

Smart
choices
for
everyday
healthcare

karo[®]
pharma

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"We've made it our purpose to develop reliable ways for people to treat their everyday ailments, to help them live healthier lives. We call it smart choices for everyday health-care."

- Christoffer Lorenzen,
CEO, Karo Pharma

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Management review

Smart choices for everyday healthcare

Smart / We base our decisions on user insights – to make sure that our products, services and channels always match user needs and create value.

Everyday / We've dedicated ourselves to become experts in everyday healthcare – providing medical products and services that prevent and treat a wide range of health issues and help users stay healthy – every day.

Choice / We help people make the right choices about everyday healthcare – by giving them options, knowledge and easy access to medical products and services.

Healthcare / We enable people to take control of their everyday healthcare – so they can stay healthy and live their life to the full.

Business model and key categories

We occupy a space in the modern healthcare market based on three distinct choices: We focus on excellent, original brands across prescribed pharmaceuticals and consumer products that address everyday healthcare needs; we are virtual and access research & development and production via a network of trusted partners; we invest in commercial differentiation and education, and go direct in the markets when scale is feasible.



Our six categories and top-selling products (sales pro forma 2019)

01 / Intimate care

- Multi-Gyn®
- Asan®
- Multi-Mam®



02 / Dermatology

- Locobase®
- Decubal®
- Propyless®



03 / Foot care

- Nailner®
- Mabs®
- Wortie®



04 / Pain, cough & cold

- Paracet®
- Ibux®
- Mollipect®



05 / Wellness

- Flux®
- Dailycare®/Lactocare®
- Allevo®



06 / Rx pharma care

- Selexid®
- Burinex®
- Kaleorid®



Strongholds in the Nordics and a global presence



● Offices in eight countries

Quick facts

Headquarters in **Stockholm, Sweden**

Products sold in **60+ markets**

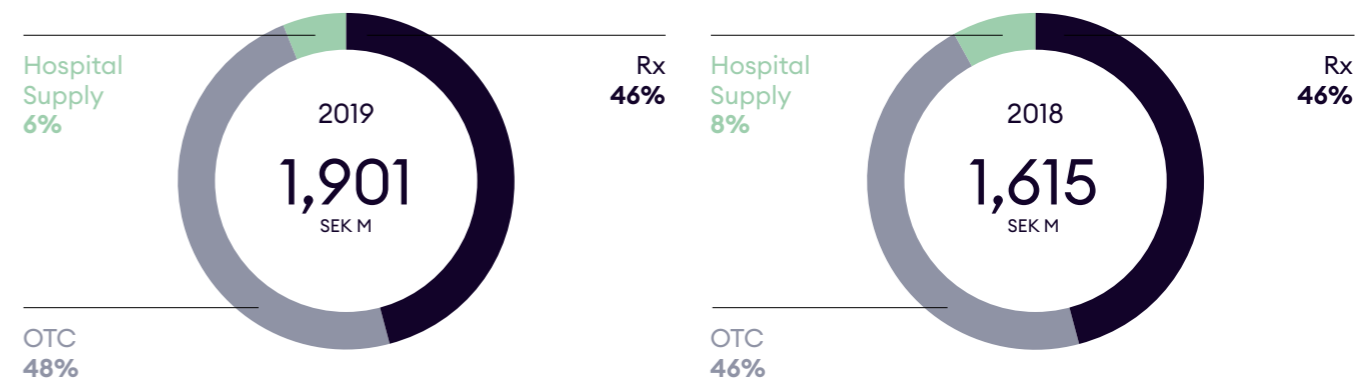
Approx. **200 employees** spread over **8+ countries**

Revenue of **SEK 1.9bn**

About **100 brands** spanning **6 different categories**

Quoted on **NASDAQ Stockholm Exchange's Mid Cap list**

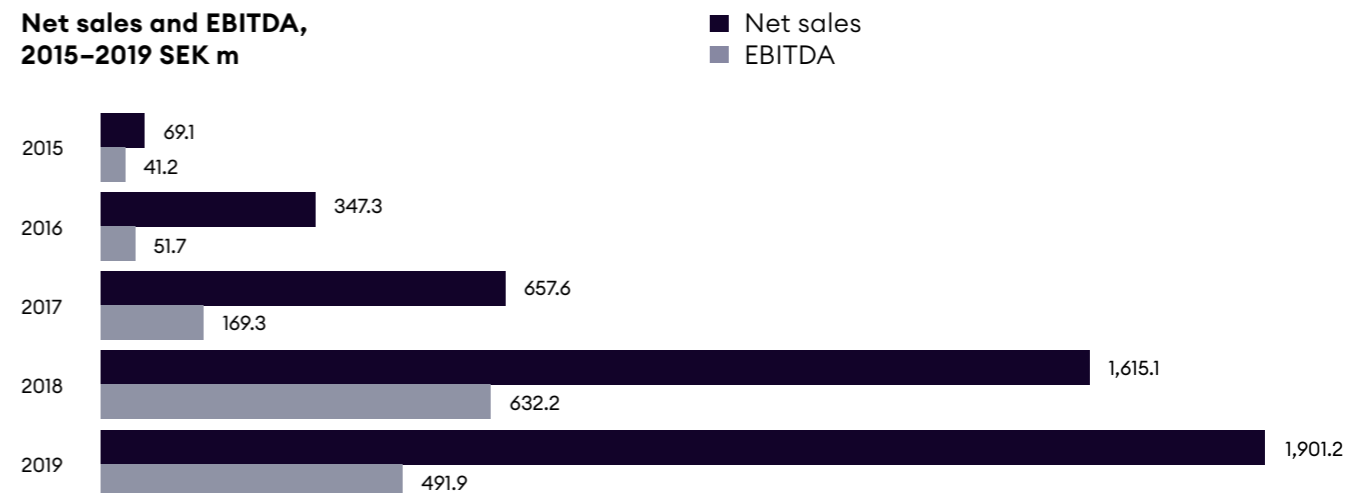
Total sales by product segment



Key indicators

SEK m	2019	2018	2017	2016	2015
Net sales	1,901.2	1,615.1	657.6	347.3	69.1
Cost of goods sold	-917.2	-676.3	-315.7	-198.5	-40.5
Operating expenses	-492.2	-541.8	-262.0	-119.2	-103.5
EBITDA	491.9	632.2	169.3	51.7	41.2
Earnings per share (SEK)	0.05	4.63	0.17	1.59	-1.73
Cash flow from operating activities	106.8	318.0	33.5	-36.1	-52.2
Cash and cash equivalents and other investments in securities	248.8	398.6	838.6	121.3	76.5

Net sales and EBITDA, 2015–2019 SEK m



A new Karo Pharma with a new purpose

"We want to expand our geographical reach in Europe, and we want to strengthen and build distinctive positions in the categories we operate in."

- Christoffer Lorenzen,
CEO, Karo Pharma

Over the past few years Karo Pharma has undergone substantial change and transformed into one of the leading companies within everyday healthcare in the Nordics.

We believe there's a distinct space in the healthcare market for Karo Pharma. Focusing on trusted, original brands, we cover a range of everyday categories, including intimate care; dermatology; foot care; pain, cough and cold; wellness; and Rx pharma care. In each of these categories, we own a range of differentiated brands. We've made it our purpose to develop reliable ways for people to treat their everyday ailments, to help them live healthier lives. We call it 'smart choices for everyday healthcare'.

Realising new opportunities

This last fall, we completed the acquisition of Trimb. This not only gives us extra scale in our core Nordic markets; it also gives us access to an exciting portfolio of trusted brands and lays out stepping-stones for our geographical expansion. The integrated company - which we often refer to as 'the new Karo' - is stronger than ever, and we have a solid foundation and organisation in place for more growth in the years to come.

We have a clear strategy to grow both organically and through M&A. We want to expand our geographical reach in Europe, and we want to strengthen and build distinctive positions in the categories we operate in. Essentially, this means that we will develop strong presence and deep expertise in these categories, which we can make available to our business and to our healthcare partners. Ultimately, this will let us build even stronger brand portfolios, services and commercial capabilities to meet the needs of the modern patient and consumer.

In line with this strategy, late last year we announced the acquisition of another product portfolio from the Danish pharmaceutical company LEO Pharma, which will further strengthen Karo Pharma's geographical footprint and our intimate care and dermatology categories.

Although we're growing and acquiring products, we'll also evaluate whether Karo Pharma is the right owner of our existing business units. We're currently



Christoffer Lorenzen, CEO and
Dr. Bo Jesper Hansen, Chairman

reviewing strategic alternatives for Hospital Supply to find the best possible path forward for this business.

We've put a new leadership team in place to drive and execute this strategy. It combines people from Karo Pharma and Trimb with a few recruited from the outside (myself included). This fall, we established direct operations in Germany and the UK, which means that Karo Pharma now has teams on the ground in eight European markets.

We've also seen a new majority shareholder, EQT (via Karo Intressenter), join us as an investor. This allows us to make the most of EQT's close connections to industry advisors and experts, and it gives us a strong partner to support the company financially.

First impressions and future ambitions

I joined Karo Pharma on July 1 and have since enjoyed an exciting time holding the reins. From day one, I've been impressed by the energy and commitment of our company. And I'm delighted to see how our employees have united around the new Karo Pharma organisation, our purpose of providing 'smart choices for everyday healthcare', and our newly minted values: Challenge, Act, Connect and Care.

These values reflect who we are and the way we do business. Though we've grown, we must keep and cultivate our entrepreneurial approach and start-up mentality. We must continue to nurture new ideas - and to identify and develop opportunities that our competitors don't see or choose not to pursue.

We've set our sights on becoming a leader in everyday healthcare in Europe. We know there will be challenges along the way. But we're also confident we can overcome them and realise our ambitions. •

Christoffer Lorenzen,
CEO, Karo Pharma

Broader scope, bolder ambition

Karo Pharma specialises in everyday healthcare which means that we're active both prescription drugs (Rx) and over the counter (OTC) consumer health-care products in specific categories. There's a compelling dynamic in how the two co-exist for us, and it lies at the heart of our ambition. The Rx portfolio gives us steady cash flows, which we can invest in sales and marketing, and our OTC products to help us fuel organic growth. Meanwhile, we can share the skills and competence we develop in OTC through the whole business, including Rx, which again supports our growth.

All this helps us realise our vision to build a fast-growing European company that makes trusted, documented products available to consumers and patients. And it helps us fulfil our purpose to help people live healthier lives by giving them 'smart choices for everyday healthcare'.

We feel we can best achieve this by growing beyond our strong base in the Nordics, and further into Europe. And in 2019, we've seen some big developments to help us on that road.

Building a platform to grow

Through our partner EQT, we have strong financial backing to help us press ahead with our plans. By acquiring Trimb, we've added to our presence in our six key product categories: intimate care; dermatology; foot care; pain, cough and cold; wellness; and Rx pharma care. And bringing a group of dermatology and intimate care products on board from LEO Pharma gave us more strength in depth.

We go into the new decade with strong brands in our portfolio. Also, we



"We go into the new decade with strong brands in our portfolio. Also, we now have teams on the ground in eight European countries, after establishing direct operations in the UK and Germany in 2019."

— Dr. Bo Jesper Hansen,
Chairman

now have teams on the ground in eight European countries, after establishing direct operations in the UK and Germany in 2019. And we have a new leadership team who embody the entrepreneurial culture of the combined company. These elements combine to give us a first-rate platform to expand and scale up in the coming years.

Extending our reach

In the coming year, we'll carry on developing Karo Pharma by streamlining our operations, taking out complexity and strengthening the organisation and its critical functions. We'll also continue to look for more acquisition opportunities as we extend our commercial reach.

All this makes it an exciting time to be Chairman of this company. It's a privilege to be able to work alongside such talented people, and I'd like to thank everyone for what they've contributed this past year.

We have strong products, market positions and profitability. With the energy and commitment of our team, and the vision of our leadership, I welcome the future.

I now look forward to embarking on the next stage of our journey with all of you, our investors, employees and partners.

Dr. Bo Jesper Hansen,
Chairman, Karo Pharma



Growing through smart choices

We're clear about our ambition to grow. We set out on this course in 2015, when we shifted our focus from R&D to reinvent ourselves as a commercially oriented company.

And we're just as dedicated to it today, as we broaden our emphasis from specialty pharmaceuticals to consumer healthcare.



In 2019, we saw some important changes that gave us fresh impetus. The backing of our main shareholder EQT means we can accelerate our plans, supported by new investments. A new executive team gives us enterprising leadership to channel our energy and realise our opportunities. And to focus our efforts, we have a new purpose: Smart choices for everyday healthcare.

... A vision for growth ...

These changes help us on our continuous growth journey. A company that stands out by offering trusted, documented and original brands, backed by services for partners, customers and consumers. A company that moves beyond its strong base in the Nordics to expand in Europe. A company that achieves scale by engaging deeply with its product categories and expanding within them.

This is more than growth for its own sake.

... anchored in a clear new purpose

In 2019, we set out what the new Karo Pharma is about by defining our brand and our purpose. Offering our customers and consumers 'smart choices for everyday healthcare' is our guiding principle. It defines how we operate, and how we expand.

We base our decisions on insights about what our partners, customers, consumers and patients want and need. That includes not just the brands, products and services we offer, but how and where we make them available.

... centred on our customers and consumers

Offering smart choices means making sure our consumers have options for treating everyday ailments. To deliver on this, we need to do three things well.

First, we must connect them with the right products by making sure they have the right amount of choice. Just a single option is frustrating, but too much choice overwhelms not only consumers but partners and prescribers too. To get this balance right, we have to tune in to everyone's needs.

The second key to providing options is helping people build their knowledge and make an informed choice. We have to provide this support in the way that best suits consumers and patients. Increasingly that will be through digital services, offering clear information and diagnostic help to consumers, professionals like pharmacists, and our partners.

Finally, we must make sure our products are available when our consumers need them, and through the channel that works best for them and our partners. This means keeping our supply chain streamlined and efficient, and making products easy to access in stores, pharmacies and online.

All this is underpinned by the insights we gather by staying close to experts and authorities in our categories – from key opinion leaders to influencers – and growing our presence on the ground in our markets.

By excelling in all these ways, we earn and maintain the trust of everyone we work with and work for. This trust is the engine of our growth.

... and powered by an entrepreneurial mindset

It takes a certain kind of culture to achieve our aims.

We pick people who are comfortable with change and look for ways to do things differently. We act confidently and decisively, with the energy of a start-up. Also we encourage everyone to think beyond the established ways of doing things. This is how we uncover opportunities that our competitors don't see or respond to.

We work at a rapid pace to make the most of these opportunities. While we set strategic direction from the centre, we give the teams in our local markets commercial autonomy. This lets them make the best tactical decisions, without losing time, to keep our brands front and centre.

In 2020, we'll continue to sustain and support this culture by building a strong backbone of effective corporate functions and processes.

So, our vision is all about growth. But growth for us is more than a number and more than an end in itself. It's a sign of quality. And it's the by-product of energy and motivation, and doing things well for our partners, consumers and employees. •

Highlights 2019

New majority owner and new Board of Directors

EQT VIII, through Karo Intressenter AB, acquires a majority stake in Karo Pharma. In light of the changes in ownership, an Extraordinary General Meeting elects a new Board of Directors, and Bo Jesper Hansen as Chairman of the Board.

Acquisition of Trimb

Karo Pharma acquires Trimb for SEK 3.4 million. Trimb is a consumer healthcare company with products sold in more than 60 countries. It complements Karo Pharma well in terms of geographical presence, distribution channels and product offering.

New CEO of Karo Pharma

Christoffer Lorenzen is appointed CEO, replacing Peter Blom, and starting on July 1. Until this date, Ulf Mattsson assumes the CEO position on an interim basis.

Rights issue

Karo Pharma announces a fully guaranteed rights issue of approximately SEK 2 billion.

New Executive Management Team

Karo Pharma completes the acquisition of Trimb and announces a new executive management team.

Direct operations in UK and Germany

Followed by the repatriations of Multi-Gyn and Multi-Mam in Germany and the UK, Karo Pharma establishes direct operations in these markets. Thus, the company now has offices in eight European markets.

New CFO of Karo Pharma

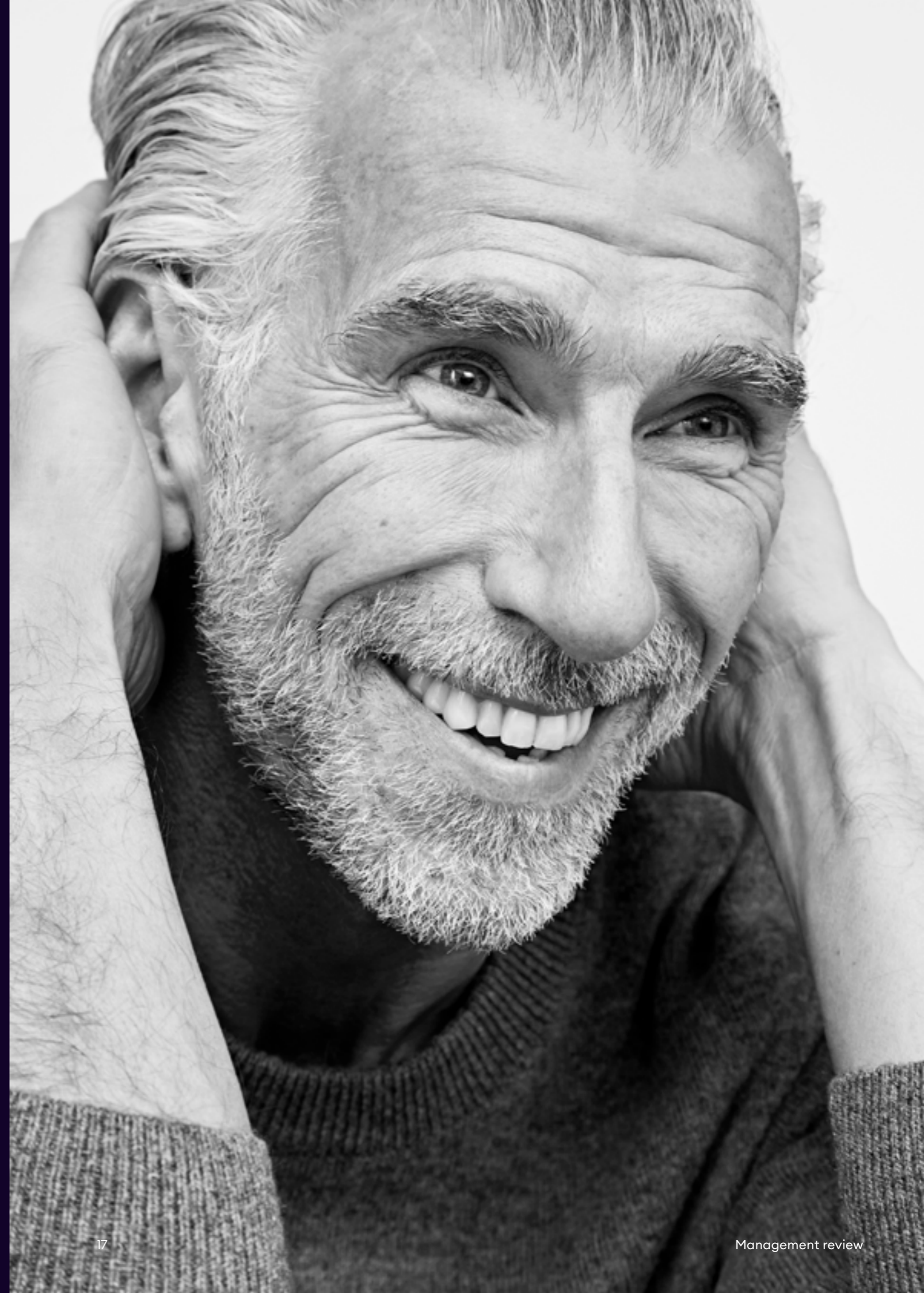
Jon Johnsson starts as new CFO of Karo Pharma, replacing Mats-Olof Wallin, who retires.

Karo Pharma acquires product portfolio from LEO Pharma

Karo Pharma acquires an intimate care and dermatology product portfolio from the Danish pharmaceutical company LEO Pharma for about SEK 900 million.

Divestment of Hydrokortison Trimb to Evolan Pharma

In line with the voluntary commitment in connection to the Trimb acquisition, Karo Pharma divests Hydrokortison Trimb to Evolan Pharma.



A new group at the reins

It's been a momentous year for Karo Pharma in more ways than one. We gave ourselves an injection of energy by redefining our brand and purpose, and setting out a new focus on consumer healthcare.

We also gave ourselves a licence to assert ourselves in our markets and build a platform for our expansion by acquiring Trimb.

The Karo Pharma way

We've set up our leadership team and corporate structure around what we think matters most commercially. Our corporate functions are linked to our core capabilities, and work across our markets.

The way we work is based on a strong culture. This means we're more than the sum of our brands. However much we grow, we want to remain a cohesive company with strong connections between people and across markets. We want our people to feel connected to each other and our purpose, and to live our values: Challenge, Act, Connect and Care. Rather than simply being a collection of products, Karo Pharma is a company with a consistent attitude and way of working, regardless of the country, the brand or the product category. It's a shared feeling not just in the executive team, but right across all our functions.

Ultimately, this consistent outlook and attitude is what will make sure that our growth has strong roots. It's also the factor that will help us attract the right people to help us expand – and keep them with us as they develop their careers.

To deliver on our purpose and bring our vision closer, we need people capable of embracing change and thriving on it. We need creativity, commercial insight and initiative. We also need the right structure to let these qualities shine.

Leading the way

This starts with our top team, who set the tone for the new Karo Pharma.

To seize the opportunities ahead, we've hand-picked a leadership team who share an enterprising outlook, curiosity and a willingness to back their instinct and abilities. Most are experienced in pharmaceuticals and healthcare, but some come from outside the sector.

Christoffer Lorenzen

– CEO

Before joining Karo Pharma as CEO, Christoffer was Executive VP and board member of bio-science company Chr Hansen. Earlier, he was Head of Corporate Strategy and M&A at Danish pharma company H. Lundbeck. He is currently on the boards of Danish livestock protein producer Hamlet Protein and German company Schulz Holding.

Jon Johnsson

– CFO

Before coming to Karo Pharma, Jon was VP Finance for Swedish manufacturing company Atlas Copco and had previously had other roles in the group, as well as roles in accounting and financial controls for other Swedish companies. He is now responsible for our finances, systems and IT.

Carl Lindgren

– VP Business Development

Carl is responsible for our M&A and the legal side of business development. Before Karo Pharma he was a marketing VP and director at Danish pharma company Lundbeck and had various roles at Astra Zeneca.

Magnus Nylén

– Chief Sales Officer

Magnus is our CSO and responsible for building and driving our direct sales organisations. He was the previous CEO of Trimb and before that he had held positions as Managing Director at Exeltis and Marketing Director at Actavis.

Lisa Westerdahl

– VP Marketing & Communications

Lisa is responsible for our product categories pain, cough and cold; dermatology; and Rx pharma care, owning portfolio strategies and brand. Before joining us in 2018, she held positions as Global Marketing Manager at Meda/Mylan and Nordic Marketing Manager at Antula and Dentsply Sirona.

Anna Elmblad

– VP Marketing & Digital

Anna has a similar role to Lisa, covering our wellness; foot care; and intimate care categories. She was Head of Marketing and Business Development at Trimb and has 20 years' sales and marketing experience for pharma companies including TEVA, Allergan, Actavis, Pfizer and GSK.

Hadi Ghane

– Director Hospital Supply

Hadi came to us with a 20-year-plus track record in life science, MedTech and pharma, including roles at Roche AB and Biotage AB. He runs our Hospital Supply business unit and the related sales activities.

Jonathan Kimber

– VP Operations

Jonathan is responsible for our virtual supply chain and negotiations with suppliers. He was Head of Supply at Trimb, and before that had EVP roles at Oriflame Cosmetics as well as being a senior manager at Bain & Co.

Sofia Pedersen

– VP Scientific Affairs

It's Sofia's job to see that all our products are documented and compliant. She held the same role at Trimb, and her background in the regulatory and quality assurance field includes roles at Bausch & Lomb, Actavis and Orion Pharma.

This increase in average age results in an increase in age-related diseases and, for this reason, an increase in the demand for healthcare and pharmaceuticals.



In Northern Europe the market for pharmaceuticals, sold through pharmacies and directly to the healthcare sector, is substantial. And it's predicted to grow in the coming years.

Market overview: Growth drivers and challenges

At Karo Pharma, we specialise in the sales and marketing of branded prescription drugs (Rx), over the counter (OTC) and as consumer healthcare products. While our products are available in more than 60 countries worldwide, our core markets are in Northern Europe and we're strongest in the Nordics, where the business accounts for more than 70 per cent of total sales.

The healthcare system in the Nordic countries defines the playing field when it comes to sales of pharmaceuticals, OTC and self-care products. So to

operate successfully in this market, it's important to have a thorough understanding of the national frameworks for reimbursement, regulations on healthcare products, and the available purchase channels.

The Nordic pharmaceutical market

In the Nordic countries, prescription pharmaceuticals are subsidised to varying degrees, with the government reimbursing part of the cost for prescription (and sometimes OTC) pharmaceuticals. In Denmark and Iceland,

the subsidy is tied to each patient's expenses for pharmaceuticals covered by the subsidy. In Sweden and Norway, prescription pharmaceuticals are typically covered by different types of high-cost protection¹.

Pharmacy chains make up the majority of the OTC market in the Nordic countries². Across the region, retail sales of OTC pharmaceuticals (i.e. non-prescribed pharmaceuticals) are regulated, which means that there are rules that prescribe who can own and operate pharmacies, as well as national frameworks in place that define the level of specialised education and training pharmacy staff need to have.

Self-care products such as nutritional supplements, cosmetics and vitamins, as well as some medical devices, aids and other consumables, are exempted from pharmaceutical regulations.

Trends and growth drivers

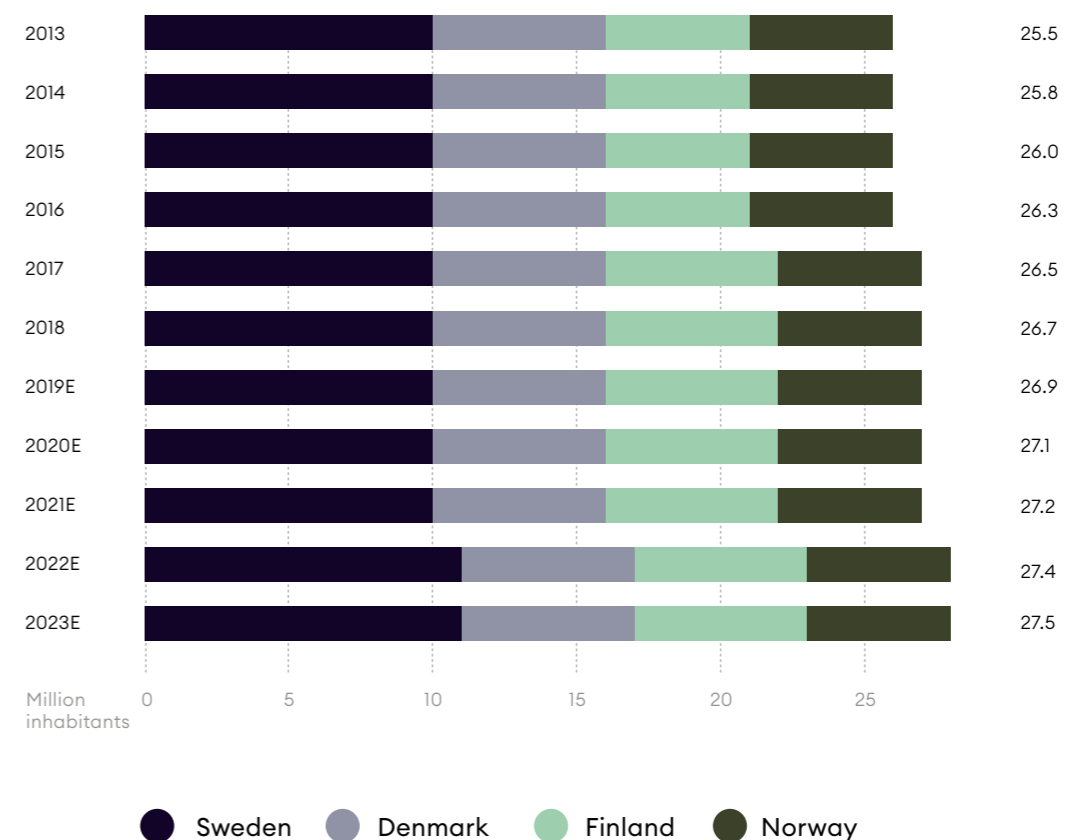
Several interrelated factors drive growth in the pharmaceutical market in the Nordic countries. Demographic changes, lifestyle diseases, changes in the way we live and eat along with new technologies and platforms are among the most important.

Demographics

Population size, growth and longevity are three important demographic factors that influence the pharmaceutical market.

The population in the Nordic countries totaled 26.7 million in 2018. That's an increase of about 1.0 million people over the past five years, which translates into an annual growth rate of 0.7 percent. Through the year 2023, the Nordic population is expected to grow at an annual rate of 0.6 per cent, to 27.5 million people³.

Population in the Nordics 2013–2023E



In addition to population growth, life expectancy is on the rise in the Nordic countries. During the past five years, life expectancy at birth has increased from 79.1 to 80.1 years for men and from

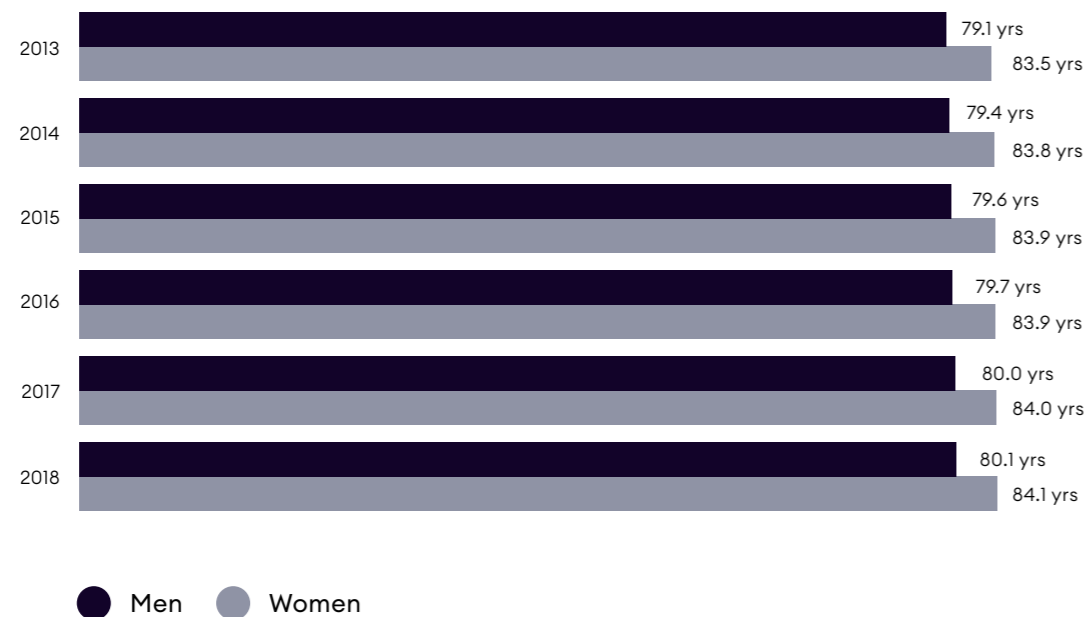
83.5 to 84.1 years for women. That places Sweden, Denmark, Finland and Norway among the countries in the world with the highest average life expectancy⁴. →

1) Statistics for the Nordic countries, 2018
 2) Euromonitor, "Consumer Health in Denmark, Finland, Norway and Sweden", 2018
 3) Euromonitor, "Population statistics", 2018
 4) Euromonitor, "Consumer Health in Denmark, Finland, Norway and Sweden", 2018

The general motivation in the population to take care of one's health means that more people choose OTC alternatives for treatment and preventive care.



Life expectancy at birth, average for the Nordic countries 2013–2018



The rise of e-commerce has had a huge impact on the pharmaceutical industry.



This increase in average age results in an increase in age-related diseases and, for this reason, an increase in the demand for healthcare and pharmaceuticals. Older people usually use several types of pharmaceuticals, which contributes to larger volumes of pharmaceuticals. Studies indicate that the cost of drugs is 1.4 times higher for people aged over 95 than for those in their 60s⁵.

Increase in lifestyle diseases

In the Western world, economic development has brought prosperity. However, in many countries, prosperity has come at a price. Namely, in the form of a series of lifestyle-related diseases such as diabetes, asthma and hypertension, which are typically the result of unhealthy eating habits and an inactive lifestyle.

When these conditions increase, so does the demand for products to treat them. This demand is complemented by an interest in preventive care and products that improve quality of life, which further stimulate the demand for OTC pharmaceutical products.

Increase in health awareness

Fortunately, the increase in lifestyle diseases has also generated a growing awareness about the importance of

living a healthy life. In fact, for the past few decades, the Nordic countries have enjoyed a top league ranking when it comes to healthy lifestyle.

The general motivation in the population to take care of one's health means that more people choose OTC alternatives for treatment and preventive care. This increases the demand for products in the health and wellness segments.

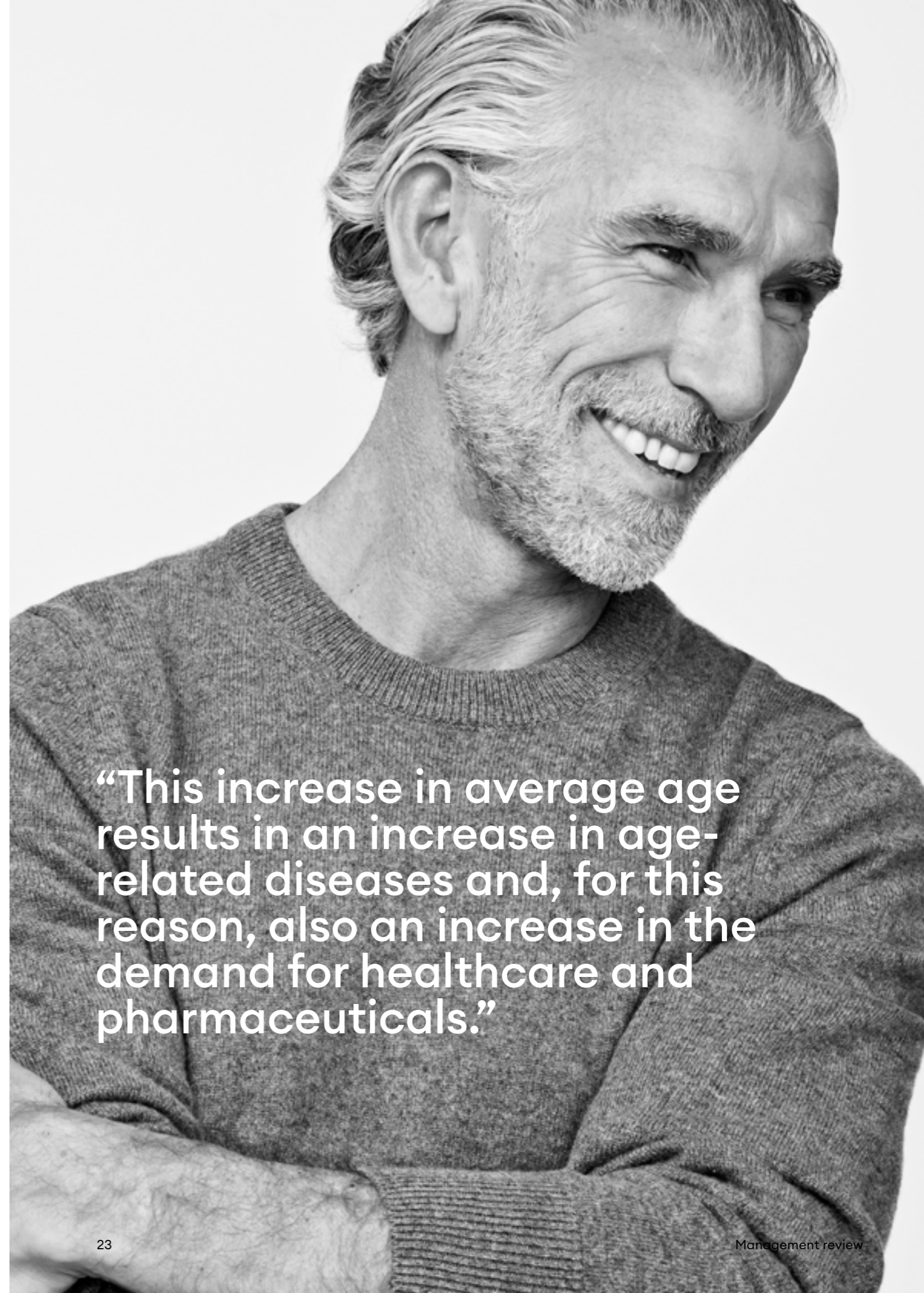
The rise of e-commerce and the informed consumer

As has been the case in many commercial sectors, the rise of e-commerce has had a huge impact on the pharmaceutical industry.

More and more people choose to purchase their pharmaceutical products online rather than go to a physical store or pharmacy. Also, the internet makes it far easier for consumers to seek information about different pharmaceuticals as well as read reviews about them. This trend is particularly strong in Norway, Sweden and Denmark, and primarily affects vitamin supplements and weight loss products⁶. Online purchasing and the rise of the 'informed consumer' can have both positive and negative implications for the pharmaceutical industry. •

5) Sveriges Kommuner & Landsting, "Hälsa- och sjukvården till 2030", 2005

6) Euromonitor, "Consumer Health in Denmark, Finland, Norway and Sweden", 2017



“This increase in average age results in an increase in age-related diseases and, for this reason, also an increase in the demand for healthcare and pharmaceuticals.”

M&A: The vehicle of our growth

Karo Pharma is a commercial healthcare company giving people ‘smart choices for everyday healthcare’.

That’s a simple statement, but one that defines our choices when it comes to the growth we aspire to. That growth is organic, but it’s also achieved by acquisitions. And to be successful, these acquisitions have to be guided by a specific rationale.

Building scale in our core categories

We look for acquisitions that give us extra presence in our six product categories: intimate care; dermatology; foot care; pain, cough and cold; wellness; and Rx pharma care.

For us, these are more than product categories. Instead of the Rx and OTC segmentation that’s common in our industry, we use these product categories to organise our operational teams and focus our knowledge-gathering. They also guide our commercial thinking and marketing, helping us to understand what our partners, prescribers, consumers and patients need and how best to position our brands. It follows that these categories also shape our acquisition strategy.

By building scale in them, we build knowledge and networks that bring us closer to consumers and patients. The better we understand them and their unmet needs, the more we can stand out with quality products and services that share information and signpost to products that prevent and treat everyday ailments.

Choosing the right brands

Three important criteria inform our decision to buy. We look for brands and products that are:

- high-quality, well-documented and original, but still full of untapped potential
- peripheral in their current environment, but capable of more with the right investment and commercial input
- instrumental when it comes to realising our vision as a growing pan-European healthcare company.

In December 2019, we demonstrated this approach by acquiring an intimate care and dermatology portfolio from Danish company LEO Pharma. The products in this portfolio help us scale up in two of our key categories, and they’re well-established in the market.

Also, about two thirds of the portfolio’s turnover comes from European markets, boosting our presence beyond the Nordics.

Karo - Trimb: A perfect fit

Our acquisition of Trimb, in June 2019, also demonstrated our approach in action. But on a much larger scale.

This acquisition represents the coming together of two companies with a similar product and category focus in branded medicines and consumer health products.

The fit also works on several other levels. Both companies are on a trajectory of fast-paced growth and share a dynamic, entrepreneurial culture, refined by a willingness to act quickly and decisively. Also, our business models are based on expertise in selling and commercialising brands that healthcare professionals, consumers and patients all trust.

Our combined scale accelerates us on a shared path of expansion into Europe with a portfolio of strong brands. It gives us more critical mass, from supply chain and logistics to manufacturing and distribution partners. It also helps us to excel commercially, so our brands are always within reach for consumers looking for a smart choice in everyday healthcare – whether in the store or pharmacy, or online.

Scale also deepens our presence in markets and positions us to service them through our own direct sales teams. And it makes us a more attractive commercial partner, which, in turn, will spur organic growth.

Creating the right platform to grow

Being effective in identifying, acquiring and integrating products and brands is an important business discipline for Karo Pharma. It goes alongside managing our supply chain tightly, and keeping quality high for regulators, customers and consumers. Together, they give us the basis of a scalable operating platform. And that, increasingly powered by digital, is what will keep us profitable.

Our wide product portfolio

We have a wide product portfolio containing around 100 brands offering trusted products that cover a range of categories within everyday healthcare.

01 Selexid® is a type of antibiotic that operates by killing the bacteria that cause infections in the bladder or ureter.

02 Indy Beauty® offers 100% vegan products within skin-care, make-up and haircare. The brand was founded by Swedish YouTube star Therése Lindgren.

03 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.

04 Nailner® is more than just an effective nail fungus treatment. The Nailner products also improve the appearance

of the nail during treatment. Whether you want natural or colored nails, there's a product for you which is fast and easy to use.

05 Wortie® offers wart and verruca treatments for the whole family. The product portfolio contains cryotherapy treatment which has a unique application with a metal tip for precise application as well as easy-to-use treatment plasters.

06 Dolerin® contains paracetamol and ibuprofen against acute pain. Dolerin is the first fixed combination therapy of its kind in the Nordics.

07 Flux® is a popular product-range for oral healthcare. Flux offers e.g. products against caries, dry mouth and bad breath.

08 Molipect® is used to treat coughs with a thick mucus, with a simultaneous need for airway dilation. For adults and children aged from six months.

09 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.

10 Multi-Gyn® offers a complete range of intimate care products that treats and prevents the most common vaginal discomforts and is sold in over 40 countries around the world.

11 Propyless® is used for children and adults suffering from very dry skin. Easy-absorbing skin lotion for body, hands and face that moisturises, protects and strengthens the skin barrier.

12 Locobase® is clinically proven to relieve dry and sensitive skin. Locobase is an established international brand in the problem skin segment.



“Amazing product! Would definitely recommend. Treats bacterial vaginosis naturally”

– Jenn
(Multi-Gyn-user)

Super-ratings on websites like Amazon.de



“I recommend Multi-Gyn products as a first-line treatment for vaginal problems”

– Dr. Zoran Maričić
(gynecologist)

Three out of four women experience vaginal discomfort at some point in their lives. It can affect their relationships as well as their self-esteem. Many women will recognise the symptoms such as vaginal discharge, odor, itch, soreness, burning, irritated tissue and dryness.

Multi-Gyn: A natural treatment for vaginal discomfort

An imbalance of the vaginal flora is one of the most common causes. It can be down to factors like hormonal changes, medications or inadequate hygiene.

Not all vaginal health problems need antibiotics or antimycotics as first-line treatments.

These medications can have serious drawbacks, like unpleasant side-effects and the risk of recurrence or resistance. Multi-Gyn can treat common vaginal discomforts – including microbial imbalances like bacterial vaginosis, yeast, itch and irritation, as well as dryness – without the need for other medication and without risk of resistance.

An effective alternative to standard treatment

Multi-Gyn joined Karo Pharma's intimate care portfolio in 2019 with the acquisition of Trimb. It's been on the market successfully since 1996 and is available in more than 40 countries around the world. Multi-Gyn is a complete range of intimate self-care products that relieve the symptoms of vaginal problems.

Multi-Gyn products are based on the unique, patented ingredient 2QR-complex. This complex is made of polysaccharides derived from the inner leaves of the Aloe Barbadensis Miller plant. It blocks harmful bacteria without disturbing useful bacteria and has no known side-effects.

A solution for every vaginal problem

Multi-Gyn ActiGel is the hero in the Multi-Gyn range. It offers direct relief of vaginal odor, discharge and irritations related to bacterial problems.

Other products in the range are FloraPlus, for vaginal yeast problems, LiquiGel for vaginal dryness, Compresses for discomforts in the external intimate area, and hygiene products. Multi-Gyn products are trusted by mil-

lions of women worldwide and supported by healthcare professionals.

Marketing focuses on healthcare professionals and online search

Online search and healthcare professionals play a central role in the marketing strategy for Multi-Gyn. In the intimate care category, they're crucial sources of information. With some differences between countries, recent research¹ showed that both are important triggers for buying. In many countries, vaginal problems are still a taboo subject. Most women don't know which vaginal problem they have, but they do recognise their symptoms. Therefore, searching online gives them the discretion they need to find the right product for their problem.

Our approach to healthcare professionals includes visits, mailings and training, along with brochures and samples, so that their patients can try the product for themselves. We also keep an open dialogue with opinion leaders like gynecologists, as well as users' experiences and views about different products.

We make sure we optimise our own web content to make online search as effective as possible. So when women research their symptoms, clear information about Multi-Gyn leads them to the right treatment. We also work with online healthcare platforms by sponsoring relevant content with our brand.

Dermatology is a key category for Karo Pharma. Our portfolio of well-established brands includes Locobase, Decubal, Propyless and Mildison – all highly valued by consumers, pharmacies and healthcare professionals alike.

Locobase: The international skin care brand from Karo Pharma

The Locobase brand goes back more than 30 years, to when a group of Scandinavian dermatologists developed a specialty cream for dry and sensitive skin. Today, the Locobase name encompasses a range of well-documented skin care products clinically proven to relieve dry, sensitive, damaged and scaly skin.

It's a brand many healthcare practitioners rely on. Petra Kjellman, a dermatologist at Diagnostiskt Centrum Hud in Stockholm, Sweden, says: “We treat people with very dry and problematic skin, as well as atopic dermatitis. I often recommend Locobase emollients, with their high lipid content that protects and restores the skin's barrier function.”

Locobase is available under different brand or trade names in around 20 countries. Locobase Repair is the number-one selling skin care cream in Swedish pharmacies.¹ It's the preferred choice for people who need more than just a regular skin care cream to keep their skin soft, smooth and intact. Also, Locobase products contain unique formulas of carefully selected ingredients, with no perfumes or colours.

Fighting excessive dryness

The skin is the body's largest organ and has several important tasks, including preventing bacteria and harmful substances from entering the body. A weakened skin barrier is less capable of controlling the skin's moisture level, which, in turn, leads to dry skin – a very common condition.

Skin hydration plays a major role in preventing damage to the skin barrier. Locobase Repair provides immediate and long-lasting hydration. The cream uses a combination of lipids, which are identical to those that occur naturally within the skin's own barrier, to speed up the skin's self-repairing process. This is especially important for people with sensitive skin

conditions, like atopic dermatitis, who need skin care that complements and follows treatment with hydrocortisone cream.

Dermatology products that people and professionals trust

Numerous clinical studies have confirmed what dermatologists and generations of Scandinavians already know. Locobase products are gentle on the skin and a smart choice for dry, cracked and damaged skin.

In a Swedish user study that asked over 400 people to try Locobase Repair, over 93 per cent recommended the product.² A Danish user study also confirmed that Locobase was the most popular skin care product among people with atopic dermatitis.³

In recent years, we've made several strategic acquisitions in dermatology, including Locobase. Its specialty creams meet diverse needs and are recommended by healthcare professionals and pharmacy staff, as well as the Nordic Asthma and Allergy Association.

“Skin care products carrying our logo are considered beneficial for those who suffer from asthma, allergy or other sensitivities – and for everyone else who wants to avoid perfumes and allergens,” says Rikke Bille from Asthma Allergy Nordic.

In short: Locobase is problem-solving skin care that experts and consumers trust.



“We treat people with very dry and problematic skin, as well as atopic dermatitis. I often recommend Locobase emollients, with their high lipid content that protects and restores the skin's barrier function.”

– Petra Kjellman,
dermatologist,
Diagnostiskt
Centrum Hud,
Sweden

1) Nielsen ScanTrack skin care cream (pharmaceutical creams not included) pharmacy total, value R12, w 17 2019.

2) Smartson survey, May 2018.

3) Kristina Melbardi Joergensen & Gregor B. E. Jemec (2018), Use of moisturizers among Danish atopic dermatitis patients. Which perceived product characteristics associate with long-term adherence? Journal of Dermatological Treatment, 29:2, 116-122, DOI: 10.1080/09546634.2017.1358803.

Power to our people

A new culture can only take root and grow in a company if everyone is involved in making decisions and feels included. People need to feel engaged not just in the early stages, but continuously as the organisation evolves. That's the thinking behind the Karo Community.

“It’s really important to involve people to get better decisions and a high level of engagement. I’m proud of how everyone at Karo Pharma has embraced this way of working. And as a company, we’re already seeing the benefits.”

– Christoffer Lorenzen,
CEO, Karo Pharma

More views mean better decisions

The purpose of the Karo Community is to involve all our staff in debates on the issues that matter to them. It also helps us crowdsource the best ideas from teams and colleagues across the organisation and develop them further.

As Karo Pharma CEO Christoffer Lorenzen explains: “It’s really important to involve people to get better decisions and a high level of engagement. I’m proud of how everyone at Karo Pharma has embraced this way of working. And as a company, we’re already seeing the benefits.”

Getting everyone involved

We introduced the Karo Community in 2019. The first step was to invite people from across different locations and functions to take part – and make sure they knew what it was all about. The idea wasn’t to create a ‘work council’. We wanted the Karo Community to be a forum for debates and sharing of ideas.

Once we’d set up the Karo Community, we trained its members in how to gather input from their colleagues and formulate the results for management to discuss. The process makes it more likely that everyone will accept the decisions that management ultimately makes.

“The Karo Community gives everyone the opportunity to be involved and feel ownership. It’s a fantastic link be-

“The Karo Community gives everyone the opportunity to be involved and feel ownership. It’s a fantastic link between employees and the management team.”

– Ashkan Mortazavi,
Sales manager

tween employees and the management team,” says Ashkan Mortazavi, sales manager for our international trade business and located in Stockholm. Joakim Nikolai Nilsen, a key account manager based in Oslo, agrees: “All Karo voices are heard, across borders, offices, departments and roles. I hope the Karo Community will continue to highlight and gather opinions on important themes across the organisation.”

Shaping the big decisions

Early topics for discussion in the Karo Community were our new location in Stockholm, and our new purpose. The Karo Community gathered views and ideas on the location and fed them back to the project team, as well as management.

To gather thoughts on Karo Pharma’s new purpose, Karo Community members asked questions like: “Why do you choose to work here?”; “What values matter most to you?”; and “How do you want other people to see and describe Karo Pharma?”. This meant the purpose that Karo Pharma eventually agreed really represents the whole organisation. The Karo Community will also be involved in making sure that we actually live by our values, ambition and purpose. •

Key facts
– Operation Smile

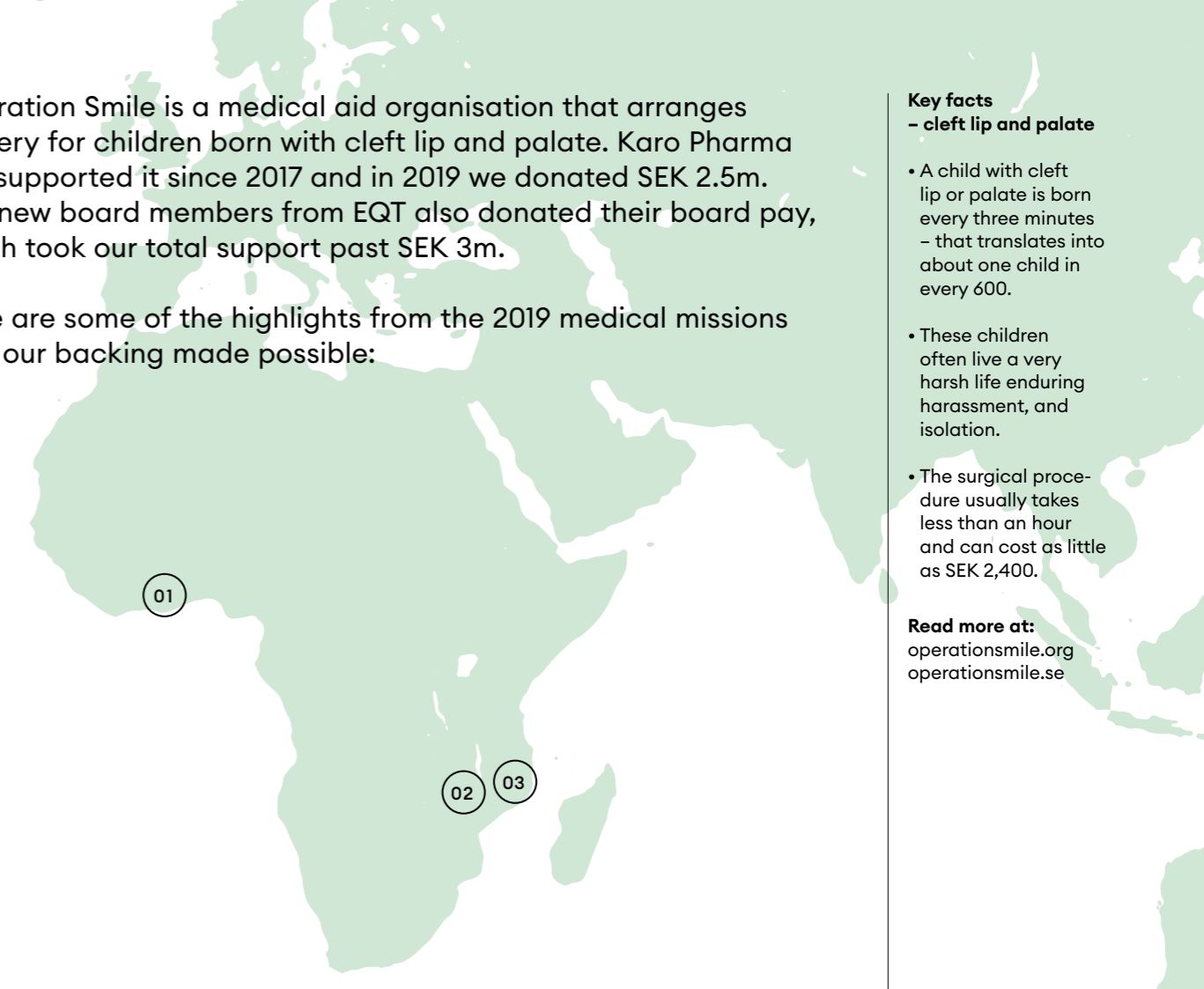
- Performs free surgery on children with facial deformities, primarily cleft lip and palate.
- Founded in the US in 1982.
- Relies on the skill, passion and dedication of more than 6,500 medical volunteers from 67 countries.
- Volunteers work pro bono, and travel in their free time.
- Runs around 150 medical missions a year, performing about 15,000 surgeries.

Operation Smile: Combatting cleft lip and palate



Operation Smile is a medical aid organisation that arranges surgery for children born with cleft lip and palate. Karo Pharma has supported it since 2017 and in 2019 we donated SEK 2.5m. Our new board members from EQT also donated their board pay, which took our total support past SEK 3m.

Here are some of the highlights from the 2019 medical missions that our backing made possible:



Key facts
– cleft lip and palate

- A child with cleft lip or palate is born every three minutes – that translates into about one child in every 600.
- These children often live a very harsh life enduring harassment, and isolation.
- The surgical procedure usually takes less than an hour and can cost as little as SEK 2,400.

Read more at:
operationsmile.org
operationsmile.se

01

Cape Coast, Ghana:
July 2019

Key facts:
53 patients screened.
27 patients treated.

One highlight from this mission was Josephine, a biomed in training. Her story stands out not only because she was new and keen to learn, but more importantly because she was female and in a role usually perceived as male. Josephine is the first female Operation Smile biomed in Africa. In her own words: “I have found myself a new family on this mission, and I wish I never have to go back home.”

The mission’s patient shelter, in a converted stadium, also hosted educational briefs from university students. They covered topics from personal hygiene and adolescent behaviour to reproductive health and soap making.

02

Lilongwe, Malawi:
October 2019

Key facts:
182 patients screened.
92 surgical procedures.
97 patients treated.
88 volunteers from 15 countries.

This was Operation Smile’s 12th mission in Malawi, which is ranked the fifth poorest country in the world¹ and is critically short of medical professionals.

Alongside our medical mission, Swedish volunteer Andrea Berg facilitated scrub nurse, field nursing and CPR training, all of which was very well received. The mission also included training on the dental obturator, a prosthesis that covers openings in the palate.

03

Nampula, Mozambique:
August 2019

Key facts:
110 patients screened.
120 surgical procedures.
71 patients treated.
86 volunteers from 12 countries.

Operation Smile’s Patient Coordinator went beyond the call of duty to recruit patients, driving his truck to the most remote rural villages in northern Mozambique. It’s hard to describe the amount of work that goes into finding patients in an area that Operation Smile has never been to before. Working with village chiefs and district hospitals, he successfully recruited 110 patients.

¹World Bank, 2018.

Karo Pharma's share is quoted on NASDAQ Stockholm Exchange's Mid Cap list.

Share and shareholders

Listing

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

Share price and trading

Karo Pharma's share price increased by 12.5% in 2019, from SEK 37.10 to SEK 41.74. The high of SEK 43.22 was set on 20 February, and the low of SEK 36.24 was on 15 February. At year-end, market capitalisation was SEK 9,118m.

Shareholders

The shareholder base reduced in the year, with 12,382 shareholders at the beginning of the year, and 7,919 at year-end. The largest shareholder as of 30 December was Karo Intressenter with 69.4%. The ten largest shareholders held 81.6% (49.6) of the total number of shares at year-end.

Share issues

Karo Pharma conducted a rights issue of SEK 2,003m before issue expenses in 2019. 60,700,422 shares were issued in this transaction, and the issue price was SEK 33.00.

Shares and share capital

Karo Pharma's share capital was SEK 90,013k as of 30 December 2019. The number of shares increased from 164,332,782 to 225,033,204 during the year.

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 2019.

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 and other operations are reviewed in each Interim Report. •

Share performance



Shareholders

	No. of shares	Percentage of capital and votes
KARO INTRESSETER AB	156,250,727	69.4%
USB SWITZERLAND AG, W8IMY	6,694,923	3.0%
BANQUE PICTET & CIE (EUROPE) SA, W8IMY	6,013,977	2.7%
FÖRSÄKRINGSAKTIEBOLAGET, AVANZA PENSION	4,634,582	2.1%
KARO PHARMA AB	2,464,990	1.1%
ÖHMAN BANK S.A	2,329,849	1.0%
AB SLÄDENS PENSIONSSTIFTELSE NR 3	1,610,000	0.7%
SEB INVESTMENT MANAGEMENT	1,462,804	0.7%
STATE STREET BANK AND TRUST CO, W9	1,151,886	0.5%
HANDELSBANKEN SVERIGE INDEX, CRITERIA	1,010,788	0.4%
Total, ten largest shareholders	183,624,526	81.6%
Total, other shareholders	41,408,678	18.4%
TOTAL, 30 Dec 2019	225,033,204	100.0%

Number of shareholders

	Change	Holding
Number of shareholders	-4,466	225,033,204
New shareholders	1,082	-
No longer shareholders	5,548	-



Financial statements

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 2019. All figures are for the group for the financial year 2019, unless otherwise stated. Unless otherwise stated, comparisons are with the financial year 2018.

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, Trimb Holding AB, 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, Karo Pharma Norge AS has one subsidiary, Medireduce AB has one subsidiary and Trimb Holding AB has a total of 19 subsidiaries and second-tier subsidiaries.

Operations

Karo Pharma is a pharmaceutical company that markets prescription drugs (RX), OTC and Hospital Supply products for pharmacies and direct to the healthcare sector. The company was founded in 1987 and is quoted on Nasdaq Stockholm Exchange's Mid Cap list.

Significant events in 2019

On 2 January 2019, Karo Intressenter announced that it had increased its buy-out offer from fall 2018, to SEK 38.00 cash 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, approvals, rulings etc. from the authorities and regulators had been satisfied. The offer was subsequently extended until 12 February.

An EGM on 14 February resolved that the Board of Directors should have six ordinary members with no deputies. The EGM re-elected Håkan Åström, and elected 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.

On 3 April 2019, Karo Pharma's Board reported that it had appointed Christoffer Lorenzen as Karo Pharma's new CEO, replacing Peter Blom. Christoffer took up his position on 1 July 2019. Ulf Mattsson served as Interim CEO for the period 3 April to 30 June inclusive.

An AGM on 16 May resolved that the Board of Directors should have seven ordinary members with no deputies. The AGM re-elected Bo Jesper Hansen, Erika Henriksson, Vesa Koskinen, Åsa Riisberg and Håkan Åström and elected Eva Sjökvist Saers and Flemming Örnkov (as of October 2019) as Board members for the period until the end of the AGM 2020.

On 21 June, Karo Pharma reported that it had reached an agreement to acquire all the shares of Trimb Holding AB from Avista Capital Partners and other shareholders for K 3,400 m. This transaction is expected to make a positive contribution to Karo Pharma's market position, and create a stable platform for Karo Pharma's continued growth.

The merged company had annualized sales of some EK 2,640 m in 2018.

Jon Johnsson was appointed 14 August as Karo Pharma's new CFO, replacing Mats-Olof Wallin, who retired at year-end. Jon took up his position on 1 October 2019.

The acquisition of all the shares of Trimb Holding AB, announced on 21 June 2019, was completed on 12 September. The Trimb group was consolidated effective 12 September 2019.

A new management and organizational structure was adopted for the company, reflecting its strategy. The new management has members of the former Karo Pharma and Trimb managements.

An EGM on 20 September approved the Board of Directors' proposal to authorize the Board to decide on new share issues with preferential rights for the company's shareholders on one or more occasions in the period until the AGM 2020.

Supported by authorization from the EGM on 20 September, Karo Pharma decided to conduct a SEK 2,003 m share issue with preferential rights for Karo Pharma's shareholders. Karo Pharma published a prospectus for this rights issue on 30 September.

Hydrokortison Trimb and all related intellectual property and intangible assets, including licenses and permits, as well as existing inventories was sold to Evolan Pharma AB, in the period. This is part of consummation of the acquisition of Trimb in September 2019. The divestment of Hydrokortison Trimb to Evolan was completed on 29 November 2019.

Åsa Riisberg voluntarily left Karo Pharma's Board on 10 December 2019.

Karo Pharma signed 21 June an agreement to acquire a product portfolio focused on intimate care and dermatology from Danish pharmaceutical company LEO Pharma for EUR 90 m. Estimated sales from this acquired portfolio are EUR 35 m for the full year 2019. The transaction was conditional on customary regulatory approval being secured, but is scheduled for completion in late-Q1 2020. This acquisition will be financed through a combination of new loans and existing cash reserves.

Significant events after the end of the financial year 2019

Pfizer Inc. informed Karo Pharma of a decision to terminate the research partnership and licensing agreement that the parties entered in December 2011. After termination of this partnership, there will be no active partnerships between the parties. This information follows Pfizer's previous decision to terminate the specific development project PF-06763809, as Karo Pharma announced in a press release published in November 2019. The termination of this partnership has no impact on operating activities or the company's future prospects.

The company is currently conducting a strategic review of its various business segments, including an internal restructuring designed to clarify different business segments and rationalize operations—the Hospital Supply business segment will be streamlined. Various strategic alternatives relating to the company and its business activities are currently being screened, which may involve either acquisitions or divestments of one or more business lines (the evaluation may also result in operations continuing in their current form).

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, Karo Pharma Oy, Trimb Holding AB, as well as Trimb's subsidiaries and second-tier subsidiaries. The head office is in Stockholm, Sweden.

Management was subject to a number of changes in the year, and at the end of the financial year, consists of the Chief Executive Officer, the Chief Financial Officer and another seven individuals.

At year-end, Karo Pharma had 193 (96) permanent employees.

Sales and earnings

Net sales for the period increased to SEK 1,901.2 m (1,615.1), an 18 % increase for the period, 2 % of which was due to positive currency effects. Sales growth in the period relates to the acquisition of the LEO portfolio in April 2018, and of Trimb in September 2019.

Cost of goods sold were SEK 917.2 m (676.3). The gross margin was 51.8 % (58.1) for the period. The latter half-year 2019 was negatively impacted by an altered product mix in acquired operations and Karo Pharma's original business. In the second quarter 2018, the company secured one-time revenue of SEK 86.6 m. Excluding this revenue, the gross margin for the corresponding period of 2018 was 55.8 %.

Operating expenses including depreciation, amortization, other operating income and other operating expenses were SEK 811.9 m (524.4) for the period. Selling expenses were SEK 600.3 m (443.0). The increase in selling expenses relates to costs for taking over a product portfolio from LEO Pharma, building up proprietary resources including subsidiaries in Denmark, Finland and Germany, as well as the acquisition of Trimb.

Administrative expenses were SEK 188.4 m (78.5). This increase is mainly due to non-recurring items in the second, third and fourth quarters related to the acquisition of Trimb, and restructuring expenses totaling SEK 107.2 m.

Adjusted EBIT was SEK 599.1 m (632.2). The company received one-time revenue of SEK 86.6 m in the second quarter 2018.

EBIT was SEK 172.1 m (414.3). Earnings per share were SEK 0.05 (4.63). Earnings per share for 2019 were negatively impacted by non-recurring items, while 2018 was positively impacted by one-time revenue from Pfizer and accounting deferred tax assets on loss carry-forwards.

Investments

Investments amounted to SEK 2,441.7 m (2,692.1), with the acquisition of Trimb representing SEK 2,456.4 m.

Acquisitions

Karo Pharma executed a business combination on 12 September, involving all the shares of Trimb Holding AB, with the Trimb group consolidated effective 12 September 2019.

Cash flow and financial position

Cash flow from operating activities was SEK 106.8 m (318.0). The group's cash and cash equivalents were SEK 198.8 m at period end (398.6 as of 31 December 2018).

Total assets as of 31 December were SEK 10,898.8 m (6,884.6), with intangible assets representing SEK 9,090.1 m (5,424.7) of total assets.

Consolidated equity was SEK 5,641.9 m (3,611.0). The equity/assets ratio was 51.8 % (52.5).

Equity and share data

The company issued a total of 60,700,422 new shares in October 2019, equating to total issue proceeds of SEK 2,003,114,000 before issue expenses. Issue expenses were SEK 23,999,000. This share issue increased the number of Karo Pharma shares from 164,332,782 to 225,033,204. Karo Pharma's share capital increased by SEK 24,280,000.

Consolidated equity increased to SEK 5,641,908,000 (3,611,001,000), which after considering earnings for the year, corresponded to SEK 25.07 (21.97) per share.

Parent company

The parent company's net sales for 2019 were SEK 701.0 m (655.6). Profit/loss after financial items was SEK -89.7 m (97.4). The parent company's cash and cash equivalents and other investments in securities, etc. were SEK 61.6 m (198.0 as of 31 December 2018).

Remuneration guidelines for senior executives

The Board of Directors proposes that the Annual General Meeting resolves on the following guidelines for determining salary and other remuneration to senior executives at Karo Pharma. The guidelines should be applied on compensation that is agreed upon, and changes made in already agreed compensation, after the guidelines have been adopted of the Annual General Meeting. The guidelines do not include compensation that is resolved by the Annual General Meeting.

The guidelines for the promotion of Karo Pharma's business strategy, long term interests and sustainability.

The purpose of the guidelines is to provide a structure that adapts the remuneration of Karo Pharma's business strategy, long-term goals and sustainability. Karo Pharma's goal is to grow through acquisitions that fit well with the company's structure in combination with organic growth. Karo Pharma's business strategy, which means an increased focus on sales (compared to, as previously, research and development), has resulted in: the group today is to a greater extent dependent on employees with specialist expertise in marketing and sales. The company's business strategy is described in more detail www.karopharma.se and in the annual report.

Karo Pharma's business strategy requires that Karo Pharma can continue to recruit and retain key employees. The guidelines must therefore enable efficient and competitive remuneration to senior executives within Group.

The decision-making process to determine, review and implement guidelines Karo Pharma's Board of Directors has chosen not to set up anything compensation committee.

The Board has considered this to be more appropriate that the entire board fulfils the tasks otherwise had arrived at a remuneration committee set up by the board. This means, among other things, that the Board of Directors shall determine, review and implement the guidelines for remuneration to senior executives.

The Board of Directors shall prepare proposals for new guidelines when there is a need for significant changes to these or at least every four years and submit the proposal for a decision at the Annual General Meeting. These guidelines

Type of remuneration	Replacement to the company's strategy	Implementation	Evaluation
Fixed salary	The fixed salary should reflect that responsibility that the position entails. Fixed salary levels aim to facilitate recruitment and enabling long-term retention of Karo Pharma's senior executives.	Evaluated annually. Revisions during the year can be carried out change of role.	Based on market levels for current position and country of operation. Levels are adjusted according to evaluation of the individual's performance and responsibility.
Variable remuneration	The variable salary seems to be achieving or exceeding Karo Pharma's predetermined annual fixed goals through measurable financials and non-financial criteria such as growth, for example and cash flow. In addition, can performance indicators used for to focus on issues of particular interest in Karo Pharma and that recruit and retain key employees.	At the end of the measurement period, the Board does an assessment of to what extent the criteria for payment of variable cash compensation was met.	Fulfillment of criteria for defined goal.
Pension and other benefits	Pension and other benefits for senior executives constitute a step in being able to offer a competitive total compensation, i purpose of facilitating recruitment and enable long-term retention by Karo Pharma's senior executives.	Offered during employment and may need to be revised depending on factors such as age, level on fixed salary and role.	Based on practice and market levels for current positions and country of operation.

Sustainability-related measures related to Karo Pharma's strategy

Karo Pharma's sustainability work is continuously evaluated and graded by investors and civil society actors, among others. This is how it is examined and compares Karo Pharma's working methods and results. Based on this, Karo Pharma's sustainability work can be continuously developed in line with stakeholders requirements, contribute to value development of Karo Pharma's share and strengthen Karo Pharma's brand. This can also lead to lower capital costs as a result of lower risk classification and the fact that the sustainability work provides added value in the form of risk minimization, control and business opportunities.

shall apply from the Annual General Meeting approval until new guidelines are adopted by the general meeting (and for a maximum of four years). The Board can apply approval of new guidelines at an earlier point in time circumstances arise that affect the purpose of the guidelines.

The Board shall monitor and evaluate ongoing and during the year completed programs for variable remuneration to company management. The Board also monitors and evaluates the application of these guidelines for remuneration to senior executives such as the AGM have made a decision on and the applicable remuneration structures and compensation levels in Karo Pharma. The board must also leave an account of the results of the evaluation that has taken place.

All members of the Board are independent in relation to Karo Pharma and company management. Consideration of salaries and terms of employment for employees The Board prepares proposals for guidelines for remuneration senior executives have information on employees total remuneration, the components of the remuneration and the remuneration increase and rate of increase over time were taken into account. developments of the difference between the remuneration of the senior executives and the remuneration to other employees will is reported in the annual remuneration report.

Forms of compensation

The overall guidelines for remuneration to senior executives means that it should be based on position, Individual performance and the Group's results. Karo Pharma shall have the required level of remuneration and terms of employment to recruit and retain a management with good skills and the ability to achieve set business objectives. with market should

therefore be the overarching principle of salary and other remuneration to senior executives.

The total remuneration to senior executives shall consist of fixed salary, variable remuneration in the form of short-term incentives based on annual performance targets as well pension and other benefits. To this is added conditions termination and severance pay. Senior executives shall also be able to operate on a consultancy basis where consultancy fees shall be accommodated within the same framework as compensation which is payable on employment. To the extent the board member performs work on behalf of Karo Pharma on the side of the board's work market consultant fees should be payable.

The Annual General Meeting can also – regardless of the guidelines for remuneration to senior executives – decide for example share and share price related remuneration.

Fixed salary

For a satisfactory job, compensation shall be paid in the form of a fixed salary.

Variable remuneration

In addition to fixed salary, variable remuneration should be offered as clearly rewards target-related performance according to simple and transparent structures. The senior executives variable Compensation should depend on the degree of achievement of set business objectives. The senior positions executives variable remuneration is designed to promote Karo Pharma ability to offer market-based and competitive remuneration levels and terms of employment such as enables senior executives with good skills and the ability

to achieve set business goals can is recruited, motivated and retained.

The business objectives to be considered are different forms of financial targets related to the financial result for Group including organic growth, earnings and cash flow. In addition, financial and non-financial performance indicators used to focus on issues of particular interest in Karo Pharma.

By applying predetermined and measurable financial and non-financial targets and performance indicators reflecting Karo Pharma's business priorities, Karo Pharma believes that the opportunity to attract, motivate and retaining key employees is increasing, which contributes to Karo Pharma's business strategy, long-term interests and sustainability.

When the measurement period for fulfillment of payment criteria of variable remuneration, an assessment must be made of the extent to which the criteria were met.

Before payment of variable cash compensation is made, shall the Board of Directors shall consider whether any outcome is reasonable. This trial is made in relation to Karo Pharma's earnings and financials position.

Variable remuneration shall include pension and holiday allowance in accordance with the Holiday Act and is therefore not pension.

Variable compensation shall amount to a maximum of 125 percent of the fixed salary for the CEO and maximum of 100 percent for other senior executives.

Pension and other benefits

The senior executives' pension terms shall be market in relation to what generally applies for corresponding executives in the market and shall be based on defined contribution pension solutions or goods connected to the ITP plan. Pension benefits should be based on a retirement age of 65 years.

Pension benefits shall amount to a maximum of 30 percent of the pensionable fixed salary for the executive the director and other senior executives. Other benefits may include, among other things, non-monetary benefits; such as car benefit. Other benefits shall amount to a maximum of 25 percent of the fixed salary for the CEO and other senior executives.

The non-monetary benefits of senior executives (for example, car benefit and health care) should facilitate execution of the work and correspond to what can be considered fair in relation to market practices and the benefits of Karo Pharma.

Termination and severance pay

In the event of termination by Karo Pharma, the period of notice may not exceed twelve months. In the event of termination by the CEO or senior manager, the period of notice may not exceed six months. The CEO and other senior executives shall, upon termination of employment from Karo Pharma, be able to receive severance pay amounting to a maximum of 12 months' fixed salary. No severance pay shall be payable upon termination by the employee.

The circle of executives covered

The above guidelines should include the CEO of Karo Pharma Aktiebolag and senior executives who are directly subordinate to the CEO and the CEO directors of Karo Pharma's subsidiaries.

Authorization for the Board to deviate from the guidelines

The Board has the right to deviate from the guidelines on this in an individual There are special reasons for this. The Board may decide to temporarily depart from the guidelines in

whole or in part, whether in a single case There are special reasons for that and a departure is necessary to meet the company's long-term interests and sustainability or to ensure the financial viability of Karo Pharma. Board of Directors performs the information that would otherwise have arrived at one of the the Board established a remuneration committee, which includes decisions about deviations from the guidelines. In the event of such deviation this shall be stated in the annual remuneration report.

Information on Karo Pharma's shares

On 31 December 2019, there was a total of 225,033,204 shares (164,332,782). 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.

Authorization to issue new shares

The AGM 2019 authorized the Board to decide on the issue of shares on one or more occasions until the AGM 2020. 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 2019.

Corporate Governance Report

Karo Pharma's Corporate Governance Report is available at the company's website www.karopharma.com, and is also included in 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 for the financial year 1 January-31 December 2019. This Report is the Statutory Sustainability Report.

About Karo Pharma

Karo Pharma's mission is to generate sustainable, profitable growth. This involves manufacturing and selling products with a long-term perspective that minimize environmental impact. Karo Pharma sells high-quality original products that the healthcare sector, consumers and patients trust. We improve patient health and well-being by making high-quality, differentiated pharmaceuticals and consumer health products available on the market.

Our objective is to be a leading healthcare company in Europe with strong positions within our categories. Our financial objectives are linked to a special mission to minimize the impact on the environment by our activities.

We are a virtual company which means that we work together with partners to get access to research and development and manufacturing.

Karo Pharma's quality assurance policy formalizes this work by managing our partner qualification and assessment as a strategic segment, with the right partners in our value chain enabling us to operate an efficient supply chain focused on commercial execution and increased profitability consistent with sustainable development.

This also means ensuring that our people are safe and healthy, and that our operations are as efficient as possible.

Karo Pharma is active in the Nordic region, with its head office in Stockholm, Sweden, and is quoted on Nasdaq Stockholm Exchange's Mid Cap list. Net sales for 2019 were SEK 1,901.2 m (1,615.1), an 18 % increase on 2018. A total of 193 people worked for Karo Pharma as of 31 December 2019. Karo Pharma's management team has six men and three women. The Board of Directors has seven members, two of whom are women.

Patient safety and product quality—our primary duty

Karo Pharma's main objective is to offer products and services that can improve people's health and make their daily lives easier in combination with patient safety and product quality.

Karo Pharma's pharmaceutical, cosmetic and medical device products help improve consumer and patient health and well-being.

Product usage always involves a risk of unwanted events and side-effects. Accordingly, Karo Pharma works continuously to ensure that consumers and patients avoid them. But when a side-effect or undesirable event occurs, we deal with this by focusing on patient and consumer, consistent with applicable legislation, which ultimately, is about respect for human rights. Patient safety: pharmacovigilance, materio-vigilance and cosmetovigilance

Karo Pharma's portfolio consists of pharmaceuticals, medical devices and cosmetics. To provide these products to the market, the company uses a quality assurance system that includes vigilance systems for the different product categories. The pharmacovigilance system for monitoring pharmaceutical safety is critical to our business.

Pharmacovigilance is defined by the World Health Organization (WHO) as the science of, and activities designed to,

discover, evaluate, understand and prevent side-effects from pharmaceuticals and other pharmaceutical-related problems.

The purpose of the pharmacovigilance system is to improve patient safety, which is achieved through channels including recording suspected pharmaceutical side-effects.

Karo Pharma complies with GVP, Good Vigilance Practice, and is intended to:

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

A designated Qualified Person for Pharmacovigilance (QPPV) is responsible for ensuring compliance with, and correct function of, our pharmacovigilance system, as well as compliance with GVP guidelines within Karo Pharma. The QPPV has overall responsibility for the pharmacovigilance system, and for all staff being educated and trained in the procedures relating to this system.

We conduct regular external audits of our pharmacovigilance system to ensure that it is functioning correctly.

Accordingly, we can ensure that the pharmaceuticals we develop are safe for people to use and that any side-effects and complaints are captured and dealt with appropriately.

Product quality: Good Manufacturing Practice (GMP), Good Distribution Practice (GDP) and ISO13485

One of the critical activities of the company's Quality Assurance function, jointly with the Operations function, is working on assessing and qualifying our external manufacturers. Karo Pharma produces pharmaceuticals, medical devices and cosmetics with quality-approved collaborative Contract Manufacturing Organizations (CMOs). To further ensure that the products we provide are safe for patients and consumers, and do not jeopardize patient safety or product quality, Karo Pharma actively uses a quality management system, and the processes that ensure monitoring of our external partners. Our quality management system is certified by the Swedish Medical Products Agency for pharmaceutical retailing, and by Dekra for ISO13485.

GMP and ISO13485 certification standards relate to manufacture and packaging pharmaceuticals and medical devices, documentation, quality control, inspections, premises and equipment, and the segregation of duties and educational standards applying to employees. Every manufactured batch of pharmaceuticals, medical device products or cosmetics is certified by a qualified individual. Our products are always subject to approval by an individual qualified pursuant to GMP, located either internally in our operations, or externally at our production site.

Good distribution practice (GDP) certification standards cover the whole distribution chain. From the plant where pharmaceuticals are manufactured to pharmacies, hospitals and retailers. They cover the transportation of products, but also our customers, who sell pharmaceuticals to consumers having appropriate authorization. Karo Pharma complies with GDP, and holds GDP permits. Work on GDP ensures that products maintain the same quality when they reach the patient as they did on shipping from the plant, transportation and storage regardless.

GDP formulates guidelines that pharmaceutical distributors in the EU must comply with, including a quality assurance system and risk management. These standards also formulate in detail how we should approach hygiene, materials usage, 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 compliant, safe and does not cause any patient or staff injuries.

Because we do not sell pharmaceuticals direct to consumers, but rather via distributors, GDP is an essential component of ensuring the compliant distribution of pharmaceuticals, and avoiding the misuse of pharmaceuticals. Pharmaceutical overdoses can have serious health risks to people and wider society, and in the worst case, be fatal. Accordingly, sales to consumers are only permitted by distributors holding the right permits, and having the appropriate skills for selling pharmaceuticals.

Over and above ensuring good GDP internally and towards our customers, customer satisfaction is an important part of our business. We consider customer satisfaction, reactions and comments at every contact with our customers, both distributors and users. Short communication pathways and direct contacts are important elements for achieving high customer satisfaction, and something we use every day in our ongoing sales work.

GMP & GDP inspections

Similar to external audits conducted on our pharmacovigilance system (GVP), the Swedish Medical Products Agency regularly inspects Karo Pharma to review our procedures and documentation. The consistent aim is to ensure that we satisfy GMP and GDP standards. Such inspections are usually conducted every second year, and the most recent inspection revealed some minor shortcomings, although none of them critical. In addition to Swedish Medical Products Agency inspections, we also conduct internal audits and inspections in these segments.

Pharmaceutical shortages

The manufacture of our pharmaceuticals and products consists of a chain of processes. Interruption or disruption at any link of the value chain can have consequences for our capability to manufacture products to the extent demanded, which in turn, may result in reduced sales and a shortage of pharmaceuticals, with the associated health risks to patients.

Shortage of resources and raw materials, production errors and transportation problems are examples of disruptions that can result in pharmaceutical shortages. Many pharmaceuticals have alternatives available during shortages, and in these cases, the consequences are serious. However, if there are no alternatives available, Karo Pharma communicates and collaborates with the relevant authority to find a solution. Karo Pharma conducts continuous updates of, and with, suppliers to reduce the risk of pharmaceutical shortages.

We also conduct internal audits in this segment, as well as regular inspections by the authorities to demonstrate our compliance with applicable laws and regulations. Some shortcomings emerged in 2019, but not on critical products.

Value chain

Our products consist of raw materials and input goods from a variety of suppliers, where the company sets requirements on agreed volumes, quality, product specification and delivery, which are essential to ensuring production. Our products are manufactured by CMOs at plants across Europe. When manufacturing is under license, Karo Pharma holds approval to sell pharmaceuticals the legal manufacturer of the medical device or responsible person for cosmetics. Because our value chain extends across several countries, systematized risk analysis and management are central.

Karo Pharma has implemented a Code of Conduct for suppliers, which it reviews regularly. With our internal guidelines, permits and policies, the Code of Conduct helps counter risks in the value chain relating to the infringement of human rights, corruption, social conditions, the working environment and terms & conditions.

Ethical rules

Our whole value chain, at the supplier and customer level, involves a risk of corruption, and accordingly, it is essential that we work on ethical guidelines and regulations. This applies internally and externally towards suppliers and distributors.

Karo Pharma believes that maintaining high business ethical standards is critical. All forms of bribery and corruption are unacceptable. Our agreements with suppliers require them to comply with applicable laws and regulations.

To further clarify the importance of an ethical approach to business, Karo Pharma complies with its Code of Conduct.

Environmental impact—Karo Pharma's environmental work

Karo Pharma produces pharmaceuticals, and markets pharmaceuticals and healthcare products. Manufacture, distribution and usage involve an impact on the environment. By applying ISO14001, we have mapped the material environmental aspects, and planned their management.

The material environmental aspects for Karo Pharma that emerged from the mapping process are emissions in transportation, chemical usage and electricity consumption. After the mapping, we formulated a program of measures for the material environmental aspects. We monitor emissions from transportation by minimizing extra and unnecessary transports, and by using the appropriate transport providers.

To rationalize the usage of chemicals, we use fewer finite resources, especially solvents, and are reducing electricity consumption in relation to sales. Karo Pharma complies with applicable environmental legislation, regulations and standards, as well as working continuously to improve its environmental work. We work continuously on adapting our operations for the environment and health, and reducing environmental impact. Through systematic environmental work, our goal is to continue to prevent and reduce the environmental burden of our operations from production and transportation. We strive for continuous improvement in our environmental work. Karo Pharma Sweden holds ISO 9001 quality certification and ISO 14001 environmental certification, with annual internal and external audits.

Our environmental policy states how Karo Pharma's environmental work should be conducted, and the resources used to regulate this work and actual measures that have been implemented. The CEO and management are responsible for formulating yearly environmental targets, compliance with

Risks & risk management			
Issue & Swedish Annual Accounts Act section	Description	Governance	Risk location
1. 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)
2. 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 continuous inspections to ensure compliance with applicable rules and legislation Safety legislation	At the supplier and customer level (for patients)
3. 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)
4. Anti-corruption Anti-corruption	A risk of corruption exists end to end in the value chain (suppliers and employees).	A code of conduct was implemented during 2019.	Karo Pharma's own operations, at the supplier and customer level
5. 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)
6. 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)

these targets, as well as their progressive revision. Yearly assessments and audits of Karo Pharma's environment work are conducted in tandem with audits of the company's management systems.

We use the principle of substitution, which means progressively exchanging older, less-functional technology for new, more environmental alternatives, and the precautionary principle, which means avoiding risky production, instant identifying safe working methods and methodologies.

Our environmental work also involves actions at our head office. We reuse paper and board, encourage people to use public transport, only print out necessary documents and attempt to reduce all transportation.

Human resources and occupational health & safety

A good working environment and staff health are important for Karo Pharma and how we do business. We view these two issues as material focuses to achieve high motivation and job satisfaction, and ensure our status as an attractive employer. Just like our environmental work, we conduct yearly follow-

ups and reviews of our health & safety work to ensure that we maintain a good, safe and stimulating working environment where our people are happy.

Health & safety work covers our whole business, all equipment and premises, and is formalized in our Health & Safety policy. Karo Pharma's overall goal is to create and maintain a good working environment right across its business.

Because some parts of our business present a health & safety risk – such as noise, crushing injuries and stress – we work systematically to minimize these risks and focus on activities designed to promote the physical and psychological health and well-being of our staff. Our systematic health & safety work proceeds from the provisions and guidelines in Sweden's AFS 2001:1 regulation. The interplay between our staff and managers is the foundation for functional health & safety work.

The CEO and management bears overall responsibility for Karo Pharma's health & safety, while staff are responsible to participate. By our staff being aware of the overall goals of operations, working actively for a happy workplace and taking

responsibility for their duties, as well as having the authorization necessary to perform them, we create a safe and motivational working environment. The Swedish Work Environment Authority previously inspected Karo Pharma's health & safety work at our plant in Lenhovda, Småland. At this plant, Karo Pharma manufactures crutches and develops ergonomic products for people with disabilities. Some areas of improvement emerged in this inspection, which we actioned in the year. Adjustable height tables, better 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 these and other actions were completed, we now satisfy the requirements the Swedish Work Environment Authority set after its inspection. Karo Pharma's goal is for no serious personal injury to occur. No staff accidents resulting in sickness absence occurred in 2019.

Future progress

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

Risk factors

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

Risks related to the market and company

Acquisition-related risks

The company is executing an active acquisition strategy, and within the company's business strategy may, in addition to the above acquisitions, acquire new, more mature projects, and enter partnerships with players with the aim of creating cash flows for the company. 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

A portion of the acquisition of Trimb was financed through bank borrowings and a new share issue. 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 and input goods from several different suppliers. To ensure its sales, the group is dependent on deliveries from third parties being consistent with agreed volumes, quality and delivery requirements. Incorrect or missed deliveries from suppliers may mean production being delayed, which in the short term, may reduce sales.

Karo Pharma's operations are partially dependent on agreements with medical device companies, which conferred Karo Pharma worse entitlement to market and sell medical device products on the Nordic markets, then sales agencies. There is always a risk that these agreements are cancel or

disputes arise relating to these agreements. Where contract terminated, Karo Pharma risks losing on future revenue and earnings, which may impact operations, financial position and results of operations negatively.

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

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

There is a risk that granted patents do not provide lasting protection, that infringements or other invalidity claims against granted patents may be made after the patents are granted. Karo Pharma and its subsidiaries own brand registrations for some of its brands. There is always a risk that disputes may arise regarding infringement of brand rights or other intellectual property, or that brand protection is not obtained. Additionally, Karo Pharma is dependent on know-how, and the possibility that competitors develop corresponding know-how or that Karo Pharma is successful in protecting its know-

how effectively, which may have a negative impact on operations, financial position and results of operations, cannot be ruled out.

Currency, interest rates and credit risks

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

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

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

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

Tax-related risks

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

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

Goodwill and product rights

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

If a project is discontinued, this may imply significant value is lost 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.

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

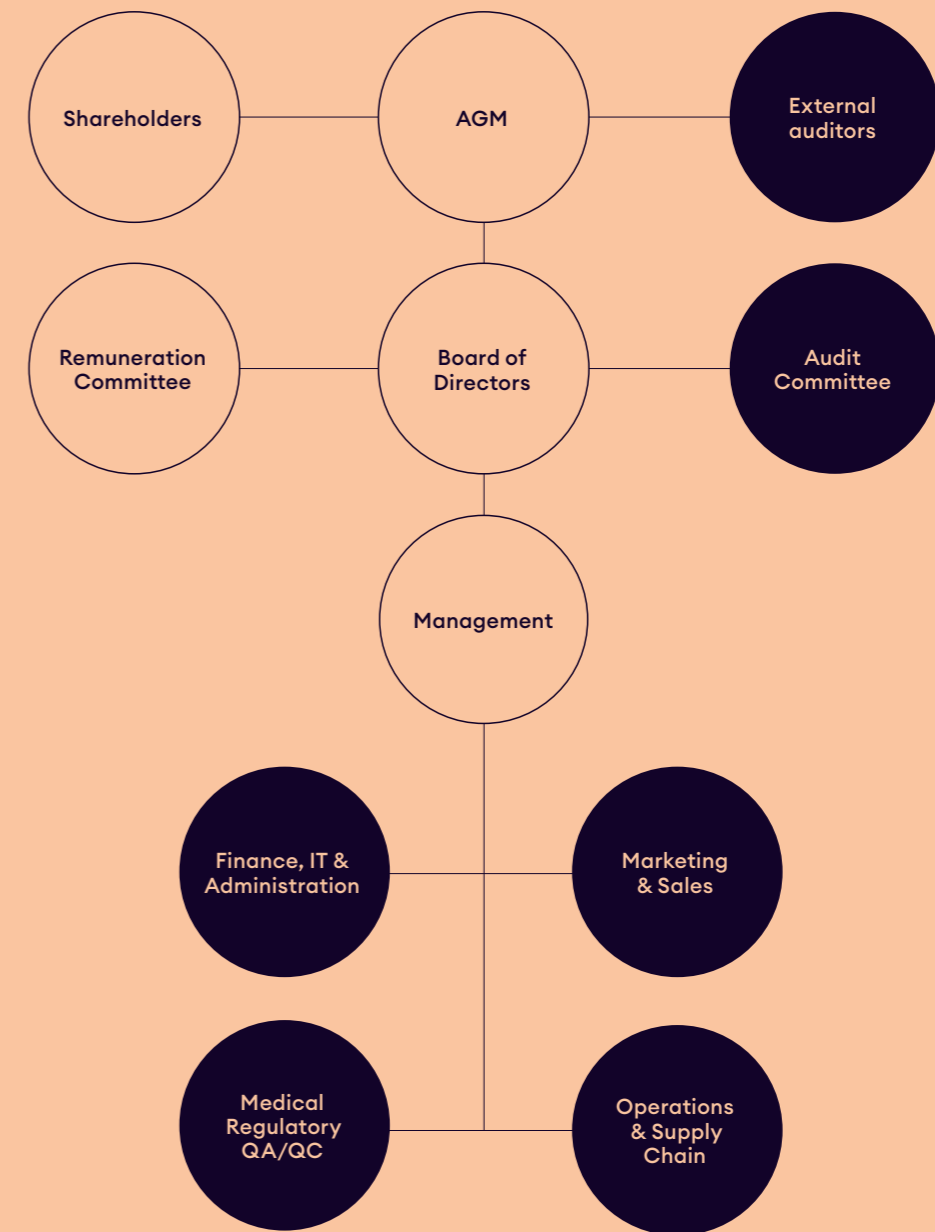
The following funds are at the disposal of the Annual General Meeting 2020:

- Share premium reserve SEK 4,896,404,000
 - Retained earnings SEK 492,157,000
 - Earnings for the year SEK 51,895,000
- Total unappropriated earnings SEK 5,440,457,000

The Board of Directors proposes that the funds that the disposal of the meeting of SEK 5,440,457,000 are carried forward.

FIVE-YEAR SUMMARY

SEK m unless otherwise stated	GROUP				
	2019	2018	2017	2016	2015
Income Statement					
Net sales	1 901,2	1 615,1	657,6	347,3	69,1
Cost of goods sold	-917,2	-676,3	-315,7	-198,5	-40,5
Selling expenses	-600,3	-443,0	-198,6	-112,8	-26,7
Administrative expenses	-188,4	-78,5	-43,7	-28,7	-27,2
Research and development expenses	0,0	-0,6	-4,4	-5,3	-35,0
EBIT	172,1	414,3	79,9	29,6	-74,9
Earnings/loss after tax	8,9	657,4	14,5	95,6	-78,2
Balance Sheet					
Total non-current assets	9 714,1	5 972,6	3 017,3	1 482,1	481,3
Other current assets	9,4	0,0	0,0	0,0	0,0
Cash and cash equivalents	926,3	513,5	286,0	169,4	84,7
Total current assets	248,8	398,6	838,6	121,3	76,5
Total assets	1 175,1	912,1	1 124,6	290,7	161,2
	10 898,5	6 884,6	4 141,8	1 772,8	642,5
Equity					
Non-current liabilities	5 641,9	3 611,0	1 586,5	717,0	364,6
Current liabilities	3 720,8	1 980,6	1 542,2	599,3	56,3
Total equity and liabilities	1 535,8	1 293,1	1 013,2	456,6	221,6
	10 898,5	6 884,6	4 141,8	1 772,8	642,5
Cash Flow Statement					
Cash flow from operating activities	106,8	318,0	33,5	-36,1	-52,2
Cash flow from investing activities	-2 441,7	-2 692,1	-1 245,8	-995,9	-220,8
Cash flow from financing activities	2 184,6	1 931,2	1 931,1	1 076,4	297,9
Cash flow for the year	-150,2	-442,9	718,8	44,4	24,9
Key indicators					
Equity/assets ratio, %	51,8	52,5	38,3	40,4	56,7
Average number of employees	129,1	90,0	90,8	69	72,0
Data per share					
Earnings per share (SEK)					
– average number of shares	0,05	4,63	0,17	1,42	-1,73
– number of shares at year-end	0,04	4,00	0,18	1,50	-1,57
Operating cash flow per share (SEK)					
– average number of shares	0,61	2,24	0,40	-0,75	-1,06
– number of shares at year-end	0,47	1,94	0,41	-0,70	-1,05
Equity per share at year-end	25,07	21,97	19,31	11,22	7,30
Share price at year-end	40,52	37,05	33,50	28,10	33,90
Number of shares (million)					
Average number of shares	174 477	141 888	84 217	67 440	41 892
Average after full dilution	174 477	141 888	84 217	67 440	41 892
Number of shares at year-end	225 033	164 333	82 166	63 907	49 926
Number of shares after full dilution	225 033	164 333	82 166	63 907	49 926



Significant external and external regulations and policies affecting corporate governance

Significant internal regulations and policies

- Articles of Association
- Board of Directors' Rules of Procedure
- Instructions for the CEO including instructions on financial reporting
- Instructions for each Board committee
- Corporate Communication Policy
- Insider Policy
- Risk Management Policy
- Accounting Handbook
- Code of Conduct and business ethics provisions

Significant external regulations

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

CORPORATE GOVERNANCE REPORT

Introduction

The Board of Directors of Karo Pharma hereby present the Corporate Governance Report for 2019 pursuant to the provisions 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, Karo Pharma ApS, Bio-Phausia AB, Karo Pharma Oslo AS, Trimb Holding AB, Karo Pharma Med AB, Medireduce AB, Karo Bio Discovery AB, Karo Pharma Research AB and MedCore AB. The latter five companies are dormant. Karo Pharma Sverige has two subsidiaries, Karo Pharma Norge AS has one subsidiary, Medireduce AB has one subsidiary and Trimb Holding AB has a total of 19 subsidiaries and second-tier subsidiaries.

Instances of non-compliance with the Code

Karo Pharma complies with the Code's "follow or explain" principle, and there is one instance of non-compliance to report for 2019. 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.

Shareholders

Karo Pharma AB's shares have been quoted on NASDAQ Stockholm since 1998. There were 7,919 (12,385) shareholders as of 31 December 2019. According to the share register maintained by Euroclear Sweden AB as of 31 December 2019, 69.4 % (19.0 %) of the shares were registered with Karo Intressenter AB. The ten largest shareholders held 81.4 % (49.6) of the total number 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 October 2019, the total number of shares was 225,033,204. Each share carries one vote and equal entitlement to the company's distributable earnings.

A rights issue involving a total of 60,700,422 shares was conducted in October 2019, at a subscription price of SEK 33, equivalent to issue proceeds of some SEK 2,303 m before transaction expenses.

As of 31 December 2019, there were 225,033,204 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 invitation to 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 2019

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 2018.

The AGM approved the Annual Accounts for 2018, resolved on appropriating the company's loss, and discharged the Directors and CEO from liability. The Meeting resolved that no dividend would be paid. The AGM resolved that the Board of Directors should consist of seven ordinary members without deputies by re-electing Bo Jesper Hansen, Erika Henriksson, Vesa Koskinen, Åsa Riisberg and Håkan Åström, as well as electing Sjökvist Saers and Flemming Ørnskov. Flemming Ørnskov was elected effective 1 October 2019. The AGM also re-elected Bo Jesper Hansen as Chairman of the Board.

The Meeting resolved to elect Ernst & Young AB as audit firm and remuneration to the Board of Directors and auditor in accordance with the Nomination Committee's proposal.

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

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 2020. 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.

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 2020

Karo Pharma's AGM 2020 will be held at 3 p.m. on Thursday 25 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, www.karopharma.com.

Nomination Committee

No nomination committee was appointed for the AGM 2020.

External auditors

Pursuant to its Articles of Association, Karo Pharma should have a registered public accounting firm as its external auditor. The AGM 2019 re-elected registered public accounting firm Ernst & Young AB as auditor until the AGM 2020. Björn Ohlsson has been appointed as Auditor in Charge.

The auditor reviews the parent company's and group's accounting records and administration on assignment from 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 2019, in accordance with the stipulations of the Code. For information on audit fees, see note 11 in the Annual Accounts for 2019.

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

The Chairman consults with the CEO at Board meetings. Before each Board meeting, the Directors receive a written agenda and comprehensive supporting documentation. The Chairman leads the work of the Board, represents the company on ownership issues, and is responsible for appraising the work of the Board.

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

Work of the Board in 2019

The Board held 19 scheduled meetings where minutes were taken in 2019. 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 2019 included acquisition of all outstanding shares of Trimb Holding AB, decision on a new share issued to shareholders, convening two Extraordinary General Meetings (EGMs), a new Chief Executive Officer, and acquiring new operations.

Risks & risk management

	Time period during 2019	Elected	Directors' fee	Attended of (total meetings)	Independent of company management	Independent of company's major shareholders
Marianne Hamilton	until 13 Feb.	2014	24	3(3)	Ja	Ja
Thomas Hedner	until 13 Feb.	2014	24	3(3)	Ja	Ja
Per-Anders Johansson	until 13 Feb.	2012	24	3(3)	Ja	Ja
Håkan Åström		2017	300	17(19)	Ja	Ja
Bo Jesper Hansen	14 Feb. onwards	2019	504	16(16)	Ja	Ja
Christoffer Lorenzen	14 Feb. - 15 May	2019	50	7(7)	Ja	Ja
Erika Henriksson	14 Feb. onwards	2019	239	16(16)	Ja	Nej
Vesa Koskinen	14 Feb. onwards	2019	239	16(16)	Ja	Nej
Åsa Riisberg	14 Feb. - 10 Dec.	2019	222	14(16)	Ja	Nej
Eva Sjökvist Saers	16 May onwards	2019	189	9(9)	Ja	Ja
Flemming Ørnskov	1 Oct. onwards	2019	76	1(2)	Ja	Ja

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 whole Board performs the duties of the remuneration committee. 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 effectiveness 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 16.

Internal controls 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 a good 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 on strategy, direction, acquisitions and overall finance issues are taken by Karo Pharma's Board and group management.

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

Control structures

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

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

Risk assessment

A 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 part 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 for its external communication. Karo Pharma's communica-

tion should be accurate, open, prompt and simultaneous to all stakeholder groups.

All communication must comply with NASDAQ Stockholm's Rulebook for Issuers. Financial information should give a comprehensive and clear view of the company, its operations, strategy and financial performance.

The Board of Directors adopts the annual accounts, accounting reports and interim reports. All financial statements are published on the website (www.karopharma.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 2019, the auditor followed up on sections of internal controls over selected key processes, and communicated this to management.

Board

Name: Bo Jesper Hansen
Chairman of the Board
Born: 1958
Elected: 2019

Education:
M.D., Ph.D., the University of
Copenhagen

**Other assignments and previous
experience:**
Chairman of the Board of Laborie Inc.
and Deputy Chairman of the Board of
Orphazyme A/S. Previously, Bo Jesper
Hansen was Executive Chairman of
the Board of SOBI AB, Chairman of the
Board of Topotarget A/S, Karolinska
Development AB, and Ablynx NV, Board
member of Hyperion Therapeutics Inc.
and Gambro AB, and CEO of Swedish
Orphan International AB.

**Independent of company and
management:** Yes

**Independent of principal
shareholder:** Yes

Shareholdings: 0 shares

Name: Erika Henriksson
Director
Born: 1981
Elected: 2019

Education:
M.B.A., Stockholm School of
Economics

**Other assignments and previous
experience:**
Board member of Eton and Partner
of EQT Partners, former Board member
of AcadeMedia and Scandic Hotels
Group.

**Independent of company and
management:** Yes

**Independent of principal
shareholder:** No

Shareholdings: 0 shares

Name: Vesa Koskinen
Director
Born: 1979
Elected: 2019

Education:
M.Sc. (Econ.) from the Helsinki
School of Economics

**Other assignments and previous
experience:**
Partner på EQT Partners och board
member i Igenomix S.L., Musti Group
Oyj, Touhula Oy och kfzteile24 GmbH.
Tidigare, bland annat, board member
i Terveystalo Oyj, Roeser Group GmbH
och Swiss Smile AG.

**Independent of company and
management:** Yes

**Independent of principal
shareholder:** No

Shareholdings: 0 shares

Name: Eva Sjökvist Saers
Director
Born: 1962
Elected: 2019

Education:
Doktorsgrad från Uppsala universitet

**Other assignments and previous
experience:**
CEO of APL (Apotek Produktion & Lab-
oratorier AB) 2010-2019. Broad pharma-
ceuticals sector experience with Astra/
AstraZeneca/APL, Deputy Chairman of
SwedenBIO and Chairman of Swelife.
Board member of Recipharm AB and
IDL Biotech AB. Former Chairman of
Apotekarsocieteten and Board member
of Karolinska Institutet Holding AB and
Dilafor AB.

**Independent of company and
management:** Yes

**Independent of principal
shareholder:** Yes

Shareholdings: 0 shares

Name: Håkan Åström
Director
Born: 1947
Elected: 2017

Education:
M.B.A., Stockholm School of Economics

**Other assignments and previous
experience:**
Director and Deputy Chairman of the
Karolinska Institute, Chairman of Pled-
Pharma AB, and Director of Rhenman
& Partners Asset Management AB and
MedUniverse AB. Honorary M.D., Sahl-
grenska Academy, Gothenburg. Previous
experience: CEO of Kabi Pharmacia
AB, President of Astra Pharmaceuticals
Ltd., CEO of Pharmacia AB, Chairman
of companies including SOBI (Biovitrum)
and Ferrosan A/S.

**Independent of company and
management:** Yes

**Independent of principal
shareholder:** Yes

Shareholdings: 0 shares

Namn: Flemming Ørnskov
Director
Born: 1958
Elected: 2019

Education:
MD, University of Copenhagen, MBA,
INSEAD och MPH, Harvard University

**Other assignments and previous
experience:**
Chairman för Recordati S.p.A och
CENTOGENE och member of the board
of directors of Waters Corporation.
CEO of Galderma. Tidigare CEO of Shire
Plc, och har innehaft senior positions vid
Bayer, Merck & Co. och Novartis.

**Independent of company and
management:** Yes

**Independent of principal
shareholder:** Yes

Shareholdings: 0 shares

Standing: Flemming Ørnskov, Vesa Koskinen,
Eva Sjökvist Saers, Håkan Åström

Seated: Erika Henriksson, Bo Jesper Hansen



Management

Name: Christoffer Lorenzen
Title: Chief Executive Officer
Born: 1975
Employed: 2019

Education:
MSc, Business
(Marketing), Copenhagen
Business School.

Previous experience:
Executive Vice President and member of the Executive Board of Chr. Hansen Holding A/S and various roles in Sales and Marketing (2008-2019); Head of Corporate Strategy and M&A at H. Lundbeck A/S (2003-2008). Various Board roles, presently Hamlet Protein A/S and Schultz Holding A/S.

Shareholdings: 0 shares

Name: Jon Johnsson
Title: Chief Financial Officer
Born: 1975
Employed: 2019

Education:
B.Sc. (Econ.), Gothenburg School of Economics.

Previous experience:
Vice President Finance Atlas Copco Industrial Assembly Solutions, CFO of CEVT AB, Vice President of Finance, Atlas Copco Tools & Assembly Systems, Manager of Group Controlling for Atlas Copco, and a further ten years' experience in controlling and accounting with companies including DeLaval and Addnature.

Shareholdings: 0 aktier

Name: Anna Elmlad
Title: Vice President of Marketing Wellness, Foot & Intimate Care.
Born: 1976
Employed: 2019

Education:
M.Sc. Odontology, Umeå University

Previous experience:
Head of Marketing & BD, Trimb. Business Unit Director, Consumer Health Care, TEVA and Allergan. A total of 20 years' sales & marketing experience at companies including Trimb, TEVA, Allergan, Actavis, J&J, Pfizer and GSK.

Shareholdings: 0 aktier

Name: Hadi Ghane
Title: Director of Hospital Supply
Born: 1962
Employed: 2016

Education:
Ph.D in Organic/medicinal Chemistry,
Uppsala Universitet.

Previous experience:
National Operation Manager at Roche AB. Over 20 years of experience from the life science, MedTech and pharma industry where he has held a variety of managerial positions among others at Biotage AB and Roche AB before joining Karo Pharma.

Shareholdings: 0 shares

Name: Jonathan Kimber
Title: Vice President of Operations
Born: 1970
Employed: 2019

Education:
M.B.A., Stockholm School of Economics

Previous experience:
Head of Supply, TRIMB Healthcare, EVP Product Range and R&D, Oriflame Cosmetics, EVP Operations, Oriflame Cosmetics, Senior Manager, Bain & Company.

Shareholdings: 0 shares

Name: Carl Lindgren
Title: Vice President of Business Development
Born: 1968
Employed: 2017

Education:
B.Sc. (Econ.), Lund University

Previous experience:
Vice President of Global Marketing Depression Portfolio, Lundbeck A/S, Vice President of Established Business, Lundbeck A/S, Global Marketing Director, Lundbeck A/S, and ten years of various positions within Astra AB and AstraZeneca PLC.

Shareholdings: 0 shares

Name: Magnus Nylén
Title: Chief Sales Officer
Born: 1974
Employed: 2019

Education:
B.Sc. (Econ.), Mid Sweden University,
APSU Tennessee, US

Previous experience:
CEO of Trimb, MD of Exeltis/Chemo, various roles within sales & marketing, as well as business & product development, since the late-1990s.

Shareholdings: 0 shares

Name: Sofia Pedersen
Title: Vice President of Scientific Affairs
Born: 1982
Employed: 2019

Education:
Graduate pharmacist, Gothenburg University

Previous experience:
Head of Scientific Affairs, Trimb Healthcare, Director of RAQA, Trimb Healthcare, Head of RA Pharma, Trimb Healthcare, RA Manager/RP Bausch & Lomb, RA Specialist, Actavis, RAQA/ Medical Officer, Orion Pharma.

Shareholdings: 0 shares

Name: Lisa Westerdahl
Title: VP of Marketing Pain, Dermatology and Pharma
Born: 1974
Employed: 2018

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

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

Shareholdings: 0 shares

Image: Christoffer Lorenzen, Jon Johnsson



Consolidated Income Statement

SEK 000	Note	GROUP	
		2019	2018
Net sales	2,30	1 901 196	1 615 109
Cost of goods sold	4	-917 165	-676 349
Gross earnings		984 030	938 760
OTHER OPERATING INCOME AND EXPENSES	4-6		
Selling expenses		-600 264	-442 970
Administrative expenses		-188 361	-78 505
Research & development expenses		-	-615
Other operating income and expenses	6	-23 304	-2 350
		-811 928	-524 440
Earnings before interest and taxes		172 102	414 320
Profit/loss from financial income and expenses			
Interest income, etc.	7	3 337	17 819
Interest expenses, etc.	8	-158 850	-141 974
		-155 512	-124 155
Profit/loss after financial items		16 590	290 165
Tax	9	-7 649	367 227
NET EARNINGS		8 941	657 392
Earnings attributable to:			
Equity holders of the parent		8 890	657 376
Non-controlling interests		51	16
Earnings per share attributable to equity holders of the parent (SEK)	10		
- based on weighted average number of outstanding shares before dilution ¹⁾		0,05	4,63
- based on weighted average number of outstanding shares after dilution ¹⁾		0,05	4,63

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

Consolidated Statement of Comprehensive Income

SEK 000	GROUP	
	2019	2018
Net earnings	8 941	657 392
Other comprehensive income for the year, net of tax <i>Items reclassifiable to profit or loss</i>		
Translation differences	41 971	23 482
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	50 912	680 875
Total comprehensive income attributable to:		
Equity holders of the parent	50 861	680 859
Non-controlling interests	51	16

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

SEK 000	Note	GROUP	
		2019	2018
ASSETS, 31 December			
NON-CURRENT ASSETS			
Intangible assets	12		
Capitalized development expenditure		5 024	1 743
Licenses and product rights		5 663 165	3 549 759
Goodwill		3 421 905	1 873 187
Total intangible assets		9 090 094	5 424 689
Property, plant and equipment			
Equipment, buildings and land	13	20 626	16 793
Right-of-use assets	27	9 407	-
Total property, plant and equipment		30 034	16 793
Financial assets			
Deferred tax asset	21	600 598	530 950
Other financial assets	15	2 745	136
Total non-current assets	30	9 723 471	5 972 568
CURRENT ASSETS			
Current receivables			
Inventories	16	395 276	192 136
Accounts receivable	17	481 582	296 657
Other receivables		33 876	10 379
Prepaid expenses and accrued income	18	15 519	14 319
Total current receivables		926 253	513 491
Cash and cash equivalents	19	248 806	398 580
Total current assets		1 175 059	912 071
TOTAL ASSETS		10 898 530	6 884 639

SEK 000	Note	GROUP	
		2019	2018
EQUITY AND LIABILITIES, 31 december			
EQUITY	20		
Share capital		90 013	65 733
Other paid-up capital		6 010 261	4 056 078
Other equity (incl. consolidated comprehensive income for the year)		-505 619	-514 509
Translation reserves		45 615	3 643
Non-controlling interests		1 639	56
Total equity		5 641 908	3 611 002
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	21	469 384	144 479
Liabilities to credit institutions	22	1 248 384	1 833 103
Other non-current liabilities	22	2 735	2 980
Total non-current liabilities		1 720 503	1 980 562
Current liabilities			
Liabilities to credit institutions	22	3 090 429	1 070 143
Accounts payable		204 522	138 703
Tax liability		11 670	12 002
Other current liabilities	23	48 236	23 855
Accrued expenses and deferred income	24	181 262	48 371
Total current liabilities		3 536 119	1 293 075
TOTAL EQUITY AND LIABILITIES		10 898 530	6 884 639

Consolidated Statement of Cash Flows

SEK 000	Note	GROUP	
		2019	2018
Operating activities			
Earnings before interest and taxes		172 102	414 320
Non-cash items			
Depreciation, amortization and impairment	4	319 755	217 869
Other	26	-207	-1 443
		491 650	630 747
Financial income received	26	1 537	897
Financial expenses paid	26	-135 570	-157 747
Income taxes paid/recovered		-6 093	-257
Cash flow from operating activities before change in working capital		351 525	473 639
Change in working capital			
Change in inventories		-59 553	-82 072
Change in current operating receivables		-11 314	-148 469
Change in accounts payable		-80 680	79 138
Change in other current operating liabilities		-93 134	-4 205
Cash flow from operating activities		106 844	318 031
Investing activities			
Investments in property, plant and equipment	13	-2 651	-4 033
Investments in intangible assets	12	-31 896	-14 881
Investments in other financial assets	15	-806	-
Investments in business combinations	11	-2 456 377	-2 673 216
Sale of intangible assets		50 000	-
Sale of property, plant and equipment		20	-
Cash flow from investing activities		-2 441 710	-2 692 130
Financing activities			
New share issue	26	2 003 114	1 492 642
Repurchased shares		0	-76 951
Transaction expenses, new share issue		-23 999	-98 340
Dividend paid		0	-32 867
Borrowings		3 500 000	4 243 507
Amortization of loans		-3 294 469	-3 596 753
Cash flow from financing activities		2 184 646	1 931 238
CASH FLOW FOR THE YEAR			
Cash and cash equivalents at beginning of year	19	398 580	838 586
Exchange difference in cash and cash equivalents		446	2 855
Cash and cash equivalents at end of year	19	248 806	398 580

Consolidated Statement of Changes in Equity

SEK 000	GROUP						Total
	Share capital	New share issue in progress	Other paid-up capital	Other equity incl. net earnings	Translation reserves	Non-controlling interests	
Opening balance as of 1 January 2018	32 866	8 501	2 627 015	-1 062 068	-19 839	40	1 586 515
Comprehensive income				657 376	23 482	16	680 875
Transactions with shareholders							
Dividend				-32 867			-32 867
Repurchase of Treasury shares				-76 951			-76 951
Guarantee commission			-27 031				-27 031
New share issue in progress (net of transaction expenses)	8 501	-8 501					-
New share issue (net of transaction expenses and tax)	24 366		1 456 094				1 480 460
Total transactions with shareholders	32 867	-8 501	1 429 063	-109 818	-	-	1 343 611
Opening balance as of 1 January 2019	65 733	-	4 056 078	-514 509	3 643	56	3 611 002
Comprehensive income				8 890	41 971	51	50 912
Transactions with shareholders							
Transactions with non-controlling interests						1 531	1 531
New share issue (net of transaction expenses and tax)	24 280		1 954 183				1 978 463
Total transactions with shareholders	24 280	-	1 954 183	-	-	1 531	1 979 994
CLOSING BALANCE AS OF 31 DECEMBER 2019	90 013	-	6 010 261	-505 619	45 615	1 639	5 641 908

Parent Company Income Statement

SEK 000	Note	PARENT COMPANY	
		2019	2018
Net sales		701 042	655 551
Cost of goods sold	4	-324 074	-235 254
Gross earnings		376 969	420 297
OTHER OPERATING INCOME AND EXPENSES	4-6		
Selling expenses		-247 492	-166 874
Administrative expenses		-94 246	-40 509
Research & development expenses		-	-615
Other operating income and expenses	6	-1 192	-1 438
		-342 929	-209 435
Earnings before interest and taxes		34 039	210 861
Profit/loss from financial income and expenses			
Profit/loss from participations in group companies		-2 821	-3 266
Interest income, etc.	7	26 830	29 482
Interest expenses, etc.	8	-147 734	-139 636
		-123 724	-113 420
Profit/loss after financial items		-89 685	97 442
Appropriations		157 380	55 862
Tax	9	-15 799	395 754
NET EARNINGS		51 895	549 058

Parent Company Statement of Comprehensive Income

SEK 000	PARENT COMPANY	
	2019	2018
Net earnings	51 895	549 058
Other comprehensive income for the year, net of tax		
Items reclassifiable to profit or loss		
Translation differences	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	51 895	549 058

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

Parent Company Balance Sheet

SEK 000	Note	PARENT COMPANY	
		2019	2018
ASSETS, 31 December			
NON-CURRENT ASSETS			
Capitalized development expenditure	12		
Licenses and product rights		2 222	328
Goodwill		2 144 493	2 294 740
Total intangible assets		306 974	330 142
Total intangible assets		2 453 690	2 625 210
Property, plant and equipment			
Equipment, buildings and land	13	1 097	152
Financial assets			
Participations in group companies	14	5 128 404	2 565 982
Deferred tax asset	21	494 715	481 814
Other financial assets	15	304 223	358 587
Total non-current assets		8 382 130	6 031 745
CURRENT ASSETS			
Current receivables			
Inventories	16	97 026	77 430
Accounts receivable	17	124 773	102 226
Other receivables		24 715	8 403
Receivables from group companies		1 428 429	89 090
Prepaid expenses and accrued income	18	7 544	6 691
		1 682 486	283 840
Cash and cash equivalents	19	61 557	198 004
Total current assets		1 744 043	481 844
TOTAL ASSETS		10 126 174	6 513 589

SEK 000	Note	PARENT COMPANY	
		2019	2018
EQUITY AND LIABILITIES, 31 December			
EQUITY	20		
Share capital		90 013	65 733
Total restricted equity (parent company)		90 013	65 733
Share premium reserve		4 896 404	2 942 221
Accumulated profit/loss		492 157	-56 901
Net earnings		51 895	549 058
Total non-restricted equity (parent company)		5 440 457	3 434 379
Total equity		5 530 470	3 500 111
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	21	21 989	-
Liabilities to group companies		12 946	12 609
Liabilities to credit institutions	22	1 128 218	1 835 255
Other non-current liabilities	22	26	26
Total non-current liabilities		1 163 179	1 847 889
Current liabilities			
Liabilities to credit institutions	22	3 064 512	1 070 860
Accounts payable		70 504	73 552
Liabilities to group companies		252 435	9 519
Other current liabilities	23	178	137
Accrued expenses and deferred income	24	44 897	11 521
Total current liabilities		3 432 525	1 165 589
TOTAL EQUITY AND LIABILITIES		10 126 174	6 513 589

Parent Company Cash Flow Statement

SEK 000		PARENT COMPANY	
	Note	2019	2018
Operating activities			
Earnings before interest and taxes		34 039	210 861
Non-cash items			
Depreciation, amortization and impairment	5	199 575	138 560
Other			
		233 614	349 421
Financial income received	26	26 414	522
Financial expenses paid	26	-134 574	-157 494
Income taxes paid/recovered		-323	-328
Cash flow from operating activities before change in working capital		125 131	192 122
Change in working capital			
Change in inventories		-19 596	-77 430
Change in current operating receivables		-1 224 405	-9 307
Change in accounts payable		-3 054	72 180
Change in other current operating liabilities		261 618	1 340
Cash flow from operating activities		-860 308	178 904
Investing activities			
Investments in property, plant and equipment	13	-966	-157
Investments in intangible assets	12	-28 034	-14 254
Investments in other financial assets	15	-30	-
Investments in shares in subsidiaries	14	-2 565 243	-2 673 601
Sales of participations in group companies		-	77 905
Amortization from group companies in the year		66 938	-
Cash flow from investing activities		-2 527 334	-2 610 107
Financing activities			
New share issue	26	2 003 114	1 492 642
Repurchased shares		-	-76 951
Transaction expenses, new share issue		-23 999	-98 340
Dividend paid		-	-32 867
Borrowings		3 500 000	4 243 507
Amortization of loans		-2 228 021	-3 596 753
Cash flow from financing activities		3 251 094	193 1238
CASH FLOW FOR THE YEAR			
Cash and cash equivalents at beginning of year	19	198 004	695 191
Exchange difference in cash and cash equivalents		101	2 777
Cash and cash equivalents at end of year	19	61 557	198 004

Parent Company Statement of Changes in Equity

SEK 000	PARENT COMPANY					
	Share capital	New share issue in progress	Share premium reserve	Accumulated profit or loss	Net earnings	Total
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						
New share issue (net of transaction expenses)	24 366		1 456 094			1 480 460
Guarantee commission			-27 031			-27 031
New share issue in progress (net of transaction expenses)	8 501	-8 501				-
Appropriation of earnings				19 388	-19 388	-
Dividend				-32 867		-32 867
Repurchase of treasury shares				-76 951		-76 951
Opening balance as of 1 January 2019	65 733	-	2 942 221	-56 901	549 058	3 500 111
Comprehensive income					51 895	51 895
Transactions with shareholders						
New share issue (net of transaction expenses and tax)	24 280		1 954 183			1 978 463
Appropriation of earnings				549 058	-549 058	-
CLOSING BALANCE AS OF 31 DECEMBER 2019	90 013	-	4 896 404	492 157	51 895	5 530 470

NOTES ON THE FINANCIAL STATEMENTS

Note 1 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 saleable financial assets and financial assets and liabilities measured at fair value through profit or loss.

AMENDMENTS TO ACCOUNTING POLICIES AND DISCLOSURES

New standards, amendments and interpretations applied by the group

The accounting and valuation principles that have been used are unchanged compared to those applied in 2018 except for that are listed below. The Group applies a number of new standards and interpretations from January 1, 2019, which primarily applies to IFRS 16 Leases. None of the new standards and interpretations like Karo Pharma applying from January 1, 2019 has resulted any significant impact on the Group's financial reports.

IFRS 16 Leasing Agreement

As of January 1, 2019, Karo Pharma applies IFRS 16 Leasing which replaced the previous standard IAS 17. Classified according to IAS 17 the lessee leases his contract as either financial or operational. The agreements classified as operational were not recognized as assets and liabilities respectively in the balance sheet. According to the new standard IFRS 16 does not differentiate the lessee in operational and financial matters leasing agreements and in principle all contracts are recognized as a right of use and a leasing liability in the balance sheet. The leasing agreements are reported in the balance sheet, the date the leased asset is available for use by the Group. Depreciation of the asset is reported in operating income and interest on leasing debt in net financial items. Thus, since the new standard has a certain positive impact on operating profit then one part of the leasing cost is reported as interest expense in net financial items. The lease fee is reported partly as payment of interest and partly as amortization of the lease debt. Cash flows for the lease debt amortization is included in the financing operations. Payment for the interest portion is presented as other interest payments in current operations. Group has been mainly affected by the leasing agreements relating to the lease of premises. In addition to local leases, only a number of smaller leases have identified, such as vehicles. The new accounting principles is reported in Note 1 under the heading Use Rights Assets / Leasing and in Note 27 Leasing agreements. The Group has chosen the forward-looking method and in accordance with the standard does not count on the comparative year. Lease liability was the sum of the present value of all future leasing fees and rights of use corresponds to the lease debt adjusted for prepaid and accrued leasing fees. Utility rights assets of SEK 12.9 million were reported in the opening balance in 2019. Leasing liabilities of SEK 11.8 million were reported in the opening balance. The difference between debt and asset consists of advances. Equity has not been affected by the transition.

This is the first time IFRS 16 has been put into practice and Karo Pharma has used the following exception:

- The same discount rate has been applied to leasing portfolios similar characteristics
- Operational leasing agreements with a remaining lease term of less than 12 months as of 1 January 2019 have been reported as short-term leasing agreements and removed from the lease debt

- Direct acquisition costs for utility rights have not been included at the transition
- Historical information has been used in the assessment of a lease agreement length in cases where there are preferential rights to extend or say enter into an agreement.

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 2018.

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 12.

Consolidated Accounts

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

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

Business combinations and goodwill

Acquisitions of subsidiaries are accounted using acquisition accounting. An acquisition is considered as a transaction by which the group indirectly acquires the assets of the subsidiary, and takes over its liabilities and other obligations. The cost of an acquisition consists of the fair value of the assets transferred as compensation, issued equity instruments and liabilities arising or taken over on the transfer date. Identifiable acquired assets and liabilities taken over, and contingent liabilities, in a business combination are initially measured at fair value on the

Note 1 cont. – Accounting policies

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 the value is not recoverable, see also note 12. When the recoverable amount is less than the book value, impairment is taken. The recoverable amount means the greater of the asset's fair value less expenses for disposal or sale and value in use. Acquisition-related expenses are expensed when they arise. Conditional purchase considerations are recognized at fair value at the acquisition date. Subsequent adjustments to the fair value of a conditional purchase consideration classified as a liability are recognized in profit or loss. When a transaction is considered as an asset acquisition, the individual identifiable assets and liabilities taken over are identified and recognized. Cost is allocated between individual assets and liabilities due to their relative fair values on the acquisition date. An asset acquisition does not give rise to goodwill.

Product rights, trademarks and brands

The measurement of product rights, trademarks and brands 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 lives and royalty rates. The maximum duration of the amortization of product rights the group applies is 20 years. The possibility that measurement of product rights and trademarks 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 and trademarks for impairment. As of 31 December 2018, the value of product rights and trademarks was SEK 5,663.2 m (3,549.8).

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. Any exchange 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 an 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

Revenues are accounted for based on IFRS 15. Revenue recognition takes place when the company has delivered and transferred the goods to the customer and when the customer has control over the goods. Revenue is recognized to the extent it is likely that the economic benefits will flow to the group and these revenues can be measured reliably.

Goods

Sales are recognized as revenues when reasonable risks and advantages are transferred from seller to buyer as per sales contracts. Revenues are accounted for after deduction of VAT, rebates, pharma taxes and product taxes. A smaller part of the revenues goes to external wholesalers. Revenues are adjusted for the value of expected returns which will be based on historical data for returns

Other revenue

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

recognized at the fair value of the securities on the transaction date. Central government subsidies and other public support is recognized as other operating income in profit or loss over the same period as the costs of these subsidies are intended to compensate for. Interest income is recognized in the period it relates to, based on the effective interest method. Interest income is recognized as financial income and not included in earnings before interest and taxes.

Taxes

Income tax

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

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

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

Value added tax

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

Intangible assets

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

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

Changes in expected useful lives or expected 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 feasible 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 occur, because the capitalization criteria have not been satisfied.

Property, plant and equipment

Property, plant and equipment are recognized at cost less accumulated depreciation and potential accumulated impairment. Over and above the purchase price, cost includes expenditure directly related to enable usage of the asset. The difference between cost and estimated residual value is depreciated on a straight-line basis over the asset's estimated useful life.

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

Note 1 cont. – Accounting policies

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 and product rights	5–20
Conversion of premises, IT equipment and equipment	5
Buildings and land	25

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

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

Currency forward contracts

Pursuant to the company's Finance Policy, Karo Pharma is permitted to hedge known future foreign currency cash flows against wide exchange rate fluctuations. In this context, there must be a specific level of security to consider the potential transactions and the associated cash flows. There were no outstanding currency forward contracts as of December 2018 or December 2019.

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 market-

places. 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 receivables 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 receivables 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 17 and 28 for more information on the classification of the company's investments.

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

Borrowings

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

Provisions

Provisions are recognized when the group has a 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 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 2019, 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 (2018: 0.3). The group's

Note 1 cont. – Accounting policies

share of the aggregate expenses for the plan amount to 0.002 % (2018: 0.003 %).

The collective consolidation ratio consists of the market value of Alecta's assets as a percentage of insurance commitments computed according to Alecta's actuarial methods and assumptions, which are not consistent with IAS 19.

Normally, the collective consolidation ratio is permitted to vary between 125 and 155 %. If Alecta's collective consolidation ratio is below 125 % or above 155 %, measures should be taken to create the conditions for the consolidation ratio to return to the normal interval. If consolidation is low, one potential action is to increase the contracted pricing of new subscriptions and extension of existing benefits. If consolidation is high, one potential action may be to introduce premium reductions.

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

Leasing**Use Rights Assets / Leasing (in accordance with IFRS 16, as of 2019-01-01)**

The majority of the Group's rights of use consist of local leases. The leasing agreements are normally written for fixed periods up to three to five years but opportunities for extension may exist, this are described below. The terms are negotiated separately for each agreement and contains a large number of different contract terms. The leasing agreements contain no special conditions or restrictions that would imply the agreements would be terminated if the conditions were not fulfilled, but the leased assets may not be used as collateral for loans. The leasing agreements are reported as rights of use and with a corresponding one debt, the date for which the leased asset is available use of the Group. Each lease payment is distributed between amortization of debt and financial expense. The financial cost should be distributed over the lease period so that each accounting period is charged with an amount corresponding to a fixed interest rate for it under respectively the period recognized the debt. The right of use is depreciated linearly over the shorter of the asset's useful life and the duration of the lease. Assets and liabilities arising from leasing agreements are reported initial to present value. The lease debt has been calculated at a discounted future commitments for existing contracts relating primarily to local rents. Applied maturities for leases are consistent with real ones contractual remaining maturities. Leasing agreements shorter than 12 months is not included. Nor are leasing agreements included assets of lesser value (below SEK 50). Payments for short contracts and leases of lesser value are expensed on a straight-line basis in the income statement. The lease payments are discounted at the implied interest rate of the agreement. If the interest rate cannot be easily determined, which is usually the case, the marginal loan interest rate was used. The marginal loan interest rate has been determined based on country, maturity and creditworthiness of each unit.

Assets with rights of use are valued at cost and includes the following:

- the amount of the lease liability originally valued at
- leasing fees paid on or before the commencement date, deductions for any benefits received in connection with drawing of the lease
- initial direct expenses
- expenses for restoring access to the condition prescribed in the lease terms

Leasing (according to IAS 17, up to and including 2018-12-31)

In a financial lease, the financial risks are transferred essentially and the benefits that come with owning the lease object to Karo Pharma. All other leasing agreements are considered operational. Financial leasing is recognized when the contract is entered at fair value lease object or, if lower, the present value of the minimum lease fee

Equipment is thus recognized as an asset and the present value of future minimum lease fees are reported as a liability. Leasing fees are allocated between financing fees and reduction of the lease debt to receive a fixed interest rate on the outstanding balance. financing costs charges the result. Assets under finance leases are amortized over the shortest period of the estimated useful life and the lease agreement maturity, if it is not possible to establish with reasonable certainty that the ownership will be transferred to the Group at the end of the lease period. Property non-current assets are depreciated as described below

the heading Depreciation of fixed assets. lease Payments regarding operating leases is expensed in the period they intend.

Share-based incentive programs

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

Segment reporting

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

Share capital

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

PARENT COMPANY

The parent company's Annual Accounts have been prepared in accordance with the Swedish Annual Accounts Act, the Swedish Financial Reporting Board's recommendation RFR 2 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).

Note 2 | Net sales

Sales in 2019 were SEK 1,901,196,000 (1,615,109,000), mainly product sales. 46 % of this total of SEK 1,901,196,000 consisted of Rx pharmaceuticals, and 48 % of OTC products.

Category	
MSEK	Karo Group
RX	869 894
OTC	913 404
Hospital Supply	117 898
GRAND TOTAL	1 901 196

RX 46 % OTC 48 % Hospital Supply 6 %

Note 3 | Personnel and remuneration to the Board of Directors and senior executives

	2019			2018		
	No.	Women	Men	No.	Women	Men
Average number of employees						
Parent company	1,9	0,6	1,3	3,0	2,0	1,0
Group companies						
Sweden	87,5	52,2	35,3	64,0	33,0	31,0
Denmark	6,6	5,3	1,3	1,0	1,0	0,0
Finland	3,8	2,0	1,8	2,0	1,0	1,0
Norway	19,0	14,3	4,7	20,0	16,0	4,0
Lithuania	0,9	0,9	0,0	0,0	0,0	0,0
Netherlands	8,8	6,0	2,8	0,0	0,0	0,0
Germany	0,6	0,3	0,3	0,0	0,0	0,0
TOTAL	129,1	81,6	47,5	90,0	53,0	37,0

There were 193 employees on 31 Dec. 2019, against 94 as of 1 Jan. 2019. The number of employees of Trimb was restated from 12 Sep. onwards

SEK 000	2019			2018		
	Salaries and other benefits	Social security contributions (of which pension expenses)	Total	Salaries and other benefits	Social security contributions (of which pension expenses)	Total
Board of Directors and Chief Executive Officer						
Board of Directors	2 306	402	2 708	8 432	1 019	9 451
Chief Executive Officer	18 205	7 272	25 477	3 923	471	4 394
Other employees						
Parent company	16 577	5 163	21 740	4 829	3 253	8 082
Group companies						
Sweden	57 673	25 598	83 271	26 325	12 990	39 315
Denmark	6 466	674	7 140	794	30	824
Finland	3 216	733	3 949	1 476	620	2 096
Norway	23 593	6 084	29 677	19 632	8 933	28 565
Lithuania	412	46	458	0	0	0
Netherlands	7 277	2 077	9 354	0	0	0
Germany	872	90	962	0	0	0
TOTAL	136 597	48 139	184 736	65 411	27 316	92 727

Note 3 cont. – Personnel and remuneration to the Board of Directors and senior executives

Compensation and other benefits to senior executives in 2019

		Directors' fees/basic salary	Variable remuneration	Other benefits	Other compensation	Social security contributions	Pension expenses, incl. special employer's contribution	Total
Board of Directors*								
Marianne Hamilton	until 13 Feb.	24				8		32
Thomas Hedner	until 13 Feb.	24				8		32
Per-Anders Johansson	until 13 Feb.	24				8		32
Håkan Åström		300			255	174		729
Bo Jesper Hansen	14 Feb. onwards	504				158		662
Christoffer Lorenzen	14 Feb - 15 maj	50				0		50
Erika Henriksson ^{†)}	14 Feb. onwards	239				75		315
Vesa Koskinen ^{†)}	14 Feb. onwards	239				0		239
Åsa Riisberg ^{†)}	14 Feb. - 10 Dec.	222				70		292
Eva Sjökvist Saers	16 May onwards	189				59		248
Flemming Örnkov	1 Oct. onwards	76				0		76
		1 892	0	0	255	560	0	2 707
Senior executives								
Peter Blom, CEO ^{††)}	3 Apr.	810	0	23	4 848	1 785	1 540	9 006
Ulf Mattsson, Interim CEO ^{†††)}	4 Apr.-30 Jun.				1 762	0		1 762
Christoffer Lorenzen, CEO	1 Jul. onwards	2 360	1 400	2	7 000	3 381	565	14 708
		3 170	1 400	25	13 610	5 166	2 105	25 477
Other senior executives ^{††††)}		8 458	2 706	207	3 350	3 573	2 685	20 978
TOTAL		13 520	4 106	232	17 215	9 298	4 790	49 161

^{†)} From 16 May, the Directors from EQT waived their fees in favor of Operation Smile.

^{††)} Peter Blom, CEO, has a 12-month notice period, with additional provision to pension as severance compensation.

^{†††)} Consultant

^{††††)} Eight other senior executives in the fourth quarter 2019.

Compensation and other benefits to senior executives in 2018

	Directors' fees/basic salary	Variable remuneration	Other benefits	Other compensation	Social security contributions	Pension expenses, incl. special employer's contribution	Total
Board of Directors							
Anders Lönner ^{†)}	475			7 207	78		7 759
Per-Anders Johansson	188				59		246
Thomas Hedner	188				59		246
Marianne Hamilton	188				31		218
Håkan Åström ^{†)}	188				31		218
	1 227	0	0	7 207	258	0	8 687
Senior executives							
Peter Blom, CEO	2 900	2 186	87		1 625	679	7 477
Other senior executives ^{††)}	3 760	818			1 046	467	6 091
TOTAL	7 887	3 004	87	7 207	2 929	1 146	22 255

^{†)} Over and above this compensation, Anders Lönner received a total of SEK 17 m of compensation for guarantee commitments.

^{††)} Over and above this compensation, Håkan Åström received a total of SEK 1.2 m of compensation for guarantee commitments.

^{†††)} Three other senior executives in 2018.

Note 3 cont. – Personnel and remuneration to the Board of Directors and senior executives**Remuneration of the Board of Directors**

Until the EGM on 14 February, the Board had four Directors with no deputies. Then, the Meeting appointed six ordinary Directors with no deputies. See the above table. The Meeting appointed Bo Jesper Hansen as Chairman succeeding Interim Chairman Håkan Åström.

Apart from Directors' fees, the AGMs 2018 and 2019, and the EGM on 14 February resolved to compensate Directors for direct expenses such as travel expenses. All committee work was conducted by the whole Board, so no special committee fees were paid. To the extent Directors render service on the company's behalf in addition to service on the Board, consulting fees should be payable. Håkan Åström received SEK 255,000 of consulting fees for assignments outside service on the Board of Directors.

At the AGM on 16 May the Directors from EQT, decided to waive their Directors' fees in favor of Operation Smile.

Remuneration of senior executives

Guidelines adopted by the AGM 2019 imply markets principles as the overall basis of salary and other benefits to senior executives. Satisfactory performance should be compensated by basic salary. Variable compensation will be available that rewards clearly target-related performance in straightforward and transparent structures, and should be based on the achievement of predetermined operational targets. Additionally, senior executives enjoy pension benefits in pension plans comparable to ITP, similar to other employees. Only basic salary should be pensionable.

Three senior executives served as consultants and received consulting fees: Ulf Mattsson, Interim CEO May-June, Mats-Olof Wallin, CFO until September, and Jonathan Kimber, VP of Operations from October onwards.

Other senior executives receive basic monthly salary. In 2019, all senior executives apart from consultants participated in a bonus program. At year-end, group management consisted of Christoffer Lorenzen (CEO), Jon Johnsson (CFO), Magnus Nylén (Chief Sales Officer), Carl Lindgren (VP Business Development), Jonathan Kimber (VP Operations), Sofia Pedersen (VP Scientific Affairs), Lisa Westerdahl (VP Marketing Pain, Dermatology and Pharma), Anna Elmlad (VP Marketing Wellness, Foot and Intimate Care) and Hadi Ghane (Director, Hospital Supply).

During the year the board made an exception to the guidelines for remuneration to senior executives, adopted at the annual general meeting 16 May 2019, when recruiting the new Chief Executive Officer. The exception was made considering the profile and competence needed for the future development of the company where such special reasons may apply.

Agreements on severance pay

Guidelines adopted by the AGM on 16 May stipulate that dismissal and severance pay should not exceed a total of 12 months' salary for each senior executive. The guidelines cover the group CEO, individuals directly reporting to the CEO, and CEOs of subsidiaries.

In CEO Peter Blom's termination on 3 April, a direct pension in addition to plan was agreed, over and above a 12-month notice period.

Note 4 Operating expenses by cost class**Operating expenses are allocated by cost class as follows**

SEK 000	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Depreciation and amortization/impairment	-319 755	-217 871	-199 575	-138 560
Personnel expenses	-165 019	-91 348	-11 034	-8 170
Cost of premises	-11 978	-10 629	-3 377	-3 151
External expenses	-291 873	-202 242	-127 751	-58 117
Other operating income and expenses (see note 6)	-23 304	-2 350	-1 192	-1 438
	-811 928	-524 440	-342 929	-209 435
Cost of goods sold, SEK 000				
	2019	2019	2019	2018
Goods for resale	-917 165	-676 349	-324 074	-235 254
	-917 165	-676 349	-324 074	-235 254

Note 5 Depreciation and amortization**Depreciation and amortization/impairment are allocated over Karo Pharma's functions and asset classes as follows**

SEK 000	Note	GROUP		PARENT COMPANY	
		2019	2018	2019	2018
Function					
Selling expenses		301 842	216 117	183 803	138 539
Administrative expenses		17 913	1 749	15 772	16
Research and development expenses		-	5	-	5
		319 755	217 871	199 575	138 560
Asset class					
Capitalized development expenses	12	873	216	307	146
Licenses and product rights	12	311 246	215 900	176 079	121 017
Goodwill	12	-	-	23 168	17 376
Equipment, buildings & land	13	2 583	1 754	21	21
Right-of-use assets	27	5 053	-	-	-
		319 755	217 871	199 575	138 560

Note 6 Other operating income and expenses

SEK 000	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Exchange rate gains and losses, net	315	-3 200	-1 343	-1 791
Acquisition expenses	-30 566	-	-	-
Municipal subsidies	40	58	-	-
Other income and compensation	6 998	791	151	353
Capital gains/loss on sale of non-current assets	-91	-	-	-
	-23 304	-2 350	-1 192	-1 438

Note 7 Interest income, etc.

SEK 000	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Interest income, capital gain/loss and dividends from investments in securities, etc.	1 708	897	719	241
Interest income, group companies	-	-	26 112	14 752
Exchange rate effects	1 629	16 922	-	14 489
	3 337	17 819	26 830	29 482

Note 8 Interest expenses, etc.

SEK 000	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Interest expenses, group companies	-	-	-463	-357
Interest expenses	-153 831	-140 296	-144 441	-139 279
Exchange rate effects	-5 019	-1 678	-2 830	-
	-158 850	-141 974	-147 734	-139 636

Note 9	Income tax							
SEK 000	GROUP				PARENT COMPANY			
	2019	%	2018	%	2019	%	2018	%
Accounted earnings before tax	16 590		290 165		67 695		153 304	
Tax at nominal tax rate	-3 550	-21,4	-63 836	-22,0	-14 487	-21,4	-33 727	-22,0
Tax effect of foreign tax rates	-2 379	-14,3	-732	-0,2	-	-	-	-
Tax effect of changed tax rates, Norway	-	-	-6 566	-2,3	-	-	-	-
Tax effect of changed tax rates, Sweden	-	-	6 420	2,2	-	-	-	-
Tax effect of deductible non-expensed items	6 712	40,4	-	-	6 712	9,9	-	-
Tax effect of adjustment of previous year's tax	-41	-0,2	43	0,0	-	-	-	-
Tax effect of other non-deductible items	-7 603	-45,8	-3 205	-1,1	-680	-1,0	-1 313	-0,9
Tax effect of non-taxable income	5 900	35,6	4 120	1,4	-	-	-	-
Tax effect of tax-related depreciation and amortization	10 137	61,1	-	-	8 484	12,5	-	-
Tax effect of interest deduction limitation rules	-4 063	-24,5	-	-	-	-	-	-
Tax effect of tax assets not assigned value	1 909	11,5	35 229	12,2	-	-	35 040	22,9
Tax effect of tax liability not previously assigned value	-21 989	132,5	-	-	-21 989	-32,5	-	-
Tax effect of income taxes recoverable recognized as an asset	7 398	44,5	395 754	136,4	6 190	9,2	395 754	258,1
Other tax effects	-80	-0,5	-	-	-29	-0,0	-	-
Tax on accounted earnings	-7 649	-46,1	367 227	126,6	-15 799	-23,3	395 754	258,1

The tax expense consists of the following components:

SEK 000	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Current tax				
On earnings for the year	-10 416	-15 126	-	-
Adjustment of previous year's tax	-41	43	-	-
Total current tax	-10 457	-15 083	-	-
Deferred tax:				
Change in temporary differences	-2 516	20 058	-21 989	-
Increase in deductible loss carry-forwards	16 695	395 754	6 190	395 754
Utilization of deductible loss carry-forwards	-11 371	-33 502	-	-
	2 808	382 310	-15 799	395 754
TOTAL REPORTED TAX	-7 649	367 227	-15 799	395 754

As of 31 December 2019, there were deductible loss carry-forwards of approximately SEK 3,438 m (3,021) in the group and SEK 2,402 m (2,335) 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 attributable to the parent company and the subsidiaries Swereco Industri and companies in the Trimb group, because after the acquisition, earnings capacity is good, and these accumulated loss carry-forwards are considered usable. See also the note 21 on Deferred tax.

Note 10 Earnings per share

Earnings per share are computed for earnings attributable to equity holders of the parent only.

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.

Number of outstanding shares (000)	2019	2018
At beginning of year	164 333	82 166
Average number	174 477	141 888
At end of year	225 033	164 333
Earnings per share	2019	2018
Earnings attributable to equity holders of the parent	8 890	657 376
Weighted average number of outstanding shares	174 477	141 888
Basic earnings per share	0,05	4,63
Diluted earnings per share	0,05	4,63

Note 11 Acquisitions

On 12 September, Karo Pharma completed the acquisition of all the shares and votes (2,544,839/100 %) of Trimb Holding AB, corporate. ID no. 559018-4148.

This transaction is expected to make a positive contribution to Karo Pharma's market position, and create a stable platform for Karo Pharma's continued growth. Trimb is prominent in self-care pharmaceuticals and healthcare products. In recent years, the company has successfully accumulated a pan-Nordic business, and has a growing presence across northern Europe. Trimb is a good fit with Karo Pharma in terms of geographical presence, sales channels and product offering.

Trimb was founded in 2012, and is a leading consumer healthcare business based in Stockholm, with about 90 employees. Trimb holds licences for, markets and sells, a wide range of self-care pharmaceuticals and healthcare products. Trimb has a portfolio of leading brands focused on skincare, foot care, oral care and intimate health. Over the past five years, Trimb has executed several strategic acquisitions, and taken a number of initiatives to drive its organic growth.

Karo Pharma judges that this transaction offers potential to the company in sales and cost synergies. The objective is to achieve yearly synergies of SEK 50 m when fully realised in 2021.

Sales of the acquired operation in 12 September - 31 December 2019 were SEK 242.3 m. EBIT was SEK -36.9 m, and the loss before tax was SEK -57.8 m.

The group took transaction expenses related to the acquisition of SEK 30.6 m, recognised in the Consolidated Income Statement under the other operating income and expenses item, and are part of cash flow from operating activities in the Cash Flow Statement.

Hydrokortison Trimb and all associated intangible rights and assets, including licenses and permits held, as well as existing inventories, was sold to Evolan Pharma AB on 29 November. The transaction was part of the completion of Trimb Holding AB's acquisition.

Acquisition of subsidiary	Fair value in acquired company
	SEK 000
Assets	
Intangible assets	2 561 170
Property, plant and equipment	3 846
Deferred tax assets	419
Other financial assets	3 005
Inventories/work in progress	143 405
Accounts receivable	181 002
Tax assets	8 793
Other current assets	67 897
Cash and bank balances	78 300
Liabilities	
Provisions for tax	-267 308
Non-current liabilities	-1 182 220
Accounts payable	-145 930
Tax liabilities	-3 004
Current liabilities	-256 958
Acquired net assets	1 192 417
Goodwill	1 342 260
Total acquisition value	2 534 677
Cash flow from acquisition of subsidiaries	
Cash purchase consideration	-2 534 677
Cash and cash equivalents in acquired company	78 300
Total cash flow from business combination	-2 456 377

Note 12 Goodwill, products, licenses and similar rights

SEK 000	GROUP							
	2019				2018			
	Licenses and product rights	Capitalized development expenditure	Goodwill	Total	Licenses and product rights	Capitalized development expenditure	Goodwill	Total
Opening cost	3 878 864	2 243	1 873 187	5 754 294	1 524 441	1 193	1 510 342	3 035 976
Increase through business combinations	2 375 141	1 431	1 526 858	3 903 430	2 325 698	-	347 518	2 673 216
Purchases in the year	29 452	2 444	-	31 896	13 790	1 090	-	14 880
Sales/impairment	-15 000	-	-	-15 000	-	-	-	-
Reclassification	-255	255	-	-	-	-	-	-
Translation difference	21 116	24	21 860	43 000	14 935	-40	15 328	30 223
Closing accumulated cost	6 289 318	6 397	3 421 905	9 717 620	3 878 864	2 243	1 873 187	5 754 294
Opening amortization	-329 105	-500	-	-329 605	-112 582	-284	-	-112 866
Amortization for the year	-251 471	-508	-	-251 979	-215 900	-216	-	-216 116
Impairment for the year	-44 775	-365	-	-45 140	-	-	-	-
Translation difference	-802	-	-	-802	-623	-	-	-623
Closing accumulated amortization	-626 153	-1 373	-	-627 526	-329 105	-500	-	-329 605
CLOSING RESIDUAL VALUE	5 663 165	5 024	3 421 905	9 090 094	3 549 759	1 743	1 873 187	5 424 689

SEK 000	PARENT COMPANY							
	2019				2018			
	Licenses and similar rights	Capitalized development expenditure	Goodwill	Total	Licenses and similar rights	Capitalized development expenditure	Goodwill	Total
Opening cost	2 498 435	728	347 518	2 846 681	158 483	728	-	159 211
Increase through business combinations	-	-	-	-	2 325 698	-	347 518	2 673 216
Purchases in the year	26 087	1 947	-	28 034	14 254	-	-	14 254
Sales/impairment	-15 000	-	-	-15 000	-	-	-	-
Reclassification	-255	255	-	-	-	-	-	-
Translation difference	-	-	-	-	-	-	-	-
Closing accumulated cost	2 509 267	2 930	347 518	2 859 715	2 498 435	728	347 518	2 846 681
Opening amortization	-203 694	-401	-17 376	-221 471	-82 678	-255	-	-82 933
Amortization for the year	-161 079	-307	-23 168	-184 554	-121 017	-146	-17 376	-138 539
Impairment for the year	-	-	-	-	-	-	-	-
Translation difference	-	-	-	-	-	-	-	-
Closing accumulated amortization	-364 773	-708	-40 544	-406 025	-203 695	-400	-17 376	-221 472
CLOSING RESIDUAL VALUE	2 144 493	2 222	306 974	2 453 690	2 294 740	328	330 142	2 625 210

Goodwill per cash generating unit	2019		2018		Product rights per cash generating unit	2019		2018	
Weifa	816 804	794 944			Weifa	648 858	716 241		
BioPhausia	494 551	494 551			BioPhausia	358 704	414 198		
Karo Pharma AB, LEO acquisition	347 518	347 518			Karo Pharma AB, LEO acquisition	2 144 063	2 294 277		
Trimb	1 526 858	-			Trimb	2 335 652	-		
Other	236 174	236 174			Other	112 888	125 043		
Total goodwill, group	3 421 905	1 873 187			Total product rights, group	5 663 165	3 549 759		

Material assumptions for 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 proceed from 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 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 3 % per year. Applying a weighted average cost of capital (WACC before tax) of 8.5 %, the recoverable amounts of the tested units exceed the carrying amounts of the tested units. Given a change in the growth rate from 3 % to 0 % per year, recoverable amount would still exceed the carrying amounts of all the tested units. The company judges that reasonable changes in other parameters would not imply the carrying amount exceeding the recoverable amount. The company's long-term ability to generate future business is an important factor for justifying accounted goodwill.

Note 13 Equipment, buildings and land, etc.

SEK 000	GROUP							
	2019				2018			
	Equipment	Buildings and land	Construction in progress and advances	Total	Equipment	Buildings and land	Construction in progress and advances	Total
Opening cost	17 163	9 682	1 835	28 680	14 960	9 682	-	24 642
Increase through business combinations	3 846	-	-	3 846	-	-	-	-
Purchases in the year	1 521	-	1 130	2 651	2 200	-	1 835	4 035
Sales and retirements	-538	-	-	-538	-	-	-	-
Reclassification	1 325	-	-1 325	-	-	-	-	-
Translation difference	92	-	-	92	4	-	-	4
Closing accumulated cost	23 409	9 682	1 640	34 731	17 163	9 682	1 835	28 680
Opening depreciation	-10 930	-957	-	-11 887	-9 598	-546	-	-10 144
Sales and retirements	377	-	-	377	-	-	-	-
Depreciation for the year	-2 172	-410	-	-2 582	-1 343	-411	-	-1 754
Translation difference	-13	-	-	-13	11	-	-	11
Closing accumulated depreciation	-12 738	-1 367	-	-14 105	-10 930	-957	-	-11 887
CLOSING RESIDUAL VALUE	10 671	8 315	1 640	20 626	6 233	8 725	1 835	16 793

SEK 000	PARENT COMPANY					
	2019			2018		
	Equipment	Construction in progress and advances	Total	Equipment	Construction in progress and advances	Total
Opening cost	11 178	96	11 274	11 116	-	11 116
Increase through business combinations	-	-	-	-	-	-
Purchases in the year	-	965	965	62	96	158
Sales and retirements	-114	-	-114	-	-	-
Reclassification	-	-	-	-	-	-
Translation difference	-	-	-	-	-	-
Closing accumulated cost	11 064	1 061	12 125	11 178	96	11 274
Opening depreciation	-11 121	-	-11 121	-11 100	-	-11 100
Sales and retirements	114	-	114	-	-	-
Depreciation for the year	-21	-	-21	-21	-	-21
Translation difference	-	-	-	-	-	-
Closing accumulated depreciation	-11 028	-	-11 028	-11 121	-	-11 121
CLOSING RESIDUAL VALUE	36	1 061	1 097	57	96	152

Note 14 Participations in group companies				
SEK 000	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Opening cost	2 565 982	2 682 252		
Acquisitions	2 600 727	385		
Divestments ¹⁾	-	-81 171		
Closing accumulated cost	5 166 709	2 601 466		
Opening impairment	-35 484	-35 484		
Impairment	-2 821	-		
Closing accumulated impairment	-38 305	-35 484		
CLOSING BOOK VALUE	5 128 404	2 565 982		

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	Equity	Net Result
Karo Pharma Research AB	Huddinge, Sweden	556588-3641	100 %	1 000	100	99	-
Karo Bio Discovery AB	Huddinge, Sweden	556880-1541	100 %	50 000	50	50	-
Karo Pharma Med AB	Stockholm, Sweden	556757-3158	100 %	1 803	15 000	13 840	331
Karo Pharma Sverige AB	Stockholm, Sweden	556767-3784	100 %	157 011	283 074	44 612	-394
MedCore AB	Stockholm, Sweden	556470-2065	99 %	47 054 878	-	9 152	-330
Bio Phausia AB	Stockholm, Sweden	556485-0153	100 %	342 564 194	928 973	151 091	-458
Medireduce AB	Stockholm, Sweden	556082-8550	100 %	9 300	3 407	585	-2
Karo Pharma Norge AS	Oslo, Norway	983.733.506	100 %	36 472 069	1 334 994	1 189 370	40 283
Karo Pharma ApS	Copenhagen, Denmark	39.503.778	100 %	2 000	281	2 864	2 608
Karo Pharma Oy	Turku, Finland	2915559-1	100 %	10 000	104	2 746	2 588
Trimb Holding AB	Stockholm, Sweden	559018-4148	100 %	2 544 839	2 562 421	1 290 833	-1 592
TOTAL SHARES AND PARTICIPATIONS IN GROUP COMPANIES				428 867 094	5 128 404		

Note 15 Other financial non-current assets				
SEK 000	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Guarantees and deposits	1 157	136	50	21
Receivable, group companies	-	-	304 173	358 566
Other receivables	1 588	-	-	-
CLOSING ACCUMULATED COST	2 745	136	304 223	358 587

Note 16 Inventories				
SEK 000	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Finished goods	389 372	185 793	91 557	71 187
Input goods	5 904	6 343	5 751	6 242
CLOSING BOOK VALUE	395 276	192 136	97 026	77 430

Reserve for obsolescence in inventories 2019, KSEK -6 822 (-5 353).

Note 17 Accounts receivable				
SEK 000	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Not overdue	423 856	206 341	91 274	60 211
Overdue 1-30 days	52 725	88 244	24 078	41 562
Overdue 31-60 days	2 291	1 721	2 297	399
Overdue 61-90 days	2 709	873	2 019	55
Overdue >91 days	0	-521	-	-
CLOSING BOOK VALUE	481 582	296 657	124 773	102 226

Karo Pharma apply the simplified method for calculation of expected credit losses. As per this method no reserve for doubtful debt taken in 2019 see not 29.

Note 18 Prepaid expenses and accrued income				
SEK 000	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Prepaid rent	-	712	0	712
Prepaid insurance	839	1 301	0	560
Prepaid bank charges	5 102	-	5 102	-
Prepaid licenses and other IT-related expenses	2 117	447	0	136
Goods in transit	747	8 829	747	-
Market expenses	-	851	0	-
Accrued income	2 482	-	1 548	-
Other	4 282	2 179	147	5 283
	15 519	14 319	7 544	6 691

Note 19 Cash and cash equivalents				
As of 31 December, SEK 000	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Cash and bank balances	248 806	398 580	61 557	198 004
	248 806	398 580	61 557	198 004

Note 20 Shareholders' equity			
Share capital as of 31 Dec. 2019	No. of shares	Quotient value	SEK 000
	Registered share capital	225 033 204	0,40
Ordinary shares	225 033 204	0,40	90 013
Share capital as of 31 Dec. 2018	No. of shares	Quotient value	SEK 000
Registered share capital	164 332 782	0,40	65 733
Ordinary shares	164 332 782	0,40	65 733

New issue of 60,700,422 shares in 2019. Karo Pharma has 2 464 990 own shares to an average quotient value of 31,2 SEK per share, which is 1,1 % of the total share capital.

Management of capital

The group's objective in terms of managing its capital structure is to secure the group's ability to continue operations, so that it can continue to generate returns for 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 assets. The debt/equity ratio as of 31 December 2019 and 2018 was as follows:

SEK 000	2019	2018
Total borrowings	4 338 813	2 903 246
Less: cash and cash equivalents	-248 806	-398 580
Less: investments in securities, etc.	-2 745	-136
Net debt	4 087 262	2 504 530
Total equity	5 641 908	3 611 002
Total capital	10 898 530	6 884 639
Debt/equity ratio	38 %	36 %

Note 21 | Deferred tax**Amounts relating to deferred tax assets and liabilities in the Balance Sheet are as follows:**

SEK 000	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Deferred tax assets:				
Deferred tax assets judged as usable	717 711	648 762	494 715	481 814
	717 711	648 762	494 715	481 814
Offset	-117 113	-117 812	-	-
ACCOUNTED DEFERRED TAX ASSET	600 598	530 950	494 715	481 814
Deferred tax liabilities:				
Deferred tax liabilities on temporary differences	586 497	262 291	21 989	-
	586 497	262 291	21 989	-
Offset	-117 113	-117 812	-	-
ACCOUNTED DEFERRED TAX LIABILITY	460 384	144 479	21 989	-

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

SEK 000	GROUP 2019			GROUP 2018			PARENT COMPANY 2019			PARENT COMPANY 2018		
	Receiv-ables	Lia-bilities	Net	Receiv-ables	Lia-bilities	Net	Receiv-ables	Lia-bilities	Net	Receiv-ables	Lia-bilities	Net
Intangible assets/ property, plant and equipment	-	584 191	-584 191	15 196	254 403	-239 207	-	21 989	-21 989	-	-	-
Untaxed reserves	-	2 306	-2 306	-	7 888	-7 888	-	-	-	-	-	-
Loss carry-forwards	717 310	-	717 310	632 646	-	632 646	494 715	-	494 715	481 814	-	481 814
Other	401	-	401	920	-	920	-	-	-	-	-	-
TAX ASSETS AND LIABILITIES, NET	717 711	586 497	131 214	648 762	262 291	386 471	494 715	21 989	472 726	481 814	-	-481 814

The change relating to deferred tax for the group is as follows:

SEK 000	Intangible assets	Untaxed reserves	Loss carry-forwards	Other	Total
As of 31 Dec. 2018	-239 206	-7 888	632 646	920	386 471
Acquisition of operations	-320 063	-	52 755	419	-266 889
Translation difference	-3 451	-	5 564	-	2 113
Through equity	-	-	6 711	-	6 711
Through profit or loss	-21 470	5 582	19 634	-938	2 808
As of 31 Dec. 2019	-584 191	-2 306	717 310	401	131 214

The change relating to deferred tax for the group 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	-	-	-	-	-
Translation difference	-2 296	-	5 363	21	3 088
Through equity	-	-	11 060	-	11 060
Through profit or loss	20 136	-890	383 083	-19	382 310
As of 31 Dec. 2018	-239 207	-7 888	632 646	920	386 471

The change relating to deferred tax for the parent company is as follows:

SEK 000	Intangible assets	Untaxed reserves	Loss carry-forwards	Other	Total
As of 31 Dec. 2018	-	-	481 814	-	481 814
Acquisition of operations	-	-	-	-	-
Translation difference	-	-	-	-	-
Through equity	-	-	6 711	-	6 711
Through profit or loss	-21 989	-	6 190	-	-15 799
As of 31 Dec. 2019	-21 989	-	494 715	-	472 726

Note 21 cont. – Deferred tax**The change relating to deferred tax for the parent company is as follows:**

SEK 000	Intangible assets	Untaxed reserves	Loss carry-forwards	Other	Total
As of 31 Dec. 2017	-	-	75 000	-	75 000
Acquisition of operations	-	-	-	-	-
Translation difference	-	-	-	-	-
Through equity	-	-	11 060	-	11 060
Through profit or loss	-	-	395 754	-	395 754
As of 31 Dec. 2018	-	-	481 814	-	481 814

The group has deductible deficits totaling SEK 3,438,463,000, which corresponds to a value for tax purposes of a total of SEK 718,529,000. The group has deferred tax assets relating to loss carry-forwards not recognized in its Balance Sheet of SEK 1,219,000 (0). The deferred tax assets on loss carry-forwards recognized in the Balance Sheet of SEK 717,310,000 (632,646,000) are those the company judges that it will be able to utilize in the foreseeable future. In its judgement of the possi-

bility of utilizing loss carry-forwards, consideration had been taken to factors limiting Karo Pharma's scope to utilize loss carry-forwards. Material factors for Karo Pharma are that there is no opportunity to use loss carry-forwards between different jurisdictions, and limitation rules such as prohibition of group contributions. See also note 9, loss carry-forwards. The group's existing loss carry-forwards have no time limitation.

Note 22 | Financial liabilities

SEK 000	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Amounts as of 31 December				
Within one year	3 090 429	1 070 143	3 064 512	1 070 860
Between two and five years	1 251 118	1 836 084	1 128 243	1 835 281
Later than five years	-	-	-	-
	4 341 548	2 906 227	4 192 755	2 906 141
Liabilities to credit institutions	4 372 244	2 923 965	4 223 938	2 923 965
Deposit	26	26	26	26
Provisions	2 709	2 955	-	-
Allocated expenses during the term of the loan	-33 431	-20 719	-31 209	-17 850
	4 341 548	2 906 227	4 192 755	2 906 141

The group has three loans of different maturities and interest terms. A short-term loan of SEK 1,000 m that accrues STIBOR +2.0 % interest and matures in February 2020. The second loan is a five-year facility divided into two currencies, of SEK 694 m and NOK 501 m, with the SEK portion accruing STIBOR 3.5 % and the NOK portion accruing NIBOR 5.34 %, which was arranged in April 2018. The third loan is a one-year loan of SEK 2,000 m arranged in September 2019 accruing STIBOR +2.0 %.

The terms of the above loans require the company to satisfy specific covenants, see below. In 2019, Karo Pharma satisfied its covenants – net debt in relation to EBITDA – cash flow from operating activities in relation to financial expenses (interest coverage ratio).

Maturity structure, liabilities to credit institutions per year, principal and interest	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
2019		1 183 627		1 183 627
2020	3 177 846	141 255	3 153 695	141 255
2021	91 918	134 313	67 767	134 313
2022	90 985	127 777	66 834	127 777
2023	1 134 289	1 711 618	1 110 138	1 711 618
2024	24 151	-	-	-
	4 519 190	3 298 590	4 398 434	3 298 590

Collateral of SEK 5 290 m (2 785) 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. The fair value of borrowing accruing variable interest is SEK 4 519m (3 299), compared to carrying amount of SEK 4 372 m (2 924).

Note 23 | Other current liabilities

SEK 000	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Value added tax, withholding tax, etc.	48 236	23 855	178	137
	48 236	23 855	178	137

Note 24 Accrued expenses and deferred income

KSEK	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Accrued personnel-related items	32 253	16 190	367	1 425
Delivered, not invoiced	19 533			
Accrued interest expenses	8 816	914	8 816	914
Accrued product tax	8 726		8 726	
Accrued customer returns for product expiration	607	5 522	607	4 807
Accrued expenses for organizational development	9 514		9 514	
Accrued auditing expenses	2 243		1 238	
Accrued accounting expenses	1 049			
Accrued rent expenses	3 831			
Accrued shipping & distribution expenses	2 784		565	
Accrued research and development expenses	359	359	359	359
Accrued expenses for market support and kickbacks	22 349	3 313		34
Accrued royalties	3 609			
Accrued shipping	1 862			
New share issue expenses	5 678	0	5 678	0
Other items	58 049	22 072	9 027	3 981
	181 262	48 371	44 897	11 521

Note 25 Pledged assets

SEK 000	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Pledged assets for borrowings in credit institutions				
Shares in subsidiaries	2 694 283	2 677 500	2 562 041	2 562 051
Floating charge	94 250	107 372	-	-

Note 26 Supplementary information, Cash Flow Statement

SEK 000	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Items not affecting liquidity, other:				
Capital gain/loss, non-current assets	140	-	-	-
Other items	-347	-1 443	-	-
	-207	-1 443	-	-
Interest received	1 537	897	26 414	522
Interest paid	-105 220	-118 835	-104 224	-118 582
Loan arrangement fee paid	-30 350	-38 912	-30 350	-38 912

SEK 000	Cash and cash equivalents	Other financial assets	Current liabilities to credit institutions	Non-current liabilities to credit institutions	Total
Group-reconciliation of net debt					
Net debt as of 1 Jan. 2019	398 580	136	-1 070 143	-1 833 103	-2 504 530
Additional, IFRS 16			-4 571	-7 271	-11 842
Cash flow	-150 220	806	-2 000 000	1 794 469	-354 945
Exchange differences	446	-36	-4 179	-18 912	-22 681
Non-cash items		-1 166	12 607	-1 347	10 094
Acquisitions of subsidiaries		3 005	-24 143	-1 182 220	-1 203 358
Net debt as of 31 Dec. 2019	248 806	2 745	-3 090 429	-1 248 384	-4 087 262

SEK 000	Cash and cash equivalents	Other financial assets	Current liabilities to credit institutions	Non-current liabilities to credit institutions	Total
Group-reconciliation of net debt					
Net debt as of 1 Jan. 2018	838 586	136	-816 069	-1 448 352	-1 425 699
Cash flow	-442 861		-254 074	-392 679	-1 089 614
Exchange differences	2 855			3 623	6 478
Non-cash items				4 305	4 305
Net debt as of 31 Dec. 2018	398 580	136	-1 070 143	-1 833 103	-2 504 530

SEK 000	Cash and cash equivalents	Other financial assets	Non-current liabilities to group companies	Current liabilities to credit institutions	Non-current liabilities to credit institutions	Total
Parent company-reconciliation of net debt						
Net debt as of 1 Jan. 2019	198 004	358 587	-12 609	-1 070 860	-1 835 255	-2 362 133
Cash flow	-136 548	-66 908		-2 000 000	728 021	-1 475 435
Exchange differences	101	12 544		-7 011	-20 984	-15 350
Non-cash items			-337	13 359	-	13 022
Net debt as of 31 Dec. 2019	61 557	304 223	-12 946	-3 064 512	-1 128 218	-3 839 896

SEK 000	Cash and cash equivalents	Other financial assets	Non-current liabilities to group companies	Current liabilities to credit institutions	Non-current liabilities to credit institutions	Total
Parent company-reconciliation of net debt						
Net debt as of 1 Jan. 2018	695 191	350 389	-12 271	-816 069	-1 451 856	-1 234 616
Cash flow	-499 964			-254 791	-391 962	-1 146 717
Exchange differences	2 777	8 198			3 513	14 488
Non-cash items			-338		5 050	4 712
Net debt as of 31 Dec. 2018	198 004	358 587	-12 609	-1 070 860	-1 835 255	-2 362 133

Note 27	Leases
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Following amounts are recognized in the Consolidated Balance Sheet related to leases.

SEK 000	GROUP	
	31 December, 2019	1 January, 2019 ¹⁾
Right-of-use assets		
Premises	7 351	11 301
Vehicles	2 056	1 571
Total	9 407	12 872
Lease liabilities		
Non-current	5 924	7 800
Current	2 625	4 041
	8 549	11 841

¹⁾ In the previous year, lease assets and lease liabilities relating to finance leases only were reported pursuant to IAS 17 Leases. Assets were presented as part of property, plant and equipment, and liabilities as part of the group's borrowing. For restatements recognized on transition to IFRS 16 Leases, see below in this note. For more information on the transition and new accounting policies, see note 1 Accounting and valuation policies, in the section on revised accounting policies and the section on right-of-use assets/leases.

For information on the maturity structure of lease liabilities, see note 29 Financial liabilities.

Additional rights of use in 2019 were SEK 1,347,000. The following amounts relate to leases in the Income Statement.

SEK 000	GROUP ¹⁾
	2019
Amounts recognized in Consolidated Income Statement	
Amortization of right-of-use assets	
– Premises	4 185
– Vehicles	868
Total amortization	5 053
Interest expenses for lease liability	597
Expenses related to short-term leases ²⁾	1 652
Total expenses related to leases	7 302

¹⁾ Expenses related to leases were reported as other external expenses in 2018 pursuant to IAS 17.

²⁾ On transition to IFRS 16, operating leases with remaining lease terms of less than 12 months as of 1 January 2019 were recognized as short-term leases.

The total cash flow for leases in 2019 was SEK 7,078,000. Future obligations related to short-term leases (excluded from the computation of right-of-use asset and lease liability) amount to SEK 5,283,000 as of 31 Dec. 2019. Most of these leases relate to the acquired operations of the Trimb group.

A reconciliation of operating obligations pursuant to IAS 17 as of 31 Dec. 2018, compared to the reported lease liability pursuant to IFRS 16 Leases as of 1 Jan. 2019 follows.

Disclosure on transition

SEK 000	GROUP
	31 Dec. 2019
Obligations for operating leases as of 31 Dec. 2018	14 157
Leases with short periods (removed when expensed)	-116
Effects of reclassification to prepaid expense	-1 031
Discounting effect	-1 169
Lease liability recognized as of 1 Jan. 2019	11 841

Note 27 cont. – Leases

The following table illustrates a summary of the transition effects from IFRS 16 Leases on the group's assets, liabilities and equity as of 1 January 2019, compared to the accounting policies applied in previous years. Comparative figures have not been restated because the group has applied the modified transition approach to the implementation of IFRS 16.

SEK 000	Opening balance, 1 Jan. 2019	Effect of IFRS 16	New opening balance, 1 Jan. 2019
Right-of-use assets	-	12 872	12 872
Current receivables	513 491	-1 031	512 519
Change, total assets		11 841	
Equity	3 611 002	-	3 611 002
Liabilities to credit institutions, non-current lease liabilities	-	7 800	7 800
Liabilities to credit institutions, current lease liabilities	-	4 041	4 041
Change, total liabilities		11 841	

The following table illustrates the effect of the adoption of IFRS 16 Leases on the Consolidated Income Statement in the financial year 2019. The comparative figures have not been restated because the group applied the modified transition approach to the implementation of IFRS 16.

SEK 000	GROUP
	Effekt, IFRS 16 2019
Net sales	-
Cost of goods sold	-
Gross earnings	-
Other operating income and expenses	372
Selling expenses ¹⁾	-
Administrative expenses	-
Research and development expenses	-
Other operating income and expenses	372
EBIT	372
Interest income, etc.	-
Interest expenses, etc.	-597
	-597
Profit/loss after financial items	-225
Tax	49
Net earnings	-176

¹⁾ The SEK 372,000 net effect of reduced lease expenses consists of SEK 5,426,000 over the reduced lease expenses and increased amortization of right-of-use assets of SEK 5,053,000.

Operating leases

Until year-end 2018, operating leases in the consolidated accounts essentially consisted of leases for the group's premises at Nybrokajen 7, Stockholm, Sweden, the premises at Østesjøveien 27, Oslo, Norway, and Joukahaisenkatu 6, Turku, Finland. Effective 1 January 2019, the group's leases are recognized pursuant to IFRS 16 Leases instead.

For more information, see note 1 Accounting and valuation policies and above in this note.

IFRS 16 Leases is not applied by the parent company and lease payments are allocated on a straight-line basis over the lease term. Accordingly, right-of-use assets and lease liabilities are not recognized in the Parent Company Balance Sheet.

Note 27 cont. – Leases

SEK 000	GROUP		PARENT COMPANY	
	2018	2019	2018	2019
The operating lease payments in the year are for:				
Premises rent	7 729	2 543	3 151	
Other lease payments	1 599	-	-	
	9 328	2 543	3 151	

SEK 000	GROUP ¹⁾		PARENT COMPANY ²⁾	
	31/12/2018	31/12/2019	31/12/2018	31/12/2019
Future minimum operating lease payments:				
Within one year	5 194	8 950	2 543	
After more than one year but within five years	8 963	44 344	-	
After more than five years	-	2 771	-	
	14 157	56 065	2 543	

¹⁾ In tandem with the adoption of IFRS 16, the group identified that its lease obligation as of 31 Dec. 2018 had been stated at an excessively high amount in the annual accounts for 2018. The above table has been updated with an accurate amount as of 31 Dec. 2018.

²⁾ A new lease contract has been entered as a synergy effect of Karo acquiring the Trimb group incl. staff, who will collocate at a new shared office in early-April 2020, because the lease contract on the Nybrokajen premises also expires on 31 March 2020.

Note 28 Audit fees

SEK 000	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
EY				
Auditing ¹⁾	2 471		2 471	
Other statutory assignments				
Tax consultancy	81		81	
Other ²⁾	20 929		20 929	
PWC				
Auditing ¹⁾	1 405	3 003	1 405	2 303
Other statutory assignments		25		25
Tax consultancy	0	50		0
Other ²⁾	3 079	650	3 079	650
Other audit firms				
Auditing	1 253	826	-	
	29 218	4 554	27 965	2 978

¹⁾ Statutory audit, of which SEK 2,471,000 is for EY and 1,405,000 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 acquisition, new share issue and reorganization in 2019. The fees are for EY and PWC Sweden.

Note 29 Financial instruments and risks, sensitivity analysis**Financial instruments by category**

	Loans receivable and accounts receivable	Saleable financial assets	Total
31 December 2019 (SEK 000)			
Assets in Balance Sheet			
Accounts receivable and other receivables	515 458	-	515 458
Cash and cash equivalents	248 806	-	248 806
	764 264	0	764 264

	Other financial liabilities	Total
31 December 2019 (SEK 000)		
Liabilities in Balance Sheet		
Borrowings	4 338 812	4 338 812
Accounts payable and other liabilities (excluding non-financial liabilities)	252 758	252 758
	4 591 570	4 591 570

	Loans receivable and accounts receivable	Saleable financial assets	Total
31 December 2018 (SEK 000)			
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

	Other financial liabilities	Total
31 December 2018 (SEK 000)		
Liabilities in Balance Sheet		
Borrowing	2 903 246	2 903 246
Accounts payable and other liabilities (excluding non-financial liabilities)	162 558	162 558
	3 065 805	3 065 805

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

	Less than 12 months	Between 1 and 2 years	Between 3 and 5 years	Total contracted cash flows	Carrying amount, liabilities
31 December 2019 (SEK 000)					
Accounts payable and other liabilities (excluding non-financial liabilities)					
	252 758	-		252 758	252 758
Borrowing	3 090 429	202 644	1 045 740		4 338 812
	3 343 187	202 644	1 045 740	252 758	4 591 570
31 December 2019 (SEK 000)					
Accounts receivable ¹⁾					
	423 856	55 016	2 709	0	481 582
Reserve for doubtful debt					0
	423 856	55 016	2 709	0	481 582

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	-19,0	-16,9
EUR	-34,4	8,2
NOK	-55,2	-13,9
USD	-1,1	1,0
Other	-6,3	-3,0

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 cont. – Financial instruments and risks, sensitivity analysis, cont.**zCurrency 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), UK sterling (GBP) and US dollars (USD). This results in exposure to currency fluctuations, a combination of translation and transaction risks. Karo Pharma's presentation currency is Swedish kronor.

The table on the next 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 2019. EBIT in 2019 and 2018 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.

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 Weifa of approximately SEK 700 m was fully repaid after the new share issue completed in January 2018.

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 concentration of credit risk. Credit risk in accounts receivable is very low because customers are regular, and primarily consist of major pharmacy chains, and purchasing from municipalities and county health authorities.

Note 30 Segment information

Based on the information considered by the company's management and that is used to make strategic decisions, Karo Pharma's operations consist of a single operating segment, the development and sale of products to pharmacies and healthcare. When evaluating operations,

and in strategic discussions and decisions, no breakdown of operations into additional operating segments is currently conducted. The development of Karo Pharma's pharmaceutical projects is an integrated process in Karo Pharma's operations.

SEK 000	GROUP	
	2019	2018
Revenues		
Sweden	600 764	475 809
Norway	569 613	546 270
Denmark	204 105	130 409
Finland	79 270	52 110
France	128 109	82 624
Rest of Europe	223 215	156 439
US	3 057	86 801
Rest of world	93 064	84 647
	1 901 196	1 615 109
Non-current assets		
Sweden	7 112 849	4 336 541
Norway	1 617 925	1 636 027
Europe	992 697	-
	9 723 421	5 972 568

Note 31 Transactions with related parties

No transactions with related parties occurred in the financial year.

Note 32 Significant events after the end of the financial year 2019

Pfizer Inc. informed Karo Pharma of a decision to terminate the research partnership and licensing agreement that the parties entered in December 2011. After termination of this partnership, there will be no active partnerships between the parties. This information follows Pfizer's previous decision to terminate the specific development project PF-06763809, as Karo Pharma announced in a press release published in November 2019. The termination of this partnership has no impact on operating activities or the company's future prospects.

The company is currently conducting a strategic review of its various business segments, including an internal restructuring designed to clarify different business segments and rationalize operations – including the Hospital Supply business segment being streamlined. Various strategic alternatives relating to the company and its business activities are currently being screened, which may involve either acquisitions or

divestments of one or more business lines (the evaluation may also result in operations continuing unchanged).

On 2 March, Karo Pharma announced that the acquisition of intimate care and skincare products from Leo Pharma for EUR 90 m, and approved by the competition regulators on 20 February 2020, had been completed.

This acquisition is expected to make a positive contribution to Karo Pharma's market position in intimate care and dermatology, and also contributes to its strategy of reinforcing its European geographical presence.

The portfolio consists of four products for treating hemorrhoids Sheriproct®, Doloproct®, Neriproct® and Ultraproct®, as well as six dermatology products: Ultrabas®, Ultralip®, Ultraphil®, Ultrasicc®, Neribas® and Ultralan®.

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

Reconciliation of adjusted EBITDA	GROUP	
	2019	2018
EBIT	172 102	414 320
Depreciation and amortization	319 755	217 869
Other depreciation, amortization and impairment	0	0
Items affecting comparability ¹⁾	107 200	0
ADJUSTED EBITDA	599 057	632 190

¹⁾ Items affecting comparability relate to transaction expenses associated with the acquisition of Trimb, and restructuring expenses to achieve future synergy effects in operating expenses.

Items affecting comparability are regarded as:

- Transaction expenses associated with acquisitions of product rights, trade-marks 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 of 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 25 May 2020 for adoption.

Stockholm, Sweden, 25 March 2020

Bo Jesper Hansen
Chairman of the Board

Erika Henriksson
Director

Vesa Koskinen
Director

Eva Sjökvist Saers
Director

Håkan Åström
Director

Flemming Örnskov
Director

Christoffer Lorenzen
Chief Executive Officer

Our Audit Report was presented on 1 April 2020

Björn Ohlsson
Authorized Public Accountant
Ernst & Young AB

AUDIT REPORT

To the general meeting of the shareholders of Karo Pharma Aktiebolag, 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 for the year 2019 with the exception of the Corporate Governance Report and the Sustainability Report on pages 52-55 and 42-44 respectively. The annual accounts and consolidated accounts of the company are included on pages 38-92 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our statement do not include the Corporate Governance Report and the Sustainability Report on pages 52-55 and 42-44 respectively. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

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

Basis for Opinions

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

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

Other information

The audit of the annual report for 2018 has been performed by another auditor who submitted an audit report dated April 5, 2019 with unmodified statements in the Report on the annual accounts and consolidated accounts.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements

Valuation of intangible assets including goodwill

Description	How our audit addressed this key audit matter
<p>Per 31 December 2019 the intangible assets including goodwill (below referred to as the assets) amounts to 9 090 mSEK which is 83 % of Karo Pharmas (below referred to as the Company) total assets. The Company performs an impairment test of goodwill on an annual basis and for other intangible assets when events or changes in conditions indicate that the carrying amount of the assets may fall below the recoverable amount. Testing of impairment for the assets involve a number of significant assumptions and assessments, among other assessing the value in use through identifying cash generating units, estimating expected future cash flows including the growth rate and calculating weighted average cost of capital ("WACC") used to discount future cash flows. The Company's process for assessing impairment requirements also includes the use of management's and the board of director's business plans and forecasts.</p> <p>For additional information refer to the Group's accounting principles in note 1 as well as information about goodwill, the product rights and licenses in note 12.</p> <p>We focused on this area as the book value of the assets are significant and the impairment test is sensitive to changes in assumptions. Therefore, we considered this a key audit matter in our audit.</p>	<p>Our audit was conducted together with our valuation specialists and included but was not limited to the following audit procedures:</p> <ul style="list-style-type: none"> • obtained an understanding of the Company's process for identifying indicators of impairment • evaluation of methods used by management when performing the impairment test including the sensitivity analysis and • review of the assessments made by the Company when testing the impairment with our focus on assumptions for which the result of impairment testing is most sensitive to. • we have also reviewed the disclosures in the annual report.

Business combinations

Description	How our audit addressed this key audit matter
<p>Karo Pharma (below referred to as the Company) has during 2019 acquired all shares in Trimb Holding for 2 534 mSEK. As described in note 1, the Company's acquisition values are determined through a purchase price allocation in connection with the acquisition. Acquired identifiable assets and liabilities assumed are initially recognized at fair value at the time of acquisition and the difference between the acquisition value and the fair value of identifiable assets and liabilities assumed is recognized as Goodwill.</p> <p>The fair value measurement attributable to business combinations involves, to a large extent management's judgment based on the company's own assumptions and therefore constitutes a key audit matter in our audit.</p> <p>Established fair values for the Company's acquisitions and important assumptions used in the determination of fair value are described in note 11.</p>	<p>Our review has included, among other things, the following audit procedures;</p> <ul style="list-style-type: none"> • Review of significant acquisition agreements • Evaluation of management's process for preparing purchase price allocations and valuation of acquired assets and liabilities. • Evaluation of management's assessments and valuation of identified assets and liabilities assumed. • Reconciliation of purchase price allocation to accounting records. • Evaluating, using valuation experts, used valuation methods and management assessments and assumptions. • We have reviewed the disclosures in the annual report.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-37. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

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

Auditor's responsibility

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

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

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated

accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

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

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

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

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Karo Pharma Aktiebolag for the year 2019 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit 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 fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

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

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

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

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

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

ing discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

The auditor's review of the Corporate Governance Report

It is the Board of Directors who is responsible for the Corporate Governance Report on pages 52-55 and that it has been prepared in accordance with the Annual Accounts Act.

Our Audit was conducted in accordance with FAR's statement RevU16 Auditor's review of the Corporate Governance Report. This means that our review of the Corporate Governance Report has a different focus and a significantly smaller scope compared to the focus and scope of an audit in accordance with International Standards on Auditing and good auditing standards in Sweden. We believe that this review provides us with a sufficient bases for our statements.

A Corporate Governance Report has been prepared. Information in accordance with Chapter 6.6§ second paragraph, clause 2-6 of the Annual Accounts Act and Chapter 7.31§, second paragraph in the same law are compatible with the other parts of the annual accounts and the consolidated accounts an in accordance with the Annual Accounts Act.

The auditor's opinion regarding the statutory sustainability report

It is the Board of Directors who is responsible for the sustainability report on pages 42-44 and that it has been prepared in accordance with the Annual Accounts Act.

Our review was conducted in accordance with FAR's recommendation RevR12 The auditor's opinion on th statutory sustainability report. This means that our review of the sustainability report has a different focus and a significantly smaller scope compared to the focus and scope of an audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that this review provides us with a sufficient basis for our statement.

A sustainability report has been prepared.

Ernst & Young AB, Box 7850, 103 99 Stockholm with Björn Ohlsson as auditor in charge was appointed auditor of Karo Pharma Aktiebolag by the general meeting of the shareholders on the 16th of May 2019 and has been the company's auditor since the 24th of June 2019.

Stockholm, April 1, 2020
Ernst & Young AB

Björn Ohlsson
Authorized Public Accountant

ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of Karo Pharma AB (publ) will be held at 3 p.m. on Monday, 25 May 2020 at Näringsivets Hus, Storgatan 19, Stockholm, Sweden. The invitation to 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 19 May 2020, and secondly by no later than 19 May 2020 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: Jon Johnsson, Box 16 184, 103 24 Stockholm, Sweden, or by email to: jon.johnsson@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 19 May, which means the shareholder must inform their nominee in good time prior to this date.

Other financial information

Interim Report Jan-Mar 29 April 2020
Interim Report Jan-Jun 21 July 2020
Interim Report Jan-Sep 30 October 2020

Financial reports, press releases, invitations to 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 specifically request it. Hard copy interim reports can be sent by mail on request.

For more information, please contact
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or email: investor@karopharma.com

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