial year. At the AGM, shareholders resolve all matters including the Board of Directors, and where applicable, auditors, how the Nomination Committee should be appointed, and discharging the Board of Directors and CEO from liability for the past year. The Meeting also resolves on adoption of the annual accounts, appropriation of earnings or dealing with deficits, Directors' and audit fees, and guidelines for remunerating the CEO and other senior executives.

BOARD OF DIRECTORS AND MANAGEMENT

BOARD OF DIRECTORS

ANDERS LÖNNER (1945)
EXECUTIVE CHAIRMAN OF THE BOARD
Elected 2014
Education: M.Sc. (Pol. Sci.)
Main experience: CEO and President of Meda AB, Director of Valeant Pharmaceuticals International Inc., CEO of Astra Läkemedel, with responsibilities including Astra's Nordic subsidiaries, CEO of Karo Bio AB and Chairman of Swedish pharmaceuticals sector organization LIF.
Other assignments: Advisor, EQT
Other: Honorary M.D. from the Karolinska Institute
Holdings: 11,166,345 shares

MARIANNE HAMILTON (1947)
Elected 2017
Education: B.A.
Main experience: HR Director and SVP of Atlas Copco AB. Director of Meda AB, Connecta AB and Alecta
Other assignments: Director of KeyBroker and Lundsbergs Boarding School, Member of the Swedish Remuneration Academy and Advisory Board of the Stockholm Business School.
Holding: 33,333 shares

THOMAS HEDNER (1949)
Elected 2014
Education: M.D., Ph.D. and M.B.A.
Main experience: Professor of Clinical Pharmacology at the Medical Faculty of Gothenburg University's Innovation & Entrepreneurship Unit. Founder of several biomedical start-ups such as Blood Press-sure AB, DuoCort AB and Laccure AB.
Other assignments: Chairman of Medical Manual Europe AB
Holdings: 308,005 shares

PER-ANDERS JOHANSSON (1954)
Elected 2012
Education: Engineer
Main experience: Per-Anders is an active investor through CIMON and has long-term experience of technology and development enterprises. CIMON has invested in, and developed, several successful companies. Per-Anders also possesses long-term industrial experience from Karlshamnsgruppen, Nordico and Ellos, where he held executive positions.
Other assignments: majority shareholder, Chairman and CEO of CIMON AB. Chairman of Sparbanken Karlshamn and Director of TC TECH Sweden AB. Chairman of Paxman AB.
Holdings: 2,855,553 shares

HÅKAN ÅSTRÖM (1947)
Elected 2017
Education: M.B.A., Stockholm School of Economics
Main experience: CEO of Kabi Pharmacia AB, President of Astra Pharmaceuticals Ltd., CEO of Pharmacia AB, Chairman of companies including SOBI (Biovitrum) and Ferrosa A/S. Director and Deputy Chairman of the Karolinska Institute.
Other assignments: Chairman of PledPharma AB, Chairman of Affibody AB, and Director of Rhenman & Partners Asset Management AB and MedUniverse AB.
Other: Honorary M.D., Sahlgrenska Academy, Gothenburg University.
Holdings: 378,812 shares

FÖRETAGSLEDNING

ANDERS LÖNNER (1945)
EXECUTIVE CHAIRMAN OF THE BOARD
Elected 2014
Education: M.Sc. (Pol. Sci.)
Main experience: CEO and President of Meda AB, Director of Valeant Pharmaceuticals International Inc., CEO of Astra Läkemedel, with responsibilities including Astra's Nordic subsidiaries, CEO of Karo Bio AB and Chairman of Swedish pharmaceuticals sector organization LIF.
Other assignments: Advisor, EQT
Other: Honorary M.D. from the Karolinska Institute
Holdings: 11,166,345 shares

PETER BLOM (1961)
CHIEF EXECUTIVE OFFICIER
Employed 2011
Education: IFL leadership development, and various management programs
Main experience: Managing Director of Sony Sweden, Nordic Sales Director of Hi3G Access, COO of Viasat Broadcasting, CEO of Valio Sweden, and COO of Haagen Dazs Scandinavia.
Holdings: 22,010 shares

CAMILLA LÖNN (1972)
CHIEF FINANCIAL OFFICER
Employed 2011
Education: M.B.A., Stockholm University
Main experience: CFO of Boomerang, CFO of The Chimney Pot, Business Controller of Hi3G access.
Holdings: 0

CARL LINDGREN (1968)
VICE PRESIDENT BUSINESS DEVELOPMENT
Employed 2017
Education: B.Sc. (Econ.), Lund University
Main experience: Vice President of Global Marketing Depression Portfolio for Lundbeck A/S, Vice President of Established Business at Lundbeck A/S, Global Marketing Director of Lundbeck A/S and ten years' experience of other positions in Astra AB and AstraZeneca PLC
Holdings: 80,000 shares

SIMON NYBERG-HANSEN (1966)
MANAGING DIRECTOR NORWAY
Employed 2015
Education: M.Sc., B.Sc. auditing & accounting, BI Norwegian Business School
Main experience: CFO of Weifa ASA, Consultant and Chairman of Dolphitech AS, CFO of Norman ASA, CFO of Viking Redningstjeneste International AS, Manager at EY
Holdings: 0

Extraordinary General Meeting, March 2017

An Extraordinary General Meeting (EGM) was held on 18 January 2017 to resolve on a rights issue to raise the company some MSEK 375. The motivation for this issue was to repay loans arranged in tandem with the acquisition of BioPhausia AB, which was completed in December 2016. The shareholders' meeting resolved on a new share issue to increase the share capital by SEK 7,303,598.8 through the issue of a maximum of 18,259,198 shares. The Meeting resolved that shareholders would be entitled to two subscription rights for each share held on the record date, and that seven subscription rights would confer entitlement to subscribe for one new share, and that the subscription price would be SEK 20.50.

Annual General Meeting 2017

The Board of Directors presented a report on its work over the past year, and on other corporate governance issues, at the AGM. The Chairman of the Board informed the AGM of the group's progress and position, and commented on results of operations for 2016.

The AGM approved the Annual Accounts for 2016, resolved on appropriating the company's earnings, and discharged the Directors and CEO from liability. The Meeting resolved to pay a dividend of SEK 0.50 per share.

The Meeting authorized the Board of Directors to decide on the issue of shares corresponding to a maximum of 10% of the registered share capital, on one or more occasions, and until no later than the following AGM. The purpose of this authorization is to improve the company's financial flexibility and enable acquisitions through payment with shares.

The chairman of the Nomination Committee reported on its work in the year and recorded on the motivation for proposals submitted. In accordance with this proposal, Anders Lönner (re-election) was appointed Chairman of the Board, while Thomas Hedner (re-election), Per-Anders Johansson (re-election), Håkan Åström (election) and Marianne Hamilton (election) were appointed as Directors.

The Meeting resolved on electing the auditor and remuneration to the Board of Directors and auditor in accordance with the Nomination Committee's proposals.

Minutes from the AGM, which was held on 11 May 2017, are on Karo Pharma's website, www.karopharma.se

Extraordinary General Meeting, December 2017

An EGM was held on 8 December 2017 to resolve on a rights issue of some MSEK 800, which would increase the share capital by SEK 10,955,398 through the issue of a maximum of 27,388,497 shares. The Meeting resolved that shareholders should be entitled to subscribe for one new share for every three shares held, at a subscription price of SEK 29.

The Meeting also approved the Board of Directors' proposal to resolve on an amendment of the Articles of Association, in terms of the stipulated limits of the company's share capital and number of shares.

Annual General Meeting 2018

Karo Pharma's AGM will be held at 4 p.m. on Thursday 3 May at Näringslivets hus, Storgatan 19, Stockholm, Sweden. Shareholders wishing to have a matter considered by the AGM should submit a written request thereof to the Board in good time prior to the Meeting. More information is at Karo Pharma's website.

Nomination Committee

Pursuant to shareholders' meeting resolutions, the Nomination Committee

should be composed by the Chairman of the Board ensuring that the company's four largest shareholders, or groups of shareholders, are each offered the opportunity to appoint a representative to be a member of the Nomination Committee by no later than the end of the third quarter each year. Where one or more shareholders declines their entitlement to appoint a member of the Nomination Committee, the next shareholder in turn in terms of participating interest should be contacted with the purpose of appointing a member of the Nomination Committee.

The Nomination Committee has had the following members: Anders Lönner (Chairman) Chairman of the Board, representing personal holdings, Hans Ek, representing SEB Investment Management), Leif Edlund, representing personal holdings, and Per-Anders Johansson, representing personal holdings (Nomic AB).

The Chairman of the Board should be convener of the Nomination Committee. If a member of the Nomination Committee were to leave the Committee before its work is complete, then if the Nomination Committee considers this appropriate, the Committee request this shareholder, of if this is no longer one of the largest shareholders, the next-largest shareholder, to appoint a replacement. Such changes should be reported on the company's website.

The Nomination Committee should prepare proposals for resolution regarding the Chairman of the AGM, the number of Directors and deputies, fees to the Board of Directors and deputies, election of the Chairman of the Board, other Directors and auditors.

The Nomination Committee's term of office continues until a new nomination committee is appointed. The Nomination Committee should not accrue fees, but to the extent it considers necessary, should be entitled to appoint external resources, such as external consultants, to a reasonable extent.

THE REPORTING PERIOD IS 1 JANUARY-31 DECEMBER 2017

Elected by AGM	Elected yr.	Annual fee, SEK 000	Attendance at scheduled meetings[1)]	Attendance at additional meetings[1)]	Independent of the company and management	Independent of the company's major shareholders
Anders Lönner (ordförande) [3)]	2014	440	6 (6)	10(10)	No	Yes
Thomas Hedner	2014	167	6 (6)	9(10)	Yes	Yes
Per-Anders Johansson	2012	167	6 (6)	10(10)	Yes	Yes
Marianne Hamilton	2017	117	4 (4)	6 (6)	Yes	Yes
Håkan Åström	2017	117	4 (4)	6 (6)	Yes	Yes
Jean Lycke [2)]	2015	50	2 (2)	2(2)	Yes	Yes

1) Figures in brackets are the number of meetings held in each member's term of office
2) Left at the AGM 2016

External auditors

Pursuant to its Articles of Association, Karo Pharma should have a registered public accounting firm as its external auditor. The AGM 2017 elected registered public accounting firm PricewaterhouseCoopers AB as auditor. Mikael Winkvist has been appointed as Auditor in Charge.

The auditor reviews the parent company's and group's accounting records and administration on the assignment of the AGM. The external audit of the Annual and Consolidated Accounts, and the Board of Directors' and CEO's administration, is conducted in accordance with generally accepted accounting practice in Sweden.

The company assigned the auditor to summarily review one interim report in 2017, in accordance with the stipulations of the Code. For information on audit fees, see note 26 in the Annual Accounts for 2017.

Board of Directors

When electing the Board of Directors, the overall aim is for the board to possess the knowledge and experience of social, business and cultural circumstances prevailing in the regions and market segments where the group's main business is conducted necessary for its work. When electing the Board, other factors should also be considered to achieve diversity on the boat. The objective is for the Board to consist of members with varying genders and differing educational and professional backgrounds.

The overall duty of the Board of Directors is to manage the company's affairs on behalf of the shareholders as well as possible. The Board should continuously evaluate the company's operations and progress, its financial situation, and evaluate executive management.

The Board of Directors considers issues regarding the group's strategic direction and organization, business plans, financial plans and budgets, as well as deciding on material agreements, major investments and undertakings, as well as its finance, corporate communication, insider and risk management policies.

The Board operates according to Rules of Procedure which are adopted yearly, and formalize the frequency and agenda of Board meetings, the distribution of material for Board meetings, and matters to be submitted to the Board for information or decision. The Rules of Procedure also formalize the segregation of duties between the Board and its committees, where applicable. The Board has also adopted instructions for the CEO which formalize the segregation of duties between the Board, the Chairman and CEO, and defines the CEO's authority.

The Chairman consults with the CEO at Board meetings. Before each Board meeting, the Directors receive a written agenda and comprehensive supporting documentation.

The Chairman leads the work of the Board, represents the company on ownership issues, and is responsible for appraising the work of the Board.

The Chairman also serves an executive role in management, in his capacity as Executive Chairman, where his duties include leading the work of management.

Pursuant to the Articles of Association, the Board should consist of a minimum of three and a maximum of ten Directors elected by shareholders' meetings without deputies. The Board is quorate when more than half of the total number of Directors are in attendance.

Work of the Board in 2017

The Board held six scheduled meetings where minutes were taken in 2017, and ten additional meetings. The Board was quorate at all meetings. Board decisions are taken after open discussion, led by the Chairman.

Major issues considered by the Board in 2017 include the new issue of shares to shareholders and the acquisition of new operations.

Board committees

Considering its size and composition, the Board has judged that the duties of remuneration and audit committees are performed best by the whole Board, and accordingly, has decided not to appoint any dedicated committees, which is a departure from the Code rule that the Board should constitute a remuneration committee.

Accordingly, the whole Board fulfils the duties incumbent on audit and remuneration committees pursuant to the Swedish Companies Act and the Code.

Remuneration committee

The duties of the remuneration committee are performed by the whole Board. The duties ensue from the instructions adopted by the Board each year, and are part of the Board of Directors' Rules of Procedure. These include submitting proposed remuneration guidelines for senior executives, submitting proposals to the Board of Directors regarding the CEO's salary and other employment terms, determining salaries and employment terms of other members of management, and preparing proposals for incentive programs and other forms of bonus or similar compensation for employees. The CEO may make presentations on issues relating to the duties of the remuneration committee, but does not participate in consideration of his own salary and employment terms.

The Board presents guidelines for determining salaries and other benefits to the CEO and other members of management, for approval by shareholders, at the AGM.

For more information on employment terms of senior executives and remuneration to the Board of Directors, see the Statutory Administration Report in the Annual Report for 2017.

Audit committee

The whole Board performs the duties of the audit committee. These duties ensue from instructions that are adopted by the Board yearly and are part of the Rules of Procedure of the Board. They include supporting the Board in monitoring and quality-assuring financial reporting and efficiency of the company's internal control systems and risk management.

The Board of Directors meets the company's auditors, evaluates audit efforts, auditor independence and approves any additional services the company may purchase from external auditors.

CEO and management

In his role as Executive Chairman, the Chairman leads the work of management, which also includes the CEO, CFO and Managing Directors of the Swedish and Norwegian operations. Management has joint meetings to discuss the group's results of operations and financial position, the progress of operations otherwise, strategy issues and monitoring budgets and forecasts.

The CEO is responsible for the company's ongoing administration in accordance with the Board's instructions and guidelines.

The CEO executes management's decisions in the organization, based on the strategy and business objectives set by the Board. Each functional manager is responsible for ensuring that decisions are executed, and following up on execution.

Management is responsible for preparing proposals for, and executing, the group's overall strategies, and deals with matters such as acquisitions and divestments. Information on the members of management's ages, main occupations, professional experience, main assignments outside Karo Pharma, personal and related parties' holdings in the company, are stated on page 55.

INTERNAL CONTROL AND RISK MANAGEMENT IN FINANCIAL REPORTING

Introduction

The responsibilities of the Board and CEO for internal controls are regulated by the Swedish Companies Act. The Board of Directors' responsibilities are also formalized in the Code. The Swedish Annual Accounts Act stipulates requirements of disclosure regarding the most important elements of the company's systems for internal control and risk management in tandem with financial reporting.

Karo Pharma's process for internal controls over financial reporting is designed to obtain reasonable assurance of the quality and accuracy of reporting. This process should ensure that reporting is prepared consistent with applicable laws and ordinances, and the standards applying to listed companies in Sweden.

One prerequisite for achieving this, is that there should be an effective internal control environment, that there should be reliable risk assessments, that there should be established control structures and control activities, and that information and communication, and monitoring, functions satisfactorily.

Internal audit

The Board has evaluated the need for an internal audit function, and concluded that such a function is not justified within Karo Pharma considering the scope of operations, and the Board of Directors' monitoring of internal controls is considered sufficient to ensure that internal controls are effective. The Board re-evaluates this need when changes occur, which may require re-evaluation at least yearly.

Control environment

Karo Pharma's organization has been designed to be able to react quickly to changes in the market. Accordingly, operational decisions are taken at company level. Decisions and strategy, direction, acquisitions and overall finance issues are taken by Karo Pharma's Board and group management.

The Board of Directors' work on internal controls includes internal controls over financial reporting and internal controls from an operational perspective. Risk management is an integrated part of the Board of Directors' work on internal controls, and its purpose is to ensure that operations are managed in an expedient and effective manner.

Control structures

The Board of Directors' rules of procedure and instructions for the CEO and the Board's committees ensure a clear segregation of roles and duties.

The Board of Directors has overall responsibility for internal controls. The CEO is responsible for the system of procedures, processes and controls being prepared for operating activities. This includes guidelines and job descriptions for various positions, as well as regular reporting to the Board based on adopted procedures. Policies, processes, procedures, instructions and templates for financial reporting and regular work on accounting administration and finance issues are documented in Karo Pharma's accounting handbook. Procedures and activities have been designed to deal with, and respond to, material risks related to financial reporting and that are identified in the risk analysis. Apart from the Accounting Handbook, the most material are the overall group-wide policy documents—the Finance Policy, Corporate Communication Policy, Insider Policy, and Risk Management Policy.

Risk assessment

A mapping process is regularly conducted to identify and evaluate Karo Pharma's risk outlook. This work also involves judging which preventative measures should be taken to reduce, and prevent, the group's risks. This work should include ensuring that the group has appropriate insurance cover, and preparing decision-support data for potential amendments to policies, guidelines and insurance cover.

Karo Pharma's systems for identifying, reporting and responding to risks is an integrated component of regular reporting to management and the Board, and is an important foundation for evaluating the risk of misstatements in financial reporting.

As part of this process, income statement and balance sheet items subject to an increased risk of misstatement are identified. For Karo Pharma, there are risks related to acquisitions regarding events including the utilization of product portfolios and synergies. Additionally, Karo Pharma operates on a competitive market, with the risk of price pressure and volume losses. Karo Pharma reports significant values of goodwill and product rights, where impairment can arise in the future for various reasons. Otherwise, the reader is referred to the Statutory Administration Report.

Control activities

The primary purpose of control activities is to prevent and discover misstatements in financial reporting at an early stage so that they can be managed and rectified. Control activities are conducted at overall and more detailed levels, and are manual and automated in nature. Access to IT systems is limited in accordance with authorization and access rights.

The accounting function compiles monthly financial reports, which state earnings and cash flows for the past period, while analyzing and commenting on budget variances.

Monitoring is through regular meetings for reviews of these reports and analysis with line managers and project managers. In this way, significant fluctuations and variances are followed up, which minimizes the risk of misstatement in financial reporting.

Account closure and annual accounts work process is subject to additional risks of misstatement in financial reporting. This work is of a less repetitive nature, and includes more processes that involve estimation. Important control activities include having an effective reporting structure in place, where line managers and project managers report in accordance with standard reporting templates, and involves specifying and commenting on important income statement and balance sheet items.

Information and communication

Karo Pharma's information and communication pathways should contribute to complete and accurate financial reporting, which is published at the right time. This is achieved by making all relevant guidelines and instructions for internal processes available to all affected staff. Where necessary, regular updates and communication regarding amendments to accounting rules/guidelines, reporting standards and standards on communication are provided.

Corporate communication activities are formalized in a Corporate Communication Policy. Guidelines ensuring that the company satisfies stringent standards for accurate information to shareholders in the financial markets are in place. Karo Pharma's communication should be accurate, open, prompt and simultaneous to all stakeholder groups. All communication must comply with NASDAQ Stockholm's Rulebook for Issuers. Financial information should give a comprehensive and clear view of the company, its operations, strategy and financial performance.

The Board of Directors adopts the annual accounts, accounting reports and interim reports. All financial statements are published on the website (www.karopharma.se), after their initial publication pursuant to stock exchange rules.

The Annual Report is available from the company's website, and is delivered in hard copy format to those parties that request it.

Monitoring

The board's monitoring of internal controls over financial reporting is through channels including monitoring the CFO and external auditors' work and reports.

This work includes ensuring that actions are taken regarding shortcomings and proposed measures that have emerged from the external audit.

Monitoring is conducted by focusing on how Karo Pharma complies with its regulations and the existence of effective and expedient processes for risk management, business governance and internal control processes.

Each year, the external auditor follows up on selected portions of internal controls within the auspices of the statutory audit. The auditor reports the outcome of his review to the Board of Directors and management.

Where appropriate, material observations are reported directly to the Board. As part of the audit in 2017, the auditor followed up on sections of internal controls over selected key processes, and communicated this to management.

AUDITOR'S EXAMINATION OF THE CORPORATE GOVERNANCE STATEMENT

To the general meeting of shareholders of Karo Pharma AB (publ), corporate ID no. 556309-3359

Assignment and segregation duties

The Board of Directors is responsible for ensuring that the Corporate Governance Statement for 2017 on pages 53-59 has been prepared in accordance with the Annual Accounts Act.

Orientation and scope of review

Our examination of the Corporate Governance Statement is conducted in accordance with FAR's auditing standards RevU 16 The auditor's examination of the Corporate Governance Statement. This means that our examination of the Corporate Governance Statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted accounting practice in Sweden. We believe that the examination has provided us with a satisfactory basis for our opinions.

Opinion

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

Stockholm, Sweden, 3 april 2018

PricewaterhouseCoopers AB

Mikael Winkvist

Authorized Public Accountant

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