KARO PHARMA

Annual Report 2018

CONTENTS

BUSINESS HIGHLIGHTS IN 2018

Integrating Weifa

Weifa was integrated into Karo Pharma AS in the first quarter, a process that consolidated Karo Pharma's Nordic business, and brought strong positioning on the Norwegian market. Karo Pharma is now one of Norway's leading pharmaceutical companies, especially in pain relief. Profitability in Norway improved in the year, and the company sees several synergies in sales and marketing going forward. The rights issue executed to part-fund Weifa was completed in January.

LEO product portfolio acquired

Karo Pharma acquired the LEO portfolio of ten established pharmaceutical products, mainly in the therapy areas of infection, cardiovascular and dermatology. This transaction means Karo Pharma has advanced its positioning further in the Nordics, and established operations in Europe.

A stronger organization

Karo Pharma consolidated its marketing resources and regulatory resources. It also incorporated subsidiaries in Denmark and Finland.

Milestone payments from Pfizer

Karo Pharma received two milestone payments corresponding to USD 10 m for the ROR-gamma project.

New product launch

Karo Pharma launched Viruseptin—its new product for cold and flu-like symptoms.

A sharper focus

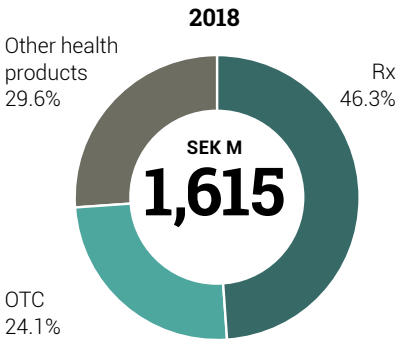
Karo Pharma took a decision to sharpen its focus on pharmaceuticals, which will represent more than 80% of the company's sales in the coming years. This brings the company good potential to keep improving profitability.

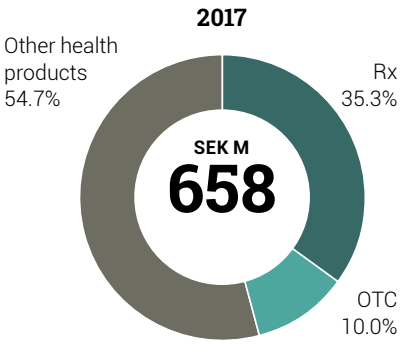
Takeover bid

EQT VIII made a friendly takeover bid to shareholders.

KARO PHARMA IN BRIEF

Total sales by product segment

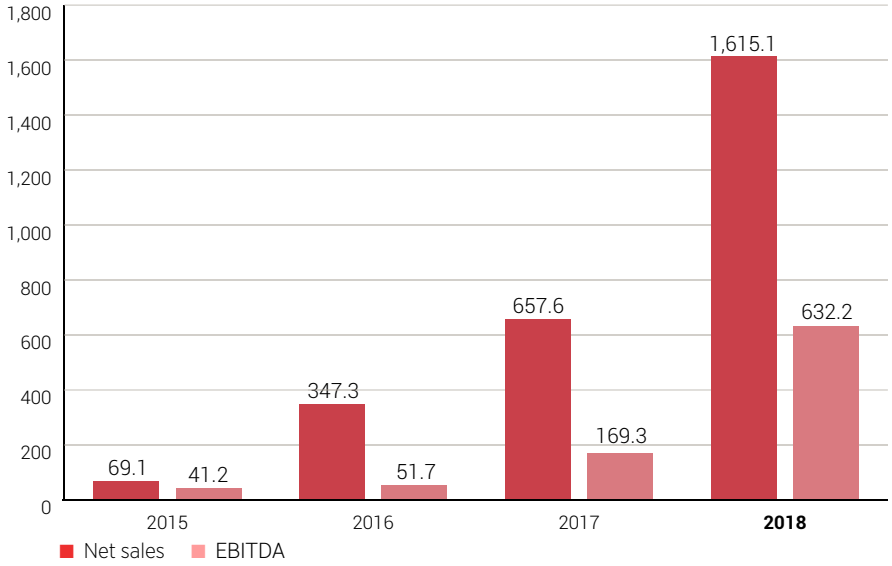




Comment: In recent years, the company has sharpened its focus on prescription pharmaceuticals (Rx) and over-the-counter products (OTC) sold to consumers by pharmacies and retailers.

Net sales and EBITDA, 2015–2018

SEK m



Key indicators

SEK m	**2018**	2017	2016	2015	2014
Net sales	1,615.1	657.6	347.3	69.1	30.1
Cost of goods sold	−676.3	−315.7	−198.5	−40.5	–
Operating expenses	−541.8	−262.0	−119.2	−103.5	−89.5
of which R&D expenses	*−0.6*	*−4.4*	*−5.3*	*−35.0*	*−68.6*
EBITDA	632.2	169.3	51.7	41.2	–
Earnings per share (SEK)	4.63	0.17	1.59	−1.73	−0.09
Cash flow from operating activities	318.0	33.5	−36.1[1)]	−52.2	−46.3
Cash and cash equivalents and other investments in securities, etc.	398.6	838.6	121.3	76.5	51.6

In memoriam

Anders Lönner

In 2014, Anders was awarded an honorary doctorate in medicine from the Karolinska Institute, for his significant work for Swedish pharmaceutical research, the Swedish pharmaceutical industry and Swedish society generally.

KARO PHARMA'S EXECUTIVE CHAIRMAN ANDERS LÖNNER died suddenly on 30 November 2018 at the age of 73. On 23 May 2014, he was awarded an honorary doctorate in medicine by the Karolinska Institute, with the citation reading: "through his entrepreneurship, Anders Lönner has been highly significant to Swedish pharmaceutical research, the Swedish pharmaceutical industry and Swedish society generally."

Anders enjoyed a long and successful career in the pharmaceutical industry, firstly with Astra AB and more recently Meda AB. Anders transformed Meda from a small, local distribution enterprise into a highly successful global specialty pharma company. As Meda's CEO, Anders created substantial values for the company's shareholders, and a great environment for the company's people. Anders gained recognition for his successes with Meda from several sources including Torsten and Ragnar Söderberg's foundations. In 2012 he was Sweden's winner of the Ernst & Young Global Entrepreneur of the Year award, one of the world's most prestigious for successful entrepreneurs.

In 2014, Anders commenced the transformation of the then Karo Bio from a loss-making biotech company into a profitable specialty pharma corporation, changing its name to Karo Pharma AB. In a brief period, he structured the company, closed down its research unit and executed a series of successful acquisitions. Karo Pharma AB's transformation was dramatic—by 2018, sales were some SEK 1.6 billion, and earnings were SEK 632 m.

In 2014, Anders was awarded an honorary doctorate in medicine from the Karolinska Institute, for his significant work for Swedish pharmaceutical research, the Swedish pharmaceutical industry and Swedish society generally.

As a business leader, Anders' approach was highly analytical and strategic, qualities that were the foundation of his professional decisions. His decisions were also based on exceptional judgement and in-depth experience. As an entrepreneur, he was characterized by efficient simplicity, and he disliked unnecessary bureaucracy.

Anders was also a master of negotiation, driven by reaching his objective. Rather than get caught up in the detail, he concentrated on achieving success.

By 2018, Anders and the Board of Directors realized that Karo Pharma's existing structure was inadequate to execute its continued expansion strategy, of creating a substantial specialty pharma company through acquisitions. It needed a strong, solid principal shareholder to execute this. Accordingly, the Board of Directors supports a takeover bid representing significant recognition of the value created.

Anders was eager to point out that he was a typically thrifty native of the Swedish province of Småland. He detested unnecessary expenditure and costs, although fundamentally, was a truly generous individual. Operation Smile is one of the charities that Anders and Karo Pharma supported.

Anders' sudden and premature departure is a cause of great sorrow to all of us.

Håkan Åström and the Board

Karo Pharma

A profitable and rapidly growing specialty pharma company

From being a small, narrow research enterprise, through organic growth and strategic acquisitions, Karo Pharma has rapidly established itself as a successful specialty pharma company in the Nordics, that has taken the step into Europe. Karo Pharma is quoted on Nasdaq Stockholm Exchange's Mid Cap list.

The company's ambition is to deliver products that improve people's health and quality of life. Karo Pharma has a commercial focus, with sales and marketing of prescription (Rx) pharmaceuticals and over-the-counter (OTC) products for consumers. Karo Pharma is quoted on Nasdaq Stockholm Exchange's Mid Cap list. Karo Pharma is endeavoring to be a cost-conscious and opportunistic company. The company is growing through acquisitions and organically, through established brands with stable cash flows. This is a strategy that has brought Karo Pharma good profitability in recent years, and positioned the company as an attrac-tive partner whose ambition is to strengthen its international presence.

▸▸ Read more on page 6.

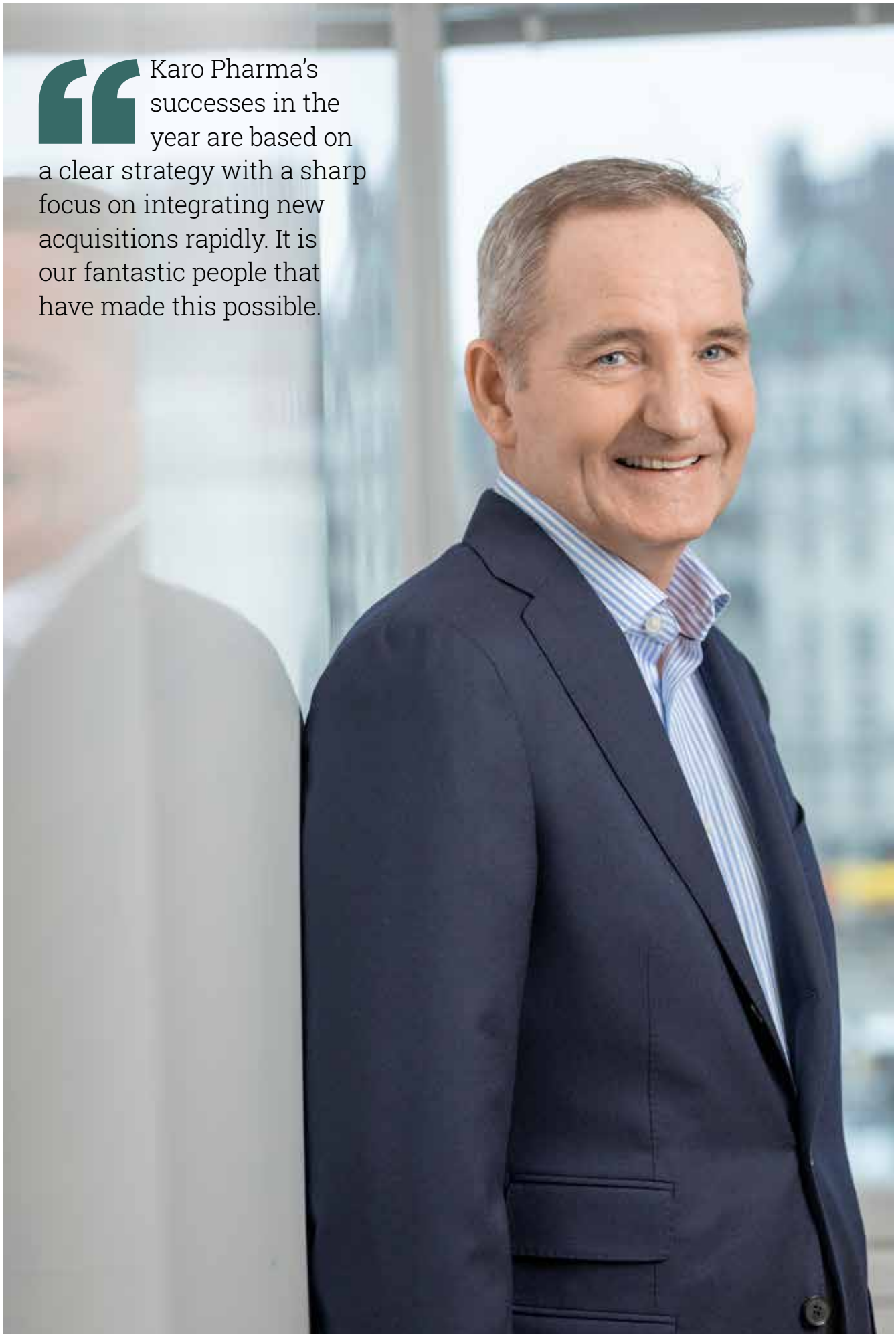
We're witnessing an ageing population, which is increasing the demand for pharmaceuticals and medical devices. Karo Pharma is acyclical.

▸▸ **Read more on page 5**

Karo Pharma's top-selling pharmaceuticals, 2018

Products	Sales, SEK 000
Paracet	153,572
Selexid[1]	132,917
Locobase[1]	117,580
Burinex[1]	107,654
Kaleorid[1]	107,012
Ibux	97,077
Mollipect	88,082
Paralgin forte	54,867
Lithionit	44,128
Centyl[1]	40,775
Total	**943,664**

1) Sales for nine months


Karo Pharma's successes in the year are based on a clear strategy with a sharp focus on integrating new acquisitions rapidly. It is our fantastic people that have made this possible.

A successful specialty Pharma company in the Nordics

Karo Pharma's strong progress in 2018 demonstrates its successful acquisition strategy involving rapid integration of prescription and over-the-counter pharmaceuticals.

OPERATIONS made very positive progress in the year, with sales increasing by 146%, EBITDA by 273%, and organic pro forma growth increased by 7%. We worked intensively on integrating Weifa fully into our business, and now possess a very strong organization and product portfolio in Norway. We announced the acquisition of the product portfolio from LEO on 1 March, a transaction completed on 4 April. This product portfolio has ten established pharmaceuticals in the therapy areas of infection, cardiovascular and dermatology. The products feature stable sales and profitability, which helped improve the company's total gross margin by 5.6 percentage points. The LEO acquisition also enabled us to report significant tax revenues in the tax losses previously recognized in our Balance Sheet.

Our new product Viruseptin for treating cold and flu-like symptoms was successfully launched in Sweden in the fourth quarter. This product got a fantastic reception on the market, which is promising for our future, because this market segment is also in high growth.

WE ALSO RECEIVED another two milestone payments totaling USD 10 m from Pfizer on the ROR-gamma project. It's very positive that Pfizer is taking this project forward successfully. We view the future with confidence, but are very aware of the risks inherent in development projects.

In the year, we strengthened our organization, mainly in marketing and the regulatory segment. We incorporated subsidiaries in Denmark and Finland, thus laying a secure platform across the Nordics. The acquisition of the product portfolio from LEO Pharma meant we commenced our international expansion with our primary focus on Europe in the first phase.

> We're seeing an aging population, which is increasing the demand for pharmaceuticals and medical devices.

Karo Pharma is now an attractive company with established and strong brands, a promising new product pipeline and fantastic people. We've made good progress on our plan of building a successful specialty pharma company, and still see great potential in realizing more synergies, streamlining our business and securing growth opportunities through the coming years. Our objective is to keep executing interesting acquisitions on a controlled footing. From this perspective, it's really positive that we now have a new majority shareholder in EQT, who brings breadth of knowledge and financial strength that improve our potential to develop the company positively.

BUT 2018 WAS ALSO a year of great sorrow. In December we received the tragic news that Anders Lönner, the company's Chairman, had died. His spirit, which was a major contributor to Karo Pharma's transformation and success over the past four years will remain—"Aim higher than you think is possible to achieve, work harder and more efficiently without bureaucracy, and success will be yours." Over the years, Anders became my mentor.

I'M PLEASED AND PROUD to have been be part of the company's successes. I'm confident in my decision to leave the company, handing over to a new CEO. I extend a warm welcome to Christoffer Lorenzen as my successor. I wish Christoffer and all my colleagues the best of luck in the company's continued progress.

Stockholm, Sweden, April 2019

Peter Blom
CEO and President

Market conditions

Global growth on the pharmaceutical market is forecast to continue. Specialty pharma companies contribute to the market's ongoing growth, thanks to wider availability and new drug alternatives in this product segment.

SEK
7,200
billion
of global sales

Continued growth on the global market

Global pharmaceutical market sales are some SEK 7,200 billion. The US is the dominant market, representing some one-half of this total, while Europe makes up 22%. Additionally, the volume of drug sales on the global pharmaceutical market is forecast to grow at 3% per year until 2021. Current sales on the Nordic pharmaceutical market are some SEK 86 billion.

Growth of the pharmaceutical market is forecast to continue, albeit with some caution, partly thanks to branded drugs, i.e. strong brands with patent protection, which are expected to represent over half of the spend on pharmaceuticals in 2020, but also due to specialty pharma.

Source: the Swedish Dental and Pharmaceuticals Benefits Agency, 2019.

1.1%
Forecast OTC growth
In 2019–2023

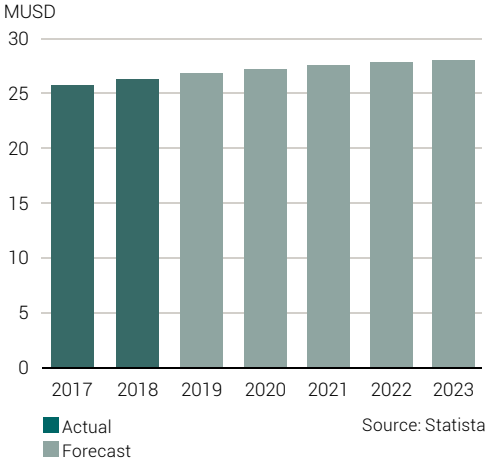
A broad spectrum of medical products

The market for pharmaceutical products sold from pharmacies and directly to the healthcare sector includes a wide variety of products. It includes over-the-counter and prescription pharmaceuticals, medical devices, various types of aid, consumables and instruments.

The group generating the highest sales is OTC pharmaceuticals, and in 2018, drugs in this sector had sales of some USD 25 billion on the global market, with forecast yearly growth of 1.1% in 2019–2023. The value of the Nordic OTC market is also forecast at approximately SEK 20 billion by 2021, equating to a 2.0% growth rate in 2016–2021.

Source: Statista, Euromonitor

Global sales—OTC pharmaceuticals



Source: Statista

Growth drivers

An aging population and economic progress causing lifestyle diseases are two of the factors driving demand on the pharmaceutical market. This process presents challenges and opportunities for specialty pharma companies like Karo Pharma.

An aging and growing population[1)]

The pharmaceutical market is significantly impacted by demographic change.

As a result of population shifts, with the Nordic population forecast to grow by 1 million people every fifth year until 2040, the need for healthcare and pharmaceuticals will increase.

Additionally, the Nordic countries have an aging population, and amongst the highest average life expectancies in the world historically. A rising average age across society is causing an increase in age-related diseases, and in turn, a growing need for healthcare and pharmaceuticals. Older people often need several types of pharmaceutical, which spurs increased volumes. Studies indicate that the cost of drugs is 1.4 times higher for people aged over 95 than those in their 60s.

1) Source: The Swedish Association of Local Authorities and Regions, Healthcare and Medical Treatment until 2030.

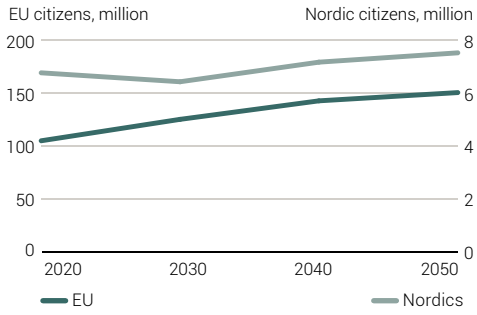
The growing incidence of lifestyle diseases

Economic progress in the West is creating a growing need for products that treat lifestyle diseases. Changing diets are impacting the demand for pharmaceuticals that can treat diabetes, asthma or hypertension, for example.

Another current trend is growing interest in preventive care and products that improve quality of life instead of merely treating a disease. This is further urging the demand for OTC pharmaceutical products.

1
million people every fifth year—forecast Nordic population growth until 2040

Population growth (over 65s), forecast



Source: Nordic Statistics database

Challenges in a highly changeable market

The global pharmaceutical industry is transforming rapidly, and this process presents challenges and opportunities for specialty pharma companies like Karo Pharma.

One example is that the high cost of the development process and long lead-times for new drugs are a fact on the pharmaceutical market. This has sharpened the focus on retaining the rights to existing pharmaceuticals. However, more stringent regulatory standards mean that market participants are not entitled to extend patents by developing new versions of their drugs. Once a patent expires, generic companies move in, replicating and starting sales of virtually identical products with lower pricing, which creates price pressure and accentuates competition on the market.

Karo Pharma's product portfolio largely consists of established brands with stable earnings potential. Karo Pharma is acyclical.

Karo Pharma
is acyclical

Karo Pharma on the market

Karo Pharma is a successful specialty pharma company with its base in the Nordics that has now taken the step out into Europe. The company has a commercial focus with its orientation on sales of prescription and over-the-counter pharmaceuticals, as well as other health related products sold directly to the healthcare sector and pharmacies.

A stable market presence

For historical reasons, Karo Pharma's market presence is strongest in the Nordics, where in addition to its Swedish head office, Karo Pharma also has subsidiaries in Norway, Finland and Denmark. The acquisition of the product portfolio from LEO Pharma in 2018 means Karo Pharma has taken a step out into Europe. Karo Pharma's products are currently present in over 40 markets. In countries where it does not have its own organizational resources, products are distributed by Karo Pharma's partners. This enables Karo Pharma to take its next step, creating its own sales forces once these markets are established and the timing is right. In this way, Karo Pharma is increasing its presence on the most profitable basis.

The majority of Karo Pharma's operations are on the Nordic pharmaceutical market, with its main focus on Sweden, but it also has a stable presence on the Norwegian market in the OTC segment.

Karo Pharma's product portfolio

Karo Pharma's product portfolio of Rx pharmaceuticals mainly consists of established products with stable sales. In 2018, Rx pharmaceuticals became more important to Karo Pharma after its acquisition of the product portfolio from LEO Pharma. Rx pharmaceuticals represented 46% of Karo Pharma's total sales in 2018.

Sales of OTC products were 24% of Karo Pharma's total in 2018. Karo Pharma has an extensive portfolio of OTC pharmaceuticals in Norway, and is now one of the largest pharmaceutical companies in the Norwegian OTC segment.

Karo Pharma also has a large selection of other health products, mainly sold directly to the healthcare sector via structured tendering processes. A wide range of devices and consumables for diabetes combined are the largest product group sold directly to the healthcare sector. This product segment also includes medical devices sold via pharmacies, such as Mabs compression socks and the Dosett medication storage system. This segment represented 30% of Karo Pharma's total sales in 2018.

Distribution & sale of pharmaceuticals

The type of healthcare operations Karo Pharma sells products into are conducted in the public and private sectors, and largely funded by tax revenues. On the Swedish market especially, pharmaceutical procurement is conducted through highly structured processes often regulated by legislation, such as the Swedish Public Procurement Act. All sales where hospitals are the end-customer are through health authorities.

Over-the-counter pharmaceuticals are sold to pharmacies and the retail sector, funded by patients themselves. In 2017, 203 million pharmaceutical units were sold on the Swedish market, 49% of them being Rx pharmaceuticals, and some 44% being OTC. Sales of OTC pharmaceuticals are mainly by the total of some 1,400 pharmacies nationwide across Sweden. Increased sales via pharmacy e-commerce has also been identified. The share of OTC pharmaceuticals sold outside pharmacies is through the retail sector.

Source: the Swedish eHealth Agency

Marketing of OTC & Rx

Rx pharmaceuticals and OTC products are marketed very differently.

OTC products are mainly marketed directly to the public through various media channels. This is more about developing and positioning brands in a retail environment.

For Rx pharmaceuticals, marketing is mainly by approaching physicians with product information and training at meetings, congresses and seminars. Statements of opinion by experts and recommendations in health guidelines are also critical to success. The consumption of pharmaceuticals is mainly determined by physician assessments of patient condition, and the pharmaceutical considered most appropriate.

Marketing is currently analog and digital, with the objective of always remaining relevant and adding value for customers, patients and consumers.

The LEO Pharma product acquisition

ACQUISITIONS ARE AN IMPORTANT strategy for Karo Pharma's continued growth and expansion in the long and short term. In recent years, Karo Pharma has expanded through a series of product and business acquisitions.

Karo Pharma completed the largest acquisition in the company's history in April 2018 by acquiring ten established pharmaceuticals in the therapy areas of infection, cardiovascular and dermatology from Danish pharmaceutical company LEO Pharma A/S.

This acquisition includes brands like Centyl, Kaleorid, Burinex, Selexid and Locobase, which made up some 75% of the product portfolio's total sales. The portfolio has stable sales and profitability, which improved the company's operations, increasing its total gross margin by 5.6 percentage points in the year. In the year, Karo Pharma integrated 83% of the LEO acquisition into its business, and this integration process is continuing during the first half-year 2019. The acquisition is a major step towards Karo Pharma becoming a pure specialty pharma company. Through the acquisition, Karo Pharma has also consolidated the company's positioning in the Nordics, and taken the step out into Europe.

KARO PHARMA IN 4

History

Since Karo Pharma was founded in 1987, the company has grown and changed the direction of its business. From being a small, narrow research enterprise, through organic growth and strategic acquisitions, Karo Pharma has rapidly established itself as a successful specialty pharma company in the Nordics, and has now taken the step into Europe.

Business concept

Karo Pharma is a specialty pharma company that offers the market a broad range of quality prescription pharmaceuticals and self-care products.

Vision

Karo Pharma shall be a successful international specialty pharma company that contributes to improve health and quality of life. It will achieve this by creating value and growth in collaboration with customers, partners and other stakeholders.

Strategy

The company will grow organically and through acquisitions with solid underlying profitability. Our focus is on the sale and marketing of prescription pharmaceuticals and self-care products. Karo Pharma takes an opportunistic approach to acquisitions, but is mainly interested in operations offering synergies with the company's own organization, or of established products with stable earnings potential.

Karo Pharma's people

Karo Pharma has been on a unique journey in recent years that wouldn't have been possible without the commitment, hard work and motivation of its people. Karo Pharma values qualities like flexibility, pragmatism and a solution-oriented approach to keep achieving its business goals.

WITH A GROWING BUSINESS, expansion into Europe and seven acquisitions in the past three years, Karo Pharma has been on a unique journey, which has brought exciting and changing times for the company's people. Committed and motivated people are a major contributor to Karo Pharma's success. To keep achieving its business goals, the company is focused on attracting the most skilled and driven professionals. By providing an attractive, dynamic workplace, Karo Pharma creates great potential for its people to develop professionally and grow with the company.

Karo Pharma is a multinational, expansive pharmaceutical company with operations in over 40 countries but only about 95 employees, and is intent on retaining a creative, entrepreneurial corporate culture with short decision-paths. This means its people have great freedom to shape their own structures and find their own way to innovative solutions.

Karo Pharma is an ideal workplace for down to earth and ambitious people unafraid of rapid change.

Karo Pharma is headquartered in Stockholm, and has subsidiaries in Oslo, Copenhagen and Turku. Karo Pharma's need for skilled and flexible problem-solvers will grow as the company builds its presence outside the Nordics and increases sales in the rest of the world.

With Karo Pharma's creative and entrepreneurial corporate culture, its people can shape their own structures and find their own way to the right solutions.

Karo Pharma launches well-documented anti-cold spray

Cold is one of our most common infectious diseases that affects people of all ages.

UPPER RESPIRATORY TRACT INFECTIONS are usually mild and pass in a week or two, but colds and flu can have serious complications, which can ultimately become life-threatening. Influenza is one of the most common causes of death in Sweden, but mortality is hard to measure because most sufferers die from complications rather than the influenza virus itself. Bacterial pneumonia is one complication, which in serious cases can cause death, although heart attack and heart failure are also common. People aged over 65, sufferers of chronic disease and those with seriously compromised systems for other reasons have an increased risk of contracting life-threatening complications from a respiratory tract infection. Protection from colds is particularly important for these groups.

COLD—FACTS

Adults catch colds an average of two or three times a year, while it may happen to children six to ten times, because they do not have fully developed immune systems.

- Colds are the most common type of respiratory tract infection, and 95% are caused by viruses.
- There are over 200 different viruses that can cause colds.
- Cells in our mucous membranes in the nose and throat are especially vulnerable to viruses because they're not protected by skin.
- When affected by a virus, people are immune to only that virus—but can still be affected by other cold viruses.
- Colds are most infectious the day before they express. Infection reduces over time.

Viruseptin®—against colds and flu-like symptoms

Viruseptin is an anti-cold spray with double action against colds and flu-like symptoms. Viruseptin can shorten the duration of illness, prevent the virus from multiplying and also reduce the risk of infection re-occurrence. Viruseptin is the first anti-cold spray with proven efficacy on patients in several well-controlled studies.[1)] Viruseptin is available as a nasal and mouth spray, and was successfully launched at Swedish pharmacies in October 2018, where it helped double the sales of anti-colds sprays.

1) Eccles et al. Respiratory Research 2015, 16:121: Koenighofer et al. Multidisciplinary Respiratory Medicine 2014, 9:57: Ludwig et al. Respiratory Research 2013, 14:124: Fazekas et al. BMC Complementary and Alternative Medicine 2012, 12:147: Eccles et al. Respiratory Research 2010, 11:108

Pain—one of the most common causes of healthcare visits

Fast and effective treatment of acute pain is vital for avoiding non-lasting pain.

PAIN—FACTS

The tissues of the body have sensory receptors that can register pain. Also known as nociceptors, from the Latin nocere, meaning 'to do damage.' If tissues are harmed, chemical compounds that activate pain receptors are released.

There are different types of pain:

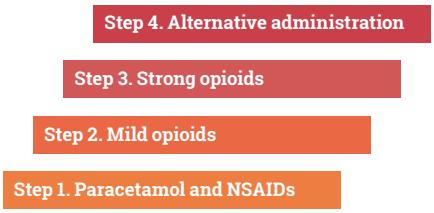
- **Nociceptive pain** is due to damaged tissue, such as injury to the skin or muscles. This includes the indication of acute pain.
- **Neuropathic pain**—due to damage or illness to the nervous system.
- **Psychogenic pain**—caused by psychological disorder.
- **Idiopathic pain**—pain without any clear origin.

Acute pain is a sudden, recent negative pain experience. Studies indicate that incorrect or delayed treatment of acute pain increases the risk of it becoming long-lasting. Accordingly, the rapid and effective treatment of acute pain is vital.

PAIN—ONE OF THE MOST COMMON CAUSES OF HEALTHCARE VISITS

As many as 20–40% of primary healthcare visits are due to various types of pain conditions as well as patients in specialist- and emegency care.

To chose the correct treatment option, the World Health Organization (WHO) has designed an analgesic ladder that is a widely used treatment principle in healthcare. It has four steps, and treatment is stepped up with the intensity and severity of pain:



Karo Pharma has a portfolio of analgesic products like Citodon, Morfin Special, Paralgin forte, Trampalgin, Ibux and Paracet, and Dolerin against acute pain was added to the portfolio in 2019.

Dolerin® (500 mg paracetamol/150 mg ibuprofen) —new combination therapy against acute pain

Dolerin contains paracetamol and ibuprofen, and is the first fixed combination therapy of its kind in the Nordics.

This combination treatment has been documented in clinical trials, and is supported by domestic and national healthcare guidelines. The product is prescription only (RX) and has medical registration in all Nordic countries. Its Nordic launch is scheduled for 2019. The estimated market value for analgesics is about SEK 1.4 billion per year in the Nordics.

Karo Pharma has a long-term license with AFT (New Zealand) for sales and marketing of Dolerin on the Nordic market, and the product has patent protection.

Improved health and quality of life with Karo Pharma

Karo Pharma's diverse product portfolio includes Rx pharmaceuticals and OTC products, as well as other health related products. The company has sharpened its focus on Rx pharmaceuticals and OTC products, but the three main directions all offer products that improve health and quality of life.

Rx pharmaceuticals

Rx pharmaceuticals are prescribed by physicians and therapists. Karo Pharma's product portfolio includes pharmaceuticals in several selected therapy areas, and some of the company's top-selling Rx brands are presented in the following table.

OTC products

OTC are self-care products available without prescription from pharmacies and/or retailers. OTC is a highly attractive segment with benefits including unregulated pricing, no drug subsidies, good margins and limited generic competition. OTC products are an important complement to Rx pharmaceuticals because they are readily available, save time for patients and alleviate cost pressure on the health and medical care sectors.

Other health related products

In addition to medicinal products, Karo Pharma has a broad offering of medical devices that help people improve their health and make their lives easier. This business segment includes devices for people with disabilities, diabetes products, as well as anesthesia and intensive care instruments. Products in this segment are sold directly to the healthcare sector, but in some cases by pharmacies too.

Rx pharmaceuticals

Product information/indication		Comment	Main markets[1)]
Selexid® is a type of antibiotic that operates by killing the bacteria that cause infections in the bladder or ureter.		Selexid is available on 15 markets and is one of Karo Pharma's biggest products, with total net sales of SEK 134 m in 2018 (nine months).	Denmark 27% France 21% UK 14%
Kaleorid® is administered in patients being treated for hypokalemia (potassium deficiency) or prophylactically when treating with diuretics.		Strong brand recognition after many years of strong positioning on key markets. Included in the LEO Pharma product acquisition.	Denmark 32% France 26% Finland 23%
Burinex® is used to treat fluid accumulation in the body that may occur in tandem with cardiac insufficiency, cirrhosis or kidney disease.		Burinex is another major product in the LEO Pharma acquisition.	Belgium 32% France 18% Norway 14%
Mollipect® is used to treat coughs with a thick mucus, with a simultaneous need for airway dilation. Mollipect is for adults and children aged from six months.		Mollipect has been on the Swedish market for over 40 years. The product has high brand recognition among physicians and patients.	Sweden 100%

OTC products

Product information/indication		Comment	Main markets[1)]
Paracet® containing the active compound paracetamol is used to treat mild-to-moderate short-term pain, such as headache, toothache and joint pain. Paracet is also antipyretic for cold and influenza.		Paracet is Karo Pharma's single largest product, with net sales of SEK 153 m in 2018. Paracet is available in various strengths and versions for different age groups.	Norway 100%
Ibux® contains ibuprofen, which is in the anti-inflammatory/anti-rheumatic drug group (NSAIDs). Ibux is an analgesic, antipyretic and anti-inflammatory.		Ibux has a market share of 45% in pharmacies and 100% in convenience goods retailing (volume) of this NSAID. Ibux is available in several forms such as tablets, capsules and topical gel.	Norway 100%
Locobase® is clinically proven to relieve dry and sensitive skin. Locobase is an established international brand in the problem skin segment.		Locobase has especially strong positioning in the Nordics, where it was launched in September 1988. It is available in three versions, and is a key component of the acquisition from LEO Pharma.	Sweden 17% Germany 12% Denmark 10%
Bronkyl® eases mucal flow in acute and chronic bronchopulmonary disease with thick mucus in the airways for adults and children aged over six.		Bronkyl is the pharmacy leader in the cough category, and was launched in convenience stores in 2018.	Norway 100%

Other health related products

Product information/indication		Comment	Main markets[1)]
Mabs® compression socks are based on well-documented methodology to improve blood circulation in the legs. Mabs products are all classified as class 1 medical devices.		Mabs are available for women and men, and specifically designed for applications like air travel, sports and everyday use. The range also includes support braces and podiatry products.	Sweden 82% Norway 9% Denmark 8%
Dosett® is a practical medicine storage solution that facilitates administration, with medication administered at the appropriate dose and time.		Dosett has been available for over 50 years and is now the market leader in all the Nordic countries, distributed by pharmacies.	Sweden 37% Finland 25% Norway 17%
BabySlide® is a patented medical device that reduces the risk of perineal tearing in women during childbirth.		BabySlide was launched in 2018 for physicians and midwives in Swedish natal clinics.	Sweden 100%

1) % of total brand sales

Development projects

Karo Pharma's current development projects and partnerships are reviewed below.

Project ER-beta MS – multiple sclerosis
There are several 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 ER-beta compounds, which in preclinical models, have demonstrated the ability to delay, and actually reverse, the course of MS. The objective of Karo Pharma's ER-beta MS project is to out-license it to a pharmaceutical company that can continue to develop the project towards market launch.

Project ER-beta Cancer
Karo Pharma's compound in the ER-beta program, KB 9520, was sold to Oasmia in 2016. Karo Pharma is entitled to 20% of the revenues the project generates for Oasmia.

Licensing and collaborative agreement with Pfizer on ROR-gamma
In December 2011, the company entered a research collaboration and licensing agreement with Pfizer, one of the world's largest drug companies. The aim of this partnership is to discover and develop compounds that inhibit the activity of nuclear hormone receptor ROR-gamma, for treating autoimmune disease.

Pfizer has global exclusive rights to use, develop, manufacture and commercialize the compounds and products developed in the agreement.

Karo Pharma can receive up to USD 200 m when Pfizer achieves specific development and sales milestones on this project, as well as royalties on sales of future pharmaceuticals. In 2018, Karo Pharma received two payments totaling USD 10 m.

Karo Pharma supports Operation Smile

In 2018, Karo Pharma donated SEK 2.5 m to aid organization Operation Smile, and will keep supporting it with donations of the same amount in 2019 and 2020.

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.

Share and shareholders

Karo Pharma's share is quoted on NASDAQ Stockholm Exchange's Mid Cap list. In the past five-year period, the share price has increased by 317.7%.

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 17.5% in 2018, from SEK 31.5 to SEK 37.1. The high of SEK 39.4 was set on 6 November, and the low oft SEK 25.3 was on 24 May. The OMX Stockholm Healthcare PI increased by 19.9% in the same period. Total turnover was 215.9 million shares in the year. Karo Pharma judges that trading on other marketplaces in the year was negligible. At year-end, market capitalization was SEK 6,088 m.

Shareholders
The shareholder base reduced in the year, with 17,049 shareholders at the beginning of the year, and 12,385 at year-end. The largest shareholder as of 28 December was Karo intressenter with 19.0%, Anders Lönner's estate with 7.3%, and Avanza Bank with 5.2%. The ten largest shareholders held 49.6% (31.5) of the total number of shares at year-end.

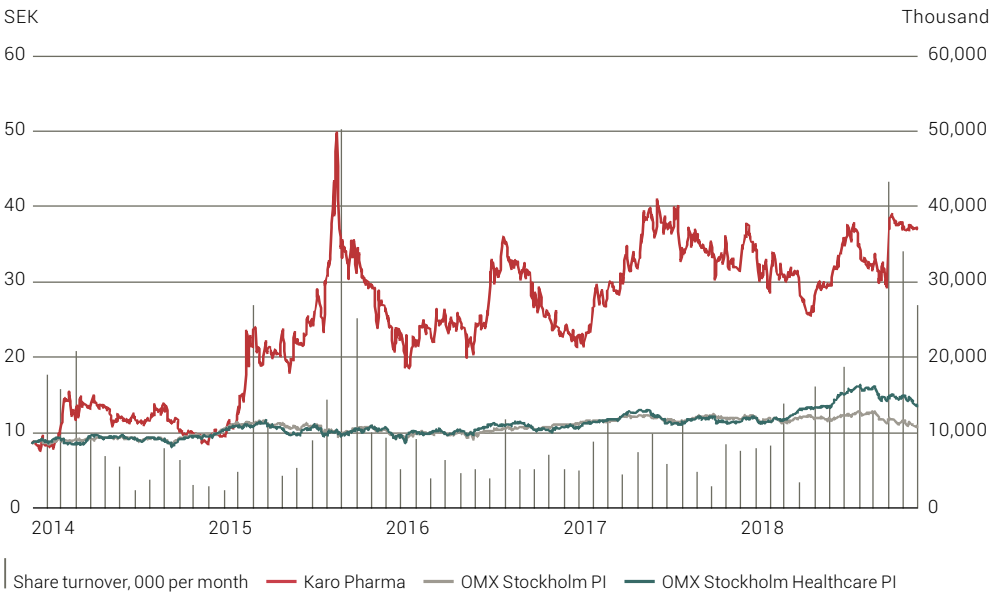
Share issues
Karo Pharma conducted a rights issue of SEK 1,429 m before issue expenses in 2018. 82,166,391 shares were issued in this transaction, and the issue price was SEK 24.00.

Shares and share capital
Karo Pharma's share capital was SEK 65,733,000 as of 31 December 2018. The number of shares increased from 82,166,391 to 164,332,782 during the year. The average number of shares was 141,887,956.

Dividend
Due to the company's ambition to grow through acquisitions and other means, as well as the company's debt/equity ratio, the Board of Directors is proposing that no dividend is paid for the financial year 2018.

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 2018, Karo Pharma held open conference calls in tandem with the publication of its four interim reports. Recordings of these conferences were available on its website.

Karo Pharma's share, share price performance and share turnover

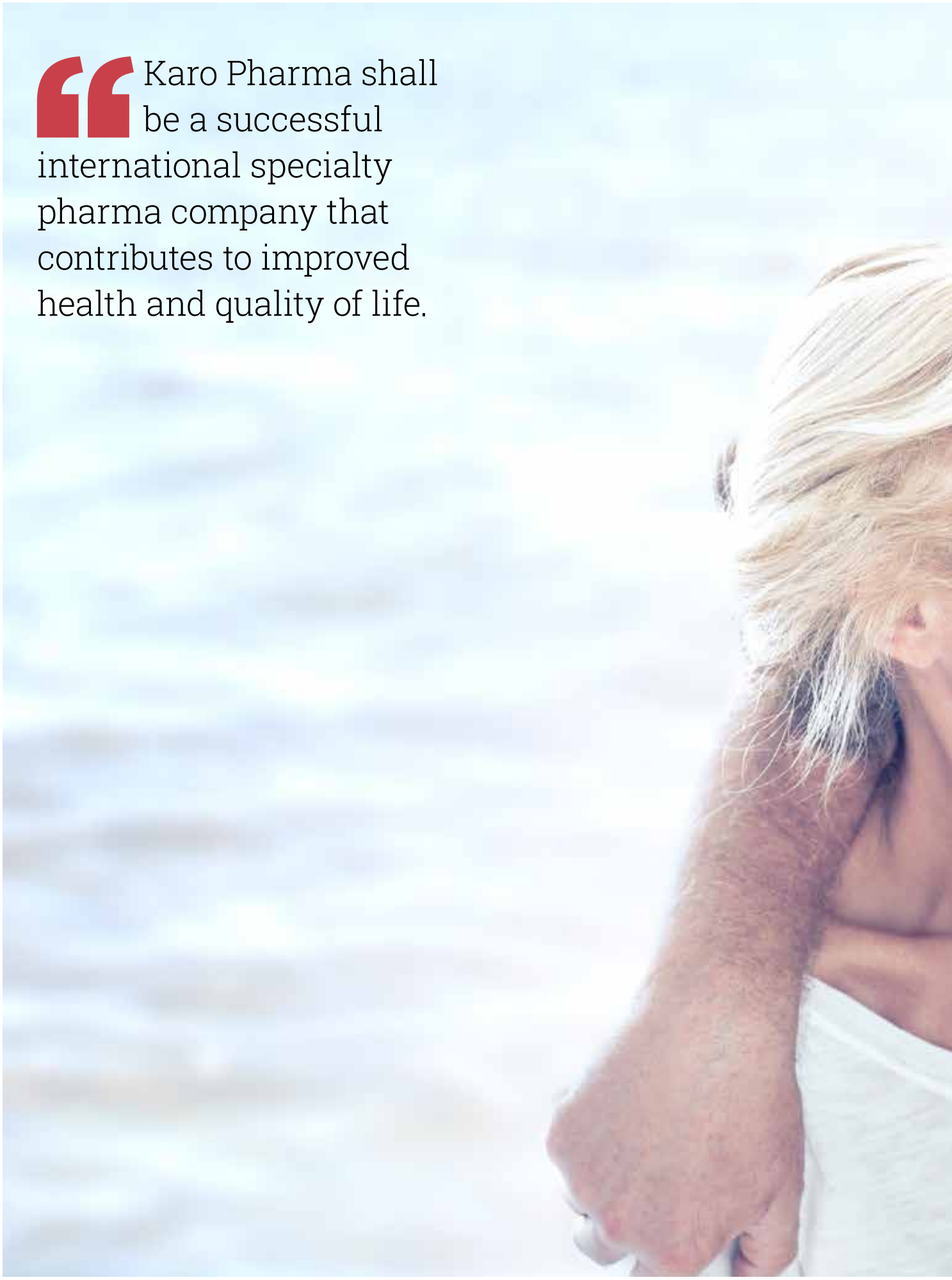


Largest shareholders as of 28 December 2018

Shareholder	No. of shares	Percentage of capital and votes
Karo Intressenter AB	31,224,095	19.0%
Lönner, Anders (estate)	11,985,014	7.3%
Avanza Bank AB	8,589,559	5.2%
Försäkringsaktiebolaget, Avanza Pension	5,611,629	3.4%
Merrill Lynch International	5,132,083	3.1%
USB Switzerland AG, W8imy	4,981,771	3.0%
Bank of New Yord Mellon SA/NV (fomer BNY)	4,239,307	2.6%
BNP Paribas Sec Services Paris, W8imy (Gcs)	3,334,946	2.0%
Nomic AB	3,300,000	2.0%
Nordea Bank Abp Filial Se (Nds)	3,140,162	1.9%
Total, ten largest shareholders	**81,538,566**	**49.6%**
Total, other shareholders	82,794,216	50.4%
TOTAL, 28 DEC. 2018	**164,332,782**	**100%**

Largest changes	Change	Change i %	Holding
Karo Intressenter AB	31,224,095	New	31,224,095
Avanza Bank AB	8,589,559	New	8,589,559
Lönner, Anders (estate)	5,339,162	80.3	11,985,014
Merrill Lynch International	5,132,083	New	5,132,083
USB Switzerland AG, W8imy	4,981,771	New	4,981,771

Number of shareholders	Change	Holding
Number of shareholders	12,385	164,332,782
New shareholders	2,046	76,880,038
No longer shareholders	6,710	25,006,204



Karo Pharma shall be a successful international specialty pharma company that contributes to improved health and quality of life.

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 2018. All figures are for the group for the financial year 2018, unless otherwise stated. Unless otherwise stated, comparisons are with the financial year 2017.

The group consists of parent company Karo Pharma AB and its subsidiaries Karo Pharma Sverige AB, Karo Pharma Norge AS, Karo Pharma Oy, Karo Pharma ApS, BioPhausia AB, Karo Pharma Oslo 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 Fastigheter AB, and Karo Pharma Norge AS has the subsidiary Karo Pharma AS, and MediReduce AB has the subsidiary Kolestemin AB.

OPERATIONS

Karo Pharma markets and sells healthcare 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. Sales and marketing is managed by a market organization in Sweden, Norway, Denmark and Finland. After the acquisition of a product portfolio from LEO Pharma, there are also sales on other markets direct or through agents/distributors. The company also has an auto-immune 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. The company is an active contributor to consolidation of the Nordic healthcare sector.

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

Significant events in 2018

A rights issue to finance the acquisition of Weifa was completed in the first quarter.

In the second quarter, Karo Pharma acquired a product portfolio from Danish pharmaceutical company LEO Pharma A/S for EUR 260 m, taking possession on 4 April 2018. The acquired products had sales of approx. SEK 700 m in 2017. Half of sales are in the Nordics, with the rest of Europe representing approx. SEK 66 m, and the rest of the world approx. SEK 84 m. The products are 10 established pharmaceuticals, mainly in the therapy areas of infection, cardiovascular and dermatology, and have stable sales and profitability.

LEO Pharma has undertaken to manage the portfolio for market compensation until Karo Pharma has taken over products.This acquisition is a straight asset transaction. Karo Pharma's Board of Directors decided on a fully guaranteed rights issue after AGM approval. The issue was conducted in the second quarter, and increased equity by SEK 1,314.7 m before deducting for issue expenses.

During May, Karo Pharma received two milestone payments of USD 6 m and USD 4 m from Pfizer.

Through wholly owned subsidiary Karo Intressenter AB, on 29 October 2018, EQT VIII made a friendly public takeover bid to the shareholders of Karo Pharma to transfer all Karo Pharma shares to Karo Intressenter AB for cash consideration of SEK 36.90 per Karo Pharma share. The initial acceptance period of the bid was until 10 December 2018, and on 13 December 2018, this was extended to 4 January 2019 inclusive.

Karo Pharma's executive Chairman Anders Lönner died suddenly on 30 November 2018. Anders became the executive Chairman of Karo Pharma in 2014, and since then, the company has enjoyed strong, profitable growth. As Executive Chairman of Karo Pharma, Anders led the successful transformation of an unprofitable research enterprise into a profitable pharmaceutical company. Board member Håkan Åström became Interim Chairman of the Board.

Significant events after the end of the financial year 2018

On 2 January 2019, Karo Intressenter announced that it had increased the consideration in their offering to SEK 38.00 per Karo Pharma share, that they would be extending the acceptance period until 17 January 2019, and that the conditions for receiving the necessary permits, approval, decisions etc. from the authorities and regulators had been satisfied. The offer was subsequently extended until 12 February.

In accordance with a proposal from shareholder Karo Intressenter AB, an EGM on 14 February resolved that the Board of Directors should have six ordinary members with no deputies.

Additionally, the EGM approved Karo Intressenter AB's proposal to re-elect Håkan Åström, and elect Bo Jesper Hansen, Erika Henriksson, Vesa Koskinen, Christoffer Lorenzen and Åsa Riisberg as Board members for the period until the end of the AGM 2019. This resolution means the assignments of Marianne Hamilton, Thomas Hedner and Per-Anders Johansson as Board members terminate.

In accordance with Karo Intressenter AB's proposal, the AGM approved Directors' fees implying that fees for each Board member and fees for the Chairman would be payable pursuant to the resolution of the AGM 2018, i.e. SEK 200,000 for each Board member and SEK 500,000 for the Chairman, until the end of the following AGM, and this being allocated pro rata between the departing and incoming Board members in relation to the term of office. This resolution means

that for his term of office as Chairman, Håkan Åström would receive fees corresponding to that resolved by the AGM 2018 for the Chairman of the Board (computed pro rata for the period), and that for the period from the date of the EGM until the end of the following AGM, he would receive a fee corresponding to the fee approve for other Board members(computed pro rata for the period).

On 3 April 2019, Karo Pharma reported that its Board had appointed Christoffer Lorenzen as Karo Pharma's new CEO, replacing Peter Blom. Christoffer takes up his position on 1 July 2019. Ulf Mattsson will serve as interim CEO until this date.

Organization

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

Management had five members in the year: The Executive Chairman (until 30 November inclusive), Chief Executive Officer, Chief Operating Officer, the President of Karo Pharma AS and the Chief Financial Officer.

At year-end, Karo Pharma AB had 96 (80) permanent employees.

Sales and earnings

Net sales for the full year 2018 increased to SEK 1,615.1 m (657.6). SEK 986.6 m of the sales increase is sourced from the operation acquired in Norway in the fourth quarter 2017, as well as SEK 86.6 m from the milestone payments Karo Pharma received from Pfizer in the second quarter.

Cost of goods sold was SEK 676.3 m (315.7). This resulted in gross earnings of SEK 938.8 m (341.9), and a gross margin of 58.1% (52.0) for the period. Excluding milestone payments in the second quarter 2018 and 2017, the gross margin for the period was 55.8% (50.7).

Operating expenses including depreciation and amortization, other operating income and other operating expenses were SEK 524.4 m (262.0) for the period. Sales overheads were SEK 443.0 m (198.6). The increase in selling expenses is mainly sourced from the additional operation in Norway, and expenses associated with the LEO portfolio, as well as building up Karo Pharma's organization as a result of the LEO acquisition in 2018.

EBIT was SEK 414.3 m (79.9).

Earnings per share were SEK 4.63 (0.17).

Investments

Investments amounted to SEK 2,692.1 m (1,245.8), with the acquisition of a product portfolio from LEO Pharma representing SEK 2,673.0 m. The material asset item was market and product rights for some ten products.

Cash flow and financial position

Cash flow from operating activities was SEK 318.0 m (33.5). The group's cash and cash equivalents were SEK 398.6 m (838.6) at the end of the period. The single biggest changes on the previous year are cash flow associated with the acquisition of the LEO portfolio, cash flow associated with financing the LEO acquisition in the second quarter 2018, and repayment of a bridging loan arranged in tandem with the acquisition of Weifa. Total assets on 31 December were SEK 6,884.6 m (4,141.8), with intangible assets representing SEK 5,424.7 m (2,923.1) of total assets at the end of the period. The change on the previous year relates mainly to intangible assets in the acquisition of the LEO portfolio.

The LEO portfolio was acquired for SEK 2,673 m in the second quarter. This acquisition was funded with bank finance and a rights issue.

Consolidated equity increased to SEK 3,611.0 m (1,586.5).

The equity/assets ratio was 52.5% (38.3).

Equity and share data

The company executed a new share issue in April 2018, totaling 54,777,594 shares, equating to total issue proceeds of some SEK 1,492,642,000 before issue expenses. Issue expenses were SEK 50,273,000. The issue increased the number of Karo Pharma shares from 112,989,565 to 164,332,782. Karo Pharma's share capital increased by SEK 21,911,000. The number of treasury shares is 2,464,990.

In 2018, the company paid a dividend of SEK 0.30 per share, at a total amount of SEK 32,867,000.

The group's equity increased to SEK 3,611,001,000 (1,586,515,000), which after considering earnings for the year, was SEK 21.97 (19.14) per share.

Parent company

The parent company's net sales for 2018 were SEK 655.6 m (39.3). The profit/loss after financial items for the period was SEK 97.4 m (-46.1). The parent company's cash and cash equivalents and other investments in securities, etc. amounted to SEK 198.0 m (695.2) at the end of the period.

REMUNERATION GUIDELINES FOR SENIOR EXECUTIVES

The Board of Directors proposes that the AGM on 9 May 2019 resolves on the following guidelines for setting salary and other benefits to senior executives of Karo Pharma, to apply until the AGM in 2020.

Fundamentally, the proposed guidelines are the same as those adopted by the AGM 2018, which are reviewed in note 2.

In 2018, the board exercised its right to depart from the guidelines in individual cases and specific circumstances, in the Chief Executive Officer's variable remuneration exceeding the ceiling of the guidelines, with the CEO receiving variable remuneration of 75% of basic salary for 2018. The Board's justification for departing from the guidelines was the additional work caused by the acquisition of the Leo operation.

General

Karo Pharma should offer the remuneration levels and employment terms necessary to hire and retain a manage-

ment 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. The outcome of compensation should include pension and vacation pay in accordance with the relevant legislation, and accordingly, is not pensionable.

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 2018, there was a total of 164,332,782 (82,166,391) shares. 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.

Share-related incentive programs

In accordance with a proposal from the Board of Directors, and resolution by Karo Pharma's Extraordinary General Meeting (EGM) on 21 July 2016, a share warrant program was executed, for staff, senior executives and the Executive Chairman. Subscription of all outstanding share warrants was by 26 August 2016 at the latest. Each share warrant conferred entitlement to subscribe for 1.05 shares at the price of SEK 63.1 per share on 26 February 2018. The program terminated on 26 February 2018 without exercise.

In accordance with the Board of Directors' proposal, the AGM 2018 approved the adoption of a long-term share-based incentive program for certain key individuals with instructions to the Board of Directors to defer the measurement period after the AGM 2018 to occur after the end of the subscription period that the Board of Directors set pursuant to the decision to issue approved by the AGM. In the year, the company acquired a total of 2,464,990 shares. No share-related incentive program was granted to employees in 2018.

Authorization to issue new shares

The AGM 2018 authorized the Board to decide on the issue of shares on one or more occasions until the AGM 2019. 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.

DIVIDEND

Due to the company's ambition to grow through acquisitions and other means, as well as the company's debt/equity ratio, the Board of Directors is proposing that no dividend is paid for the financial year 2018.

CORPORATE GOVERNANCE REPORT

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

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. 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.

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 the LEO portfolio was financed through bank borrowings. 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 materially 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, input goods and finished 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.

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.

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.

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 the period.

Logistics
Incorrect or delayed deliveries, or non-delivery from the group's suppliers may then mean the group's shipments being inadequate or incorrect. There can be no guarantee

that the group's operations are not subject to regulatory restrictions, or that the group receives the necessary future regulatory approvals. There is a risk that the group's capability to develop products reduces, or products cannot be launched on schedule. These risks may involve reduced sales and negatively impact the group's results of operations.

IT

The company is exposed to risks related to IT. This may involve unauthorized access of the company's data systems, email and network connections. In exposed circumstances, virus and spam attacks can impact the company's whole operations.

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, NOK, DKK and EUR. 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 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 de-prioritized 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 regulators 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.

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 out-standing 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 2019:

- Share premium reserve SEK 2,942,220,000
- Retained earnings SEK -56,901,000
- Earnings for the year SEK 549,058,000

Total unappropriated earnings SEK 3,434,377,000

The Board of Directors proposes that the funds that the disposal of the meeting of SEK 3,434,377,000 are carried forward:

FINANCIAL STATEMENTS

GROUP AND PARENT COMPANY INCOME STATEMENTS

SEK 000	Note	GROUP 2018	GROUP 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
Net sales	1, 30	**1,615,109**	**657,606**	**655,551**	**39,269**
Cost of goods sold	3	–676,349	–315,703	–235,254	152
Gross earnings		938,760	341,904	420,297	39,420
OTHER OPERATING INCOME AND EXPENSES	2–5				
Selling expenses		–442,970	–198,609	–166,874	–5,518
Administrative expenses		–78,505	–43,650	–40,509	–19,158
Research & development expenses		–615	–4,355	–615	–4,355
Other operating income and expenses	5	–2,350	–15,385	–1,438	–1,444
		–524,440	**–262,000**	**–209,435**	**–30.474**
Earnings before interest and taxes		**414,320**	**79,904**	**210,861**	**8,946**
Profit/loss from financial income and expenses					
Profit/loss from participations in group companies		–	1,159	–3,266	–
Interest income, etc.	6	17,819	742	29,482	933
Loss on sale of shares and participations	14	–	–10,550	–	–10,550
Interest expenses, etc.	7	–141,974	–50,405	–139,636	–45,416
		–124,155	**–59,053**	**–113,420**	**–55,033**
Profit/loss after financial items		**290,165**	**20,851**	**97,442**	**–46,087**
Appropriations				55,862	65,537
Tax	8	367,227	–6,346	395,754	–62
NET EARNINGS		**657,392**	**14,505**	**549,058**	**19,388**
Earnings attributable to:					
Equity holders of the parent		657,376	14,516		
Non-controlling interests		16	–11		
Earnings per share attributable to equity holders of the parent (SEK)	9				
– based on weighted average number of outstanding shares before dilution[1)]		4.63	0.17		
– based on weighted average number of outstanding shares after dilution[1)]		4.63	0.17		

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

GROUP AND PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

SEK 000	GROUP 2018	GROUP 2017	MODERBOLAGET 2018	MODERBOLAGET 2017
Net earnings	657,392	14,505	549,058	19,388
Other comprehensive income for the year, net of tax				
Items reclassifiable to profit or loss				
Translation differences	23,482	–20,638	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**680,875**	**–6,133**	**549,058**	**19,388**
Total comprehensive income attributable to:				
Equity holders of the parent	680,859	–6,122		
Non-controlling interests	16	–11		

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

SEK 000		GROUP		PARENT COMPANY	
ASSETS, 31 December	Note	**2018**	2017	**2018**	2017
NON-CURRENT ASSETS					
Intangible assets	11				
Capitalized development expenditure		1,743	909	328	474
Licenses and product rights		3,549,759	1,411,859	2,294,740	75,806
Goodwill		1,873,187	1,510,342	330,142	–
Total intangible assets		**5,424,689**	**2,923,110**	**2,625,210**	**76,279**
Property, plant and equipment					
Equipment, buildings and land	12	16,793	14,498	152	16
Financial assets					
Participations in group companies	13	–	–	2,565,982	2,646,768
Deferred tax asset	20	530,950	79,550	481,814	75,000
Other financial assets	14	136	136	358,587	350,389
Total non-current assets	30	**5,972,568**	**3,017,293**	**6,031,745**	**3,148,452**
CURRENT ASSETS					
Current receivables					
Goods for resale	15	192,136	109,948	77,430	–
Accounts receivable	16	296,657	163,342	102,226	173
Other receivables		10,379	7,753	8,403	1,359
Receivables from group companies				89,090	124,379
Prepaid expenses and accrued income	17	14,319	4,925	6,691	1,163
		513,491	**285,968**	**283,840**	**127,074**
Cash and cash equivalents	18	398,580	838,586	198,004	695,191
Total current assets		**912,071**	**1,124,554**	**481,844**	**822,265**
TOTAL ASSETS		**6,884,639**	**4,141,848**	**6,513,589**	**3,970,715**

SEK 000		GROUP		PARENT COMPANY	
EQUITY AND LIABILITIES, 31 December	Note	**2018**	2017	**2018**	2017
EQUITY	19				
Share capital		65,733	41,367	65,733	41,367
Other paid-up capital		4,056,078	2,627,016		
Total restricted equity (parent company)				65,733	41,367
Share premium reserve (parent company)				2,942,221	1,513,158
Accumulated profit or loss (incl. comprehensive income for the year for the group)		–514,509	–1,062,069	-56,901	33,529
Translation difference		3,643	–19,839		
Non-controlling interests		56	40		
Net earnings (parent company)			0	549,058	19,388
Total non-restricted equity (parent company)				3,434,379	1,566,075
Total equity		**3,611,002**	**1,586,515**	**3,500,111**	**1,607,442**
LIABILITIES					
Non-current liabilities					
Deferred tax liabilities	20	144,479	89,537	–	–
Liabilities to group companies				12,609	12,271
Liabilities to credit institutions	21	1,833,103	1,448,352	1,835,255	1,451,856
Other non-current liabilities	21	2,980	4,271	26	26
Total non-current liabilities		**1,980,562**	**1,542,160**	**1,847,889**	**1,464,153**
Current liabilities					
Liabilities to credit institutions	21	1,070,143	816,069	1,070,860	816,069
Accounts payable		138,703	59,167	73,552	1,372
Liabilities to group companies				9,519	7,670
Tax liability		12,002	–	–	–
Other current liabilities	22	23,855	22,548	137	4,683
Accrued expenses and deferred income	23	48,371	115,388	11,521	69,327
Total current liabilities		**1,293,075**	**1,013,172**	**1,165,589**	**899,122**
TOTAL EQUITY AND LIABILITIES		**6,884,639**	**4,141,848**	**6,513,589**	**3,970,715**

CONSOLIDATED STATEMENT OF CASH FLOWS AND PARENT COMPANY CASH FLOW STATEMENT

SEK 000	Note	GROUP		PARENT COMPANY	
		2018	2017	**2018**	2017
Operating activities					
Earnings before interest and taxes		414,320	79,904	210,861	8,946
Non-cash items					
Depreciation, amortization and impairment	4	217,869	63,136	138,560	5,556
Other	25	–1,443	–2,575		0
		630,747	**140,464**	**349,421**	**14,502**
Financial income received	25	897	352	522	99
Financial expenses paid	25	–157,747	–48,338	–157,494	–39,925
Income taxes paid/recovered		–257	–2,292	–328	–931
Cash flow from operating activities before change in working capitall		**473,639**	**90,186**	**192,122**	**–26,255**
Change in working capital					
Change in inventories		–82,072	–11,931	–77,430,	–
Change in current operating receivables		–148,469	–9,060	–9,307	–459
Change in accounts payable		79,138	264	72,180	1,637
Change in other current operating liabilities		–4,205	–35,940	1,340	9,197
Cash flow from operating activities		**318,031**	**33,519**	**178,904**	**–15,880**
Investing activities					
Investments in property, plant and equipment	12	–4,033	–3,721	–157	–
Investments in intangible assets	11	–14,881	–4,075	–14,254	–4,075
Investments in other financial assets	14		–115,		–
Investments in business combinations/shares in subsidiaries	10, 13	–2,673,216	–1,256,086	–2,673,601	–1,340,426
Sales of participations in group companies	13			77,905	–
Loans to group companies			–		–350,368
Sale of financial assets			17,786		17,786
Sale of property, plant and equipment			397		0
Cash flow from investing activities		**–2,692,130**	**–1,245,814**	**–2,610,107**	**–1,677,083**
Financing activities	25				
New share issue		1,492,642	990,309	1,492,642	990,309
Repurchased shares		–76,951	–	–76,951	–
Transaction expenses, new share issue		–98,340	–25,523	–98,340	–25,523
Dividend paid		–32,867	–41,083	–32,867	–41,083
Borrowings		4,243,507	1,750,368	4,243,507	1,750,368
Amortization of loans		–3,596,753	–743,017	–3,596,753	–371,660
Cash flow from financing activities		**1,931,238**	**1,931,054**	**1,931,238**	**2,302,411**
CASH FLOW FOR THE YEAR		**–442,861**	**718,759**	**–499,964**	**609,448**
Cash and cash equivalents at beginning of year	18	838,586	121,346	695,191	85,743
Exchange rate difference in cash and cash equivalents		2,855	–1,519	2,777	–
Cash and cash equivalents at end of year	18	398,580	838,586	198,004	695,191

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 2017	**25,563**		**1,726,100**	**–1,035,572**	**799**	**122**	**717,012**
Comprehensive income				14,516	–20,638	–11	**–6,133**
							0
Transactions with shareholders							**0**
Transactions with non-controlling interests				71		–71	**0**
Share warrants							**0**
Dividend				–41,083			**–41,083**
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**	**–41,083**	–	**0**	**875,636**
Opening balance as of 1 January 2018	**32,866**	**8,501**	**2,627,016**	**–1,062,068**	**–19,839**	**40**	**1,586,515**
Comprehensive income	–		–	657,376	23,482	16	**680,875**
Transactions with shareholders							
Transactions with non-controlling interests							**0**
Share warrants							**0**
Dividend				–32,867			**–32,867**
Repurchase of treasury shares				–76,951			**–76,951**
New share issue in progress (net of transaction expenses)	8,501	–8,501					**0**
New share issue (net of transaction expenses and tax)	24,366		1,429,062,				**1,453,429**
Total transactions with shareholders	**32,867**	**–8,501**	**1,429,062**	**–109,818**	**0**	**0**	**1,343,612**
CLOSING BALANCE AS OF 31 DECEMBER 2018	**65,733**	**0**	**4,056,078**	**–514,509**	**3,643**	**56**	**3,611,002**

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	Profit or loss for the year	Total
Opening balance as of 1 January 2017	**25,563**	**0**	**612,243**	**0**	**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	**0**
Dividend				–41,083		**–41,083**
Opening balance as of 1 January 2018	**32,866**	**8,501**	**1,513,158**	**33,529**	**19,388**	**1,607,442**
Comprehensive income					549,058	**549,058**
Transactions with shareholders						
Share warrants						
New share issue (net of transaction expenses and tax)	24,366		1,429,062			**1,453,428**
New share issue in progress (net of transaction expenses)	8,501	–8,501				**0**
Appropriation of earnings				19,388	–19,388	**0**
Dividend				–32,867		**–32,867**
Repurchase of treasury shares				–76,951		**–76,951**
CLOSING BALANCE AS OF 31 DECEMBER 2018	**65,733**	**0**	**2,942,220**	**–56,901**	**549,058**	**3,500,111**

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 interpretations, as endorsed by the EU. They have been prepared in accordance with the cost method apart from financial assets held for sale, which are measured at fair value less sales overheads, and certain financial assets and liabilities (including derivative instruments), which are measured at fair value.

AMENDMENTS TO ACCOUNTING POLICIES AND DISCLOSURES

New standards, amendments and interpretations applied by the group

No standards, amendments and interpretations that come into effect for financial years beginning 1 January 2018 have a material impact on the consolidated financial statements.

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 IF-RIC. 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 group applied this 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 group applied this standard effective 1 January 2018.

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

A number of new standards and interpretations 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. The Standard formalizes the recognition of leases and will replace IAS 17 Leases and the associated interpretations, 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. IFRS 16 is being applied retroactively without restating comparative figures. Accordingly, the opening balance for 2019 has been restated pursuant to the new Standard. Because the group applies a future-oriented period, the liability is based on the remaining lease term. None of the other IFR S or IFRIC interpretations that have yet to come into effect are expected to have any material impact on the group. See also note 26.

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. SEK m is an abbreviation of millions of Swedish kronor. Amounts or figures in brackets are comparative figures for 2017.

Important 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.

In acquisitions, pursuant to IFRS 3 Business Combinations, the group judges whether the transaction is a business combination or acquisition of assets. When the transaction is considered as a business combination, all identifiable assets and liabilities of the acquired entity are identified and measured at fair value. When the fair value cannot be measured reliably, the value is included in goodwill. When a transaction is considered as an asset acquisition, individual identifiable assets and liabilities taken over are identified and recognized. Cost is allocated between individual assets and liabilities based on their relative fair values at the acquisition date. An asset acquisition does not give rise to goodwill. For more information, see below for each accounting and valuation policy, as well as note 11. Deferred tax assets include SEK 632,646,000 of loss carry-forwards for Karo Pharma AB and its Norwegian subsidiary. The deficit in the parent company arose in previous years when the company did not conduct research operations and did not generate any ongoing revenues. Nor did the Norwegian entity (Weifa) acquired in 2017 have any material loss carry-forwards on the acquisition date. The Board and management judges that loss carry-forwards will be usable against future taxable surpluses. This opinion is based on the business plan and budget set for the group. The parent company and subsidiary currently report tax loss carry-forwards, and are expected to do so in future. The tax last carry-forwards can be rolled on, and have no expiry.

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 control-ling 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 sub-

sidiary, 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 11. 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 2018, the value of product rights was SEK 3,549.8 m (1,524.4).

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

The group sells prescription pharmaceuticals (Rx), over-the-counter pharmaceuticals (OTC) and other health-related products through pharmacies and retailers. Sales are recognized as revenues when control over the goods transfers, which occurs when goods are delivered to pharmacies or retailers. Delivery occurs when goods have been transported to the specific location, and the risk of obsolete or outdated goods has transferred to the retailer (for OTC and other health products). For Rx products, the risk of outdated goods remains with Karo Pharma and a provision for returns is made to the extent judged as necessary.

Products are often sold with volume discounts based on cumulative sales over a 12-month period. Revenue from the sale of products is recognized based on pricing in the agreement, deducting for estimated volume discounts. Historical data is used to estimate discounting for expected values and revenues are recognized only to the extent it is very likely that significant reversal will not occur. A receivable is recognized when the goods have been delivered, because at this point, remuneration becomes unconditional.

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 obligations that Karo Pharma has not yet fulfilled, are allocated over the term of the agreement for which Karo Pharma fulfils its obligations. 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 carryforwards 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 8 and 20. 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 11.

Changes in expected useful lives or expected usage 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 circum-stances 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	5
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 IFRS 9 Financial Instruments: Recognition and Measurement are classified either as financial assets measured at fair value through profit or loss, or via other comprehensive income, and financial assets recognized at amortized cost. 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.

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 of 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 29.

Accounts receivable and other receivables
The group applies the simplified approach for measuring expected credit losses (ECL). This approach means that

expected losses throughout the term of the receivable are used as the starting-point for accounts receivable. To measure ECL, accounts receivable are grouped based on the number of days' arrears.

Accounts receivable are written off when there is no reasonable expectation of repayment. Indicators that there is no reasonable expectation of repayment include the customer not complying with a repayment plan, or contracted payments being over 30 days in arrears. Credit losses on accounts receivable are recognized as credit losses—net within earnings before interest and taxes. Recovery of amounts previously written off are recognized against the same Income Statement line.

Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet consist of cash and bank balances and investments in securities 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 18 and 29 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

AProvisions are recognized when the group has a legally enforceable or constructive obligation resulting from an event that has occurred, and when it is likely that an outflow of resources will be necessary to fulfil that obligation, and the amount can be measured reliably. Expenses relating to provisions are recognized in profit or loss net of potential settlement. Contingent considerations are recognized as provisions.

Contingent liabilities

A contingent liability is recognized when there is a potential obligation sourced from events that have occurred, and whose incidence is confirmed only by one or several uncertain future events, or where there is an obligation 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 obligations 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 2018, 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 SEK 0.3 m (2017: 0.3). The group's share of the aggregate expenses for the plan amount to 0.002% (2017: 0.002%).

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.

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 30.

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 on the financial statements

Note 1 Net sales

Sales in 2018, of SEK 1,528 m (640), mainly consisted of product sales.

Sales by category

SEK m	2018	2017	2016	2015
Rx (prescription pharmaceuticals)	747.1	232	8.9	0
OTC (over-the-counter pharmaceuticals)	389.4	66	3.7	0
Other health-related products[1)]	478.6	359.6	334.7	334.7
GRAND TOTAL	1,615.1	657.6	347.3	334.7

Revenues, group

SEK 000	2018	2017
Sweden	475,809	407,270
Norway	546,270	193,198
Denmark	130,409	10,980
Finland	52,110	15,411
Iceland	2,983	399
Europe	236,081	2,160
US[1)]	86,801	17,936
Rest of world	84,647	10,252
GRAND TOTAL	1,615,109	657,607

1) Includes milestone payments received from Pfizer of SEK 87 m (18).

Karo Pharma's top-selling pharmaceuticals, 2018

Product	Sales, SEK 000
Paracet	153,572
Selexid[2)]	132,917
Locobase[2)]	117,580
Burinex[2)]	107,654
Kaleorid[2)]	107,012
Ibux	97,077
Mollipect	88,082
Paralgin forte	54,867
Lithionit	44,128
Centyl[2)]	40,775
TOTAL	943,664

2) Sales for 9 months.

Note 2 Personnel and remuneration to the Board of Directors and senior executives

	2018		2017	
Average number of employees	No. of employees	of which men	No. of employees	of which men
Parent company	3	1	4	1[1)]
Group companies				
Sweden	64	31	54	30
Denmark	1	0		
Finland	2	1		
Norway	20	4	32	6
TOTAL	90	37	91	38

SEK 000	2018		2017	
Salaries, other benefits and social security contributions	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)]	12,355	1,490 (546)	7,122	2,129 (787)
Other employees				
Parent company	4,829	3,253 (1,327)	3,488	2,428 (933)
Group companies				
Sweden	26,325	12,990 (3,098)	26,614	12,127 (3,504)
Denmark	794	30 (30)		
Finland	1,476	620 (280)		
Norway	19,632	8,933 (2,924)	16,031	3,192 (503)
	65,411	27,316 (8,205)	53,255	19,876 (5,727)

1) SEK 3,923,000 (3,337,000) of salaries and benefits relate to the Chief Executive Officer.

Note 2 cont. —Personnel and remuneration to the Board of Directors and senior executives

Compensation and other benefits to senior executives in 2018 (SEK 000)

		Directors' fees/basic salary	Variable remune-ration	Other benefits	Other compen-sation	Social se-curity con-tributions	Pension expenses	Total
Board of Directors								
Anders Lönner[1)]		475			7,207	78		**7,759**
Per-Anders Johansson		188				59		**246**
Thomas Hedner		188				59		**246**
Marianne Hamilton		188				31		**218**
Håkan Åström[2)]		188				31		**218**
Senior executives								
Peter Blom, Chief Executive Officer	Jan-Dec	2,900	2,186	87		1,625	679	**7,477**
Other senior executives		3,760	818			1,046	467	**6,091**
		7,887	3,004	87	7,207	2,929	1,146	22,260

1) Over and above this compensation, Anders Lönner received a total of SEK 17 m of compensation for guarantee commitments.
2) Over and above this compensation, Håkan Åström received a total of SEK 1.2 m of compensation for guarantee commitments.

For more information, see note 31 Transactions with related parties..

Compensation and other benefits to senior executives in 2017 (SEK 000)

		Directors' fees/basic salary	Variable remune-ration	Other benefits	Other compen--sation	Social security contribu-tions	Pension expenses	Total
Board of Directors								
Anders Lönner		440			2,479[1)]	72		**2,991**
Per-Anders Johansson		167			250[2)]	131		**548**
Thomas Hedner		167				52		**219**
Marianne Hamilton		117				19		**136**
Håkan Åström		117				19		**136**
Jean Lycke (from AGM 2017 onwards)		50						**50**
Senior executives								
Maria Sjöberg, Chief Executive Officer	Jan-11 May	1,425				448	429	**2,303**
Peter Blom, Chief Executive Officer	May-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 SEK 52.7 m of commission and compensation for guarantee commitments. For more information, see note 30.
2) Per-Anders Johansson received compensation of SEK 250,000 for services rendered in tandem with the acquisition of Weifa AS.

Note 2 cont. — Personnel and remuneration to the Board of Directors and senior executives

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 475,000, and each of the other Directors that are not employees or have consulting assignments with the company, receive SEK 187,500 in accordance with a resolution by the AGM 2018. A total of SEK 1,225,000 (1,057,000) was paid as Directors' fees in 2018. 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 2018, the Chairman of the Board received a fee in his capacity as Executive Chairman of a total of SEK 7,207,000. Total expensed compensation in 2018 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 approved by the AGM 2018 and the Board of Directors' proposed guidelines to be adopted by the AGM 2019 are presented in the Statutory Administration Report. A review of the application of guidelines in 2018 follows.

Senior executives receive fixed basic monthly salary, and certain senior executives enjoyed benefits such as health care insurance in 2018. In 2018, 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 pro-vides no pension benefits on annual incomes currently exceeding SEK 1,779,000.

At year-end 2018, apart from the Chief Executive Officer, Peter Blom, senior executives were the following three (three) people: Mats-Olof Wallin, CFO in Sep-Dec, Camilla Lönn, CFO in Jan-Aug, and Carl Lindgren, Vice President.

Agreements on severance pay
The Chief Executive Officer has a notice period of 12 months and entitlement severance pay corresponding to 12 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
In the period, one Karo Pharma subsidiary sold two products under license from a company owned by Chairman of the Board Anders Lönner, Beampoint AB. This subsidiary received commission of 15% of sales. The value of the commission was SEK 100,000 (532,000 in 2017).

A rights issue that commenced in December 2017 was completed in January 2018. Chairman of the Board Anders Lönner provided a guarantee for 89% of this issue of SEK 794 m. Guarantee compensation was 5%, which meant that SEK 35.5 m 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.

A rights issue that commenced in May 2018 was completed in June 2018. Chairman of the Board Anders Lönner, Director Håkan Åström and a shareholder, Leif Edlund, guaranteed to subscribe for up to approximately 82.2% of this issue. Guarantee compensation was 2.5%, which meant that SEK 17.0 m was paid to Anders Lönner, and SEK 1.2 m to Håkan Åström in June 2018.

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 AB, for SEK 74,000. Anders Lönner did not participate in the decision to purchase Viruseptin.

The transaction was executed in September 2018.

Anders Lönner invoiced consulting fees of SEK 7.2 m from his company Ålstens Gård AB for business development work with Karo Pharma.

Note 3 Operating expenses by cost class

Operating expenses are allocated by cost class as follows

SEK 000		GROUP		PARENT COMPANY	
Other operating income and expenses	Note	**2018**	2017	**2018**	2017
Depreciation and amortization		–217,871	–61,744	–138,560	–4,162
Personnel expenses		–91,348	–70,779	–8,170	–9,019
Cost of premises		–10,629	–4,321	–3,151	–911
External expenses		–202,242	–109,771	–58,117	–14,938
Other operating income and expenses	5	–2,350	–15,385	–1,438	–1,445
		–524,440	**–262,000**	**–209,435**	**–30,474**

Cost of goods sold, SEK 000	Note	**2018**	2017	**2018**	2017
Goods for resale		–676,349	–315,703	–235,254	152
		–676,349	**–315,703**	**–235,254**	**152**

Note 4 Depreciation and amortization

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

SEK 000	Note	GROUP 2018	GROUP 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
Function					
Selling expenses		216,117	61,561	138,539	4,154
Administrative expenses		1,749	173	16	
Research and development expenses		5	9	5	9
		217,871	**61,743**	**138,560**	**4,163**
Asset class					
Capitalized development expenses	11	216	175	146	146
Licenses and product rights	11	215,900	60,116	121,017	3,979
Goodwill	11	0	0	17,376	0
Equipment, buildings & land	12	1,754	1,452	21	38
		217,871	**61,743**	**138,560**	**4,163**

Note 5 Other operating income and expenses

SEK 000	GROUP 2018	GROUP 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
Exchange rate gains and losses, net	–3,200	–3,289	–1,791	–594
Acquisition expenses		–13,096		–850
Municipal subsidies	58	1,000		
Expenses reinvoiced	791		353	
	–2,350	**–15,385**	**–1,438**	**–1,444**

Note 6 Interest income, etc.

SEK 000	GROUP 2018	GROUP 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
Interest income, capital gain/loss and dividends from investments in securities, etc.	17,819	742	14,730	64
Interest income, group companies			14,752	869
Unrealized gains and losses on market valuation		–		–
	17,819	**742**	**29,482**	**933**

Note 7 Interest expenses, etc.

SEK 000	GROUP 2018	GROUP 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
Interest expenses, group companies	–	–	–357	–364
Interest expenses	–101,939	–37,821	–101,939	–35,334
Other financial expenses[1)]	–40,035	–12,584	–37,339	–9,718
	–141,974	**–50,405**	**–139,636**	**–45,416**

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 8 Income tax

SEK 000	GROUP		PARENT COMPANY	
	2018	2017	**2018**	2017
Accounted earnings before tax	290,165	20,851	153,304	19,450
Tax at nominal tax rate of 22.0%	–63,836	–4,589	–33,727	–4,279
Tax effect of foreign tax rates	–732	–103	–	–
Tax effect of amended tax rates, Norway	–6,566	–3,499	–	–
Tax effect of amended tax rates, Sweden	6,420	–	–	–
Tax effect of deductible non-expensed items	–	13,495	–	13,495
Tax effect of adjustment of previous year's tax	43	305	–	–62
Tax effect of other non-deductible items	–3,205	–3,608	–1,313	–16
Tax effect of non-taxable income	4,120	515	–	–
Taxable effects from tax assets not assigned value	35,229	–	35,040	–
Tax effect of previous, no longer capitalized loss carry-forwards	–	–8,782	–	–9,200
Tax effect of previously uncapitalized loss carry-forwards	–	–80	–	–
Tax effect of income taxes recoverable recognized as an asset	395,754	–	395,754	–
Tax on accounted earnings	**367,227**	**–6,346**	**395,754**	**–62**

The tax expense consists of the following components:

SEK 000	GROUP		PARENT COMPANY	
	2018	2017	**2018**	2017
Current tax				
On earnings for the year	–15,126	–485	–	–
Adjustment of previous year's tax	43	305	–	–62
Total current tax	**–15,083**	**–180**	–	**–62**
Deferred tax:				
Change in temporary differences	20,058	9,781	–	–
Increase in deductible loss carry-forwards	395,754	–	395,754	–
Utilization of deductible loss carry-forwards	–33,502	–15,947	–	–
	382,310	**–6,166**	**395,754**	–
TOTAL REPORTED TAX	367,227	–6,346	395,754	–62

As of 31 December 2018, there were deductible loss carry-forwards of approximately SEK 3,021 m (3,226) in the group and SEK 2,335 m (2,443) 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 the parent company, whose earnings capacity remains favorable and these accumulated deficits are judged to be usable. See also note 20 Deferred tax.

Note 9 Earnings per share

For 2018, 100% of net earnings are attributable to the equity holders of the parent. For 2017, 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 average 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 issues 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 28.

Number of outstanding shares (000)	2018	2017
At beginning of year	82,166	63,907
Average number[1)]	141,888	84,217
At end of year	164,333*	82,166

Earnings per share	2018	2017
Earnings attributable to equity holders of the parent	657,376	14,516
Weighted average number of outstanding shares[1)]	141,888	84,217
Basic earnings per share[1)]	4.63	0.17
Diluted earnings per share[1)]	4.63	0.17

1) Including the bonus issue element of the new issue and outstanding share warrants not having any dilution effect.
* of which 2,464,990 held in treasury.

Note 10 Acquisitions

In April 2018, Karo Pharma AB acquired a product portfolio from Danish pharmaceutical company LEO Pharma A/S for EUR 260 m.

This portfolio consists of 10 established pharmaceuticals, featuring stable sales and profitability.

The acquired products contributed net sales of SEK 555 m, and a gross margin of 59% in the period April-December.

The definitive acquisition analysis of the portfolio draws an allocation between product rights and goodwill of 87% and 13% respectively.

On 4 April 2018, Karo Pharma required an operation from LEO Pharma (the LEO portfolio). This transaction is an asset transfer, and includes a product portfolio of recognized pharmaceutical brands, and a platform for their onward development in Scandinavia, the rest of Europe and the rest of the world.

The purchase consideration is SEK 2,673 m. The assets acquired are product and market rights.

Inventories were progressively taken over through 2018. The remainder of the inventories will be acquired in 2019.

The acquisition consist only of assets that were part of an integrated operation with the previous owner, and do not have any separate historical financial information, nor are they a separate operation with the associated assets, liabilities and obligations. This means that a pro forma income statement, as if the acquisition had been conducted on 1 January 2018 and that gives a true and fair view cannot be prepared.

Acquisition-related expenses for Karo Pharma AB amount to SEK 0.5 m. The purchase consideration is SEK 2,673 m. Because no cash and cash equivalents were acquired, the cash outflow is consistent with the purchase consideration.

The acquisition analysis of the acquisition of the LEO operation is definitive.

The company has evaluated the future potential and useful lives of the acquired products. After a review of the acquisition analysis, 13% of the purchase consideration has been classified as goodwill, 87% as product and market rights. These rights are amortized over 15 years at group level.

Karo Pharma has progressively taken over management of these products. During a transition period, LEO Pharma will manage the product portfolio on behalf of Karo Pharma, for market compensation. According to the contract, the transition period can amount to 24 months.

Note 11 Goodwill, products, licenses and similar rights

SEK 000	GROUP							
	2018				2017			
	Licenses and product rights	Capitalized development expenditure	Goodwill	**Total**	Licenses and product rights	Capitalized development expenditure	Goodwill	**Total**
Opening cost	1,524,441	1,193	1,510,342	**3,035,976**	753,982	728	730,725	**1,485,435**
Increase through business combinations	2,325,698	0	347,518	**2,673,216**	778,777	465	792,247	**1,571,489**
Purchases in the year	13,790	1,090	–	**14,880**	4,075		–	**4,075**
Sales/impairment	–	–	–	–	–1	0	0	**–1**
Translation difference	14,935	–40	15,328	**30,223**	–12,392	0	–12,630,	**–25,022**
Closing accumulated cost	**3,878,864**	**2,243**	**1,873,187**	**5,754,294**	**1,524,441**	**1,193**	**1,510,342**	**3,035,976**
Opening amortization	–112,582	–284	–	**–112,866**	–53,314	–109	–	**–53,423**
Amortization for the year	–215,900	–216	–	**–216,116**	–60,116	–175	–	**–60,291**
Impairment for the year	–	–	–	–	0	0		**0**
Translation difference	–623	–	–	**–623**	848	0	–	**848**
Closing accumulated amortization	**–329,105**	**–500**	–	**–329,605**	**–112,582**	**–284**	–	**–112,866**
CLOSING RESIDUAL VALUE	3,549,759	1,743	1,873,187	5,424,689	1,411,859	909	1,510,342	2,923,110

SEK 000	PARENT COMPANY							
	2018				2017			
	Licenses and product rights	Capitalized development expenditure	Goodwill	**Total**	Licenses and product rights	Capitalized development expenditure	Goodwill	**Total**
Opening cost	158,483	728	–	**159,211**	154,408	728	–	**155,136**
Increase through business combinations	2,325,698	–	347,518	**2,673,216**	–	–	–	**0**
Purchases in the year	14,254	–		**14,254**	4,075		–	**4,075**
Sales/impairment	–	–	–	**0**	–	–	–	**0**
Translation difference	–	–	–	**–**	–	–	–	**0**
Closing accumulated cost	**2,498,435**	**728**	**347,518**	**2,846,681**	**158,483**	**728**	**–**	**159,211**
Opening amortization	–82,678	–255		**–82,933**	–78,699	–109	–	**–78,808**
Amortization for the year	–121,017	–146	–17,376	**–138,539**	–3,979	–146	–	**–4,125**
Impairment for the year	–	–	–	**–**	–	–	–	**0**
Translation difference	–	–	–	**–**	–	–	–	**0**
Closing accumulated amortization	**–203,695**	**–400**	**–17,376**	**–221,472**	**–82,678**	**–255**	**–**	**–82,933**
CLOSING RESIDUAL VALUE	2,294,740	328	330,142	2,625,210	75,805	473	–	76,279

Goodwill per cash generating unit	**2018**	2017
Karo Pharma AS	794,944	779,617
BioPhausia	494,551	494,551
Karo Pharma AB, LEO acquisition	347,518	
Other	236,174	236,174

Material assumptions when measuring value in use

The group conducts impairment tests on product rights and goodwill yearly. Impairment tests are conducted on each 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 forecasts for the following 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%, the recoverable amounts of the tested units exceed 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 all the tested units, apart from Karo Pharma AS. 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 12 Equipment, buildings and land, etc.

SEK 000	GROUP							PARENT COMPANY			
	2018				2017			2018			2017
	Equipment	Buildings and land	Construction in progress and advances	Total	Equipment	Buildings and land	Total	Equipment	Construction in progress and advances	Total	Equipment
Opening cost	14,960	9,682		**24,642**	10,728	9,682	**20,410**	11,116		**11,116**	11,116
Increase through business combinations	–	–		**–**	987	0	**987**	–	–	**0**	–
Purchases in the year	2,200	–	1,835	**4,035**	3,722		**3,722**	62	96	**157**	–
Sales and retirements	–	–	–	**–**	–431	–	**–431**	–	–	**–**	–
Translation difference	4	–	–	**4**	–46	–	**–46**	–	–	**–**	–
Closing accumulated cost	**17,163**	**9,682**	**1,835**	**28,680**	**14,960**	**9,682**	**24,642**	**11,178**	**96**	**11,273**	**11,116**
Opening depreciation	–9,598	–546	–	**–10,144**	–7,977	–136	**–8,113**	–11,100	–	**–11,100**	–10,450
Accumulated depreciation through business combinations	0	–	–	**0**	–169		**–169**	–	–	**–**	–
Sales and retirements	0	–	–	**0**	197		**197**	–	–	**–**	
Depreciation for the year	–1,343	–411	–	**–1,754**	–1,042	–410	**–1,452**	–21	–	**–21**	–38
Impairment for the year	–	–	–	**0**	–	–	–	–	–	**–**	–
Reclassification	–	–	–	**0**	–612	–	**–612**	–	–	**–**	–612
Translation difference	11	–	–	**11**	5	–	**5**	–	–	**–**	–
Closing accumulated depreciation	**–10,930**	**–957**	–	**–11,887**	**–9,598**	**–546**	**–10,143**	**–11,121**	–	**–11,121**	**–11,100**
CLOSING RESIDUAL VALUE	6,233	8,725	1,835	16,793	5,362	9,136	14,498	56	96	152	16

Note 13 Participations in group companies

SEK 000	PARENT COMPANY	
	2018	2017
Opening cost	2,682,252	1,343,851
Acquisitions	385	1,338,401
Divestments[1)]	–81,171	
Closing accumulated cost	**2,601,466**	**2,682,252**
Opening impairment	–35,484	–35,484
Impairment	0	
Closing accumulated impairment	**–35,484**	**–35,484**
CLOSING BOOK VALUE	2,565,982	2,646,768

1) Karo Pharma Oslo AS was merged into Karo Pharma AS in 2018.

Name	Reg. office	Corporate ID no.	Participating interest	No. of shares	Book value
Karo Pharma Research AB	Huddinge, Sweden	556588-3641	100%	1,000	100
Karo Bio Discovery AB	Huddinge, Sweden	556880-1541	100%	50,000	50
Karo Pharma Med AB	Stockholm, Sweden	556757-3158	100%	1,803	15,000
Karo Pharma Sverige AB	Stockholm, Sweden	556767-3784	100%	157,011	283,074
MedCore AB	Stockholm, Sweden	556470-2065	99%	47,054,878	–
Bio Phausia AB	Stockholm, Sweden	556485-0153	100%	342,564,194	928,973
Medireduce AB	Stockholm, Sweden	556082-8550	100%	9,300	3,407
Karo Pharma Norge AS	Oslo, Norway	983 733 506	100%	36,472,069	1,334,994
Karo Pharma ApS	Copenhagen, Denmark	39 503 778	100%	2,000	281
Karo Pharma Oy	Turku, Finland	2915559-1	100%	10,000	104
TOTAL SHARES AND PARTICIPATIONS IN GROUP COMPANIES				426,322,255	2,565,982

1) Karo Pharma Oslo AS was merged into Karo Pharma AS in 2018.

Note 14 Other financial non-current assets

	GROUP		PARENT COMPANY	
SEK 000	**2018**	2017	**2018**	2017
Opening cost	136	28,357	350,389	28,357
Receivable, group companies			8,198	350,368
Guarantee, Swedish Customs Authority		115		
Sale of listed shares[1)]		–28,336		–28,336
CLOSING ACCUMULATED COST	**136**	**136**	**358,587**	**350,389**

1) The sale of listed shares generated a capital loss of approx. SEK 10 m.

Note 15 Inventories

	GROUP		PARENT COMPANY	
SEK 000	**2018**	2017	**2018**	2017
Finished goods	185,793	109,847[1)]	71,187	0
Input goods	6,343	101[1)]	6,242	0
CLOSING BOOK VALUE	**192,136**	**109,948**	**77,430**	**0**

1) Karo Pharma AB acquired a product portfolio from Danish pharmaceutical company LEO Pharma A/S, consisting of 10 established pharmaceuticals, in 2018.

Note 16 Accounts receivable

	GROUP		PARENT COMPANY	
SEK 000	**2018**	2017	**2018**	2017
Not overdue	206,341	124,142	60,211	–325
Overdue 1–30 days	88,244	38,921	41,562	497
Overdue 31–60 days	1,721	244	399	–
Overdue 61–90 days	873	288	55	–
Overdue >91 days	–521	–254	–	–
CLOSING BOOK VALUE	**296,657**	**163,342**	**102,226**	**173**

Note 17 Prepaid expenses and accrued income

	GROUP		PARENT COMPANY	
SEK 000	**2018**	2017	**2018**	2017
Prepaid rent	712	714	712	714
Prepaid insurance	1,301	809	560	349
Prepaid licenses and other IT-related expenses	447	650	136	90
Goods in transit	8,829			
Market expenses	851			
Other	2,179	2,752	5,283	10
	14,319	**4,925**	**6,691**	**1,163**

Note 18 Cash and cash equivalents

	GROUP		PARENT COMPANY	
As of 31 December, SEK 000	**2018**	2017	**2018**	2017
Cash and bank balances[1) 2)]	398,580	838,586[1),2)]	198,004	695,191
	398,580	**838,586**	**198,004**	**695,191**

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.
2) The scale of the cash position decreased compared to 2017 due to the purchase of inventories from LEO Pharma.

Note 19 Shareholders' equity

Share capital as of 31 Dec. 2018	No. of shares	Quotient value	SEK 000
Registered share capital			
Ordinary shares	164,332,782[3)]	0.40	65,733
	164,332,782	**0.40**	**65,733**

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**

3) of which 2,464,990 treasury shares.

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 2018 and 2017 was as follows:

SEK 000	**2018**	2017
Total borrowings	2,903,246	2,280,725
Less: cash and cash equivalents	–398,580	–838,586
Less: investments in securities, etc.	–136	–136
Net debt	2,504,531	1,442,003
Total equity	3,611,002	1,586,515
Total capital	6,884,639	4,141,848
Debt/equity ratio	36%	35%

Note 20 Deferred tax

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

	GROUP		PARENT COMPANY	
SEK 000	**2018**	2017	**2018**	2017
Deferred tax assets:				
Deferred tax assets to be utilized after more than 12 months	608,526	246,988	470,122	75,000
Deferred tax assets to be utilized within 12 months	40,236	26,767	11,692	–
	648,762	**273,755**	**481,814**	**75,000**
Offset	–117,812	–194,205	–	0
ACCOUNTED DEFERRED TAX ASSET	**530,950**	**79,550**	**481,814**	**75,000**
Deferred tax liabilities:				
Deferred tax liabilities to be paid after more than 12 months	247,412	262,206	–	–
Deferred tax liabilities to be paid within 12 months	14,878	21,536	–	–
	262,290	**283,742**	**–**	**–**
Offset	–117,812	–194,205	–	–
ACCOUNTED DEFERRED TAX LIABILITY	**144,479**	**89,537**	**–**	**–**

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

	GROUP 2018			GROUP 2017			**PARENT COMPANY 2018**			PARENT COMPANY 2017		
SEK 000	Receivables	Liabilities	Net	Receivables	Liabilities	Net	Receivables	Liabilities	Net	Receivables	Liabilities	Net
Intangible assets	15,196	254,403	–239,207	19,697	276,744	–257,047	–	–	–	–	–	–
Untaxed reserves	–	7,888	–7,888	–	6,998	–6,998	–	–	–	–	–	–
Loss carry-forwards	632,646	–	632,646	253,140	–	253,140	481,814	–	481,814	75,000	–	75,000
Other	920	–	920	918		918	–	–	–	–	–	–
TAX ASSETS AND LIABILITIES, NET	**648,762**	**262,291**	**386,471**	**273,755**	**283,742**	**–9,987**	**481,814**	**–**	**481,814**	**75,000**	**0**	**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. 2017	–257,047	–6,998	253,140	918	**–9,987**
Acquisition of operations					**0**
Translation difference	–2,296		5,363	21	**3,088**
Through equity			11,060		**11,060**
Through profit or loss	20,137	–890	363,083	–19	**382,310**
As of 31 Dec. 2018	**–239,206**	**–7,888**	**632,646**	**920**	386,471

The group has deductible deficits totaling SEK 3,020,623,000, which corresponds to a value for tax purposes of a total of SEK 632,646,000. The group has deferred tax assets relating to loss carry-forwards not recognized in its Balance Sheet of SEK 0,000 (464,244,000). The deferred tax assets on loss carry-forwards recognized in the Balance Sheet of SEK 632,646,000 (253,140,000) 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. See also note 8. The group's existing loss carry-forwards are not subject to any time limitation. After its recent acquisitions, the parent company has very good earnings capacity.

Note 21 Financial liabilities

SEK 000	GROUP		PARENT COMPANY	
Amounts as of 31 December	**2018**	2017	**2018**	2017
Within one year	1,070,143	816,069	1,070,860	816,069
Between two and five years	1,836,084	1,452,623	1,835,281	1,451,882
Later than five years	–	–	–	–
	2,906,227	**2,268,692**	**2,906,141**	**2,267,951**
Liabilities to credit institutions	2,923,965	2,280,725	2,923,965	2,280,725
Deposit	26	26	26	26
Provisions	2,955	4,245	–	–
Allocated expenses during the term of the loan	–20,719	–16,304	–17,850	–12,800
	2,906,227	**2,268,692**	**2,906,141**	**2,267,951**

The group has three loans of different maturities and interest terms. A short-term loan of SEK 1,000 m that accrues STIBOR +3.5% interest has been extended from 15 March 2019, and matures in February 2020, with a further 12-month extension option. The second loan is a five-year facility divided into two currencies, of SEK 739 m and NOK 534 m, with the SEK portion accruing STIBOR 3.5% and the NOK portion accruing NIBOR 4.78%, which was arranged in April 2018.

The third loan is a five-year facility divided into two currencies, of EUR 41 m and SEK 217 m, which was arranged in April 2018 and accrues STIBOR +3.5%.

The terms of the above loans require the company to satisfy specific covenants, see below. In 2018, 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, liabilities to credit institutions per year, principal and interest	**2018**	2017	**2018**	2017
2018		872,902		872,902
2019	1,183,627	277,304	1,183,627	277,304
2020	141,255	269,230	141,255	269,230
2021	134,313	475,166	134,313	475,166
2022	127,777	576,880	127,777	576,880
2023	1,711,618		1,711,618	
	3,298,590	**2,471,483**	**3,298,590**	**2,471,483**

Collateral of SEK 2,718 m (2,674) has been pledged for liabilities to credit institutions. Collateral for borrowing primarily consists of shares in subsidiaries. The fair value of the group's liabilities to credit institutions is consistent with carrying amount because the interest on this borrowing is on a par with current market interest rates.

Note 22 Other current liabilities

	GROUP		PARENT COMPANY	
SEK 000	**2018**	2017	**2018**	2017
Value added tax, withholding tax, etc.	23,855	22,548	137	4,683
	23,855	**22,548**	**137**	**4,683**

Note 23 Accrued expenses and deferred income

SEK 000	GROUP		PARENT COMPANY	
	2018	2017	**2018**	2017
Accrued personnel-related items	16,190	21,210	1,425	4,493
Deferred income	0	0	–	
Accrued interest expenses	914	14,080	914	14,080
Accrued customer returns for product expiration	5,522	716	4,807	
Accrued research and development expenses	359	359	359	359
Accrued expenses for market support and kickbacks	3,313	10,473	34	
New share issue expenses	0	48,067	0	48,067
Other items	22,072	20,484	3,981	2,328
	48,371	**115,388**	**11,521**	**69,327**

Note 24 Contingent liabilities, etc.

SEK 000	GROUP		PARENT COMPANY	
Pledged assets	**2018**	2017	**2018**	2017
Shares in subsidiaries	2,677,500	2,634,286	2,562,051	2,643,212
Floating charge	107,372	40,000	–	–
Factored accounts receivable		–	–	–
Contingent liabilities		–	–	–

Note 25 Supplementary information, Cash Flow Statement

SEK 000	GROUP		PARENT COMPANY	
	2018	2017	**2018**	2017
Items not affecting liquidity, other:				
Capital gain/loss, non-current assets		235	–	–
Share participations received		–	–	–
Liquidation of reserve		–2,300	–	–
Other items	–1,443	–510	–	–
	–1,443	**–2,575**	**0**	**0**
Interest received	897	352	522	99
Interest paid	–118,835	–30,834	–118,582	–25,925
Loan arrangement fee paid	–38,912	–17,504	–38,912	–14,000

SEK 000 Reconciliation of net debt	Cash and cash equivalents	Investments in securities, etc.	Loan liabilities due within one year	Loan liabilities due after one year	**Total**
Net debt as of 1 Jan. 2018	**838,586**	**136**	**–816,069**	**–1,464,656**	**–1,442,003**
Cash flow	–442,861		–258,991	–387,762	**–1,089,614**
Exchange rate differences	2,855			3,513	**6,368**
Non-cash items					**0**
Acquisitions of subsidiaries					**0**
Net debt as of 31 Dec. 2018	398,581	136	–1,075,060	–1,848,905	–2,525,248

Note 26 Operating leases

SEK 000	GROUP		PARENT COMPANY	
	2018	2017	**2018**	2017
The operating lease payments in the year are for:				
Premises rent	7,729	5,824	3,151	894
Other lease payments	1,599	599		1
	9,328	**6,423**	**3,151**	**895**
Future minimum operating lease payments:				
Within one year	7,429	7,989	2,543	2,880
After more than one year but within five years	16,465	25,412		5,760
After more than five years	0	1,739		
	23,894	**35,140**	**2,543**	**8,640**

Future minimum operating lease payments are mainly lease contracts on the group's premises at Nybrokajen 7, Stockholm, Sweden, as well as the premises at Östesjöveien 27, Oslo, Norway and Joukahaisenkatu 6, Turku, Finland. The lease contracts expire in 2020 in Stockholm, and in 2023 in Oslo and Turku.

NEW ACCOUNTING POLICIES FOR 2019

Karo Pharma will start applying the new accounting standard *IFRS 16 Leases* effective 1 January 2019. IFRS 16 will be applied retroactively without restating comparative figures. Accordingly, the opening balance for 2019 has been restated pursuant to the new Standard. Because we use a future-oriented period, the liability is based on the remaining lease term: the reported right-of-use asset will not have the same value as the recognized lease liability recognized as of 1 January 2019, due to advance payment. In the computation, the lease liability is expected to have an opening value of SEK 11.9 m, and a right-of-use asset of SEK 11.5 m. The difference consists of prepaid expenses, and accordingly, no transitional effect is presented in equity. Karo Pharma's opinion is that the transition to IFRS 16 will not have any material impact on the group's results of operations and financial position, or its Cash Flow Statement.

Note 27 Audit fees

SEK 000	GROUP		PARENT COMPANY	
	2018	2017	**2018**	2017
PWC				
Auditing[1)]	3,003	2,208	2,303	1,475
Other statutory assignments[2)]	25	405[2)]	25	405
Tax consultancy	50			
Other[2)]	650	250[2)]	650	250
Other audit firms				
Auditing	826	167	–	–
	4,554	**3,030**	**2,978**	**2,130**

1) Statutory audit, of which SEK 3,003,000 is for PWC Sweden.
2) Other statutory assignments are mainly statements of opinion pursuant to the Swedish Companies Act, and other are mainly for reviews and other services relating to the prospectus prepared in tandem with the company's new share issue in 2018. All fees are payable to PWC Sweden.

Note 28 Share warrant programs

The AGM on 3 May 2018 approved the Board of Directors' proposal to authorize the Board of Directors to decide to acquire treasury shares and transfer treasury shares, on one or more occasions until the AGM 2019. The purpose of this authorization to acquire shares, is to offer the Board of Directors flexibility to decide on alterations to the company's capital structure in the period until the next AGM, and thus help increase shareholder value, and to be able to utilize repurchased shares in the company's incentive programs. Effective 31 December 2018, 2,464,990 shares had been repurchased, so this authorization is accordingly consummated and terminated. No share warrant program was implemented

An EGM on 21 July 2016 resolved on an incentive program for employees. This share warrant program terminated on 26 February 2018 without exercise.

Note 29 Financial instruments and risks, sensitivity analysis

Financial instruments by category

31 December 2018 (SEK 000)	Loans receivable and accounts receivable	Saleable financial assets	Total
Assets in Balance Sheet			
Accounts receivable and other receivables	307,036	–	**307,036**
Cash and cash equivalents	398,580	–	**398,580**
	705,616	0	705,616

31 December 2018 (SEK 000)	Other financial liabilities	Total
Liabilities in Balance Sheet		
Borrowings	2,903,246	**2,903,246**
Short-term liability to related party	–	**–**
Accounts payable and other liabilities (excluding non-financial liabilities)	162,558	**162,558**
	3,065,805	3,065,805

31 December 2017 (SEK 000)	Loans receivable 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		
Borrowing	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

The amounts in the table are the contracted undiscounted cash flows of liabilities. Accounts payable and other liabilities that are due within 12 months of the reporting date correspond to the carrying amounts of the items, because the discounting effect is insignificant.

Maturity analysis and credit risk

31 December 2018 (SEK 000)	Less than 12 months	Between 1 and 2 years	Between 3 and 5 years	Total contracted cash flows	Carrying amount, liabilities
Accounts payable and other liabilities (excluding non-financial liabilities)	162,558	–		162,558	162,558
Borrowing	1,183,627	275,568	1,839,395	3,298,590	2,903,246
	1,346,185	**275,568**	**1,839,395**	**3,461,148**	**3,065,805**

31 December 2018 (SEK 000)	Not overdue	Overdue 0-3 months	Overdue 3-6 months	Overdue +6 months	Total
Accounts receivable[1)]	206,341	90,838	–521	0	**296,658**
Reserve for doubtful debt					**0**
	206,341	**90,838**	**–521**	**0**	296,658

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 (SEK m)	Revenues	EBIT
DKK	–5.5	–5.1
EUR	–7.4	18.8
NOK	–54.5	–17.4
USD	–8.7	–7.7
Other	–1.0	0.5

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

Note 29 Financial instruments and risks, sensitivity analysis, cont.

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. Approximately one-half of the group's revenues are denominated in Swedish kronor, and some 36% (66) of expenses arise in Swedish kronor. Most of the remainder of Karo Pharma's expenses are denominated in Danish kroner (DKK), euro (EUR), Norwegian kroner (NOK), 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 previous 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 SEK -10.9 m (8.7).

There were no forward contracts at year-end 2018. EBIT in 2018 and 2017 were not affected by any maturing forward contracts.

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 SEK 0 m (0 and 0 respectively). Interest-bearing short-term borrowing mainly relates to a bridging loan arranged in tandem with the acquisition of the LEO portfolio of approximately SEK 1,000 m, which has been extended to February 2020, with a further one-year extension option.

The group's total interest-bearing loans amount to SEK 2,903.2 m (2,280.7), and are bank loans, of which the short-term portion is SEK 1,183.6 m. If interest rates were to change by +/-1 percentage point momentarily, Karo Pharma's earnings after tax would change by +/- SEK 29.0 m (15.9) annualized, given loan principals and interest maturities as of 31 December 2018.

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 obligations 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 con-centration 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 30 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.

SEK 000	GROUP	
	2018	2017
Revenues		
Sweden	475,809	407,270
Norway	546,270	193,198
Denmark	130,409	10,980
Finland	52,110	15,411
Iceland	2,983	399
Europe	236,081	2,160
US	86,801	17,936
Rest of world	84,647	10,252
	1,615,109	**657,607**
Non-current assets		
Sweden	4,336,541	1,612,228
Norway	1,636,027	1,405,066
Rest of world	–	–
	5,972,568	**3,017,294**

Note 31 Transactions with related parties

In the period, one Karo Pharma subsidiary sold two products under license from a company owned by Chairman of the Board Anders Lönner, Beampoint AB. This subsidiary received commission of 15% of sales. The value of the commission was SEK 100,000 (532,000 in 2017).

A rights issue that commenced in December 2017 was completed in January 2018. Chairman of the Board Anders Lönner provided a guarantee for 89% of this issue of SEK 794 m. Guarantee compensation was 5%, which meant that SEK 35.5 m 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.

A rights issue that commenced in May 2018 was completed in June 2018. Chairman of the Board Anders Lönner, Director Håkan Åström and a shareholder, Leif Edlund, guaranteed to subscribe for up to approximately 82.2% of this issue. Guarantee compensation was 2.5%, which meant that SEK 17.0 m was paid to Anders Lönner, and SEK 1.2 m to Håkan Åström in June 2018.

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 AB, for SEK 74,000. Anders Lönner did not participate in the decision to purchase Viruseptin.

The transaction was executed in September 2018.

Anders Lönner invoiced consulting fees of SEK 7.2 m from his company Ålstens Gård AB for business development work with Karo Pharma.

Note 32 Significant events after the end of the financial year 2018

Through wholly owned subsidiary Karo Intressenter AB, on 29 October 2018, EQT VIII made a friendly public takeover bid to the shareholders of Karo Pharma to transfer all Karo Pharma shares to Karo Intressenter AB for cash consideration of SEK 36.90 per Karo Pharma share.

The initial acceptance period of the bid was until 10 December 2018, and on 13 December 2018, this was extended to 4 January 2019 inclusive.

On 2 January 2019, Karo Intressenter announced that it had increased the consideration in its offering to SEK 38.00 per Karo Pharma share, that it would be extending the acceptance period until 17 January 2019, and that the conditions for receiving the necessary permits, approval, decisions etc. from the authorities and regulators had been satisfied. The offer was subsequently extended until 12 February.

In light of the changes of control that have occurred, an EGM was held on 14 February 2019 where a new Board of Directors was elected.

Note 33 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	
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.
Debt/equity ratio	Total liabilities divided by equity	Debt/equity ratio illustrates the share of the company's assets that are financed with equity.
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.
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	**2018**	2017
EBIT	414,320	79,904
Depreciation and amortization	217,869	61,744
Other depreciation, amortization and impairment	0	0
Items affecting comparability[1)]	0	27,615
ADJUSTED EBITDA	**632,190**	**169,264**

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.

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 9 May 2019 for adoption.

Stockholm, Sweden, 2 April 2019

Peter Blom
Chief Executive Officer

Bo Jesper Hansen
Chairman of the Board

Erika Henriksson
Director

Christoffer Lorenzen
Director

Vesa Koskinen
Director

Åsa Riisberg
Director

Håkan Åström
Director

Our Audit Report was presented on 5 April 2019

PricewaterhouseCoopers AB

Mikael Winkvist
Authorized Public Accountant

FIVE-YEAR SUMMARY

	GROUP				
SEK m unless otherwise stated	**2018**	2017	2016	2015	2014
Income Statement					
Net sales	1,615.1	657.6	347.3	69.1	30.1
Cost of goods sold	–676.3	–315.7	–198.5	–40.5	0.0
Selling expenses	–443.0	–198.6	–112.8	–26.7	0.0
Administrative expenses	–78.5	–43.7	–28.7	–27.2	–21.0
Research and development expenses	–0.6	–4.4	–5.3	–35.0	–68.6
EBIT	414.3	79.9	29.6	–74.9	–59.4
Earnings/loss after tax	657.4	14.5	95.6	–78.2	–59.2
Balance Sheet					
Total non-current assets	5,972.6	3,017.3	1,482.1	481.3	4.1
Other current assets	513.5	286.0	169.4	84.7	4.9
Cash and cash equivalents	398.6	838.6	121.3	76.5	51.6
Total current assets	912.1	1,124.6	290.7	161.2	56.5
Total assets	6,884.6	4,141.8	1,772.8	642.5	60.6
Equity	3,611.0	1,586.5	717.0	364.6	40.9
Non-current liabilities	1,980.6	1,542.2	599.3	56.3	0.0
Current liabilities	1,293.1	1,013.2	456.6	221.6	19.7
Total equity and liabilities	6,884.6	4,141.8	1,772.8	642.5	60.6
Cash Flow Statement					
Cash flow from operating activities	318.0	33.5	–36.1	–52.2	–46.3
Cash flow from investing activities	–2,692.1	–1,245.8	–995.9	–220.8	–1.5
Cash flow from financing activities	1,931.2	1,931.1	1,076.4	297.9	76.6
Cash flow for the year	–442.9	718.8	44.4	24.9	28.8
Key indicators					
Equity/assets ratio, %	52.5	38.3	40.4	56.7	67.5
Average number of employees	102.0	90.8	69.0	72	39.0
Data per share					
Earnings per share (SEK)					
– average number of shares	4.63	0.17	1.42	–1.73	–1.67
– number of shares at year-end	4.00	0.18	1.50	–1.57	–1.60
Operating cash flow per share (SEK)					
– average number of shares	2.24	0.40	–0.75	–1.06	–1.35
– number of shares at year-end	1.94	0.41	–0.70	–1.05	–1.29
Equity per share at year-end	21.97	19.31	11.22	7.30	1.11
Share price at year-end	37.05	33.50	28.10	33.90	11.16
Number of shares (million)					
Average number of shares	141,888	84,217	67,440	41,892	35,472
Average after full dilution	141,888	84,217	67,440	41,892	35,472
Number of shares at year-end	164,333	82,166	63,907	49,926	36,975
Number of shares after full dilution	164,333	82,166	63,907	49,926	36,975

Auditor's report

To the general meeting of the shareholders of Karo Pharma AB (publ), corporate identity number 556309-3359

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the Annual Accounts and Consolidated Accounts of Karo Pharma Aktiebolag (the "Company") for the year 2018. The Annual Accounts and Consolidated Accounts of the Company are included on pages 20-57 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 2018 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 2018 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

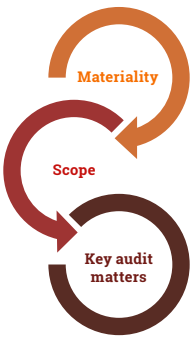
We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the Group in 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 the parent company and wholly owned subsidiaries Karo Pharma Sverige AB and Karo Pharma AS 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

OUR 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 subsidiaries Karo Pharma Sverige AB and Biophausia AB, and the Norwegian subsidiary Karo Pharma AS.
- Measurement of intangible assets
- Material business combinations
- Measurement of deferred tax assets

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 mis-statements. 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.

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 11, intangible assets amount to SEK 5,425 m, which is some 80% of total assets, of which SEK 1,873 m is goodwill and SEK 3,550 m is licenses and product rights. In our audit, we focused on the measurement of intangible assets, because they are of material amounts, and 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 recent years, and the majority of value relates to acquisitions executed in 2017-2018, and accordingly, there is relatively limited information on historical performance against forecasts prepared. Approximately one-half of the intangible assets, some SEK 2,600 m arose in the acquisition of an operation from LEO Pharma A/S in the second quarter 2018, with the acquisition analysis being updated and becoming definitive as of 31 December 2018.	In our audit we gathered management's cash flow forecasts and the estimates and judgements these forecasts are based on. We reviewed and evaluated the reasonableness of the assumptions of yearly growth rates, sales, gross margins 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 2017 against actual outcomes for 2018, to thereby judge management's ability to make realistic estimates. We also reviewed whether these cash flow forecasts were consistent with budget for the coming years, and long-term plans management has produced.

Material business combinations

As stated in the Statutory Administration Report and note 10, the company acquired an operation from LEO Pharma for SEK 2,673 m in the second quarter 2018. This transaction, which is an asset transfer, mainly consists of a product portfolio of 10 pharmaceuticals, but is also a platform for continued expansion in Scandinavia, the rest of Europe and rest of the world. Based on an analysis of the agreement, management has determined that this acquisition is a business combination pursuant to IFRS, which means goodwill was also recognized.

In tandem with the acquisition, the company prepared an acquisition analysis, with all acquired net assets measured at fair value. The difference between the purchase price and fair value of acquired net assets consists of goodwill. In our audit, we focused on the judgement that the acquisition is a business combination. As stated in the accounting policies, this is a material judgement for accounting purposes. In addition, we focused on the measurement of product rights in the acquisition analysis. This is because measurement is impacted partly by the method applied, and partly by the judgements and estimates made by management regarding factors including acquired product useful lives, as well as expected future sales and earnings.

We have reviewed the acquisition agreement and formed an opinion on whether the designated accounting method, i.e. a business combination, is an appropriate accounting method pursuant to IFRS. We have also 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.

We challenged the company's assumptions on products' estimated useful lives, future sales, gross earnings and overheads based on sales numbers and cost of goods. We also gathered other supporting data such as agreements with subcontractors and the company's assumptions regarding future overheads, comparing them with the company's budget and forecasts. We consider that the company's allocation of surplus value to product rights is within a reasonable interval. We noted that in tandem with preparing its annual financial statements in 2018, the company has updated the acquisition analysis, making it finally definitive.

Key audit matter	Our audit approach to the key audit matter
Measurement of deferred tax assets In 2018, the company remeasured deferred tax assets relating to the tax-loss carry-forwards within the parent company, see the Statutory Administration Report and notes 8 and 20. In our audit, we focused on remeasuring the deferred tax assets relating to the company's historical losses because these amounts are inherently material and their measurement involves significant judgements and estimates made by management regarding future taxable earnings within the Swedish entities.	We have gathered the company's budget and forecasts allocated by entity, and reconciled this information against the cash flow forecasts we received in tandem with reviewing the measurement of intellectual property (see above). In this context, we have considered the additional items included in computing the taxable earnings of the Swedish entities, which are not included in the cash flow forecasts used in the above impairment tests, such as depreciation and amortization, and interest expenses.

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 1-17 and 72-75. 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/revi-sornsansvar. 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 Aktiebolag for the year 2018 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.

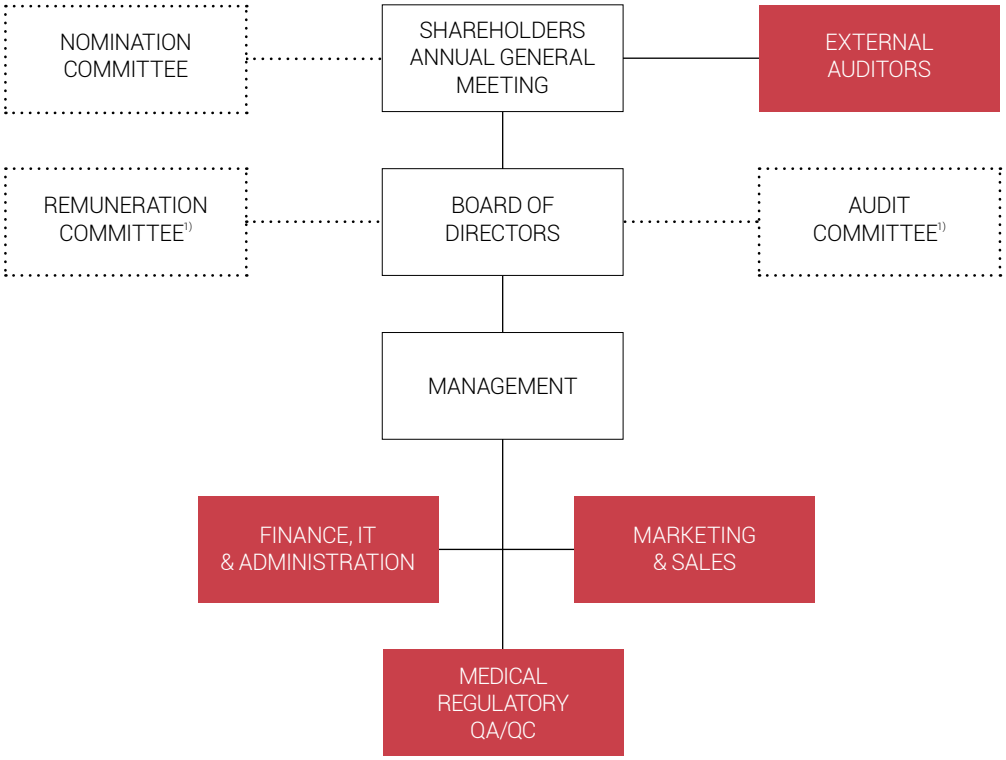
Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

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 Aktiebolag by the general meeting of shareholders on 3 May 2018, and has been the company's auditor since at least 1998. Karo Pharma Aktiebolag has been a company of general public interest since 1998.

Stockholm, 5 April 2019
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
- Risk Management Policy
- Finance Policy
- 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 2018 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, Karo Pharma Oy, BioPhausia AB, Karo Pharma ApS, Karo Pharma Med AB, Karo Pharma Oslo 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 2018. 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 are 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. This program expired in February 2018 without exercise, see page 65.

Shareholders
Karo Pharma AB's shares have been quoted on Nasdaq Stockholm since 1998. There were 12,385 (17,049) shareholders as of 31 December 2018. According to the share register maintained by Euroclear Sweden AB as of 31 December 2018, 19.0% (0) of the shares were registered with Karo Intressenter AB, 7.3% (8.1) were registered with Anders Lönner's estate (previous year Anders Lönner), and 5.2% (7.4) with Försäkringsaktiebolaget Avanza Pension. The 10 largest shareholders held 49.6% (31.5) of the total number of shares.

On 29 October 2018, Karo Intressenter AB made a public bid to the shareholders of Karo Pharma AB to acquire all shares. Anders Lönner and Per-Anders Johansson undertook to accept the bid. There are no limitations to the transferability of Karo Pharma's shares due to legal restrictions or provisions in the Articles of Association. As far as Karo Pharma is aware, there are no other agreements other than that recently reached between several shareholders, that could limit the transferability of shares.

No breaches of the listing agreement or generally accepted stock market practice pursuant to resolution by the Stock Exchange's Disciplinary Committee or the Swedish Securities Council occurred in the financial year.

Information on Karo Pharma's shares
After the new share issue registered in January 2018, the total number of shares was 109,555,188, 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 involving a total of 54,777,594 shares was conducted in June, at a subscription price of SEK 24, equivalent to issue proceeds of some SEK 1,315 m before transaction expenses.

2,464,990 treasury shares were repurchased in June and July. As of 31 December 2018, there were 164,332,782 Karo Pharma shares.

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.com). The AGM should be held within six months of the end of the financial year. At the AGM, shareholders resolve on 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.

Annual General Meeting 2018

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 2017.

The AGM approved the Annual Accounts for 2017, resolved on appropriating the company's loss, and discharged the Directors and CEO from liability. The Meeting resolved to pay a dividend of SEK 0.30 per share.

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 was re-elected as Chairman of the Board, while Marianne Hamilton, Thomas Hedner, Per-Anders Johansson and Håkan Åström were elected as Directors.

The Meeting resolved to re-elect Pricewaterhouse Coopers AB as audit firm and remuneration to the Board of Directors and auditor in accordance with the Nomination Committee's proposals.

The Meeting approved the Board of Directors' proposal to adopt guidelines for remunerating senior executives.

The meeting approved the Board of Directors' decision to conduct a new issue worth a maximum SEK 1,314.7 m with preferential rights for the company's existing shareholders. This new share issue means that share capital will increase by a maximum of SEK 21,910,796.36 through the issuance of a maximum of 54,777,594 shares.

In accordance with the Board of Directors' proposal, the AGM authorized the Board of Directors to decide to acquire treasury shares, and to transfer treasury shares, on Nasdaq Stockholm, on one or more occasions in the period until the AGM 2019.

The purpose of this authorization to acquire treasury shares is to offer the Board of Directors flexibility to decide on alterations of the company's capital structure, and thus help increase shareholder value, and to enable repurchased shares to be used in the company's incentive programs. The purpose of the authorization to transfer shares is to increase the company's financial flexibility, to enable acquisitions through payment in shares, to raise new capital for the company and/or new shareholders of strategic significance to the company and/or acquisitions of other entities or operations. The maximum number of shares that may be repurchased is that the company's holding at any time does not exceed 10% of all the shares of the company. The maximum number of shares that may be transferred is all treasury shares the company holds at the time of the Board's decision to transfer.

In accordance with the Board of Directors' proposal, the AGM decided to adopt a long-term share-based incentive program for certain key individuals. This program involves a maximum of 30 key individuals, who will be offered the opportunity to be granted rights to acquire shares of the company corresponding to a maximum of 1.5% of the number of shares.

The AGM also adopted the Board of Directors' proposal to authorize the Board of Directors to decide on issuing shares on one or more occasions, by no later than the following AGM. The number of shares that could be issued with this authorization should not exceed 10% of the registered share capital at the time of the decision to issue. This issue should be possible in accordance with, or waiving, shareholders' preferential rights, and in accordance with, or without, decisions on issues in kind, or set-off, or subject to other terms & conditions.

Annual General Meeting 2019

Karo Pharma's AGM 2019 will be held at 2 p.m. on Thursday 16 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 on Karo Pharma's website.

Nomination Committee

Karo Pharma previously applied the principle that 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.

The Nomination Committee for the AGM 2018 had the following members: Anders Lönner (Chairman) then 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). Karo Pharma has decided not to appoint a Nomination Committee for the AGM 2019, which is the departure from the provisions of the Code. This departure is against the background of Karo Pharma's new, clear ownership structure, with EQT VIII through Karo Intressenter AB holding a clear majority of the company's shares. There are also no other shareholders with significant participating interests. Accordingly, considering this ownership structure, a Nomination Committee is not considered necessary. As a consequence, proposals regarding the election of a Chairman of the AGM, election of the Board of Directors, and where applicable, election of auditors, as well as proposals on fees for the Directors and auditors will be presented by Karo Pharma's majority shareholder, and stated in the notice convening the AGM, and on the company's website.

External auditors

Pursuant to its Articles of Association, Karo Pharma should have a registered public accounting firm as its external

auditor. The AGM 2018 re-elected registered public accounting firm PricewaterhouseCoopers AB as auditor until the AGM 2019. 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 2018, in accordance with the stipulations of the Code. For information on audit fees, see note 27 in the Annual Accounts for 2018.

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 of different genders and varying 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 obligations, as well as its finance, corporate communication, insider and risk management policies.

The Board operates according to Rules of Procedure which are ad-opted 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 served an executive role in management, in his capacity as Executive Chairman, where his duties included 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 share-holders' 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 2018

The Board held six scheduled meetings where minutes were taken in 2018, and 18 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 2018 included the public offering to shareholders from EQT VIII through Karo Intressenter AB, decisions on new share issues to shareholders, repurchases of shares, incentive programs, and acquiring new operations.

Chairman of the Board Anders Lönner died in early December 2018, and the Board of Directors then appointed a Director, Håkan Åström as Interim Chairman.

The reporting period is 1 January-31 December 2018

Elected by AGM	Elected yr.	Attendance[1] at scheduled meetings	Attendance[1] at additional meetings	Independent of the company and management	Independent of the company's major shareholders
Anders Lönner, Chairman until December 2018	2014	6 (6)	13(15)	No	No
Håkan Åström, Interim Chairman from December 2018	2017	6 (6)	17 (18)	Yes	Yes
Marianne Hamilton	2017	6 (6)	18 (18)	Yes	Yes
Thomas Hedner	2014	6 (6)	17 (18)	Yes	Yes
Per-Anders Johansson	2012	6 (6)	15 (18)	Yes	Yes

1) Figures in brackets are the number of meetings held in each member's term of office

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 2018.

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 work, 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, VP of Business Development, and Managing Director of the Norwegian operation. 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, personal and related parties' holdings in the company, are stated on page 71.

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 Corporate Communication Policy, Insider Policy, and Risk Management Policy.

Risk assessment

A review is conducted at least once per year 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 mis-statements 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 re-ports and interim reports. All financial statements are published on the website (www.karopharma.com), 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 short-comings 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 2018, 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 2018 on pages 64-68 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 ex-amination of the Corporate Gov-ernance Statement. This means that our examination of the Corporate Governance Statement is different and substan-tially 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. Dis-closures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chap-ter 7 section 31 the second paragraph the same law are con-sistent with the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, Sweden, 5 April 2019
PricewaterhouseCoopers AB

Mikael Winkvist
Authorized Public Accountant

Board of Directors 2018

Left to right

Per-Anders Johansson
Director, born in 1954

Elected : 2012

Education: Engineer

Main experience: Per-Anders is an active investor through CIMON Enterprise and has long-term experience of technology and development enterprises. CIMON Enterprise has invested in, and developed, several successful companies. 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.

Holdings: 3,300,000 shares

Håkan Åström
Interim Chairman of the Board from December 2018, born in 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, and Director of Rhenman & Partners Asset Management AB and MedUniverse AB.

Other: Honorary M.D., Sahlgrenska Academy, Gothenburg University.

Holdings: 568,218 shares

Thomas Hedner
Director, born in 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 Pressure AB, DuoCort AB and Laccure AB.

Other assignments: Chairman of Medical Manual Europe AB.

Holdings: 321,505 shares

Marianne Hamilton
Director, born in 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 the Advisory Board of the Stockholm Business School.

Holdings: 49,999 shares

Anders Lönner (1945–2018)
Executive Chairman of the Board until December 2018

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: 18,642,140 shares

Management as of 1 January 2019

Rear

Mattias Nordström

Sales Director, born in 1980

Employed: 2012

Education: MSc (Econ.), Växjö University, SIBT Sydney.

Main experience: Commercial Director Farma Holding. Marknadschef Dermarome. Group Brand Manager ACO Hud Nordic.

Holdings: 0 aktier

Peter Blom

Chief Executive Officer, born in 1961

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: 33,015 shares

Cecilia Thurell

Operations Director, born in 1974

Employed: 2011

Education: M.Sc. (Eng.) in engineering physics, Royal Institute of Technology, Stockholm.

Main experience: Head of Operations, Swereco Group AB. Logistics Manager, Massimo Sweden AB. Business development consultant, SAM AB.

Holdings: 12,000 shares

Mats-Olof Wallin

Chief Financial Officer, born in 1951

Employed: 2018

Education: B.A., Uppsala University.

Main experience: CFO of Sobi AB. CFO of Biotage AB.

Over 40 years' experience of the life science industry in various executive positions for companies including the Pharmacia group.

Holdings: 0 shares

Front

Lisa Westerdahl

Marketing Director, born in 1974

Employed: 2018

Education: M.Sc. Chemistry, Karlstad University. Marketing and Management, IUP.

Main experience: Nordic Marketing Manager, Dentsply Sirona. Global Marketing Manager, Meda and Mylan. Nordic Marketing Manager, Antula.

Holdings: 0 shares

Carl Lindgren

Vice President of Business Development, born in 1968

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: 140,000 shares

Anette Abrahamsson

Chief Medical and Regulatory Officer, born in 1969

Employed: 2018

Education: M.Sc. (Pharm.), Uppsala University.

Main experience: Head of Regulatory Drug Safety & QA, Unimedic Pharma.

Head of Regulatory & Drug Safety, QPPV Cederroth and various positions within regulatory affairs for Pfizer and AstraZeneca.

Holdings: 0 shares

In 2018, management had the following members

- Peter Blom
- Camilla Lönn (Jan–Aug)
- Mats-Olof Wallin (Sep–Dec)
- Carl Lindgren

Karo Pharma Sustainability Report 2018

ABOUT THIS SUSTAINABILITY REPORT

Karo Pharma' sustainability report applies for the financial year 1 January–31 December 2018.

This Report constitutes the statutory sustainability report.

ABOUT KARO PHARMA

Karo Pharma is what is known as a specialty pharma company, with a strong focus on pharmaceuticals, prescription niche products and OTC products. We conduct these operations in the business segments of prescription pharmaceuticals, OTC pharmaceuticals and other, including self-care products or medical devices. We focus on offering products that can help people improve their health and make everyday lives easier. Our fundamental objective is to deliver faultless and safe products and services—our reputation for quality should be the best in the sector. We endeavor to improve profitability and streamline our operations from the perspective of the environment to realize our long-term vision of being a successful international specialty pharma company.

Karo Pharma has operations in the Nordics, its headquarters in Stockholm, and is listed on Nasdaq Stockholm Exchange's Mid Cap List. For 2018, net sales were SEK 1,615.1 m (657.6), a 146% increase on 2017. A total of 95 people worked for Karo Pharma as of 31 December 2018. Karo Pharma's management had four men. The Board of Directors had four members, including one woman.

PATIENT SAFETY IN PHARMACEUTICAL USAGE —OUR MOST IMPORTANT DUTY

Karo Pharma's main objective is to offer products and services that can improve people's health and make their everyday lives easier. By developing and marketing pharmaceuticals with a primary focus on infection, cardiovascular and dermatology, we help improve health and living conditions.

Pharmaceuticals help people to improve their health, and ultimately extend lives. However, pharmaceuticals do involve risks. Ensuring that customers and patients are not harmed by pharmaceuticals is the most important issue for Karo Pharma, and is ultimately about respect for human rights.

There are significant risks if a pharmaceutical does not maintain sufficiently high quality. Product content must be assured, with no non-approved chemicals, for example. Other significant risks involve understanding and avoiding adverse events. Faults in the production process must also be avoided. Other risks relate to appropriate usage, the right dosage and correct administration.

To assure good quality, Karo Pharma has a culture that makes safety a high priority, and a large number of internal and external quality and control activities. Karo Pharma also works actively on information and communication for patients, healthcare staff and consumers.

Pharmacovigilance and good pharmacovigilance practice to discover and prevent adverse events (GVP)

Karo Pharma develops and manufactures pharmaceuticals, and having an effective pharmacovigilance system is central. The World Health Organization (WHO) defines pharmacovigilance as the science and activities designed to discover, evaluate, understand and prevent adverse events from pharmaceuticals and all other pharmaceutical-related problems. The purpose of a pharmacovigilance system is to improve patient safety, which is achieved through channels including collating suspected adverse pharmaceutical events.

Karo Pharma complies with good pharmacovigilance practice (GVP), which is a matter of good pharmacovigilance and is intended to:

1. Prevent harm from serious reactions resulting from the usage of approved pharmaceuticals and
2. Promote safe and effective usage of medical products, especially by providing relevant information on pharmaceutical safety for patients, healthcare staff and the general public.

A qualified person for pharmacovigilance (QPPV) is responsible for ensuring compliance with the pharmacovigilance system, that it works, and for compliance with GVP guidelines within Karo Pharma. The QPPV bears overall responsibility for the pharmacovigilance system, and for all staff being educated and trained on the procedures in the system.

We conduct regular external audits of the pharmacovigilance system to ensure that it is functional.

This enables us to ensure that the pharmaceuticals we develop are safe for people to use, and that adverse events or complaints are detected and dealt with appropriately.

Good Manufacturing Practice (GMP)
Karo Pharma produces pharmaceuticals using quality-assured collaborative partners known as contract manufacturing organizations (CMOs). To achieve further assurance that the products we offer are safe for consumption and do not cause harm to customers or patients, Karo Pharma applies GMP, which is a permit certifying good manufacturing practice. Like GVP above, GMP sets comprehensive standards that pharmaceutical companies that manufacture products for the EU market must comply with, and is regulated by the European Medicines Agency (EMA), and the Swedish Medical Products Agency.

These standards regulate the manufacture and packaging of pharmaceuticals, their documentation, quality control, inspection, premises and equipment, as well as the segregation of duties and educational standards applying to our employees. Prior to launch, all pharmaceuticals must undergo an extensive GMP process to obtain regulatory approval.

To ensure that product quality satisfies GMP standards, Karo Pharma has a appointed a qualified person (QP) to approve every batch of pharmaceuticals produced. GMP also includes the necessary systems for recalls of pharmaceuticals and dealing with complaints. The consistent aim is to ensure that the pharmaceuticals we produce are safe for people to use.

Good Distribution Practice (GDP)
Stringent standards apply to pharmaceutical products being safe and maintaining high quality right through the distribution chain. From the plant where pharmaceuticals are manufactured to pharmacies, hospitals and retailers. This applies to the transportation of products, but also that our customers, who sell pharmaceuticals to consumers, have appropriate authorization to do so. Karo Pharma holds GDP as a formal permit.

GDP defines the guidelines a pharmaceutical distributor in the EU must comply with, including quality control systems and risk management. The standards also detail how we should approach hygiene, consumption of materials, storage and distribution of pharmaceuticals, product recalls and staff training. To ensure compliance with GDP standards, Karo Pharma has appointed a responsible person (RP), whose main duty is to work continuously on GDP compliance. The consistent aim is to ensure that the distribution of our pharmaceuticals is legally appropriate, safe and does not cause harm to patients or staff. Because we do not sell pharmaceuticals directly to consumers, but rather through distributors, GDP is a central component for ensuring safe and appropriate distribution of pharmaceuticals and avoiding the abuse of pharmaceuticals. Overdoses can cause serious health risks for people and wider society, and in the worst case, death. Accordingly, sales to consumers can only be through distributors with the appropriate permits and skills to sell them.

Over and above ensuring good distribution practice internally and with customers, customer satisfaction is a significant part of our business. We incorporate customer satisfaction, reactions and comments in every contact with our customers, be they distributors or consumers. Straightforward communication pathways and direct contact are important components of achieving high customer satisfaction, and something we apply daily in our regular sales processes.

GMP & GDP inspections
Like the external audits conducted on our GVP, the Swedish Medical Products Agency regularly inspects Karo Pharma to review our procedures and documentation. Their aim is to ensure that we satisfy GMP and GDP standards. These inspections are usually conducted every second year, and the most recent inspections did reveal some minor shortcomings, although not at a critical level. In addition to Swedish Medical Product Agency inspections, we also conduct internal audits and inspections in these segments.

SHORTAGES OF PHARMACEUTICALS

The production of our pharmaceuticals and products consists of a chain of processes. Downtime or disruptions at any link of the value chain can have implications for our ability to provide products to the extent demanded, which in turn, may reduce sales and cause a shortage of pharmaceuticals, with ensuing health risks for patients.

Shortages of resources and raw materials, production faults and transportation interruptions are examples of disruptions that could cause pharmaceutical shortages. Many pharmaceuticals have alternatives that can be used in shortages, which means that in these cases, the consequences are not serious. However, if there are no alternatives available, communication and collaboration with the affected regulators to find a solution takes place. Karo Pharma continuously monitors suppliers to reduce the risk of pharmaceutical shortages. We also conduct internal audits in this segment, and regulators conduct regular inspections to ensure we comply with applicable laws and regulations. Some minor shortcomings were identified in 2018, but not of critical products.

VALUE CHAIN

Our products consist of raw materials and input goods from various suppliers, where agreed volumes, quality and delivery standards are significant to ensure our production. Pharmaceuticals are manufactured by CMO collaborative partners under license at plants in Sweden, Norway and Germany. When manufactured under license, Karo Pharma holds approval for sale. Because our value chain extends over several countries, systematic risk analysis and management are central.

In 2019, Karo Pharma will be producing a Code of Conduct for suppliers. Alongside our internal guidelines, permits and policies, the Code of Conduct will help address the risks in

our value chain in terms of breaches of human rights, corruption, social conditions, the working environment and working conditions.

We will review our Code of Conduct in more detail in forthcoming sustainability reports, as well as how it is implemented and monitored within our organization.

ETHICAL RULES

The risk of corruption exists throughout the value chain, at the supplier and customer level, and accordingly, it is essential that we work on ethical guidelines and rules. This applies internally and externally with suppliers and distributors.

It is essential that Karo Pharma does business ethically—all forms of bribery and corruption are unacceptable. Our contracts with suppliers required them to comply with applicable laws and regulations.

To further emphasize the importance of an ethical business attitude, Karo Pharma is producing a Code of Conduct.

As stated, the Code of Conduct will be implemented in 2019, with follow-ups in forthcoming sustainability reports.

ENVIRONMENTAL IMPACT —KARO PHARMA'S ENVIRONMENTAL WORK

Karo Pharma produces pharmaceuticals, and markets pharmaceuticals and healthcare products. There is an environmental impact in manufacture, distribution and use. In its work on ISO 14001, Karo Pharma has mapped its material environmental aspects, and planned their management.

The material environmental aspects for Karo Pharma that emerged in this process are emissions in transportation, usage of chemicals and electricity consumption. After the mapping process, we prepared a project for the material environmental aspects. We monitor emissions in transportation by minimizing additional and unnecessary transports, and by utilizing the right providers. To rationalize the usage of chemicals, we consume less finite resources, especially solvents, and reduce electricity consumption in relation to sales.

Karo Pharma complies with applicable environmental legislation, rules and standards, and endeavors to continuously improve its environmental work. We work continuously on environmental and health adaptations of our operations and reducing our climate impact. By conducting systematic environmental work, our goal is to keep preventing and reducing the environmental impact of our operations from production and transportation. We endeavor to achieve continuous improvement of our environmental work. Karo Pharma Sweden holds ISO 9001 quality certification and ISO 14001 environmental certification, with yearly internal and external audits.

Our Environmental Policy stipulates how Karo Pharma's environmental work should be executed, the resources used to govern work and tangible actions that have been executed. It is the responsibility of the CEO and management to formulate yearly environmental goals and for compliance with current goals, as well as their progressive revision. Yearly assessments and audits of Karo Pharma's environmental work are conducted in tandem with audits of the company's management systems. We apply the substitution principle, which involves progressively exchanging obsolete, less-functional technology for newer and more environmental alternatives, and the precautionary principle, which involves avoiding risky production or activities, instead of identifying safer working methods and methodologies.

Our environmental work also includes actions in our head office. We recycle paper and board, encourage employees to use public transport, print only essential documents, and attempt to minimize all transports.

HUMAN RESOURCES AND ENVIRONMENTAL WORK

A good working environment and healthy staff are important for Karo Pharma and how we conduct our operations. We view these two issues as major focuses for achieving high motivation and job satisfaction, and for safeguarding our status as an attractive employer. Just as in our environmental work, we conduct yearly follow-ups and reviews of our occupational health & safety work to ensure that we maintain a positive, safe and stimulating working environment where our employees enjoy their jobs. Our health & safety work covers all operations, all equipment and premises, and is regulated by our Health & Safety Policy. Karo Pharma's overall goal is to create and maintain a good working environment in all parts of its business.

Because parts of our operations involve risks to health & safety—including noise, crushing injuries and stress—we conduct systematic work on minimizing these risks and invest in activities designed to improve the physical and psychological health and well-being of all staff. Our systematic occupational health & safety work is based on the provisions and guidelines of Swedish Work Environment Authority standard AFS 2001:1. The interaction between our staff and managers is the foundation of functional occupational health & safety work.

The CEO and management bear over-arching responsibility for Karo Pharma's working environment, while all employees also bear responsibility to participate. By making employees aware of our overall business goals, working actively for a positive workplace, taking responsibility for their duties and having the necessary authority to complete them, we create a safe and motivational working environment. The Swedish Work Environment Authority inspected Karo Pharma's occupational health & safety work at its facility in Lenhovda, Småland, Sweden in January 2018. This is where Karo Pharma manufactures and develops ergonomic products for people with disabilities. Some areas of improvement were revealed during the inspection, which we actioned in the year. Adjustable-height work surfaces, improved lighting and new assembly benches were some of the actions we implemented to improve load ergonomics,

which was one of the areas of improvement. After completion of these and other improvement measures, we now satisfy the standards the Work Environment Authority set after its inspection.

Karo Pharma's goal is for no serious personal injuries to occur. There were no accidents to staff resulting in sickness absence during 2018.

RISKS AND RISK MANAGEMENT

Issue & Swedish Annual Accounts Act section	Description	Governance	Risk location
Patient safety in pharmaceutical management *MR*	Unapproved chemicals in products and other factors that involve a risk of harm to patients, which in turn, could cause brand and reputational damage.	GMP permit & Qualified Person (QP) GDP permit & Responsible Person (RP) GVP permit & Qualified Person for Pharmacovigilance (QPPV) Pharmacovigilance audit Staff trained in managing adverse events	At supplier level and Karo Pharma's operations (for patients)
Shortage of pharmaceuticals *MR*	Shortage of resources and raw materials, production errors and transportation schedule disruptions may risk a shortage of pharmaceuticals, thus causing health risks for patients. This could also cause brand and reputational damage.	GMP permit & Qualified Person (QP) GDP permit & Responsible Person (RP) GVP permit & Qualified Person for Pharmacovigilance (QPPV) Internal audit and regular inspection to ensure compliance with are Applicable rules and legislation Safety legislation	At the supplier and customer level (for wider society and patients)
Sustainable supply chain *Social conditions & MR*	Distribution of pharmaceuticals by third parties can result in unauthorized sale of pharmaceuticals, with the resulting misuse.	GDP permit & Responsible Person (RP) Quality control of distributors Contracts on compliance with regulation and legislation by suppliers	At the supplier and customer level (for wider society and patients)
Anti-corruption *Anti-corruption*	A risk of corruption exists end to end in the value chain (suppliers and employees).	The Code of Conduct will be implemented in 2019	Karo Pharma's own business, at the supplier and customer level
Environmental impact *Environment*	Negative environmental impact of production and transportation of goods including: 1. Emissions from transportation 2. Usage of chemicals 3. Electricity consumption	Environmental policy Regular updates and reviews of environmental work, procedures and targets set Audits of environmental work Karo Pharma Sweden holds ISO 9001 & ISO 14001 environmental certification	Karo Pharma's own operations and at the supplier level (for the environment)
Staff injuries *HR*	Risk of employee physical and psychological ill-health.	Health & Safety Policy GMP permit & Qualified Person (QP) AFS 2001:1 Training in accidents and incident reporting for work management Audits of occupational health & safety work	Karo Pharma's own operations (for employees)

AUDITOR'S OPINION

AUDITOR'S OPINION REGARDING THE STATUTORY SUSTAINABILITY REPORT

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

Engagement and responsibility

It is the Board of Directors who is responsible for the sustainability report for the year 2018 on pages 72-75, and that it is prepared in accordance with the Annual Accounts Act.

The scope of the examination

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

Opinion

A statutory sustainability report has been prepared.

Stockholm, Sweden, 5 April 2019
PricewaterhouseCoopers AB

Mikael Winkvist
Authorized Public Accountant

INVITATION TO ANNUAL GENERAL MEETING

ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of Karo Pharma AB (publ) will be held at 2 p.m. on Thursday, 16 May 2019 at Näringslivets Hus, Storgatan 19, Stockholm, Sweden. The convening notice for the AGM will be published on Karo Pharma's website, www.karopharma.com

Shareholders that are firstly recorded in the share register maintained by Euroclear Sweden AB on Friday, 27 April 2019, and secondly by no later than 27 April 2019 at 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: Mats-Olof Wallin, Nybrokajen 7, 111 48 Stockholm, Sweden, or by email to: mats-olof.wallin@karopharma.com.

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 3 May, which means the shareholder must inform their nominee in good time prior to this date.

OTHER FINANCIAL INFORMATION

Interim Report Jan–Mar	26 April 2019
Interim Report Jan–Jun	19 July 2019
Interim Report Jan–Sep	1 November 2019
Financial Statement 2019	14 February 2020

Financial reports, press releases, convening notices for shareholders' meetings and other information are available at Karo Pharma's website www.karopharma.com 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 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 Mats-Olof Wallin, CFO on tel: +46 (0)76 002 6010, or email: investor@karopharma.com

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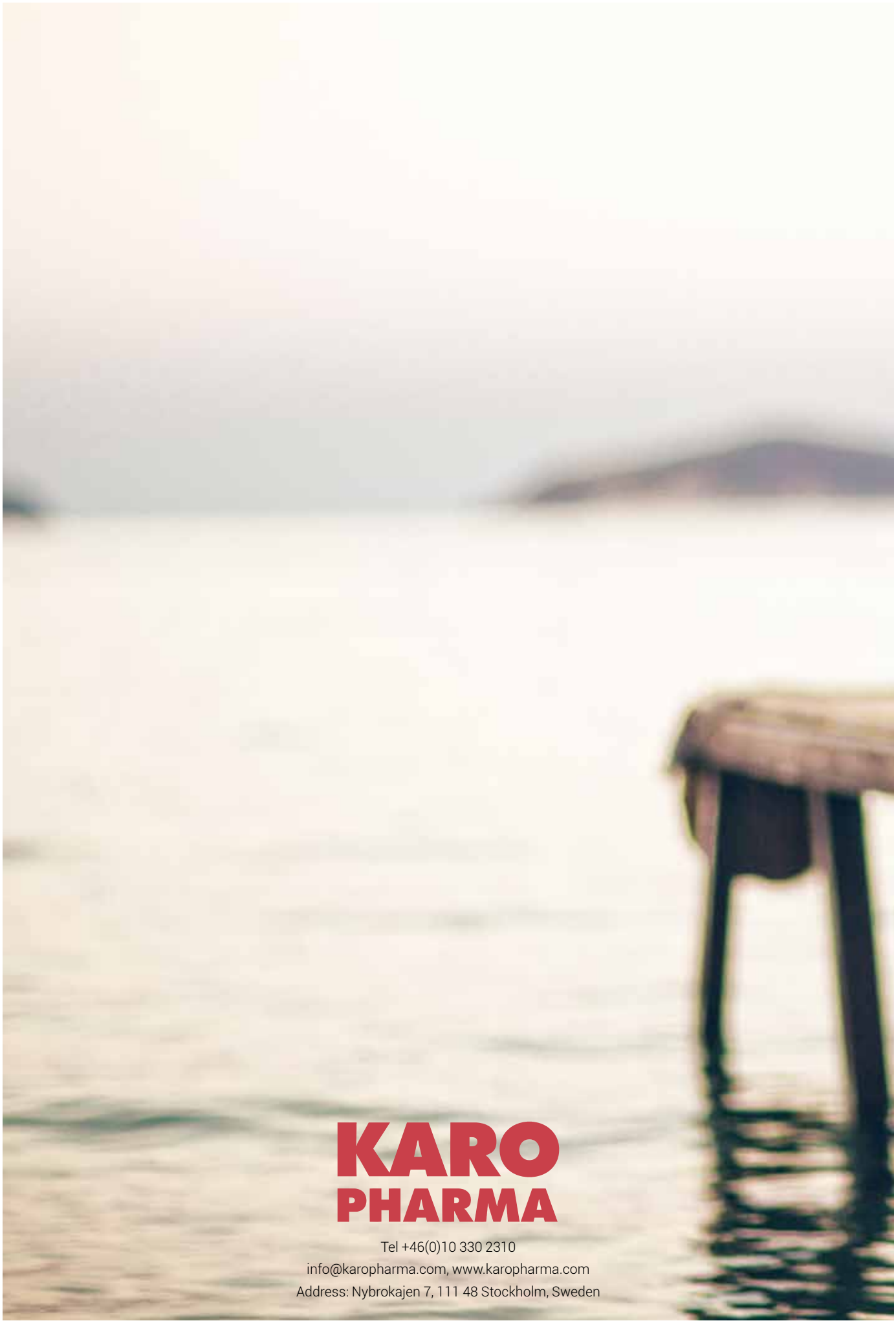

KARO PHARMA

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