

KARO PHARMA

YEAR-END REPORT 2019

OCTOBER - DECEMBER

- Net sales amounted to MSEK 649.3 (463.3). This corresponds to an increase of 40% for the period. The organic growth during the fourth quarter was -4 %, currency impact 2 % and 42 % refers to the acquisition of Trimb.
- Adjusted EBITDA* amounted to MSEK 151.4 (165.4) excluding non-recurring items, costs related to the acquisition of Trimb and restructuring costs totalling MSEK 43.7 (0.0).
- The gross margin was 46.8% (55.7%) for the period. The period has been affected by a change in product mix and non-recurring items.
- Cash flow from operating activities amounted to MSEK -10.8 (28.2). The negative cash flow has been affected by non-recurring restructuring costs.
- Earnings per share was SEK -0.11 (0.17) before and after dilution.
- During the period, the product Hydrokortison Trimb with all related rights and assets, was divested
- At the end of the period, cash and cash equivalents and other current investments amounted to MSEK 248.8 (398.6 at December 31, 2018) and net debt to MSEK 4 100.

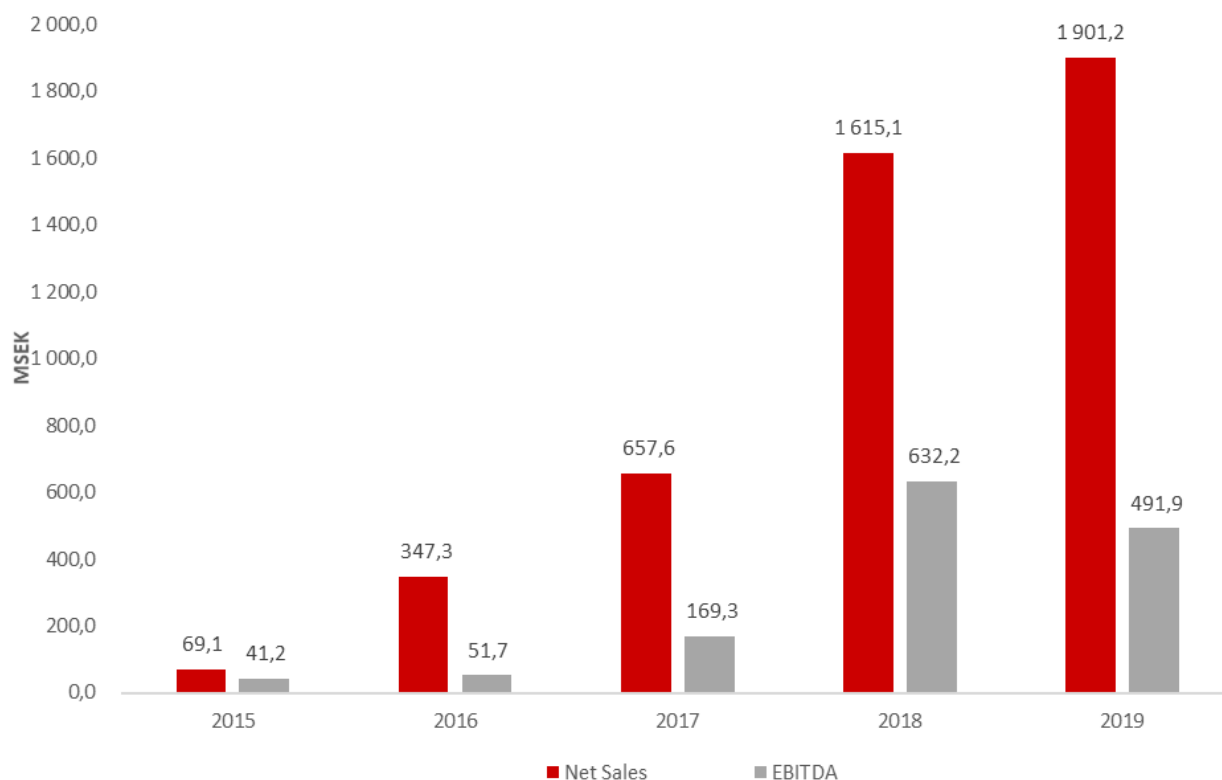
JANUARY - DECEMBER

- Net sales amounted to MSEK 1 901.2 (1 615.1). This corresponds to an increase of 18 % for the period. Organic growth for the year was -2 %, currency 2 % and the acquisitions of the LEO portfolio in April 2018 and of Trimb in September 2019 stands for the remaining 18 %.
- Adjusted EBITDA* amounted to MSEK 599.1 (632.2) excluding non-recurring items, costs related to the acquisition of Trimb and restructuring costs totalling MSEK 107.2 for 2019 (0.0). In the second quarter of 2018, the company also received non-recurring revenue of MSEK 86.6 in the form of milestone payment.
- The gross margin was 51.8% (58.1%). During the second quarter of 2018, the company received non-recurring revenue of MSEK 86.6. Excluding non-recurring revenue, the adjusted gross margin in 2018 was 55.8%
- Cash flow from operating activities amounted to MSEK 106.8 (318.0).

- Earnings per share was SEK 0.05 (4.63) before and after dilution. Earnings per share in 2019 was adversely affected by non-recurring items (MSEK 107.2) and 2018 was positively affected by non-recurring revenue (MSEK 86.6).
- The acquisition of all shares in Trimb Holding AB, which was announced on June 21, 2019, was completed on September 12 and the Trimb Group has been consolidated as of September 12, 2019
- On September 24, based on the authorization from the Extraordinary General Meeting on September 20, Karo Pharma decided to carry out a rights issue amounting to MSEK 2 003.

* Alternative Financial Ratios (APM), see page 6 for further information.

DEVELOPMENT 2015 – 2019



KARO PHARMA'S 10 LARGEST PRODUCTS 2019 (KSEK)

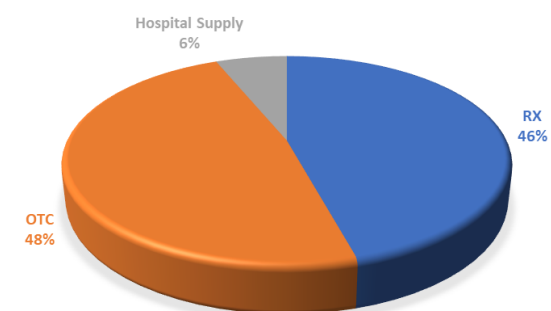
Product	2019	2018	%
Selexid 1)	185 741	132 917	140%
Paracet	155 792	153 572	101%
Locobase 1)	130 782	117 580	111%
Burinex 1)	130 134	107 654	121%
Kaleorid 1)	126 291	107 012	118%
Ibux	103 752	97 077	107%
Mollipect	87 987	88 082	100%
Swereco Rehab	69 160	70 760	98%
Centyl 1)	65 496	40 775	161%
Mabs	62 887	61 083	103%
Other Products 1), 2), 3)	783 175	638 596	123%
Total	1 901 196	1 615 109	118%

1) Sales of the Leo portfolio started 2018-04-04

2) Sales of the Trimb Portfolio started 2019-09-12

3) 2018 include 86.6 MSEK from Pfizer

TURNOVER BY CATEGORY 2019



Rx – Prescription drugs

OTC – Over the counter drugs (non-prescription)

COMMENT BY CEO CHRISTOFFER LORENZEN

During the fourth quarter of 2019, the company declined organically with 4 % but grew in total with 40 % compared to previous year driven by the acquisition of Trimb and positive currency effect.

On December 23, we announced the acquisition of a new product portfolio for Intimate Care and Dermatology from the Danish pharmaceutical company Leo Pharma for EUR 90 million. Leo Pharma estimates sales for the full year 2019 at EUR 35 million. All products in the portfolio are well-established in the market and are characterized by stable sales and profitability. From a strategic perspective, the acquisition will strengthen Karo Pharma's European presence and facilitate market expansion in Germany, Switzerland and Austria.

The integration of Trimb is proceeding according to plan. We are building a stable and scalable platform, which will enable future growth in our new sales companies. As expected, integration and expansion into several European markets have required energy, focus and investment, but the organization is now in place, including the teams that will run the business in 2020.

We have a commercial focus and focus primarily on sales and marketing of both prescription and non-prescription drugs as well as self-care products sold in pharmacies and in retail outlets. today, we own around 100 brands that are sold through these channels and as we grow, an important part of our work is to continually assess if we are the best owner of different parts of the portfolio. To that effect, we have decided to evaluate opportunities in the business area Hospital Supply, including a divestment scenario but also acquisitions or unchanged operations. The business area had sales of SEK 118 million in 2019. We expect to conclude the process over the next six months.

Sales increased by 40 percent in the quarter and by 18 percent for the full year. As previously mentioned, the Trimb Group was consolidated from September 12, contributing to sales growth during the fourth quarter. Earnings for the quarter was negatively impacted by a lower gross margin, stemming from an unfavorable product mix and one-off costs related to the acquisition of Trimb.

CEO Christoffer Lorenzen

KEY FINANCIAL DATA (MSEK)

	October - December		January - December	
	2019	2018	2019	2018
Net Sales	649,3	463,3	1 901,2	1 615,1
Gross Profit	304,1	258,0	984,0	938,8
Operating Costs	-295,9	-189,9	-811,9	-524,4
EBITDA	107,6	165,4	491,9	632,2
EBITDA margin %	16,6%	35,7%	25,9%	39,1%
Profit before tax	-28,9	46,4	16,6	290,2
EPS, SEK	-0,11	0,17	0,05	4,63
Cash flow from operating activities	-10,8	28,2	106,8	318,0
Cash	248,8	398,6	248,8	398,6

SALES AND EARNINGS

Net sales for the period increased to MSEK 1 901.2 (1 615.1). This corresponds to an increase of 18% for the year and an increase of 40 % in the fourth quarter.

Cost of goods sold amounted to MSEK 917.2 (676.3). The gross margin was 51.8 % (58.1 %) during the year, and 46.8 % (55.7 %) in the fourth quarter. The second half of 2019 was adversely affected by a changed product mix in both acquired operations and previously existing operations. During the second quarter of 2018, the company had non-recurring revenue of MSEK 86.6. Excluding non-recurring revenue, the gross margin in 2018 was 55.8 %.

Operating costs including depreciation, other operating income and other operating expenses amounted to MSEK 811.9 (524.4) during the period. Sales costs amounted to MSEK 600.3 (443.0). The increase in sales costs is related to costs for taking over the product portfolio from LEO Pharma, the establishment of an own organization with, among other things, own subsidiaries in Denmark, Finland and Germany, and the acquisition of Trimb. Administration costs amounted to MSEK 188.4 (78.5). The increase is mainly due to non-recurring items in the second, third and fourth quarters related to the acquisition of Trimb and to restructuring costs totaling MSEK 107.2.

The adjusted operating profit amounted to MSEK 599.1 (632.2). During the second quarter of 2018, the company received non-recurring income of MSEK 86.6.

	October - December		January - December	
	2019	2018	2019	2018
Net sales	649.3	463.3	1 901.2	1 615.1
Cost of goods sold	-345.2	-205.3	-917.2	-676.3
Gross profit	304.1	258.0	984.0	938.8
Costs before amortization and depreciation	-196.4	-92.6	-492.2	-306.6
EBITDA	107.6	165.4	491.9	632.2
Non-recurring costs	43.7	0.0	107.2	0.0
Adjusted EBITDA	151.4	165.4	599.1	632.2
Amortization and depreciation related to operating costs	-99.5	-97.3	-319.8	-217.9
EBIT	8.2	68.1	172.1	414.3

Earnings per share was SEK 0.05 (4.63), of which SEK -0.11 (0.17) in the fourth quarter. Earnings per share in 2019 was adversely affected by non-recurring items and 2018 was positively affected by non-recurring revenue from Pfizer and the recognition of deferred tax assets on loss carryforwards.

CASH FLOW AND FINANCIAL POSITION

Cash flow from operating activities during the quarter was MSEK -10.8 (28.2) and during the period MSEK 106.8 (318.0). Group cash and cash equivalents amounted to MSEK 198.8 (MSEK 398.6 as of December 31, 2018) at the end of the period.

On December 31, total assets amounted to MSEK 10 898.5 (6 884.6), wherof intangible assets accounted for MSEK 9 090.1 (5 424.7).

Group equity amounted to MSEK 5 641.9 (3 611.0). The equity ratio was 51.8 (52.5) percent.

PARENT COMPANY

The Parent Company's net sales for the period amounted to MSEK 701.0 (655.6). Loss after financial items amounted to MSEK -89.7 (97.4). The

parent company's cash, cash equivalents and other current investments amounted to MSEK 61.6 (198.0 as of December 31, 2018).

AUDITORS' REVIEW

The year-end report has not been the subject to auditors' review.

BOARD PROPOSAL FOR DIVIDEND

The Board of Directors proposes that no dividend is to be paid for 2019.

SIGNIFICANT EVENTS

During the period, Hydrokortison Trimb and all related intellectual property rights and assets, including required licenses and permits and existing inventories, were sold to Evolan Pharma AB. This is part of the completion of the acquisition of Trimb Holding AB ("Trimb") in September 2019. The sale of Hydrokortison Trimb to Evolan was completed on November 29, 2019.

Åsa Riisberg left the board of Karo Pharma at her own request on December 10, 2019.

During the period, Karo Pharma signed an agreement to acquire a product portfolio focusing on intimate care and dermatology, from the Danish pharmaceutical company LEO Pharma, for MEUR 90. Turnover for the acquired portfolio is estimated at MEUR 35 for the full year 2019. The transaction is conditional upon the usual competition approvals being obtained but is expected to be completed by the end of Q1, 2020. The acquisition will be financed through a combination of new loans and existing cash.

RISKS AND UNCERTAINTIES

As an international group, Karo Pharma is exposed to various risks, which affect the opportunities to achieve the set goals. These are operational risks, such as the risk that competitive situations affect price levels and sales volumes and the risk that the economic development in the markets and in the segments where the Group operates is not stable. These include financial risks such as currency risks, interest rate risks and credit risks.

No significant change in material risks or uncertainties has occurred during the period. Our assessment is thus unchanged compared to the account of Karo Pharma's risks, uncertainties and the management of the same in the company's Annual Report for 2018. Readers who wish to consult the annual report can download this from KaroPharma's website www.karopharma.com, or request it from Karo Pharma AB, PO Box 16 184, 103 24 Stockholm, Sweden.

SIGNIFICANT EVENTS AFTER PERIOD END

Karo Pharma has been informed by Pfizer Inc. that it has decided to terminate the Research Collaboration and the License Agreement that the parties signed in December, 2011. After this collaboration has been concluded, there will be no active cooperation agreement between the parties. This information follows Pfizer's previous decision to terminate the specific development project PF-06763809, which Karo Pharma informed about in press releases published on November 5 and 20, 2019. The termination of the cooperation agreement has no impact on ongoing operations or the company's future prospects.

A strategic review is currently underway regarding the company's various business areas, including an internal restructuring aimed at clarifying the various business areas and streamlining their operations – in the business area Hospital Supply, which will be streamlined. There are ongoing evaluations of various strategic alternatives around the company and its business areas, which may involve both acquisitions and divestments of one or more business segments (the evaluations may also result in operations remaining unchanged).

FINANCIAL CALENDAR

Interim report Jan-Mar 2020	April 29, 2020
Interim report Jan-June 2020	July 21, 2020
Interim report Jan-Sept 2020	Oct 30, 2020

The annual report for 2019 is planned to be published in week 14, 2020 and the Annual General Meeting takes place on April 29, 2020 at Näringslivets Hus in Stockholm.

BOARD'S ASSURANCE

The Board of Directors and the CEO assure that the interim report provides 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 19, 2020

Bo Jesper Hansen
Chairman of the Board

Erika Henriksson
Director

Vesa Koskinen
Director

Eva Sjökvist Saers
Director

Håkan Åström
Director

Flemming Örnkov
Director

Christoffer Lorenzen
CEO

FOR FURTHER INFORMATION, PLEASE CONTACT

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Jon Johnsson, CFO, + 46 73 507 88 61, jon.johnsson@karopharma.com

ABOUT KARO PHARMA

Karo Pharma is a pharmaceutical company specializing in the sale and marketing of both prescription and non-prescription drugs as well as self-care products sold in pharmacies and retail. Karo Pharma is listed on the Nasdaq Stockholm Stock Exchange's 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 19, 2020 at 8.00 a.m. CET.

CONSOLIDATED INCOME STATEMENT SUMMARY (TSEK)

	October - December		January - December	
	2019	2018	2019	2018
Net sales	649 259	463 273	1 901 196	1 615 109
Cost of sales	-345 162	-205 250	-917 165	-676 349
Gross profit	304 097	258 023	984 030	938 760
Operating costs				
Distribution costs	-229 491	-159 236	-600 264	-442 970
Administration	-72 971	-27 145	-188 361	-78 505
Research and development	0	0	0	-615
Other operating income/expenses	6 520	-3 550	-23 304	-2 350
Total operating costs	-295 941	-189 932	-811 928	-524 440
Operating profit	8 156	68 091	172 102	414 320
Financial net	-37 057	-21 707	-155 512	-124 155
Profit/loss before tax	-28 901	46 384	16 590	290 165
Tax	5 785	-18 914	-7 649	367 227
NET PROFIT/LOSS	-23 116	27 470	8 941	657 392
Net earnings attributable to:				
Shareholders in the parent company	-23 172	27 451	8 890	657 376
Non-controlling interests	55	19	51	16
Earnings per share (SEK) ¹	-0.11	0.17	0.05	4.63
Number of shares issued (000)	225 033	164 333	225 033	164 333

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (TSEK)

	July - September		January - September		Full year
	2019	2018	2019	2018	2018
NET PROFIT FOR THE PERIOD	-1 807	55 757	32 058	629 922	657 392
Other comprehensive income for the period, net of tax					
Exchange rate differences	-13 550	-15 685	55 055	90 927	23 482
TOTAL COMPREHENSIVE INCOME	-15 358	40 073	87 113	720 849	680 875
Total comprehensive income attributable to:					
Shareholders in the parent company	-15 352	40 075	87 117	720 851	680 859
Non-controlling interests	-3	-1	-4	-3	16

CONSOLIDATED REPORT OVER FINANCIAL POSITION (TSEK)

	31 December		
	2019	2018	Change
Assets			
Intangible assets	9 090 094	5 424 689	3 665 405
Equipment	20 626	16 793	3 833
Utilization rights	9 407	0	9 407
Deferred tax claim	600 598	530 950	69 648
Other financial assets	2 745	136	2 610
Other current assets	926 253	513 491	412 762
Cash and cash equivalents	248 806	398 580	-149 774
TOTAL ASSETS	10 898 530	6 884 639	4 013 892
Shareholders' equity and liabilities			
Equity	5 641 908	3 611 001	2 030 907
Deferred tax	469 384	144 479	324 905
Long term debt	3 251 437	1 836 083	1 415 354
Current liabilities	1 535 801	1 293 075	242 726
TOTAL EQUITY AND LIABILITIES	10 898 530	6 884 639	4 013 892

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 2018	32 866	8 501	2 627 015	-1 081 907	40	1 586 515
Total comprehensive income				680 859	16	680 875
Dividend				-32 867		-32 867
Rights issue after transactions costs and deferred taxes	32 867	-8 501	1 429 063			1 453 429
Share buy-backs				-76 951		-76 951
Amount at 31 December 2018	65 733		4 056 078	-510 866	56	3 611 002
Total earnings						
Dividend						
Changes in group ownership						
Share buy-backs						
Rights issue after transaction costs and deferred taxes						
Amount at 31 December 2018	65 733		4 056 078	-510 866	56	3 611 002
Amount at 1 January 2019	65 733		4 056 078	-510 866	56	3 611 002
Total earnings				50 861	51	50 912
Dividend						
Share buy-backs					1 531	1 531
Share buy-backs						
Rights issue after transaction costs and deferred taxes	24 280		1 954 183			1 978 463
Amount at 31 December 2019	90 013		6 010 261	-460 005	1 639	5 641 908

CONSOLIDATED STATEMENT OF CASH FLOWS (TSEK)

	October - December		January - December	
	2019	2018	2019	2018
Operating activities				
Operating income/loss before financial items	8 156	68 091	172 102	414 320
Depreciation	99 493	97 294	319 755	217 869
Other items not affecting liquid assets	-16 332	-1 443	-207	-1 443
	91 318	163 942	491 650	630 747
Financial items received and paid				
Financial items received and paid	-35 749	-51 401	-134 033	-156 850
Income tax paid	-4 698	1 833	-6 093	-257
Cash flow from operating activities before changes in working capital	50 871	114 373	351 525	473 639
Changes in working capital	-61 720	-86 214	-244 681	-155 608
Cash flow from operating activities	-10 850	28 160	106 844	318 031
Investing activities				
Net investment in company acquisitions	0	0	-2 456 377	-2 673 216
Net investment in intangible assets	-10 324	-13 477	-31 896	-14 881
Net investment in financial assets	-223	0	-806	0
Net investment in other financial instruments	-37	0	0	0
Net investment in property, plant and equipment	-710	-1 817	-2 651	-4 033
Sale of intangible fixed assets	50 000	0	50 000	0
Sale of property, plant and equipment	0	0	20	0
Cash flow from investing activities	38 706	-15 293	-2 441 710	-2 692 130
Financing activities				
Net proceeds from share issues	2 003 114	0	2 003 114	1 492 642
Transaction costs share issue	-23 999	0	-23 999	-98 340
Share buy-backs	0	0	0	-76 951
Dividend	0	0	0	-32 867
Borrowings	0	0	3 500 000	4 243 507
Repayment of loans	-1 978 425	-39 472	-3 294 469	-3 596 753
Cash flow from financing activities	690	-39 472	2 184 646	1 931 238
Cash flow for the period	28 546	-26 606	-150 220	-442 861
Cash at the beginning of the period	225 017	443 111	398 580	838 586
Exchange rate differences in cash	-4 757	-17 925	446	2 855
Cash at the end of the period	248 806	398 580	248 806	398 580

PARENT COMPANY INCOME STATEMENT SUMMARY (TSEK)

	October - December		January - December	
	2019	2018	2019	2018
Net sales	177 191	217 274	701 042	655 551
Cost of sales	-95 576	-89 155	-324 074	-235 254
Gross profit	81 615	128 119	376 969	420 297
Operating costs				
Sales costs	-91 098	-55 083	-247 492	-166 874
Administration	-26 795	-15 990	-94 246	-40 509
Research and development	0	0	0	-615
Other operating income/expenses	-1 779	-3 308	-1 192	-1 438
Total operating costs	-119 672	-74 381	-342 929	-209 435
Operating profit/loss	-38 057	53 739	34 039	210 861
Financial net	-20 500	-19 488	-123 724	-113 419
Profit/loss before tax	-58 556	34 250	-89 685	97 442
Group contributions paid	129 110	55 862	157 380	55 862
Tax	-15 471	-11 440	-15 799	395 754
NET PROFIT	55 083	78 672	51 895	549 058

PARENT COMPANY BALANCE SHEET SUMMARY (TSEK)

	31 December		
	2019	2018	Change
Assets			
Intangible assets	2 453 690	2 625 210	-171 520
Equipment	1 097	152	945
Utilization rights	494 715	481 814	12 901
Deferred tax claim	304 223	358 587	-54 364
Other financial assets	5 128 404	2 565 982	2 562 422
Other current assets	1 682 486	283 840	1 398 646
Cash and cash equivalents	61 557	198 004	-136 447
TOTAL ASSETS	10 126 174	6 513 589	3 612 584
Shareholders' equity and liabilities			
Equity	5 530 470	3 500 111	2 030 358
Deferred tax	21 989	0	21 989
Long term debt	3 141 508	1 847 889	1 293 619
Current liabilities	1 432 207	1 165 589	266 618
TOTAL EQUITY AND LIABILITIES	10 126 174	6 513 589	3 612 584

Note 1

ACCOUNTING AND VALUATION PRINCIPLES

This report has been prepared in accordance with International Accounting Standards 34 regarding 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 that were applied in 2018, with the exception of what is stated below in these notes under new accounting principles for 2019.

Regarding the Parent Company, this annual report has been prepared in accordance with the Annual Accounts Act and RFR 2 Accounting for Legal Entities. The accounting principles applied for the Parent Company differ from those applied for the Group solely with respect to the accounting of leasing agreements.

Note 2

LOSS CARRYFORWARDS

As of the balance sheet date, Karo Pharma AB has unutilized loss carryforwards of MSEK 402, Karo Pharma AS of MSEK 724 and Trimb Group of MSEK 304. In light of the Group's expected profit development, the deficits are fully valued in the balance sheet.

Note 3

ACQUISITIONS

The acquisition of all shares in Trimb Holding AB, announced on June 21, 2019, was completed on September 12. The Trimb Group has been consolidated as of September 12, 2019.

Sales during the period September 12-December 31, 2019 for the acquired business amounted to MSEK 242.3. The operating loss amounted to MSEK -36.9 and the loss before tax amounted to MSEK -57.8.

Transaction costs of MSEK 39.0 have been expensed and are included in operating costs in the income statement and are part of the operating cash flow in the cash flow analysis.

On November 29, Hydrokortison Trimb and all related intellectual property rights and assets, including necessary licenses and permits and existing inventory, were sold to Evolan Pharma AB. This is part of the completion of the acquisition of Trimb Holding AB.

Assets and liabilities	Fair value KSEK
Intangible fixed assets	2 561 170
Equipment	3 846
Utilization rights	0
Deferred tax claim	419
Other financial assets	3 005
Other current assets	401 098
Cash and cash equivalents	78 300
Deferred tax	-267 308
Long term debt	-1 206 363
Current liabilities	-381 749
Acquired net assets	1 192 417
Goodwill	1 342 260
Acquisition value	2 534 677
Cash outflows to acquire subsidiary, after deduction of acquired cash and cash equivalents	Fair value KSEK
Cash consideration	-2 534 677
Cash assets in acquired company	78 300
Net cash outflow of liquid funds - investing activities	-2 456 377

Note 4

DEFINITIONS

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 analyse the company's operations. These measures may differ from measures with similar names at other companies.

See also table on page 5.

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

For further definitions, see the Annual Report 2018 under the heading definitions.

Financial performance measure	Definition	Purpose
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.

Note 5

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group holds no derivative instruments or other financial instruments valued at fair value.

The fair value of long- and short-term interest-bearing liabilities is not expected to deviate materially from the recognized amount. For financial instruments recognized at amortized cost; accounts receivables, other receivables, cash and cash equivalents, accounts payable and other interest-free liabilities, the fair value is assessed to be consistent with the recognized amount.

Note 6

NEW ACCOUNTING PRINCIPLES 2019

Karo Pharma has begun to apply the new accounting standard IFRS 16 Leasing as of January 1, 2019.

IFRS 16 is applied retroactively without recalculation of comparative numbers. Thus, the incoming balance 2019 has been recalculated in accordance with the new standard. When applied in a forward-looking period, the debt is based on the remaining lease term.

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

Recognized utilization rights have not had the same value as the reported lease debt as of January 1, 2019 due to advance payment. In the calculations made, leasing debt is expected to have an initial value of MSEK 11.9 as well as utilization rights of MSEK 11.5. The difference consists of prepaid expenses and thus no transition effect is presented in equity.

Karo Pharma's assessment is that the transition to IFRS 16 has had 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 characteristics
- 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 lease liability
- Direct acquisition costs for utilization 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.