



YEAR-END REPORT 2018

FULL YEAR AND THE FOURTH QUARTER

- Net sales amounted to MSEK 1,615.1 (657.6), of which the fourth quarter amounted to MSEK 463.3 (238.7). This corresponds to an increase of 146% for the full year, and 94% for the fourth quarter. A large part of the growth is attributable to products acquired during the period.
- Organic growth was + 7.0% (proforma) for the period, and for the fourth quarter + 5.4%. Pharmaceutical drugs accounted for an organic growth of +3.2% for the period, and +5.8% for the fourth quarter.
- EBITDA amounted to MSEK 632.2 (169.3), of which the fourth quarter was MSEK 165.4 (41.8), corresponding to a margin of 39.1% (25.7%) for 2018 and 35.7% (17.5%) for the fourth quarter. EBITDA increased by 273% during the period compared with the previous year. (The numbers for 2017 refer to adjusted EBITDA).
- The gross margin during the period was 58.1% (52.0%), and 55.8% (48.8%) in the quarter. Excluding milestone payments in the second quarter of 2018 and 2017, the gross margin was 55.8% for the period (50.7%).

- Cash flow from operating activities during the period amounted to MSEK 309.5 (33.5), of which the fourth quarter amounted to MSEK 19.6 (-28.8). During the fourth quarter, inventory from Leo was taken over.
- Earnings per share were SEK 4.63 (0.17), of which the fourth quarter was SEK 0.17 (-0.42)
- Cash and cash equivalents and other short-term investments amounted to MSEK 398.6 (838.6) at the end of the period.
- During the period June 18, 2018 until July 27, 2018, the Company repurchased 2,464,990 Karo Pharma shares within the agreed repurchasing program. The repurchasing program is thus implemented and finalized.

IMPORTANT EVENTS AFTER PERIOD END

- On October 29, 2018, EQT VIII through its wholly owned subsidiary Karo Intressenter AB submitted a recommended public offer to the shareholders of Karo Pharma to transfer all shares in Karo Pharma to Karo Intressenter for a cash consideration of SEK 36.90 per Karo Pharma share. The acceptance period in the offer initially expired on December 10, 2018 and was extended on December 13, 2018 until January 4, 2019.
- On January 2, 2019, Karo Intressenter announced that it raised the consideration in the offer to SEK 38.00 in cash for each share in Karo Pharma, and extended the acceptance period until 17.00 CET January 17, 2019, and that the condition regarding obtaining required regulatory permits, approvals, decisions or

similar had been fulfilled. The offer was later extended to February 12.

- In light of the changes in ownership that have taken place, notice has been sent to an Extraordinary General Meeting of Karo Pharma AB on February 14, 2019. The Meeting is to resolve on the election of a new Board of Directors, number of Board members and Board remuneration.
- On February 11, Karo Intressenter presented its proposal to the meeting on February 14, as regards, among other things, the election of a new Board of Directors. (See separate press release per February 11).

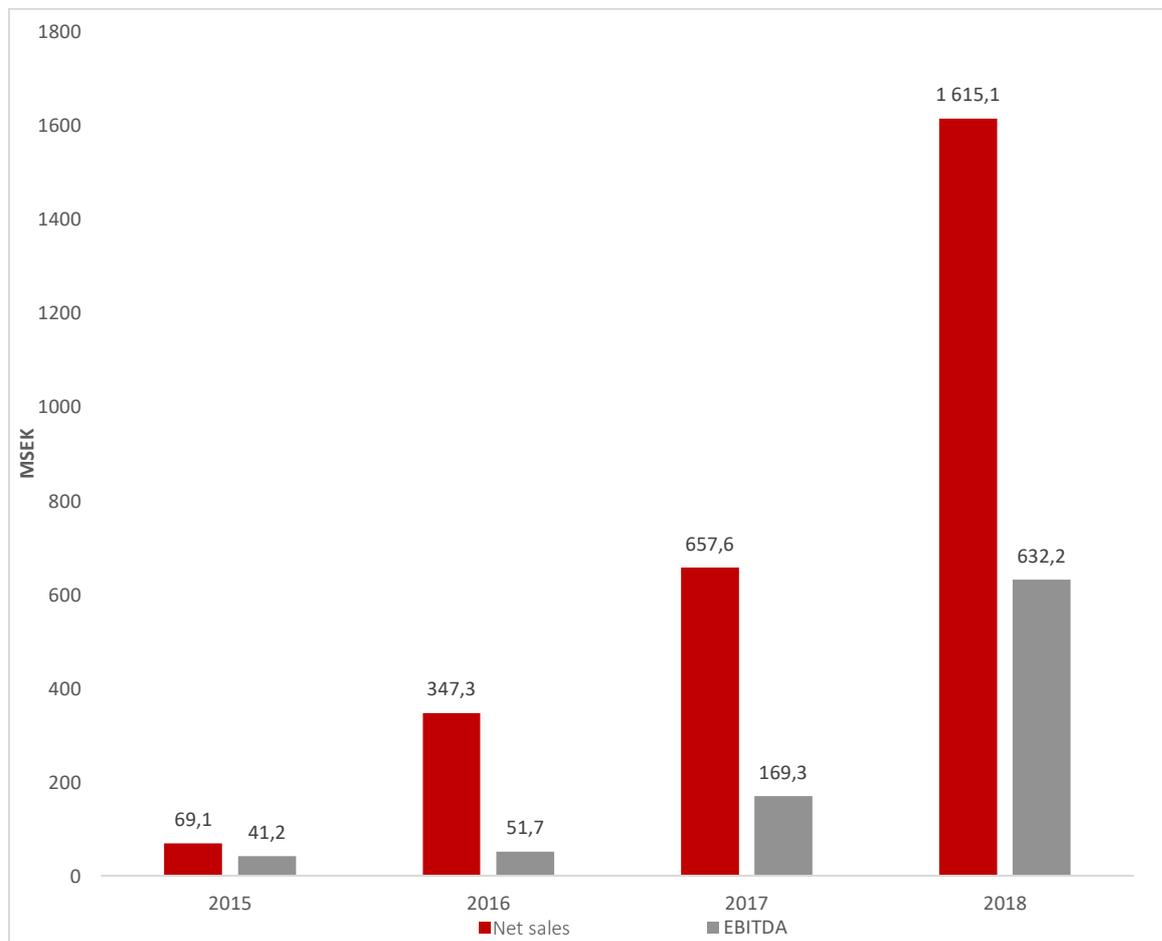
AUDIOCAST TODAY AT 11.00 A.M. CET

A presentation of the report (in Swedish) will take place today at 11 a.m.

The presentation can be attended through the corporate website

www.karopharma.se or by telephone +46 8 505 564 74. Questions may be submitted over the internet or by the telephone.

DEVELOPMENT Jan- Dec 2015 – 2018



KARO PHARMA'S 10 LARGEST DRUGS JAN - DEC

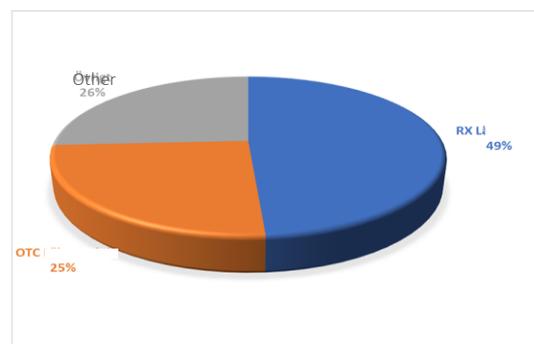
Produkt	Omsättning
Product	Turnover
Paracet	153 572
Locobase *	117 580
Burinex *	107 654
Kaleorid *	107 012
Ibux	97 077
Mollipect	88 082
Paralgin Forte	54 867
Lithionit	44 128
Centyl *	40 775
Totalsumma	943 664

* avser perioden apr-dec 2018

Total

* * refers to the period Apr-Dec 2018

TURNOVER BY CATEGORY JAN-DEC



* Other excluding milestones

Rx – Prescription drugs

OTC – Over the counter drugs (non-prescription)

LETTER FROM THE CEO

We follow our plan and the fourth quarter provided strong growth, increased profits and improved margins. In the report for the third quarter, we forecasted sales and EBITDA for the full year. The outcome was within the indicated intervals.

During the year, the business developed positively with almost tripled sales and profit. Sales increased 146% and EBITDA by 273%. The organic growth of 7.0% (proforma) is gratifying for a year with a strong focus on integration. We have worked intensively to first fully integrate Weifa into our business and now we have a very strong organization and profitability development in Norway. On March 1, the acquisition of the LEO portfolio was announced, and the products were taken over on April 4, where ten well-established pharmaceuticals with strong brands were acquired. The products are characterized by stable sales and profitability and have improved the company's total gross margin by 5.6%. Through the acquisition of the LEO portfolio, we were also able to report a significant tax revenue by recording a

value on our previous tax loss carry-forwards in the balance sheet.

In 2018, we have succeeded in significantly expanding Karo Pharma's portfolio of interesting products. Karo Pharma has established distribution in many new markets in Europe and the rest of the world. The acquisition of the LEO portfolio complements our product portfolio and geography well.

Our new product Viruseptin® for the treatment of colds and flu-like symptoms was successfully launched during the fourth quarter in Sweden. We have gained market share as well as created growth in the cold category at pharmacy chains. In 2019, Viruseptin® will launch in other Nordic markets.

We enter the new year with products that will be launched in the Nordic market. An example of this is Dolerin®, which is a combination of paracetamol and ibuprofen for the treatment of severe pain. The drug is medically approved in all Nordic markets and will be launched in 2019

2018 was also a year of great sorrow. In December, we received the tragic message that the company's chairman, Anders Lönner, had died. Anders spirit, who has greatly contributed to Karo Pharma's change and success in the last four years, will continue to "aim higher than you think is possible to reach, work harder, more efficient and without bureaucracy, and success will come". Together with the organization, I will do everything possible to maintain and implement Anders' winning business ideas.

Today, Karo Pharma is an attractive Specialty Pharma company with well-established brands and an interesting pipeline of new products. We see opportunities to continue our business consolidation and reap synergies that improve our profitability and growth, and combining it with making interesting acquisitions in a controlled manner.

Lastly, I would like to thank all employees for truly good work efforts.

We are looking forward, towards new exciting challenges, our priorities are continued expansion with good profitability.

Peter Blom
CEO



KEY FINANCIAL DATA (MSEK)

	October - December		January - December	
	2018	2017	2018	2017
Net sales	463.3	238.7	1 615.1	657.6
Gross earnings	258.0	116.5	938.8	341.9
Operating expenses	-189.9	-127.0	-524.4	-262.0
Earnings before tax and non-recurring items 1)	165.4	41.8	632.2	169.3
EBITDA, %	35.7%	17.5%	39.1%	25.7%
Earnings before tax	46.4	-40.8	290.2	20.9
Earnings per share (SEK) 2)	0.17	-0.42	4.63	0.17
Cash flow from operating activities	19.6	-28.8	309.5	33.5
Cash	398.6	838.6	398.6	838.6

1) non- recurring items. See note 5.

2) Taking into account the bonus element in the rights issue and that outstanding warrants do not imply any dilution

SALES AND EARNINGS

Net sales for the full year 2018 increased to MSEK 1,615.1 (657.6). Of the sales increase, MSEK 986.6 comes from the operations acquired in Norway during the fourth quarter 2017 and from the LEO portfolio and MSEK 86.6 from the milestone payment that Karo Pharma received from Pfizer in the second quarter.

Cost of goods sold amounted to MSEK 676.3 (315.7). This resulted in a gross profit of MSEK 938.8 (341.9) and a gross margin of 58.1 (52.0) percent for the period. Excluding milestone payments in

the second quarter 2018 and 2017, the gross margin reached 55.8% for the period (50.7%).

Operating expenses, including depreciation, other operating income and other operating expenses, amounted to MSEK 524,4 (262.0) for the period. Sales expenses amounted to MSEK 443,0 (198.6). The increase in sales costs comes primarily from the activities that have been added in Norway, as well as costs linked to the LEO portfolio and the build-up of our own organization as a result of the Leo acquisition in 2018.

Operating profit amounted to MSEK 414.3 (79.9).

Earnings per share amounted to SEK 4.63 (0.17).

CASH FLOW AND FINANCIAL POSITION

Cash flow from operating activities amounted to MSEK 309.5 (33.5). The Group's cash and cash equivalents amounted to MSEK 398.6 (838.6) at the end of the period. The single largest changes compared with the previous year are cash flow linked to the acquisition of the LEO portfolio, cash flow linked to the financing of the LEO acquisition during the second quarter 2018 and the amortization of bridge loans raised in connection with the acquisition of Weifa. Total assets at December 31 amounted to MSEK 6,884.6 (4, 141.8), where intangible assets accounted for MSEK 5,424.7 (2,923.1) of the balance sheet total at the end of the period. The change from the previous year refers primarily to intangible assets that come from the acquisition of Weifa and the LEO portfolio.

During the second quarter, the LEO portfolio was acquired for MSEK 2,673. The acquisition was

financed through bank financing and through a rights issue.

Group equity increased to MSEK 3,611.0 (1,586.5).

The equity ratio was 52.5 (38.3) percent.

PARENT COMPANY

The Parent Company's net sales for the period amounted to MSEK 655.6 (39.3) and for the fourth quarter to MSEK 217.3 (0.4). Profit after financial items for the period amounted to MSEK 97.4 (-45.2) and for the fourth quarter to MSEK 34.3 (-34.4). The parent company's liquid assets and other short-term investments amounted to MSEK 198.0 (695.2) at the end of the period.

TRANSACTIONS WITH RELATED PARTIES

For transactions with related parties, see note 2 below.

RISKS

The Group is exposed to a number of risks and insecurities.

CHANGES IN REGULATIONS AND HEALTHCARE SYSTEMS

Future changes in health care systems may be implemented in countries where the company and its partners intend to market

pharmaceuticals. Such changes may affect the sales potential of these products as well as the ability to acquire new partners.

PATIENT SAFETY

Access to health care and medicine is a crucial issue for the industry. Karo Pharma applies strict standards to ensure the safety and quality of all products marketed by the company. The standard within the Good Manufacturing Practice, GMP is applicable to all medical products and the requirements are the same regardless of where the production is performed. Also, for non-medicinal products, there are different quality and safety guidelines.

SIDE EFFECTS

Any use of medicines is associated with the risk of side effects of different kinds and to different extent. Concomitant use of multiple drugs or ingestion of food or drink may alter the effect of the drug. Karo Pharma works for the safe use of medicines through an inhouse department. All potential side effects are reported to the pharmaceutical authority. During the period there were no significant incidents in pharmacovigilance.

LOGISTICS

Wrongful, delayed or missing deliveries from Group suppliers may result in Group deliveries also being delayed, inadequate or faulty. The Group is also exposed to exchange rate fluctuations. It cannot be guaranteed that Group operations will not be subject to restrictions by governmental agencies or that the Group will receive necessary future regulatory approvals. There is a risk that the Group's ability to develop products diminishes or that the products will not be launched according to set schedules. These risks may involve lower sales and negatively impact Group earnings.

IT

The company is exposed to risks related to IT. These can be hacking into the company's computer system, e-mail and connection to networks. Viruses and spam attacks can in vulnerable situations affect the company's entire business.

SIGNIFICANT EVENTS AFTER PERIOD END

EQT VIII through its wholly owned subsidiary Karo Intressenter AB, on October 29, 2018, submitted a recommended public offer to the shareholders of Karo Pharma to transfer all shares in Karo Pharma to Karo Intressenter for SEK 36.90 in cash per share in Karo Pharma. The acceptance period of the offer initially expired on December 10, 2018 and was extended on December 13, 2018 until January 4, 2019.

On January 2, 2019, Karo Intressenter announced that it raised the offer to SEK 38.00 in cash for each share in Karo Pharma, that they extended the acceptance period until 17.00 CET January 17, 2019 and that the condition regarding obtaining required regulatory permits, approvals, decisions or similar had been fulfilled. The offer has subsequently been extended to February 12.

In light of to the ownership changes that have taken place, notice has been sent to an Extraordinary General Meeting in Karo Pharma AB on February 14, 2019. The Meeting will resolve on the election of a new Board of Directors, number of Board members and fees to the Board.

On February 11, Karo Intressenter's proposal to the meeting on February 14 was presented, as

regards, among other things, the election of a new board. (See separate press release per February 11).

AUDITOR'S REVIEW

This report has not been subject to review by the Group's accountants.

DIVIDEND

Proposals for any dividend to the shareholders regarding 2018 will be managed by the Board appointed on 14 February.

AUDIOCAST

This report will be presented (in Swedish) in an audiocast today at 11.00 CET. The audiocast with corresponding slides can be followed on www.karopharma.se and through telephone by dialing +46 8 505 564 74. Questions can be posed both online and by telephone.

FINANCIAL CALENDAR

Annual report	Mar 29, 2019
Interim report Jan-Mar AGM	April 26, 2019 May 9, 2019
Interim report Jan-June	July 19, 2019
Interim report Jan-Sept	Nov 1, 2019
Year-end report 2019	Feb 13, 2020

All reports will be available on the corporate web site at the respective dates above.

The Annual report 2018 will be available on March 29.

BOARD'S ASSURANCE

The Board of Directors and the CEO ensure that the interim report gives a true and fair view of the company's and the Group's operations, position and results, and describes significant risks and uncertainties that the company and the companies that are part of the Group face.

Stockholm on February 14, 2019

Håkan Åström
Acting chairman

Marianne Hamilton
Board member

Thomas Hedner
Board member

Per-Anders Johansson
Board member

Peter Blom
CEO

FOR FURTHER INFORMATION, PLEASE CONTACT

Peter Blom, CEO +46 70 655 56 98, peter.blom@karopharma.se

Mats-Olof Wallin, CFO +46 760 026 010, mats-olof.wallin@karopharma.se

ABOUT KARO PHARMA

Karo Pharma is a specialty pharma company that develops and markets products to pharmacies and directly to healthcare providers. The share is listed on Nasdaq Stockholm in the Mid Cap segment.

The information in this report is such that Karo Pharma is obliged to make public pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the contact person set out above, on February 14, 2019 at 8.30 a.m. CET.

CONSOLIDATED INCOME STATEMENT SUMMARY (TSEK)

	October - December		January - December	
	2018	2017	2018	2017
Net sales	463 273	238 716	1 615 109	657 606
Cost of sales	-205 250	-122 238	-676 349	-315 703
Gross profit	258 023	116 479	938 760	341 904
Operating costs				
Distribution costs	-159 236	-93 729	-442 970	-198 609
Administration	-27 145	-16 496	-78 505	-43 650
Research and development	0	-1 502	-615	-4 355
Other operating income/expenses	-3 550	-15 325	-2 350	-15 385
Total operating costs	-189 932	-127 052	-524 440	-261 999
Operating profit	68 091	-10 574	414 320	79 904
Financial net	-21 707	-30 290	-124 155	-59 054
Profit before tax	46 384	-40 863	290 165	20 851
Tax	-18 914	5 627	367 227	-6 346
NET PROFIT	27 470	-35 236	657 392	14 505
Net earnings attributable to:				
Shareholders in the parent company	27 451	-35 241	657 376	14 516
Non-controlling interests	19	7	16	-18
Earnings per share (SEK) ¹	0.17	-0.42	4.63	0.17
Number of shares issued (000)	164 333	82 166	164 333	82 166

¹Taking into account the bonus element in the rights issue.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (TSEK)

	October - December		January - December	
	2018	2017	2018	2017
NET PROFIT FOR THE PERIOD	27 470	-35 236	657 392	14 505
Other comprehensive income for the period, net of tax				
Exchange rate differences	34 543	-20 282	34 543	-20 638
TOTAL COMPREHENSIVE INCOME	62 013	-55 518	691 935	-6 133
Total comprehensive income attributable to:				
Shareholders in the parent company	61 994	-55 525	691 919	-6 122
Non-controlling interests	19	7	16	-18

CONSOLIDATED REPORT OVER FINANCIAL POSITION (TSEK)

	31 December 2018	2017
Assets		
Intangible assets	5 424 689	2 923 110
Equipment	16 793	14 498
Deferred tax claim	530 950	79 550
Other financial assets	136	136
Other current assets	513 491	285 969
Cash and cash equivalents	398 580	838 586
TOTAL ASSETS	6 884 639	4 141 848
Shareholders' equity and liabilities		
Equity	3 611 001	1 586 515
Deferred tax	144 479	89 537
Long term debt	1 906 227	1 452 623
Current liabilities	1 222 932	1 013 172
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	6 884 639	4 141 848

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (TSEK)

Attributable to shareholders of the parent company	Share capital	Ongoing rights issue	Other contributed capital	Retained earnings/ accumulated losses	Non-controlling interest	Total equity
Amount at 1 January 2017	25 563	0	1 726 100	-1 034 773	122	717 012
Total comprehensive income			-	-6 051	-82	-6 133
Dividend				-41 083	-	-41 083
Rights issue, net proceeds	7 303		341 487	-	-	348 790
Rights issue paid in, not registered equity net of transaction costs		8 501	559 428			567 929
Amount at 31 December 2017	32 866	8 501	2 627 015	-1 081 907	40	1 586 515
Amount at 1 January 2018	32 866	8 501	2 627 015	-1 081 907	40	1 586 515
Total earnings				691 919	16	691 935
Dividend				-32 867	-	-32 867
Repurchasing of own shares				-76 951		-76 951
Rights issue paid in, not registered equity net of transaction costs	32 867	-8 501	1 418 003	-	-	1 442 369
Amount at 31 december 2018	65 733	0	4 045 018	-499 806	56	3 611 001

CONSOLIDATED STATEMENT OF CASH FLOWS (TSEK)

	October - December		January - December	
	2018	2017	2018	2017
Operating activities				
Operating income/loss before financial items	68 091	-10 573	414 320	79 904
Depreciation	97 294	23 532	217 869	60 561
Other items not affecting liquid assets	0	0	0	0
	165 385	12 959	632 190	140 465
Financial items received and paid				
Financial items received and paid	-51 401	-27 785	-156 850	-47 986
Income tax paid	1 833	2 745	-257	-2 292
Cash flow from operating activities before changes in working capital	115 816	-12 082	475 082	90 186
Changes in working capital	-96 195	-16 705	-165 589	-56 667
Cash flow from operating activities	19 622	-28 787	309 493	33 519
Investing activities				
Net investment in company acquisitions	0	-1 250 656	0	-1 255 689
Net investment in intangible assets	-13 477	-3 783	-2 688 097	-4 075
Net investment in other financial instruments	0	0	0	17 671
Net investment in equipment	-1 817	-1 653	-4 033	-3 721
Cash flow from investing activities	-15 293	-1 256 093	-2 692 130	-1 245 815
Financing activities				
Net proceeds from share issues	0	616 295	1 415 691	990 309
Transaction costs share issue	0	-300	-98 340	-25 523
Dividend	0	0	-32 867	-41 083
Warrants	0	0	0	0
Borrowings	0	1 750 368	4 243 507	1 750 368
Repayment of loans	-39 472	-372 017	-3 596 753	-743 017
Transactions with minorities	0	0	0	0
Cash flow from financing activities	-39 472	1 994 346	1 931 238	1 931 054
Cash flow for the period	-35 144	709 467	-451 399	718 759
Cash at the beginning of the period	443 111	130 387	838 586	121 346
Currency exchange in cash	-9 387	-1 268	11 393	-1 519
Cash at the end of the period	398 580	838 586	398 580	838 586

PARENT COMPANY INCOME STATEMENT SUMMARY (TSEK)

	October - December		January - December	
	2018	2017	2018	2017
Net sales	217 274	430	655 551	39 269
Cost of sales	-89 155	162	-235 254	152
Gross profit/loss	128 119	591	420 297	39 420
Operating costs				
Sales costs	-55 083	-1 031	-166 874	-5 518
Administration	-15 990	-6 487	-40 509	-19 158
Research and development	0	-1 503	-615	-4 355
Other operating income/expenses	-3 308	-193	-1 438	-594
Total operating costs	-74 381	-9 213	-209 435	-29 624
Operating profit/loss	53 739	-8 622	210 861	9 796
Financial net	-19 488	-25 738	-113 419	-55 033
Profit/loss before tax	34 250	-34 360	97 442	-45 237
Group contributions paid	55 862	65 537	55 862	65 537
Tax	-11 440	-62	395 754	-62
NET PROFIT/LOSS	78 672	31 115	549 058	20 238

PARENT COMPANY BALANCE SHEET SUMMARY (TSEK)

	31 December	
	2018	2017
Assets		
Intangible assets	2 625 210	76 279
Equipment	152	16
Deferred tax receivables	481 814	75 000
Other financial assets	358 587	350 388
Shares in group companies	2 565 982	2 646 768
Other current assets	283 840	127 073
Cash	198 004	695 191
TOTAL ASSETS	6 513 589	3 970 715
Shareholders' equity and liabilities		
Equity	3 500 111	1 607 442
Deferred taxes	0	0
Long term debt	1 918 749	1 464 152
Current liabilities	1 094 729	899 121
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	6 513 589	3 970 715

Note 1

ACCOUNTING AND VALUATION PRINCIPLES

This interim report has been prepared in accordance with International Accounting Standards 34 for interim reports and international accounting standards IFRS as adopted by the EU. The accounting and valuation principles that have been used are unchanged compared to those applied in 2017, except for those listed in this Note under new accounting principles for 2018.

For the parent company, this interim report has been prepared in accordance with the Annual Accounts Act and RFR 2 *Accounting for Legal Entities*. The accounting policies applied to the Parent Company differ from those applied to the Group solely on the accounting of leasing agreements.

NEW ACCOUNTING PRINCIPLES FOR 2018

As of January 1, 2018, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments came into force. IFRS 15 regulates how accounting of revenue shall be done and IFRS 9 deals with the classification, valuation and accounting of financial instruments. Karo Pharma has during the fourth quarter 2017 completed the analysis of the effects of implementing these two standards. There are no changes of significant size that affects earnings or financial position.

Note 2

TRANSACTIONS WITH RELATED PARTIES

In connection with Karo Pharma's acquisition of the company Medcore, two smaller products were licensed by a company held by Chairman Anders Lönner for more than 10 years. Karo Pharma receives 15% in commission on sales which is the same compensation that Medcore received. Sales seized in Q2 2018,

Chairman Anders Lönner and Board members Per-Anders Johansson and Håkan Åström as well as the Nomination Committee and the shareholder Leif Edlund, who together hold approximately 17.8% of the capital and votes in the Company, committed to subscribe for their respective pro rata share in the proposed rights issue. The remaining part of the rights issue was underwritten by Anders Lönner, Leif Edlund and Håkan Åström, who received a 2.5% remuneration on their respective underwriting commitment. Total underwriting and subscription fees paid amounted to MSEK 27.0.

A company owned by Anders Lönner, Beampoint has transferred a trademark (Viruseptin) to Karo Pharma for a sum corresponding to the registration fee.

In 2018, Karo Pharma has worked with and carried out a large acquisition and thus associated work with financing. Anders Lönner, as executive chairman of the board, has been very active in these activities. Fees have been paid for this work, which have been paid to a company owned by Anders Lönner, Ålsten gård. For this work, fees of KSEK 70 have been paid.

Note 3

ACQUISITIONS

On April 4, 2018, Karo Pharma acquired an operation from Leo Pharma (the LEO operations). The acquisition is an asset purchase transaction and includes a product portfolio of well-known drug brands as well as a platform for further development in Scandinavia as well as elsewhere in Europe and around the world.

The consideration amounted to MSEK 2,673. The assets acquired relate to product and market rights.

Inventory has been taken over on a continuous basis during 2018. Additional inventory will be acquired during 2019.

The acquisition relates only to assets belonging to the former owner as part of an integrated business and has no separate historical financial information and not a separate operation with associated assets, liabilities and obligations. Consequently, a pro forma income statement as if the acquisition had taken place on January 1 and which gives a fair image cannot be established. Furthermore, this means that a preliminary acquisition analysis cannot be prepared.

Acquisition-related costs in Karo Pharma AB amount to approximately MSEK 0.5.

The consideration amounts to MSEK 2,673. Since no liquid funds were acquired, cash flow was consistent with the purchase price.

The acquisition analysis of the acquisition of the LEO operations has been established. The company has evaluated the future potential and life of the acquired products. The com-

pany has made a purchase price acquisition (PPA) and classified 13 per cent as goodwill and 87 per cent as product and market rights. The right will be amortized over 15 years.

Karo Pharma has successfully taken over management of the products. During a transitional period, LEO Pharma manages the product portfolio for Karo Pharma's account against a market-based compensation. Under the agreement, the transition period can be 24 months.

Note 4

LOSS CARRYFORWARDS

Karo Pharma AB has, as of the balance sheet date, unutilized loss carryforwards of MSEK 2,335 and in Karo Pharma AS of MSEK 662. With regards to the Group's strong profit development, the deficits are fully valued in the balance sheet.

Note 5

DEFINITIONER

In the report, a number of financial performance measures are referred to which are not defined by IFRS. These measures are used to help investors, management and other stakeholders to analyze the company's operations. These measures may differ from measures with similar names at other companies.

Below are a number of financial performance measures and how these are used to analyze the company's goals.

For further definitions, see the Annual Report 2017 under the heading definitions.

Financial performance measure	Definition	Purpose
Average number of shares	Weighted average number of shares	
Earnings per share	Earnings per average number of shares	
Equity ratio	Equity as a percentage of Total assets	The equity ratio is relevant for investors and other stakeholders who want to assess the company's financial stability and ability to manage long term.
Gross margin	Gross earnings as a percentage of Net sales.	Gross earnings is used to show the company's margin before the impact of costs such as sales and administration costs and R & D.
Adjusted EBITDA	Operating earnings before depreciation excluding items affecting comparability	The financial performance measure shows the underlying earnings from operations, adjusted for effect of depreciation and items that affect comparisons over time. It provides a picture of earnings generated from ongoing operations.
Adjusted EBITDA margin	Adjusted EBITDA in relation to Net sales	The ratio is used to measure the profitability of ongoing operations.

Reconciliation adjusted EBITDA	October - December		Full year	
	2018	2017	2018	2017
Operating earnings / loss	68 091	-10 573	414 320	79 904
Depreciation	97 294	24 714	217 869	61 744
Other depreciation and amortization	0	0	0	0
Items affecting comparability	0	27 615	0	27 615
Adjusted EBITDA	165 385	41 757	632 190	169 264

Items affecting comparability are:

- Transaction costs linked to the acquisition of product rights, trademarks, licenses or companies.
- Costs related to restructuring and reorganization, e.g. in the case of acquisitions

Note 6

NEW ACCOUNTING PRINCIPLES FOR 2019

Karo Pharma will start applying the new accounting standard IFRS 16 Leasing as of January 1, 2019. IFRS 16 is applied retroactively without the translation of comparative figures. Thus, the incoming balance for 2019 has been recalculated in accordance with the new standard.

Since we apply in a forward-looking period, the liability is based on the remaining lease term.

As a lessee, Karo Pharma has conducted a detailed review and analysis of the Group's leasing agreements, whereby contracts for premises rentals were identified as the single most significant. In addition to Premises rental contracts, only a number of minor lease agreements have been identified, such as vehicles.

Recognized utilization rights will not have the same value as the reported lease liability as of January 1, 2019, due to advance payment.

In the calculations made, lease debt is expected to have an initial value of MSEK 11,9, as well as a user rights allowance of MSEK 11,5. The difference is made up of prepaid expenses and thus no transitional effect is presented in equity.

Karo Pharma's assessment is that the transition to IFRS 16 will have no significant impact on the Group's earnings and financial position and cash flow statement.

The first time IFRS 16 is put into practice, Karo Pharma will also use the following exceptions:

- The same discount rate has been applied to leasing portfolios with similar properties
- Operating leases with a remaining lease term of less than 12 months as of January 1, 2019 have been reported as short-term lease agreements removed from the leasing debt.
- Direct acquisition costs for user rights have not been included in the transition
- Historical information has been used in the assessment of the length of a lease in cases where there are preferential rights to extend or terminate an agreement.