



Annual Report 2021

Smart  
choices for  
everyday  
healthcare

**karo**<sup>®</sup>  
pharma

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**“We've invested in people, e-commerce and digital marketing capabilities to leverage the full potential of our excellent brands and drive growth.”**

– Christoffer Lorenzen,  
CEO, Karo Pharma

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# Management review

# At a glance

Accelerating the journey towards becoming a leading European consumer healthcare company.

Approx.

330

employees across 10 countries. Headquartered in Stockholm, Sweden.

We are an equal opportunities employer. Women represent

40%

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



During the past year, we have made great progress when it comes to delivering on our strategy. We have expanded and strengthened our brand portfolio; we have further expanded our geographical presence in Europe; and we have advanced our commercial capabilities – particularly within digital marketing and e-commerce.

Through our important acquisitions of companies and brands, our business has grown. New colleagues have joined the Karo family, and our product

categories have been boosted by market-leading brands within consumer health, many of which are on Karo's top 10 best-selling list.

We will keep focusing on driving organic growth and sharpening our commercial execution across markets. With targeted investments and talented employees that connect in cross-functional teams, we are confident that we can deliver growth and great performance in the years to come.



Products sold in more than

90

markets.

A broad portfolio of

80+

brands.

Revenue of

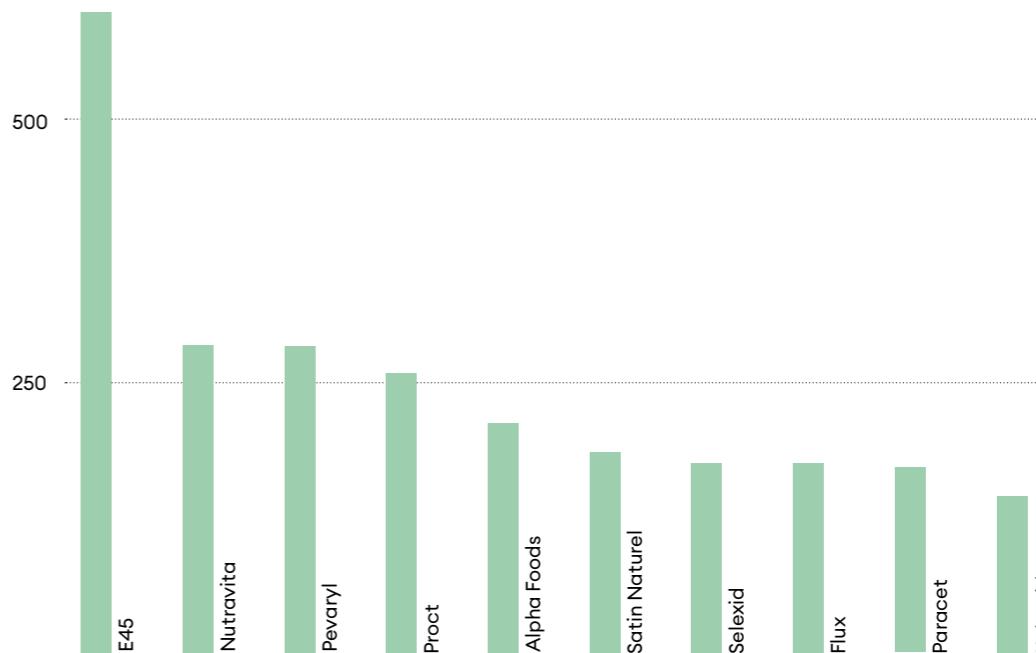
3.0

billion SEK.

\* January 2022

## Our best-selling brands

Sales pro forma 2021 (SEK m)



## Sustainability

### Environmental

Our effort to reduce the environmental impact of our activities spans the whole Karo organisation; it also includes 'bottom-up' initiatives for our brands. We want to focus on what matters the most and where our efforts will have the greatest effect.

### We focus on:

- reducing greenhouse gas (GHG)
- optimising packaging
- minimising environmental impact from transportation.

### Social

Our top priority is to ensure the well-being of the people who work for us and give back to the communities we do business in. Within our company, we're committed to creating a culture of psychological safety and providing equal opportunities for all.

### We focus on:

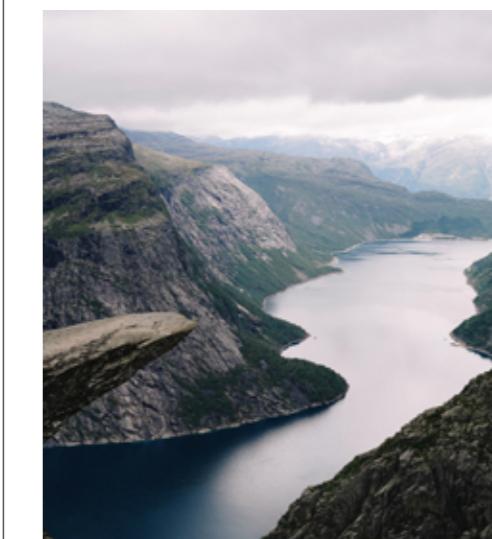
- ensuring employee engagement and wellbeing
- creating a diverse and inclusive workplace
- giving back to the community.

### Governance

Achieving the highest standards in ethics and transparency is integral to how we operate and conduct our business. We do everything in our power to set an example for ourselves, our partners and the industry as a whole.

### We focus on:

- meeting international standards
- monitoring and evaluating suppliers
- keeping consumers safe with quality products.



We embrace diversity and our employee base represents

38

different countries of origin.

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

62



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



## Our seven categories

With our broad brand portfolio, we serve seven strong categories in everyday healthcare.

### Skin health

MEOMICS  
**REMESCAR**  
INSTANT CORRECTIVE SKINCARE

Locobase®

DECUBAL

indy  
beauty  
*Thérèse Lindgren*

### Intimate health

Multi-Cyn

Pevaryl®

asan®

Selexid

### Digestive health

Scheriproct

Hemoproc®

### Foot health

Pevaryl

naillner.

wortie

CCS.

### Wellness

ALPHA FOODS

nutravita

FLUX

LACTOCARE

### Pain, cough & cold

Paracet

Ibux

Mollipect

Viruseptin®

### Specialty products

Burinex

Centyl

Kaleorid

Lithionit

For full product information please visit  
[karopharma.com/products/](http://karopharma.com/products/)

# Four major Karo hubs across Europe

Across our teams and disciplines, we share a dynamic, entrepreneurial culture, defined by commercial insight and the ability to act quickly and decisively.



## Total sales by product segment



## Key indicators

SEK m	2021	2020	2019	2018	2017
Net sales	2,961.4	2,882.9	1,901.2	1,615.1	657.6
Cost of goods sold	-1,255.0	-1,287.5	-917.2	-676.3	-315.7
Operating expenses	-1,500.4	-1,365.0	-811.9	-524.4	-262.0
EBITDA	771.8	725.0	491.9	632.2	141.6
Earnings per share (SEK)	-0.08	0.37	0.05	4.63	0.17
Cash flow from operating activities	532.6	329.2	106.8	318.0	33.5
Cash and cash equivalents and other investments in securities	260.7	570.4	248.8	398.6	838.6

01

### Stockholm

Karo's headquarters is situated in the city centre of Stockholm. This is where many of our support functions are located. Designed to reflect our collaborative culture, our HQ offers a great space for us to meet up with colleagues and customers, for work as well as social events.

02

### Maidenhead/London

Our centre for commercial excellence is located in the UK, just outside London. This hub of high energy and creativity defines and drives our digital marketing and e-commerce strategies.

03

### Ghent

Our expert centre for product innovation and development is located in newly renovated facilities in the Belgian city of Ghent. In the laboratory for pilot production and trend discovery, we test new ideas and turn the best of them into new solutions.

04

### Rotterdam

Our central hub for European activities is located on the 25<sup>th</sup> floor in the heart of Rotterdam, with an amazing view of the city. From here a dedicated team of commercial and operational experts directs our further expansion into Europe.



# Taking the next steps towards becoming a European leader in everyday healthcare

**“We’ve underlined our organic growth ambitions by boosting our e-commerce and digital marketing capabilities in acquiring Sylphar and its digital-first brands.”**

– Christoffer Lorenzen, CEO, Karo Pharma

In 2021, we've progressed operationally and commercially as we continue our journey to becoming a leading European consumer healthcare company.

Highlights include growing faster organically than comparable markets and segments and continuing to overcome COVID-19 disruption. We've also kept our products available and our relationships with suppliers strong, with service levels at nearly 98%.

We've underlined our organic growth ambitions by boosting our e-commerce and digital marketing capabilities in acquiring Sylphar and its digital-first brands, which include Nutravita and Alpha Foods.

We've also launched our first Amazon brand stores in Germany, Italy and the UK. Other acquisitions include the Nordic brands Decubal and Flux from Teva, and the leading UK skincare brand E45 from Reckitt.

We've welcomed experienced people to our management and board, who will help spearhead our international expansion and development as a consumer healthcare specialist.

Internally, we've largely completed building our scalable business platform, digitising core business processes to make them efficient, reliable and repeatable. And last but certainly not least, we've initiated a thorough assessment of what matters most in terms of our environmental and social impact.

## Defining clear priorities for the business

Our purpose, ‘Smart choices for everyday healthcare’ applies to how we approach consumers, brands and markets. But it also directs the way we work at Karo.

Our priorities for 2022 are to:

- invest for growth in e-commerce, making the most of the Sylphar acquisition
- increase investments in digital marketing, advertising and promotion

- accelerate our progress on sustainability
- support our priority growth brands by combining our brick-and-mortar expertise and online capabilities to make them ‘omnichannel’
- continuously improve our business processes for efficiency and growth.

**Delivering data-driven progress on sustainability**  
Tangible and data-led targets are key when it comes to qualifying our efforts on sustainability. So is transparency in communication about progress.

We've already reduced our environmental footprint by removing plastic from secondary packaging and by acquiring certificates to neutralise our direct carbon emissions in scope 1 and 2. But there's much to do to understand the environmental footprint of our entire value chain, from raw materials and production to logistics. That's what we'll be working to define more precisely.

Our sustainability efforts also include nurturing an inclusive workplace and maintaining a diverse workforce. Currently, the Karo family consists of 38 countries of origin and 50% of our leaders identify as female. In 2021, we were included in the Swedish Allbright ‘green list’ for our efforts to secure equal opportunities across genders.

**Nurturing strong connections and commitment**  
As we're expanding, a significant number of our people have only been with us for a year or less. It's important that new joiners feel welcome and get up to speed quickly. To ensure this, we track our performance when it comes to successful onboarding of new employees. In 2021, we had an average score of 4.4 out of 5 in ‘general onboarding experience’, based on 51 respondents.

Once onboarded and integrated, it's important we keep our people engaged and connected. We're proud to have increased our eNPS to 62, which according to the inventors of the eNPS concept, Bain & Co, is ‘excellent’. Our surveys also show strong commitment to our strategy and purpose.

We also monitor our people's connectivity to their colleagues and, amid the growth of remote working, we're stimulating networking between employees and teams. This is how we sustain the energy and entrepreneurial spirit of a start-up and stay committed in our efforts to deliver smart choices for everyday healthcare for consumers all over Europe.

Christoffer Lorenzen,  
CEO, Karo Pharma

## Letter from the Chairman



Patrick Smallcombe,  
Chairman,  
Karo Pharma

# Setting the launchpad for success

The last two years in consumer healthcare have been unpredictable, marked by the most fundamental change I've seen in 35 years in our industry. But that suits organisations that are fast on their feet and able to adjust rapidly, whether it's coping with volatile demand for stock or handling changing consumer needs and habits.

Karo is that kind of company, which is one of the reasons I'm delighted to be its new Chairman. But there are several other reasons, too.

### Defining a clear strategic focus

Karo knows what it wants to do, and what it needs to do to achieve it when it comes to putting into place the right tools, people and capabilities. It has defined its priority markets and categories, as well as key brands in each, and has a clear focus on where it can make the biggest difference.

Karo also has mature systems and processes at the spine of the company. These let it make decisions quickly based on solid data and insights.

Karo is also introducing a data-led approach to sustainability. This is vital to making efforts on ESG transparent and impactful.

### Choosing great acquisitions – and getting the most from them

Karo doesn't just set out to acquire brands. It runs them well to lower costs and increase value, for example reducing manufacturing costs by 20% for intimate and foot health brand, Pevaryl. It also integrates acquisitions' know-how. As one of our most important recent acquisitions, Sylphar gives us an exciting opportunity to rapidly ramp up our digital capabilities.

### Nurturing and attracting great people

Karo has a strong culture and team. We've now added new people in leadership positions to strengthen us in areas vital to our growth, such as digital, marketing and e-commerce. These new colleagues have experience from large international companies, so

“Karo has a strong culture and team. We've now added new people in leadership positions to strengthen us in areas vital to our growth, like digital, marketing and e-commerce.”

– Patrick Smallcombe, Chairman,  
Karo Pharma

they know what it takes to succeed in European and international markets, which will help us expand further beyond the Nordics. And, like me, they see enormous potential in a company with strong investment that's able to steer its own destiny.

With this platform in place, we now want to seize our opportunities by deepening our capabilities to differentiate our brands and accelerate our growth.

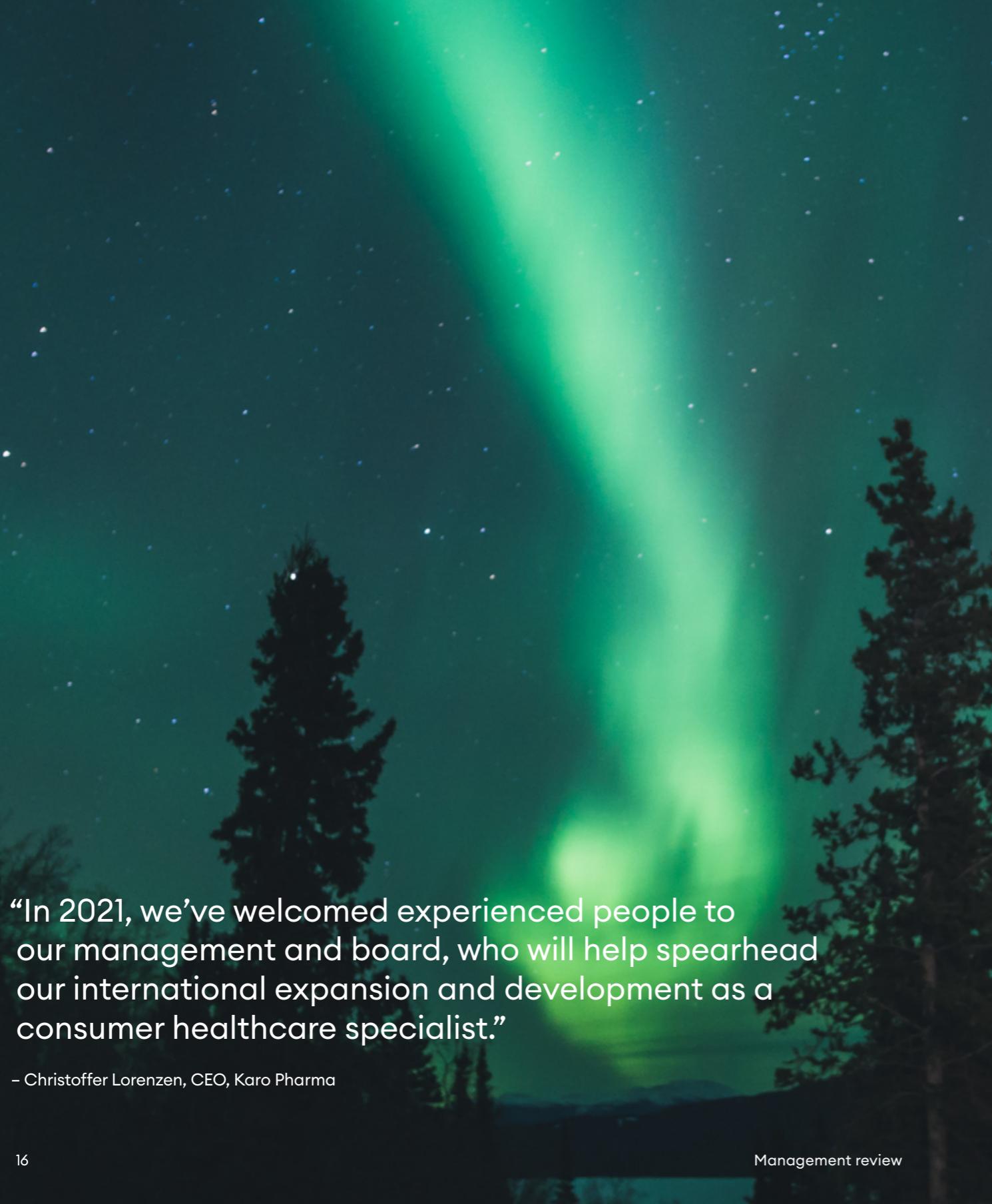
This means pushing ahead in:

- digital marketing and data – by being close to our consumers in the right channels, with the right messages
- e-commerce – by using data to build our visibility and reach consumers directly or through third parties
- building even stronger relationships with our pharmacy partners – by supporting them in stores and online.

What makes a business sustainable are its capabilities and how it weaves them together. I'm excited about how we set about this in the coming years.

Patrick Smallcombe  
Chairman, Karo Pharma

# Highlights 2021



**“In 2021, we’ve welcomed experienced people to our management and board, who will help spearhead our international expansion and development as a consumer healthcare specialist.”**

– Christoffer Lorenzen, CEO, Karo Pharma

Karo announces the acquisition of the E45® brand from Reckitt

Karo enters into a put option agreement to acquire the leading skincare brand E45® from Reckitt for GBP 200m.

Change of listing venue to Nasdaq First North

The Board of Directors of Karo announces their intention to have the company's shares listed on Nasdaq First North Growth Market during the first half of 2022.

## Acquisition of OTC brand portfolio from Teva

Karo acquires a European OTC brand portfolio containing Flux®, Decubal®, Lactocare®, Apobase®, Dailycare® and Fludent® from Teva for EUR 84m.

## Anna Hale joins as CMO

The appointment of Anna reflects Karo's growth ambitions, fueled by a strategy of geographical expansion and development of its portfolio of consumer healthcare brands, plus the continuous efforts to strengthen and develop Karo's commercial organisation.

## Karo divests brand portfolio to Evolan

To further streamline and optimise our commercial portfolio, Karo divests a portfolio of 12 brands to Evolan.

## Matt Roberts appointed new CCO

With strong and relevant experience from leading, international consumer health companies Karo appoints Matt Roberts as new CCO, which will strengthen the commercial capabilities as Karo expands and grows in size and scope.

## New Chairman of the Board

Patrick Smallcombe is elected Chairman of the Board. With his extensive career in the field of consumer healthcare, Patrick brings valuable knowledge and experience to Karo.

## Acquisition of Sylphar

Karo acquires Sylphar for EUR 290m. Sylphar, a Belgium-based fast-growing and digital-first platform, brings strong brands as well as excellent capabilities and expertise in e-commerce and digital transformation to Karo. Robin List, CEO and founder of Sylphar, becomes member of the Corporate Management team.



Patrick Smallcombe,  
Chairman

Patrick became our Chairman in April 2021. Since starting his career as a scientist, he's held positions in R&D, Regulatory Affairs, Marketing and general management, all in healthcare. He has also been Johnson & Johnson's EMEA Group Chair. For Patrick, success is about being open to change. Patrick believes that everyone has the capability to be brilliant. He also believes that this is a great time for healthcare, with digital technology offering the chance to create personalised care and life-changing innovations that can change the trajectory of health for humanity.

*"I'm inspired by the impact our industry has on people's lives every day. It's my responsibility to create the right environment for that to happen, by helping people to feel empowered and helping high-performance teams to flourish."*

# Sharpening our capabilities to compete

Being a leading business in any sector means having cutting-edge capabilities. We've focused on operational excellence in recent years. Now our attention has turned to the commercial skills we have to hone to move to the next stage of our growth story.

**OUR AMBITION** is to be a leading consumer healthcare company in Europe. During the last two years, we've expanded in markets beyond our Nordic base and made important acquisitions. We've also built what we call our scalable platform of business processes and technologies to make our operations efficient.

But to achieve our ambition, we need to accelerate our organic growth. And to do that, we must build the right commercial capabilities.

We must understand our consumers and their needs and be ready to meet them. We must be present with our brands and products wherever and whenever people need us. And we must attract them with the right content and creativity.

## Knowing our consumers

The better we understand our consumers – from when they start researching a health problem and weighing up available options to when they decide which to buy – the better we can respond with advice and relevant product solutions.

In 2020, we invested in a major research project to get a deeper understanding of how people actually think about their everyday health and what they do to address health concerns.

Building on this insight, we're now looking into how they search as well as how and where they buy.

Head of Digital Fredrik Thorsén explains: "In 2021, we've invested in understanding search more deeply, including search trends and terms, as it's vital to learning how consumers think, behave and choose. Based on this, we can further advance our use of methods like search engine marketing, as well as search engine optimisation, to make sure we're responding to consumers' needs and that our content emerges at or near the top of search results, even in very competitive market segments."

"We're also investing to get insight into consumers more broadly," adds Chief Marketing Officer Anna Hale. "It could be research into how they navigate physical and online shops, or workshop and brain-storm sessions with consumers where we get their views directly on our brands and pinpoint the most fertile ground for new products, solutions or campaigns."

In early 2022, we've appointed an Insights & Analytics Director to co-ordinate this capability and harness it for all our brands.



## Being where our consumers are

Pharmacies are still our main connection with consumers and our main source of revenue, representing about 75-80% of sales. So it's important that we are precise in our plans for maintaining and strengthening our relationships with them.

Our products must be available and visible in pharmacies, and the key to this is to keep nurturing our partnerships and play our part in attracting consumers to brick-and-mortar pharmacies as well as the online equivalent.

At the same time, consumers are clearly moving online, with sales there growing much faster than offline. We're positioning ourselves to take advantage of this by increasing our presence and visibility in e-commerce channels, so that ultimately online and offline support each other.

## Attracting our consumers

Digital marketing helps us connect with consumers in the way that's most relevant to them. This means thinking first about reaching them in digital channels.

To compete, we must attract consumers with tailored messages. Success is about striking the right balance between channels that bring us data and direct engagement with consumers,

and third-party platforms like Amazon, which bring our brands visibility and the promise of higher-volume sales.

By acquiring Sylphar in 2021, we've given ourselves access to tried and tested expertise in how to strike this balance effectively, as many of Sylphar's brands were specifically created for online retail or have rapidly built online presence. In 2022, we'll be making the most of this experience to help our own brands thrive online.

For more about how we're building our commercial and digital capabilities to make sure we're always there to help consumers make smart choice for everyday healthcare, see the articles on digital transformation page 20 and 24.

## Bringing in new people

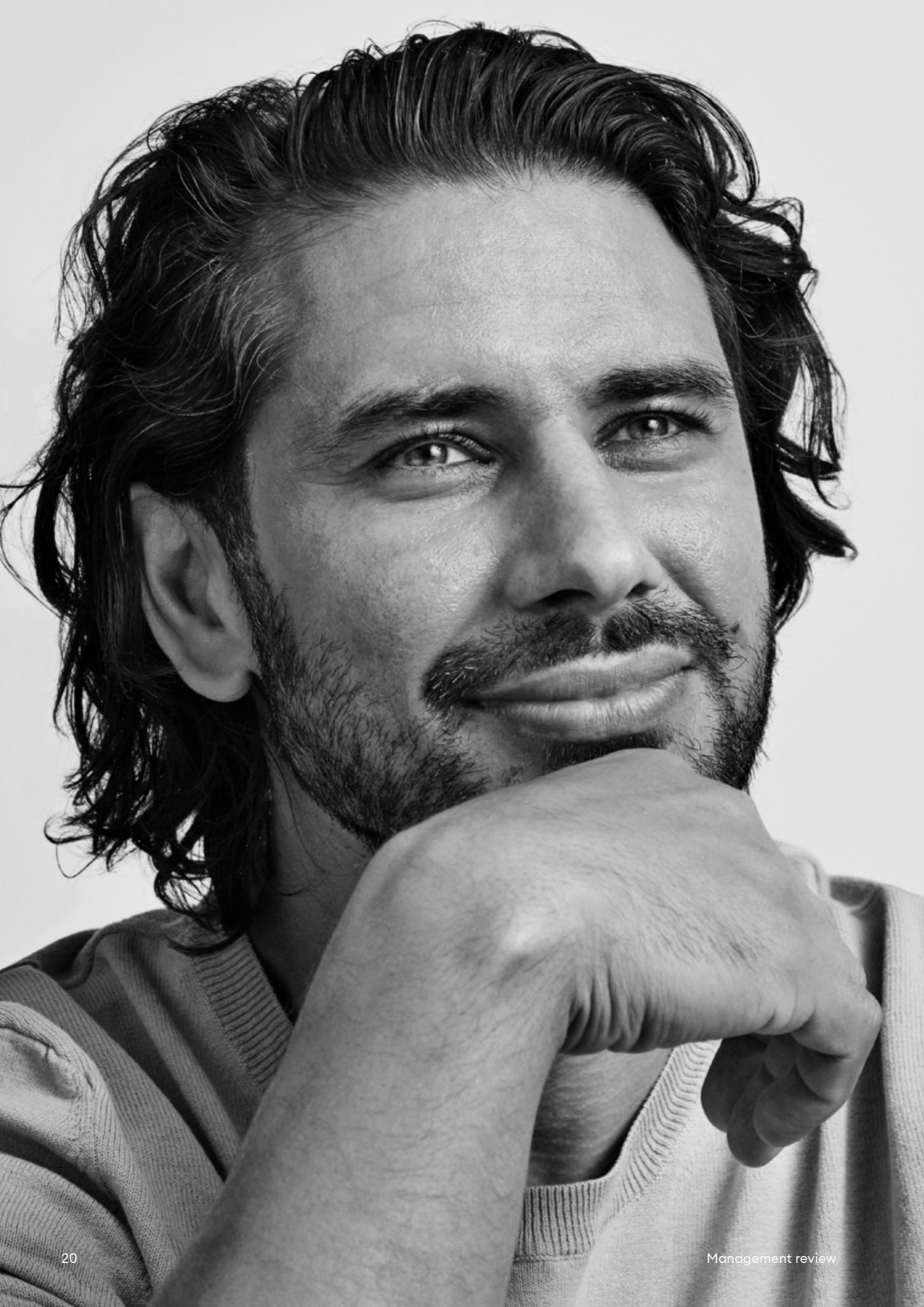
To strengthen our commercial capabilities, we've brought new people to Karo, both from major global healthcare businesses and from our acquisitions. Together, they bring experience of what it takes to succeed in the many European markets where we want to expand. They also bring know-how in specific disciplines, like marketing and e-commerce.



Mark Keatley,  
Board member

For 20 years, Mark has been an executive in pharmaceuticals and consumer healthcare businesses, helping them achieve double-digit sales growth and bring innovative products to consumers in record time. He's worked with EQT and other investors to help companies grow by bringing in the right people to lead their expansion and the right products to broaden their portfolios. He joined our Board in 2021 and also sits on the boards of two other European pharma companies.

*"Our combination of world-class products, a strong executive team with valuable experience in sales and marketing, and a solid financial and organisational set-up puts us on course for some exciting years."*



As consumers rapidly grow more confident about making smart choices for their everyday healthcare online, our job is to be there for them, making sure our brands and information are easy to find. That's why building our digital expertise is a big priority for us.



**Matt Roberts,**  
Chief Commercial  
Officer

Matt joined us in 2021 with 20 years' experience in consumer goods at Procter & Gamble and Johnson & Johnson, working in health and beauty for most of that time. Having had, global, regional and local roles, means Matt has done everything from putting plans into action for particular markets to leading change and shaking up strategy on a global level.

*"The opportunity to build something unique at Karo is what really excites me. We've got the chance to make our mark in consumer healthcare against long-established, global players."*

## Pushing ahead with digital transformation

ANY BUSINESS that wants to grow today must compete online. In our industry, consumers are increasingly willing to research and meet their everyday healthcare needs online as a supplement to, or, in many cases, instead of face-to-face consultations with healthcare professionals.

We need to help consumers make smart choices in the virtual environment that suits them. This means being visible wherever they choose to search and shop. Their search might begin online and end in a brick-and-mortar store, or the other way around. Either way, we must offer a seamless experience and master the tools to build it.

This means thinking and working in a 'digital first' way that starts by asking how content and campaigns will work online. It also means being able to take an 'omnichannel' approach with brands that work simultaneously in the digital and physical realm.

In 2021, we've strengthened our digital capabilities. Our acquisition of Sylphar gives us access to proven expertise in digital through successful brands like Nutravita, which were born on Amazon, and others, such as Remescar, which have quickly built a digital profile. →



**Anna Hale,**  
Chief Marketing Officer

Anna came to Karo in 2021 from GSK Consumer Healthcare. In her 15 years with GSK, she worked all over the world and built deep leadership experience of brand turnaround, scale-up as well as sustaining success on both global and local brands. Before GSK, Anna spent eight years at Reckitt in global and local marketing roles leading hygiene and household brands. She's now bringing all that experience to helping our brands grow and match their potential.

*"What's really exciting is the speed that's in Karo's DNA. The ability to make decisions quickly, move fast and make an impact in the market is our superpower. Companies far bigger than us can't compete with that."*



### Seeing the potential of digital

We've already seen what's possible online in 2021 through digital-only campaigns in intimate health, a category that lends itself to an online customer journey.

In Norway, our Asan intimate wash brand combined video on Facebook, Snapchat and Instagram plus banner advertising, other content and PR to help increase overall sales by 8% in a market that declined by 2%.

Meanwhile, in Sweden, our Multi-Gyn brand used influencer marketing to combat the taboo around bacterial vaginosis and partnered with retailers to make the product more visible online, and easier to find and buy. By reaching consumers to stimulate awareness of the issue and the brand, and then giving them a better experience, Multi-Gyn online sales grew by 39%.

In parallel, in 2021 we've also launched brands with third-party platforms and online vendors including Amazon, for example in the UK and Germany.

### Understanding how consumers search

Building on this means understanding what consumers are searching for online, whether it's information on products or questions about symptoms. "People are more than twice as likely to start by searching for a product or symptom on

Google than seeking that same information from a doctor," Fredrik Thorsén, Head of Digital explains.

"We've researched what they're looking for. This allows us to be more precise in our media targeting, in building campaigns with the right partners, and in using methods like sponsored links. We are continuously monitoring how search trends change, which helps us adapt to shifting consumer behaviours and respond, for example by creating content or innovating products as we discover new needs."

### Learning what makes people tick

In 2022, we'll continue this learning and evolution to understand our consumers better. We'll use diverse data sources, from social media 'listening' and accompanied shop visits, where researchers watch how consumers navigate shopping environments and make choices, to co-creation workshops, where consumers share their views directly.

All this combined data deepens our insight into consumers and what they need and want. It helps us make good decisions, from creating the right messages for our intimate health brands to choosing whether to make products available through online vendors like Amazon or our own direct-to-consumer channels.

Fredrik Thorsén,  
Head of Digital

Since starting his first digital business at 15, Fredrik has worked across different industries for 26 years, most recently as Global Head of Digital Marketing at Absolut Vodka. There, he co-mas- terminded highly successful, award-winning digital campaigns. Fredrik joined us in 2021. He now wants to put his experience to work to fast-track our digital transformation, combining an eye for innovation, creativity and trends with a focus on our consumers.

*"Building up a company that helps consumers every day and that's at the crossroads in its story is a really exciting prospect for me."*



Robin List,  
CEO, Sylphar

Robin joins our Corporate Management team from Sylphar, which we acquired in 2021. He's an entrepreneur who floated a dental company on Nasdaq before founding Sylphar in 2008. He brings expertise in how to turn brick-and-mortar businesses into online successes. Robin's ambition is to help us to build the leading digital health and beauty business in Europe.

*"My philosophy has always been: if you don't rock the boat, you don't make waves."*

**“In the digital age, we've all become more impatient and have higher expectations from our digital interactions.”**



Robin List,  
CEO, Sylphar

### Communicating one-to-one

Understanding search and deepening insight make us able to market more precisely by reaching consumers when they need our products and in a way that feels as if we're speaking to them directly. This is doubly important for us, as consumers turn to many of our brands to solve specific problems rather than using them constantly.

Anna Hale, our Chief Marketing Officer explains: "Through digital and data triggers, we can make our communications even more relevant to consumers. We'll be harnessing this power for our priority brands in 2022, tailoring our communications plans for content and media."

### Creating a seamless e-commerce experience

We want to reach consumers in various ways, including social media channels like SnapChat, TikTok and Instagram,

through pharmacies and supermarkets, and through third-party platforms like Amazon. And a smooth e-commerce journey is essential for us to reap the reward.

As the founder and CEO of Sylphar, Robin List, explains: "In the digital age, we've all become more impatient and have higher expectations from our digital interactions. We want a seamless consumer journey, from interacting with any form of content to buying the product and getting it delivered. This converged experience, where you can buy a product from an image or video you see online will become the norm. So we want to satisfy that need by making sure the option to shop is only one click away."

Acquiring Sylphar gives us the springboard to expand our digital capabilities. One of the group's skin health brands shows us what a dramatic difference digital can make. Now we want to combine that know-how with our high-quality brands to leverage their full potential.

# From the street to the screen

OUR ACQUISITION of Sylphar is exciting – for more than one reason. It brings us a portfolio of fast-growing brands, but also expertise in a critical area for our industry: digital marketing and e-commerce. Our pharmacy business forms the vast majority of our sales, but across healthcare online sales are growing much faster than the sector overall.

This makes it essential that we complement our brick-and-mortar capabilities and presence in physical outlets like pharmacies, supermarkets and convenience stores with digital capabilities. As Chief Marketing Officer Anna Hale explains: "We must serve consumers by providing access to our brands, whenever and wherever they need them. So while pharmacy and brick-and-mortar remain important, we will also give consumers the choice to shop for our brands on Amazon, in e-pharmacies and through other digital commerce customers. That's what we call taking our brands from offline to omnichannel."

We've already had success with digital-only campaigns for some of our brands. But Sylphar's know-how will help us accelerate our growth. They've shown the way through the success of fast-growing, market-leading brands such as Nutravita and Alpha Foods. Remescar is another case in point. Over just a few years, Sylphar managed to successfully transform what was an offline-only brand into a multi-channel brand with a strong digital footprint.

**Remescar – a brand transformed**  
Remescar is a brand specialising in skincare around the eyes, with products for issues like wrinkles, stretchmarks, dark circles and eye bags. Its story shows how fast things can change for brands with a similar profile to some of ours.

As recently as 2018, Remescar was entirely offline. In the summer of that year, the brand launched on Amazon, and since then it's reached number one ranking in the beauty category in Spain,

Italy and Germany. But there's more to its online success, and that's why its online turnover is fast closing in on its offline sales.

COVID-19 and declining offline sales were the spur to start direct-to-consumer online activity. Focusing initially on e-commerce in the Netherlands and Italy – and subsequently expanding to Spain, Germany and Belgium – Remescar's online turnover trebled in only two years.

This happened through a combination of search engine optimisation, content marketing, automated email marketing and gathering a 140,000-strong consumer database. Sylphar also strengthened the skills behind Remescar by recruiting an experienced digital team that also supports other group brands.

In 2020, brick-and-mortar still accounted for 70% of Remescar sales. But today, the balance is much more even with online, which now stands at 46% of the total. The brand has now integrated direct-to-consumer with Amazon, e-pharmacy and offline in one promotion strategy.

## Learning from success

This is a taste of what's possible for Karo's brands. "To emulate the success of Remescar, we'll start accelerating specific Karo brands on their digital journey in particular markets," says Anna.

## The Sylphar fact file

- Based in Belgium. Founded in 2008.
- Develops and markets OTC products worldwide
- Focuses on bringing innovative and consumer-friendly products to the global market
- Owns brands across VMS and beauty, distributed in more than 50 countries. Leading brands include: Nutravita, Alpha Foods, Remescar and iWhite
- Has adopted a 'digital first' strategy with a clear vision of building strong, omnichannel platforms for its leading brands.



Remescar®

Remescar offers instant visible instant solutions to skincare issues like eye bags and dark circles. The high-end products give an immediate self-confidence boost, and have a clinically proven effect.



Nailner®

Nailner is more than just an effective nail fungus treatment. Nailner products also improve the appearance of the nail during treatment. Whether you want natural or coloured nails, there's a product for you which is fast and easy to use.



Multi-Gyn®

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



# Putting sustainability centre-stage

Sustainability is at the heart of our purpose. By helping people make smart choices to solve everyday health issues, we contribute to societal wellbeing. For our business too, sustainability is a smart choice. The more we minimise our environmental footprint and maximise our positive social impact, the more we stay in tune with stakeholders, from customers and partners to investors, regulators and employees.

In 2021, we've moved sustainability to the centre of our work with an ambition to report on progress in a way that's transparent, tangible and driven by solid data.

In common with many other businesses, we focus on environmental, social and governance (ESG) issues. Our social agenda is well advanced through our workplace practices, culture and employee engagement. And our governance systems are well defined. It's on environmental issues where we have most to do. In the statutory sustainability report on pages 46-49 there's more about the progress we've made in 2021.

To move forward, we've mapped our sustainability issues – including our environmental impact – to pinpoint our priorities. We've started working with suppliers to gather data on emissions, and we've begun concrete initiatives, like removing plastics from secondary packaging.

In 2022, we'll continue to work on how to monitor and measure our progress so we can report accurately and transparently against a defined baseline.

## Setting a solid base for sustainability

To make sure we focus on the right things, we've revisited the materiality assessment and mapped our emissions. This will help us understand what

matters most, and where we can make the greatest difference. It's based on standards defined by the Global Reporting Institute (GRI) and draws on views of stakeholders, including investors, customers and staff.

The assessment shows that our most important sustainability issues are:

- greenhouse gas emissions
- product packaging
- transport
- diversity and inclusion.

Using the assessment, we can establish our baseline across environment, social and governance issues and set targets.

We've invested in a sustainability management system, SustainLab, to help manage our sustainability initiatives, track our performance and measure impact. Among other things, this system will help us gather and visualise data to communicate well and streamline our decision-making. We're also recruiting a Sustainability Manager to act as a focal point for all our work in this area.

On the next pages, we explain more about our ESG ambitions.

# Smart choices for everyday healthcare

At Karo, we know about everyday health issues. We also know that a staggering 97%\* of us live with perfectly treatable ailments like stress, poor sleep or digestive problems. Healthy living and good physical wellbeing go hand in hand with mental health and quality of life. That's why we've made it our mission to help people make smart choices in their everyday health. Unfortunately, the number one coping strategy for many of us only makes it worse. We'd rather live with the inconvenience than tackle our problems head-on and let minor health issues have a negative impact on our lives.

It's time to start talking openly about the everyday health issues that get in the way of us living life to its fullest.

Breaking the taboos and removing the obstacles that keep us from making smart choices for everyday healthcare is a responsibility close to our hearts and core to our strategy. It's an important part of turning our purpose and commitments into actions and is just as important as operating our business responsibly. At Karo, we accelerate our sustainability ambitions and take a structured approach to environmental, social, and governance metrics. We aim to be transparent and use quantitative data for tangible reporting on progress and impact.

\* IPSOS "Self Care: Be Your Best" Report, 2019

## Environmental

To stay focused, we have defined a set of tangible goals to reduce our greenhouse gas (GHG) emissions and optimise the environmental performance of our packaging. Our approach is top-down with significant investments in our sustainable innovation efforts that involve the entire organisation alongside our many different bottom-up pilot projects led by our product brands. Experimental by nature, they show the way forward for many years to come.

### Reduce climate footprint

**Goal 1:** Reduce GHG emissions across the product lifecycle. Achieve net zero impact in our direct operations by 2022, and in the entire supply chain by 2040

**Action 1.1:** Identify sources of GHG emissions in the entire product lifecycle and track and report reduction on an annual basis

**Action 1.2:** Consolidate our European supplier base year on year and decouple revenue growth from total number of suppliers

**Action 1.3:** Revisit our meeting and travel policies, including business travel, company car use and commuting to minimise GHG emissions

### Optimise packaging

**Goal 2:** Ensure that 80% of all packaging is designed in accordance with the 5R strategy\*\* by 2025

**Action 2.1:** Encourage recycling of used packaging through reward programmes (starting 2022) and create an action plan to align primary packaging with the 5R strategy by 2023

**Action 2.2:** Eliminate plastics in secondary packaging by end 2023 (excluding shrink wrap)

\*\* Our 5R strategy for more sustainable packaging: Rethink, Recycle, Remove, Reduce, Renew.

## Social

Above all, Karo is a people company. As a Swedish healthcare company, our responsibilities go beyond the expected, which is why we've made our contribution to the wellbeing of our people and society a top priority. We're committed to creating a culture of psychological safety and providing equal opportunities for all. In a nutshell, we're here to leave a positive mark on our surroundings and ask all our partners to do the same.

### Employee engagement and wellbeing

**Goal 4:** Provide a great employee experience and achieve an employee Net Promoter Score (eNPS) of 30 or higher

**Action 4.1:** Continuously measure the employee experience and parameters related to employee health and wellbeing to ensure that all our colleagues feel psychologically safe

**Action 4.2:** Engage Karo colleagues with initiatives to ensure a culture of continuous feedback (score > 4) and recognition (score > 4) (Scale 1-5)

**Action 4.3:** Provide an attractive and safe physical work environment and employee benefits like wellness contributions and wellness and social activities for all employees (score > 4) (Scale 1-5)

**Action 4.4:** Work to ensure that all newly onboarded Karo colleagues feel welcome and are set for success (score > 4) (Scale 1-5)

### A diverse and inclusive workplace for all

**Goal 5:** Make sure 100% of employees feel they can bring their true selves to work

**Action 5.1:** Work to ensure cognitive diversity and different perspectives so people of all backgrounds get equal opportunities to be heard (score > 4) (Scale 1-5)

## Governance

Achieving the highest standards in ethics and transparency is integral to how we operate and conduct our business. We live up to all international principles and policies, and do everything in our power to set an example for. But we also do everything in our power to set an example for ourselves, our partners and the industry as a whole. That's why we are putting new processes in place to govern and evaluate our suppliers.

### Meet international standards

**Goal 7:** Commit to run an ethical and sustainable business and meet international and national standards

**Action 7.1:** Ensure that all employees have general knowledge of, and are trained in industry directives and regulations

**Action 7.2:** Ensure that our policies governing the ESG space and our commitments are read and understood within six month after joining Karo and ethics and anti-corruption training has been performed by all employees

### Govern and evaluate suppliers

**Goal 8:** Ensure that our suppliers comply with code of conduct for a high standard operation and in compliance with good manufacturing practices, ethics and sustainability standards

**Action 8.1:** Implement and follow up on policies requiring our suppliers to comply with UN Global Compact principles on human rights and labour standards, environment and anti-corruption as well as ISO 13485, ISO 22716 and EU GMP/GDP standards

**Action 8.2:** Ensure all suppliers sign the Supplier Code of Conduct by the end of 2022

**Action 8.3:** Perform a sustainability assessment of suppliers to

improve transparency of indirect GHG emissions and increase engagement on climate issues with 90% of suppliers by volume by 2030

### Ensure safe and trusted product brands

**Goal 9:** A portfolio performance in compliance with consumer needs and industry requirements

**Action 9.1:** Ensure product complaints per unit sold <0,05%

**Action 9.2:** Report patient safety cases in compliance with deadline standards: 15 days for serious events and 90 days for non-serious events

We want to focus our environmental sustainability activity where it will make the greatest difference. As a virtual company, which relies on manufacturing and logistics partners, most of our environmental impact is in our value chain and outside our direct control. Even so, mitigating and reducing this in ways we can measure is what matters most to us.

# Environment: Focusing on what matters most

Our work to limit environmental impact spans the whole Karo organisation and also includes 'bottom-up' initiatives for our brands.

We've neutralised the scope 1 and 2 greenhouse gas (GHG) emissions we control directly through sourcing certified renewable energy and initiatives from encouraging e-cars and providing staff with recycled plastic IT hardware, to carbon trading certificates. We've also committed to revisit our travel and meeting policies to move our own locations towards net zero emissions.

But we want to go much further. By working with our manufacturing and logistics partners, we can reinforce the environmental standards we want to meet. This collaboration will be over and above what we lay down in our codes of conduct and supplier contracts.

Our materiality assessment and emissions mapping with Schneider Electric show that packag-

ing and transport are significant factors in our bid for sustainability. So we're defining clear targets and activities to progress in these areas.

## Cutting our packaging footprint

Our goal is to improve the environmental performance of our packaging by reducing emissions in production and cutting waste.

We've committed to:

- remove plastic from secondary packaging, except shrink wrap
- cut down on packaging by limiting the amount of air, or unused space, in packs
- find ways to refill, reuse and renew packs, including using PCR (recycled plastic), replacing plastic with sustainable alternatives and choosing cardboard with certified paper.

In 2022, we'll go further by adding more measurable targets and actions to be able to track progress towards our long-term goals.

Individual brands contribute with their own initiatives. The skin health brand Indy Beauty uses recyclable packaging, 100% vegan ingredients that are locally produced, and is moving towards more sustainable PCR packaging and mono materials that make packs more recyclable. And wellness brand Flux and foot health brand CCS are working with Bower Collective to promote consumer recycling.

## Reducing our transport impact

We want to work with our suppliers to explore ways to limit the transport footprint in our value chain.

This includes

- avoiding air freight
- consolidating our supplier network to streamline transport
- using all available space in transport to avoid unnecessary journeys
- using transport hubs to minimise empty lorries
- using the shortest available routes
- encouraging suppliers to use alternative fuels and minimise greenhouse gas emissions.





# Social: Making a positive impact, inside and outside Karo

Our social impact starts within our own business. Our goals include helping our people feel they can bring their true selves to work. We do this by creating a diverse and inclusive environment that fosters engagement and mutual respect. But our efforts also extend beyond our own company.

Keeping people engaged and connected is doubly important when we're growing fast and welcoming many new people. To track our progress in this area, we run employee engagement surveys twice a year. In December 2021, we recorded rising employee net promoter scores (eNPS) on survey questions, including how engaged our people feel (up from 52 to 62, where a score of 50+ is defined as 'excellent' on Bain & Co's scale). Meanwhile, our onboarding experience score shows that we're set up for success.

We also recorded scores of over 4 out of 5 from employees rating Karo's strategy and communication, culture, leadership, and wellness and inclusiveness. This tells us that our colleagues understand our purpose and goals, and are fully behind what we're trying to achieve. It's also a tribute to them, not just our ways of working.

We aim for 50% female representation among our Corporate Management team and people managers. Our current proportions are 40% and 50%, respectively.

## Looking beyond our business

We also aim for a wider social impact beyond Karo itself. Providing healthcare products means we make a positive contribution to society by helping people live life to the full.

Our social impact is also part of our core business practices. Our supplier code of conduct and contracts exclude suppliers who don't treat their staff in line with labour laws, and forbid practices like modern slavery. We ask our suppliers to sign off on this code, and we review them regularly through audits. We also monitor how our suppliers perform against International Labour Organization and United Nations codes and recommendations.

We give back to communities through our work with charities. This includes Operation Smile, a charity carrying out surgery for children born with cleft lip and palate around the world, which we've supported since 2018. Our recent support includes Move for a Smile, an initiative where for every employee taking a 45-minute walk or run, we funded a cleft palate surgery. This paid for 152 operations.

In 2021, through Operation Smile, we committed to support a maternity clinic in the Philippines for two years by funding training to feed babies with cleft palate until they're strong enough for cleft palate surgery.

To support the people suffering the war in Ukraine, Karo has during the first quarter of 2022 extended its charity program and donated specific products to fulfill important sanitary and medical needs.

# Governance: Building trust

**Good governance is at the heart of how businesses earn trust by keeping themselves accountable and transparent. We're no exception.**

Keeping to the highest standards of ethics and transparency is central to who we are, how we behave and how we run our business. It goes without saying that we live up to international principles and policies. But we also do everything we can to set an example for our partners and our industry. This matters in an era where business success is no longer defined just by financial measures, but also by conduct.

Accordingly, we have processes in place to oversee, evaluate and report on all aspects of our work. They include a task force we've created

to guide and oversee our work on sustainability. The task force is made up of key people in Karo, alongside Board member Kristofer Tonström, who participates in quarterly update sessions. The task force reports to the CEO and updates the Board and majority shareholders once a year.

In 2022, we will appoint a Sustainability Manager. We'll also dedicate resources to reporting and following up on sustainability data. This puts sustainability on par with our other business processes because it has similar oversight and accountability structures to support it.

Our work on sustainability is also bolstered by our ethical guidelines and rules that govern relationships with our business partners. These include our Code of Conduct, which signals that we're a reliable partner that works with integrity with customers, suppliers and authorities.

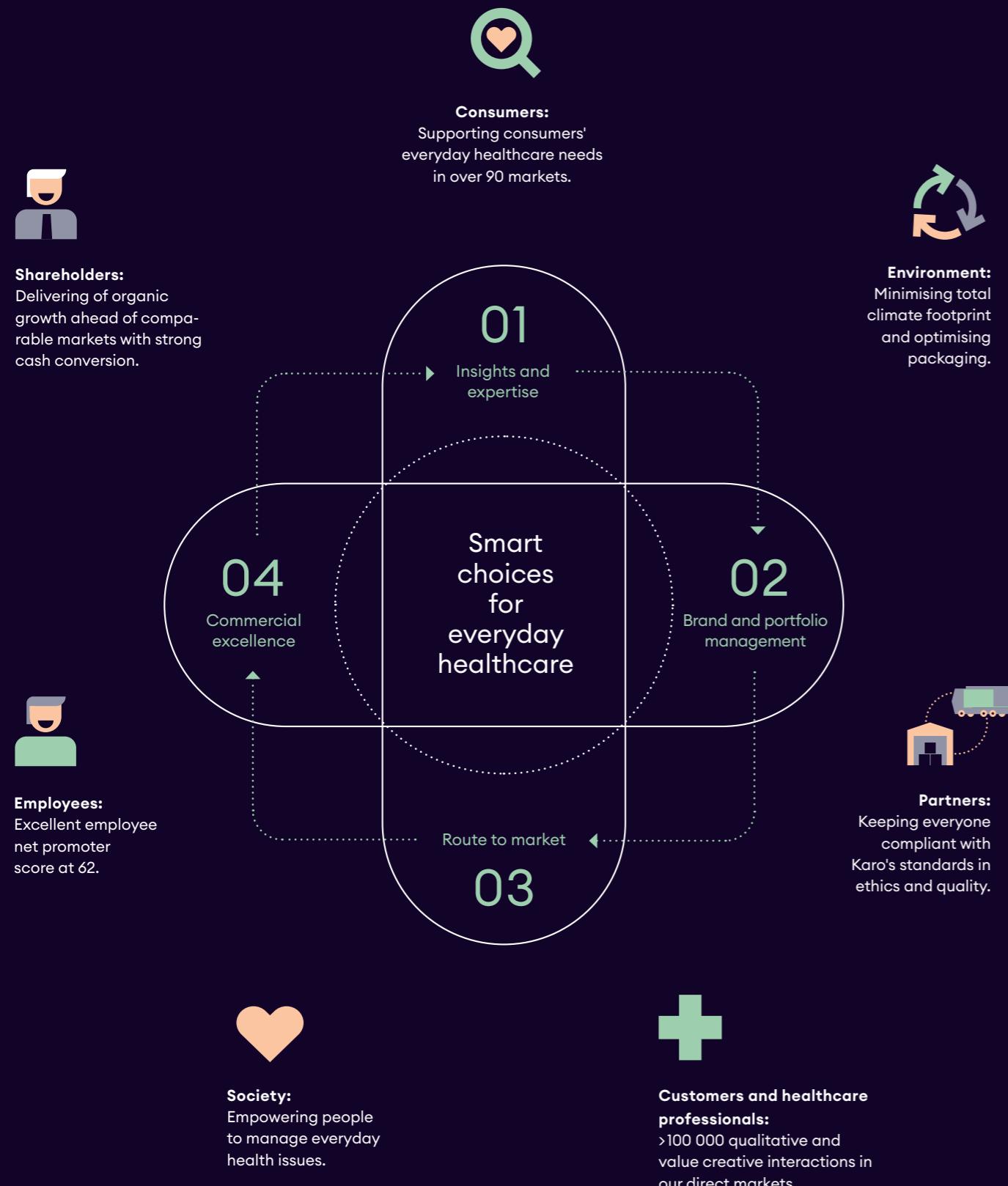
Our management system comprises 11 policies on corporate social responsibility, covering environment and business ethics, as well as procedures for legal and quality compliance, and patient safety. All our employees must sign off on these policies.

Across our value chain, from production to serving customers, we pledge to ensure product quality and patient safety. After our products reach consumers and patients, we monitor quality and patient safety data through pharmacovigilance overseen by our regulator. We also train all our people to keep their patient safety knowledge and procedures up to date.



# The Karo business model

## How we deliver on our commitments



Our strategy is about proactively shaping the future and responding fast and intelligently to changes in the environment around us.

### 01/ Insights and expertise

- Expertise in everyday healthcare
- Insights from consumers, customers and HCPs
- A scalable and digitised platform
- The Karo Way and focus on diversity

### 02/ Brand and portfolio management

- Unique high-quality brands with clear consumer value propositions across seven focus categories
- M&A execution and effective integration
- Optimised supply chain management

### 03/ Route to market

- Omnichannel capabilities and reach
- Engagement and partnerships with brick-and-mortar and e-commerce retailers
- Product availability

### 04/ Commercial excellence

- Leveraging data and insights
- Direct operations and consumer interactions
- Excellence in online and offline sales and digital marketing

As of 25 March 2022, Karo Pharma's share is quoted on Nasdaq First North Growth Market.

# Share and shareholders

## Listing

Karo's share has been quoted on Nasdaq Stockholm since 1998, with the ISIN code SE0007464888, and was in the Mid Cap segment during 2021. As of 25 March 2022, Karo Pharma's share is quoted on Nasdaq First North Growth Market.

## Share price and trading

Karo Pharma's share price increased by 14.3% in 2021, from SEK 52.50 to SEK 60.00. The high of SEK 64.00 was seen on 17 November, and the low of SEK 47.45 was on 9 February. At year-end, market capitalisation was SEK 13,501m.

## Shareholders

Karo Pharma's shareholder base decreased in the year, with 7,940 shareholders at the beginning of the year, and 7,003 at year-end. The largest shareholder as of 31 December was Karo Intressenter with 79.9%. The 10 largest shareholders held 86.1% (83.7) of the total number of shares at year-end.

## Shares and share capital

As of 31 December 2021, Karo Pharma's share capital was SEK 90,013k. 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 1,939,689 of its own shares in 2021 to expand the company's financial flexibility. The transfers took place on Nasdaq Stockholm. As of 31 December, 2021, the remaining shares in own custody amount to 0 (1,939,689), which constitutes 0.0% (0.9) of the share capital. Treasury shares do not entitle the holder to dividends or votes.

## Shareholders

	No. of shares	Percentage of capital and votes
KARO INTRESSENTER AB	179,835,268	79.9%
FÖRSÄKRINGSAKTIEBOLAGET, AVANZA PENSION	2,896,660	1.3%
STATE STREET BANK AND TRUST CO, W9	2,599,955	1.2%
SIX SIS AG, W8IMY	1,783,735	0.8%
CBNY-NORGES BANK	1,374,087	0.6%
JP MORGAN CHASE BANK N.A.	1,348,014	0.6%
SEB Investment Management	1,320,482	0.6%
GOLDMAN SACHS BANK EUROPE SE, W8BENE	1,288,230	0.6%
FÖRSÄKRINGSAKTIEBOLAGET SKANDIA	968,640	0.4%
HANDELSBANKEN FONDER	937,208	0.4%
<b>Total, 10 largest shareholders</b>	<b>194,352,279</b>	<b>86.1%</b>
Total, other shareholders	30,680,925	13.6%
<b>TOTAL, 31 Dec 2021</b>	<b>225,033,204</b>	<b>100,0%</b>

## Number of shareholders

	Holding
Number of shareholders	7,003
Net change during 2021	-937



# 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 2021. All figures are for the group for the financial year 2021. Unless otherwise stated, comparisons are with the financial year 2020.

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., Karo Pharma S.R.L and Trimb Holding AB. Karo Pharma Norge AS has one direct, wholly owned subsidiary, and Trimb Holding AB has a total of 9 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 First North Growth Market.

### Significant events in 2021

On 1 April 2021, Karo Pharma completed the acquisition of a portfolio of consumer healthcare brands from Teva Pharmaceuticals for SEK 855 m. The acquisition transferred ownership of Flux®, Decubal®, Lactocare®, Apobase®, Dailycare® and Fludent® from Teva to Karo Pharma.

On 1 July 2021, Karo Pharma completed the divestment of a product portfolio of 12 brands to Evolan. (Citodon®, Morfin Special, Sincon®, Bamse®, Oliva®, Karbasal®, Complete®, Nazamer®, Ferromax®, Tussin®, Samin® and Conotranse®). This portfolio had sales of SEK 62 m in 2020, with growth of -4% on the previous year.

On 15 December 2021, Karo Pharma's Board of Directors decided to apply to de-list the company's shares from Nasdaq Stockholm, and to list the company's shares on Nasdaq First North Growth Market. The Board of Directors' opinion is that with its more expedient regulatory environment and lower costs for compliance with ongoing obligations, Nasdaq First North Growth Market is a more appropriate marketplace for the company considering the company's strategy and shareholder base. Nasdaq Stockholm approved the application, and the final trading day on Nasdaq Stockholm was 24 March 2022, with the first trading day on Nasdaq First North Growth Market being 25 March 2022.

### Significant events after the end of the financial year 2021

On 13 January 2022, Karo Pharma completed the acquisition of high-growth Belgian digital first company Sylphar International NV for EUR 290 m. Sylphar generated sales of some EUR 64 m in October 2020 to September 2021. Sylphar's brands are marketed in over 50 countries worldwide through local distributors and/or via online platforms. The company's largest markets include the UK, Germany, Italy, Spain and France. The three largest brands in its portfolio are Nutravita, Alpha Foods and Remescar.

The acquisition was financed with new credit facilities, including a bridging loan facility with a 12-month term from Karo's existing bank lenders. The intention is to repay the bridging loan facility with funds from a rights issue, scheduled for the first half-year 2022. Karo judges that this transaction will bring potential sales synergies and add assets, as well as qualified expertise in e-commerce and digital transformation. See note 33 for preliminary estimation of fair values.

On 19 January 2022, Karo Pharma entered an agreement to acquire another brand, Satin Naturel, through Sylphar. Satin Naturel is an exclusive skincare brand, mainly sold on Amazon in Germany, and fits Sylphar's business model. This transaction was completed in March 2022, and was financed by existing loan agreements.

Karo Pharma decided on a fully guaranteed rights issue of some SEK 2.5 billion, as announced in separate press releases (22 November 2021, 16 and 23 March 2022). See website for more information [www.karopharma.se/investerare/foretradesemission-2022/](http://www.karopharma.se/investerare/foretradesemission-2022/).

On 24 December 2021, Karo Pharma entered a put option agreement on the potential acquisition of the E45® skincare brand for GBP 200 m from Reckitt Benckiser. The value as per December 31, 2021 was set to 0 as the commitment and the asset are considered to have the same actual value. On April 1, 2022 the acquisition was completed. All conditions for the completion of the transaction were fulfilled. The turnover of E45® amounted to GBP 43 m during 2021. This acquisition is expected to consolidate Karo's operations in the UK, and advance its positioning in the skincare category, as well as adding a market-leading skincare brand in the UK and South Africa to Karo's portfolio.

### COVID-19

The outbreak of Covid-19 in the first quarter of 2020 generated significant sales gains for Karo Pharma in some product categories, mainly because resellers, pharmacies and consumers built up inventories. At the same time, the company experienced reduced demand in other categories. In the following quarters, Karo Pharma was affected by negative organic growth as a direct effect of inventory build-ups in the first quarter of 2020. In the first quarter of 2020, the company again experienced positive organic growth. During the pandemic, Karo Pharma had a negative impact from reduced physician appointments, issuance of prescriptions, and traffic in pharmacies. Simultaneously, Karo Pharma also experienced a shift in consumption patterns, and more activity in sales through digital channels, especially e-pharmacies and other e-commerce solutions. Karo Pharma has also experienced growth of OTC pharmaceuticals and consumer healthcare products in food and neighbourhood stores.

The impact on Karo Pharma's supply chain and capability to deliver products was limited. Karo Pharma has taken actions to optimise its delivery capacity, and is now better prepared to meet delivery challenges than prior to the pandemic. Karo Pharma has seen increased volatility and difficulties in matching supply with demand, and has accordingly built-up inventory levels to prevent supply selling out. However, over time, Karo Pharma plans to reduce inventories in relation to sales.

The impact on employee productivity was limited, and Karo Pharma's employee commitment remained at a constant high-level through Covid-19.

Despite the gradual reopening of society in the fourth quarter of 2021, and expectation of an even closer return to normality later in the year, Karo Pharma does anticipate long-term impacts on consumer behaviour from the pandemic, and is fully prepared to adapt its operations to new situations as they arise.

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 satisfying covenants.

### Effects of the Ukraine conflict

Considering the events in the Ukraine and sanctions against Russia, the company has taken measures to mitigate the financial risk this presents to the company. Yearly sales of the company's products, which are exclusively through external distributors without Karo having any staff on these markets, are estimated at some SEK 20 m, and outstanding accounts receivable at year-end were some SEK 7 m.

At present, Karo Pharma has no direct exposure to suppliers of goods in the region, but judges that subcontractors from other parts of Europe will be impacted by rising energy prices and the general market business cycle being impacted by inflation resulting from this situation.

### Organisation

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 Karo Pharma S.R.L. and Trimb Holding AB, as well as Trimb's directly and indirectly wholly owned subsidiaries. The head office is in Stockholm, Sweden.

After a reorganisation, Magnus Nylén, CCO and Anna Elmblad, VP Marketing, left group management, and were replaced by Matt Roberts, CCO, and Anna Hale, CMO. Fredrik Thorsén, Head of Digital, joined group management effective May 2021. 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 eight individuals.

At year-end, Karo Pharma had 225 (192) permanent employees.

### Revenue and earnings

Revenue increased to SEK 2,961.4 m (2,882.9) in the year 2021, compared to the previous year, a 3% increase for the period.

Revenues increased to SEK 762.0 m (721.2) in the fourth quarter, a + 6% increase.

Cost of goods sold were SEK 1,255.0 m (1,287.5) in January-December 2021. The gross margin was 57.6% (55.3) in same the period, and was positively impacted by an altered product mix from acquisitions/divestments and production relocation projects that reduced production expenses.

Operating expenses including depreciation and amortisation, other operating income and other operating expenses were SEK 1,500.4 m (1,365.0) for 2021, a 10% increase.

Selling expenses increased to SEK 1,090.2 m (955.2). Administrative expenses were SEK 422.7 m (395.9).

Other operating income increased in the year, mainly because of exchange rate effects in working capital, and the effect of acquisitions and divestments.

EBITDA was SEK 771.8 m (725.0) for the year, a 6% increase. Basic and diluted earnings per share for 2021 were SEK -0.08 (0.37).

### Investments

Investments amounted to SEK 822.7 m (1,544.3) net, with acquisitions representing SEK 894.0 m and divestments SEK -78.7 m. The remainder of investments were made in implementing systems and equipment.

### Acquisitions

On 1 April 2021, Karo Pharma completed the acquisition of a portfolio of consumer healthcare brands from Teva Pharmaceuticals for SEK 855 m. The acquisition transferred ownership of Flux®, Decubal®, Lactocare®, Apobase®, Dailycare® and Fludent® from Teva to Karo Pharma.

### Divestments

On 1 July 2021, Karo Pharma completed the divestment of a product portfolio of 12 brands to Evolan. (Citodon®, Morfin Special, Sincon®, Bamse®, Oliva®, Karbasal®, Complete®, Nazamer®, Ferromax®, Tussin®, Samin® and Conotranse®). This portfolio had sales of SEK 62 m in 2020, with growth of -4% on the previous year.

### Cash flow and financial position

Cash flow from operating activities was SEK 532.6 m (329.2) in the year. The group's cash and cash equivalents were SEK 260.7 m (570.4 as of 31 December 2020) at the end of the period.

Total assets as of 31 December were SEK 12,593.4 m (12,517.5 as of 31 December 2020), with intangible assets representing SEK 10,342.4 m (10,029.5 as of 31 December 2020) of total assets.

Working capital increased in the year, mainly because of inventory build-up and accounts receivable related to acquired product portfolios, which had a negative SEK -75.8 m impact on cash flow.

Consolidated equity was SEK 5,814.3 m (5,638.5 as of 31 December 2020). The equity/assets ratio was 46.2% (45.0 as of 31 December 2020).

### Equity and share data

The total number of Karo Pharma shares is 225,033,204, of which 0 were held in treasury as of 31 December 2021.

Consolidated equity increased to SEK 5,814 m (5,638), which after considering earnings for the year, corresponded to SEK 25.82 (25.05) per share.

### Parent company

The parent company's net sales for 2021 were SEK 1,390.4 m (1,149.4). Profit/loss before tax was SEK -31.0 m (40.3). The parent company's cash and cash equivalents and other investments in securities, etc. were SEK 209.6 m (103.4 as of 31 December 2021)

Type of remuneration	Relation to the company's business strategy	Implementation	Evaluation
<b>Fixed salary</b>	The fixed salary should reflect the responsibility that the position entails. Fixed salary levels aim to facilitate recruitment and enabling long-term retention of Karo Pharma's senior executives.	Reviewed yearly. Review during the year possible when changing roles.	Based on market levels for the current relevant position and country. Levels adapted after evaluation by individual performance and responsibility.
<b>Variable remuneration</b>	Variable salary promotes achieving or exceeding Karo Pharma's predetermined yearly goals through measurable financial and non-financial criteria such as growth, earnings and cash flow. Additionally, performance indicators can be used to put a focus on issues of special interest for Karo Pharma, and for hiring and retaining key staff.	At the end of the measurement period, the Board of Directors judges the extent the criteria for payment of variable cash compensation have been satisfied.	Satisfaction of criteria for defined goals.
<b>Pension and other benefits</b>	Pension and other benefits for senior executives are part of enabling competitive total compensation to be offered, to facilitate hiring and enabling long-term retention of Karo Pharma's senior executives.	Offered through the term of employment, and can require revision depending on factors such as age, level of fixed salary, and role.	Based on custom and practice, as well as market levels for the relevant position and country.

## Remuneration guidelines for senior executives

No proposals to amend remuneration guidelines for senior executives are being submitted to the AGM 2022. The applicable guidelines, approved by the AGM 2021, follow. These guidelines do not include compensation resolved by shareholders' meetings.

### 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](http://www.karopharma.com) and in the Annual Report.

Karo Pharma's business strategy requires Karo Pharma remaining capable of recruiting and retaining 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 approves 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 be 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 on 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 fulfilment 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.

### Authorisation 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 2021, 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 2021, Karo Pharma AB held no 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 38 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.

### Authorisation to issue new shares

The AGM 2021 authorised the Board to decide on the issue of shares on one or more occasions until the AGM 2022. The number of shares that may be issued supported by this authorisation 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 authorisation 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 justifications 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 authorisation to the Board of Directors by the AGM of 21 May 2021. The remaining shares were sold in the financial year. The transfers were initially on Nasdaq Stockholm, and conducted by a bank pursuant to section 5.1.1 part H of Nasdaq Issuer Rules from 1 May 2020, and otherwise, pursuant to regulations, but because the Board of Directors considered this process as neither time nor cost-efficient, it concluded on 6 May 2021, with the sale of all remaining treasury shares, corresponding to approximately 0.6% of the total number of shares and votes of Karo Pharma, to Karo Intressenter AB

For more information on the sale of treasury shares, see [www.nasdaqomxnordic.com](http://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 2021.

#### Corporate Governance Report

Karo Pharma's Corporate Governance Report is available at the company's website [www.karopharma.com](http://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 heading in financial reporting.

#### Sustainability reporting and the Sustainability Report

Karo Pharma's Sustainability Report is for the financial year 1 January-31 December 2021. This Report is the Statutory Sustainability Report.

#### Our attitude to sustainability

Karo Pharma's mission is to contribute to a healthy and sustainable future society. By offering high-quality consumer health products and high quality of service, we are working towards our goal of improving consumers' and patients' everyday health. To ensure that everyday health problems are tackled and treated, we work actively on informing and educating to increase awareness and reduce social stigma.

#### Our focus in 2021

In 2021, Karo Pharma focused on transforming previously adopted intentions and commitments into action. To promote a holistic view, in 2021, Karo Pharma took a momentous step of increasing the awareness and efficacy of its sustainability work. In the year, Karo Pharma mapped its CO<sub>2</sub> footprint end to end in the value chain with the help of a third party, and initiated an evaluation of the packaging material in its portfolio. A materiality analysis was conducted with the help of a third party to identify the most important areas for Karo Pharma to focus on going forward. To make all sustainability initiatives more transparent, ensure faster decision-making and thorough follow-up, as well as accelerating sustainability work, Karo Pharma invested in a sustainability system, SustainLab. This system will help Karo Pharma to govern and monitor all its sustainability initiatives and continuously measure their impact.

#### Materiality analysis

Pursuant to the GRI standard, in 2021, Karo Pharma conducted a materiality analysis with parties affected, internally and externally, to understand its material impacts better. The outcomes corroborated previous information on the key areas for Karo Pharma being goods transportation, packaging, greenhouse gas emissions, diversity and inclusion, as well as human rights. Water consumption in production was another materiality segment, and will be investigated further in 2022. The materiality analysis offered an overall picture of Karo Pharma's sustainability impact, and will be updated continuously as Karo Pharma's operations and the expectations of society alter.

Advances in Karo Pharma's most important materiality segments are reviewed in the following sections.

#### Environmental impact

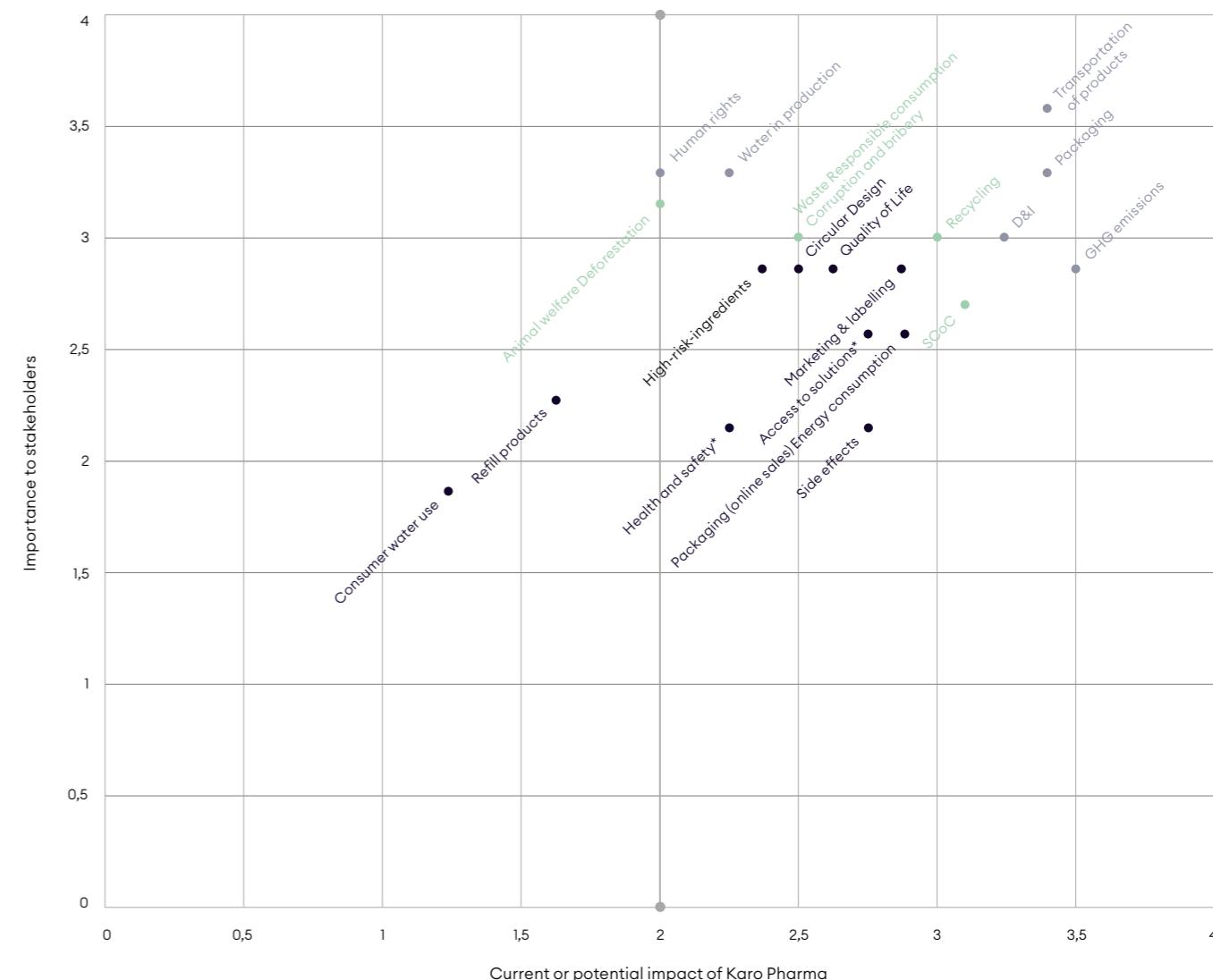
Karo Pharma works continuously to reduce its CO<sub>2</sub> footprint and optimise its value chain. As a virtual company whose production depends on collaborative partners, we need to set high standards on partners and suppliers, and work closely with suppliers and customers to reduce waste and minimise the environmental impact of our operations and products. Ensuring efficient freight transport and thinking innovatively in terms of packaging solutions are also focuses for Karo Pharma.

#### Greenhouse gas emissions

Jointly with Schneider electric, Karo Pharma conducted a CO<sub>2</sub> mapping process to identify what future initiatives to focus on. The outcome is that most of Karo Pharma's emissions are in scope 3 (99.69%), followed by 0.2% emissions in scope 1 and 0.04% of emissions in scope 3. Karo Pharma's main emission sources in scope 3 are the following: purchased goods and services (93.46%), upstream transport (6.24%), employee commuting (0.23%) and fuel and energy-related activities not included in scope 1 or 2 (0.08%).

In 2021, Karo Pharma purchased a Guarantee of Origin certificate (Go), which contributes to an environmental benefit through renewable energy generation to cover Karo Pharma's emissions in scope 1 and 2. Karo Pharma also consolidated its base of suppliers in Europe further to streamline freight and orders, and reduce its footprint. In 2021, it also downscaled its base of contract manufacturers from 83 to 72. In terms of sales per supplier, this equated to an annualised increase from SEK 34.7 to 41.1 m per supplier. Adjusted for new acquisitions, the increase was larger, from SEK 33.4 to 41.1 m per supplier.

#### Materiality analysis 2021



Considering the overwhelming majority of Karo Pharma's emissions are in scope 3, the focus going forward will be on formulating a plan in partnership with key suppliers to reduce scope 3 emissions. This plan will be formulated, and its implementation will begin, in 2022.

#### Goods transportation

Karo Pharma transports and considerably stores inventories in controlled environments and always endeavours to maximise the efficiency of all transportation. As part of its daily operations, Karo Pharma endeavours to maximise the efficiency of its transportation chain by carefully evaluating its supplier choices, filling trucks, minimising the volume of goods transportation, and using the shortest possible route to destinations. Karo Pharma does not use air freight apart from when time critical, for example in the delivery of medicines that are essential to consumers.

#### Packaging

Packaging is a complex segment considering Karo Pharma's broad portfolio. To deal with packaging, Karo Pharma gains inspiration from the 5R principle- Rethink, Recycle, Remove, Reduce, and Renew. In 2021, Karo Pharma set three new change goals to ensure sustainable packaging solutions: ensure that secondary packaging does not include any plastic by no later than year-end 2023,\* optimise the environmental performance of packaging by no later than 2025.\*\*

To support these goals, Karo Pharma initiated a pilot project in 2021 including packaging from two brands, Mabs and Indy Beauty, which make up a total of 13% of Karo Pharma's total items. On Mabs, Karo Pharma will work to replace plastic in primary packaging material with a sustainable alternative paper for all socks. On Indy Beauty, Karo Pharma will replace new plastic with recycled packaging materials for selected products. The results of this pilot project will be compiled in 2022.

\*\* Excludes shrinkwrap

\*\* All packaging to have undergone an overall review to optimise environmental performance generally by 2025: 1) be a manufacturer of responsibly produced material, 2) be designed to be efficient and ensure safe throughout its life-cycle to protect the product, 3) satisfy market performance and cost criteria, 4) satisfy consumer needs and expectations, and 5) be recyclable or processed efficiently after use.

**Water in production**

The materiality analysis conducted in 2021 revealed that water consumption in production is a materiality area. Because this has not been a focus for Karo Pharma previously, there is a plan to conduct a deep dive starting in 2022 to understand Karo Pharma's impact in this area, and how that impact can be controlled.

**Social impact**

Karo Pharma perceives itself primarily as a people company, whose main mission is to contribute to human and social well-being. Karo Pharma works continuously on contributing to raising the standards of health and well-being across society through dialogue and education, ensuring minimal impact from its supply chain and creating a working environment based on diversity and inclusion.

*Impact of products, consumer health and dialogue*

Karo Pharma endeavours to raise the standard of health and well-being across society by offering and delivering services, products and pharmaceuticals that improve patient and consumer health.

Karo Pharma partners with customers and care staff on each market to ensure that it satisfies consumer needs. Karo Pharma's intention is to make it easier to choose solutions for everyday health problems through education. By using methods such as focus group interviews, online surveys, market research and continuous dialogue with pharmacy and customer service staff, Karo Pharma gains valuable insights to generate, and drive, its product development process, as well as new services and support for customers. Karo Pharma wants to increase consumer understanding of the alternatives available to treat everyday health problems, to improve quality of life and help people overcome the problems that are preventing them from treating their everyday problems. Breaking taboos that can prevent people from making intelligent everyday health choices is a responsibility close to our heart, and central to our strategy. By integrating with consumers, Karo Pharma also is also learning to understand their needs—knowledge that in turn can be used to improve Karo Pharma's commercial product offering, and offer consumers a better experience.

*Supply chain and human rights impact*

The vast majority of Karo Pharma's suppliers are in Europe. All suppliers are pre-screened according to predetermined criteria defined for suppliers, and that were updated with sustainability actions in 2021.

Karo Pharma utilises supplier accreditation through its management system, which ensures that all Karo Pharma's contract manufacturers satisfy the standards Karo Pharma and legislators apply to them. Karo Pharma's products consist of raw materials and materials from various suppliers, where the company applies standards on agreed volumes, quality, product specifications and delivery that are decisive to safeguarding production. Karo Pharma has prepared a Code of Conduct for suppliers based on relevant ILO and UN conventions, which is reviewed regularly. The next review will be in 2022. Using internal guidelines, permits and policies, this Code of Conduct helps mitigate the risks in Karo Pharma's supply chain, related to infringement of human rights, corruption, social conditions, occupational health & safety, as well as stipulations, terms and conditions.

\* Bain & Company, which develops the eNPS system, rates values over 30 as very good, and over 50 as excellent.

In the next phase, Karo Pharma will conduct an internal audit, screening and evaluation of its current largest suppliers in early-2022. It will place a special focus on supplier compliance with Karo Pharma's Code of Conduct, their ongoing sustainability work and climate ambitions, such as scientifically based reduction targets for CO<sub>2</sub> emissions.

Disruptions to any part of the supply chain can impact Karo Pharma's ability to manufacture products to the extent required, which potentially, may result in pharmaceutical shortages and risks to patient health. Such disruptions include a shortage of resources and raw materials, production faults and transportation problems. Many pharmaceutical companies have alternatives available in 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 regulatory authorities to find a solution. Karo Pharma maintains continuous dialogue with suppliers to reduce the risk of pharmaceutical shortages.

*Our employees, diversity and inclusion*

In Karo Pharma's view it is important to provide an environment based on diversity and inclusion. As an employer, Karo Pharma wants to attract individuals with a strong feeling for entrepreneurship regardless of gender, gender identity, sexual orientation, ethnicity, race, religion, country of origin, handicap or age. Karo Pharma stands for equal opportunities and has an even gender balance in its management and other management positions. We apply the principle of equal opportunities and for gender, we have 40% women in group management, 50% of HR managers and 33% on the Board of Directors. We value diversity, and of our 330 employees, 38 different countries of origin are represented.

Positive occupational health & safety and employee health are important to Karo Pharma and how we run our business. These segments are important for achieving high motivation and job satisfaction, as well as safeguarding Karo Pharma's status as an attractive employer. Karo Pharma offers health care insurance, keep-fit subsidies, regular inspections of office equipment and support for home offices to ensure functional workspaces. Just as in its environmental work, Karo Pharma conducts annual updates of physical and psychosocial health & safety to ensure a good, safe and stimulating working environment that retains people who are happy at work. In response to the question of "how committed do you feel in your work for Karo Pharma?", Karo Pharma received an eNPS (employee net promoter score) of 62 from its employees in 2021, an increase from 52 in 2020.\* In response to the question of "how likely is it that you would recommend Karo Pharma to a friend or colleague?", Karo Pharma had an eNPS of 35 in 2021, up from 31 in 2020.\*

*Charities*

Karo Pharma supports a number of charitable organisations, which is consistent with our core value of showing consideration to the business climate and society.

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 organisation enables some 15,000 surgical procedures worldwide each year, Benefiting an equal number of children. Karo Pharma views this is a smart

choice to improve everyday health, and has been supporting Operation Smile since 2018.

**Governance and management**

Karo Pharma assigns a high priority to accountability and conducts itself to engender trust in its products and ethics.

*Governance of sustainability agenda*

Board members and group management created a working committee for sustainability issues in 2021, to manage the sustainability agenda in its organisation. This working committee reports to the CEO. The whole Board of Directors receives a yearly update and advances in sustainability are reported to majority shareholders once per year.

In 2022, Karo Pharma will appoint a dedicated sustainability manager that will report directly to the VP of Corporate Communications, who in turn, reports to the CEO. More resources will also be allocated cross-functionally for reporting and updating sustainability data.

*Anti-corruption*

End to end in the value chain, at supplier and customer levels, there is a risk of corruption, and accordingly, it is important for Karo Pharma to comply with ethical guidelines and rules. This applies internally and externally towards suppliers and distributors. For Karo Pharma, running its business ethically is critical. All forms of bribery and corruption are unacceptable.

To further clarify the importance of ethical business conduct, Karo Pharma complies with the Code of Conduct. To realise this, Karo Pharma has identified a number of core commitments that guide its daily work. Karo Pharma's goal is to be a reliable partner to customers, suppliers and regulatory authorities, and operate with high integrity to each and every party that sets standards on Karo Pharma.

*Policy governance and sector standards, guidelines and applicable regulations*

Karo Pharma's core commitments guide and govern its management system, which consists of 11 clear policies on the environment, corporate social responsibility and business ethics, as well as procedures for ensuring compliance with laws and quality standards, as well as patient safety.

Karo Pharma's policies are stored in Advantium, our version-controlled document management system. All new employees must verify that they have read and understood all policies. Karo Pharma undergoes regular external audits on its management system to evaluate and ensure its effectiveness. Karo Pharma also holds permits to deal in pharmaceuticals and Good Manufacturing Practice, Good Distribution Practice and ISO 13485 standards, and is qualified to ensure patient safety by complying with the EU directive on pharmaceuticals for human use.

Accordingly, Karo Pharma pledges to safeguard product quality and patient safety of consumers and patients. This is ensured end to end in the value chain, from production to customer service. After Karo Pharma's products reach the consumer and patient, Karo Pharma monitors quality assurance and patient safety data through an individual responsible for pharmaceutical monitoring, appointed by the regulator. This individual is responsible for ensuring that Karo Pharma maintains a system for reviewing products, and that the risks and benefits of products are evaluated continuously. To ensure patient safety, Karo Pharma trains all staff yearly to ensure that their knowledge is updated.

**EU Taxonomy**

The EU Taxonomy Regulation should be applied from 1 January 2021. Taxonomy is a collective classification system for environmentally sustainable investments for financial products, and is part of the EU's Action Plan for Sustainable Finance, which came into effect in July 2020.

The requirement to apply the taxonomy is set at EU level and not national level, which means that according to the EU definition, large public interest enterprises (PIE) with over 500 employees are covered. Karo Pharma has not reached this threshold level, and accordingly, has no Taxonomy Regulation reporting obligation.

**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 considered material to operations by them 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 unfavourable 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 realised, wholly or partly. The integration of acquisitions can mean organisational changes, which in the short term, delay the implementation and execution of plans and objectives. Upon consummation, all these risks may

have a negative impact on Karo Pharma's operations, financial position and results of operations.

#### *Product launches*

Launching a new pharmaceutical and/or other product takes time and can involve significant investments in marketing, product inventories before launch and other types of expense. There is a risk that launches of new products on existing or new markets are unsuccessful. If Karo Pharma's launches of forthcoming products are unsuccessful, this may exert a negative impact on operations, financial position and results of operations.

Some of the company's products are available on prescription only, and sold exclusively through pharmacy chains. There is a risk that physicians decide not to prescribe the company's pharmaceuticals to their patients, which could imply declining sales for the company's prescription pharmaceuticals. Regardless of whether a physician prescribes one of the company's pharmaceuticals, each pharmacy chain is free to offer patients whichever corresponding compound they prefer. If one or several pharmacy chains discontinue offering patients Karo Pharma's pharmaceuticals, this may exert a material negative impact on operations, financial position and results of operations.

#### *Competitive market*

A large number of companies that provide healthcare products, or compounds and therapies, or are active in research and development of compounds and therapies, may compete with products from Karo Pharma or its potential collaborative partners. Some of these companies may have significantly greater financial and/or other resources than Karo Pharma, and accordingly, enjoy better potential to achieve success in contact with regulatory authorities, for example, and in marketing, sales and distribution resources, as well as in research and development. More intense competition may imply a risk that Karo Pharma is unable to maintain its current margins on its products, which may exert a negative impact on operations, financial position and results of operations.

There is also a risk that candidate drugs or products developed by collaborative partners do not achieve preference above currently extant or new products. Some of Karo Pharma's products are procured, or confer entitlement to compensation for end-customers from, the paying third party. Changes to such structures may imply negative commercial and financial effects for Karo Pharma. Intense competition may impact Karo Pharma's operations, financial position and results of operations negatively.

#### *Rapid changes in the pharmaceutical industry*

One of the distinguishing features of the sector where Karo Pharma is active is its changeability and rapid rate of development. This means that products and improve therapeutic methods are continuously emerging.

There is a risk that Karo Pharma does not develop at the same rate, or its products do not satisfy the standards the market is applying. If Karo Pharma is unable to satisfy the market's new standards, there is a risk that operations, financial position and results of operations are negatively impacted.

#### *Key individuals and recruitment*

The company's business strategy, which involves a focus on sales, unlike previously, where the emphasis was on research and development, has resulted in Karo Pharma now being

more dependent on employees with specialist marketing and sales skills. There is a risk that the company is unable to adapt its organisation 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 organisation. 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 actualised, 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 favourable 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 favourable 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.

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 unauthorised 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 unfavourable 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 utilise 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 recognised 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.

Significant impairment may arise in the future for different reasons, such as unfavourable 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 processing 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 utilise, or cannot utilise, 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 First North Growth Market. The company's shares may be delisted if Karo Pharma does not satisfy the standards applying to shares listed for trading on Nasdaq First North Growth Market. 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 2022:

- Share premium reserve SEK 4,896,405,000
- Retained earnings SEK 712,240,000
- Profit/loss for the year SEK -28,900,000

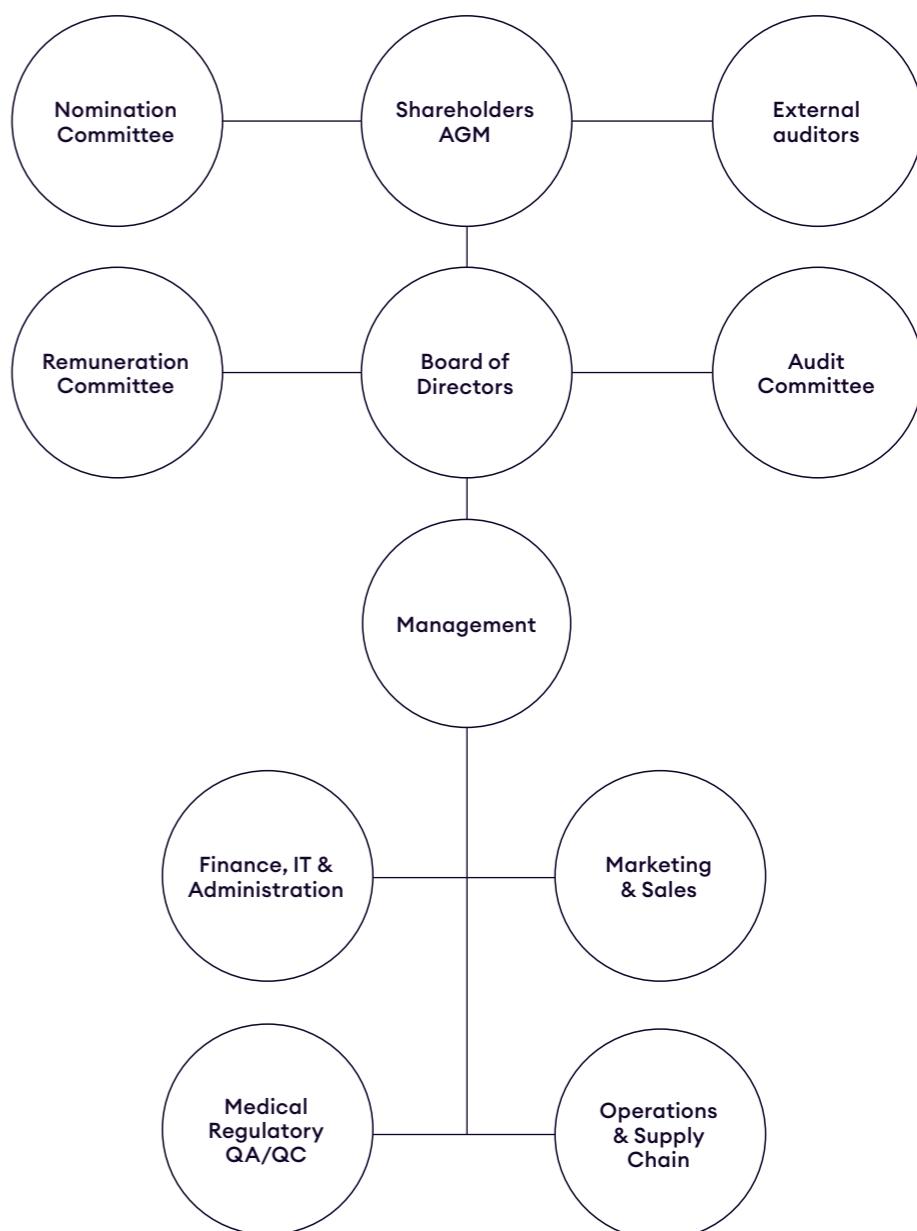
Total unappropriated earnings SEK 5,579,746,000

The Board of Directors proposes that the funds that the disposal of the meeting of SEK 5,579,746,000 are carried forward.

## FIVE-YEAR SUMMARY

The tables below present financial information in summary for the financial years 2017-2021. As of 1 January 2019, the Group applies IFRS 16 Leases. The comparative figures for 2017-2018 have not been restated as the Group applied the future-oriented method in the implementation of IFRS 16.

SEK m unless otherwise stated	GROUP				
	2021	2020	2019	2018	2017
<b>Income Statement</b>					
Revenues	2,961.4	2,882.9	1,901.2	1,615.1	657.6
Cost of goods sold	-1,255.0	-1,287.5	-917.2	-676.3	-315.7
Selling expenses	-1,090.2	-955.2	-600.3	-443.0	-198.6
Administrative expenses	-422.7	-395.9	-188.4	-78.5	-43.7
Research and development expenses	-	-	-	-0.6	-4.4
<b>Operating profit</b>	<b>205.9</b>	<b>230.3</b>	<b>172.1</b>	<b>414.3</b>	<b>79.9</b>
<b>Profit after tax</b>	<b>-17.0</b>	<b>82.9</b>	<b>8.9</b>	<b>657.4</b>	<b>14.5</b>
<b>Balance Sheet</b>					
Total non-current assets	11,102.1	10,786.5	9,723.5	5,972.6	3,017.3
Other current assets	1,230.6	1,160.7	926.3	513.5	286.0
Cash and cash equivalents	260.7	570.4	248.8	398.6	838.6
Total current assets	1,491.3	1,731.0	1,175.1	912.1	1,124.6
<b>Total assets</b>	<b>12,593.4</b>	<b>12,517.5</b>	<b>10,898.5</b>	<b>6,884.6</b>	<b>4,148.8</b>
Equity	5,814.3	5,638.5	5,641.9	3,611.0	1,586.5
Non-current liabilities	6,192.8	1,657.5	1,720.5	1,980.6	1,542.2
Current liabilities	586.3	5,221.5	3,536.1	1,293.1	1,013.2
<b>Total liabilities and equity</b>	<b>12,593.4</b>	<b>12,517.5</b>	<b>10,898.5</b>	<b>6,884.6</b>	<b>4,141.8</b>
<b>Cash Flow Statement</b>					
Cash flow from operating activities	532.6	329.2	106.8	318.0	33.5
Cash flow from investing activities	-822.7	-1,544.3	-2,441.7	-2,692.1	-1,245.8
Cash flow from financing activities	-20.8	1,543.5	2,184.6	1,931.2	1,931.1
<b>Cash flow for the year</b>	<b>-310.8</b>	<b>328.4</b>	<b>-150.2</b>	<b>-442.9</b>	<b>718.8</b>
<b>Key indicators</b>					
Equity/assets ratio%	46.2	45.0	51.8	52.5	38.3
Average number of employees	241.5	243.0	129.1	90.0	90.8
<b>Data per share</b>					
Earnings per share (SEK)					
- average number of shares	-0.08	0.37	0.05	4.63	0.17
- number of shares at end of year	-0.08	0.36	0.04	4.00	0.18
Operating cash flow per share (SEK)					
- average number of shares	2.37	1.48	0.61	2.24	0.40
- number of shares at end of year	2.37	1.46	0.47	1.94	0.41
Equity per share at end of year	25.82	25.05	25.07	21.97	19.31
Closing share price	60.00	52.50	40.52	37.05	33.50
<b>Number of shares (000)</b>					
Average number of outstanding shares	224,433	222,608	174,477	141,888	84,217
Average number of outstanding shares, full dilution	224,433	222,608	174,477	141,888	84,217
Number of shares at end of year	225,033	225,033	225,033	164,333	82,166
Number of shares, full dilution	225,033	225,033	225,033	164,333	82,166



### 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 First North Growth Market since March 25, 2022. Before that, the company was 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, during 2021.

The Board of Directors of Karo Pharma hereby present the Corporate Governance Report for 2021 pursuant to the Code (see the Swedish Corporate Governance Board's website [www.corporategovernanceboard.se](http://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., Karo Pharma S.R.L., and Trimb Holding AB. Karo Pharma Norge AS has one direct wholly owned subsidiary, and Trimb Holding AB has a total of 9 directly or indirectly wholly owned subsidiaries.

## Instances of non-compliance with the Code

During 2021, Karo Pharma complied with the Code's "follow or explain" principle, and has one instance of non-compliance to report for 2021.

Based on its size and composition, the Board of Directors considers that the duties of a remuneration committee are best performed by the whole Board, and accordingly, had decided not to create a dedicated committee, 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 7,003 (7,940) shareholders as of 31 December 2021. According to the share register maintained by Euroclear Sweden AB as of 31 December 2019, 79.9% (76.7) of the shares were registered with Karo Intressenter AB. The ten largest shareholders held 86.4% (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. In March 2022 the company was de-listed from Nasdaq Stockholm and instead quoted on Nasdaq First North Growth Market.

## 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 2021, there were 225,033,204 Karo Pharma shares, of which 0 held in treasury. The maximum number of shares that may be repurchased is that the company's holding at any time does not exceed 10%

## 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](http://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 2021

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 2020.

The AGM approved the Annual Accounts for 2020, 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 six ordinary members without deputies by re-electing Erika Henriksson, Flemming Ørnskov, Kristofer Tonström and Uta Kemmerich-Keil, as well as electing Patrick Smallcombe and Mark Keatley. The AGM also elected Patrick Smallcombe as Chairman of the Board.

The Meeting resolved to re-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 authorised 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 2022. The purpose of this authorisation 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 authorisation 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 authorise 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 authorisation 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.

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 authorise 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 authorisation 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 2022

Karo Pharma's AGM 2022 will be held at 3 p.m. on Thursday 31 May. Shareholders wishing to have a matter considered by the AGM should submit a written request thereof to the Board in good time prior to the Meeting. More information is on Karo Pharma's website, [www.karopharma.com](http://www.karopharma.com).

## Nomination Committee

No nomination committee has been appointed for the AGM 2022.

## External auditors

Pursuant to its Articles of Association, Karo Pharma should have a registered public accounting firm as its external auditor. The AGM 2021 elected registered public accounting firm Ernst & Young AB as auditor until the AGM 2022. Jonatan Hansson was appointed as Auditor in Charge.

The auditor reviews the parent company's and group's accounting records and administration on assignment from the AGM. The external audit of the Annual and Consolidated Accounts, and the Board of Directors' and CEO's administration, is conducted in accordance with generally accepted auditing standards in Sweden.

The company assigned the auditor to summarily review one interim report in 2021, in accordance with the stipulations of the Code. For information on audit fees, see note 29 in the Annual Accounts for 2021.

## 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 organisation, 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 formalise 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 formalise the segregation of duties between the Board and its committees, where applicable. The Board has also adopted instructions for the CEO which formalise 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 2021

The Board held 11 scheduled meetings where minutes were taken in 2021. 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 2021 included acquisitions.

## Board committees

Considering its size and composition, the Board has concluded that the duties of remuneration committee are performed best by the whole Board, and accordingly, has decided not to establish this committee, which is a depar-

Board of Directors	Period in 2021	Elected	Director's fee	Attendance of meetings	Independent of company and management	Independent of company's major shareholders
Håkan Åström	To 21 April	2017	91	4(11)	Yes	Yes
Bo Jesper Hansen	To 21 April	2019	180	4(11)	Yes	Yes
Erika Henriksson		2019	300	10(11)	Yes	No
Vesa Koskinen	To 21 April	2019	91	4(11)	Yes	No
Flemming Ørnskov		2019	300	11(11)	Yes	Yes
Kristofer Tonström		2020	300	11(11)	Yes	Yes
Uta Kemmerich-Keil	From 25 May	2020	300	11(11)	Yes	Yes
Patrick Smallcombe	From 21 April	2021	420	7(11)	Yes	Yes
Mark Keatley	From 21 April	2021	209	7(11)	Yes	Yes

ture from the Code rule that the Board should constitute a remuneration committee.

#### 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 2021.

#### Audit committee

The Audit Committee consists of Board members Mark Keatley, Uta Kemmerich-Keil and Erika Henriksson. Their 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 Audit Committee 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 Scientific Affairs, VP Business Development, Head of People & Organisation, and Head of Digital & E-commerce. 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 organisation, 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 60-61.

### 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 formalised 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 monitoring of internal controls by the Board of Directors through the Audit Committee 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 organisation 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 utilisation 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 authorisation and access rights.

The accounting function compiles monthly financial reports, which state earnings and cash flows for the past period, while analysing 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 minimises 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](http://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 Audit Committee'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 through the Audit Committee, and management. Where appropriate, material observations are reported directly to the Audit Committee. As part of the audit in 2021, the auditor followed up on sections of internal controls over selected key processes, and communicated this to management and the Audit Committee.

# Board of Directors



**Name:** Patrick Smallcombe  
Chairman of the Board  
**Born:** 1963  
**Elected:** 2021

**Education:**  
MBA, Southampton University

**Other assignments and previous experience:**  
Chairman of the Board of Sibelius Natural Products and Board member of Metagenics Inc. Patrick Smallcombe has previously held the position as Company Group Chairman of Johnson & Johnson for EMEA and has headed up Johnson & Johnson's overall SEA footprint covering its Janssen, Medical Device and Consumer businesses. He also served in various roles for Johnson & Johnson Asia Pacific, EMEA and North America after joining Johnson & Johnson in 2006. Also served as President of Consumer Healthcare for Pfizer, and EVP of Research & Development Europe.

**Independent of company and management:**  
Yes

**Independent of principal shareholder:**  
Yes

**Shareholding:** 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 Recipharm. Former Board member of Eton, AcadeMedia and Scandic Hotels Group.

**Independent of company and management:**  
Yes

**Independent of principal shareholder:**  
No

**Shareholding:** 0



**Name:** Mark Keatley  
Board member  
**Born:** 1957  
**Elected:** 2021

**Education:**  
MA and MPhil, Cambridge University, MBA, Stanford Graduate School of Business

**Other assignments and previous experience:**  
Board member of Recipharm AB and Neuraxpharm AG. Mark Keatley's previous service includes CFO of STADA AG and Actavis Group, two leading European producers of generic and OTC Medicines, and a Board member of MS Pharma and Medicem, S.A. Mark was also a Senior Partner at Albrecht Prock & Partners AB, CFO of contract manufacture, biotech and natural resources companies, as well as a Division Manager at International Finance Corporation.

**Independent of company and management:**  
Yes

**Independent of principal shareholder:**  
Yes

**Shareholding:** 0 shares



**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. Flemming Ørnskov has previously held positions as CEO of Shire Plc., Chairman of the Board of Recordati and senior positions at Bayer, Merck & Co. and Novartis.

**Independent of company and management:**  
Yes

**Independent of principal shareholder:**  
Yes

**Shareholding:** 0



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

**Education:**  
BSc (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 Perigo Northern Europe. Also served in different positions within P&G for 11 years.

**Independent of company and management:**  
Yes

**Independent of principal shareholder:**  
Yes

**Shareholding:** 0



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

**Education:**  
MSc, Economics, Freiburg University

**Other assignments and previous experience:**  
Board member of Schott AG, Röchling SE, Klosterfrau AG and Affimed NV. 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

**Shareholding:** 0

# Management



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

**Education:**  
 MSc, 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.

**Shareholding:** 0



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

**Education:**  
 BSc (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.

**Shareholding:** 0



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

**Education:**  
 BSc, Human Resources & Organisation, Stockholm University

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

**Shareholding:** 0



**Name:** Fredrik Thorsén  
**Title:** Head of Digital  
**Born:** 1980  
**Employed:** 2021

**Education:**  
 Bachelor of Science in Business Administration and Economics, Mid Sweden University, Sundsvall.

**Main experience:**  
 Global Head of Digital at The Absolut Company. Senior Manager Global Marketing Solutions & Interactive, The Absolut Company. Various roles within traditional and digital marketing, e-commerce, digital transformation and digital service development since late 1990s.

**Shareholding:** 0



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

**Education:**  
 MSc, Chemistry, Karlstad University. Marketing and Management, IUP, US

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

**Shareholding:** 0



**Name:** Anna Hale  
**Title:** Chief Marketing Officer  
**Born:** 1975  
**Employed:** 2021

**Education:**  
 BA (Hons), University of Nottingham

**Main experience:**  
 VP Marketing GlaxoSmithKline Consumer Healthcare, Marketing Director for Central & Eastern Europe and for the Asia-Pacific region at GSK. Previous different global and local marketing roles at Reckitt.

**Shareholding:** 0



**Name:** Matt Roberts  
**Title:** Chief Commercial Officer  
**Born:** 1974  
**Employed:** 2021

**Education:**  
 BSc (Econ) in Modern History and Politics, Cardiff University, UK. Executive programs at Said Business School, London Business School and Rutgers Business School.

**Main experience:**  
 Commercial Director – Northern Europe, Global Tesco Leader, Managing Director Northern Europe and Global Head - Shopper and Customer Strategy at Johnson & Johnson Consumer Health. In total over 20 years in various sales and marketing positions at J&J and Procter & Gamble.

**Shareholding:** 0



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

**Education:**  
 BSc (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.

**Shareholding:** 0



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

**Education:**  
 MBA, Stockholm School of Economics

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

**Shareholding:** 0



**Name:** Robin List\*  
**Title:** CEO Sylphar  
**Born:** 1970  
**Employed:** 2022

**Education:**  
 Bachelor of Business Administration from Rotterdam University of Applied Sciences.

**Main experience:**  
 Founder/CEO of Sylphar NV, Founder/CEO of Remedent Inc & NV, COO at DMDS Ltd, Managing Partner at Wave Imaging.

**Shareholding:** 0



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

**Education:**  
 MSc, 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.

**Shareholding:** 0

\*Member of the Corporate Management team from 13 January 2022.

**Consolidated Income Statement**

SEK 000		GROUP	
	Note	2021	2020
Revenues	2,31	2,961,354	2,882,867
Cost of goods sold	4	-1,255,029	-1,287,516
<b>Gross earnings</b>		<b>1,706,325</b>	<b>1,595,351</b>
<b>Other operating income and expenses</b>	4-6		
Selling expenses		-1,090,176	-955,235
Administrative expenses		-422,748	-395,889
Other operating income and expenses	6	12,503	-13,920
		<b>-1,500,421</b>	<b>-1,365,044</b>
<b>Operating profit</b>		<b>205,905</b>	<b>230,306</b>
<b>Profit/loss financial income and expenses</b>			
Interest income and similar profit/loss items	7	21,778	17,150
Interest expenses and similar profit/loss items	8	-215,166	-190,302
		<b>-193,388</b>	<b>-173,152</b>
<b>Profit/loss after financial items</b>		<b>12,516</b>	<b>57,154</b>
Tax	9	-29,506	25,751
<b>PROFIT FOR THE YEAR</b>		<b>-16,990</b>	<b>82,905</b>
profit attributable to:			
Equity holders of the parent		-17,451	82,049
Non-controlling interests		461	856
Earnings per share attributable to equity holders of the parent (SEK)	10		
- based on a weighted average number of outstanding shares before dilution		-0.08	0.37
- based on a weighted average number of outstanding shares after dilution		-0.08	0.37

**Consolidated Statement of Comprehensive Income**

SEK 000		GROUP	
		2021	2020
Profit for the year		-16,990	82,905
Other comprehensive income for the year net of tax			
<i>Items reclassifiable to profit or loss</i>			
Translation differences		89,329	-117,256
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>72,339</b>	<b>-34,351</b>
Total comprehensive income attributable to:			
Equity holders of the parent		71,878	-35,207
Non-controlling interests		461	856

**Consolidated Statement of Financial Position**

SEK 000		GROUP	
	Note	2021	2020
ASSETS, 31 December			
<b>NON-CURRENT ASSETS</b>			
<b>Intangible assets</b>	13		
Capitalised development expenditure		111,581	81,867
Licenses and product rights		6,911,907	6,678,681
Goodwill		3,318,893	3,263,886
Work in progress		-	5,044
<b>Total intangible assets</b>		<b>10,342,381</b>	<b>10,029,478</b>
<b>Property, plant and equipment</b>			
Equipment, buildings and land	14	21,861	19,041
Right-of-use assets	28	73,035	50,423
<b>Total property, plant and equipment</b>		<b>94,897</b>	<b>69 464</b>
<b>Financial assets</b>			
Deferred tax asset	22	661,980	685,282
Other financial assets	16	2,869	2,226
<b>Total non-current assets</b>	31	<b>11,102,126</b>	<b>10,786,451</b>
<b>CURRENT ASSETS</b>			
<b>Current receivables</b>			
Inventories	17	497,550	451,509
Accounts receivable	18	627,397	596,343
Tax asset		45,353	37,338
Other receivables		20,872	26,400
Prepaid expenses and accrued income	19	39,405	49,067
<b>Total current receivables</b>		<b>1,230,577</b>	<b>1,160,657</b>
Cash and cash equivalents	20	260,715	570,391
<b>Total current assets</b>		<b>1,491,292</b>	<b>1,731,048</b>
<b>TOTAL ASSETS</b>		<b>12,593,418</b>	<b>12,517,499</b>
SEK 000			
EQUITY AND LIABILITIES, 31 December			
<b>EQUITY</b>	21		
Share capital		90,012	90,012
Other paid-up capital		6,010,261	6,010,261
Profit brought forward including profit for the year		-306,543	-392,584
Translation reserves		17,688	-71,641
Non-controlling interests		2,903	2,442
<b>Total equity</b>		<b>5,814,321</b>	<b>5,638,490</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities	22	513,370	527,192
Liabilities to credit institutions	23	5,581,166	1,091,602
Lease liabilities	28	51,391	36,201
Other non-current liabilities and provisions	23	46,832	2,548
<b>Total non-current liabilities</b>		<b>6,192,758</b>	<b>1,657,542</b>
<b>Current liabilities</b>			
Liabilities to credit institutions	23	74,345	4,707,573
Lease liabilities	28	24,407	12,347
Accounts payable		231,002	232,142
Tax liability		6,820	3,390
Other current liabilities	24	64,685	71,546
Accrued expenses and deferred income	25	185,081	194,468
<b>Total current liabilities</b>		<b>586,339</b>	<b>5,221,467</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>12,593,418</b>	<b>12,517,499</b>

## Consolidated Statement of Cash Flows

SEK 000		GROUP	
	Note	2021	2020
<b>Operating activities</b>			
Profit/loss after financial items		12,516	57,154
<b>Non-cash items</b>			
Depreciation, amortisation and impairment	5	565,939	494,644
Other	27	54,388	-11,341
		<b>632,843</b>	<b>540,457</b>
Income tax paid		-24,440	-44,513
<b>Cash flow from operating activities before change in working capital</b>		<b>608,403</b>	<b>495,945</b>
<b>Change in working capital</b>			
Change in inventories		-56,335	-91,464
Change in current operating receivables		-374	-203,293
Change in accounts payable		-3,448	40,526
Change in other current operating liabilities		-15,641	87,509
<b>Cash flow from operating activities</b>		<b>532,604</b>	<b>329,223</b>
<b>Investing activities</b>			
Investments in property, plant and equipment	14	-6,877	-21,421
Investments in intangible assets	13	-894,016	-1,685,255
Investments in other financial assets	16	-422	-1,109
Sales of participations in group companies	11	-	150,969
Sale of intangible assets		78,658	12,500
<b>Cash flow from investing activities</b>		<b>-822,657</b>	<b>-1,544,317</b>
<b>Financing activities</b>	27		
Sale of treasury shares		103,492	31,051
Loans arranged		592,564	1,775,000
Repayment of loans		-693,223	-248,980
Repayment of loans		-23,585	-13,435
Transactions with minority interests		-	-118
<b>Cash flow from financing activities</b>		<b>-20,752</b>	<b>1,543,517</b>
<b>CASH FLOW FOR THE YEAR</b>		<b>-310,805</b>	<b>328,424</b>
Cash and cash equivalents at beginning of year	20	570,391	248,806
Exchange difference in cash and cash equivalents		1,129	-6,839
<b>Cash and cash equivalents at end of year</b>	20	<b>260,715</b>	<b>570,391</b>

## Consolidated Statement of Changes in Equity

SEK 000	GROUP	Share capital	Other paid-up capital	Profit brought forward including profit for the year	Translation reserves	Non-controlling interests	Total
<b>Opening balance as of 1 January 2020</b>		<b>90,012</b>	<b>6,010,261</b>	<b>-505,619</b>	<b>45,615</b>	<b>1,639</b>	<b>5,641,908</b>
Comprehensive income				82,049	-117,256	856	<b>-34,351</b>
<b>Transactions with shareholders</b>							
Transactions with non-controlling interests				-65		-54	<b>-118</b>
Sale of treasury shares				31,051			<b>31,051</b>
<b>Total transactions with shareholders</b>		-	-	<b>30,986</b>	-	<b>-54</b>	<b>30,933</b>
<b>Opening balance as of 1 January 2021</b>		<b>90,012</b>	<b>6,010,261</b>	<b>-392,584</b>	<b>-71,641</b>	<b>2,442</b>	<b>5,638,490</b>
Comprehensive income				-17,451	89,329	461	<b>72,339</b>
<b>Transactions with shareholders</b>							
Sale of treasury shares				103,492			<b>103,492</b>
<b>Total transactions with shareholders</b>		-	-	<b>103,492</b>	-	-	<b>103,492</b>
<b>CLOSING BALANCE AS OF 31 DECEMBER 2021</b>		<b>90,012</b>	<b>6,010,261</b>	<b>-306,543</b>	<b>17,688</b>	<b>2,903</b>	<b>5,814,321</b>

**Parent Company Income Statement**

SEK 000		PARENT COMPANY	
	Note	2021	2020
Net sales		1,390,387	1,149,409
Cost of goods sold	4	-499,139	-426,642
<b>Gross earnings</b>		<b>891,248</b>	<b>722,768</b>
<b>Other operating income and expenses</b>	4-6	-512,928	-322,564
Selling expenses		-442,570	-236,736
Administrative expenses		-3,165	-16,080
Other operating income and expenses	6	<b>-958,663</b>	<b>-575,381</b>
<b>Operating profit</b>		<b>-67,415</b>	<b>147,387</b>
<b>Profit/loss financial income and expenses</b>			
Profit/from participations in group companies		-	8,995
Interest income and similar profit/loss items	7	47,679	66,544
Interest expenses and similar profit/loss items	8	-205,407	-182,626
<b>Profit/loss after financial items</b>		<b>-157,728</b>	<b>-107,087</b>
<b>Group contributions</b>		<b>-225,142</b>	<b>40,300</b>
<b>Profit before tax</b>		<b>-31,040</b>	<b>40,300</b>
Tax	9	2,140	-6,655
<b>PROFIT FOR THE YEAR</b>		<b>-28,900</b>	<b>33,645</b>

**Parent Company Statement of Comprehensive Income**

SEK 000		PARENT COMPANY	
		2021	2020
Profit for the year		-28,900	33,645
Other comprehensive income for the year net of tax		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>-28,900</b>	<b>33,645</b>

**Parent Company Balance Sheet**

SEK 000		PARENT COMPANY	
	Note	2021	2020
ASSETS, 31 December			
<b>NON-CURRENT ASSETS</b>			
<b>Intangible assets</b>	13	99,873	80,053
Capitalised development expenditure		4,046,605	3,489,779
Licenses and product rights		260,639	283,806
Goodwill			
<b>Total intangible assets</b>		<b>4,407,116</b>	<b>3,853,638</b>
<b>Property, plant and equipment</b>			
Equipment, buildings and land	14	10,535	8,293
<b>Financial assets</b>			
Participations in group companies	15	5,232,006	5,231,948
Deferred tax asset	22	494,739	488,060
Other financial assets	16	1,243,347	1,139,428
<b>Total non-current assets</b>		<b>11,387,743</b>	<b>10,721,367</b>
<b>CURRENT ASSETS</b>			
<b>Current receivables</b>			
Inventories	17	152,923	148,418
Accounts receivable	18	235,046	225,688
Other receivables		12,375	11,857
Receivables from group companies		567,523	289,635
Prepaid expenses and accrued income	19	112,829	40,634
<b>Total current receivables</b>		<b>1,080,696</b>	<b>716,233</b>
Cash and cash equivalents	20	209,642	103,410
<b>Total current assets</b>		<b>1,290,337</b>	<b>819,643</b>
<b>TOTAL ASSETS</b>		<b>12,678,080</b>	<b>11,541,010</b>
SEK 000		PARENT COMPANY	
EQUITY AND LIABILITIES, 31 December			
<b>EQUITY</b>			
Share capital	21	90,012	90,012
<i>Total restricted equity</i>		90,012	90,012
Share premium reserve		4,896,405	4,896,405
Retained earnings		712,240	575,104
Profit for the year		-28,900	33,645
<i>Total non-restricted equity</i>		5,579,746	5,505,154
<b>Total equity</b>		<b>5,669,758</b>	<b>5,595,166</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities	22	26,527	21,989
Liabilities to credit institutions	23	5,581,883	1,010,686
Other non-current liabilities and provisions	23	42,119	26
<b>Total non-current liabilities</b>		<b>5,650,529</b>	<b>1,032,701</b>
<b>Current liabilities</b>			
Liabilities to credit institutions	23	74,345	4,687,419
Accounts payable		92,112	115,656
Liabilities till group companies		981,809	47,202
Other current liabilities	24	2,350	3,832
Accrued expenses and deferred income	25	207,177	59,034
<b>Total current liabilities</b>		<b>1,357,792</b>	<b>4,913,143</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>12,678,080</b>	<b>11,541,010</b>

**Parent Company Cash Flow Statement**

SEK 000	Note	PARENT COMPANY	
		2021	2020
<b>Operating activities</b>			
Profit before tax		-31,040	40,300
<b>Non-cash items</b>			
Depreciation, amortisation and impairment	5	352,131	272,358
Other	27	-121,868	-31,004
		<b>199,223</b>	<b>281,654</b>
Income taxes paid/recovered		-	-
<b>Cash flow from operating activities before change in working capital</b>		<b>199,223</b>	<b>281,654</b>
<b>Change in working capital</b>			
Change in inventories		-4,505	-51,392
Change in current operating receivables		-374,848	27,351
Change in accounts payable		-24,261	45,159
Change in other current operating liabilities		1,298,963	-187,238
<b>Cash flow from operating activities</b>		<b>1,094,572</b>	<b>115,533</b>
<b>Investing activities</b>			
Investments in property, plant and equipment	14	-4,194	-14,377
Investments in intangible assets	13	-891,181	-1,665,125
Investments in shares in subsidiaries	15	-102	-13,608
Sale of intangible assets		4,668	-
Sales of participations in group companies		-	9,582
Shareholders' contribution paid to group companies		-	-90,523
Net repayment/lending to group companies		-103,875	133,686
<b>Cash flow from investing activities</b>		<b>-994,684</b>	<b>-1,640,365</b>
<b>Financing activities</b>			
Sale of treasury shares	27	103,492	31,051
Loans arranged		592,564	1,775,000
Repayment of loans		-689,713	-239,365
<b>Cash flow from financing activities</b>		<b>6,343</b>	<b>1,566,686</b>
<b>CASH FLOW FOR THE YEAR</b>			
Cash and cash equivalents at beginning of year	20	103,410	61,557
Exchange difference in cash and cash equivalents		-	-
Cash and cash equivalents at end of year	20	209,642	103,410

**Parent Company Statement of Changes in Equity**

SEK 000	PARENT COMPANY			
	Share capital	Share premium reserve	Retained earnings	Net profit/loss
<b>Opening balance as of 1 January 2020</b>				
Comprehensive income				33,645
<b>Transactions with shareholders</b>				
Sale of treasury shares			31,051	<b>31,051</b>
Appropriation of earnings			51,895	-51,895
<b>Opening balance as of 1 January 2021</b>	<b>90,012</b>	<b>4,896,405</b>	<b>575,103</b>	<b>33,645</b>
Comprehensive income				-28,900
<b>Transactions with shareholders</b>				
Sale of treasury shares			103,492	<b>103,492</b>
Appropriation of earnings			33,645	-33,645
<b>CLOSING BALANCE AS OF 31 DECEMBER 2021</b>	<b>90,012</b>	<b>4,896,405</b>	<b>712,240</b>	<b>-28,900</b>
				<b>5,669,758</b>

# 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) issued by the International Accounting Standards Board (IASB) as endorsed by the EU, and their interpretations by the IFRS Interpretations Committee, which apply to the financial year beginning 1 January 2021. The Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups is also applied.

The financial statements of Karo Pharma AB and its subsidiaries for the financial year ending on 31 December 2021 were approved by the Board of Directors on 22 April 2022, and will be submitted to the AGM on 31 May 2022 for adoption.

The consolidated financial statements have been prepared under the assumption of a going concern. Assets and liabilities are stated at historical 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.

#### Amended and new accounting policies, 2021

The IASB has not published any new standards endorsed by the EU for application from 1 January 2021 onwards. Amendments to IFRS 7, IFRS 9 and IFRS 16 that apply from 1 January 2021 relate to interest rate benchmark reform-phase 2, and offer guidance on how the effects of the reform should be accounted.

The IFRS Interpretations Committee (IFRS IC) took a number of agenda decisions in 2021, on matters including accounting the expenditure for Software as a Service (SaaS/cloud). With this decision, IFRS IC is clarifying that a company cannot usually account an intangible asset because it does not control the software configured or adapted, and the services do not constitute a separate intangible asset. Another decision affects IAS 2, inventories and the expenses to be included when measuring net realisable value. In its decision, the Committee concludes that when measuring inventories at net realisable value, a deduction should be made for all estimated expenses for selling the goods, i.e. not only for additional selling expenses.

No amended accounting standards or interpretations that came into effect on 1 January 2021 had any impact on Karo Pharma's financial statements.

#### Amended accounting policies, 2022 and later

The IASB has published a completely new standard, IFRS 17 Insurance Contracts. This has not yet been endorsed by the EU, and it is scheduled for application from 1 January 2023 onwards. The EU has also endorsed several amendments of existing standards that come into effect in 2022. One of these amendments concerns IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and imply a clarification of the expenses to be included when measuring onerous contracts. Amendments to IFRS 3 Business Combinations, primarily imply updated referrals due to previous amendments of the conceptual framework. The IASB has also published an amendment of IAS 16, which implies that revenues received before an asset is ready for use, and in the condition for use, may not be recognised against the asset's cost, but should instead be recognised as a revenue item.

The new or amended accounting standards or interpretations are not expected to have a material impact on Karo Pharma's financial statements.

#### Accounting and presentation currency

The parent company's functional currency is Swedish kronor, which is also the presentation currency of the parent company and group. This means that the financial statements are presented in Swedish kronor. All amounts are rounded to the nearest thousand (SEK 000) unless otherwise stated.

#### Critical estimates and judgements for accounting purposes

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. Actual outcomes may differ from these estimates. 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. Amendments to estimates are recognised in the period the amendment is made.

Those areas with a high degree of judgement, that are complex, or such areas where assumptions and estimates are of material significance for other reasons to the consolidated accounts, relate primarily to the measurement of goodwill and other intangible assets, and a tax loss carry-forwards.

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 amortisation 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.

For more information, see the relevant accounting and valuation policy below, as well as notes 11, 12 and 13.

#### Consolidation principles

##### Subsidiaries

Subsidiaries are all companies over which the company exerts a direct or indirect controlling influence. Controlling influence occurs when the parent company has influence over a company, is exposed, or entitled, to variable returns from its involvement in the company and can influence this return through its influence. The subsidiaries' financial statements are consolidated from the date when controlling influence occurs and are included in the consolidated accounts until it ceases.

##### Associated companies

Associated companies are the companies where the group has a significant but not controlling, influence over operational and financial governance, usually through participating interests of between 20 and 50% of the vote. Associated companies are accounted according to the equity method.

##### Business combinations and goodwill

Business combinations are accounted using the purchase method. This method is applied at the time the group gains a controlling influence over the acquired operation. The purchase method means that the acquisition is considered as a transaction whereby the group indirectly acquires the subsidiary's assets and takes over its liabilities. The consolidated cost is measured through an acquisition analysis related to the acquisition. This analysis determines firstly the cost of the participations or operation, and secondly the fair value of acquired identifiable assets and liabilities taken over at the acquisition date.

The difference between the cost of the business combination and the fair value of the identifiable assets and liabilities taken over in the operation is

#### Note 1, cont. – Accounting policies

classified as goodwill. Goodwill is allocated to cash-generating units with yearly impairment test pursuant to IAS 36.

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 recognised as goodwill. Goodwill is recognised as an asset in the Balance Sheet. If the difference is negative, this is recognised 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 allocated to cash-generating units with annual yearly impairment tests pursuant to IAS 36. 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 recognised at fair value at the acquisition date. Subsequent adjustments to the fair value of a conditional purchase consideration classified as a liability are recognised in profit or loss.

##### Asset acquisitions

Transactions where essentially, the fair value of the acquired assets consist of an asset or group of equivalent assets are recognised as a business and asset acquisition, through a simplified assessment. When the acquisition of subsidiaries involves the acquisition of net assets without significant processes, the cost is divided between the individual assets and liabilities based on their relative fair values at the acquisition date. The initial fair value also includes any contingent consideration. The amendments introduced in IFRS 3 at the beginning of 2020 permits an optional concentration test enabling a simplified assessment of whether an acquired set of operations and assets is a business combination or asset acquisition. Transaction expenditure is added to cost for acquired net assets in asset acquisitions. Changes to the estimated value of contingent considerations after the acquisition are added to the cost of acquired assets. An asset acquisition does not give rise to goodwill.

##### Eliminations on consolidation

Intra-group receivables and liabilities, revenues or expenses, and unrealised gains or losses arising from intra-group transactions are wholly eliminated when preparing the consolidated accounts.

Intra-group receivables and liabilities, revenues or expenses, and unrealised gains or losses arising from intra-group transactions are wholly eliminated when preparing the consolidated accounts.

##### Translation of foreign currency

The Consolidated Accounts are presented in Swedish kronor (SEK). Transactions in foreign currency are initially recognised 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. Exchange gains and exchange losses on operating receivables and operating liabilities are recognised in operating profit or loss, while exchange gains and exchange losses on financial receivables and liabilities are recognised as financial items. Non-monetary assets and liabilities that are recognised at cost are reported at historical exchange rates, i.e. the rates of exchange ruling on each transaction date.

Assets and liabilities in foreign operations, including goodwill and other surplus and deficit values, are translated from the foreign operation's functional currency to the group's presentation currency, 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 recognised in other comprehensive income, and are accumulated in a separate component of equity called translation reserves.

##### Revenue

Revenues are recognised 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 recognised 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 recognised 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 recognised after deduction of VAT, discounts, pharma taxes and product taxes. In this respect, discounts include shared marketing. In shared marketing, Karo Pharma's customers are compensated for marketing products to end-customers, and this compensation depends on sold volumes. For more information, see note 2.

##### 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 recognised as other operating income in the Income Statement over the same period as the costs of these subsidies are intended to compensate for.

##### Financial income and expenses

Financial income consists of exchange rate affects relating to finance, and interest income that is recognised in the period it relates to, based on the effective interest method.

Financial expenses mainly consist of interest expenses and arrangement fees for loans, and exchange rate affects attributable to finance. Financial expenses are charged to profit or loss in the period they relate to.

Financial income and expenses are not included in operating profit or loss.

##### Taxes

###### Income tax

Income taxes consist of current tax and deferred tax. Income tax is recognised in profit or loss for the year apart from when the underline transaction is recognised in other comprehensive income or in equity, whereupon the related tax effect is recognised in other comprehensive income and equity respectively. Current tax is tax to be paid or received for the current year including re-statements of current tax related to previous periods. Current and deferred tax is computed by applying the tax rates and tax rules that are enacted or substantively enacted on the reporting date.

Deferred tax is recognised according to the balance sheet method on the temporary differences that arise between the taxable value of assets and liabilities and their carrying amounts.

Deferred tax assets relating to deductible temporary differences and loss carry-forwards are only recognised to the extent it is likely that they will be used against future taxable earnings. The value of deferred tax assets is amortised when it is no longer considered likely that they can be used.

When participations in subsidiaries are acquired, the acquisition is either a business combination or an asset acquisition. In business combinations, deferred tax is recognised at the nominal applicable tax rate without discounting. In asset acquisitions, no deferred tax is reported at the acquisition date. After the acquisition, only deferred tax on temporary differences is reported as arising after the acquisition.

###### Value added tax

Revenues, expenses and assets are recognised 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 measured at cost less any accumulated impairment. Goodwill is allocated to cash-generating units and subject to impairment testing at least yearly. Goodwill arising on the acquisition of joint ventures and associated companies is included in the current carrying amount of participation in joint ventures and associated companies.

**Note 1, cont. – Accounting policies****Licenses, product rights and trademarks**

Acquired Licenses, product rights and trademarks are recognised 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 amortisation, and any impairment.

The useful life of the group's licenses, product rights and trademarks is considered as limited. Intangible assets with limited useful lives are amortised over their measured useful life, and tested when there are indications of impairment. The amortisation 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 amortisation period or amortisation method as required, and treated as changes in accounting estimates. Amortisation expenses are recognised in the Income Statement in the cost class that corresponds to the intangible asset's function; mainly under selling expenses, see note 4. A gain or loss arising from the sale or retirement of an asset is the difference between the selling price and the asset's carrying amount less direct selling expenses. Gain and loss recognised as other operating income/expense.

**Capitalised development expenditure**

Development expenditure is capitalised when it satisfies the criteria of IAS 38 intangible assets. Otherwise, development expenditure is recognised as operating expenses as it arises. The capitalisation criteria are:

- it is technically feasible to complete a usable product,
- the company's intention is to complete the product and sell it,
- the conditions to sell the products are in place,
- it can be demonstrated that the product generates likely future economic benefits,
- adequate technical, economic and other resources to complete development and to use the products are available, and
- the expenditure related to the product and its development can be measured reliably.

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

**Property, plant and equipment**

Property, plant and equipment are recognised 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 estimated useful lives are tested and adjusted where necessary, at the end of each financial year. Gain or loss on the sale or retirement of an asset is the difference between the selling price and the asset's carrying amount less direct selling expenses. Gain and loss is recognised as other operating income/expense.

**Right-of-use assets/leases**

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 recognised in the Balance Sheet on the date the leased asset is available for use by the group. Amortisation 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 recognised in each period. The right-of-use asset is amortised on a straight-line basis over the shorter of the asset's useful life and the term of the lease. Lease payments are recognised 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 recognised 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 to the condition specified in the terms of the lease

**Depreciation and amortisation of non-current assets**

Depreciation or amortisation is recognised in profit or loss for the year on a straight-line basis of the asset's assets' estimated useful lives. Amortisable intangible assets are amortised from the date when they are available for use, as follows:

	Yrs.
Licenses, product rights and trademarks	15-20
Capitalised development expenditure	5-10
Conversion of premises, IT equipment, and equipment	5-7

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

Goodwill and intangible assets within indefinite useful lives are not amortised, but instead subject to impairment test yearly, or when there are indicators that the asset is impaired. The carrying amounts of other non-current assets are tested for impairment at each reporting date.

If there are there are indicators of impairment, the asset's recoverable amount is measured using IAS 36. For goodwill, other intangible assets with indefinite useful lives and intangible development assets not yet ready for use, recoverable amount is also measured yearly. If it is not possible to determine essentially independent cash flows from an individual asset, when conducting an impairment test, the assets should be grouped at the lowest level where essentially independent cash flows can be identified – in what is termed a cash-generating unit.

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 after deducting for selling expenses, 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 recognised in profit loss in the period it is established. For more information on impairment tests, see note 13.

Assets that are depreciated or amortised 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.

Impairment is reversed if there is an indication that impairment no longer exists, and there has been a change in the assumptions that were the basis

**Note 1, cont. – Accounting policies**

of measuring the recoverable amount. However, goodwill impairment is never reversed. Reversals are only made to the extent the asset's carrying amount after the reversal does not exceed the carrying amount that would have been recognised after deducting for any depreciation, if there had been no impairment.

**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 amortised 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 recognised 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 recognised 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 derecognised when the rights in the agreement are realised or have expired. A financial liability, or part of a financial liability is derecognised 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.

**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. Implementation continued in the rest of the group in 2021. Measurement of inventory is based on a standard cost model including the purchasing price for finished goods and calculated expense for the delivery receiving deliveries to inventory, quality controls and quality approval.

A reserve for obsolescence in inventory is made when there is objective evidence to assume that the group will not be able to realise 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 recognised 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 recognised at nominal amount without discounting, pursuant to the amortised 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 receivable are grouped based on maturity structure.

Accounts receivable are reserved according to a model based on their maturity structure and other relevant information on customer credit-worthiness. Credit losses on accounts receivables are recognised as credit losses–net within earnings before interest and taxes. Recovery of amounts previously written off are recognised against the same Income Statement line. For information on the credit loss reserve as of 31 December 2020, see note 18.

**Factoring**

In the financial year, Karo Pharma entered a factoring agreement whereby the company sold part of its accounts receivable to a credit institution. Because control over these receivables transferred to the purchaser, these receivables were derecognised from Karo Pharma's Balance Sheet. The charge paid to the counterparty is recognised in net financial income/ expense. The credit risk has essentially transfer to the purchaser, although a portion remains with Karo Pharma, and the residual risk is recognised as a guarantee if not considered insignificant. Exposure to credit losses on the portion remaining with Karo Pharma is very low, although a judgement of whether credit risk has increased significantly since first-time recognition is made at each reporting date.

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

**Provisions**

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

**Contingent liabilities**

A contingent liability is recognised 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 obliga-

**Note 1, cont. – Accounting policies**

tion that is not recognised as a liability or provision due to it not being probable 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.

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. In Karo Pharma's case this means the CEO and group management. More information in 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 recognised in equity net of tax, as a deduction from issue proceeds.

**PARENT COMPANY ACCOUNTING POLICIES**

The annual accounts of the parent company have been prepared in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. According to RFR 2, the parent company shall apply all International Financial Reporting Standards endorsed by the EU as far as possible within the provisions of the Swedish Annual Accounts Act. The amendments of RFR 2 that apply for the financial year beginning 1 January 2021 did not have any material impact on the parent company. No amendments to RFR 2 to financial years beginning 1 January 2022 or later have been reported.

**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**

All shareholdings are recognised as financial assets, and profit or loss in profit/loss from financial items.

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 recognised 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 recognised 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 recognised as appropriations.

**Pensions**

Pursuant to RFR 2, the stipulations of IAS 19 applying to defined benefit pension plans need not be applied to a legal entity. However, disclosures should be made regarding applicable parts of IAS 19. RFR 2 refers to the Swedish Pension Obligations Vesting Act for stipulations on accounting provisions to pensions and similar commitments, as well as accounting of plan assets in pension funds.

**Leases**

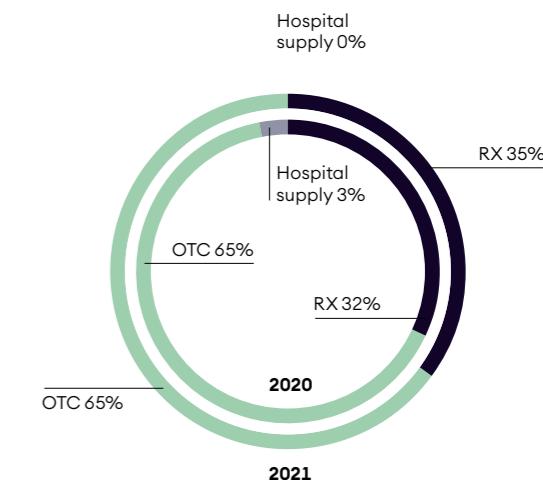
RFR 2 contains an exemption implying that all lease arrangements should be accounted as operating leases when the parent company is lessee.

**Note 2 | Revenues**

Revenues in 2021 were SEK 2,961,354,000 (2,882,867,000), and were product sales. 35% (32) of this total consisted of Rx pharmaceuticals, and 65% (65) of OTC products.

Category SEK 000	GROUP	
	2021	2020
RX	1,029,180	924,200
OTC	1,932,174	1,863,571
Hospital supply*	-	95,096
<b>TOTAL</b>	<b>2,961,354</b>	<b>2,882,867</b>

\* Operation divested 1 December 2020



Reconciliation, gross to net sales SEK 000	GROUP	
	2020	2020
Gross sales	3,064,116	3,014,560
Discounts	-82,942	-47,519
Shared marketing	-113,443	-71,493
Other	93,622	-12,682
<b>NET SALES</b>	<b>2,961,354</b>	<b>2,882,867</b>

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 a contracted right to payment for performance completed. Accrued income is recognised 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 recognised as deferred income in the Balance Sheet.

**Accrued income**

Of the opening balance for the year of SEK 29,017,000, SEK 29,017,000 has been invoiced, and thus transferred to accounts receivable in 2021. No significant impairment of recognised accrued income had occurred by year-end. SEK 2,628,000 of income recognised in 2021 is included in accrued income at year-end.

**Deferred income**

Of the opening balance for the year of SEK 0, SEK 0 of revenue was recognised in 2021. SEK 6,585,000 of deferred income at the beginning of the year is included in advance-invoiced contracts in 2021.

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

Average number of employees	2021		2020	
	Number of	men	Number of	men
Parent company	2.0	0.0	2.0	1.0
<b>Group companies</b>				
Sweden	153.0	107.0	46.0	160.0
Denmark	11.0	7.0	4.0	9.0
Finland	9.0	5.0	4.0	6.0
Norway	22.0	15.0	7.0	27.0
Lithuania	4.0	4.0	0.0	4.0
Netherlands	20.0	13.0	7.0	21.0
Germany	12.0	5.0	7.0	10.0
Switzerland	3.0	2.0	1.0	2.0
UK	4.0	3.0	1.0	3.0
Italy	1.5	0.6	0.9	0.0
<b>TOTAL</b>	<b>241.5</b>	<b>161.6</b>	<b>79.9</b>	<b>243.0</b>

As of 31 December 2021, there were 225 (192) employees.

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

SEK 000	2021			2020			
	Salaries, other benefits and social security contributions	Salaries and other benefits	Social security expenses incl. pension exp.	Total	Salaries and other benefits	Social security expenses incl. pension exp.	Total
<b>Board of Directors and CEO</b>							
Board of Directors	2,191	721	<b>2,912</b>		2,281	717	<b>2,998</b>
CEO	8,438	3,904	<b>12,342</b>		7,719	4,161	<b>11,880</b>
<b>Other employees</b>							
<b>Parent company</b>							
Sweden	3,957	1,893	<b>5,850</b>		3,231	1,335	<b>4,566</b>
<b>Group companies</b>							
Sweden	107,500	51,472	<b>158,972</b>		101,054	41,051	<b>142,105</b>
Denmark	12,789	1,331	<b>14,120</b>		11,485	1,191	<b>12,676</b>
Finland	8,247	1,951	<b>10,198</b>		6,834	1,224	<b>8,058</b>
Norway	22,114	6,017	<b>28,132</b>		27,301	5,413	<b>32,714</b>
Lithuania	1,216	18	<b>1,234</b>		1,132	174	<b>1,306</b>
Netherlands	14,003	3,279	<b>17,282</b>		17,796	3,331	<b>21,127</b>
Germany	13,169	2,479	<b>15,648</b>		10,078	1,531	<b>11,609</b>
Switzerland	2,711	476	<b>3,187</b>		3,126	647	<b>3,773</b>
UK	3,458	393	<b>3,851</b>		2,129	231	<b>2,360</b>
Italy	1,450	484	<b>1,934</b>		0	0	<b>0</b>
<b>TOTAL</b>	<b>201,244</b>	<b>74,418</b>	<b>275,662</b>		<b>194,166</b>	<b>61,005</b>	<b>255,171</b>

## Compensation and other benefits to senior executives in 2021

	Director's fee/ Basic salary	Variable remuneration	Other benefits	Other compensation	Social security expenses	Pension expenses, incl. special employer's contribution	Total
<b>Board of Directors</b>							
Patrick Smallcombe, Chairman of the Board	420				132	<b>552</b>	
Bo Jesper Hansen, Chairman of the Board	180				57	<b>237</b>	
Erika Henriksson <sup>1)</sup>	300				94	<b>394</b>	
Uta Kemmerich-Keil	300				94	<b>394</b>	
Vesa Koskinen <sup>1)</sup>	91				29	<b>120</b>	
Kristofer Tonström	300				94	<b>394</b>	
Håkan Åström	91				29	<b>120</b>	
Flemming Ørnskov	300				94	<b>394</b>	
Mark Keatley	209			105	99	<b>413</b>	
<b>Total Board of Directors</b>	<b>2,191</b>	-	-	<b>105</b>	<b>721</b>	-	<b>3,017</b>
<b>Senior executives</b>							
Christoffer Lorenzen, Chief Executive Officer	4,500	3,938	222	-	2,721	1,183	<b>12,563</b>
Other senior executives <sup>2)</sup>	13,665	2,662	764	4,798	5,370	3,684	<b>30,943</b>
<b>Total senior executives</b>	<b>18,165</b>	<b>6,600</b>	<b>986</b>	<b>4,798</b>	<b>8,091</b>	<b>4,867</b>	<b>43,506</b>
<b>TOTAL</b>	<b>20,356</b>	<b>6,600</b>	<b>986</b>	<b>4,903</b>	<b>8,812</b>	<b>4,867</b>	<b>46,524</b>

<sup>1)</sup> Erika Henriksson and Vesa Koskinen, Board members from EQT, have reported that they intend to donate their Directors' fees to aid organisations or other charities to counter the effects of the corona pandemic.

<sup>2)</sup> There was an average of 10 people in management in addition to the CEO in 2021, 5 of whom were women

More detail on the Board of Directors and group management is on pages 60-63

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

Compensation and other benefits to senior executives in 2020						
	Director's fee/basic salary	Variable remuneration	Other benefits	Other compensation	Social security expenses	Pension expenses, incl. special employer's contribution
<b>Board of Directors</b>						
Bo Jesper Hansen, Chairman of the Board	600					189
Erika Henriksson <sup>1)</sup>	300					94
Uta Kemmerich-Keil	from 25 May	181				238
Vesa Koskinen <sup>1)</sup>		300				394
Kristofer Tonström	from 25 May	181				238
Håkan Åström		300				394
Flemming Ørnskov		300				394
Eva Sjökvist Saers	to 24 May	119				156
<b>Total Board of Directors</b>	<b>2,281</b>	-	-	-	<b>717</b>	-
<b>Senior executives</b>						
Christoffer Lorenzen, Chief Executive Officer	4,719	3,000	7	-	2,428	1,733
Other senior executives <sup>2)</sup>	12,656	4,010	453	3,273	5,379	3,938
<b>Total senior executives</b>	<b>17,375</b>	<b>7,010</b>	<b>460</b>	<b>3,273</b>	<b>7,806</b>	<b>5,671</b>
<b>TOTAL</b>	<b>19,656</b>	<b>7,010</b>	<b>460</b>	<b>3,273</b>	<b>8,523</b>	<b>5,671</b>

<sup>1)</sup> Erika Henriksson and Vesa Koskinen, Board members from EQT, have reported that they intend to donate their Directors' fees to aid organisations or other charities to counter the effects of the corona pandemic.

<sup>2)</sup> There was an average of 9 people in management in addition to the CEO in 2020, 4 of whom were women

## Remuneration of the Board of Directors

The AGM on 21 April 2021 resolved that the Board of Directors should have six members with no deputies, by re-electing Erika Henriksson, Flemming Ørnskov, Kristofer Tonström and Uta Kemmerich-Keil, and by electing Mark Keatley. The AGM also elected Patrick Smallcombe as new Chairman. More detail on the Board of Directors is on pages 60-61.

Fees are payable to the Chairman of the Board, and members of the Board, in accordance with AGM resolution. According to AGM resolution 2021, the yearly Board fees was set at SEK 2,100,000 (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 member that works for EQT–Erika Henriksson–has reported that she intends to donate her Director's fee to aid organisations or other charities to counter the effects of the corona pandemic. 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 2021 imply market principles as the overall basis of salary and other benefits to senior executives. Satisfactory performance should be compensated by basic salary. Variable compensation will be available that rewards clearly target-related performance in straightforward and transparent structures, and should be based on the achievement of predetermined operational targets. 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.

One senior executive served as a consultant, and received a consulting fee: Jonathan Kimber, VP Operations. The remaining senior executives accrue basic monthly salary. More detail on the group management is on pages 62-63.

## 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.

**Note 4 | Operating expenses by nature of expense****Operating expenses are allocated by nature of expense as follows**

SEK 000	Note	GROUP		PARENT COMPANY	
		2021	2020	2021	2020
Depreciation/amortisation/impairment		-565,939	-494,644	-352,131	-272,358
Payroll expenses		-292,616	-262,300	-30,486	-8,332
Other external expenses		-654,369	-594,179	-572,880	-278,609
Other operating income and expenses	6	12,503	-13,920	-3,165	-16,080
		-1,500,421	-1,365,044	-958,663	-575,381
<b>Cost of goods sold, SEK 000</b>		<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Goods for resale		-1,255,029	-1,287,516	-499,139	-426,642
		-1,255,029	-1,287,516	-499,139	-426,642

**Note 5 | Depreciation, amortisation and impairment****Depreciation/amortisation/impairment are divided between Karo Pharma's functions and asset classes as follows**

SEK 000	Note	GROUP		PARENT COMPANY	
		2021	2020	2021	2020
<b>Function</b>					
Selling expenses		-541,163	-491,459	-350,179	-271,746
Administrative expenses		-24,775	-3,185	-1,952	-612
		-565,939	-494,644	-352,131	-272,358
<b>Asset class</b>					
Capitalised development expenses	13	-15,089	-5,595	-14,637	-4,275
Licenses and product rights	13	-521,578	-472,457	-312,374	-244,303
Goodwill	13	-	-	-23,168	-23,168
Equipment, buildings & land	14	-4,139	-3,946	-1,952	-612
Right-of-use assets	28	-25,132	-12,646	-	-
		-565,939	-494,644	-352,131	-272,358

**Note 6 | Other operating income and expenses**

SEK 000		GROUP		PARENT COMPANY	
		2021	2020	2021	2020
Exchange gains/losses, net		10,982	-22,026	2,168	-16,825
Municipal subsidies		-397	-	-	-
Profit/loss, sale of participations in group companies		-	3,289	-	-
Other income and compensation		6,174	5,855	1,243	745
Capital gain/loss, sale of non-current assets		-4,256	-1,038	-6,576	-
		12,503	-13,920	-3,165	-16,080

**Note 7 | Interest income and other profit/loss items**

SEK 000		GROUP		PARENT COMPANY	
		2021	2020	2021	2020
Interest income, capital gain and dividends from investments in securities, etc.		209	359	-	-
Interest income, group companies		-	-	39,757	44,953
Exchange rate effects		21,570	16,791	7,922	21,591
		21,778	17,150	47,679	66,544

**Note 8 | Interest expenses and similar profit/loss items**

SEK 000	GROUP		PARENT COMPANY	
	2021	2020	2021	2020
Interest expenses group companies	-	-	-1,183	-326
Interest expenses	-182,901	-190,302	-176,253	-182,300
Exchange rate effects	-32,266	-	-27,971	-
	-215,166	-190,302	-205,407	-182,626

**Note 9 | Income tax**

SEK 000	GROUP		PARENT COMPANY	
	2021	%	2020	%
Reported profit before tax	12,516	57,154	-31,040	40,300
Tax at nominal tax rate	-2,578	-20.6	6,394	-20.6
Tax effect of foreign tax rates	-1,261	-10.1	3,765	6.6
Tax effect of changed tax rates, Sweden	-	-	399	0.7
Tax effect of adjustment of previous year's tax	-14,297	-114.2	5,816	10.2
Tax effect of other non-deductible items	-3,514	-28.1%	-15,205	-26.6
Tax effect of non-taxable income	23,221	185.5%	19,001	33.2
Tax effect of tax-related depreciation and amortisation	-23,580	-188.4%	-	0.0
Tax effect of interest deduction limitation rules	376	3.0	-2,711	-4.7
Tax effect of tax assets not assigned value	494	4.0	22,555	39.5
Tax effect of tax assets recognised as assets	-8,378	-66.9	4,373	7.7
Other tax effects	11	0.1	-11	0.0
<b>TAX ON REPORTED PROFIT</b>	<b>-29,506</b>	<b>-235.7</b>	<b>25,751</b>	<b>45.1</b>
			2,140	-6.9
			-6,655	-16.5

**The tax expense consists of the following components:**

SEK 000	GROUP		PARENT COMPANY	
	2021	2020	2021	2020
Current tax:				
On profit for the year	-3,676	-3,663	-	-
Adjustment of previous year's tax	-16,437	5,816	-	-
<b>Total current tax</b>	<b>-20,113</b>	<b>2,153</b>	<b>-</b>	<b>-</b>
Deferred tax:				
Change in temporary differences	23,060	38,868	-4,538	-
Increase in deductible loss carry-forwards	15,813	18,196	6,679	-
Use of deductible loss carry-forwards	-48,265	-33,467	-	-6,655
<b>Total deferred tax</b>	<b>-9,393</b>	<b>23,597</b>	<b>2,140</b>	<b>-6,655</b>
<b>TOTAL REPORTED TAX</b>	<b>-29,506</b>	<b>25,751</b>	<b>2,140</b>	<b>-6,655</b>

As of 31 December 2021, there were deductible loss carry-forwards of approximately SEK 3,118 m (3,275) in the group and SEK 2,404 m (2,369) in the parent company. Deferred tax assets attributable to deductible loss carry-forwards are only recognised to the extent it is likely that they will be utilised.

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.

	2021	2020
<b>Number of outstanding shares (000)</b>	223,094	222,568
At beginning of year	223,094	222,568
Average	224,433	222,608
At end of year	225,033	223,094
<b>Earnings per share</b>		
Earnings attributable to equity holders of the parent	-17,451	82,049
Weighted average number of outstanding shares (000)	224,433	222,608
Basic earnings per share, SEK	-0.08	0.37
Diluted earnings per share, SEK <sup>1</sup>	-0.08	0.37

**Note 11 | Acquisitions and divestments****2021**

No new acquisitions or divestments during the financial year.

**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<sup>®</sup> 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 realised net gain after the investment was SEK 5 m. The effect on cash flow was SEK 151 m.

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

	2020
SEK 000	
Revenues	95,096
Expenses	-81,402
<b>PROFIT BEFORE TAX</b>	<b>13,694</b>
 <b>Cash flow summary</b>	<b>2020</b>
Cash flow from operating activities	4,658
Cash flow from investing activities	-1,608
Cash flow from financing activities	0
<b>CASH FLOW</b>	<b>3,050</b>

**Note 12 | Asset acquisitions and divestments**

On 1 April 2021, Karo Pharma completed the acquisition of a portfolio of consumer healthcare brands from Teva Pharmaceuticals for SEK 855 m. The acquisition transferred ownership of Flux<sup>®</sup>, Decubal<sup>®</sup>, Lactocare<sup>®</sup>, Apobase<sup>®</sup>, Dailycare<sup>®</sup> and Fludent<sup>®</sup> from Teva to Karo Pharma.

On 1 July 2021, Karo Pharma completed the divestment of a product portfolio of 12 brands to Evolam. (Citodon<sup>®</sup>, Morfin Special, Sincon<sup>®</sup>, Bamse<sup>®</sup>, Oliva<sup>®</sup>, Karbasal<sup>®</sup>, Complete<sup>®</sup>, Nazamer<sup>®</sup>, Ferromax<sup>®</sup>, Tussin<sup>®</sup>, Samin<sup>®</sup> and Conotranse<sup>®</sup>). This portfolio had sales of SEK 62 m in 2020, with growth of -4% on the previous year.

On 24 December 2021, Karo Pharma entered a put option agreement on the potential acquisition of the E45<sup>®</sup> skincare brand for GBP 200 m.

The transaction was completed on 1 April 2022, with estimated yearly net sales of GBP 43 m, transferring from Reckitt to Karo.

This acquisition is expected to consolidate Karo's operations in the UK, and advance its positioning in the skincare category, as well as adding a market-leading skincare brand in the UK and South Africa to Karo's portfolio.

The transaction will be financed with loans from K's existing banks. The valuation of this transaction on 31 December 2021 is set at 0, because its obligations and underlying assets were consistent with fair value.

**Note 13 | Goodwill, products, brands, licenses and similar rights**

SEK 000	GROUP			
	2021			
Opening cost	7,664,554	87,254	3,263,886	5,044
Purchases in the year	880,392	37,291		
Sale/retirement	- 195,032	- 3,271		
Reclassifications	- 5,544	10,642		
Translation difference	53,613	211	55,006	54
<b>Closing accumulated cost</b>	<b>8,397,983</b>	<b>132,128</b>	<b>3,318,893</b>	-
Opening amortisation	-985,873	-5,388		
Amortisation for the year	-520,818	-15,089		
Impairment for the year	-760			
Sale/retirement	34,147	-		
Translation difference	- 12,772	-70		
<b>Closing accumulated amortisation</b>	<b>- 1,486,076</b>	<b>- 20,547</b>	-	-
<b>CLOSING RESIDUAL VALUE</b>	<b>6,911,907</b>	<b>111,581</b>	<b>3,318,893</b>	-

SEK 000	GROUP			
	2020			
Opening cost	6,289,318	6,397	3,421,905	-
Purchases in the year	1,637,672	42,322	-	5,270
Sale/retirement	- 74,506	- 3,805	-	- 78,311
Sale of operations	- 38,010	-	- 82,381	-
Reclassifications	- 34,608	42,753	-	8,145
Translation difference	- 115,312	- 413	- 75,638	- 226
<b>Closing accumulated cost</b>	<b>7,664,554</b>	<b>87,254</b>	<b>3,263,886</b>	<b>5,044</b>
Opening amortisation	- 626,153	- 1,373	-	- 627,526
Amortisation for the year	- 472,457	- 5,595	-	- 478,052
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
<b>Closing accumulated amortisation</b>	<b>- 985,873</b>	<b>- 5,388</b>	-	- 991,261
<b>CLOSING RESIDUAL VALUE</b>	<b>6,678,681</b>	<b>81,867</b>	<b>3,263,886</b>	<b>5,044</b>

## Note 13, cont. – Goodwill, products, brands, licenses and similar rights

SEK 000	PARENT COMPANY			
	Licenses, product rights and brands	Capitalised development expenditure	Goodwill	Total
Opening cost	4,098,856	85,036	347,518	<b>4,531,410</b>
Purchases in the year	880,392	34,457	-	<b>914,849</b>
Sale/retirement	- 89,219	-	-	<b>- 89,219</b>
<b>Closing accumulated cost</b>	<b>4,890,029</b>	<b>119,493</b>	<b>347,518</b>	<b>5,357,040</b>
Opening amortisation	-609,077	-4,983	-63,712	<b>-677,771</b>
Amortisation for the year	-311,614	-14,637	-23,168	<b>-349,419</b>
Impairment for the year	-760	-	-	<b>-760</b>
Sale/retirement	78,027	-	-	<b>78,027</b>
<b>Closing accumulated amortisation</b>	<b>- 843,424</b>	<b>-19,620</b>	<b>-86,880</b>	<b>- 949,923</b>
<b>CLOSING RESIDUAL VALUE</b>	<b>4,046,605</b>	<b>99,873</b>	<b>260,639</b>	<b>4,407,116</b>
PARENT COMPANY				
SEK 000	2020			
	Licenses, product rights and brands	Capitalised develop- ment expenditure	Goodwill	Total
Opening cost	2,509,267	2,930	347,518	<b>2,859,715</b>
Purchases in the year	1,622,804	42,322	-	<b>1,665,126</b>
Reclassifications	-33,215	39,784	-	<b>6,569</b>
<b>Closing accumulated cost</b>	<b>4,098,856</b>	<b>85,036</b>	<b>347,518</b>	<b>4,531,410</b>
Opening amortisation	-364,773	-707	-40,544	<b>-406,024</b>
Amortisation for the year	-244,303	-4,276	-23,168	<b>-271,747</b>
<b>Closing accumulated amortisation</b>	<b>-609,077</b>	<b>-4,983</b>	<b>-63,712</b>	<b>-677,771</b>
<b>CLOSING RESIDUAL VALUE</b>	<b>3,489,779</b>	<b>80,053</b>	<b>283,806</b>	<b>3,853,638</b>

## Note 13, cont. – Goodwill, products, brands, licenses and similar rights

## Cash-generating units

Karo Pharma divides its operations between the cash-generating units of Rx (prescription pharmaceuticals) and OTC (over-the-counter) products—whose main customers are pharmacies.

The allocation of assets and financial monitoring of these entities is by grouping existing brands in each category.

Goodwill per cash-generating unit, group	2021	2020	Product rights per cash-generating unit, group	2021	2020
Rx	838,297	203,216	Rx	2,814,282	2,453,338
OTC	2,480,596	3,060,670	OTC	4,097,625	4,225,343
<b>Total goodwill, group</b>	<b>3,318,893</b>	<b>3,263,886</b>	<b>Total value, licenses and product rights</b>	<b>6,911,907</b>	<b>6,678,681</b>

Product right	Cash-generating unit	Book value	Remaining amortisation period
Project Zuba (Leo acqu. Apr 2018)	RX & OTC	1,738,602	12 yr.
Project Polo (Leo acqu. Mar 2020)	RX & OTC	878,397	13 yr.
Project Ruffian (J&J acqu. May 2020)	RX & OTC	552,976	13 yr.
Project Thor (Tribm acqu. Sep 2019)	RX & OTC	1,992,265	17 yr.
Project Roadster (Teva acqu. April 2021)	RX & OTC	813,888	15 yr.
Other	RX & OTC	935,780	12-19 yr.
<b>Total value, licenses and product rights</b>		<b>6,911,907</b>	

## 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% for the product portfolio per year. Applying a weighted average cost of capital (WACC before tax) of 8.5%, the recoverable amounts of the tested units exceed the carrying amounts of the tested units. Given a change in the growth rate from 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

SEK 000	GROUP									
	2021				2020				Total	Total
	Equipment	Buildings and land	Construction in progress and advances	Total	Equipment	Buildings and land	Construction in progress and advances	Total		
Opening cost	21,823	-	5,742	<b>27,565</b>	23,409	9,682	1,640	<b>34,731</b>		
Purchases in the year	7,181	-	-	<b>7,181</b>	9,865	76	11,480	<b>21,421</b>		
Sale and retirements	- 6,996	-	-	<b>- 6,996</b>	-3,193	-	-	<b>-3,193</b>		
Sale of operations	-	-	-	-	-5,154	-9,758	-	<b>-14,912</b>		
Reclassifications	247	-	-604	<b>-357</b>	-2,390	-	-7,148	<b>-9,538</b>		
Translation difference	488	-	97	<b>585</b>	-714	-	-230	<b>-944</b>		
<b>Closing accumulated cost</b>	<b>22,742</b>	-	<b>5,235</b>	<b>27,977</b>	<b>21,823</b>	-	<b>5,742</b>	<b>27,565</b>		
Opening depreciation	-8,524	-	-	<b>-8,524</b>	-12,738	-1,367	-	<b>-14,105</b>		
Sales and retirements	6,823	-	-	<b>6,823</b>	2,461	-	-	<b>2,461</b>		
Sale of operations	-	-	-	-	2,950	1,764	-	<b>4,714</b>		
Depreciation for the year	-4,139	-	-	<b>-4,139</b>	-3,549	-397	-	<b>-3,946</b>		
Reclassifications	-	-	-	-	2,062	-	-	<b>2,062</b>		
Translation difference	-276	-	-	<b>-276</b>	290	-	-	<b>290</b>		
<b>Closing accumulated depreciation</b>	<b>- 6,116</b>	-	<b>- 6,116</b>	<b>-8,524</b>	-	-	<b>-8,524</b>			
<b>CLOSING RESIDUAL VALUE</b>	<b>16,626</b>	-	<b>5,235</b>	<b>21,861</b>	<b>13,299</b>	-	<b>5,742</b>	<b>19,041</b>		
PARENT COMPANY										
SEK 000	2021				2020					
	Equipment	Construction in progress and advances	Total		Equipment	Construction in progress and advances	Total			
Opening cost	19,933	-	<b>19,933</b>		11,064	1,061	<b>12,125</b>			
Purchases in the year	4,194	-	<b>4,194</b>		8,869	5,508	<b>14,377</b>			
Sale and retirements	- 11,002	-	<b>- 11,002</b>		-	-	-	<b>-</b>		
Reclassifications	-	-	-		-	-6,569	<b>-6,569</b>			
<b>Closing accumulated cost</b>	<b>13,124</b>	-	<b>13,124</b>	<b>19,933</b>	-	-	<b>19,933</b>			
Opening depreciation	-11,640	-	<b>-11,640</b>		-11,028	-	<b>-11,028</b>			
Sales and retirements	11,002	-	<b>11,002</b>		-	-	-	<b>-</b>		
Depreciation for the year	-1,952	-	<b>-1,952</b>		-612	-	<b>-612</b>			
<b>Closing accumulated depreciation</b>	<b>- 2,589</b>	-	<b>- 2,589</b>	<b>-11,640</b>	-	-	<b>-11,640</b>			
<b>CLOSING RESIDUAL VALUE</b>	<b>10,535</b>	-	<b>10,535</b>		8,293	-	8,293			

## Note 15 | Participations in group companies

SEK 000	PARENT COMPANY					
	2021	2020	2021	2020	2021	2020
<b>Closing accumulated cost</b>						
Opening cost					5,241,199	5,166,709
Purchase					102	13,608
Sale					-	-29,641
Shareholders' contribution paid					-	90,523
<b>Closing accumulated cost</b>					<b>5,241,300</b>	<b>5,241,199</b>
Opening impairment					-	-9,250
Impairment for the year					-44	-38,305
Sale					-	29,054
<b>Closing accumulated impairment</b>						<b>-9,294</b>
<b>CLOSING BOOK VALUE</b>					<b>5,232,006</b>	<b>5,231,948</b>
Name	Registered office	Corp. ID no.	Participating interest	Number of shares	Book value	Net profit/loss
Karo Pharma AG (corporate name changed from Hygis SA)	Steinhausen, Switzerland	CHE-109.884.033	100%	10,010	13,545	3,272
Karo Pharma UK Ltd	Guildford	11784588	100%	1,000	19	1,878
Karo Pharma Sverige AB	Stockholm, Sweden	556767-3784	100%	157,011	388,746	215,469
Bio Phausia AB	Stockholm, Sweden	556485-0153	100%	342,564,194	928,973	149,724
Karo Pharma Norge AS	Oslo, Norway	983.733.506	100%	36,472,069	1,334,994	1,355,804
Karo Pharma ApS	Copenhagen, Denmark	39.503.778	100%	2,000	281	5,932
Karo Pharma Oy	Åbo, Finland	2915559-1	100%	10,000	104	5,544
Trimb Holding AB	Stockholm, Sweden	559018-4148	100%	2,544,839	2,565,243	1,348,219
Karo Pharma S.R.L.	Milan, Italy	IT11511170968	100%	10,000	102	1,890
<b>TOTAL BOOK VALUE IN GROUP COMPANIES</b>					<b>5,232,006</b>	
<b>Indirect holdings</b>						
Name	Registered office	Corp. ID no.	Participating interest	Number of shares	Equity	Net profit/loss
Karo Pharma AS	Oslo, Norway	917.296.200	100%	6,798,000	156,110	24,603
Trimb Healthcare AB	Stockholm, Sweden	556893-0795	100%	318,737	554,059	-20,756
CCS Skincare Brands AB	Solna, Sweden	559170-0082	100%	50,000	69	-18,168
Independent Beauty AB	Stockholm, Sweden	559121-8473	80%	50,000	14,515	2,307
Frasen AB	Kungälv, Sweden	556888-0412	100%	500	12,071	11,685
Trimb Netherlands BV	Amsterdam	63.994.437	100%	10,000	-64,476	-111,794
YouMedical BV	Amsterdam	55.302.394	100%	180	132,875	14,753
Bioclin BV	Delft	27.229.261	100%	400	39,615	87,023
Bioclin Asia	Bangkok	010555301865	99%	20,000	1,052	-66
UAB Trimb	Kaunas	303208187	100%	100	-1,420	439
Karo Pharma GmbH	Kraeling	HRB 250663	100%	1	3,947	3,068
<b>TOTAL BOOK VALUE IN GROUP COMPANIES</b>					<b>5,232,006</b>	

## Note 16 | Other financial assets

SEK 000	GROUP		PARENT COMPANY	
	2021	2020	2021	2020
<b>CLOSING ACCUMULATED COST</b>				
Guarantees and deposits	2,848	2,011	30	51
Receivables group companies	-	-	1,243,296	1,139,377
Non-current receivables, other	21	215	21	-
<b>CLOSING ACCUMULATED COST</b>	<b>2,869</b>	<b>2,226</b>	<b>1,243,347</b>	<b>1,139,428</b>

## Note 17 | Inventories

SEK 000	GROUP		PARENT COMPANY	
	2021	2020	2021	2020
<b>CLOSING BOOK VALUE</b>				
Finished goods	4			

**Note 18 | Accounts receivable**

SEK 000	GROUP		PARENT COMPANY	
	2021	2020	2021	2020
Not overdue	487,234	418,302	180,461	157,205
Overdue 1-30 days	95,133	155,315	30,597	60,252
Overdue 31-60 days	14,377	11,517	10,751	2,086
Overdue 61-90 days	14,133	4,473	690	1,549
Overdue > 90 days	18,635	9,151	14,018	5,471
Credit loss reserve	-2,114	-2,415	-1,471	-875
<b>CLOSING BOOK VALUE</b>	<b>627,397</b>	<b>596,343</b>	<b>235,046</b>	<b>225,688</b>

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

**Note 19 | Prepaid expenses and accrued income**

SEK 000	GROUP		PARENT COMPANY	
	2021	2020	2021	2020
Prepaid insurance	3,910	763	3,891	262
Prepaid bank charges	733	733	733	733
Prepaid licenses and other IT-related expenses	9,410	5,509	9,063	4,778
Accrued income	2,628	29,017	61,938	27,844
Other items	22,723	13,045	37,203	7,017
	<b>39,405</b>	<b>49,067</b>	<b>112,829</b>	<b>40,634</b>

**Note 20 | Cash and cash equivalents**

Amount as of 31 December, SEK 000	GROUP		PARENT COMPANY	
	2021	2020	2021	2020
Cash and bank balances	260,715	570,391	209,642	103,410
	<b>260,715</b>	<b>570,391</b>	<b>209,642</b>	<b>103,410</b>

**Note 21 | Equity**

Total number of shares	2021	2020	Shares in treasury	2021	2020
As of 1 January	225,033,204	225,033,204	As of 1 January	1,939,689	2,464,990
AS OF 31 DECEMBER	225,033,204	225,033,204	Sales in the year <sup>1)</sup>	-1,939,689	-525,301
			AS OF 31 DECEMBER	-	1,939,689

Number of outstanding shares <sup>1)</sup>	2021	2020	Share capital, SEK	2021	2020
Total number of shares	225,033,204	225,033,204	As of 1 January	90,012,291	90,012,291
Shares in treasury	0	-1,939,689	AS OF 31 DECEMBER	90,012,291	90,012,291
<b>TOTAL</b>	<b>225,033,204</b>	<b>223,093,515</b>	Quota value, SEK	0.40	0.40

<sup>1)</sup> There was no dilution effect on the number of shares as of 31 December 2021 or 31 December 2020.

**Management of capital**

The group's objective in terms of managing its capital structure is to safeguard 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 2021 and 2020 was as follows:

SEK 000	2021	2020
Total borrowing	5,731,308	5,847,723
Less: cash and cash equivalents	-260,715	-570,391
Less: investments in securities, etc.	-2,869	-2,226
<b>Net debt</b>	<b>5,467,724</b>	<b>5,275,106</b>
Total equity	5,794,154	5,638,490
Total capital	12,593,418	12,517,499
Debt/equity ratio	43%	42%

**Note 22 | Deferred tax****Amounts relating to deferred tax assets and liabilities in the Balance Sheet are as follows:**

SEK 000	GROUP 2021			GROUP 2020			PARENT COMPANY 2021			PARENT COMPANY 2020		
	Receivables	Liabilities	Net	Receivables	Liabilities	Net	Receivables	Liabilities	Net	Receivables	Liabilities	Net
Non-current assets	- 496,853	- 496,853		- 524,885	- 524,885		- 26,527	- 26,527		- 21,989	- 21,989	
Untaxed reserves	-	-	-	- 2,306	- 2,306		-	-	-	-	-	-
Loss carry-forwards												
Net interest income/expense, etc.	661,980	- 661,980	685,282	- 685,282	494,739	- 494,739	488,060	- 488,060				
Other	- 16,516	- 16,516	-	-	-	-	-	-	-	-	-	-
<b>TAX ASSETS AND LIABILITIES, NET</b>	<b>661,980</b>	<b>- 513,370</b>	<b>148,610</b>	<b>685,282</b>	<b>- 527,192</b>	<b>158,091</b>	<b>494,739</b>	<b>- 26,527</b>	<b>468,211</b>	<b>488,060</b>	<b>- 21,989</b>	<b>466,071</b>

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

SEK 000	Non-current assets	Untaxed Reserves	Loss carry-forwards		
			Net interest income/expense, etc.	Other	Total
As of 31 December 2020	- 524,885	- 2,306	685,282	-	<b>158,090</b>
Sale of operations	-	-	-	-	-
Translation difference	- 9,105	-	9,149	- 132	<b>- 88</b>
Via equity	-	-	-	-	-
Via profit or loss	37,137	2,306	- 32,452	- 16,384	<b>- 9,393</b>
<b>AS OF 31 DECEMBER 2021</b>	<b>- 496,853</b>	<b>-</b>	<b>661,980</b>	<b>- 16,516</b>	<b>148,610</b>

SEK 000	Non-current assets	Untaxed Reserves	Loss carry-forwards		
			Net interest income/expense, etc.	Other	Total
As of 31 December 2020	- 584,191	- 2,306	717,310	401	<b>131,213</b>
Sale of operations	5,284	-	- 1,032	- 276	<b>3,976</b>
Translation difference	15,162	-	- 15,858	-	<b>- 696</b>
Via equity	-	-	-	-	-
Via profit or loss	38,860	-	- 15,138	- 125	<b>23,597</b>
<b>AS OF 31 DECEMBER 2021</b>	<b>- 524,885</b>	<b>- 2,306</b>	<b>685,282</b>	<b>-</b>	<b>158,090</b>

**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 2020	- 21,989	-	488,060	-	<b>466,071</b>
Via profit or loss	- 4,538	-	6,679	-	<b>2,140</b>
<b>AS OF 31 DECEMBER 2021</b>	<b>- 26,527</b>	<b>-</b>	<b>494,739</b>	<b>-</b>	<b>468,211</b>

The group has deductible deficits totalling SEK 3,118,377,000 (3,274,902,000), which corresponds to a value for tax purposes totalling SEK 648,352,000 (685,548,000). The parent company has deductible deficits totalling SEK 2,403,523,000 (2,369,222,000), which corresponds to a value for tax purposes totalling SEK 494,739,000 (488,060,000). The group has deferred tax assets relating to loss carry-forwards not recognised in its Balance Sheet of SEK 0 (267,000). The deferred tax assets on loss carry-forwards recognised in the Balance Sheet of SEK 648,352,000 (685,282,000) are those the company estimates that it will be able to utilise in the foreseeable future.

In its assessment of the possibility of utilising loss carry-forwards, consideration had been taken to factors limiting Karo Pharma's scope to utilise loss carry-forwards. Significant factors for Karo Pharma are 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	Amount as of 31 December	GROUP		PARENT COMPANY	
		2021	2020	2021	2020
Within one year		98,752	4,719,920	74,345	4,687,419
Between two and five years		5,679,299	1,130,351	5,623,995	1,010,712
Later than five years		89	-	8	-
		<b>5,778,140</b>	<b>5,850,271</b>	<b>5,698,347</b>	<b>5,698,131</b>
Liabilities to credit institutions		5,655,511	5,799,175	5,656,228	5,698,105
Lease liabilities		75,798	48,548	-	-
Deposit		26	26	26	26
Provisions		46,806	2,522	42,094	-
		<b>5,778,140</b>	<b>5,850,271</b>	<b>5,698,347</b>	<b>5,698,131</b>
<b>Overdraft limit</b>		<b>200,000</b>	<b>200,000</b>	<b>200,000</b>	<b>200,000</b>
- of which unused portion		200,000	200,000	200,000	200,000

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 per year, principal and interest**

2021	2020	GROUP		PARENT COMPANY	
		2021	2020	2021	2020
2021	-	4,821,851	-	4,786,584	
2022	3,008,759	147,081	2,783,671	113,377	
2023	249,663	981,150	212,385	948,094	
2024	5,592,264	31,557	5,586,313	-	
2025	5,248	23,243	-	-	
2026	10,495	-	-	-	
2027	8	-	8	-	
	<b>8,866,437</b>	<b>6,004,882</b>	<b>8,582,377</b>	<b>5,848,055</b>	

Above table includes a contractual commitment to acquire the skin care brand E45 pursuant to the seller's exercise of the put option.

Collateral of SEK 5,383 m (5,292) 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 institu-

tions 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 6,085 m (6,005), compared to carrying amount of SEK 5,751 m (5,872).

**Note 24 | Other current liabilities**

SEK 000	GROUP		PARENT COMPANY	
	2021	2020	2021	2020
Value added tax, withholding tax, etc.	64,685	71,546	2,350	3,832
	<b>64,685</b>	<b>71,546</b>	<b>2,350</b>	<b>3,832</b>

**Note 25 | Accrued expenses and deferred income**

SEK 000	GROUP		PARENT COMPANY	
	2021	2020	2021	2020
Accrued personnel-related items	60,386	43,034	6,839	634
Delivered, not invoiced	29,994	48,311	10,246	7,490
Accrued interest expenses	2,603	9,502	2,603	9,432
Accrued product tax	2,839	10,639	1,737	9,316
Accrued customer returns for product expiration	995	3,838	995	3,838
Accrued expenses for organisational development	13,939	2,016	13,939	2,016
Accrued auditing expenses	3,294	2,909	84	1,800
Accrued accounting services	3,023	701	295	-
Accrued shipping & distribution expenses	1,189	4,966	1,189	1,286
Accrued expenses for market support and kickbacks	39,625	26,251	13,311	7,163
Accrued royalties	1,708	15,634	140,749	9,257
Deferred income	6,585	-	5,958	-
Other items	18,901	26,667	9,232	6,802
	185,081	194,468	207,177	59,034

**Note 26 | Pledged assets**

SEK 000	GROUP		PARENT COMPANY	
	2021	2020	2021	2020
Pledged assets for liabilities to credit institutions				
Shares in subsidiaries	5,288,667	5,197,704	5,217,956	5,217,956
Corporate mortgages	94,250	94,250	-	-
Starting in 2021, Karo Pharma sells some of its accounts receivable to a third party. According to the agreement Karo Pharma has a commitment to reimburse the buyer of the receivables for credit losses up to 10%.				
As the risk for credit losses is deemed low, no provision for this commitment has been recognised. As per December 31 2021, total sold but not yet settled invoices amount to SEK 84 m.				

**Note 27 | Supplementary information, Cash Flow Statement**

SEK 000	GROUP		PARENT COMPANY	
	2021	2020	2021	2020
Other non-cash items:				
Capital gain non-current assets	4,256	1,113	6,523	-8,995
Group contributions	-	-	-194,102	-
Financial items	28,808	-7,937	47,285	-22,009
Other items	21,325	-4,517	18,426	-
	54,388	-11,341	-121,868	-31,004
Interest received	209	359	39,333	36,367
Interest paid	-167,918	-146,686	-163,153	-139,696
Loan arrangement fee paid	-18,353	-34,762	-18,353	-34,762

SEK 000	Cash and cash equivalents	Other financial assets	Liabilities to credit institutions	Lease liabilities	Total
					Net debt as of 1 January 2021
<b>Net debt as of 1 January 2021</b>	<b>570,391</b>	<b>2,226</b>	<b>-5,799,175</b>	<b>-48,548</b>	<b>-5,275,105</b>
Cash flows:					
- Loans arranged/repaid					
- Payments made and received, other					
Non-cash items:					
- Additional lease arrangements					
- Exchange differences					
- Allocated loan arrangement expenses					
- Other non-cash items					
NET DEBT AS OF 31 DECEMBER 2021	260,715	2,869	-5,655,511	-75,798	-5,467,724

**Note 27, cont. - Supplementary information, Cash Flow Statement**

SEK 000	Cash and cash equivalents	Other financial assets	Liabilities to credit institutions	Lease liabilities	Total
Group - Reconciliation of net debt					
<b>Net debt as of 1 January 2020</b>	<b>248,806</b>	<b>2,745</b>	<b>-4,330,264</b>	<b>-8,549</b>	<b>-4,087,262</b>
Cash flows:					
- Loans arranged/repaid					
- Payments made and received, other					
Non-cash items:					
- Additional lease arrangements					
- Exchange differences					
- Allocated loan arrangement expenses					
- Other non-cash items					
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	Non-current liabilities to group companies	Total
Parent company - Reconciliation of net debt					
<b>Net debt as of 1 January 2021</b>	<b>103,410</b>	<b>1,139,428</b>	<b>-5,698,105</b>	<b>-</b>	<b>-4,455,267</b>
Cash flows:					
- Loans arranged/repaid					
- Payments made and received, other					
Non-cash items:					
- Exchange differences					
- Allocated loan arrangement expenses					
- Other non-cash items					
NET DEBT AS OF 31 DECEMBER 2021	209,642	1,243,347	-5,656,228	-	-4,203,239

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					
<b>Net debt as of 1 January 2020</b>	<b>61,557</b>	<b>304,223</b>	<b>-4,192,730</b>	<b>-12,946</b>	<b>-3,839,896</b>
Cash flows:					
- Loans arranged/repaid					
- Payments made and received, other					
Non-cash items:					
- Exchange differences					
- Allocated loan arrangement expenses					
- Other non-cash items					
NET DEBT AS OF 31 DECEMBER 2020	103,410	1,139,428	-5,698,105	0	-4,455,267

**Note 28 | Leases****The following amounts are recognised in the Consolidated Balance Sheet related to leases.**

SEK 000	GROUP	
	2021	2020
<b>Right-of-use assets</b>		
Premises	66,212	49,495
Vehicles	6,823	928
<b>Total</b>	<b>73,035</b>	<b>50,423</b>
<b>Lease liabilities</b>		
Non-current	51,391	36,201
Current	24,407	12,347
	<b>75,798</b>	<b>48,548</b>

For information on the maturity structure of lease liabilities, see note 30.  
Right of-use assets additional in 2021 amounted to SEK 39,673,000

(54,237,000). The Income Statement discloses the following amounts related to leases:

SEK 000	GROUP	
	2021	2020
<b>Amounts recognised in Consolidated Income Statement</b>		
Amortisation of right-of-use assets		
- Premises	20,859	11,312
- Vehicles	4,273	1,333
<b>Total amortisation</b>	<b>25,132</b>	<b>12,646</b>
Interest expenses for lease liability	4,588	2,475
Expenses related to short-term leases	466	1,449
<b>Total expenses related to leases</b>	<b>30,187</b>	<b>16,570</b>

Total cash flow related to leases was SEK 23,585,000 (15,197,000). Future obligations related to short-term leases (excluding the measurement of right-of-use assets and lease liability), amount to SEK 0 (639,000) as of 31 December 2021.

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.

**Operating leases**

The parent company does not apply IFRS 16, and lease payments are allocated on a straight-line basis over the lease term.

SEK 000	PARENT COMPANY	
	2021	2020
Operating lease payments for the year are for:		
Premises rent	12,835	8,834
	<b>12,835</b>	<b>8,834</b>

SEK 000	PARENT COMPANY	
	2021	2020
Future minimum operating lease payments payable:		
Within one year	12,468	11,731
Later than one year but within five years	27,836	36,468
Later than five years	0	0
	<b>40,304</b>	<b>48,199</b>

**Note 29 | Audit fees**

SEK 000	GROUP		PARENT COMPANY	
	2021	2020	2021	2020
<b>EY</b>				
Auditing	6,554	7,618	2,284	3,416
Auditing in addition to audit assignment	377	566	276	486
Tax consultancy	469	2,528	469	2,194
Other	6,847	1,537	27	1,139
<b>Total, EY</b>	<b>14,247</b>	<b>12,249</b>	<b>3,056</b>	<b>7,235</b>
<b>Total, other audit firms</b>				
<b>TOTAL FEES TO AUDITORS</b>	<b>14,247</b>	<b>12,249</b>	<b>3,056</b>	<b>7,235</b>

**Note 30 | Financial instruments, risks and sensitivity analysis****Financial instruments by category**

31 December 2021 (SEK 000)	Financial assets – amortised cost	Saleable financial assets	Total
Assets in the Balance Sheet			
Accounts receivable and other receivables	648,269	-	<b>648,269</b>
Cash and cash equivalents	260,715	-	<b>260,715</b>
	908,984	-	<b>908,984</b>

31 December 2021 (SEK 000)

31 December 2021 (SEK 000)	Financial liabilities – amortised cost	Total
Liabilities in the Balance Sheet		
Liabilities to credit institutions	5,655,511	<b>5,655,511</b>
Lease liabilities	75,798	<b>75,798</b>
Accounts payable and other liabilities (excl. non-financial liabilities)	295,687	<b>295,687</b>
	6,026,995	<b>6,026,995</b>

31 December 2020 (SEK 000)

31 December 2020 (SEK 000)	Financial assets – amortised cost	Saleable financial assets	Total
Assets in the Balance Sheet			
Accounts receivable and other receivables	622,743	-	<b>622,743</b>
Cash and cash equivalents	570,391	-	<b>570,391</b>
	1,193,135	-	<b>1,193,135</b>

31 December 2020 (SEK 000)

31 December 2020 (SEK 000)	Financial liabilities – amortised cost	Total
Liabilities in the Balance Sheet		
Liabilities to credit institutions	5,799,175	<b>5,799,175</b>
Lease liabilities	48,548	<b>48,548</b>
Accounts payable and other liabilities (excl. non-financial liabilities)	303,689	<b>303,689</b>
	6,151,412	<b>6,151,412</b>

The amounts stated in the table are the computed fair values 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.

On 24 December 2021, Karo Pharma entered a put option agreement as described in note 12. The valuation of this transaction on 31 December 2021 is set at 0, because its obligations and underlying assets were consistent with fair value.

## 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
<b>31 December 2021 (SEK 000)</b>					
Accounts payable and other liabilities (excl. non-financial liabilities)	295,687	-	-	295,687	295,687
Loans, credit institutions	74,345	5,581,166	-	5,655,511	5,655,511
Lease liabilities	24,407	23,161	28,230	75,798	75,798
	<b>394,438</b>	<b>5,604,327</b>	<b>28,230</b>	<b>6,026,996</b>	<b>6,026,995</b>
<b>31 December 2021 (SEK 000)</b>					
	Not overdue	Overdue 0-3 months	Overdue 3-6 months	Overdue +6 months	<b>Total</b>
Accounts receivable	487,234	123,642	18,635	-	<b>629,511</b>
Credit loss reserve	-	-591	-1,523	-	<b>-2,114</b>
	<b>487,234</b>	<b>123,051</b>	<b>17,111</b>	<b>-</b>	<b>627,397</b>

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

## Sensitivity analysis

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

Valuta (SEK m)	Revenues	Operating profit
DKK	-29.5	8.3
EUR	-107.6	-162.1
NOK	-61.0	-3.7
GBP	-8.9	-0.3
Other	-16.1	15.0

## Financial risks

Like all other business enterprises, Karo Pharma is exposed to various risks, which change over time. Relevant risks in Karo Pharma's case can be divided between business risks and financial risks. Karo Pharma's Finance Policy stipulates the segregation of duties for financing operations, which financial risks the company is willing to assume, and the guidelines on how such risks should be reduced and managed. Financial risk management is centralised, 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 24.5% (26.0) of the group's revenues are denominated in Swedish kronor, and some 57.7% (32.0) 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) and UK sterling (GBP). 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 -142.8 m (-75.1).

There were no forward contracts at year-end 2021. EBIT in 2021 and 2020 were not affected by any maturing forward contracts.

The group has not pledged any collateral for these receivables.

## Note 30, cont. – Financial instruments, risks and 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 formalising 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

## Revenues by customer domicile

	2021	2020
Sweden	711,401	848,840
Norway	616,833	587,884
Denmark	292,118	285,685
Finland	152,305	118,931
France	171,309	147,899
Germany	169,284	161,506
Italy	126,547	90,613
UK	110,145	118,870
Rest of Europe	404,000	340,969
USA	19,145	12,897
Rest of world	188,268	168,773
	2,961,354	2,882,867

## Non-current assets by Karo Pharma's domicile

	2021	2020
Sweden	9,771,345	8,370,472
Norway	1,293,864	1,440,566
Europe	36,918	975,372
Rest of world	-	41
	11,102,126	10,786,451

## Note 32 | Transactions with related parties

Apart from transactions such as remuneration and salary to the Board of Directors and senior executives, there have been one related party transaction.

On May 6 2021, Karo Pharma sold all remaining treasury shares (1,375,417) equivalent to some 0.69% of the total outstanding shares and

votes of Karo Pharma to Karo Intressenter AB. These shares were transferred in one transaction, and reported in a separate press release. This transaction added a total of SEK 73.4 million to Karo Pharma's cash reserves.

**Note 33 | Significant events after the end of the financial year 2021**

On 13 January 2022, Karo Pharma completed the acquisition of the Belgian company Sylphar International NV for EUR 290 m.

Sylphar generated sales of some EUR 64 m in October 2020 to September 2021. Sylphar's brands are marketed in over 50 countries worldwide through local distributors and online. The company's largest markets include the UK, Germany, Italy, Spain and France. The three largest brands in its portfolio are Nutravita, Alpha Foods and Remescar.

The acquisition was financed with new credit facilities, including a bridging loan facility with a 12-month term from Karo's existing bank lenders. The intention is to repay the bridging loan facility with funds from a rights issue. Consequently, Karo Pharma decided on, and

informed in separate press releases (22 November 2021, 16 and 23 March 2022) a fully guaranteed rights issue of some SEK 2.5 billion.

On 19 January 2022, Karo Pharma entered an agreement to acquire another brand, Satin Naturel, an exclusive skincare brand, mainly sold on Amazon in Germany, and fully compatible with Sylphar's business model. The transaction was completed during March 2022.

Karo judges that the transactions of Sylphar and Satin will bring potential sales synergies and add assets, as well as qualified expertise in e-commerce and digital transformation to the company.

See the following table for preliminary estimation of fair values.

EUR M	
Net assets	0.1
Product rights	136.2
Goodwill	114.0
<b>TOTAL PURCHASE CONSIDERATION</b>	<b>250.3</b>

During 2021, Karo Pharma's Board of Directors decided to apply to de-list the company's shares from Nasdaq Stockholm, and to list the company's shares on Nasdaq First North Growth Market. Nasdaq Stockholm approved the application, and the final trading day on Nasdaq Stockholm was 24 March 2022, with the first trading day on Nasdaq First North Growth Market being 25 March 2022.

On 24 December 2021, Karo Pharma entered a put option agreement. The value as per December 31, 2021 was set to 0 as the commitment and the asset are considered to have the same actual value. On April 1, 2022 the acquisition connected to the put option agreement of the skin care brand E45® from Reckitt was closed for a transaction amount of GBP 200 m. All conditions for the completion of the transaction were fulfilled. The turnover of E45® amounted to GBP 43 m during 2021 and the transaction contributes positively to the market position of Karo within skincare, especially in UK, South Africa and Spain.

As a consequence of the war in Ukraine the trade with the Karo Pharma distributor in Russia has been stopped. The exposure in annual net sales is around 20 MSEK and outstanding receivables around 7 MSEK. Karo Pharma has donated medical supply to civilians in Ukraine.

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 31 May 2022 for adoption.

Stockholm, Sweden, 12 April 2022

Patrick Smallcombe  
Chairman of the Board

Erika Henriksson  
Board member

Mark Keatley  
Board member

Uta Kemmerich-Keil  
Board member

Flemming Ørnskov  
Board member

Kristofer Tonström  
Board member

**Note 34 | Proposal for profit distribution**

Following amounts are stated in thousands of Swedish kronor (SEK 000)

According to the Balance Sheet of Karo Pharma AB (publ), the following non-restricted equity is at the disposal of the Annual General Meeting

Profit brought forward	712,240
Share premium reserve	4,896,405
Profit for the year	-28,900
<b>TOTAL</b>	<b>5,579,746</b>

Christoffer Lorenzen  
Chief Executive Officer

The Board of Directors proposes that these funds are appropriated as follows:

Carried forward	5,579,746
<b>TOTAL</b>	<b>5,579,746</b>

Our Audit Report was presented on 12 April 2022

**Definitions of key indicators**

Key indicator	Definition	Purpose
Operating profit	Earning/loss including all operating income and expenses, i.e. earnings excluding financial items and income tax	
Equity/assets ratio	Equity as a percentage of total assets	The equity/assets ratio is relevant to investors and other stakeholders that want to assess 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

Jonatan Hansson  
Authorised Public Accountant  
Ernst & Young AB

# AUDITOR'S REPORT

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

## Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of Karo Pharma AB (publ) for the year 2021. The annual accounts and consolidated accounts of the company are included on pages 42-55 and 60-99 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 2021 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 2021 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. 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 of financial position for the group.

### 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.

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

### 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 1-41 and 56-59. 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 intend 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 scepticism 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.

## 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 AB (publ) for the year 2021 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 fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### Auditor's responsibility

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

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

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

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.

## ANNUAL GENERAL MEETING

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism 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 opinion regarding the statutory sustainability report

The Board of Directors is responsible for the statutory sustainability report on pages 46-49, and that it is prepared in accordance with the Annual Accounts Act.

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.

Stockholm, 12 April, 2022  
Ernst & Young AB

Jonatan Hansson  
Authorized Public Accountant

The Annual General Meeting of Karo Pharma AB (publ) will be held on Tuesday 31 May 2022. The invitation to the AGM will be published on Karo Pharma's website, [www.karopharma.com](http://www.karopharma.com). 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 Tuesday 31 May 2022. 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 Friday 20 May 2022, and secondly notify the company by Monday 30 May 2022 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 Friday 20 May 2022. 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 Tuesday 24 May 2022 at the latest will be considered when preparing the share register.

### Other financial information

Interim Report Jan-Jun 20 July 2022

Financial reports, press releases, invitations to shareholders' meetings and other information is available at Karo Pharma's website [www.karopharma.com](http://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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