



karo[®]

pharma

Smart choices
for everyday
healthcare

Annual Report
2020

Table of Contents

Management review

- 06 Karo Pharma at a glance
- 07 Our strategy
- 08 Our commitments
- 10 Letter from the CEO:
Making good on our
purpose
- 12 Letter from the Chairman:
A business well set
for success
- 14 Highlights 2020
- 16 Connecting with
consumers:
The key to competitiveness
- 21 Anticipating a
post-COVID market
- 24 Focusing on what
matters most
- 28 Tackling conditions and
defeating stigma
- 30 Connectivity:
The key to a strong
community and an even
stronger business

- 32 Becoming a faster
and smarter digital
business

- 34 Share and shareholders

“Despite COVID-19,
we’ve continued to
develop our business
at a fast pace.”

– Christoffer Lorenzen,
CEO, Karo Pharma

Financial statements

- 38 Statutory administration
report
- 49 Five-year summary
- 52 Corporate governance
report
- 56 Board
- 58 Management
- 60 Financial Statements
- 68 Notes
- 94 Signatures
- 95 Audit report
- 99 Definitions of key indicators
- 100 Product Information
- 101 Annual general meeting

Management review

Fast facts

Products sold in **60+** markets

80+ brands across six different categories

Revenue in SEK **2.9bn**

Quoted on NASDAQ Stockholm Exchange's Mid Cap list



Our vision is to become a pan-European leader in everyday healthcare

Karo Pharma at a glance



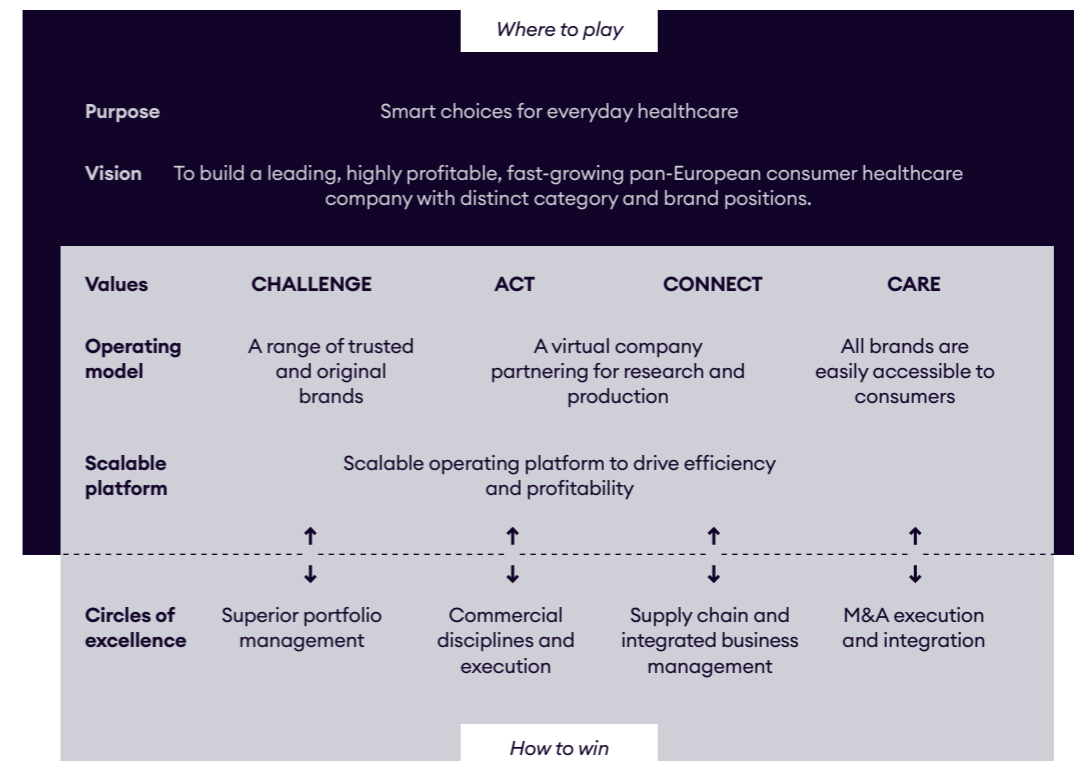
Working to realise our vision

Ambitious goals need a strong foundation, and we have already laid the groundwork to make our vision a reality. From 2019 to 2020, we grew more than 3% organically, which is higher than comparable healthcare market indices in our markets. We're taking share in e-commerce channels, and our global growth brands are outgrowing their markets with an average high single-digit growth. With targeted investments and strong, empowered local organisations,

we aim to accelerate our organic growth over the next years.

From our strong Nordic core, we have expanded our business geographically. This has been driven by Mergers and Acquisitions (M&A), and we now have direct business in several European countries. We also have a growing presence outside Europe through strong partner collaborations, and we have consolidated our brand portfolio.

Our strategy is to help shape the future within everyday healthcare and respond intelligently to changes in the environment around us. To guide our actions, we have made important strategic choices regarding **'where to play'** and **'how to win'**.



We serve six categories within everyday healthcare.

- 01 Intimate care / 02 Dermatology / 03 Foot care / 04 Pain, cough & cold / 05 Wellness / 06 Rx pharma

Our priority is to add brands in areas where we see the strongest growth opportunities based on capabilities and brand portfolio.

Currently these categories are:



01 Intimate care / 02 Dermatology / 03 Foot care

Approx. **200**

employees in 10 countries. Headquartered in Stockholm, Sweden

We are an equal opportunities employer. Women represent

50%

of Executive Management and 50% of our people managers are women.

We embrace diversity and our employee base represents more than

20

different countries of origin

We regularly measure employee engagement and have an employee Net Promotor Score (eNPS)¹ of

52



¹) Bain & Co, the source of the eNPS system, indicates that a score above 50 is excellent.

We are committed to contribute to the creation of healthy and sustainable societies

Smart choices for everyday healthcare



01. Society

We aim to help raise the general standard of health and well-being in society by offering excellent everyday healthcare products and services to people.



05. Consumers

We engage with consumers to learn about their needs and understand how to break down the barriers that prevent people from addressing and treating their everyday health issues.



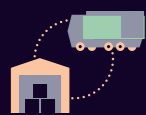
02. Environment

We continually strive to reduce our climate footprint and work closely with our suppliers and customers to reduce waste and minimise our activities' environmental impact.



06. Employees

We work to create a dynamic workplace where collective intelligence, diverse backgrounds, and experience come together to support Karo Pharma's purpose.



03. Partners

We aim to be a trusted partner to all our stakeholders. To each one, we act as effective problem solvers with a win-win mindset and a high level of integrity.



07. Shareholders

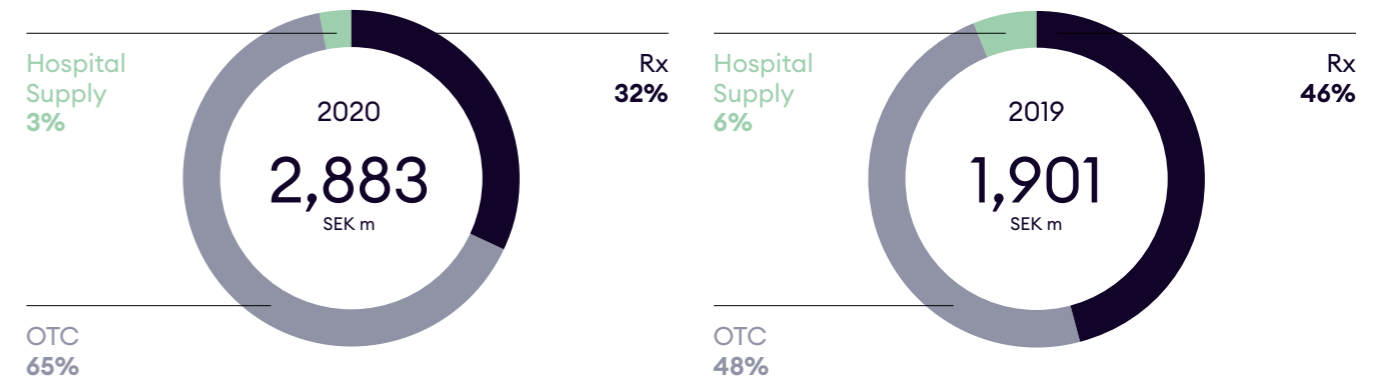
We aim to provide best-in-class risk-adjusted economic returns to our owners and deliver on our promises to the market. We do this by executing our strategy and delivering on our purpose.



04. Customers and healthcare professionals

We engage with customers and healthcare professionals to ensure we meet consumer needs and simplify their choices. The insights we gather inspire our product and service development.

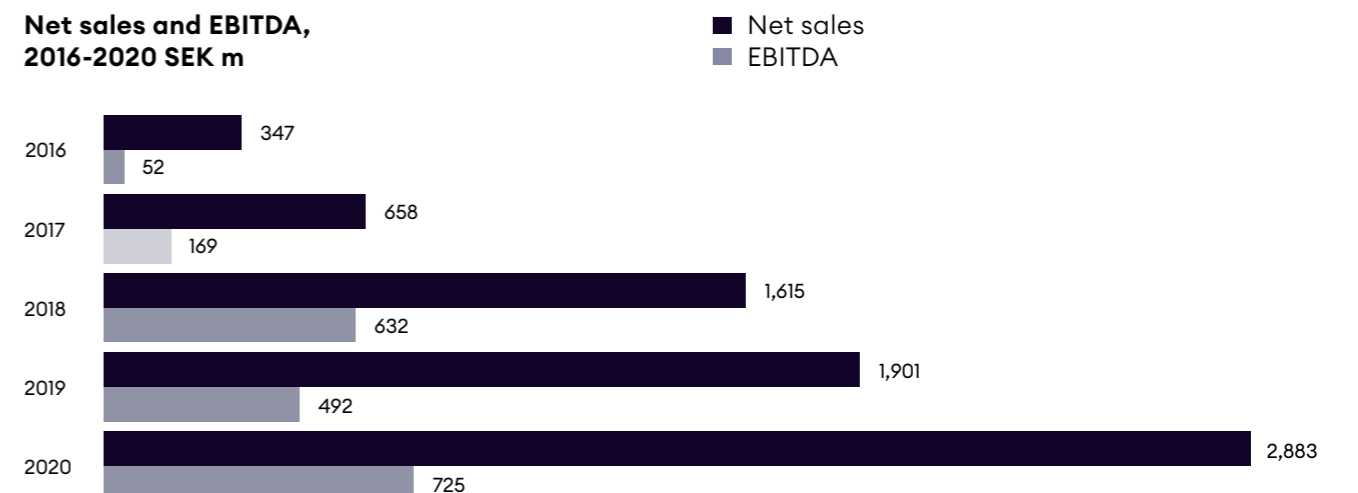
Total sales by product segment



Key indicators

SEK m	2020	2019	2018	2017	2016
Net sales	2,882.9	1,901.2	1,615.1	657.6	347.3
Cost of goods sold	-1,287.5	-917.2	-676.3	-315.7	-198.5
Operating expenses	-1,365.0	-811.9	-524.4	-262.0	-119.2
EBITDA	725.0	491.9	632.2	141.6	49.3
Earnings per share (SEK)	0.37	0.05	4.63	0.17	1.42
Cash flow from operating activities	329.2	106.8	318.0	33.5	-36.1
Cash and cash equivalents and other investments in securities	570.4	248.8	398.6	838.6	121.3

Net sales and EBITDA, 2016-2020 SEK m



Letter from the CEO

Making good on our purpose

In last year's Annual Report, we introduced Karo Pharma's new purpose, Smart choices for everyday healthcare. Our purpose addresses an important societal agenda around health and quality of life. It's about playing our part in raising the standard of health and well-being in society by offering people excellent healthcare products and services. Driven by this, we engage with customers, healthcare professionals and consumers to raise awareness about treatments and break down the barriers that prevent people from seeking treatment for everyday health problems. And we make sure our products are accessible, safe, reliable and optimised to meet consumer needs.

We take our responsibility to the world around us seriously and see it stretching far beyond our core business operations. We hold ourselves to the highest standards in terms of business ethics and code of conduct. We also give our employees opportunities to develop and grow based on their abilities and aspirations. And because we're a

meritocracy we are, by definition, a diverse, equal opportunities employer. At the time of writing, 50% of our managers are women as are 50% of my leadership team.

COVID-19 has challenged us in 2020. Like many other businesses, we've had to work hard with our partners to keep our products available. Overall, our supply chain has stood up well, which testifies to our strong supplier relationships. We've adjusted to social distancing and lower traffic in physical stores, as well as shifts in consumer behaviour, including more online purchasing and switching of consumption from pharmacies to food and convenience stores. The pandemic has also prompted innovation in how we communicate and interact with consumers. That's meant investing to support them on their digital journey – from when they start looking for answers to their everyday health issues to when they make a purchase and receive the product.

Despite COVID-19, we've continued to develop our business at a fast pace. Our new businesses in the UK, Switzerland, Germany and Austria are developing well. The integration of Trimb is complete, and the take-over and integrations of the product portfolio acquisitions from Leo Pharma and Johnson & Johnson are progressing according to plan.

During 2020, we've simplified our commercial set-up by divesting the Hospital Supply business to the private Swedish investment firm J2L. We've also continued to develop our scalable business platform, upgrading systems and tools to help us better capture, manage and exploit our data. Most importantly, we've successfully implemented a new ERP system within budget and on time.

We've also invested in our brand portfolio, conducting deep consumer research to understand purchasing patterns and unmet needs. This research has helped us understand the digital consumer journey and to categorise our brands and prioritise where and how to invest for profitable growth.

“We enter 2021 stronger and more focused than we were a year ago, ready to take the next steps on Karo Pharma's development and expansion journey.”

– Christoffer Lorenzen,
CEO, Karo Pharma

All this means that we enter 2021 stronger and more focused than we were a year ago, ready to take the next steps on Karo Pharma's development and expansion journey.

In 2021, we will continue to develop our commercial capabilities, expand geographically and continue our M&A activities. At the very end of 2020, we established a subsidiary in Italy, and getting this business off to a good start is a priority. In Q1 2021, we announced the acquisition of a portfolio of products from Teva Pharmaceuticals. The transaction is in full alignment with our strategy of owning and commercialising strong consumer brands within everyday healthcare, and it works to further strengthen our consumer healthcare profile.

Increasing our efforts within sustainability is high on our agenda for 2021 as well. We want to find new and better ways of producing, packaging and distributing our products to reduce our environmental impact. Specifically, we are mapping our CO₂ footprint in order to identify gaps and prioritise our efforts. We are also reviewing our product packaging to reduce our footprint and cut waste.

Karo Pharma is fortunate to have a team of highly engaged colleagues and managers. We embark on 2021 with confidence and resolve, and we will continue to push our business and promote our purpose of providing smart choices in everyday healthcare forward.

Christoffer Lorenzen,
CEO, Karo Pharma



A business well set for success



“Karo Pharma is an agile business that can move quickly. It can adapt to new circumstances and act decisively to seize opportunities.”

– Dr. Bo Jesper Hansen,
Chairman,
Karo Pharma

All over the world, businesses have spent 2020 grappling with the unexpected. The COVID-19 pandemic has disrupted operations and strategies, and put confidence to the test. For us, too, this time has posed challenges. But it's also demonstrated our emerging strengths.

Karo Pharma is an agile business that can move quickly. It can adapt to new circumstances and act decisively to seize opportunities. Above all, it's a business that knows the direction it wants to take, and what its priorities are.

Building our strengths

One of these strengths is our culture. We've put a lot of emphasis on developing the energy of a start-up and trusting our people to run with ideas and initiatives. But we've also honed our systems and processes into a resilient base for us to make good on our ambitions to grow.

This is exactly what I outlined this time last year, when I said we'd carry on developing Karo Pharma by streamlining operations and cutting out complexity. It's now time for us to take the next step and capitalise on our potential.

Realising our potential

We're certainly in a good position to do this. With the right people, processes and systems, we have a clear sense of what matters most. We've seen an opportunity in three of our six product categories, which acts as our decision-making compass. We have an equally clear sense of how to engage with consumers. Our agility is our edge here, giving us the ability to move at pace and position our brands digitally as our insights into consumers deepen. This

growing commercial excellence is the engine of our competitiveness.

Also, we are growing scale. We've integrated our acquisition of Trimb and recently added the Teva, Proct® and Pevaryl® portfolios to the business. Clearly, we've grown in many ways in the past two years during which it's been my privilege to be Chair of Karo Pharma.

My own background is in specialty pharma, and Karo Pharma is increasingly emphasising consumer healthcare. So now is the right time for me to stand down as Chairman of Karo Pharma. I'm proud of how the business has transformed itself, under the leadership of our CEO Christoffer Lorenzen and his team, and how they have successfully managed to reshape it to focus so intently on smart choices for everyday healthcare. With his extensive consumer healthcare experience, I'm confident that my proposed successor, Patrick Smallcombe will add significant value in his efforts to help the Karo team intensify that focus and guide the business towards even more success in the years to come.

I want to thank the whole Karo team and the Board of Directors for being so great to work with, and for performing outstandingly.

Dr. Bo Jesper Hansen
Chairman, Karo Pharma



Highlights 2020

“In 2020 – in full alignment with our strategy – we have achieved important milestones on our journey to become a pan-European leader in everyday healthcare.”

– Christoffer Lorenzen,
CEO, Karo Pharma

Launch of a new corporate visual identity

Karo Pharma launches its new corporate brand identity and relocates in a new office in Stockholm city.

Divestment of Swereco, the Hospital Supply business

To further streamline and focus the core services and offerings within everyday healthcare, the Hospital Supply business, Swereco is divested.

Karo Pharma enters the Swiss market

Karo Pharma acquires Hygis SA, a Swiss distribution company with exclusive distribution rights to Karo's brands Multi-Gyn® and Multi-Mam®. The deal gives direct presence in Switzerland and strengthens the business in the DACH region.

Divestment of specialty pharma products

Karo Pharma divests the three brands Digoxin®, Egazil® and Suscard® to Evolan Pharma to reduce complexity and secure continuous availability for patients.

Acquisition of the Pevaryl® brand portfolio

Karo Pharma acquires the remaining European rights to the Pevaryl® brand from Johnson & Johnson. The transaction consolidates the ownership of the Pevaryl® brand portfolio in Europe with Karo Pharma.

Completion of the acquisition of the product portfolio from Leo Pharma

The acquisition strengthens Karo Pharma's market position within intimate care and dermatology and is in line with the strategy of expanding the European geographical presence. The brand portfolio includes the anti-haemorrhoid product Scheriproct®.

Direct operations in Italy

As a result of the acquisition of the remaining rights for Pevaryl®, Karo Pharma establishes direct operations in Italy.



There are 70 000 health-related searches every minute on Google.¹



In 2020, we set out to get a deeper understanding of what consumers think and feel about everyday health, and how they solve the problems they have. Now the results are part of how we help them make smart choices. And we're already seeing the effect of communicating and working in a new way.

Connecting with consumers:

The key to competitiveness

The business that understands the consumer is the one best-placed to meet their needs and earn their loyalty. For us, that's vital as our success depends on helping people make smart choices for everyday healthcare and growing across our market categories. It's also essential to build trust as a source of clear and reliable information.

Digging deep to understand consumers

Through 400-plus hours of interviews across five countries, we dug deep into how consumers see their health and look after themselves. During our research, we heard echoes of some of today's big consumer trends. Increasingly, people seek their own information, or talk to peers to help them make decisions – a process made simpler by increased access to digital technology.

In healthcare too, people often steer their own course and rely less on top-down advice from experts or authorities. In our study, self-care figured prominently among consumers. They were

largely positive about their health, gave themselves high scores for overall wellness, and talked freely about their diet and exercise regimes.

At the same time, the study uncovered that many lived with everyday health issues – from haemorrhoids and fungal skin complaints to bacterial vaginosis – that they didn't talk about so readily. These problems are beset by stigma and embarrassment, which can stop people discussing them, let alone treating them. These 'non-treaters' typically feel such problems are just something they have to live with – and not worth bothering a doctor with.

Spotting an opportunity

This sets us a challenge, not least because many of our foot care, intimate care and dermatology brands deal with precisely these conditions. But few competitor brands are actively promoting themselves in these categories. For us, it's a chance to bring the unspoken into the open, so 'non-treaters' and mis-treaters can become 'treaters'.

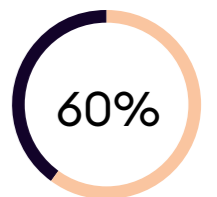
"I noticed my haemorrhoids as an early teen, but didn't do anything about it for years."

– Male, UK

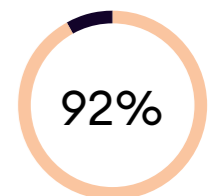


"The cortisone cream was a game changer for me. I felt the difference immediately."

– Male, Norway



60% of people rely on search engines to validate the information received from doctors.²



92% of German teenagers (between 15-19 years) shop online.³

Anna Elmlad, Vice-President of Strategic Marketing, describes the core idea:

"We want to put people in control of their everyday health, so that they can enjoy a better life. It's about how we communicate with them at every stage of the journey – from becoming aware of the problem and that it's possible to treat it, to helping them choose a treatment or product, and ultimately becoming an advocate for it as they master their condition."

Focusing on the whole consumer journey is one of three golden rules guiding what we do. As Anna explains:

"We've gone from having more short-term targets, like increasing shelf space for new launches, to looking more at long-term strategies that allow us to be close to the changing world around us and the constantly shifting mindset of consumers. That means we go from helping them build awareness to finding good value and becoming a regular purchaser, and what we could improve.

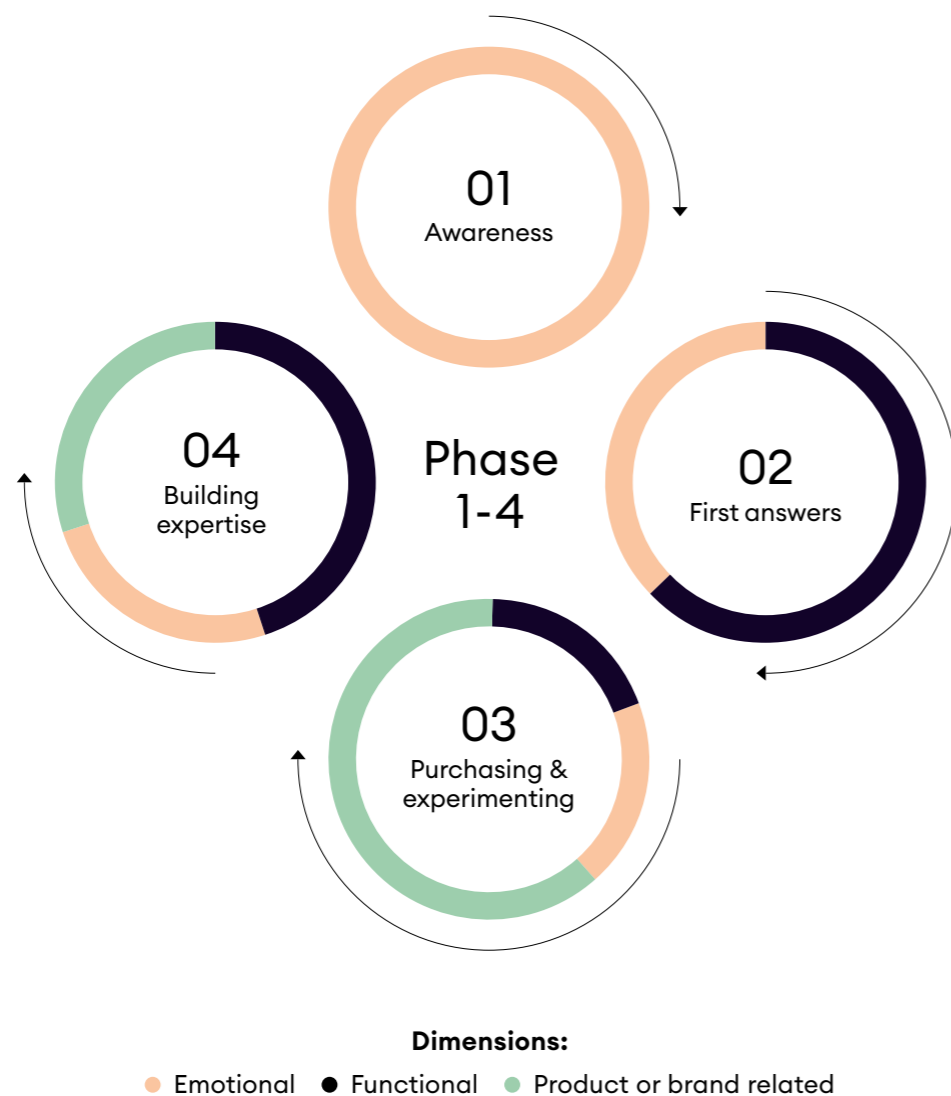
This ultimately brings us more loyalty because consumers develop the deeply-held feeling that they can treat these conditions. Once someone starts to →

The consumer journey

We are committed to **1)** always put consumer insights in focus; **2)** understand the consumer journey and the conditions evolving over time; and **3)** expand categories by a strong digital presence to target non-treaters and raise the bar for quality of life.

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

– Dr. Zoran Maričić, gynecologist



treat themselves by using our products, we want to know if they feel they're getting good value and becoming a regular purchaser, and what we could improve.”

Anchoring everything in insight
Our second rule, which is actually the starting point in everything from product development to marketing campaigns

on proven insights into how consumers behave and communicate, and what they need.

“We call this part ‘project self-care,’” says Anna. “We give people the information they need to be an authority on how to treat their condition. And when we communicate, we do so in the consumers’ own language. We don’t talk only about

“It’s about how we communicate with consumers at every stage of the journey – from becoming aware of the problem and accepting that it’s OK and possible to treat it, to helping them choose a treatment or product, and ultimately becoming an advocate for it as they master their condition.”

– Anna Elmblad, Vice-President of Strategic Marketing

product features or formulations; we also address their emotional needs.”

Our 2020 campaign for Nailner nail fungus treatment is an example of this. It didn’t lead on the number of doses needed or how the ingredients work. Instead, it focused on the emotional problem – the desire to have good-looking nails for the summer season. In this case, the emotional problem was bigger than the infection itself. The result in Sweden was a 17% increase in sales in a category that shrunk by 3% during the same period.

Going digital

Our third rule is to expand our categories by reaching ‘non-treaters’. To succeed we need to be skilled in understanding the digital universe around our products and brands. COVID-19 has boosted reliance on digital channels. In Sweden, online pharmacy purchases of skincare products doubled in 2020.⁴ Digital channels are also a highly efficient way to reach consumers and punch above our weight by being insight-driven and targeting more precisely, based on age-group, gender or lifestyle interests.

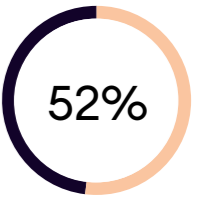
Social media and forums devoted to specific topics like skincare or motherhood, are where our consumers look for information and compare experiences. Therefore, we need to be visible here, not least among ‘influencers’. In addition, these forums are a source of information for us.

We’ve also optimised web content to make our brands easy to find for people searching for information on symptoms, as well as making online purchase simpler through our landing pages.

To establish trust, we’ve begun to host online platforms not overtly associated with our brands. The aim is to generate awareness about conditions, create a safe space for discussion and offer advice without an explicit connection to a brand agenda. As consumers interact with these pages, we also learn about their interests and preferences. We’ve tested intimate care and foot care platforms in Sweden and work is in progress to extend this to other markets.

Pharmacies, digital or physical, remain the most important channel for us. People buy treatments there, based on their own research. But pharmacists are also a source of advice on conditions, and many consumers rely on them to confirm or qualify online sources before making their final choice. “Working closely with pharmacists helps us trace how well changes to products, promotions or communications work,” says Anna. “We aim to create joint business plans with our customers. For instance, we might invest to push traffic to pharmacies online. In return, they share data that shows us how communication converts to purchases. Bringing people who’d been non-users into the pharmacy helps us expand our category, but also helps pharmacies build their business.”

By deepening our understanding of consumers and adding a human aspect to algorithms, we want everyone to benefit: consumers solving everyday health problems and increasing their quality of life, and ourselves and our partners helping them to do so.



52% of people in the EU report consulting Google regarding their health.⁵

1) www.forbes.com

2) 2060digital.com/blog/google-and-healthcare-how-to-understand-patient-behavior-and-opportunities/

3) E-commerce in Europe 2020, Postnord

4) IQVIA Consumer Health National Sales Audit, Skincream, Sweden, Jan-Dec 2020

5) www.iamexpat.nl



Anticipating a post-COVID market

After a year of pandemic disruption, the world looks to 2021 hoping for a new kind of 'normal' to emerge. But what will this look like? Here, we explore some of the trends shaping tomorrow's world and what they mean for consumers, for healthcare – and for Karo Pharma and our markets.

“We've worked hard, before and during the pandemic, to simplify our structures and processes. This makes us agile and fast-moving, which will be essential qualities in the unpredictable environment emerging as the pandemic ends.”

Jonathan Kimber,
Vice-President of Operations

Trends shape our business decisions – how we interact with consumers and how we grow. The COVID-19 pandemic has accelerated trends already evident for businesses and consumers. In some cases, things might well have changed for good. As everyone rushes to predict and prepare for the ‘next normal’¹, it’s important that we’re fast on our feet and capable of moving and investing decisively.

Consumers become more confident

As COVID-19 vaccinations become available to more and more people, consumer confidence is likely to return, along with consumer spending. But each country’s rate of recovery will depend on how they deal with the pandemic.

During the pandemic, more consumers have grown accustomed to shopping online and trusting services like online banking. PwC predicts 23% annual growth in online shopping until 2027², with nearly nine out of ten people saying they’d still shop online or by phone after the pandemic. Consequently, businesses need to be online too if they want to stay connected with customers.

At Karo Pharma, we’ve already identified the online world as a place for us to thrive. We’ve built capabilities and supply chains to serve online pharmacies and general retail. Our marketing focuses on the digital channels consumers use at the different stages of exploring everyday health issues and assessing treatments.

We’re also focused on gathering as much data as we can from this value chain, so we can target our campaigns and adjust them, responding to evidence of changing needs and preferences. This will stay central for us in 2021 and beyond.

Business turns to technology

Collaborative technology has become a must for keeping up productivity and accommodating the growth in remote working, triggered by pandemic

lockdowns. But businesses are also relying more on technology like AI and machine learning to sharpen up internally and understand their customers. Pre-pandemic experiments in this field look likely to turn into something more substantial. A survey by Adobe shows the proportion of large businesses using automation to analyse data has leapt by 20% during 2020³.

Meanwhile, the pace of business activity is accelerating, not least in how companies are expanding e-commerce. Executives told McKinsey their businesses had moved 20-25 times faster than they thought they could on issues like data security and using advanced technology in operations⁴.

Karo Pharma is well-placed to handle this combination of trends in two main ways. “We’ve worked hard, before and during the pandemic, to simplify our structures and processes,” explains Vice-President of Operations Jonathan Kimber. “This makes us agile and fast-moving, which will be essential qualities in the unpredictable environment emerging as the pandemic ends. We’ve also embarked on a digital transformation that underpins our internal systems with high-quality data and gives us new ways to connect with partners and consumers. In 2021, we’ll carry on digitising our work for maximum efficiency and well-informed decision-making.”

Business, consumer and healthcare trends converge

Well before COVID-19, people were taking more interest in their health and well-being, whether it was healthier diets and lifestyles, or more awareness of mental health. That’s likely to continue, along with a growing preoccupation with safety.

Nearly half of consumers in PwC’s survey gave security and healthcare as reasons for living where they did – roughly double the pre-pandemic⁵ proportion. As in business generally, the pandemic has triggered rapid innovation. During 2020, we saw

“This will be a time when markets are difficult to predict. But the businesses and brands that can adjust fastest will emerge strongest.”

Magnus Nylén, Chief Commercial Officer

how many capabilities came together to develop COVID-19 vaccines at much higher speed than ever before. This could raise the tempo of product development in healthcare more widely, especially with regulators also accelerating their operations.

These trends will converge in our markets. Consumers are continuing to shift to self-care as they become more empowered and have easier access to information through digital channels. Again, COVID-19 has accelerated this trend, with nearly seven out of ten people more focused on their physical health because of the pandemic⁶.

In healthcare, as in business, trust in brands matters more and more, and has to be earned. Consumers are more inclined to trust peer networks and influencers than brands⁷. Businesses must be clear about their purpose and values to attract loyalty in a time of ‘stakeholder capitalism’, where

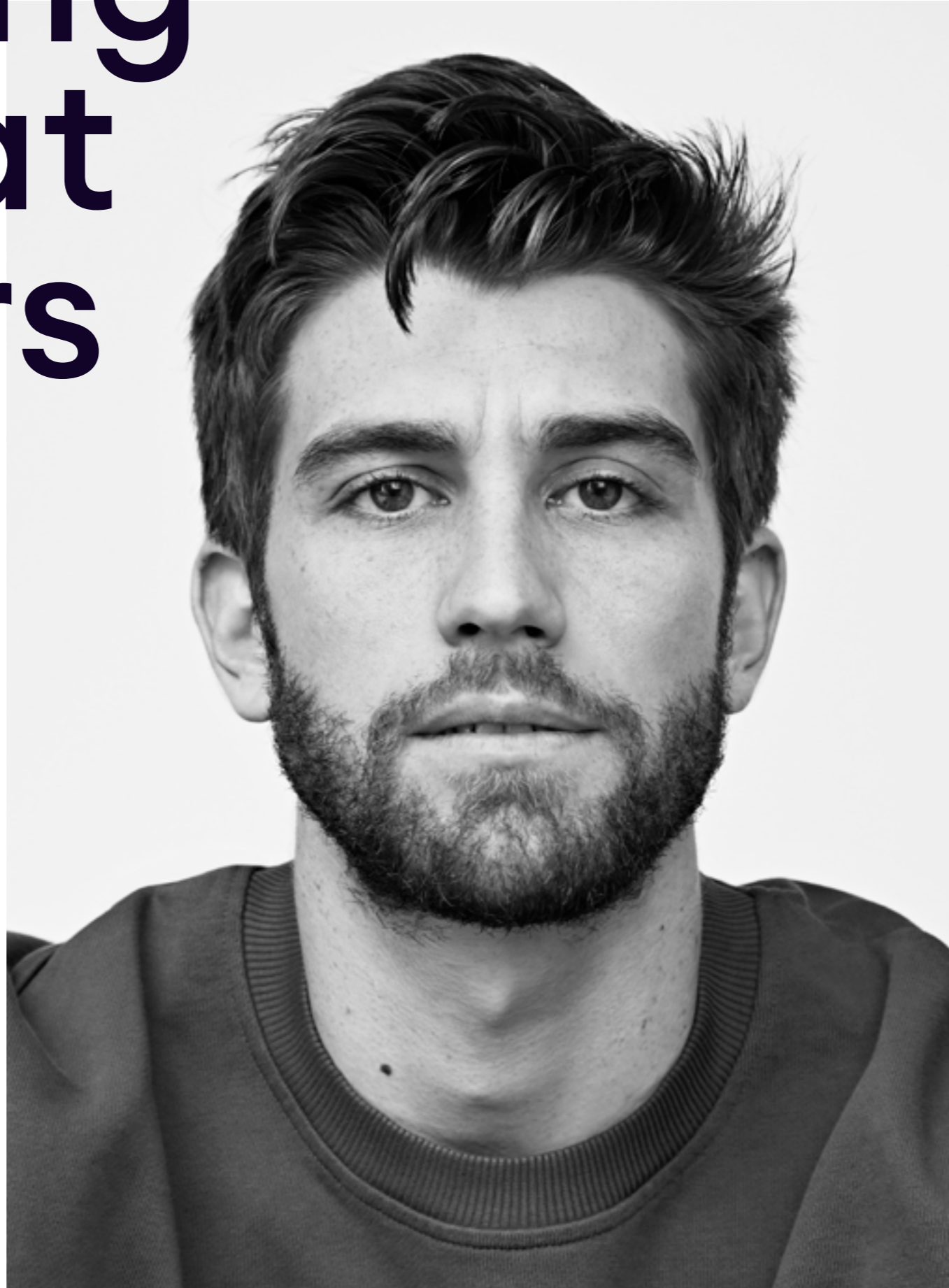
people want to engage with brands they can identify with, not just those that meet a need.

“We can generate this loyalty by being a source of reliable information online that helps people make choices rather than only promoting a specific brand,” says Magnus Nylén, our Chief Commercial Officer. “This will be a time when markets are difficult to predict. But the businesses and brands that can adjust fastest will emerge strongest.”

If you wish to get a deeper understanding of our approach to changing consumer behaviour in healthcare, please turn to the article, ‘Connecting with consumers’ on page 16. In the article, ‘Becoming a faster and smarter digital business’ on p. 32, we unfold in greater detail how digital technology is helping us to work more efficiently and connect more effectively with consumers and partners.

1) The Next Normal Arrives: Trends that will Shape 2021 – and Beyond, McKinsey, 2021. 2) PwC Consumer Insights Survey, 2020. 3) 2020 Digital Trends, Adobe. 4) McKinsey Global Survey, 2020. 5) PwC Consumer Insights Survey, 2020. 6) PwC Consumer Insights Survey, 2020. 7) Euromonitor International Lifestyles Survey, 2019.

Focusing on what matters most



Successful businesses never stop being curious. In 2020, we've continued to learn more about our consumers and how best to help them make smart choices in everyday healthcare. That has helped us to refine our strategy and see our best route to success. Also, it's helped us to make some smart choices of our own about our strategic priorities, where to compete and how to win.

We're a consumer healthcare company that wants to grow fast by making a difference to the world around us. Our ambition is to grow 2-3 times in size in the next few years fuelled by M&A. We want to achieve that by creating distinctive positions in our market categories with documented, trusted and original brands.

We're strongest in our Nordic core, but our vision is to be a pan-European leader in everyday healthcare. That means continuing to expand in European markets and beyond, eventually with the ability to launch direct operations. We're aiming to grow organically at a faster rate than our comparable markets. But our main growth engine is M&A, which helps us achieve scale in our categories.

Renewing our purpose

At the heart of our plans is educating and informing consumers, healthcare professionals and channel partners about our products and making sure those products are available wherever consumers want to buy them. We're about helping people make

“Our ‘global growth brands’ are well-positioned to grow across multiple markets, and they’re our most important focus for investment.”

smart choices in everyday healthcare. This was the purpose we set for ourselves in 2020, and it's what drives us now.

In 2020, we've honed our strategy to make our objectives clearer and to combat the risk of complexity. With a portfolio of around 80 brands and just under 90 production partners, it's important for us to have priorities that guide our thinking and choices. In the last year, we've done this by expanding on our learning about our consumers. We know they're more questioning of brands and businesses than they used to be and want to arrive at their own conclusions about what's best for their health. But to dig deeper, we ran a major research project with consumers in five countries to discover how they felt about their health, and their options for staying healthy. On pages 16-19, we present some of the main insights from this study.

We've also looked closely at ourselves to discover how our operation can best turn our ambition into →

“We want to focus on reaching our consumers when and where they need to find their everyday healthcare options.”

reality. Through this work, we’ve seen an opportunity to excel by focusing on particular product categories.

Refining our priorities

The six categories we’ve chosen to compete in are Intimate care, Dermatology, Foot care, Pain, cough & cold, Wellness, and Rx pharma. In each of these categories we have products ranging from prescription drugs (Rx) to over the counter (OTC) products. It’s in the first three categories that we see the most significant opportunity. They cater for conditions where people feel awkwardness and embarrassment, and where – crucially – our competitors are less active.

We’ve also sharpened focus in our brand portfolio, which we’ve grouped into four tiers of priority. Our ‘global growth brands’ are well-positioned to grow across multiple markets, and they’re our most important focus for investment. Our ‘local growth brands’ have profiles in no more than three markets. Here, we invest to make the most of opportunities in single markets. Our third tier consists of brands we’re looking to maintain. We want to keep them growing in line with those markets, but through smart management rather than significant investment. Our fourth tier of brands don’t reflect our core category ambitions and are candidates for divestment or milking strategies.

As well as sharpening our brand priorities, we also want to focus on reaching consumers when and where they need to find their everyday healthcare options. That means targeting resources at digital,

whether it’s search engine optimisation, online platforms or content. COVID-19 has only accelerated the importance of connecting with consumers online.

As a result of M&A, we expect to see the OTC product share of our business rising to 75%. We see this as a natural consequence of our growing engagement with consumers who increasingly want to make their own choices and might not always want to discuss ailments in a public environment like a doctor’s consultation.

Moving towards a first-class operation

To capitalise on our opportunities, we’ll rely on our lean, virtual business model. We have a relatively small team of direct employees – only around 200 in approximately 15 countries. For research, production and innovation, we look to external partners. This means we don’t have large amounts of resources tied up in buildings, equipment and maintenance. It also makes us fast on our feet when it comes to seizing opportunities. And because we don’t have complex hierarchies, we can make decisions quickly.

But to grow, we need a strong operational platform, and that’s what we’ve focused on building in 2020. We’ve set out to create repeatable systems and processes at our core, and a common language to describe our priorities for the choices we make. We’re also making more use of data to make better-informed decisions across our different markets and learn from what we do.

Our culture and values give us a clear shared idea of how we operate and what we expect of each other. This creates cohesion but also helps us integrate new acquisitions.

To grow at the pace we want, both organically and through acquisitions, we’ll need highly developed core capabilities, including:

- Portfolio management – basing everything we do on market insights and trends, focusing resources on the brands with most potential, and keeping complexity in check.
- Strong commercial disciplines – understanding how consumers make decisions, picking the right channels to reach them, and being willing to test our assumptions.
- Supply chain and integrated business management – continuously looking for profitability and value from working capital, and sharp forecasting to tighten performance and curb waste.
- M&A execution and integration – following a strategy that flows from our purpose and vision, an approach that cultivates the right targets, a vision for how they help us reach our objectives, and discipline to execute deals and integrate efficiently.

To reach our ambition, we’ll need to look as closely at ourselves as we do at our consumers. And we’re ready to do that with constant curiosity.

Our six categories

Top-selling products (sales pro forma 2020)

01 / Intimate care

Proct® Family

Multi-Gyn®

Pevaryl® Intimate

02 / Dermatology

Locobase®

Decubal®

Indy Beauty®

03 / Foot care

Pevaryl® Foot

Nailner®

Mabs®

04 / Pain, cough & cold

Paracet®

Ibux®

Mollipect®

05 / Wellness

Flux®

Daily/Lactocare®

Allévo®

06 / Rx pharma

Selexid®

Burinex®

Kaleorid®

Tackling conditions and defeating stigma

At Karo Pharma, we're guided by the shared purpose of helping people stay in good health. Good health means avoiding severe illness or hospitalisation. It also means tackling and preventing the health-related problems people face in their everyday lives – many of which go untreated because they're associated with stigma and people are too embarrassed to seek treatment.

Focusing particularly on three of our categories – Intimate care, Dermatology and Foot care – we aim to turn 'non-treaters' into

'treaters' by putting people back in control of their everyday health, free of discomfort or embarrassment.

- Locobase® Repair is the number-one selling skincare cream in Swedish pharmacies.¹
- In a Swedish user study, we asked more than 400 people to try Locobase® Repair. Over 93% recommended the product.²
- A Danish user study confirmed that Locobase® Repair was the most popular skincare product among people with atopic dermatitis.³



Read more about Locobase® at www.locobase.se

Locobase®

Revamping a trusted brand

For dermatologists and generations of consumers, the Locobase® range is the tried and trusted treatment to protect or rebuild dry and sensitive skin. Originally developed by a group of Scandinavian dermatologists, the Locobase® brand goes back more than 30 years. Today, the brand encompasses a range of well-documented skincare products clinically proven to relieve dry, sensitive, damaged and eczema-prone skin.

To keep this long-standing brand relevant and drive more growth in our skin care category, we're refreshing the look of Locobase® and launching extensions to the line. The new launches – Locobase® Everyday Body Lotion and Locobase® Everyday Shower Oil – are for people with

“Fantastic skincare cream that keeps dry skin moist. It can also be used as a protective hand cream for dry winter hands.”

– Alexandra

problematic and atopic skin, offering them a great everyday skincare routine.

Beside Locobase®, our dermatology portfolio includes well-established brands like Decubal®, Propyless® and Mildison®, which are all highly valued by consumers, pharmacists, and healthcare professionals.

- Only 4% of those with haemorrhoid symptoms seek help. 43% think it's difficult to talk to their doctor about it.⁴
- In Europe alone, an estimated 220 million people suffer from haemorrhoids. Among them, 60 million are identified as 'non-treaters'.⁵



Scheriproct rectal ointment and suppositories contain two active substances, prednisolone and cincoacaine and is recommended for people suffering from hemorrhoids, superficial anal fissures, and proctitis in the anal region. Scheriproct is an OTC pharmaceutical in Sweden. See full product information on page 100 or at www.fass.se.

Scheriproct®

Don't let a small problem grow big

Haemorrhoids. The word itself is difficult enough to pronounce. But the condition it describes is shrouded in silence and taboo.

In Europe alone, it's estimated that 220 million people suffer from haemorrhoids. Among them, 60 million are identified as 'non-treaters'.⁶ Too embarrassed to talk to their doctor or pharmacist to get treatment, this group suffers in silence, enduring both pain and discomfort.

At Karo Pharma, we work to stop the suffering and break the silence around haemorrhoids, by making people aware that it's a fairly simple condition to treat and cure. Especially if they start treatment early.

Scheriproct® is a well-documented, pharmaceutical designed to reduce the discomfort caused by haemorrhoids and anal fissures.

Launched in 1958, it's been a trusted medicinal treatment ever since. Karo Pharma took over the commercialisation of Scheriproct® worldwide in 2020.

Based on extensive research into the needs and behaviour of people suffering from haemorrhoids, we'll be launching a new website in 2021 giving consumers all the information they need to treat this problem. The site even incorporates a chat bot that gives visitors answers without having to talk to a healthcare professional.

By combining targeted communication with a fast and effective treatment option, we hope to inspire people to take action against their haemorrhoids before the problem grows bigger.

Nailner®

Fighting nail fungus for healthy and good-looking feet

Nail fungus is a common problem among adults, affecting men and women alike. This kind of fungus doesn't disappear by itself and tends to get worse if it's left untreated. It's also contagious, spreading easily from toe to toe as well as from one person to another.

So there are good medical reasons for treating nail fungus as soon as it arises. But our research shows that for consumers, the emotional concerns outweigh the condition itself.⁷ A fungus-infected nail looks unattractive, and the embarrassment of having unhealthy-looking toenails causes most people to keep their socks on, even during warm summer months.

The Nailner® range offers a simple solution to getting feet

looking good again. Our communication to consumers centres around the way Nailner® combines aesthetic benefits with the actual treatment – ensuring 'better looking nails while treating'.



Nailner is a medical device. Read the instructions before use. For full product information please visit www.nailner.com

1) IQVIA Consumer Health National Sales Audit, Skincream, Sweden, Jan-Dec 2020

2) Smartson survey, May 2018

3) Kristina Melbardis 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

4) Haemorrhoids and what to do about them

- Harvard Health Publishing. [Online] 2019 Feb 6. [Accessed 2019/06/07]. Available from https://www.health.harvard.edu/diseasesand-conditions/hemorrhoids_and_what_to_do_about_them
- Ravindranath GG, Rahul BG. Prevalence and risk factors of hemorrhoids: a study in a semi-urban centre. Int Surg J. 2018 Feb;5(2):496-499
- Sandler RS, Peery AF. Rethinking What We Know About Hemorrhoids. Clin Gastroenterol Hepatol 2019;17:8-15

5) RED (Journal of the American College of Surgeons (2007)

6) RED (Journal of the American College of Surgeons (2007)

7) Research performed in UK by Trinity McQueen, 2019



“At Karo, you're trusted to try out a new idea to see if it works. If it does, great. If it doesn't, you've learnt something. I love that.”

– Estel Filella,
Global Brand Manager

Connectivity:

The key to a strong community and an even stronger business

Being ‘a people company’ is more than a claim at Karo Pharma. It's the credo that defines our business. “At Karo, every individual plays a crucial role and has an impact on the future of our company,” says Karin Lindberg, Head of People & Organisation. “We believe in putting the power of the organisation in the hands of the individual.”



“Karo Connect has been a real eye opener – for me personally and for my team. We now have the insights we need to create even closer connections with colleagues across the company.”

– Robert Leigh,
Country Manager
DACH

Nurturing a dynamic network

At Karo Pharma, we nurture an environment of trust where each employee feels empowered to take ownership, make decisions and head up new initiatives, without bureaucratic processes or hierarchies holding them back. We work to create a community where people can exchange opinions freely within the framework of our shared values. For us, it's all about building a company where everyone feels they can come to work and be themselves, motivated by knowing they're making a difference.

“We like to think of our organisation as a living organism,” says Karin. “It's a dynamic network made up of around 200 individuals and a set of trusted advisors and business partners. Every employee holds a unique position in this network – sharing information, shaping the culture

or driving performance. But the strength of our network – and ultimately the success of Karo Pharma as a business – depends on how well we understand each other and how connected we are, within our own team as well as with other teams across Karo Pharma. Connectivity becomes even more important in a young and fast-growing organisation like ours, where people are onboarded fast and are fairly new to the company.”

Karo Connect

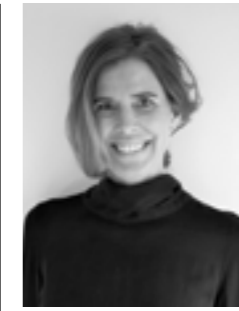
In 2020, we launched Karo Connect – a values and network survey across the entire organisation. The purpose was to help us understand how the values we bring to work and the connections we establish across the organisation influence performance and job satisfaction – for the individual as well as our teams.

Based on their answers to a questionnaire, every Karoite got a personal report that included a ‘Values compass’, charting the values that drive their decisions, energy and behaviour. They also got a ‘Networks’ illustration reflecting their relationships within the Karo organisation.

“The more aware we are of our own values, the better we are at understanding those of others,” explains Karin. “That kind of self-awareness – and respect for your colleague's opinions – is critical to a work environment where personalities and talent can flourish. And better networks have consistently been linked to improved performance, innovation and engagement. At individual level, the strength of someone's networks is one of the best indicators for job satisfaction and career success. And at team level, better-connected teams have higher levels of psychological safety and are more likely to hit team goals.”

Understanding values and relationships is obviously a natural priority for a ‘people company’. But there were practical reasons for launching Karo Connect too.

“In a fast-growing organisation like ours, with newly organised teams across 32 legal entities and 10 markets, it's even more important that we make a dedicated effort to understand each other and strengthen collaboration across teams and business units. That's how we build



“We want to build an inclusive company where people can be themselves – motivated by the fact that they can make a difference.”

– Karin Lindberg,
Head of People &
Organisation

that strong global community we want Karo Pharma to be,” says Karin.

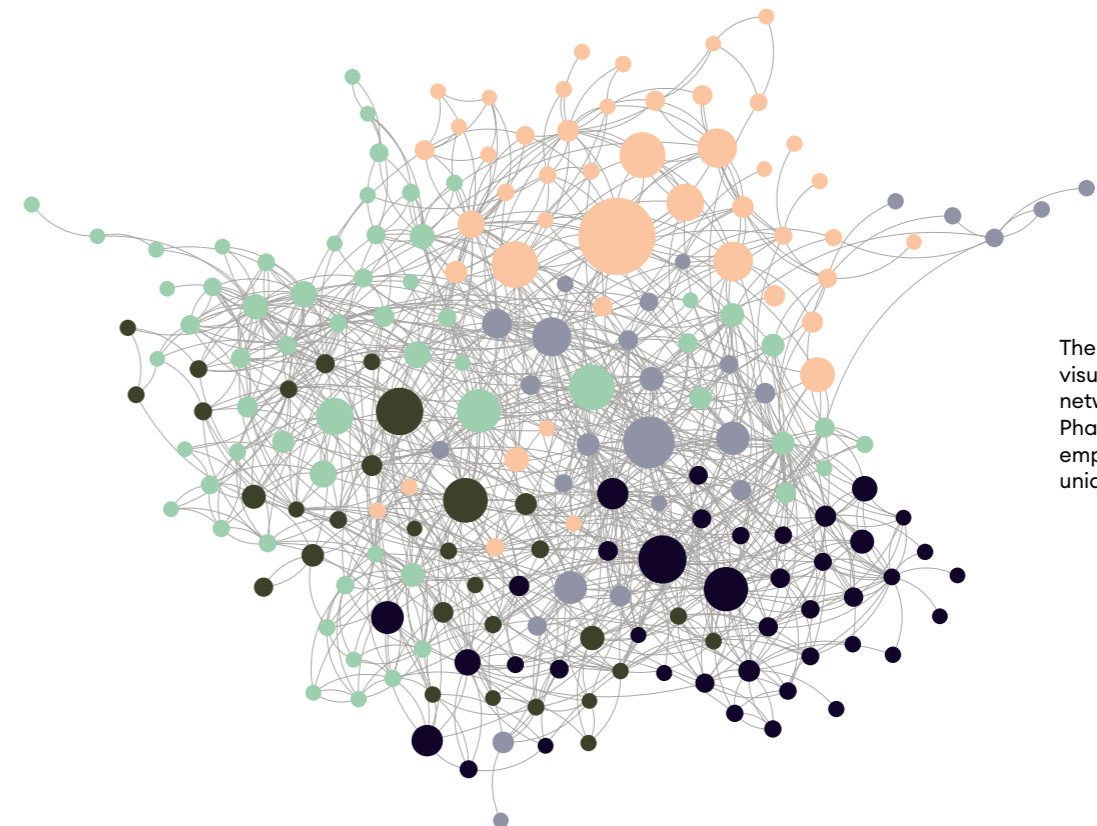
Turning soft into business critical

The values and network analysis hasn't just given us a practical tool to map values and patterns of connectivity; it's created an awareness across the organisation of how we can effectively work to strengthen both.

Managers are already using the results of the survey in their team development sessions to discuss the way values are at play in their team and what they can do to boost their collaboration across the Karo organisation. During 2021, HR will be launching a mentoring programme to support people and teams in nurturing connectivity.

The wealth of data from Karo Connect has given us a baseline for monitoring progress when it comes to integrating values and strengthening collaboration across teams and business units.

As Karin explains, “Karo Connect has turned engagement and relationships into something tangible that we can actually track and set specific targets for. Most people consider values and interpersonal relations the ‘soft’ side of a business. For us, they're crucial objectives because they're central to whether people enjoy their work, get fulfilment from it and perform better. And ultimately, that's what makes us a better company and a better place to work.”



The Karo Connect visualisation of the network of Karo Pharma, where every employee holds a unique position.

Businesses today have to move fast to stay competitive. That means acting decisively, based on accurate, up-to-the-minute data, and having smooth-running, uncomplicated processes. At Karo Pharma, we use digital technology to make us efficient internally and to connect effectively with consumers and partners externally.

Becoming a faster and smarter digital business

We want to put digital technology at the heart of how we work and how we connect with customers and consumers. This will set us up to be a faster and smarter business with the right information at our fingertips. And it's already letting us reach consumers quickly and work productively with our partners.

Inside Karo Pharma's engine room

We see digital technology becoming the backbone of what we call our scalable platform – the systems and processes that make us efficient and effective. Our mantra is that we want to mimic a 'born-digital' company. To move towards this ambition, we choose our systems based on the kind of business we want to be. This gives us an advantage over competitors who have to adapt complex and outdated existing systems to explore and exploit new digital opportunities.

Choosing the right digital systems

According to Karo Pharma's CFO, Jon Johnsson, this choice is vital to being able to scale and evolve our business.

"We choose digital systems based on several criteria. First, they must be able



"In the future, there are only going to be more transactions and more data, so we have to be able to scale up without creating dead-ends."

– Jon Johnsson,
Chief Financial
Officer

to integrate well with other systems, so data flows freely between them and we can readily draw insights from it. We need to be able to put systems together without it being a complicated, expensive project that slows us down."

Systems must also be easy to update and to migrate to the cloud. "We want more of our infrastructure to be in the cloud because software-as-a-service is more flexible and easy to adapt and update than if it's on our premises. It's also more cost-effective, and updates are automatically," explains Jon. "So if a solution exists in a cloud version, that's a reason to choose it. And if it's hard to migrate an existing system to the cloud, that's a reason to replace it."

Finally, our systems have to be scalable. "In the future, there are only going to be more transactions and more data, so we have to be able to scale up without creating dead-ends," says Jon.

Unlocking valuable insights

Digital systems handle everything from document management and scientific affairs to stock control and our supply chain. They let us see and manage infor-

mation easily and quickly. The more integrated systems are, the more valuable the insights. For instance, our stock control system allowed us to quickly spot a difference in profitability for a pain relief brand in one market and trace it back to a decision made long ago about pack size in that market.

We evolve and improve our processes to fit what technology is capable of, rather than customising the technology to fit an established way of working. As Jon explains, "Many businesses have tried and tested processes, like paying and approving invoices. But rather than modify them, these businesses customise their new systems instead. We prefer to get the full potential of the technology by evolving how we work to deal with new situations."

Finding the right people

Working this way means we look for staff who have digital competence and demonstrate:

- curiosity – wanting to know more about digital possibilities, and being ready to learn from other organisations how to make them happen;
- awareness – knowing what the latest technology is and what it can do; and
- adaptability – being ready to use technology in new ways in their own role.

We also give people the chance to use these capabilities to make a difference, says Jon: "We want people who are closest to challenges and opportunities to have the mandate to try new ways of working digitally."

Making plans for the future

In 2021, we aim to:

- make more use of AI and machine learning to improve data quality and move away from manual processes. We've already begun with our first robot employee, 'Robban', that we use to cleanse data;
- use machine learning to optimise inventory, and tighten security by spotting phishing and ransomware threats;
- switch to 80% automated processes, and away from manual equivalent; and
- move two thirds of our systems into the cloud.

Karo Pharma's connection with consumers

Digital is also critical to how we connect quickly and deeply with consumers, to understand their needs and engage with them.

Our approach is about:

- understanding consumers' journey, from when they start looking for information to when they choose a treatment;
- choosing digital channels and messages carefully for each brand to reflect consumer needs;
- defining KPIs to help us understand what works well and what we can improve; and
- creating mutually beneficial partnerships with pharmacies and other online retailers.

Winning the battle for online shelf space

Collaborating with partners is vital for us to stay visible online. We invest with partners in paid media and organic growth campaigns to drive traffic and grow business on their websites.

By combining our expertise and data we get maximum value from our shared investments based on agreed KPIs. As Head of Digital Paul Friberg says: "Data, transparency is fundamental. Accessing sales data means we can target investments precisely during campaigns."

Collaborating to connect

We also collaborate with partners to quickly test and launch ideas. For instance, in late 2020, we developed a pilot website on productive coughs, with easy access to an online doctor service and an online pharmacy. The project went from idea to execution in only a few weeks.

Digital technology is critical both inside and outside Karo Pharma. It's the key to us punching above our weight by evolving the way we work and the way we connect to pursue opportunities and fuel our competitiveness.



In 2021, we aim to move two thirds of our systems into the cloud.

We're collaborating with our customers to stay visible online. By combining our expertise and data we get maximum value from our shared investments.



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 29.6% in 2020, from SEK 40.52 to SEK 52.50. The high of SEK 75.10 was seen on 18 September, and the low of SEK 38.68 was on 13 March. At year-end, market capitalisation was SEK 11,814m.

Shareholders

The shareholder base increased in the year, with 7,919 shareholders at the beginning of the year, and 7,940 at year-end. The largest shareholder as of 30 December was Karo Intressenter with 76.66%. The 10 largest shareholders held 84.06% (81.6) of the total number of shares at year-end.

Shares and share capital

As of 30 December, 2020, Karo Pharma's share capital was SEK 90,013k as of 30 December 2020. The number of shares amounted to 225,033,204 (225,033,204).

Treasury shares

Based on authorisation from the Annual General Meeting, Karo Pharma sold 525,301 of its own shares in 2020 to expand the company's financial flexibility. The transfers have taken place on Nasdaq Stockholm. As of December 31, 2020, the remaining shares in own custody amount to 1,939,689 (2,464,990), which constitutes 0.9% (1.1) of the share capital. Treasury shares do not entitle the holder to dividends or votes.

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 2020.

Communication with the financial markets

Karo Pharma seeks to maintain an open dialogue with current and potential shareholders, and to provide its observers with a good insight into, an understanding of, its business operations. The current status of projects and other operations are reviewed in each Interim Report.

Shareholders

	No. of shares	Percentage of capital and votes
KARO INTRESSENTER AB	172,521,648	76.66%
FÖRSÄKRINGSAKTIEBOLAGET, AVANZA PENSION	3,465,564	1.54%
STATE STREET BANK AND TRUST CO, W9	2,675,763	1.19%
ÖHMAN BANK S.A.	2,176,003	0.97%
KARO PHARMA AB	1,939,689	0.86%
SEB INVESTMENT MANAGEMENT	1,587,566	0.71%
CBNY-NORGES BANK	1,485,510	0.66%
T-PALLEN OBLFÖRV AB PENSIONSSTIFT	1,191,226	0.53%
BNP PARIBAS SEC SERVICES PARIS, W8IMY (GC)	1,066,458	0.47%
HANDELSBANKEN FONDER	1,045,891	0.46%
Total, 10 largest shareholders	189,155,318	84.06%
Total, other shareholders	35,877,886	15.94%
TOTAL, 30 Dec 2020	225,033,204	100.0%

Number of shareholders

		Holding
Number of shareholders	7,940	225,033,204
Net change during 2020	+21	



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 2020. All figures are for the group for the financial year 2020, unless otherwise stated. Unless otherwise stated, comparisons are with the financial year 2019.

The group consists of parent company Karo Pharma AB and its wholly owned subsidiaries Karo Pharma Sverige AB, Karo Pharma Norge AS, Karo Pharma Oy, Karo Pharma ApS, BioPhausia AB, Karo Pharma AG, Karo Pharma UK Ltd. and Trimb Holding AB. Karo Pharma Norge AS has one direct, wholly owned subsidiary, and Trimb Holding AB has a total of 11 directly or indirectly wholly owned subsidiaries.

Operations

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

Significant events in 2020

On 2 March, a product portfolio was acquired from Leo Pharma, including all related intellectual property and assets, such as the necessary licenses and permits, and existing inventory.

On 1 April, Karo Pharma acquired Hygis SA, a Swiss distribution company with exclusive rights to sell Karo Pharma's MultiGyn® and Multi-Mam® brands on the Swiss market. On 1 January 2021, Hygis SA changed corporate name to Karo Pharma AG.

Karo Pharma also acquired the remaining European rights to the Pevaryl® product portfolio from Cilag GmbH International, a Janssen Pharmaceuticals company in the Johnson & Johnson group, on 8 May. This transaction consolidates ownership of the Pevaryl® product family, consisting of Pevaryl®, Epi-Pevaryl®, Gyno-Pevaryl® and Pevisone® in Europe, into Karo Pharma.

The AGM on 25 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, Flemming Örnkvist and Håkan Åström, and elected Kristofer Tonström and Uta Kemmerich-Keil as Board members for the period until the AGM 2021.

On 1 July, Karo Pharma sold the three brands Digoxin®, Egazil® and Suscard® to Evolan, because assuring their production had proved problematic. From a patient and societal perspective, Karo Pharma made the assessment that it was better to sell, rather than discontinue these products. On 1 December, Karo Pharma AB sold its hospital supply business, Swereco AB, to J2L Holding AB. J2L acquired all the shares of Swereco.

Significant events after the end of the financial year 2020

On 3 February 2021, Karo Pharma announced the acquisition of an OTC portfolio from Teva Pharmaceuticals (Teva), a transaction scheduled for completion on 1 April. This transaction transfers rights of ownership of the brand portfolio consisting of Flux®, Decubal®, Lactocare®, Apobase®, DailyCare® and Fludent® from Teva to Karo Pharma.

COVID-19

In the first quarter 2020, Karo Pharma generated sharply increased sales in certain product categories, mainly by building up inventories with resellers, pharmacies and consumers. Meanwhile, the company saw reduced demand in other categories as a consequence of the spread of COVID-19 across Europe.

In the following quarters of 2020, those brands and products that grew through inventory build-ups saw demand normalize as expected when consumption caught up with demand. For those brands and products not impacted by the inventory build-up, progress varied. Some brands (like DAX® and Viruseptin®) were positively impacted, while others (like Mabs® and Mollipect®) were negatively impacted. The company is noting a negative effect of reduced footfall in stores, mainly from the over-65s, and from reduced activity in hospitals and retirement homes, over and above COVID-19 efforts. Karo Pharma is also noting limited demand for cold and cough medicines, with the low incidence of influenzas compared to previous years.

Karo Pharma is noting a shift in consumption patterns, and more activity in sales through online channels, especially the e-pharmacy and other e-commerce outlets. Karo Pharma has also seen growth in OTC pharmaceuticals and consumer healthcare products from food and neighborhood stores.

The impact on Karo Pharma's supply chain, and its capability to deliver products, has been limited. However, inventories of some brands and products have sold out, and Karo Pharma has not been able to adjust to the increased demand and altered purchasing patterns quickly enough. Consequently, Karo Pharma has taken actions to consolidate its delivery situation and is now better positioned to address these challenges going forward.

The impact of employee productivity has been limited, and Karo Pharma is implementing integrations and rationalization projects consistent with the long-term plans in place prior to COVID-19.

However, the long-term consequences of a general economic downturn across Europe may have a negative impact on growth and profitability into the early quarters of 2021.

Accordingly, Karo Pharma's management regularly reviews the situation in consultation with the Board of Directors, and is conducting extensive stress tests that evaluate sales revenues, expenses and liquidity. Karo Pharma is fully prepared to take more measures if the situation moves in either direction.

The outbreak of COVID-19 has triggered uncertainty in most companies, but to date, no significant risk of material restatements of carrying amounts of assets and liabilities has

arisen for Karo Pharma. When forming this opinion, Karo Pharma has included all available information for the next 12 months, including the expected profitability and any restrictions in access to finance.

The impact of COVID-19 on financial targets and cash flow has also been limited and the pandemic has not implied any additional financial risks for Karo Pharma, such as renegotiating loans and new financial arrangements apart from acquisitions, or problems in meeting covenants.

Actions taken to address and counter future risk related to COVID-19 on the business and earnings have been conducted within relevant segments, but have also been limited to date.

Karo Pharma's opinion is that it has thoroughly examined the effects of COVID-19, and has not identified any impairment or value restatements necessary as a consequence of COVID-19.

Organization

Operations are conducted within the parent company Karo Pharma AB and its wholly owned subsidiaries Karo Pharma Sverige AB, Karo Pharma AS, BioPhausia AB, Karo Pharma ApS, Karo Pharma AG, Karo Pharma Oy and Trimb Holding AB, as well as Trimb's directly and indirectly wholly owned subsidiaries. The head office is in Stockholm, Sweden.

Hadi Ghane, Director of Hospital Supply, left group management as a result of the sale of Swereco. Karin Lindberg, Head of People & Organization, joined group management effective May 2020. Otherwise, management has the same members 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 192 (193) permanent employees.

Revenue and earnings

Revenue for the year increased to SEK 2,882.9 m (1,901.2), a 52% increase for the period, of which 1% was organic growth, and -1% negative currency effects. Sales growth in the period relates to the acquisition of Trimb in September 2019 and the acquired product portfolios Proct® and Pevaryl®.

Cost of goods sold were SEK 1,287.5 m (917.2). The gross margin was 55.3% (51.8) for the period. 2020 was positively impacted by an altered product mix in acquired operations.

Operating expenses including depreciation, amortization, other operating income and other operating expenses were SEK 1,365.0 m (811.9) for the period. Selling expenses were SEK 955.2 m (600.3). The increase in selling expenses relates to costs for taking over the Proct® and Pevaryl® product portfolios, building up proprietary resources including subsidiaries in Switzerland, the UK, Italy and Germany, as well as the September 2019 acquisition of Trimb. Administrative expenses were SEK 395.9 m (188.4). This increase is mainly due to investments in a scalable platform for continued expansion, non-recurring items related to acquisitions, and restructuring expenses totaling SEK 63.1 m.

Adjusted EBITDA was SEK 784.8 m (599.1).

EBIT was SEK 230.3 m (172.1). Earnings per share were SEK 0.37 (0.05).

Investments

Investments amounted to SEK 1,554.3 m (2,441.7), with acquisitions representing SEK 1,685.3 m and divestments SEK -163.5 m. The remainder of investments were made in implementing systems and equipment.

Acquisitions

On 2 March 2020, a product portfolio was acquired from Leo Pharma, including all related intellectual property and assets, such as the necessary licenses and permits, and existing inventory.

On 1 April 2020, Karo Pharma acquired Hygis SA, a Swiss distribution company with exclusive rights to sell Karo Pharma's MultiGyn® and Multi-Mam® brands on the Swiss market. On 1 January 2021, Hygis SA changed corporate name to Karo Pharma AG.

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All the above acquisitions in 2020 were reported as asset acquisitions.

Divestments

On 1 July 2020, Karo Pharma sold the three brands Digoxin®, Egazil® and Suscard® to Evolan, because assuring their production had proved problematic. From a patient and societal perspective, Karo Pharma decided that it was better to sell, rather than discontinue these products.

On 1 December 2020, Karo Pharma AB sold its hospital supply business, Swereco AB, to J2L Holding AB. J2L acquired all the shares of Swereco.

Cash flow and financial position

Cash flow from operating activities was SEK 329.2 m (106.8). The group's cash and cash equivalents were SEK 570.4 m (248.8 as of 31 December 2019) at the end of the period. Total assets as of 31 December were SEK 12,517.5 m (10,898.8), with intangible assets representing SEK 10,029.5 m (9,090.1) of total assets.

Consolidated equity was SEK 5,638.5 m (5,641.9). The equity/assets ratio was 45.0% (51.8).

Equity and share data

The total number of Karo Pharma shares is 225,033,204, of which 1,939,689 were held in treasury as of 31 December 2020.

Consolidated equity reduced to SEK 5,638,490 m (5,641,908), which after considering earnings for the year, corresponded to SEK 25.05 (25.07) per share.

Parent company

The parent company's net sales for 2020 were SEK 1,149.4 m (701.0). Profit/loss after financial items was SEK 40.3 m (-89.7). The parent company's cash and cash equivalents and other investments in securities, etc. were SEK 103.4 m (61.6 as of 31 December 2020).

Remuneration guidelines for senior executives

Remuneration guidelines for senior executives

No proposals to amend remuneration guidelines for senior executives are being submitted to the AGM 2021. The applicable guidelines, approved by the AGM 2020, follow. These guidelines do not include compensation resolved by shareholders' meetings.

Type of remuneration	Relation 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.	Reviewed 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 a 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, in 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.

Promotion of Karo Pharma's business strategy, long term interests and sustainability by the guidelines
 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 commercial focus, has resulted in the group now being more dependent on employees with specialist marketing & sales skills.

The company's business strategy is described in more detail www.karopharma.com 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 formulate, review and implement guidelines Karo Pharma's Board of Directors has decided not to establish a remuneration committee. The Board's opinion is that it is more expedient for the whole Board to perform the duties that otherwise would have been incumbent on a remuneration committee established by the Board. This has implications including the Board of Directors formulating, reviewing and implementing the remuneration guidelines for 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 shall apply from the Annual General Meeting approval until new guidelines are adopted by the AGM (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 programs for variable remuneration to company management that are active or conclude during the year. 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 consults on 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 mean that remuneration should be based on position, individual performance and the group's results of operations. 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 serves Karo Pharma in addition to the Board's work, consulting fees at market level should be payable.

Notwithstanding the remuneration guidelines for senior executives, the AGM may also approve share and share price-related remuneration.

Fixed salary
 For satisfactory service, 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. Senior executives' variable compensation should depend on the degree of achievement of predetermined business objectives. Senior executives' variable remuneration is designed to promote Karo Pharma's ability to offer market-based and competitive remuneration levels and terms of employment that enables senior executives with good skills and the ability to achieve set business goals to be recruited, motivated and retained.

The business objectives to be considered are different forms of financial targets related to the financial targets related to the group's financial results 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, the Board of Directors shall consider whether any outcome is reasonable. This consideration relates to Karo Pharma's earnings and financial position.

Variable remuneration shall include pension and vacation allowance in accordance with the Swedish Vacation Act and is therefore not pensionable.

Variable compensation shall amount to a maximum of 125% of fixed salary for the CEO and maximum of 100% 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.

Pension benefits shall amount to a maximum of 30% of the pensionable fixed salary of the CEO 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% of the fixed salary of the CEO and other senior executives.

The non-monetary benefits of senior executives (for example, car benefit and health care) should facilitate the performance of duties 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 executive, the period of notice may not exceed six months. The CEO and other senior executives shall, upon termination of employment from Karo Pharma, be entitled to severance pay amounting to a maximum of 12 months' fixed salary. No severance pay shall be payable upon termination by the employee.

The executives covered
 The above guidelines should include the CEO of Karo Pharma Aktiebolag and senior executives that report directly to the CEO and the Presidents of Karo Pharma's subsidiaries.

Authorization for the Board to depart from the guidelines
 The Board has the right to depart from the guidelines if there are special circumstances in an individual case. The Board may decide to temporarily depart from the guidelines in whole or in part, whether in an individual case, there are specific reasons justifying this, and a departure is necessary to satisfy the company's long-term interests and sustainability, or to ensure the financial viability of Karo Pharma. Board of Directors performs the duties otherwise incumbent on a remuneration committee established by the Board, which includes decisions to depart from the guidelines. Any departures must be stated in the annual remuneration report.

Information on Karo Pharma's shares

On 31 December 2020, there were a total of 225,033,204 shares (225,033,204). Each share (apart from those held in treasury) carries one vote, and equal entitlement to the company's distributable earnings. As of 31 December 2020, Karo Pharma AB held 1,939,689 shares in treasury. Treasury shares do not confer rights to dividends, and do not carry votes. For more information on treasury shares and changes in the year, see page 34 and note 21.

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 2020 authorized the Board to decide on the issue of shares on one or more occasions until the AGM 2021. 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, possible justification is

may be providing the company with new capital and/or new shareholders of strategic significance to the company, and/or acquisitions of other companies or operations. When waiving shareholders' preferential rights, the issue price should be determined on an arm's length basis. The Board of Directors is permitted to decide on other terms and conditions.

Sale of treasury shares

To increase the company's financial flexibility effectively, and free up additional capital for Karo Pharma to execute acquisitions, the Board of directors decided to sell treasury shares, waiving shareholders' preferential rights. This decision was based on an authorization to the Board of Directors by the AGM of 25 May 2020. 525,301 treasury shares were sold in the financial year. The transfers were on Nasdaq Stockholm.

The sale of treasury shares must be complete prior to the AGM on 21 April 2021, when a new mandate will be requested as necessary. The sale of treasury shares will be on Nasdaq Stockholm, at a price within the quoted price interval at any time. The maximum sale of treasury shares is of all the shares held by Karo Pharma AB. The sale of shares will be executed by one or more brokers, who will make decisions, including the timing of sale, independent of Karo Pharma.

The sale of treasury shares will be in accordance with section 5.1.1 part H of Nasdaq Issuer Rules of 1 May 2020, and pursuant to other applicable regulations.

For more information on the sale of treasury shares, see www.nasdaqomxnordic.com.

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 2020.

Corporate Governance Report

Karo Pharma's Corporate Governance Report is available at the company's website www.karopharma.com, and is also on pages 52-55 of 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 reporting and the Sustainability Report

Karo Pharma's Sustainability Report is for the financial year 1 January-31 December 2020. This Report, which is included on pages 42-44 below, is the Statutory Sustainability Report.

About Karo Pharma

Karo Pharma's mission is to contribute to a healthy and sustainable society for the future. By offering high-quality consumer health products, and a high quality of service to people, we work towards our objective of improving the everyday health

of consumers and patients. To ensure that everyday health problems are addressed and treated, we work, and educate to increase awareness, as well as addressing stigmas in society.

Our management system

We put a high priority on responsibility, and undertake to engender trust in our products and ethics. The whole value chain, at the supplier and customer level, harbors a risk of corruption, and accordingly, it is essential that we work according to ethical guidelines and rules. This applies internally and externally towards suppliers and distributors. For Karo Pharma, conducting business ethically is central. All forms of bribery and corruption are unacceptable. Our contracts with suppliers require them to comply with applicable laws and regulations.

To further clarify the importance of ethical business conduct, Karo Pharma complies with a Code of Conduct. To realize this, Karo Pharma has identified key undertakings that guide us in our day-to-day work. Our objective is to be a reliable partner for our customers, suppliers and regulators, and we work on a solution-oriented basis, and with high integrity towards each of those parties that apply standards to us.

Our key undertakings are guided and governed by our management system, which comprises 11 clear policies related to the environment, corporate social responsibility and business ethics, as well as procedures that establish and satisfy Karo Pharma's standards, legal and within quality assurance as well as patient safety, for our product portfolio. This means that we hold permits to trade in pharmaceuticals, and certifications in Good Manufacturing Practice, Good Distribution Practice, as well as ISO13485, and us being qualified to ensure patient safety by realizing the EU directives governing pharmaceuticals for human use.

Accordingly, product quality and patient safety are one of our pledges to consumers and patients, which we safeguard end to end in the value chain from production to serving customers.

An 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 not 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.

Karo Pharma works on supplier accreditation through its management system, thus ensuring that all Karo Pharma's contract manufacturers satisfy the standards that we, and legislators, apply to them. 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. 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.

Risks & risk management

Issue & Swedish Annual Accounts Act section	Description	Governance	Risk location
1. Patient safety in pharmaceutical management MR	Non-approved chemicals in products and other factors that involve a risk of harm to patients, which in turn, could cause brand and reputational damage.	Patient Safety Policy Quality Policy 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 regulations and legislation Pharmacovigilance audit Staff trained in managing adverse events Safety legislation	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 supplier level and Karo Pharma's operations (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.	Code of Conduct Qualification not suppliers and customers including these aspects 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 & Sustainability Policy	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.	Code of Conduct Supplier procedures Occupational Health & Safety policy GMP permit & Qualified Person (QP)	Karo Pharma's own operations (for employees)

After production and release, all pharmaceuticals are transported, stored and distributed in accordance with Good Distribution Practice, which is monitored by a qualified individual for wholesaling designated by the regulator.

On each market, Karo Pharma collaborates with customers and healthcare staff to ensure that it is satisfying consumer needs. Through education, Karo Pharma's intention is to simplify the choice of solution to everyday health problems. The understandings Karo Pharma accumulates generate the product development process, as well as new services and support for consumers. Karo Pharma wants to improve consumer understanding of the choices available for treating everyday health problems, and Karo Pharma wishes to improve quality of life, overcoming the obstacles that prevent individuals from treating their everyday problems. By inter-

acting with consumers, Karo Pharma also learns about their needs—understandings that can then be used to improve Karo Pharma's commercial range and offer them a better experience. After Karo Pharma products reach the consumer and patient, Karo Pharma undertakes to monitor quality assurance and patient safety data, with a Qualified Person for Pharmacovigilance (QPPV) designated by the regulator, being responsible for Karo Pharma maintaining a system for monitoring, and that the risks and benefits of our products are continuously assessed. If circumstances occur where consumers and patients need to contact Karo Pharma, Karo Pharma always listens to its consumers.

Karo Pharma undergoes continuous external audits of its management system to evaluate and ensure its effectiveness.

Karo Pharma's environmental impact

Karo Pharma works continuously on reducing its CO₂ footprint and optimizing its value chain. As a virtual company, dependent on partners for production, this means working closely with suppliers and customers to reduce waste and minimize the environmental impact of operations.

Karo Pharma also endeavors to maximize efficiency in its transport chain by carefully evaluating its choice of suppliers, filling trucks, minimizing the amount of air transport, and using the shortest possible route to destinations.

Freight providers, warehousing, distributors and customers are subject to qualification processes prior to processing our products.

Part of our work involves reviewing packaging materials, where we set targets to reduce secondary packaging and remove plastic from our secondary packaging. Karo Pharma has also set the target of only having sustainable solutions for packaging by 2025.

Corporate social responsibility

Karo Pharma is endeavoring to assist in raising general standards of health and well-being in society by offering and delivering services, products and pharmaceuticals that improve the health of patients and consumers.

Karo Pharma also supports a range of charitable organizations, closely associated with its core value of showing consideration to its business environment and community.

Operation Smile is a charity that arranges surgery for children born with serious facial deformities, especially for children born with cleft lip and palate. This organization enables some 15,000 surgical procedures worldwide each year, benefiting an equal number of children. Karo Pharma views this as a smart choice to improve everyday health, and has been supporting Operation Smile since 2018.

Karo Pharma has also created the Stay Healthy Fund, enabling targeted donations to non-profit organizations selected by our colleagues. When Karo Pharma's employees do active volunteer work, Karo Pharma makes a corresponding donation.

Karo Pharma's employees

Karo Pharma is keen to maintain a diversified and inclusive environment. As an employer, Karo Pharma wants to attract individuals with a strong field feeling of entrepreneurship regardless of gender, sexual identity, sexual orientation, ethnicity, race, religion, country of origin, disability or age. Karo Pharma stands for equal opportunities and has a balanced gender division in its group management and other management positions.

Karo Pharma works collectively to enable a creative workplace where collective intelligence and the diverse backgrounds of our employees realize Karo Pharma's vision together. Karo Pharma views its people as a critical asset, and regularly measures employee commitment.

Human resources and occupational health & safety

A good working environment and staff health are important to 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 of physical and psychosocial health & safety 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.

Karo Pharma is proactive in creating a positive working environment. Karo Pharma has offices that enable a positive physical and psychosocial working environment. Karo Pharma uses adjustable-height desks, good lighting, rest areas, a range of office spaces for meetings, and smaller spaces for working undisturbed. Karo Pharma conducts initiatives and enables social contexts to create an environment where all coworkers feel included and recognized. There are risks associated with working from home, where Karo Pharma has taken the initiative for all its colleagues to be able to attain an ergonomic working environment in the office and at home. Additionally, risks are associated with stress in this context, where interaction between staff and managers from the foundation of functional occupational 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.

Karo Pharma's goal is for no serious injuries to occur and that Karo Pharma should maintain a working environment that does not cause sickness absence. No personal accidents resulting in sickness absence occurred in 2020. Karo Pharma also continued its work on maintaining a working environment that does not cause illness.

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 com-

petition 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

Acquisitions have been financed with bank loans. There is a risk that in future, Karo Pharma is unable to generate sufficient cash flow to meet the expenses associated with these loans. There is also a risk that the terms of loans alter, or that Karo Pharma breaches current covenants and obligations in loan agreements.

An inability to satisfy the covenants in loan agreements 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.

Product quality

Karo Pharma applies standards consistent with those within the EU 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, and Karo Pharma holds ISO13485 certification.

Patient safety

All product usage is associated with the risk of adverse events of various forms, and of varying severity. Karo Pharma has an in-house function that works to ensure safe usage of its products. All potential adverse events are reported to the pharmaceutical regulator, pursuant to the regulatory standards applicable to product classifications.

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.

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.

A portion of the group's operating expenses arise in certain occurrences, while its revenues are generated in others. 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

Goodwill is recognized at cost, as determined at the acquisition date of the business, after deducting for any accumulated impairment. Goodwill is allocated to the cash-generating units expected to benefit from the synergy effects of the business combination. Impairment tests are conducted at least yearly, or when there are indications of impairment. Impairment tests are conducted at the level goodwill is monitored in the company's internal controls. Karo Pharma's two product groups, Rx and OTC, have been identified as cash-generating units. Goodwill is reported as an intangible asset with an indefinite useful life.

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.

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 outstanding shares. The issue of new shares may also mean existing shares are diluted if they do not utilize, or cannot utilize, preferential rights, or shareholders' meetings resolve to depart from such preferential rights.

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 amount 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

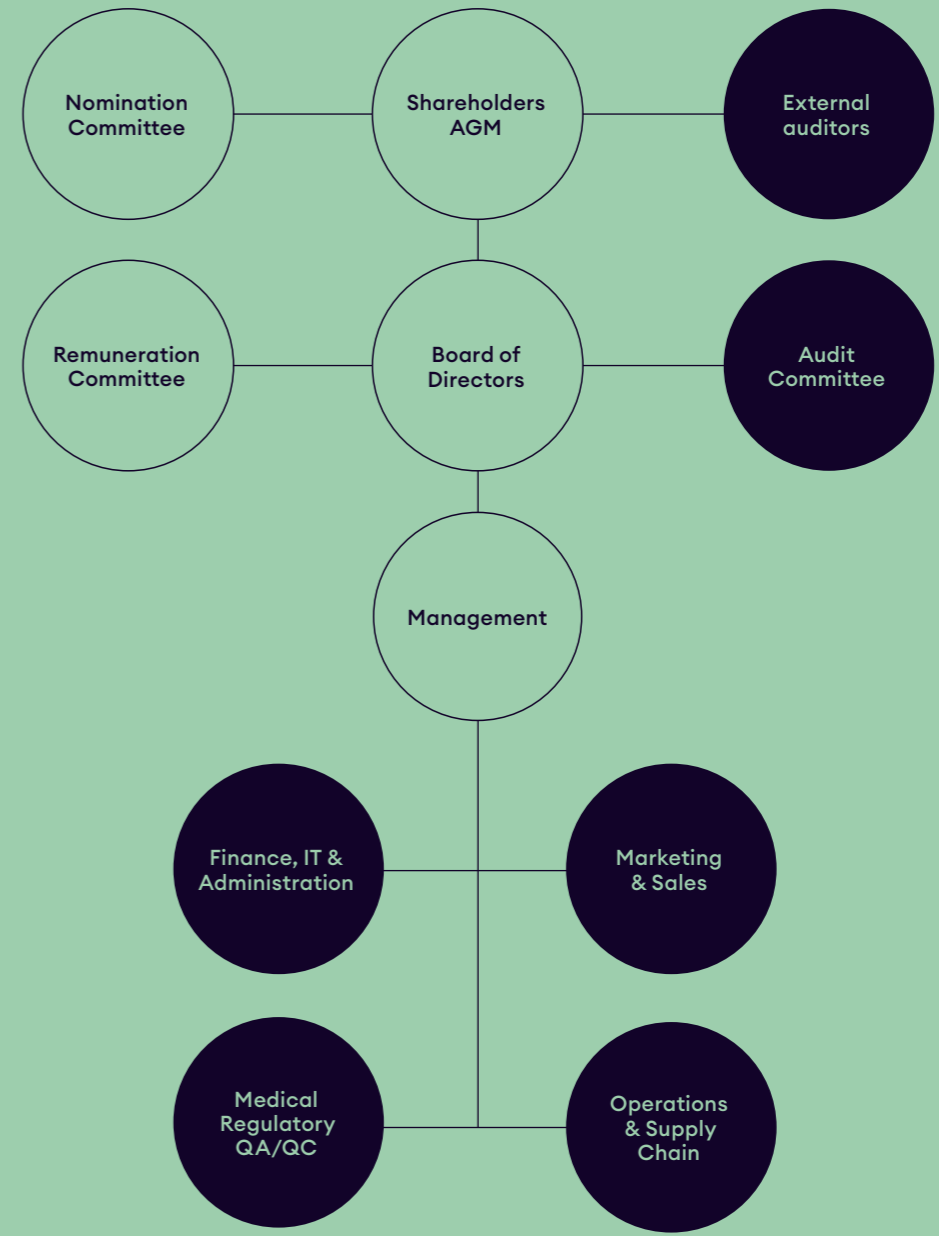
The following funds are at the disposal of the Annual General Meeting 2021:

- Share premium reserve SEK 4,896,404,000
 - Retained earnings SEK 575,104,000
 - Earnings for the year SEK 33,645,000
- Total unappropriated earnings SEK 5,595,166,000

The Board of Directors proposes that the funds that the disposal of the meeting of SEK 5,595,166,000 are carried forward.

The tables below present financial information in summary for the financial years 2016-2020. As of January 1, 2019, the Group applies IFRS 16 Leases. The comparative figures for 2016-2018 have not been restated as the Group applied the future-oriented method in the implementation of IFRS 16.

SEK m unless otherwise stated	GROUP				
	2020	2019	2018	2017	2016
Income Statement					
Revenues	2,882.9	1,901.2	1,615.1	657.6	347.3
Cost of goods sold	-1,287.5	-917.2	-676.3	-315.7	-198.5
Selling expenses	-955.2	-600.3	-443.0	-198.6	-112.8
Administrative expenses	-395.9	-188.4	-78.5	-43.7	-28.7
Research and development expenses	-	-	-0.6	-4.4	-5.3
EBIT	230.3	172.1	414.3	79.9	29.6
Earnings/loss after tax	82.9	8.9	657.4	14.5	95.6
Balance Sheet					
Total non-current assets	10,786.5	9,723.5	5,972.6	3,017.3	1,482.1
Other current assets	1,160.7	926.3	513.5	286.0	169.4
Cash and cash equivalents	570.4	248.8	398.6	838.6	121.3
Total current assets	1,731.0	1,175.1	912.1	1,124.6	290.7
Total assets	12,517.5	10,898.5	6,884.6	4,148.8	1,772.8
Equity	5,638.5	5,641.9	3,611.0	1,586.5	717.0
Non-current liabilities	1,657.5	1,720.5	1,980.6	1,542.2	599.3
Current liabilities	5,221.5	3,536.1	1,293.1	1,013.2	456.6
Total liabilities and equity	12,517.5	10,898.5	6,884.6	4,141.8	1,772.8
Cash Flow Statement					
Cash flow from operating activities	329.2	106.8	318.0	33.5	-36.1
Cash flow from investing activities	-1,544.3	-2,441.7	-2,692.1	-1,245.8	-995.9
Cash flow from financing activities	1,543.5	2,184.6	1,931.2	1,931.1	1,076.4
Cash flow for the year	328.4	-150.2	-442.9	718.8	44.4
Key indicators					
Equity/assets ratio, %	45.0	51.8	52.5	38.3	40.4
Average number of employees	243.0	129.1	90.0	90.8	69
Data per share					
Earnings per share (SEK)					
- average number of shares	0.37	0.05	4.63	0.17	1.42
- number of shares at end of year	0.36	0.04	4.00	0.18	1.50
Operating cash flow per share (SEK)					
- average number of shares	1.48	0.61	2.24	0.40	-0.75
- number of shares at end of year	1.46	0.47	1.94	0.41	-0.70
Equity per share at end of year	25.05	25.07	21.97	19.31	11.22
Share price at end of year	52.50	40.52	37.05	33.50	28.10
Number of shares (000)					
Average number of outstanding shares	222,608	174,477	141,888	84,217	67,440
Average number of outstanding shares after full dilution	222,608	174,477	141,888	84,217	67,440
Number of shares at end of year	225,033	225,033	164,333	82,166	63,907
Number of shares after full dilution	225,033	225,033	164,333	82,166	63,907



Significant external and internal regulations and policies impacting 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

Karo Pharma AB is a Swedish public limited company quoted on Nasdaq Stockholm AB (Nasdaq Stockholm). Karo Pharma's corporate governance is based on Swedish regulations and Swedish legislation, primarily the Swedish Companies Act, but also its listing agreement with Nasdaq Stockholm. The Swedish Code of Corporate Governance (the "Code"), Articles of Association and other relevant regulations. Apart from what is reported below, Karo Pharma is not reporting any instances of non-compliance from the Code for the financial year 2020.

The Board of Directors of Karo Pharma hereby present the Corporate Governance Report for 2019 pursuant to 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 group consists of the parent company Karo Pharma AB and its direct wholly owned subsidiaries Karo Pharma Sverige AB, Karo Pharma Norge AS, Karo Pharma Oy, Karo Pharma ApS, Karo Pharma AG, BioPhausia AB, Karo Pharma UK Ltd., and Trimb Holding AB. Karo Pharma Norge AS has one direct wholly owned subsidiary, and Trimb Holding AB has a total of 11 direct or indirect wholly owned 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 2020.

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 7,940 (7,919) shareholders as of 31 December 2020. According to the share register maintained by Euroclear Sweden AB as of 31 December 2019, 76.7% (69.4) of the shares were registered with Karo Intressenter AB. The ten largest shareholders held 84.1% (81.4) 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.

As of 31 December 2020, there were 225,033,204 Karo Pharma shares, of which 1,939,689 held in treasury.

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, Board fees and audit fees, and guidelines for remunerating the CEO and other senior executives.

Annual General Meeting 2020

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 2019.

The AGM approved the Annual Accounts for 2019, resolved on appropriating the company's loss, and discharged the Board of 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, Flemming Örnskov and Håkan Åström, as well as electing Kristofer Tonström and Uta Kemmerich-Keil. 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 2021. 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 2021

Karo Pharma's AGM 2021 will be held at 3 p.m. on Wednesday 21 April. 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. Because of the coronavirus, the Board of Directors has decided that the AGM will be conducted without shareholders, proxies, and external observers in attendance, and will offer shareholders voting rights prior to the Meeting only. More information is on Karo Pharma's website, www.karopharma.com.

Nomination Committee

No nomination committee has been appointed for the AGM 2021.

External auditors

Pursuant to its Articles of Association, Karo Pharma should have a registered public accounting firm as its external auditor. The AGM 2020 re-elected registered public accounting firm Ernst & Young AB as auditor until the AGM 2021. Björn Ohlsson has been appointed as Auditor in Charge. In the year, EY changed Auditor in Charge to Jonatan Hansson.

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 auditing standards in Sweden.

The company assigned the auditor to summarily review one interim report in 2020, in accordance with the stipulations of the Code. For information on audit fees, see note 11 in the Annual Accounts for 2020.

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 Board members 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 Board members elected by shareholders' meetings without deputies. The Board is quorate when more than half of the total number of Board members are in attendance.

Work of the Board in 2020

The Board held 12 scheduled meetings where minutes were taken in 2020. 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 2020 included acquisitions.

Board committees

Considering its size and composition, the Board has concluded 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.

Board of Directors	Period in 2020	Elected	Board fees	Attendance of meetings	Independent of company and management	Independent of company's major shareholders
Håkan Åström		2017	300	11(12)	Yes	Yes
Bo Jesper Hansen		2019	600	11(12)	Yes	Yes
Erika Henriksson		2019	300	12(12)	Yes	No
Vesa Koskinen		2019	300	12(12)	Yes	No
Eva Sjökvist Saers	To 25 May	2019	119	6(6)	Yes	Yes
Flemming Örnskov		2019	300	12(12)	Yes	Yes
Kristofer Tonström	From 25 May	2020	181	9(9)	Yes	Yes
Uta Kemmerich-Keil	From 25 May	2020	181	7(9)	Yes	Yes

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 2020.

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

Management includes the CEO, CFO, CCO, VP Operations, VP Commercial Pharma, VP Marketing, VP Scientific Affairs, VP Business Development, and Head of People & Organization. Management meets 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 pages 58-59.

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

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

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

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

Information and communication

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

Corporate communication activities are formalized in a Corporate Communication Policy. Guidelines ensuring that the company satisfies stringent standards for accurate information to shareholders in the financial markets are in place for its external communication. Karo Pharma's communication should be accurate, open, prompt and simultaneous to all stakeholder groups.

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

The Board of Directors adopts the annual accounts, accounting reports and interim reports. All financial statements are published on the website (www.karopharma.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 shortcomings and proposed measures that have emerged from the external audit.

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

Each year, the external auditor follows up on selected portions of internal controls within the auspices of the statutory audit. The auditor reports the outcome of his review to the Board of Directors and management. Where appropriate, material observations are reported directly to the Board. As part of the audit in 2020, the auditor followed up on sections of internal controls over selected key processes, and communicated this to management and the Board of Directors.

Board of Directors



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 Orphazyme A/S. Previously, Bo Jesper Hansen was Executive Chairman of SOBI AB, Chairman 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



Name: Erika Henriksson
Board member
Born: 1981
Elected: 2019

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

Other assignments and previous experience: Partner of EQT Partners and Board member of Eton and Recipharm. Former Board member of AcadeMedia and Scandic Hotels Group.

Independent of company and management: Yes

Independent of principal shareholder: No

Shareholdings: 0



Name: Vesa Koskinen
Board member
Born: 1979
Elected: 2019

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

Other assignments and previous experience: Partner of EQT Partners and Board member of Igenomix S.L., Touhula Oy and kfzteile24 GmbH. Former positions include Board member of Musti Group Oy, Terveystalo Oy, Roeser Group GmbH and Swiss Smile AG.

Independent of company and management: Yes

Independent of principal shareholder: No

Shareholdings: 0



Name: Håkan Åström
Board member
Born: 1947
Elected: 2017

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

Other assignments and previous experience: Chairman of the Board of Egetis Therapeutics AB, Board member of Rhenman & Partners Asset Management AB and MedUniverse AB. Med.Dr.h.c., Sahlgrenska Academy, Gothenburg.

Previous experience: CEO and Deputy Chairman of the Karolinska Institute, CEO of Kabi Pharmacia AB, Astra Pharmaceuticals Ltd. and Pharmacia AB, Chairman of companies including SOBI (Biovitrum), Ferrosan A/S and Orexo AB.

Independent of company and management: Yes

Independent of principal shareholder: Yes

Shareholdings: 0



Name: Kristofer Tonström
Board member
Born: 1979
Elected: 2020

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

Other assignments and previous experience: CEO of Clas Ohlson. Previous positions include serving as CEO of Filippa K and Omega Pharma Nordics, as well as being President of Perrigo Northern Europe. Also held 11 different positions within P&G.

Independent of company and management: Yes

Independent of principal shareholder: Yes

Shareholdings: 0



Name: Flemming Ørnskov
Board member
Born: 1958
Elected: 2019

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

Other assignments and previous experience: CEO of Galderma SA. Chairman of the Board of Waters Corporation and Board member of Centogene N.V. Former CEO of Shire plc, and held senior positions at Bayer, Merck & Co. and Novartis.

Independent of company and management: Yes

Independent of principal shareholder: Yes

Shareholdings: 0



Name: Uta Kemmerich-Keil
Board member
Born: 1966
Elected: 2020

Education: M.Sc. (Econ.), Freiburg University

Other assignments and previous experience: Board member of Schott AG, Gothaer Versicherung AG and Röchling S.E. previously headed up P&G's Personal Healthcare International operation, and possesses long-term experience from Merck KGaA, where her service included being

Global President of OTC and Allergy, and EVP of Finance and M&A.

Independent of company and management: Yes

Independent of principal shareholder: Yes

Shareholdings: 0

Management



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

Education: M.Sc., Business (Marketing & Management), Copenhagen Business School.

Main experience: Executive Vice President and member of the Executive Board of Chr. Hansen Holding A/S and various roles in Sales and Marketing; Head of Corporate Strategy and M&A at H. Lundbeck A/S. Board member of Schultz Holding A/S.

Shareholdings: 0



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

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

Main experience: Vice President of 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 various financial control and accounting roles with companies including DeLaval and Addnature.

Shareholdings: 0



Name: Karin Lindberg
Title: Head of People & Organization
Born: 1977
Employed: 2020

Education: B.Sc., Human Resources & Organization, Stockholm University.

Main experience: Global HR Business Process Director, Human Resources Director, Nordic HR Manager at Quadient. HR Business Partner, Nordics, for Philips Healthcare, Recruitment Manager, HR Business Partner for Statoil.

Shareholdings: 0



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

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

Main 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



Name: Lisa Westerdahl
Title: VP of Commercial Pharma Operations & Corporate Communications
Born: 1974
Employed: 2018

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

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

Shareholdings: 0



Name: Anna Elmlad
Title: Vice President of Strategic Marketing
Born: 1976
Employed: 2019

Education: M.Sc., Odontology, Umeå University

Main experience: Head of Marketing & BD, Trimb. Business Unit Director, Consumer Healthcare at TEVA and Allergan, and various sales & marketing roles at companies including Actavis, J&J, Pfizer and GSK.

Shareholdings: 0



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

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

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

Shareholdings: 0



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

Education: M.Sc., Pharmacy, Gothenburg University

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

Shareholdings: 0



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

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

Main experience: Head of Supply, Trimb, EVP Product Range and EVP Operations, Oriflame Cosmetics, Senior Manager, Bain & Company.

Shareholdings: 0

Consolidated Income Statement

SEK 000	Note	GROUP	
		2020	2019
Revenues	2,31	2,882,867	1,901,196
Cost of goods sold	4	-1,287,516	-917,165
Gross earnings		1,595,351	984,030
Other operating income and expenses	4-6		
Selling expenses		-955,235	-600,264
Administrative expenses		-395,889	-188,361
Other operating income and expenses ¹		-13,920	-23,304
		-1,365,044	-811,928
Operating profit¹⁾		230,306	172,102
Profit/loss from financial income and expenses¹			
Interest income and similar profit/loss items	7	17,150	3,337
Interest expenses and similar profit/loss items	8	-190,302	-158,850
		-173,152	-155,512
Profit/loss after financial items		57,154	16,590
Tax	9	25,751	-7,649
PROFIT FOR THE YEAR		82,905	8,941
Profit for the year attributable to:			
Equity holders of the parent		82,049	8,890
Non-controlling interests		856	51
Earnings per share attributable to equity holders of the parent (SEK)	10		
- based on a weighted average number of outstanding shares before dilution		0.37	0.05
- based on a weighted average number of outstanding shares after dilution		0.37	0.05

¹ A reclassification of SEK 3,289,000 has been made from financial items to other operating income and expenses since the Year-end Report for 2020. The reclassification has no effect on net earnings.

Consolidated Statement of Comprehensive Income

SEK 000	GROUP	
	2020	2019
Net earnings	82,905	8,941
Other comprehensive income for the year net of tax		
<i>Items reclassifiable to profit or loss</i>		
Translation differences	-117,256	41,971
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-34,351	50,912
Total comprehensive income attributable to:		
Equity holders of the parent	-35,207	50,861
Non-controlling interests	856	51

Consolidated Statement of Financial Position

SEK 000	Note	GROUP	
		2020	2019
ASSETS, 31 December			
NON-CURRENT ASSETS			
Intangible assets	13		
Capitalized development expenditure		81,867	5,024
Licenses, product rights and trademarks		6,678,681	5,663,165
Goodwill		3,263,886	3,421,905
Work in progress		5,044	-
Total intangible assets		10,029,478	9,090,094
Property, plant and equipment			
Equipment, buildings and land	14	19,041	20,626
Right-of-use assets	28	50,423	9,407
Total property, plant and equipment		69,464	30,034
Financial assets			
Deferred tax asset	22	685,282	600,598
Other financial assets	16	2,226	2,745
Total non-current assets	31	10,786,451	9,723,471
CURRENT ASSETS			
Current receivables			
Inventories	17	451,509	395,276
Accounts receivable	18	596,343	481,582
Tax asset		37,338	-
Other receivables		26,400	33,876
Prepaid expenses and accrued income	19	49,067	15,519
Total current receivables		1,160,657	926,253
Cash and cash equivalents	20	570,391	248,806
Total current assets		1,731,048	1,175,059
TOTAL ASSETS		12,517,499	10,898,530

SEK 000	Note	GROUP	
		2020	2019
EQUITY AND LIABILITIES, 31 December			
EQUITY	21		
Share capital		90,013	90,013
Other capital contributions		6,010,261	6,010,261
Profit brought forward including profit for the year		-392,584	-505,619
Translation reserves		-71,641	45,615
Non-controlling interests		2,442	1,639
Total equity		5,638,490	5,641,908
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	22	527,192	469,384
Liabilities to credit institutions	23	1,091,602	1,242,460
Lease liabilities	28	36,201	5,924
Other non-current liabilities	23	2,548	2,735
Total non-current liabilities		1,657,542	1,720,503
Current liabilities			
Liabilities to credit institutions	23	4,707,573	3,087,804
Lease liabilities	28	12,347	2,625
Accounts payable		232,142	204,522
Tax liability		3,390	11,670
Other current liabilities	24	71,546	48,236
Accrued expenses and deferred income	25	194,468	181,262
Total current liabilities		5,221,467	3,536,119
TOTAL EQUITY AND LIABILITIES		12,517,499	10,898,530

Consolidated Statement of Cash Flows

SEK 000	Note	GROUP	
		2020	2019
Operating activities			
Operating profit ¹		230,306	172,102
Non-cash items			
Depreciation, amortization and impairment	5	494,644	319,755
Other ¹	27	-3,404	-207
		721,546	491,650
Financial income received	27	359	1,537
Financial expenses paid	27	-181,448	-135,570
Income taxes paid/recovered		-44,513	-6,093
Cash flow from operating activities before change in working capital		495,945	351,525
Change in working capital			
Change in inventories		-91,464	-59,553
Change in current operating receivables		-203,293	-11,314
Change in accounts payable		40,526	-80,680
Change in other current operating liabilities		87,509	-93,134
Cash flow from operating activities		329,223	106,844
Investing activities			
Investments in property, plant and equipment	14	-21,421	-2,651
Investments in intangible assets	13	-1,685,255	-31,896
Investments in other financial assets		-1,109	-806
Investments in business combinations	11	-	-2,456,377
Sales of participations in group companies	11	150,969	-
Sale of intangible assets		12,500	50,000
Sale of property, plant and equipment		-	20
Cash flow from investing activities		-1,544,317	-2,441,710
Financing activities	27		
New share issue		-	2,003,114
Sale of treasury shares		31,051	-
Transaction expenses, new share issue		-	-23,999
Loans arranged		1,775,000	3,500,000
Repayment of loans		-262,415	-3,294,469
Transactions with minority interests		-118	-
Cash flow from financing activities		1,543,517	2,184,646
CASH FLOW FOR THE YEAR		328,424	-150,220
Cash and cash equivalents at beginning of year	20	248,806	398,580
Exchange difference in cash and cash equivalents		-6,839	446
Cash and cash equivalents at end of year	20	570,391	248,806

¹ A reclassification of SEK 3,289,000 has been made between operating profit and non-cash items since the Year-end Report for 2020. The reclassification has no effect on cash flow for the year.

Consolidated Statement of Changes in Equity

SEK 000	Group					
	Share capital	Other capital contributions	Profit brought forward including profit for the year	Translation reserves	Non-controlling interests	Total
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 after 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
Opening balance as of 1 January 2020	90,013	6,010,261	-505,619	45,615	1,639	5,641,908
Comprehensive income			82,049	-117,256	856	-34,351
Transactions with shareholders						
Transactions with non-controlling interests			-65		-54	-118
Sale of treasury shares			31,051			31,051
Total transactions with shareholders	-	-	30,986	-	-54	30,933
CLOSING BALANCE AS OF 31 DECEMBER 2020	90,013	6,010,261	-392,584	-71,641	2,442	5,638,490

Parent Company Income Statement

SEK 000	Note	PARENT COMPANY	
		2020	2019
Net sales		1,149,409	701,042
Cost of goods sold	4	-426,642	-324,074
Gross earnings		722,768	376,969
Other operating income and expenses	4-6		
Selling expenses		-322,564	-247,492
Administrative expenses		-236,736	-94,246
Other operating income and- expenses	6	-16,080	-1,192
		-575,381	-342,929
Operating profit		147,387	34,039
Profit/loss from financial income and expenses			
Profit/loss from participations in group companies		8,995	-2,821
Interest income and similar profit/loss items	7	66,544	26,830
Interest expenses and similar profit/loss items	8	-182,626	-147,734
		-107,087	-123,724
Profit/loss after financial items		40,300	-89,685
Appropriations		-	157,380
Tax	9	-6,655	-15,799
PROFIT FOR THE YEAR		33,645	51,895

Parent Company Statement of Comprehensive Income

SEK 000	PARENT COMPANY	
	2020	2019
Net earnings	33,645	51,895
Other comprehensive income for the year net of tax	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	33,645	51,895

Parent Company Balance Sheet

SEK 000	Note	PARENT COMPANY	
		2020	2019
ASSETS, 31 December			
NON-CURRENT ASSETS			
Intangible assets	13		
Capitalized development expenditure		80,053	2,222
Licenses, product rights and trademarks		3,489,779	2,144,493
Goodwill		283,806	306,974
Total intangible assets		3,853,638	2,453,690
Property, plant and equipment			
Equipment, buildings and land	14	8,293	1,097
Financial assets			
Participations in group companies	15	5,231,948	5,128,404
Deferred tax asset	22	488,060	494,715
Other financial assets	16	1,139,428	304,223
Total non-current assets		10,721,367	8,382,130
CURRENT ASSETS			
Current receivables			
Inventories	17	148,418	97,026
Accounts receivable	18	225,688	124,773
Other receivables		11,857	24,715
Receivables from group companies		289,635	1,428,429
Prepaid expenses and accrued income	19	40,634	7,544
Total current receivables		716,233	1,682,486
Cash and cash equivalents	20	103,410	61,557
Total current assets		819,643	1,744,043
TOTAL ASSETS		11,541,010	10,126,174

SEK 000	Note	PARENT COMPANY	
		2020	2019
EQUITY AND LIABILITIES, 31 December			
EQUITY	21		
Share capital		90,013	90,013
<i>Total restricted equity</i>		90,013	90,013
Share premium reserve		4,896,404	4,896,404
Retained earnings		575,104	492,157
Net earnings		33,645	51,895
<i>Total non-restricted equity</i>		5,505,153	5,440,457
Total equity		5,595,166	5,530,470
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	22	21,989	21,989
Liabilities to group companies		-	12,946
Liabilities to credit institutions	23	1,010,686	1,128,218
Other non-current liabilities	23	26	26
Total non-current liabilities		1,032,701	1,163,179
Current liabilities			
Liabilities to credit institutions	23	4,687,419	3,064,512
Accounts payable		115,656	70,504
Liabilities to group companies		47,202	252,435
Other current liabilities	24	3,832	178
Accrued expenses and deferred income	25	59,034	44,897
Total current liabilities		4,913,143	3,432,525
TOTAL EQUITY AND LIABILITIES		11,541,010	10,126,174

Parent Company Cash Flow Statement

SEK 000		PARENT COMPANY	
	Note	2020	2019
Operating activities			
Operating profit		147,387	34,039
Non-cash items			
Depreciation, amortization and impairment	5	272,358	199,575
		419,745	233,614
Financial income received	27	36,367	26,414
Financial expenses paid	27	-174,458	-134,574
Income taxes paid/recovered		-	-323
Cash flow from operating activities before change in working capital		281,654	125,131
Change in working capital			
Change in inventories		-51,392	-19,596
Change in current operating receivables		27,351	-1,224,405
Change in accounts payable		45,159	-3,054
Change in other current operating liabilities		-187,238	261,618
Cash flow from operating activities		115,533	-860,308
Investing activities			
Investments in property, plant and equipment	14	-14,377	-966
Investments in intangible assets	13	-1,665,125	-28,034
Investments in other financial assets	16	-	-30
Investments in shares in subsidiaries	15	-13,608	-2,565,243
Sales of participations in group companies		9,582	-
Shareholders' contribution paid to group companies		-90,523	-
Repayments from group companies in the year		133,686	66,938
Cash flow from investing activities		-1,640,365	-2,527,334
Financing activities	27		
New share issue		-	2,003,114
Sale of treasury shares		31,051	-
Transaction expenses, new share issue		-	-23,999
Loans arranged		1,775,000	3,500,000
Repayment of loans		-239,365	-2,228,021
Cash flow from financing activities		1,566,686	3,251,094
CASH FLOW FOR THE YEAR		41,854	-136,548
Cash and cash equivalents at beginning of year	20	61,557	198,004
Exchange difference in cash and cash equivalents		-	101
Cash and cash equivalents at end of year	20	103,410	61,557

Parent Company Statement of Changes in Equity

Parent company	Share capital	Share premium reserve	Retained earnings	Net profit/loss	Total
SEK 000					
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/loss			549,058	-549,058	-
Opening balance as of 1 January 2020	90,013	4,896,404	492,157	51,895	5,530,470
Comprehensive income				33,645	33,645
Transactions with shareholders					
Sale of treasury shares			31,051		31,051
Appropriation of earnings/loss			51,895	-51,895	-
CLOSING BALANCE AS OF 31 DECEMBER 2020	90,013	4,896,404	575,104	33,645	5,595,166

NOTES ON THE FINANCIAL STATEMENTS

Note 1 Accounting policies

GROUP

Basis of preparation of the financial statements

The critical accounting policies applied when preparing these consolidated accounts are stated below. These policies were applied consistently for all years presented unless otherwise stated.

The consolidated accounts of Karo Pharma have been prepared in accordance with the Swedish Annual Accounts Act, International Financial Reporting Standards (IFRS) as endorsed by the EU, and their interpretations by the IFRS Interpretations Committee, which apply to financial years beginning 1 January 2020. The Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups is also applied.

The parent company's functional currency is Swedish kronor, which is also the group's presentation currency. All amounts are stated in SEK 000 (thousands of Swedish kronor) unless otherwise stated.

In the annual accounts, items are reported at cost apart from certain financial instruments, which are measured at fair value.

The parent company prepares its accounts in accordance with the Swedish Annual Accounts Act and RFR 2, Accounting for Legal Entities.

Preparing financial statements consistent with IFRS requires the use of some critical estimates for accounting purposes. This also requires management to make certain assumptions on application of the group's accounting policies. Those areas with a high degree of judgement, that are complex, or such areas where assumptions and estimates are of material significance to the consolidated accounts, are reviewed in more detail below.

Amended and new accounting policies for 2020

No new standards and interpretations that Karo Pharma is applying from 1 January 2020 had any significant impact on the consolidated financial statements.

The definition of business combinations in IFRS 3 Business Combinations has changed, and applies effective 1 January 2020. The criteria for an acquisition being classified as a business combination is that it should include at least one input and a significant process, which together, make a material contribution to the capacity to create output. There is also clarification that this must be based on what has been acquired, in its existing condition and state, rather than what could have been replaced by a market participant. Additionally, the amendments included an optional concentration test to simplify assessment of whether an acquired asset is a business or asset acquisition. These amendments did not have any material impact on the consolidated financial statements.

Amended accounting policies, 2021 and later

A number of new standards and amendments of interpretations and existing standards come into effect for financial years beginning after 1 January 2020. None of these new standards and interpretations are expected to have any material impact on the consolidated financial statements.

Important estimates and assumptions for accounting purposes

A number of important accounting estimates are necessary when preparing financial statements. This also requires that management makes certain assumptions regarding the application of the company's accounting policies. Estimates and assumptions 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 determines whether the transaction is 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 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 notes 11, 12 and 13.

Consolidated Accounts

The Consolidated Accounts include the Annual Accounts of Karo Pharma AB and its subsidiaries as of 31 December each year. 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

Acquisitions of subsidiaries are accounted using acquisition accounting. An acquisition is considered 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 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 13. 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 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.

Note 1 cont. – Accounting policies

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 the Income Statement. 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 recognized in accordance with IFRS 15, Revenue from Contracts with Customers, which is an in-principle model of revenue recognition from customer contracts. Pursuant to the Standard, revenue is recognized when the company has satisfied its performance obligation, which means the promised good or service has been transferred to the customer. The good or service is considered transferred when the customer has obtained control over the good or service. Revenue is recognized to the extent it is likely that the economic benefits will flow to the group and the amount can be measured reliably.

Goods

Karo Pharma's contracts with customers generally involve the delivery of specific goods against agreed compensation (without associated ancillary services), and Karo Pharma is considered to have fulfilled its performance obligation when the goods have been delivered pursuant to the agreed terms & conditions (incoterms), and control over the goods has transferred to the customer.

Sales are recognized after deduction of VAT, discounts, pharma taxes and product taxes. A small portion of sales are due to external wholesalers. Revenues are adjusted for the value of returns, which for Karo Pharma have historically been low.

Other revenue

In addition to revenue from the sale of goods, Karo Pharma also reports certain royalty revenues, which is the consideration paid by other companies when they use Karo Pharma's intellectual property (according to contract).

Central government subsidies and other public support is recognized as other operating income in the Income Statement 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 the Income Statement 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 22. 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.

Goodwill

Goodwill is initially measured at the amount by which the total purchase consideration and fair value of non-controlling interests exceed the fair value of identifiable acquired assets and liabilities taken over. If the purchase consideration is less than the fair value of the acquired entity's net assets, this difference is recognized directly in the Income Statement. Goodwill has an indefinite useful life and is recognized at cost less any accumulated impairment. When an operation is sold, the share of goodwill attributable to this operation is recognized in the computation of the gain or loss from the sale.

Licenses, product rights and trademarks

Acquired Licenses, product rights and trademarks are recognized as assets on the Balance Sheet. Assets acquired separately are initially measured at cost. Assets that are part of a business combination are initially measured at fair value on the acquisition date. Subsequently, the asset are measured at cost less accumulated depreciation and amortization, and any impairment.

The measurement of licenses, product rights and trademarks is dependent on certain assumptions. These assumptions relate to forecasts of future sales revenue, contribution margins and the cost of each product. Assumptions are also made regarding discount rates, product lifetimes and royalty levels. The maximum amortization period of licenses, product rights and trademarks that the group applies is 20 years. The possibility that the measurement of licenses, product rights and trademarks need to be reassessed, which materially impacts the group's financial position and results of operations, cannot be ruled out. The group regularly tests for impairment of licenses, product rights and trademarks. On 31 December 2020, the value of product rights and licenses was SEK 6,678.7 m (5,663.2).

The useful life of the group's licenses, product rights and trademarks is considered 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 13.

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 the Income Statement in the cost class that corresponds to the intangible asset's function.

Capitalized development expenditure

Pursuant to IAS 38 Intangible Assets, expenditure for development should be capitalized and recognized in the Balance Sheet if certain criteria are satisfied. An intangible asset based on capitalized development expenditure is only recognized when the group can demonstrate that it is technically feasible to complete the asset so that it can be used or sold, and this is also the intention. Additionally, the conditions to use or sell the asset must be in place, and it must be likely that the asset will generate future economic benefits for the group. Finally, the group must be able to measure the expenditure relating to the asset during its development reliably.

Primarily, Karo Pharma's development expenditure consists of investments in systems that have been considered to be of significant value to the group.

Property, plant and equipment

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

The carrying amounts of property, plant and equipment are assessed for impairment whenever events or changed circumstances indicate that the carrying amount is not recoverable. The residual value of assets and

Note 1 cont. – Accounting policies

estimated useful lives are tested and adjusted where necessary, at the end of each financial year.

Depreciation and amortization of non-current assets

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

	Yr.
Licenses, product rights and trademarks	5–20
Capitalized development expenditure	5–10
Conversion of premises, IT equipment, and equipment	5
Buildings and land	25

Right-of-use assets/leases

Karo Pharma has been applying IFRS 16 Leases since 1 January 2019. According to IFRS 16, the lessee does not differentiate between operating and finance leases, and reports basically all arrangements as a right-of-use asset and a lease liability in the Balance Sheet. Lease arrangements are recognized in the Balance Sheet on the date the leased asset is available for use by the group. Amortization of the asset is reported in operating profit and interest on the lease liability in net financial income/expense. The financial expense should be allocated over the lease term, so that each accounting period is charged with an amount that corresponds to a fixed interest rate for the liability recognized in each period. The right-of-use asset is amortized on a straight-line basis over the shorter of the asset's useful life and the term of the lease. Lease payments are recognized partly as payment of interest, and partly as repayment of the lease liability. The cash flow for repayment of the lease liability is included in financing activities. Payment for the interest portion is presented as other interest payments in operating activities.

Most of the group's right-of-use assets are premises leases. These lease arrangements are normally entered for fixed periods of up to 3 to 5 years, although may have extension options, as described below. The terms & conditions of each lease are negotiated separately, and contain a wide variety of different terms. The leases do not include any special conditions or restrictions implying that they could be terminated if conditions are not satisfied, but the leased assets may not be pledged as collateral for borrowing.

Assets and liabilities arising from leases are initially recognized at present value. The lease liability has been computed at discounted future obligations for existing arrangements attributable mainly to premises leases. The periods of leases applied are consistent with actual contractual remaining periods. Leases of less than 12 months are not included. Nor are leases on assets of low value (less than SEK 50,000). Payments for short-term lease contracts and leases of low value are expensed on a straight-line basis in profit or loss. Lease payments are discounted by the implicit interest rate in the arrangement. If interest cannot be measured easily, which is usually the case, the incremental borrowing rate is applied. The incremental borrowing rate is set by country, period and creditworthiness of each entity. Assets with right of use are measured at cost and include the following:

- the amount the lease liability was initially measured at
- lease payments paid at or prior to the start date after deducting for any benefits received in tandem with entering the lease
- initial direct expenditure
- expenditure to restore the assets of the condition specified in the terms of the lease

Impairment of intangible and tangible assets and right-of-use assets

Assets with an indefinite useful life such as goodwill and intangible assets that are not ready for use, are not amortized but instead subject to impairment tests at least yearly.

Assets that are depreciated or amortized are tested for impairment whenever events or changed circumstances indicate that carrying amount may not be recoverable. If so, the asset's recoverable amount is measured.

Recoverable amount is the greater of the value in use of the asset in operations and the value that would be retained if the asset was sold to

an independent party, net sales value. Value in use consists of the present value of all payments made and received related to the asset in the period it is expected to be used in operations, plus the present value of net sales value at the end of the useful life. For assets not giving rise to separate cash flow, such as right-of-use assets, value in use is determined, and thus recoverable amount, in total for the cash-generating unit to which the asset belongs. If the estimated recoverable amount is less than carrying amount, the asset is impaired to recoverable amount. The impairment is recognized in profit loss in the period it is established. More information on impairment tests is in note 13.

Previously recognized impairment is reversed only if a change to the assumptions that were the basis for measuring recoverable amount at impairment has occurred. If so, a reversal is made with the aim of increasing the book value of the impaired asset to its recoverable amount. A reversal of previous impairment is made at an amount that is the new book value so that the new book value does not exceed what the book value would have been (after depreciation/amortization) if no impairment had occurred. Goodwill impairment is never reversed.

Financial instruments

IFRS 9 has three core components: classification and measurement, impairment and hedge accounting. All financial instruments within Karo Pharma are classified and measured at amortized cost. For all the group's financial assets, the business model is hold to maturity, and contractual cash flows consist only of principal and interest.

Impairment of financial assets pursuant to IFRS 9 includes a model to measure expected credit losses. Karo Pharma applies the simplified approach to measure expected credit losses through over whole useful lives.

Financial assets recognized in the Balance Sheet mainly include accounts receivable and other receivables, as well as cash and cash equivalents on the assets side. On the liabilities side, there are non-current and current loan liabilities, and accounts payable. A financial asset or liability is recognized in the Balance Sheet when the company becomes party to its contract terms.

Apart from cash and cash equivalents, only an insignificant portion of financial assets are interest-bearing, and accordingly there is no statement of interest exposure.

Apart from cash and cash equivalents, only an insignificant portion of financial assets are interest-bearing, and accordingly there is no statement of interest exposure. Maximum credit risk corresponds to the book value of financial assets. The terms of long and short-term loans are stated in a separate note, and other financial liabilities are non-interest-bearing. A financial asset, or part of a financial asset, is derecognized when the rights in the agreement are realized or have expired. A financial liability, or part of a financial liability is derecognized when settled once the contractual obligation is satisfied or otherwise ceases.

Estimation of fair value of financial assets measured at fair value

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

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

Karo Pharma's finance policy stipulates that investment of the group's funds should be in financial instruments that are listed on active marketplaces. These financial instruments are divided into different risk categories with defined minimum standard credit ratings for each category.

The fair value of these financial instruments traded on an active marketplace is based on quoted market prices on the reporting date. A marketplace is considered active if quoted prices from a stock exchange or other body are readily and regularly available, and these prices represent real and regular market transactions executed on an arm's length basis.

Note 1 cont. – Accounting policies

Currency forward contracts

Karo Pharma can hedge known future cash flows in foreign currencies against large exchange rate fluctuations, in accordance with the company's finance policy. In this context, a certain level of security is necessary to consider potential transactions and associated cash flows. There were no outstanding currency forward contracts as of December 2019 or December 2020.

Inventories

Pursuant to IAS 2, goods in inventory should be valued at the lower of cost and net realisable value. The cost of goods in inventory must include all expenditure for procurement, expenditure for production and other expenditure necessary to bring the goods to their current site and condition.

In connection with the implementation of a new ERP system in 2020, Karo Pharma transferred to a new inventory valuation method. In those group companies where the system has been implemented, inventory is valued on the basis of a standard costing model, which includes the purchase price of finished goods and a computed cost for delivery into warehousing, quality testing and quality approval.

In other group companies, where the ERP system has not yet been implemented, inventory is measured using the first in first out (FIFO) method, at the lower cost or market on the reporting date. For homogeneous goods groups, collective valuation is applied.

A reserve for obsolescence in inventory is made when there is objective evidence to assume that the group will not be able to realize the value on future sales that the inventory is reported at. The size of this reserve is the difference between the asset's carrying amount and the value of estimated future cash flows. The reserved amount is recognized in profit or loss.

Accounts receivable and other receivables

Accounts receivable are reported net after reserving for expected credit losses. The expected maturity of accounts receivable is short, and accordingly, the value is recognized at nominal amount without discounting, pursuant to the amortized cost method. 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. For information on the credit loss reserve as of 31 December 2020, see note 18

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 20 and 30 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 2020, 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 (2019: 0.3). 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.

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 31.

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 ACCOUNTING POLICIES

The parent company observes the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. The application of RFR 2 means that in its annual accounts for the legal entity, the parent company applies all IFRS and statements endorsed by the EU as far as possible within the framework of the Swedish Annual Accounts Act and the Swedish Pension Obligations Vesting Act, and considering the relationship between accounting and taxation. The recommendation states the exemptions and supplements that should be made from/to IFRS.

Note 1 cont. – Accounting policies

Discrepancies between the group's and parent company's accounting policies are stated below.

Amended accounting policies 2020

In January 2020, the Swedish Financial Reporting Board issued a new version of RFR 2 Accounting for Legal Entities. The amendments to RFR 2 did not have any material impact on the parent company's financial statements.

Classification and presentation

The Income Statement and Balance Sheet comply with the formats of the Swedish Annual Accounts Act. This implies some difference from the consolidated accounts, with for example, the constituent items of equity having different nomenclature.

Shares and participations in subsidiaries

In the parent company, participations in subsidiaries are recognized according to the cost method. Acquisition-related expenses for subsidiaries, which are expensed in the consolidated accounts, are included as a portion of cost for participations in subsidiaries.

Contingent purchase considerations are measured on the basis of the likelihood that the consideration will be payable. Any changes to the provision/receivable are added to/subtracted from cost. In the consolidated accounts, contingent considerations are recognized at fair value, with changes in value in profit or loss. The carrying amount of participations in subsidiaries is subject to impairment test when indications of impairment arise.

Tax

The amounts provisioned to untaxed reserves are taxable temporary differences. Because of the relationship between accounting and taxation, the legal entity does not disclose the deferred tax liability related to the untaxed reserves separately. According to practice in Sweden, changes to untaxed reserves are recognized in profit or loss in individual

companies under the "appropriations" heading. In the Balance Sheet, the accumulated value of provisions, including deferred tax liability, is reported under the "untaxed reserves" heading.

Group contributions and shareholders' contributions

Shareholders' contributions paid are reported as an increase in the value of shares and participations. An assessment of whether the value of shares and participations in question is impaired is made subsequently.

Group contributions are accounted according to the alternative rule, which means that all group contributions, made and received, are recognized as appropriations.

Pensions

Defined benefit and defined contribution plans are recognized according to current Swedish accounting standards, which are based on the provisions of the Swedish Pension Obligations Vesting Act.

Leases

The parent company accounts lease arrangements to the extent they occur in accordance with RFR 2. 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 2 Revenues

Revenues in 2020 were SEK 2,882,867,000 (1,901,196,000), and were product sales. 32% (46) of this total consisted of Rx pharmaceuticals, and 65% (48) of OTC products.

Category	GROUP	
	2020	2019
SEK 000		
RX	924,200	869,894
OTC	1,863,571	913,404
Hospital Supply*	95,096	117,898
TOTAL	2,882,867	1,901,196

* Operation sold 1 December 2020

Reconciliation of gross to net sales	GROUP	
	2020	2019
SEK 000		
Gross sales	3,014,560	1,954,584
Discounts	-47,519	-28,095
Shared marketing	-71,493	-23,104
Other	-12,682	-2,190
REVENUES	2,882,867	1,901,196

Discounts: a reduction of the list price for a customer at purchase for any given reason

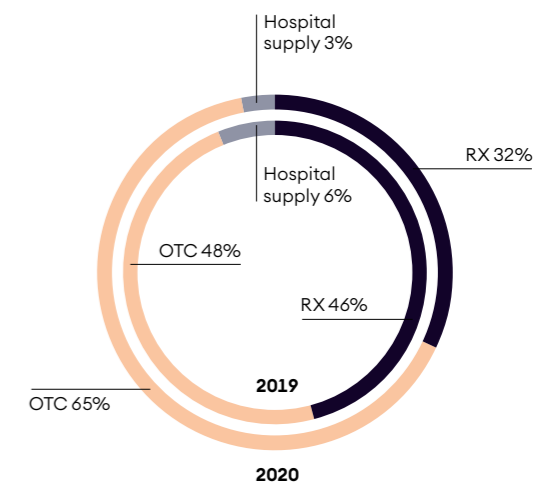
Shared marketing: an agreement where the customer is compensated for marketing products to end-customers, and where compensation depends on sales volumes.

Contract assets and contract liabilities

Karo Pharma reports accounts receivable when there is an unconditional right to payment for performance completed. Accrued income is recognized in respect of accrued fees and other compensation for performance completed, which had not been invoiced as of the reporting date. Payments related to advance-invoiced contracts are recognized as deferred income in the Balance Sheet.

Accrued income

Of the opening balance for the year of SEK 2,482,000, SEK 2,482,000 was reclassified as accounts receivable in 2020. No significant impairment of recognized accrued income had occurred by year-end. SEK 29,017,000 of income recognized in 2020 is included in accrued income at year-end.

**Deferred income**

Of the opening balance for the year of SEK 1,862,000, SEK 1,862,000 of revenue was recognized in 2020. SEK 0 of deferred income at the beginning of the year is included in advance-invoiced contracts in 2020.

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

	2020			2019		
	No.	Women	Men	No.	Women	Men
Average number of employees						
Parent company	1.0	0.0	1.0	1.9	0.6	1.3
Group companies						
Sweden	160.0	102.0	58.0	87.5	52.2	35.3
Denmark	9.0	6.0	3.0	6.6	5.3	1.3
Finland	6.0	3.5	2.5	3.8	2.0	1.8
Norway	27.0	18.0	9.0	19.0	14.3	4.7
Lithuania	4.0	2.0	2.0	0.9	0.9	0.0
Netherlands	21.0	13.0	8.0	8.8	6.0	2.8
Germany	10.0	4.0	6.0	0.6	0.3	0.3
Switzerland	2.0	2.0	0.0	-	-	-
UK	3.0	2.0	1.0	-	-	-
TOTAL	243.0	152.5	90.5	129.1	81.6	47.5

As of 31 December 2020, there were 192 (193) employees.

For the comparative year, the average number of employees of the Trimb group, acquired in 2019, has been computed for the period 12 September-31 December 2019.

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

SEK 000	2020			2019		
	Salaries and other benefits	Social security expenses including pension expenses	Total	Salaries and other benefits	Social security expenses including pension expenses	Total
Board of Directors and CEO						
Board of Directors	2,281	717	2,998	2,306	402	2,708
CEO	7,719	4,161	11,880	18,205	7,272	25,477
Other employees						
Parent company						
Sweden	3,231	1,335	4,566	16,577	5,163	21,740
Group companies						
Sweden	101,054	41,051	142,105	57,673	25,598	83,271
Denmark	11,485	1,191	12,676	6,466	674	7,140
Finland	6,834	1,224	8,058	3,216	733	3,949
Norway	27,301	5,413	32,714	23,593	6,084	29,677
Lithuania	1,132	174	1,306	412	46	458
Netherlands	17,796	3,331	21,127	7,277	2,077	9,354
Germany	10,078	1,531	11,609	872	90	962
Switzerland	3,126	647	3,773	-	-	-
UK	2,129	231	2,360	-	-	-
TOTAL	194,166	61,005	255,171	136,597	48,139	184,736

Compensation and other benefits to senior executives in 2020

	Board fees/Fixed salary	Variable remuneration	Other benefits	Other compensation ³⁾	Social security expenses	Pension expenses, incl. special employer's contribution	Total
Board of Directors							
Bo Jesper Hansen, Chairman of the Board	600	-	-	-	189	-	789
Erika Henriksson ¹⁾	300	-	-	-	94	-	394
Uta Kemmerich-Keil	from 25 May	181	-	-	57	-	238
Vesa Koskinen ¹⁾	300	-	-	-	94	-	394
Kristofer Tonström	from 25 May	181	-	-	57	-	238
Håkan Åström	300	-	-	-	94	-	394
Flemming Ørnskov	300	-	-	-	94	-	394
Eva Sjökvist Saers	to 24 May	119	-	-	37	-	156
	2,281	-	-	-	717	-	2,998
Senior executives							
Christoffer Lorenzen, Chief Executive Officer	4,719	3,000	7	-	2,428	1,733	11,887
Other senior executives ²⁾	12,656	4,010	453	3,273	5,379	3,938	29,709
Total senior executives	17,375	7,010	460	3,273	7,806	5,671	41,595
TOTAL	19,656	7,010	460	3,273	8,523	5,671	44,593

¹⁾ Erika Henriksson and Vesa Koskinen, Board members from EQT, have reported that they intend to donate each of their Board fees to aid organizations, or other charities, to counter the effects of the corona pandemic.

²⁾ In 2020, the average number of members of management apart from the CEO was nine, of which four were women.

³⁾ Other compensation is compensation via consulting fees to one senior executive in the year. The other senior executives receive compensation by salary.

More detail on the Board of Directors and group management is on pages 56-59.

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

Compensation and other benefits to senior executives in 2019

	Board fees/Fixed salary	Variable remuneration	Other benefits	Other compensation	Social security expenses	Pension expenses, incl. special employer's contribution	Total
Board of Directors							
Marianne Hamilton	to 13 Feb	24	-	-	8	-	32
Thomas Hedner	to 13 Feb	24	-	-	8	-	32
Per-Anders Johansson	to 13 Feb	24	-	-	8	-	32
Håkan Åström		300	-	255	174	-	729
Bo Jesper Hansen	from 14 Feb	504	-	-	158	-	662
Christoffer Lorenzen	14 Feb - 15 May	50	-	-	0	-	50
Erika Henriksson ¹⁾	from 14 Feb	239	-	-	75	-	315
Vesa Koskinen ¹⁾	from 14 Feb	239	-	-	0	-	239
Åsa Riisberg ¹⁾	14 Feb - 10 Dec	222	-	-	70	-	292
Eva Sjökvist Saers	from 16 May	189	-	-	59	-	248
Flemming Ørnskov	from 1 Oct	76	-	-	0	-	76
		1,892	-	-	255	560	2,707
Senior executives							
Peter Blom, Chief Executive Officer ²⁾	to 3 Apr	810	0	23	4,848	1,785	9,006
Ulf Mattsson, Chief Executive Officer ³⁾	4 Apr - 30 Jun				1,762	0	1,762
Christoffer Lorenzen, Chief Executive Officer	from 1 Jul	2,360	1,400	2	7,000	3,381	14,708
		3,170	1,400	25	13,610	5,166	2,105
							25,477
Other senior executives⁴⁾							
		8,458	2,706	207	3,350	3,573	20,978
TOTAL		13,520	4,106	232	17,215	9,298	4,790
							49,161

¹⁾ From 16 May, the Board members from EQT waived their fees in favor of Operation Smile.

²⁾ Peter Blom, CEO, has a 12-month notice period, with additional provision to pension as severance compensation.

³⁾ Consultant

⁴⁾ There were 8 other senior executives in the fourth quarter 2019.

Remuneration of the Board of Directors

The AGM on 25 May 2020 resolved that the Board of Directors should have seven members with no deputies, by re-electing Bo Jesper Hansen, Erika Henriksson, Vesa Koskinen, Flemming Ørnskov and Håkan Åström, and electing Kristofer Tonström and Uta Kemmerich-Keil. The AGM also re-elected Bo Jesper Hansen as Chairman. More detail on the Board of Directors is on pages 56-57.

Fees are payable to the Chairman of the Board, and members of the Board, in accordance with AGM resolution. According to AGM resolution 2020, the yearly Board fees was set at SEK 2,400,000. Of this total, SEK 600,000 (600,000) is the fee to the Chairman of the Board, and SEK 300,000 (300,000) to each of the other Board member. The Board members that work for EQT-Erika Henriksson and Vesa Koskinen have reported that they intend to donate their Board fees to aid organizations or other charities to counter the effects of the corona pandemic. All committee work was conducted by the whole Board, so no special committee fees were paid. To the extent a Board member render service on the company's behalf in addition to service on the Board, consulting fees should be payable on market terms.

No Board fees are payable to subsidiary Boards of Directors.

Remuneration of senior executives

Guidelines adopted by the AGM 2020 imply market principles as the overall basis of salary and other benefits to senior executives. Satisfactory performance should be compensated by basic salary. Variable com-

penation 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. Variable compensation may be a maximum of 125% of the CEO's basic salary, and 100% of other senior executives' basic salaries.

Other benefits may include non-monetary benefits such as company cars. Other benefits may be a maximum of 25% of the basic salary of the CEO, and other senior executives.

Additionally, senior executives enjoy pension benefits in pension plans comparable to ITP, similar to other employees. Pensionable salary is basic salary.

More detail on the group management is on pages 58-59.

Agreements on severance pay

A maximum 12-month notice period applies to termination from Karo Pharma's side. A maximum notice period of six months applies to termination from the CEO's or senior executive's side. On termination of employment from Karo Pharma's side, the CEO and other senior executives may be eligible for severance pay of up to a maximum of 12 months' basic salary. No severance pay should be payable on termination on the employee's side.

For more detail on applicable guidelines for remuneration of senior executives, see page 39-41.

Note 4 Operating expenses by cost class

Operating expenses are divided by cost class as follows:					
SEK 000	Note	GROUP		PARENT COMPANY	
		2020	2019	2020	2019
Depreciation/amortization/impairment		-494,644	-319,755	-272,358	-199,575
Payroll expenses		-262,300	-165,019	-8,332	-11,034
Rent, electricity and heating		-9,178	-11,978	-12,395	-3,377
External expenses		-585,001	-291,873	-266,214	-127,751
Other operating income and expenses	6	-13,920	-23,304	16,080	-1,192
		-1,365,044	-811,928	-575,381	-342,929
Cost of goods sold, SEK 000		2020	2019	2020	2019
Goods for resale		-1,287,516	-917,165	-426,642	-324,074
		-1,287,516	-917,165	-426,642	-324,074

Note 5 Depreciation, amortization and impairment

Depreciation/amortization/impairment are divided between Karo Pharma's functions and asset classes as follows:						
SEK 000	Function	Note	GROUP		PARENT COMPANY	
			2020	2019	2020	2019
	Selling expenses		-491,459	-301,842	-271,746	-183,803
	Administrative expenses		-3,185	-17,913	-612	-15,772
			-494,644	-319,755	-272,358	-199,575
	Asset class					
	Capitalized development expenses	13	-5,595	-873	-4,275	-307
	Licenses, product rights and trademarks	13	-472,457	-311,246	-244,303	-176,079
	Goodwill	13	-	-	-23,168	-23,168
	Equipment, buildings & land	14	-3,946	-2,583	-612	-21
	Right-of-use assets	28	-12,646	-5,053	-	-
			-494,644	-319,755	-272,358	-199,575

Note 6 Other operating income and expenses

SEK 000	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
Exchange gains/losses, net	-22,026	315	-16,825	-1,343
Acquisition expenses	-	-30,566	-	-
Municipal subsidies	-	40	-	-
Profit/loss from sale of participations in group companies	3,289	-	-	-
Other income and compensation	5,855	6,998	745	151
Capital gain/loss on sale of non-current assets	-1,038	-91	-	-
	-13,920	-23,304	-16,080	-1,192

Note 7 Interest income and other profit/loss items

SEK 000	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
Interest income, capital gain and dividends from investments in securities, etc.	359	1,708	-	719
Interest income, group companies	-	-	44,953	26,112
Exchange rate effects	16,791	1,629	21,591	-
	17,150	3,337	66,544	26,830

Note 8 Interest expenses and similar profit/loss items

SEK 000	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
Interest expenses, group companies	-	-	-326	-463
Interest expenses	-190,302	-153,831	-182,300	-144,441
Exchange rate effects	-	-5,019	-	-2,830
	-190,302	-158,850	-182,626	-147,734

Note 9 Income tax

SEK 000	GROUP				PARENT COMPANY			
	2020	%	2019	%	2020	%	2019	%
Reported earnings before tax	57,154		16,590		40,300		67,695	
Tax at nominal tax rate	-12,231	-21.4	-3,550	-21.4	-8,624	-21.4	-14,487	-21.4
Tax effect of foreign tax rates	3,765	6.6	-2,379	-14.3	-	-	-	-
Tax effect of changed tax rates, Norway	-	-	-	-	-	-	-	-
Tax effect of changed tax rates, Sweden	399	0.7	-	-	283	0.7	-	-
Tax effect of deductible, non-expensed items	-	-	6,712	40.4	-	-	6,712	9.9
Tax effect of adjustment of previous year's tax	5,816	10.2	-41	-0.2	-	-	-	-
Tax effect of other non-deductible items	-15,205	-26.6	-7,603	-45.8	-239	-0.6	-680	-1.0
Tax effect of non-taxable income	19,001	33.2	5,900	35.6	1,925	4.8	-	-
Tax effect of tax-related depreciation and amortization	-	-	10,137	61.1	-	-	8,484	12.5
Tax effect of interest deduction limitation rules	-2,711	-4.7	-4,063	-24.5	-	-	-	-
Tax effect of tax assets not assigned value	22,555	39.5	1,909	11.5	-	-	-	-
Tax effect of tax liability not previously assigned value	-	-	-21,989	-132.5	-	-	-21,989	-32.5
Tax effect of tax assets recognised as assets	4,373	7.7	7,398	44.5	-	-	6,190	9.2
Other tax effects	-11	-	-80	-0.5	-	-	-29	-0.0
RECOGNIZED TAX EXPENSES	25,751	45.1	-7,649	-46.1	-6,655	-16.5	-15,799	-23.3

The tax expense consists of the following components:

SEK 000	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
Current tax:				
On earnings for the year	-3,663	-10,416	-	-
Adjustment of previous year's tax	5,816	-41	-	-
Total current tax	2,153	-10,457	-	-
Deferred tax:				
Change in temporary differences	38,868	-2,516	-	-21,989
Increase in deductible loss carry-forwards	18,196	16,695	-	6,190
Use of deductible loss carry-forwards	-33,467	-11,371	-6,655	-
Total deferred tax	23,597	2,808	-6,655	-15,799
TOTAL REPORTED TAX	25,751	-7,649	-6,655	-15,799

As of 31 December 2020, there were deductible loss carry-forwards of approximately SEK 3,275 m (3,438) in the group and SEK 2,369 m (2,402) 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 of the Trimb group, because after the acquisition, earnings capacity is good, and these accumulated loss carry-forwards are considered usable. See also the note 22 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.

	2020	2019
Number of outstanding shares (000)		
At beginning of year	222,568	161,868
Average	222,608	174,477
At end of year	223,094	222,568
Earnings per share		
Earnings attributable to equity holders of the parent	82,049	8,890
Weighted average number of outstanding shares (000)	222,608	174,477
Basic earnings per share, SEK	0.37	0.05
Diluted earnings per share, SEK	0.37	0.05

Note 11 Acquisitions and divestments**2020**

On 1 December 2020, Karo Pharma AB divested its hospital supply operation, Swereco AB, to J2L Holding AB. Karo Pharma's commercial focus is on everyday health, with brands in OTC pharmaceuticals, self-care products and Rx pharmaceuticals sold in pharmacies and food stores. Consequently, the Hospital Supply business unit, which supplies products for rehabilitation, intensive care, diabetes treatment and surgery under the Swereco® brand and several other license brands directly to hospitals and regional authorities, was non-core business.

Until its divestment, the Hospital Supply business unit generated revenue of SEK 95 m in 2020. J2L acquired all the shares of Swereco for SEK 150 m on a cash and debt-free basis. The realized net gain after the investment was SEK 5m. The effect on cash flow was SEK 151 m.

The effect of the Hospital Supply operation on the consolidated financial statements for 2020 and 2019 is summarized below.

SEK 000	2020	2019
Income	95,096	117,898
Expenses	-81,402	-94,142
EARNINGS BEFORE TAX	13,694	23,756

Cash flow summary	2020	2019
Cash flow from operating activities	4,658	8,056
Cash flow from investing activities	-1,608	0
Cash flow from financing activities	0	0
CASH FLOW	3,050	8,056

Note 11 cont. – Acquisitions and divestments**2019**

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 licenses 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 estimates 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 realized 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, recognized 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 subsidiaries	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 companies	78,300
Total cash flow from business combinations	-2,456,377

Note 12 Asset acquisitions and divestments

On 2 March, a product portfolio was acquired from Leo Pharma, including all related intellectual property and assets, including the necessary licenses and permits, and existing inventory, for EUR 90 million. The acquired portfolio is expected to generate yearly sales of some SEK 300 m.

On 8 May, Karo Pharma also acquired the remaining European rights to the Pevaryl® product portfolio from Cilag GmbH International, a Janssen Pharmaceuticals company in the Johnson & Johnson group, for EUR 58 m. The acquisition was completed on 8 May 2020. This transaction consolidates ownership of the Pevaryl® product family, consisting of Pevaryl®, Epi-Pevaryl®, Gyno-Pevaryl® and Pevisone® in Europe, into Karo Pharma. The acquired portfolio is expected to generate yearly sales of some SEK 200 m.

On 1 April 2020, Karo Pharma acquired Hygis SA, a Swiss distribution company with exclusive rights to sell Karo Pharma's MultiGyn® and Multi-Mam® brands on the Swiss market, for approx. SEK 13.5 m. This acquisition brings Karo Pharma control over direct sales of these brands, and Karo Pharma expects the two brands to achieve yearly sales of SEK 14 m in Switzerland.

On 1 July 2020, Karo Pharma sold the three brands Digoxin®, Egazil® and Suscard® to Evolan, because assuring their production had proved problematic.

From a patient and societal perspective, Karo Pharma made the assessment that it was better to sell, rather than discontinue these products. The total sales of these three brands in 2019 was SEK 13 m.

Note 13 Goodwill, products, trademarks, licenses and similar rights

SEK 000	GROUP								
	2020					2019			
	Licenses, product rights and trademarks	Capitalized development expenditure	Goodwill	Work in progress	Total	Licenses, product rights and trademarks	Capitalized development expenditure	Goodwill	Total
Opening cost	6,289,318	6,397	3,421,905	-	9,717,620	3,878,864	2,243	1,873,187	5,754,294
Increase through business combinations	-	-	-	-	-	2,375,141	1,431	1,526,858	3,903,430
Purchases in the year	1,637,672	42,322	-	5,270	1,685,265	29,452	2,444	-	31,896
Sale/retirement	-74,506	-3,805	-	-	-78,311	-15,000	-	-	-15,000
Sale of operations	-38,010	-	-82,381	-	-120,391	-	-	-	-
Reclassifications	-34,608	42,753	-	-	8,145	-255	255	-	-
Translation difference	-115,312	-413	-75,638	-226	-191,589	21,116	24	21,860	43,000
Closing accumulated cost	7,664,554	87,254	3,263,886	5,044	11,020,739	6,289,318	6,397	3,421,905	9,717,620
Opening amortization	-626,153	-1,373	-	-	-627,526	-329,105	-500	-	-329,605
Amortization for the year	-472,457	-5,595	-	-	-478,052	-251,471	-508	-	-251,979
Impairment for the year	-	-	-	-	-	-44,775	-365	-	-45,140
Sale/retirement	41,421	3,382	-	-	44,803	-	-	-	-
Sale of operations	12,360	-	-	-	12,360	-	-	-	-
Reclassifications	-	-2,062	-	-	-2,062	-	-	-	-
Translation difference	58,956	261	-	-	59,217	-802	-	-	-802
Closing accumulated amortization	-985,873	-5,388	-	-	-991,261	-626,153	-1,373	-	627,526
CLOSING RESIDUAL VALUE	6,678,681	81,867	3,263,886	5,044	10,029,478	5,663,165	5,024	3,421,905	9,090,094

SEK 000	PARENT COMPANY							
	2020				2019			
	Licenses, product rights and trademarks	Capitalized development expenses	Goodwill	Total	Licenses, product rights and trademarks	Capitalized development expenses	Goodwill	Total
Opening cost	2,509,267	2,930	347,518	2,859,715	2,498,435	728	347,518	2,846,681
Purchases in the year	1,622,804	42,322	-	1,665,126	26,087	1,947	-	28,034
Sale/retirement	-	-	-	0	-15,000	-	-	-15,000
Reclassifications	-33,215	39,784	-	6,569	-255	255	-	-
Closing accumulated cost	4,098,856	85,036	347,518	4,531,410	2,509,267	2,930	347,518	2,859,715
Opening amortization	-364,773	-708	-40,544	-406,025	-203,694	-401	-17,376	-221,471
Amortization for the year	-244,303	-4,276	-23,168	-271,747	-161,079	-307	-23,168	-184,554
Closing accumulated amortization	-609,077	-4,983	-63,712	-677,772	-364,773	-708	-40,544	-406,025
CLOSING RESIDUAL VALUE	3,489,779	80,053	283,806	3,853,638	2,144,493	2,222	306,974	2,453,690

Note 13 cont. – Goodwill, products, licenses and similar rights**Cash-generating units**

In 2020, Karo Pharma's cash generating units changed as a result of the integration of businesses with shared resources and the incorporation of sales companies in several European countries. A new division was made between Rx (prescription pharmaceuticals) and OTC (over-the-counter) products—whose main customers are pharmacies. Comparative figures

have been restated. The allocation of assets and financial monitoring of these entities is by grouping existing brands in each category. In 2019 and until 1 December 2020, there were also assets in the hospital supply a category, which was subsequently divested.

Goodwill per cash-generating unit, group	2020	2019	Product rights per cash-generating unit, group	2020	2019
Rx	203,216	217,943	Rx	2,453,338	1,470,555
OTC	3,060,670	3,121,581	OTC	4,225,343	4,164,633
Hospital Supply (operation sold 1 December 2020)	-	82,381	Hospital Supply (operation sold 1 December 2020)	-	27,977
Total goodwill, group	3,263,886	3,421,905	Total value, licenses and product rights	6,678,681	5,663,165

Product right	Cash-generating unit	Book value	Remaining amortization period
Acquisition of product portfolio from Leo Pharma, April 2018	Rx & OTC	1,899,718	13 yr.
Acquisition of product portfolio from Leo Pharma, March 2020	Rx & OTC	945,111	14 yr.
Acquisition of product portfolio from J&J May 2020	Rx & OTC	594,449	14 yr.
Acquisition of product portfolio from Trimb, September 2020	Rx & OTC	2,202,209	18 yr.
Other	Rx & OTC	1,037,194	13-20 yr.
Total value, licenses and product rights		6,678,681	

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 average estimated growth rate of 2% (3) for the product portfolio per year. Applying a weighted average cost of capital (WACC before tax) of 8.5% (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 2% to 0% per year, recoverable amount would still exceed the carrying amounts of all the tested units. The company has concluded 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 14 | Equipment, buildings and land, etc..

SEK 000	GROUP							
	2020				2019			
	Equipment	Buildings and land	Construction in progress and advances	Total	Equipment	Buildings and land	Construction in progress and advances	Total
Opening cost	23,409	9,682	1,640	34,731	17,163	9,682	1,835	28,680
Increase through business combinations	-	-	-	-	3,846	-	-	3,846
Purchases in the year	9,865	76	11,480	21,421	1,521	-	1,130	2,651
Sales and retirements	-3,193	-	-	-3,193	-538	-	-	-538
Sale of operations	-5,154	-9,758	-	-14,912	-	-	-	-
Reclassifications	-2,390	-	-7,148	-9,538	1,325	-	-1,325	-
Translation difference	-714	-	-230	-944	92	-	-	92
Closing accumulated cost	21,823	-	5,742	27,565	23,409	9,682	1,640	34,731
Opening depreciation	-12,738	-1,367	-	-14,105	-10,930	-957	-	-11,887
Sales and retirements	2,461	-	-	2,461	377	-	-	377
Sale of operations	2,950	1,764	-	4,714	-	-	-	-
Depreciation for the year	-3,549	-397	-	-3,946	-2,172	-410	-	-2,582
Reclassifications	2,062	-	-	2,062	-	-	-	-
Translation difference	290	-	-	290	-13	-	-	-13
Closing accumulated depreciation	-8,524	-	-	-8,524	-12,738	-1,367	-	-14,105
CLOSING RESIDUAL VALUE	13,299	-	5,742	19,041	10,671	8,315	1,640	20,626

SEK 000	PARENT COMPANY					
	2020			2019		
	Equipment	Construction in progress and advances	Total	Equipment	Construction in progress and advances	Total
Opening cost	11,064	1,061	12,125	11,178	96	11,274
Purchases in the year	8,869	5,508	14,377	-	965	965
Sales and retirements	-	-	-	-114	-	-114
Reclassifications	-	-6,569	-6,569	-	-	-
Closing accumulated cost	19,933	-	19,933	11,064	1,061	12,125
Opening depreciation	-11,028	-	-11,028	-11,121	-	-11,121
Sales and retirements	-	-	-	114	-	114
Depreciation for the year	-612	-	-612	-21	-	-21
Closing accumulated depreciation	-11,640	-	-11,640	-11,028	-	-11,028
CLOSING RESIDUAL VALUE	8,293	-	8,293	36	1,061	1,097

Note 15 | Participations in group companies

SEK 000	PARENT COMPANY							
	2020				2019			
	Opening cost	Purchase	Sale	Shareholders' contribution paid	Opening impairment	Impairment for the year	Sale	Closing accumulated impairment
	5,166,709	13,608	-29,641	90,523	-38,305	-	29,054	5,241,199
Closing accumulated cost	5,241,199							5,166,709
Closing accumulated impairment	-9,250				-38,305	-2,821		-38,305
CLOSING BOOK VALUE	5,231,948							5,128,404

Name	Registered office	Corp. ID no.	participating interest	No. of participations	Book value	Equity	Net profit/loss
Karo Pharma AG (corporate name changed from Hygis SA)	Steinhausen, Switzerland	CHE-109.884.033	100%	10,010	13,545	2,377	802
Karo Pharma UK Ltd	Guildford	11784588	100%	1,000	63	-505	-597
Karo Pharma Sweden AB	Stockholm, Sweden	556767-3784	100%	157,011	388,746	232,096	82,949
Bio Phausia AB	Stockholm, Sweden	556485-0153	100%	342,564,194	928,973	150,409	-682
Karo Pharma Norge AS	Oslo, Norway	983.733.506	100%	36,472,069	1,334,994	1,185,988	77,234
Karo Pharma ApS	Copenhagen, Denmark	39.503.778	100%	2,000	281	1,085	6,296
Karo Pharma Oy	Åbo, Finland	2915559-1	100%	10,000	104	3,138	1,846
Trimb Holding AB	Stockholm, Sweden	559018-4148	100%	2,544,839	2,565,243	1,339,377	52,059
TOTAL BOOK VALUE IN GROUP COMPANIES					5,231,948		

Indirect holdings

Name	Registered office	Corp. ID no.	participating interest	No. of participations	Equity	Net profit/loss
Karo Pharma AS	Oslo, Norway	917 296 200	100%	6,798,000	125,209	82,170
Trimb Healthcare AB	Stockholm, Sweden	556893-0795	100%	318,737	574,830	-32,371
Trimb Norway AS	Oslo, Norway	921 594 194	100%	3,000	-2,983	2,226
CCS Skincare Brands AB	Solna, Sweden	559170-0082	100%	50,000	1,237	-16,909
Independent Beauty AB	Stockholm, Sweden	559121-8473	80%	50,000	12,208	4,285
Frasen AB	Kungälv, Sweden	556888-0412	100%	500	387	130
Trimb Netherlands BV	Amsterdam	63 994 437	100%	10,000	47,329	-75,950
YouMedical BV	Amsterdam	55 302 394	100%	180	115,817	14,274
Bioclin BV	Delft	27 229 261	100%	400	-47,223	479
Bioclin Asia	Bangkok	0105553081865	99%	20,000	1,125	-770
UAB Trimb	Kaunas	303208187	100%	100	-1,828	902
Karo Pharma GmbH	Krailling	HRB 250663	100%	1	848	3,923

Note 16 | Other financial assets

SEK 000	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
Guarantees and deposits	2,011	1,157	51	50
Receivables, group companies	-	-	1,139,377	304,173
Non-current receivables, other	215	1,588	-	-
CLOSING ACCUMULATED COST	2,226	2,745	1,139,428	304,223

Note 17 | Inventories

SEK 000	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
Finished goods	441,714	389,372	139,678	91,274
Input goods	9,795	5,904	8,740	5,751
CLOSING BOOK VALUE	451,509	395,276	148,418	97,026

An SEK 14,154,000 (6,822,000) reserve for obsolescence is included in the group's value of inventory. No material change to obsolescence, and no material impairment, occurred during the current or previous

financial years. Only an insignificant portion of inventory is measured at net sales value.

Note 18 Accounts receivable				
SEK 000	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
Not overdue	418,302	423,856	157,205	96,378
Overdue 1-30 days	155,315	52,725	60,252	24,078
Overdue 31-60 days	11,517	2,291	2,086	2,297
Overdue 61-90 days	4,473	2,709	1,549	2,019
Overdue >90 days	9,151	-	5,471	-
Credit loss reserve	-2,415	-	-875	-
CLOSING BOOK VALUE	596,343	481,582	225,688	124,773

Karo Pharma applies the simplified method for calculation of expected credit losses, which means that expected credit losses are computed as a percentage on the basis of a number of different time categories.

The fair value of accounts receivable is consistent with carrying amounts. The credit quality of unreserved receivables is considered good. The year's change in the credit loss reserve and the impact on operating profit amount to SEK -2,415 (0) thousand.

The interest income on accounts receivable was SEK 0 (0) thousand in the year.

Note 19 Prepaid expenses and accrued income				
SEK 000	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
Prepaid insurance	763	839	262	-
Prepaid bank charges	733	5,102	733	5,102
Prepaid licenses and other IT-related expenses	5,509	2,117	4,778	-
Goods in transit	-	747	-	747
Accrued income	29,017	2,482	27,844	1,548
Other items	13,045	4,232	7,017	147
	49,067	15,519	40,634	7,544

Note 20 Cash and cash equivalents				
Amount as of 31 December, SEK 000	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
Cash and bank balances	570,391	248,806	103,410	61,557
	570,391	248,806	103,410	61,557

Note 21 Equity				
Total no. of shares	2020		2019	
	2020	2019	2020	2019
As of 1 January	225,033,204	164,332,782	2,464,990	2,464,990
New share issue	-	60,700,422	-	-
AS OF 31 DECEMBER	225,033,204	225,033,204	1,939,689	2,464,990

No. of outstanding shares ¹⁾	2020		2019	
	2020	2019	2020	2019
Total number of shares	225,033,204	225,033,204	90,013,282	65,733,113
Shares in treasury	-1,939,689	-2,464,990	-	24,280,169
TOTAL	223,093,515	222,568,214	90,013,282	90,013,282

Quota value, SEK 0.40 0.40

¹⁾ Based on AGM authorization, Karo Pharma sold 525,301 treasury shares in 2020 to increase the company's financial flexibility. Total compensation for sold treasury shares was SEK 31,051,000 in the year. The transfers were on Nasdaq Stockholm. There were 1,939,689 (2,464,990) remaining shares in treasury as of 31 December 2020, which is 0.9% (1.1) of the share capital.

Note 21 cont. – Equity

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 2020 and 2019 was as follows:

SEK 000	2020	2019
Total borrowing	5,847,723	4,338,813
Less: cash and cash equivalents	-570,391	-248,806
Less: investments in securities, etc.	-2,226	-2,745
Net debt	5,275,106	4,087,262
Total equity	5,638,490	5,641,908
Total capital	12,517,499	10,898,530
Debt/equity ratio	42%	38%

Note 22 | Deferred tax

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

SEK 000	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
Deferred tax assets:				
Deferred tax assets estimated to be utilized	685,282	717,711	488,060	494,715
	685,282	717,711	488,060	494,715
Offset	-	-117,113	-	-
ACCOUNTED DEFERRED TAX ASSET	685,282	600,598	488,060	494,715
Deferred tax liabilities:				
Deferred tax liabilities on temporary differences	-527,192	-586,497	-21,989	-21,989
	-527,192	-586,497	-21,989	-21,989
Offset	-	117,113	-	-
ACCOUNTED DEFERRED TAX LIABILITY	-527,192	-469,384	-21,989	-21,989

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

SEK 000	GROUP 2020			GROUP 2019			PARENT COMPANY 2020			PARENT COMPANY 2019		
	Receivables	Liabilities	Net	Receivables	Liabilities	Net	Receivables	Liabilities	Net	Receivables	Liabilities	Net
Intangible/tangible non-current assets	-	-524,885	-524,885	-	-584,191	-584,191	-	-21,989	-21,989	-	-21,989	-21,989
Untaxed reserves	-	-2,306	-2,306	-	-2,306	-2,306	-	-	-	-	-	-
Loss carry-forwards	685,282	-	685,282	717,310	-	717,310	488,060	-	488,060	494,715	-	494,715
Other	-	-	-	401	-	401	-	-	-	-	-	-
TAX ASSETS AND LIABILITIES, NET	685,282	-527,192	158,091	717,711	-586,497	131,214	488,060	-21,989	466,071	494,715	-21,989	472,726

Note 22 cont. – Deferred tax

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 December 2019	-584,191	-2,306	717,310	401	131,214
Sale of operations	5,284	-	-1,032	-276	3,976
Translation difference	15,162	-	-15,858	-	-696
Tax recognized in comprehensive income	-	-	-	-	-
Recognition in income statement	38,860	-	-15,138	-125	23,597
AS OF 31 DECEMBER 2020	-524,885	-2,306	685,282	-	158,091

SEK 000	Intangible assets	Untaxed reserves	Loss carry-forwards	Other	Total
As of 31 December 2018	-239,207	-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
Tax recognized in comprehensive income	-	-	6,711	-	6,711
Recognition in income statement	-21,470	5,582	19,634	-938	2,808
AS OF 31 DECEMBER 2019	-584,191	-2,306	717,310	401	131,214

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 December 2019	-21,989	-	494,715	-	472,726
Recognition in income statement	-	-	-6,655	-	-6,655
AS OF 31 DECEMBER 2020	-21,989	-	488,060	-	466,071

SEK 000	Intangible assets	Untaxed Reserves	Loss carry-forwards	Other	Total
As of 31 December 2018	-	-	481,814	-	481,814
Tax recognized in comprehensive income	-	-	6,711	-	6,711
Recognition in income statement	-21,989	-	6,190	-	-15,799
AS OF 31 DECEMBER 2019	-21,989	-	494,715	-	472,726

The group has deductible deficits totaling SEK 3,274,902,000 (3,454,565,000), which corresponds to a value for tax purposes of a total of SEK 685,548,000 (718,529,000). The group has deferred tax assets relating to loss carry-forwards not recognized in its Balance Sheet of SEK 267,000 (1,219,000). The deferred tax assets on loss carry-forwards recognized in the Balance Sheet of SEK 685,282,000 (717,310,000) are those the company estimates that it will be able to utilize in the foreseeable future. In its assessment of the possibility of utilizing loss carry-for-

wards, consideration had been taken to factors limiting Karo Pharma's scope to utilize loss carry-forwards.

A significant factor for Karo Pharma is that there is no opportunity to use loss carry-forwards between different jurisdictions, and limitation rules such as restrictions regarding of group contributions. See also note 9, loss carry-forwards. The group's existing loss carry-forwards have no time limitation.

Note 23 Financial liabilities

SEK 000	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
Amounts as of 31 December				
Within one year	4,719,920	3,090,429	4,687,419	3,064,512
Between two and five years	1,130,351	1,251,118	1,010,712	1,128,243
Later than five years	-	-	-	-
	5,850,271	4,341,548	5,698,131	4,192,755
Liabilities to credit institutions	5,799,175	4,330,264	5,698,105	4,192,729
Lease liabilities	48,548	8,549	-	-
Deposit	26	26	26	26
Provisions	2,522	2,709	-	-
	5,850,271	4,341,548	5,698,131	4,192,755
Overdraft limit	200,000	200,000	200,000	200,000
- of which unused portion	200,000	200,000	200,000	200,000

The group has five loans with different maturities and interest terms. Four short-term loans, all of which mature in June 2021. One SEK 1,000 m loan that accrues STIBOR +2.0% interest. The second, a SEK 2,000 m loan, accrues 2.0% interest. The third, a SEK 875 m loan, accrues 2.0% interest, and the fourth short-term loan, a SEK 750 m loan, that accrues 2% interest. The fifth loan is a five-year loan divided into two currencies, SEK 648 m and NOK 468 m, with the SEK portion accruing STIBOR 3.5% and the NOK portion accruing NIBOR 4.02%, which was entered in April 2018. In addition to these loans, Karo Pharma also had an SEK 200 m overdraft

facility as of 31 December 2020, and an RCF of SEK 750 m, both of which were unused at year-end.

The terms of the above loans require the company to satisfy specific covenants, see below. In 2020, 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	
	2020	2019	2020	2019
2020	-	3,177,846	-	3,153,695
2021	4,821,851	91,918	4,786,584	67,767
2022	147,081	90,985	113,377	66,834
2023	981,150	1,134,289	948,094	1,110,138
2024	31,557	24,151	-	-
2025	23,243	-	-	-
	6,004,882	4,519,190	5,848,055	4,398,434

Collateral of SEK 5,292 m (5,290) 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 6,005 m (4,519), compared to carrying amount of SEK 5,872 m (4,372).

Note 24 Other current liabilities

SEK 000	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
Value added tax, withholding tax, etc.	71,546	48,236	3,832	178
	71,546	48,236	3,832	178

SEK 000	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
Accrued personnel-related items	43,034	32,253	634	367
Delivered, not invoiced	48,311	19,533	7,490	-
Accrued interest expenses	9,502	8,816	9,432	8,816
Accrued product tax	10,639	8,726	9,316	8,726
Accrued customer returns for product expiration	3,838	607	3,838	607
Accrued expenses for organizational development	2,016	9,514	2,016	9,514
Accrued auditing expenses	2,909	2,243	1,800	1,238
Accrued accounting services	701	1,049	-	-
Accrued shipping & distribution expenses	4,966	2,784	1,286	565
Accrued expenses for market support and kickbacks	26,251	22,349	7,163	-
Accrued royalties	15,634	3,609	9,257	-
Deferred income	-	1,862	-	-
New share issue expenses	-	5,678	-	5,678
Other items	26,667	62,239	6,802	9,386
	194,468	181,262	59,034	44,897

SEK 000	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
Pledged assets for liabilities to credit institutions				
Shares in subsidiaries	5,197,704	5,195,712	5,217,956	5,127,434
Corporate mortgages	94,250	94,250	-	-

SEK 000	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
Items not affecting liquidity, other:				
Capital gain non-current assets	1 113	140	-	-
Other items	-4 517	-347	-	-
	-3 404	-207	-	-
Interest received	359	1 537	36 367	26 414
Interest paid	-146 686	-105 220	-139 696	-104 224
Loan arrangement fee paid	-34 762	-30 350	-34 762	-30 350

SEK 000	Cash and cash equivalents	Other financial assets	Liabilities to credit institutions	Lease liabilities	Total
Group – reconciliation of net debt					
Net debt as of 1 January 2020	248,806	2,745	-4,330,264	-8,549	-4,087,262
Cash flows:					
– Loans arranged/repaid	-	-	-1,526,020	13,435	-1,512,585
– Payments made and received, other	328,424	1,101	-	-	329,525
Non-cash items:					
– Additional lease arrangements	-	-	-	-53,996	-53,996
– Exchange differences	-6,839	-70	64,875	561	58,528
– Allocated loan arrangement expenses	-	-	-9,064	-	-9,064
– Other non-cash items	-	-1,550	1,297	-	-252
NET DEBT AS OF 31 DECEMBER 2020	570,391	2,226	-5,799,175	-48,548	-5,275,106

SEK 000	Cash and cash equivalents	Other financial assets	Liabilities to credit institutions	Lease liabilities	Total
Group – reconciliation of net debt					
Net debt as of 1 January 2019	398,580	136	-2,903,246	0	-2,504,530
Cash flows:					
– Loans arranged/repaid	-	-	-210,401	4,870	-205,531
– Payments made and received, other	-150,220	806	-	-	-149,414
Non-cash items:					
– Additional lease arrangements	-	-	-	-11,842	-11,842
– Exchange differences	446	-36	-22,861	-230	-22,680
– Allocated loan arrangement expenses	-	-	12,606	-	12,606
– Other non-cash items	-	1,839	-1,206,363	-1,347	-1,205,870
NET DEBT AS OF 31 DECEMBER 2019	248,806	2,745	-4,330,264	-8,549	-4,087,262

SEK 000	Cash and cash equivalents	Other financial assets	Liabilities to credit institutions	Non-current liabilities to group companies	Total
Parent company – reconciliation of net debt					
Net debt as of 1 January 2020	61,557	304,223	-4,192,730	-12,946	-3,839,896
Cash flows:					
– Loans arranged/repaid	-	-133,686	-1,548,581	12,946	-1,669,321
– Payments made and received, other	41,854	-	-	-	41,854
Non-cash items:					
– Exchange differences	-	-29,992	51,584	-	21,592
– Allocated loan arrangement expenses	-	-	-8,378	-	-8,378
– Other non-cash items	-	998,883	-	-	998,883
NET DEBT AS OF 31 DECEMBER 2020	103,410	1,139,428	-5,698,105	-	-4,455,266

SEK 000	Cash and cash equivalents	Other financial assets	Liabilities to credit institutions	Non-current liabilities to group companies	Total
Parent company – reconciliation of net debt					
Net debt as of 1 January 2019	198,004	358,587	-2,906,115	-12,609	-2,362,133
Cash flows:					
– Loans arranged/repaid	-	-66,938	-1,271,979	-	-1,338,917
– Payments made and received, other	-136,548	30	-	-	-136,518
Non-cash items:					
– Exchange differences	101	12,544	-27,995	-	-15,350
– Allocated loan arrangement expenses	-	-	13,359	-	13,359
– Other non-cash items	-	-	-	-337	-337
NET DEBT AS OF 31 DECEMBER 2019	61,557	304,223	-4,192,730	-12,946	-3,839,896

Note 28 | Leases

The following amounts are recognized in the Consolidated Balance Sheet related to leases.

SEK 000	GROUP	
	31 December 2020	31 December 2019
Right-of-use assets		
Premises	49,495	7,351
Vehicles	928	2,056
Total	50,423	9,407
Lease liabilities		
Non-current	36,201	5,924
Current	12,347	2,625
	48,548	8,549

For information on the maturity structure of lease liabilities, see note 30. Right-of-use assets additional in 2020 amounted to SEK 54,237,000 (1,347,000). The Income Statement discloses the following amounts related to leases:

SEK 000	GROUP	
	2020	2019
Amounts recognized in Consolidated Income Statement		
Amortization of right-of-use assets		
– Premises	11,312	4,185
– Vehicles	1,333	868
Total amortization	12,646	5,053
Interest expenses for lease liability	2,475	597
Expenses related to short-term leases	1,449	1,652
Total expenses related to leases	16,570	7,302

Total cash flow related to leases was SEK 15,197,000 (7,078,000). Future obligations related to short-term leases (excluding the measurement of right-of-use assets and lease liability), amount to SEK 639,000 (5,283,000) as of 31 December 2020.

Operating leases

Effective 1 January 2019, leases are recognised in accordance with the IFRS 16 Leases. The parent company does not use IFRS 16, and lease payments are allocated on a straight-line basis over the lease term. Accordingly, right-of-use assets and lease liabilities are not reported in the Parent Company Balance Sheet. The parent company's operating leases mainly consist of rented premises.

SEK 000	PARENT COMPANY	
	2020	2019
Operating lease payments for the year are for:		
Premises rent	8,834	2,543
Other lease payments	-	-
	8,834	2,543

SEK 000	PARENT COMPANY	
	31 December 2020	31 December 2019
Future minimum operating lease payments payable:		
Within one year	11,731	8,950
Later than one year but within five years	36,468	44,344
Later than five years	0	2,771
	48,199	56,065

Note 29 | Audit fees

SEK 000	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
EY				
Auditing	7,618	2,471	3,416	2,471
Auditing in addition to audit assignment	566	-	486	-
Tax consultancy	2,528	81	2,194	81
Other	1,537	20,929	1,139	20,929
Total, EY	12,249	23,481	7,235	23,481
PWC				
Auditing	-	1,405	-	1,405
Other	-	3,079	-	3,079
Total PwC	-	4,484	-	4,484
Other audit firms				
Auditing	-	1,253	-	-
Total, other audit firms	-	1,253	-	-
TOTAL FEES TO AUDITORS	12,249	29,218	7,235	27,965

Note 30 | Financial instruments, risks and sensitivity analysis

Financial instrument per category		Financial assets – amortized cost	Total
31 December 2020 (SEK 000)			
Assets in Balance Sheet			
Accounts receivable and other receivables		622,743	622,743
Cash and cash equivalents		570,391	570,391
		1,193,135	1,193,135
31 December 2020 (SEK 000)			
Liabilities in Balance Sheet			
Liabilities to credit institutions		5,799,175	5,799,175
Lease liabilities		48,548	48,548
Accounts payable and other liabilities (excl. non-financial liabilities)		303,689	303,689
		6,151,412	6,151,412
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	764,264
31 December 2019 (SEK 000)			
Liabilities in Balance Sheet			
Liabilities to credit institutions		4,330,264	4,330,264
Lease liabilities		8,549	8,549
Accounts payable and other liabilities (excl. non-financial liabilities)		252,758	252,758
		4,591,570	4,591,570

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

Note 30 cont. – Financial instruments, risks and sensitivity analysis

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 2020 (SEK 000)					
Accounts payable and other liabilities (excl. non-financial liabilities)	303,689	-		303,689	303,689
Loans, credit institutions	4,807,104	1,102,414	40,943	5,950,461	5,799,175
Lease liabilities	14,747	25,817	13,857	54,421	48,548
	5,125,540	1,128,231	54,800	6,308,571	6,151,412
31 December 2020 (SEK 000)	Not overdue	Overdue 0-3 months	Overdue 3-6 months	Overdue +6 months	Total
Accounts receivable	418,302	171,305	9,151	-	598,758
Credit loss reserve			-2,415		-2,415
	418,302	171,305	6,736	-	596,343

The fair value of accounts receivable is consistent with carrying amounts. The credit quality of unreserved receivables is considered good.

The group has not pledged any collateral for these receivables.

Sensitivity analysis

Effect on consolidated sales and EBIT before hedging transactions, if the Swedish krona appreciated by 10%

Currency (SEK m)	Income	EBIT
DKK	-29.6	-14.7
EUR	-98.6	-49.0
NOK	-58.9	-22.9
USD	-12.1	-7.7
Other	-13.8	19.2

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

Currency risk

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

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

Operational risks

Karo Pharma is active in an international sector. Approximately 26% (approx. 50) of the group's revenues are denominated in Swedish kronor, and some 32% (36) of expenses arise in Swedish kronor. Most of the remainder of Karo Pharma's expenses are denominated in euro (EUR), Norwegian kroner (NOK), Danish kroner (DKK), 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 above table 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 -75.1 m (-24.5).

There were no forward contracts at year-end 2020. EBIT in 2020 and 2019 were not affected by any maturing forward contracts.

Financial currency risks

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

Financing risk

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

Liquidity risk

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

Interest risk

Interest risk is the risk that fair value of future cash flows fluctuates because of changes to market interest rates. The company is mainly exposed to interest risk through its loan finance. Its loans partly accrue variable STIBOR, which means the company's future financial expenses are affected if market interest rates change.

The group's total interest-bearing loans amount to SEK 5,847.7 m (4,338.8), consisting of bank loans and lease liabilities, of which the short-term portion is SEK 4,719.9 m. If interest rates were to change by +/-1 percentage point momentarily, Karo Pharma's earnings after tax would change by +/- SEK 57.0 m (29.0) annualized, given loan principals and interest maturities as of 31 December 2020.

Note 30 cont. – Financial instruments and risks, sensitivity analysis

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.

Note 31 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	
	2020	2019
Revenues		
Sweden	848,840	600,764
Norway	587,884	569,613
Denmark	285,685	204,105
Finland	118,931	79,270
France	147,899	128,109
Rest of Europe	711,958	223,215
USA	12,897	3,057
Rest of world	168,773	93,064
	2,882,867	1,901,196
Non-current assets		
Sweden	8,370,472	7,112,849
Norway	1,440,566	1,617,925
Europa	975,372	992,697
Rest of world	41	-
	10,786,451	9,723,471

Note 32 Transactions with related parties

Apart from transactions in the form of compensation and salaries to the Board of Directors and senior executives, no transactions with related parties occurred in the current or previous financial year.

Note 33 Significant events after the end of the financial year 2020

On 3 February 2021, Karo Pharma Aktiebolag ("Karo Pharma") announced the acquisition of an OTC portfolio from Teva Pharmaceuticals (Teva), for a total purchase consideration of SEK 80 4N, which is scheduled for completion on one April.

This transaction transfers rights of ownership of the brand portfolio consisting of Flux®, Decubal®, Lactocare®, Apobase®, Dailycare® and Fludent® from Teva to Karo Pharma. These brands generated sales of some SEK 350 m globally in 2020. Most is sourced from the Nordic markets, including Scandinavia, where these brands are already distributed and marketed by Karo Pharma, under a seven-year license agreement entered in spring 2019.

This transaction brings some SEK 40 m of sales from new markets outside Scandinavia, of which approx. 80% is generated in Finland. The transaction simplifies Karo Pharma's business model, bringing control

over these assets, which paves the way for long-term of optimization of these brands and their value chains.

From a financial perspective, Karo Pharma will realize direct savings of nearly SEK 50 m as early as year 1 because the costs to Teva are eliminated. Karo already distributes these products in Scandinavia, and already has direct relationships with the contract manufacturers that deliver the products. Accordingly, the need for extra costs for management and staff that are a direct consequence of the transaction, is limited.

The acquisition is a pure asset acquisition. No staff or manufacturing facilities are included in the agreement, limiting the commercial risks, and the risks involved in relocating production. The transaction was financed with existing cash, and accordingly, requires no further loan facilities in addition to those already in place.

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 21 April 2021 for adoption.

Stockholm, Sweden, 29 March 2021

Bo Jesper Hansen
Chairman of the Board

Erika Henriksson
Board member

Vesa Koskinen
Board member

Uta Kemmerich-Keil
Board member

Kristofer Tonström
Board member

Håkan Åström
Board member

Flemming Ørnskov
Board member

Christoffer Lorenzen
Chief Executive Officer

Our Audit Report was presented on 29 March 2021

Jonatan Hansson
Authorized Public Accountant
Ernst & Young AB

AUDITOR'S 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 except for the corporate governance statement on pages 52-55 and the statutory sustainability report on pages 42-44 for the year 2020. The annual accounts and consolidated accounts of the company are included on pages 38-94 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 2020 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 2020 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 52-55 and the statutory sustainability report on pages 42-44. 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 income statement and the statement over financial position for the group.

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

Basis for Opinions

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

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

Key Audit Matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of 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 2020 the intangible assets including goodwill (below referred to as the assets) amounts to 10 029 MSEK which is 80% of Karo Pharma group's (below referred to as the Company) total assets. The Company performs an impairment test of goodwill on an annual basis and as for other intangible assets when events or changes in conditions indicate that the carrying amount of the assets may exceed the recoverable amount. Testing of impairment for the assets involve a number of significant assumptions and assessments, among other assessing the recoverable value 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, product rights and licenses in note 13.</p> <p>We focused on this area as the 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 including management's business plans and forecasts, 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. <p>We have also assessed the disclosures in the annual report.</p>

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 and 99-102. The remuneration report for the financial year 2020 also constitutes other information. 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.

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, actions taken to eliminate threats or related safeguards applied.

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 2020 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 judg-

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

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 52-55 has been prepared in accordance with the Annual Accounts Act.

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

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the sec-

ond paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the

Annual Accounts Act.

The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the statutory sustainability report on pages 42-44, and that it is prepared in accordance with the Annual Accounts Act.

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

A statutory sustainability report has been prepared.

Ernst & Young AB, Box 7850, 103 99 Stockholm with Jonatan Hansson as auditor in charge, was appointed auditor of Karo Pharma Aktiebolag AB by the general meeting of the shareholders on the 25 May 2020 and has been the company's auditor since the 24 June 2019.

Stockholm March 29, 2021
Ernst & Young AB

Jonatan Hansson
Authorized Public Accountant

Definitions of key indicators

Key indicators	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	The equity/assets ratio is relevant to investors and other stakeholders that want to assist the company's financial stability and viability for the longer term
Gross margin	Gross earnings in relation to revenues	Gross margin is used to illustrate the company's margin before the effect of expenses such as selling and administrative expenses, and research & development expenses
Operating profit (EBIT)	Earning/loss including all operating income and expenses, i.e. earnings excluding financial items and income tax.	
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 effect of depreciation and amortization of items that affect comparisons over time. This key indicator gives a view of the earnings generated from operating activities
Adjusted EBITDA margin	Adjusted EBITDA in relation to net revenues	This key indicator is used to measure operational profitability

Reconciliation of adjusted EBITDA (SEK 000)	GROUP	
	2020	2019
EBIT	230,306	172,102
Depreciation and amortization	494,644	319,755
Other depreciation, amortization and impairment	0	0
Items affecting comparability ¹⁾	59,803	107,200
ADJUSTED EBITDA	784,754	599,057

¹⁾ Items affecting comparability are mainly sourced from external expenses for consulting and services related to acquisitions and divestments, as well as expenses related to the integration and reorganization of acquired entities/brands.

Scheriproct® 0.19%/0.5% rectal ointment

Scheriproct® 1.3 mg/1 mg suppositories

Active compounds: prednisolone, cinchocaine. 1g rectal ointment contains: prednisolone caproate 1.9 mg, cinchocaine hydrochloride 5 mg. 1 suppositories contain: prednisolone caproate 1.3 mg, cinchocaine hydrochloride 1 mg.

Indication: for treating haemorrhoids, the associated itching and irritation, and surface fissures in the rectum.

ATC-code: C05AA04. **Usual dosage for adults:** Rectal ointment: Apply one thin layer, usually twice daily. For rapid pain relief, up to 4 applications can be made in the first day. Suppositories: usually, apply one suppository in the anus per day. For severe pain, one suppository can be applied 2-3 times during the first day. The suppository should be inserted with the straight end first. If suppositories have become soft due to heat, they can be immersed in cold water before removing the cover. If no improvement has occurred after 2-3 weeks' treatment with Scheriproct, contact your doctor. However, treatment should last no longer than 4 weeks. Warnings and cautions: remember to contact your doctor for a clinical examination and ensure correct diagnosis and elimination of potential malignancy (if this has not already been done). Interactions with other pharmaceuticals and other interactions: Scheriproct should be used with caution in combination with other local anaesthetics, and in patients treated with anti-arrhythmics. Simultaneous treatment with CYP3A4 inhibitors, including pharmaceuticals containing cobicistat, can be expected to increase the risk of systemic adverse events.

This combination should be avoided providing the benefit does not counterbalance the increased risk of systemic adverse events from corticosteroids, and if so, patients should be monitored for systemic adverse events from corticosteroids. **Pregnancy and breastfeeding:** Scheriproct should not be used during pregnancy, unless your doctor has carefully considered this. Scheriproct transfers into breast-milk, but the risk of any effect on the child is unlikely during breastfeeding. However, consult your doctor for more than temporary use of Scheriproct during breastfeeding.

Adverse events: seldom (fewer than one in 1,000 patients): allergic reactions, contact eczema. **Counterindications:** oversensitivity to the active compounds or any excipient.

Packaging information: rectal ointment 30 gram tube EF. Suppositories 12 pack EF. The pharmaceutical is available over the counter. **Read the enclosed packaging before use.** Holder of approval for sale: Karo Pharma AB Box 16184 103 24 Stockholm Sweden. Registration number of approval for sale 7652 (Scheriproct rectal ointment) 7653 (Scheriproct suppositories). Date of first/renewed approval 29 July 1965/30 May 2009. Date of review of product resume, 24 November 2020.

ANNUAL GENERAL MEETING

The Annual General Meeting of Karo Pharma AB (publ) will be held on Wednesday 21 April 2021. The invitation to the AGM will be published on Karo Pharma's website, www.karopharma.com. Because of the coronavirus, the Board of Directors has decided that the AGM will be held without the physical attendance of shareholders, proxies and external parties, and that shareholders will be able to vote by post only, prior to the Meeting. Information on the resolutions of the AGM will be published on Wednesday 21 April 2021, As soon as the outcome of the postal voting has been definitively compiled.

Parties wishing to participate in the AGM through postal voting should: firstly be included as a shareholder in the share register maintained by Euroclear Sweden AB as of Tuesday, 13 April 2021, and secondly notify the company by 20 April 2021 by submitting their postal votes in accordance with the instructions on the website so that Karo Pharma AB has received the postal vote by that date at the latest.

For entitlement to participate at the Meeting, shareholders with nominee-registered shareholdings, apart from notifying the company of their participation at the Meeting by submitting their postal vote, Must re-register their shares in their own name, so the shareholder is recorded in the share register as of the record date as of 13 April 2021. Search re-registration may be temporary (voting registration), with the nominee request in accordance with the nominee's procedure such time in advance as the nominee specifies. Voting registration completed by nominees by Thursday, 15 April 2021 at the latest will be considered when preparing the share register.

Other financial information

Interim Report Jan–Mar 21 April 2021
Interim Report Jan–Jun 22 July 2021
Interim Report Jan–Sep 28 October 2021

Financial reports, press releases, invitations to shareholders' meetings and other information is available at Karo Pharma's website www.karopharma.com from publication.

Karo Pharma's financial reports and press releases are available for subscription and download from its website. Karo Pharma prefers electronic distribution for its financial reports. The Annual Report will be mailed to those shareholders and other stakeholders that specifically request it. Printed interim reports will be mailed on request.

For more information, please contact:
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or e-mail: info@karopharma.com.

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