KARO PHARMA

ANNUAL REPORT 2016

CONTENTS

SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING

The Annual General Meeting of Karo Pharma AB (publ) will be held on Thursday May 11, 2017 at 4:00 p.m. at Näringslivets Hus, Storgatan 19 in Stockholm, Sweden. The notice to attend the Annual General Meeting is available through Karo Pharmas's website, www.karopharma.se

Entitled to attend the Annual General Meeting are those who are both registered shareholders in the share register held by Euroclear Sweden AB at the record date Friday May 5, 2017 and have notified Karo Pharma of their intention to attend the general meeting no later than 4:00 p.m. on May 5, 2017.

Notification to attend the meeting shall be submitted in writing including name, personal identification number or corporate identity number, address, email address and phone number, to the address Karo Pharma AB, att: Henrik Palm, Nybrokajen 7, S-111 48 Stockholm, Sweden, or via e-mail to henrik.palm@karopharma.se.

Shareholders whose shares are nominee registered must, in order to be entitled to participate in the meeting, temporarily register their shares in their own name. Such registration must be completed no later than Friday 5, 2017, which means that shareholders must notify their nominee well in advance of this date.

OTHER FINANCIAL INFORMATION

Interim report Jan–Mar	May 10, 2017
Interim report Jan–June	August 24, 2017
Interim report Jan–Sep	November 2, 2017
Year-end report	February 22, 2018

Financial reports, press releases, notification to extra general meetings and other information are available on Karo Pharma's website www.karopharma.com from time of publication. Karo Pharmas's financial reports and press releases can be subscribed to and downloaded from the website. Karo Pharma employs electronic distribution as the main distribution channel for financial reports. The annual report is mailed to shareholders and other stakeholders who specifically request this. Printouts of interim reports are mailed upon request.

For further information, please contact Henrik Palm, CFO, phone +46 (0)70-540 40 14, or e-mail: investor@karopharma.se.

CHAIRMAN'S STATEMENT

Karo Pharma has been developed from a pre-clinical research company to a so-called Specialty Pharma healthcare company. The goal has been to broaden the business and achieve a base through sale of niche products with good profitability in the health care sector. Product development has focused on projects close to market introduction.

The previous costly projects have either been outlicensed or are managed virtually. Therby, the cost level has been reduced. The reason behind this is that we assess it has become much more expensive and harder to find partners today. Many believe that the battle is won when you reach a registration, but it is only the beginning of the war to try to gain market share.

We have chosen to change the risk level in the company. From being completely dependent on early research projects that have to succeed, these can be viewed more as icing on the cake. We have now completed our first phase goal, to have a stable business with a relative profit level in line with the best in the industry.

Currently, we also have several interesting products facing launch. The company has very good opportunities to develop in a positive way in the coming years. We see an ever-aging population, which increases the demand for drugs and aids. Karo Pharma is not cyclically sensitive. That's why we choose to give a dividend for the first time.

Stockholm in April 2017

Anders Lönner

Executive Chairman of the Board

IMPORTANT EVENTS IN 2016

- **BioPhausia** was acquired. The acquisition contains about 10 well-known medicines, such as Mollipect, Lithionit, Citodon and Paraflex, as well as certain licensing rights for a hepatitis C treatment project.
- **The cancer project** KB9520 was sold to Oasmia. Karo Pharma is entitled to 20 per cent of Oasmia's future revenues from the project.
- **Share issues** raised a net of MSEK 260
- **Trading in the share** on Nasdaq Stockholm moved from Small Cap to Mid Cap.

"We see an ever-aging population, which increases the demand for drugs and aids. Karo Pharma is not cyclically sensitive."

THE YEAR IN FIGURES

- **Net sales** amounted to MSEK 347.3 (69.1).
- **Operating profit** before depreciation (EBITDA) amounted to MSEK 51.7 (-71.7).
- **Reported earnings** improved to MSEK 95.6 (-78.2).

FINANCIAL DATA

MSEK	2016	2015	2014	2013	2012
Net sales	347.3	69.1	30.1	47.0	33.2
Cost of goods sold	-198.5	–40.5	–	–	–
Operating expenses	-119.2	–103.5	–89.5	–69.3	–132.9
– of which R&D expenses	-5.3	–35.0	–68.6	–52.5	–107.9
Net earnings	95.6	–78.2	–59.3	–22.1	–98.3
Earnings per share (SEK)	1.59	–1.73	–0.09	–0.04	–0.21
Cash flow from operating activities	-36.1[1)]	–52.2	–46.3	–33.4	–127.8
Cash and other short-term investments	121.3	76.5	51.6	22.8	54.1

1) Excluding regulation of short-term liabilities related to financing of acquisitions of 26 MSEK, cash flow amounted to -10 MSEK

"Karo Pharma's goal is to create shareholder value."

BUSINESS MODEL

STRATEGY

The company will grow organically and through acquisitions:

- Established operations with products that have stable earnings potential; and
- Innovative projects with low development risk and short time to market.

COMMERCIAL PROCEDURE

- Efficient organization with high competence.
- Aim for growth, both organically and through acquisitions and alliances.

MARKET

MARKET

The market for healthcare products sold through pharmacies and directly to the healthcare industry consists of a wide range of products. It includes non-prescription and prescription drugs, medical devices, various types of aids, consumables, diagnostics and instruments. This means that there are a number of submarkets of different size, competitive level and undergoing different trends.

PHARMACIES

Most countries in Europe have regulations for retail trade in pharmaceuticals. The rules apply primarily to who gets to own and operate pharmacies. More liberal regulations may limit requirements that responsible personnel have pharmaceutical education and that sale of prescription drugs are allowed in other retail trade. In Scandinavia, pharmacy chains, dominate the market. Purchasing usually undergoes well-structured processes.

Pharmaceuticals and products in the outpatient market are expected to display good long-term growth in 2017-2020.

HEALTHCARE

Healthcare operations in the Nordic countries are conducted both in the public and private sector, both mainly tax funded. Purchasing is carried out in well-structured processes that are often regulated by law, such as the Public Procurement Act in Sweden.

TRENDS

Prescription drugs account for a majority of the pharmaceutical market, but the market for non-prescription drugs displays stronger growth and is expected to account for 13 per cent of the total market in 2018.

Technology development also allows more patients to be diagnosed, which drives the development of new products and drugs.

There is also an increased health trend, where more and more people make conscious choices regarding diet and health. More and more people choose prescription-free options for treatment and prevention. In recent years there has also been a move from medicines to other types of self-care products.

COMPETITION

Karo Pharma has a market leading position in several segments in the pharmacy market and on procured products. The trademarks Mabs, Dosett, Allévo and Swereco are market leaders in the Nordic pharmacy market.

We see an ever-aging population, which increases the demand for drugs and aids. Karo Pharma has an assortment for an older, stable and non-cyclically sensitive target group.

"More and more people choose non-prescription options for treatment and prevention."

SELECTED PRODUCTS

ALLÉVO

Allévo was launched in 2007 and is one of the leading brands in the Nordic region within its category today.

DOSETT

Dosett is the market leader in medicine storage. Dosett facilitates safe drug storage and that the medicine is taken in the correct dose and at the right time. Dosett has a market leading position.

MABS

Mabs compression socks are based on a proven and well documented method for increasing blood circulation in the legs. All Mabs' compression socks are classified as medical compression socks class 1. Today, there are compression socks for both women and men especially developed for various applications eg air travel, sports and everyday life. The range has expanded to include support bandages and footwear products that provide support and relief in pain conditions.

CITODON

Citodon is a prescription drug containing paracetamol and codeine. Paracetamol has both analgesic and fever-reducing effects and codeine acts by relieving pain. Citodon is thus used for aches and pains.

LITHIONIT

Lithionit contains the active substance lithium and prevent both manic (abnormal exuberance) and depressive (pronounced depressed) phases in patients with bipolar disorder.

MOLLIPECT

Mollipect is a medicine that contains bromhexine and ephedrine. Bromhexine is considered to make the mucosa of the airways more slimy, which may ease the mucus embolism. Ephedrine widens the trachea and appears to be deciduous on the mucous membranes. Mollipect is used in coughing with severe mucus and simultaneous need for bronchodilating effect.

PARAFLEX

Paraflex contains the active substance chlorosoxazone and is a muscle relaxant. The drug is used primarily in painful contractions in the skeletal muscle, for example at lumbago, muscle strains and similar conditions.

SOLVEZINK

Solvezink is used for the healing of leg ulcers in patients with zinc deficiency. Solvezink is also used in acrodermatitis enteropathica (hereditary skin and bowel disease caused by zinc deficiency).

SUSCARD

Suscard contains the active substance glyceryl trinitrate and is used for vasospasm in the heart. The drug works by widening the blood vessels and thus facilitates the work of the heart.

DEVELOPMENT PORTFOLIO

RORGAMMA

In 2010, Karo Pharma initiated the project RORgamma, based on research showing that the nuclear receptor RORgamma may play a decisive role in the development of autoimmune diseases. In December 2011, Karo Pharma concluded a licensing agreement and research collaboration with Pfizer regarding RORgamma to discover and develop new compounds for the treatment of autoimmune diseases. Since 2015, Pfizer conducts the development work in-house. Karo Pharma is entitled to milestone payments when the project reaches various milestones, for a total value in excess of 200 million dollars as well as royalties on sales, while Pfizer has all other rights to all products resulting from the project.

MULTIPEL SCLEROSIS (MS) – POTENTIAL TO HALT THE DISEASE

Today there are several treatments of MS on the market that counteract the effects of the disease or delay the course of disease. However, there is no cure for MS and the need for new and more efficient treatments remains high. Karo Pharma has developed ERbeta substances that in pre-linical models have shown to slow down and even reverse the disease progression.

Proof-of-concept has been demonstrated in an animal model of MS. Karo Pharma's goal with the ERbeta project is to outsource it to major pharmaceutical companies that can continue to advance the project to market launch. There is a great need for new drugs, but early-stage projects carry high risk and are associated with high costs.

CANCER – A NEW POSSIBILITY TO TREAT MULTIPLE TYPES OF CANCER

Our most advanced compound within the ERbeta program is KB9520, which is in preclinical development. The compound has shown good efficacy in different forms of cancer. In these disease models, the treatment has demonstrated to significantly reduce tumour size by stimulating apoptosis and inhibiting cell growth.

The substance was divested to Oasmia in 2016. Oasmia intends to develop the project further within the framework of its activities. Karo Pharma is entitled to 20 per cent of the revenues the project gives Oasmia, while Oasmia is responsible for all costs.

T268A COMMON COLD SPRAY

In 2015, Karo Pharma acquired a patented cold product in late development phase. The cold spray relieves and prevents common cold progress by strengthening the body's own defences to fight the cold virus. The patented technology is based on Swedish research and utilizes the enzyme glucose oxidase in combination with glucose to prevent rhinovirus infections, and other viral and bacterial pathogens. Further studies are required for market approval.

BABYSLIDE

Ruptures at childbirth is a medical problem which can cause major discomfort and, in some cases, lead to long-term complications. The tool BabySlide is developed to reduce the risk of ruptures by supporting the tissue where the most severe ruptures occur. The positive effect has been demonstrated in a clinical study where a prototype was used on more than 1,000 deliveries at the women's clinic in Helsingborg, Lund and Malmö. The product is patented and will be launched in the fall.

THE SHARE AND OWNERS

LISTING

Karo Pharma's share is listed on NASDAQ Stockholm since 1998 with ISIN code SE0007464888. Ahead of trading in 2017, the share was moved from the Small Cap segment to the Mid Cap segment.

SHARE PRICE DEVELOPMENT AND TRADING

In 2016, Karo Pharma's share price decreased by 17.1 per cent from 33.90 SEK to 28.10 SEK. The highest price was 43.90 SEK on August 30 and the lowest was 22.90 SEK on June 27. During the year, OMX Stockholm Healthcare PI decreased by 1.0 per cent.

In total, 60.1 million shares were traded during the year, which means that the share capital was traded 0.7 times. Karo Pharma estimates that trading in its shares on other markets is negligible. The market capitalization at year-end amounted to MSEK 2,309.

SHAREHOLDERS

The number of shareholders was relatively stable during the year, with 16,146 at the beginning of the year and 16,268 at the end of the year. The largest owner is Avanza Pension with 8.9 per cent, Anders Lönner with 5.6 per cent and JP Morgan Bank Luxembourg with 4.2 per cent. At the turn of the year, the ten largest shareholders owned 29.4 (31.6) per cent of the total number of shares. Shareholders with 500 shares or less accounted for 1.6 (2.9) per cent of shares.

SHARE ISSUES

In 2016, Karo Pharma completed a rights issue of MSEK 250 in net proceeds and a share issue of MSEK 30 through an overallotment option in connection with the rights issue. In the rights issue, a total of 12,481,289 shares were issued and 1,500,000 shares were issued in the share issue. Both were issued at a price of 20.00 SEK.

SHARES AND SHARE CAPITAL

At December 31, 2016, Karo Pharma's share capital amounted to 25,562,596 SEK. During the year, the number of shares increased from 49,925,755 to 63,907,193. The average number of shares was 60,335,987. The shares have a quota value of 0,399996 SEK.

INCENTIVE PROGRAM

An incentive program for employees was introduced during the year. In total, 4,600,000 of a total of 5,200,000 warrants were subscribed. Each warrant entitles the holder to subscribe for a new share for a period of 18 months at a price of 74 SEK. At full subscription, the program increases the share capital by 2,079,977,10 SEK, corresponding to a dilution of approximately 7.5 per cent of capital and votes.

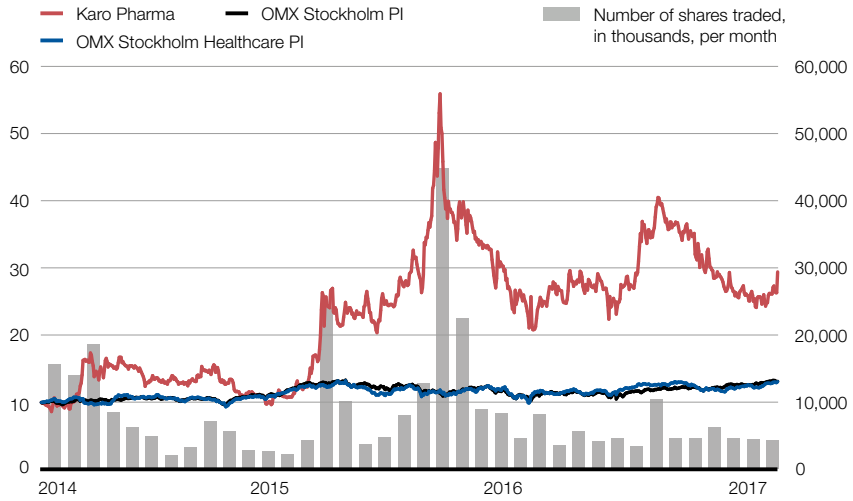
DIVIDEND

In the light of the company's earnings capacity, the Board has decided to propose the AGM a dividend of 0.50 SEK per share. The dividend consists of 0.22 SEK as a one-time dividend from the sale of Oasmia shares and an ordinary dividend of 0.28 SEK per share.

COMMUNICATION WITH FINANCIAL MARKETS

Karo Pharma strives for an open dialogue with current and potential shareholders and to provide the outside world a good insight into and understanding of the business. In each interim report, the current status of all pipeline projects and operations in general are described. In 2016, Karo Pharma also arranged open conference calls in connection with three of four interim reports. Recorded versions of those calls are available on the website.

SHARE PRICE DEVELOPMENT



THE LARGEST SHAREHOLDERS ON FEBRUARY 28, 2017

Owner	Number of shares	Holding in % of capital and votes
The insurance company, Avanza Pension	7 313 210	8.9
Lönner, Anders	4 587 687	5.6
JP Morgan Bank Luxembourg	3 410 076	4.2
Nordnet Pensionsförsäkring AB	2 537 928	3.1
Nomic AB	2 141 665	2.6
Swedbank Försäkring	1 506 267	1.8
Banque Öhman S.A.	1 105 194	1.3
Handelsbanken Liv	719 884	0.9
Skandia, Försäkrings	577 650	0.7
Catella Bank filial	524 420	0.6
Total 10 largest shareholders	**24 423 981**	**29.7**
Total other shareholders	57 742 410	70.3
Total 2017-02-28	**82 166 391**	**100**

OWNERSHIP STRUCTURE ON FEBRUARY 28, 2017

Holding, number of shares	Number of shareholders	Number of shares	Holding as a % of share-holders
1 – 250	6 300	528 103	0.64
251 – 500	2 047	756 014	0.92
501 – 1 000	2 091	1 553 193	1.89
1 001 – 2 000	2 121	3 104 210	3.78
2 001 – 5 000	1 970	6 359 538	7.74
5 001 – 10 000	989	7 010 973	8.53
10 001 – 20 000	658	9 249 326	11.26
20 001 – 50 000	357	10 872 004	13.23
50 001 – 100 000	120	8 287 874	10.09
100 001 – 250 000	49	7 569 505	9.21
250 001 –	18	26 876 865	32.71
Total 2017-02-28	**16 721**	**82 166 391**	**100**

SHARE CAPITAL DEVELOPMENT

Year	Transaction	Increase in no. of shares	Accumulated no. of shares	Issue amount (SEK)	Total share capital (SEK)
2004	Exercise of stock options	12 011	16 890 065	84 450 325	60 055
2004	Rights issue with preference 2:3	11 260 043	28 150 108	140 750 540	90 737 898
2004	Rights issue without preference	2 815 010	30 965 118	154 825 590	22 684 468
2005	Reduction of share capital	0	30 965 118	61 930 236	-
2005	Rights issue with priority 3:2	46 447 677	77 412 795	154 825 590	263 413 134
2006	Reduction of share capital	0	77 412 795	38 706 398	-
2007	Rights issue with preference 1: 2	38 706 397	116 119 192	58 059 596	387 160 784
2009	Rights issue with preference 1:3	38 706 397	154 825 589	77 412 794	150 241 238
2010	Rights issue with preference 2:3	232 238 383	387 063 972	193 531 986	290 926 058
2012	Reduction of share capital	0	387 063 972	7 741 279	-
2012	Rights issue with preference	108 883 397	495 947 369	9 918 838	28 249 177
2014	Rights issue with preference	165 315 789	661 263 158	13 225 263	69 300 606
2014	New issue	15 000 000	676 263 158	13 525 114	7 050 000
2015	Rights issue, acquisition	13 480 392	689 743 550	13 794 719	-
2015	Rights issue with preference	249 914 510	939 658 060	18 792 954	249 914 516
2015	New issue	200 000	939 858 060	18 796 954	4 000
2015	Reverse stock split 1:20	-892 865 157	46 992 903	18 796 954	-
2015	Rights issue, acquisition	2 551 218	49 544 121	19 817 430	-
2015	Rights issue, acquisition	381 634	49 925 755	19 970 082	-
2016	Rights issue with preference	12 481 438	62 407 193	24 962 657	249 628 760
2016	Rights issue with preference	1 500 000	63 907 193	25 562 657	30 000 000
2017	Rights issue with preference	18 259 198	82 166 391	32 866 195	374 313 559

FIVE-YEAR OVERVIEW

Amounts in MSEK unless otherwise stated	2016	2015	2014	2013	2012
Income statement					
Net sales	347.3	69.1	30.1	47.0	33.2
Cost of goods sold	-198.5	-40.5	0.0	0.0	0.0
Selling expenses	-112.8	-26.7	0.0	0.0	0.0
Administrative expenses	-28.7	-27.2	-21.0	-20.4	-25.1
R&D expenses	-5.3	-35.0	-68.6	-52.5	-107.9
Operating profit/loss	29.6	-74.9	-59.4	-22.3	-99.8
Profit/Loss after tax	95.6	-78.2	-59.2	-22.1	-98.3
Balance sheet					
Total fixed assets	1 482.1	481.3	4.1	4.5	3.7
Other current assets	169.4	84.7	4.9	13.0	19.9
Liquid assets	121.3	76.5	51.6	22.8	54.1
Total current assets	290.7	161.2	56.5	35.8	74.0
Total assets	1 772.8	642.5	60.6	40.3	77.7
Equity	717.0	364.6	40.9	23.8	45.9
Long-term liabilities	599.3	52.8	0.0	0.0	0.0
Short-term liabilities	456.6	225.2	19.7	16.5	31.8
Total equity and liabilities	1 772.8	642.5	60.6	40.3	77.7
Cash flow					
Cash flow from operating activities	-36.1	-52.2	-46.3	-33.4	-127.8
Cash flow from investment activities	-995.9	-220.8	-1.5	23.9	88.2
Cash flow from financing activities	1 076.4	297.9	76.6	4.3	23.9
Cash flow for the year	44.4	24.9	28.8	-5.2	-15.7
Operating cash flow	-45.0	-52.5	-47.8	-35.6	-128.0

Amounts in MSEK unless otherwise stated	2016	2015	2014	2013	2012
Key figures					
Equity ratio %	40.4	56.7	67.5	59.1	59.1
Average number of employees	69	72	39	40	51
Data per share					
Earnings per share (SEK)					
- Average number of shares	1.59	-1.73	-1.67	-0.70	-3.92
- Number of shares at year end	1.50	-1.57	-1.60	-0.69	-3.92
Operating cash flow per share (SEK):					
- Average number of shares	-0.75	-1.06	-1.35	-1.12	-5.11
- Number of shares at year end	-0.70	-1.05	-1.29	-1.12	-5.11
Equity per share. year end	11.22	7.30	1.11	0.75	1.83
Share price at year end	28.10	33.90	11.16	11.35	5.44
Number of shares (millions)					
Average number of shares	59 924	41 892	35 472	31 772	25 062
Average number of shares including warrants	59 924	41 892	35 472	31 772	25 062
Number of shares at year end	63 907	49 926	36 975	31 886	25 062
Number of shares at year end including warrants	63 907	49 926	36 975	31 886	25 062

DEFINITIONS

In this annual report Karo Pharma presents key measures that complement the financial measures defined in accordance with IFRS, so-called alternative performance measures, APM. Karo Pharma believes that these key measures provide valuable information to investors and the management as they enable evaluation of Group performance, trends, ability to repay debt, invest in new business opportunities, and reflecting the Group's acquisition-intensive business model. Since not all companies calculate financial performance measures in the same way, these are not always comparable. Therefore, they should not be regarded as a compensation for key performance measures defined in accordance with IFRS. Below are the definitions, most of which are alternative performance measures.

AVERAGE NUMBER OF SHARES

Weighted-average number of shares during the year.

AVERAGE NUMBER OF SHARES AT FULL DILUTION

Weighted-average number of shares, including warrants, during the year.

EARNINGS/LOSS PER SHARE

Earnings/loss in relation to the number of shares.

EQUITY PER SHARE

Equity per share at year-end.

EQUITY RATIO

Equity as a per centage of total assets.

LIQUID ASSETS

Cash and bank balances and short-term investments with a maturity of less than 90 days.

NUMBER OF SHARES AT FULL DILUTION

Number of shares, including warrants, issued at year-end.

NUMBER OF SHARES AT YEAR-END

Number of shares at year-end

OPERATING CASH FLOW

Cash flow from operating activities and cash flow from investments in machines, equipment and licenses.

OPERATING CASH FLOW PER SHARE

Cash flow from operating activities and cash flow from investments in equipment and licenses per share.

ADMINISTRATION REPORT

The Board of Directors and the CEO of Karo Pharma AB (publ), registration number 556309-3359 and domiciled in Stockholm, Sweden, hereby presents its annual report regarding the operations of the Group and the Parent Company for the fiscal year beginning January 1 and ending December 31, 2016. All figures refer to the Group for the financial year 2016, unless otherwise stated. Comparisons are made unless otherwise stated with the fiscal year 2015.

The group consists of the parent company Karo Pharma AB and the subsidiaries Karo Pharma Sverige AB (formerly Swereco Group AB), Karo Pharma AS (formerly Apropharm AS), BioPhausia AB, Karo Pharma AB (formerly Tanomed AB), Karo Bio Discovery AB , Karo Pharma Research AB, MedCore AB. In the last three, there is no activity.

OPERATIONS

Karo Pharma is a specialty pharma company that markets and develops products for pharmacies and directly to health care. The company also has a research project against autoimmune diseases, licensed and developed by Pfizer as well as a project in the oncology field that was sold to Oasmia for further development.

Karo Pharma markets and sells healthcare products for pharmacies and health care primarily in Sweden and Norway. The product portfolio includes both prescription and non-prescription drugs, medical devices, proprietary and licensed, as well as products in weight control. Sales and marketing are managed by a smaller market organization, in Sweden and Norway respectively. Most products are also available for sale over the internet.

Karo Pharma was founded in 1987 and has been listed on NASDAQ Stockholm since 1998.

Health Care – Current status and important events in 2016

The company markets and sells health care products primarily in Sweden and the other Nordic countries. At the end of 2016, BioPhausia/NordicBands was acquired for a consideration of MSEK 928 on a debt and cash free basis. The acquisition contained 13 different well-known brands such as Mollipect, Lithionit, Citodon, Paraflex, Laxabon and Solvezink. The acquisition also included licensing rights on certain European markets, including the Nordics, of MIV- 802, a project developed by Medivir for the treatment of hepatitis C.

Sales are managed in a smaller market organization. Several products are available for purchase online. Karo Pharma intends to add additional products to its portfolio and expects sales and marketing to remain witin a smaller organization.

Research and development – Current status and significant events 2016

In October, a collaboration with the cancer research company Oasmia was initiated regarding the cancer project KB9520 which has shown good effects in preclinical models for a variety of cancers. Oasmia acquired the Karo Pharma project for a consideration of 3,080,000 shares in Oasmia, valued at approx MSEK 28. Karo Pharma is also entitled to 20 per cent of all Oasmia's future revenues that may be generated through the project. Oasmia develops the project and is responsible for its costs.

The development projects are managed through a virtual organization. Karo Pharma's projects are briefly described below.

RORgamma
Recent research shows that the nuclear receptor RORgamma may play a critical role in the development of autoimmune diseases. In December 2011, Karo Bio entered a research collaboration and licensing agreement with Pfizer for RORgamma to discover and develop new compounds for the treatment of autoimmune diseases. Since the turn of 2014/2015, Pfizer conducts the development work in-house. Karo Pharma is entitled to payments when the project reaches various milestones, for a total value in excess of MSEK 200 and royalties on sales, while Pfizer has all other rights to products resulting from the project.

Multiple sclerosis (MS) – Potential to slow disease progression
There are currently several treatments available for MS in the market, that treats the symptoms or delay disease progression. However, there is no cure for MS and there is a need for new and effective treatments. Karo Pharma has developed ERbeta agonists that have demonstrated protective and reparative effects on the myelin sheaths that surround nerve cells, and are necessary for efficient conduction of nerve impulses. Proof-of-concept has been obtained in an animal model of the disease. Karo Pharma's aim is to outlicense the ERbeta MS project to a larger pharmaceutical company that can continue the development towards a market launch.

Cancer – potential to treat different kinds of cancer
Karo Pharma's most advanced compound in its ERbeta program is KB9520, which is in preclinical development. The substance has in models shown good efficacy for various forms of cancer. In these disease models, the treatment has demonstrated to significantly reduce tumour size resulting from the substance's anti-proliferative and pro-apoptotic effects.

During 2016, the project was sold to Oasmia, which aims to further develop it within the framework of its operations.

T268A - Common cold spray
The common cold spray acts by relieving and preventing the cold process by strengthening the body's own defences to fight the cold virus. The patented technique is based on Swedish research, and utilizes the enzyme glucose oxidase in combination with glucose to prevent rhinovirus infections, as well as other viral and bacterial pathogens. The project is currently in late stage development.

Babyslide

Ruptures during childbirth is a medical problem which can cause major discomfort and, in some cases, lead to long-term complications. The aid BabySlide is developed to reduce the risk of rupture by supporting the tissue where the most severe ruptures occur. The positive effect has been recorded in a clinical trial with a prototype conducted on more than 1,000 deliveries at the women's clinics in Helsingborg, Lund and Malmö. The product is patented and will be launched in the fall.

Significant events during 2016

Two share issues raising a total of MSEK 280 were carried out. Through these issues, Karo Pharma received gross proceeds of approximately MSEK 280 and net proceeds of approximately MSEK 260. Interest to participate in the share issues was good with a subscription rate of 210 per cent.

An incentive program for employees was introduced. See Note 27.

At the turn of the year 2016/2017, the listing of Karo Pharma's share was moved from Nasdaq Stockholm Small Cap to Nasdaq Stockholm Mid Cap.

Key events after the end of fiscal year 2016

A rights issue of MSEK 374 before transaction costs of approximately MSEK 24 was carried out with the purpose of repaying part of the loans raised in connection with the acquisition of BioPhausia. The issue was subscribed to approximately 132 per cent.

Organization

Operations are carried out in the parent company Karo Pharma AB and the subsidiaries Karo Pharma Sverige AB, Karo Pharma AS, and Karo Pharma Med AB. In early 2016, headquarters moved from Huddinge to Stockholm.

The management consists of five persons: the executive chairman of the board, the CEO, the CFO and the heads of operations in Sweden and Norway.

At the end of the year, Karo Pharma had 69 (72) permanent employees.

Earnings and financial positions

Group consolidated net sales increased to MSEK 347.3 (69.1) during 2016. Since September 2015, net sales primarily consists of product sales in acquired companies. Cost of goods sold amounted to MSEK 198.6 (40.5), resulting in a gross profit of MSEK 148.7 (28.6) and a gross margin of 42.8 (41.4) per cent.

Operating costs, including depreciation and excluding other operating income, amounted to MSEK 148.0 (103.5). Selling expenses increased to MSEK 112.8 (26.7). Research and development costs fell to MSEK 5.3 (35.0). Partners are developing projects and are assuming responsibility for the associated costs.

Operating profit amounted to MSEK 29.6 (-74.9). Costs for, among other things, the relocation of inventories, restructuring and market investments, had a negative impact on the operating profit of MSEK 11.8 in the fourth quarter. Divestment of the cancer project KB9520 had a positive impact on the operating profit by MSEK 28.9.

Net profit for the year amounted to MSEK 95.6 (-78.2). It was positively impacted by MSEK 75 through an accrued tax asset attributable to the parent company's loss carryforwards, which are expected to, to some extent, be utilized due to acquisitions made.

Earnings per share amounted to SEK 1.59 (-1.73). No dilution effect arose as a result of the option program.

Investments

Investments amounted to MSEK 937.8 (446.8), of which the acquisition of BioPhausia accounted for MSEK 929.0. The significant asset item in BioPhausia was product rights valued at MSEK 429.4 and goodwill of MSEK 494.6.

Acquisition calculations

On December 15, 2016, Karo Pharma acquired all shares in the pharmaceutical company BioPhausia AB. The acquisition included a portfolio of 13 well-known Nordic drug brands. The brand portfolio is characterized by a long history of stable sales figures, strong anticipated cash flows and low marketing and maintenance costs. For further information, see Note 11.

Cash flow and financial position

After adjusting short-term liabilities related to the financing of acquisitions of MSEK 26.0, cash flow from operating activities amounted to MSEK -36.1 (-52.2). The Group's cash and cash equivalents at the end of the period amounted to MSEK 121.3 (76.5).

The acquisition of BioPhausia significantly contributed to an increase in balance sheet turnover of MSEK 1,772.8 (642.5). Intangible assets

accounted for MSEK 1,432.0 (475.7). As a result of the acquisition, the Group's long-term liabilities increased to MSEK 599.3 (52.8) and short-term liabilities to MSEK 456.6 (225.2).

The equity ratio was 40.4 (56.7) per per cent.

Equity and share data

The company completed two new issues of a total of 13,981,438 shares at a subscription price of SEK 20.00, corresponding to a total issue of approximately MSEK 260 before transaction costs. The share issues increased the number of shares in Karo Pharma from 49,925,755 to 63,907,193. Share capital increased by approximately SEK 5,592,514.

The Group's equity increased to MSEK 717.0 (364.6), which taking into account the profit for the period, amounted to SEK 11.97 (7.30) per share.

Parent Company

The parent company's net sales in 2016 amounted to MSEK 48.9 (3.9). Profit after financial items amounted to MSEK 0.9 (-61.7). The parent company's cash and cash equivalents and other short-term investments amounted to MSEK 85.7 (68.7) at the end of the year.

GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

The Board of Karo Pharma proposes that the Annual General Meeting on May 11, 2017 decides on the following guidelines for determining salaries and other remuneration to senior executives of Karo Pharma, to be applied until the AGM is held in 2018.

The proposed guidelines are largely the same as those approved by the 2016 AGM and are described in note 2.

General information

Karo Pharma will apply remuneration levels and terms of employment that are necessary to recruit and retain a competent management with the capacity to achieve established business goals. As a result, competitiveness shall be the overriding principle in relation to the salary and other remuneration of executive management.

Fixed salary
A fixed salary will be paid for work performed in a satisfactory manner.

Variable remuneration
In addition to fixed salary, variable remuneration may be offered to reward clearly goal-related achievements by simple and transparent mechanisms. The executive management's remuneration under incentive programs will be based on the extent to which business goals are achieved. Karo Pharma's commitments under incentive programs shall be limited in relation to the fixed annual salary and shall not exceed 40 per cent of the fixed annual salary, before taking into account social security charges, for each executive during the relevant period. The remuneration under incentive programs shall include pension and vacation benefits according to vacation legislation, and is thus not pensionable. The total maximum variable remuneration at 40 per cent of current fixed annual salary levels in 2016, including social security charges, would amount to MSEK 1.7.

Pension benefits
The terms of the executive management's pension benefits shall be competitive taking into account what is generally applicable to equivalent executives on the market and shall be based on defined contribution pension schemes or accede to the Swedish ITP plan. The pension benefits shall be based on a retirement age of 65 years.

Non-monetary benefits
The executive management's non-monetary benefits (such as car and health care benefits) should facilitate the performance of their work and be equivalent to what is considered reasonable in relation to market practice and the benefit for the company.

Dismissal and severance pay
Dismissal and severance pay shall not exceed 12 monthly salaries in total for each executive.

The executives to whom the remuneration guidelines apply
The above guidelines shall apply to the CEO of Karo Pharma AB and executives that report directly to the CEO as well as CEO's of Karo Pharma's subsidiaries.

Information on remuneration previously resolved upon that has not fallen
At present, there is no remuneration that has not fallen due that deviates from guidelines decided at previous AGMs.

Consultancy fees paid to board members
Going market rates may be paid to Board members for consultancy work carried out for the company beyond the framework of their commitment to the Board.

Deviation from the guidelines under special circumstances
The Board may par from the guidelines in certain cases if there are special reasons for doing so.

INFORMATION REGARDING THE KARO PHARMA SHARE

At December 31, 2016, there were a total of 63,907,194 (49,925,755) outstanding shares with a deviate value of SEK 0.40. The shares carry one vote each and are entitled to equal part of the company's distributable earnings.

There are no limitations to the transferability of Karo Pharma shares due to legal constraints or by regulations in the company bylaws. To the best of Karo Pharma's knowledge, no agreements have been entered into between any shareholders, which could limit the transferability of shares.

There is no shareholder that alone controls 10 per cent or more of the total number of shares of Karo Pharma.

Share-based incentives programme

During 2016, an incentive program for the Group's employees was introduced. The program consists of 5,200,000 warrants, each warrant entitling the holder to subscribe for a new share in the company at SEK 74 during 18 months.

A total of 4,600,000 warrants were subscribed by the Group's employees. Senior executives subscribed for 3,900,000 warrants, of which the company's Executive Chairman Anders Lönner subscribed for 2,740,000 warrants.

Upon full subscription of shares based on all warrants, the share capital increases by SEK 2,079,977.10, which at the time of the program was equivalent to a dilution of approximately 7.5 per cent of the share capital and votes.

Authorization to issue new shares

The annual general meeting in 2016 authorized the Board of Directors to, before the annual general meeting in 2017, at one or more occasions issues shares. The number of shares that may be issued pursuant to the authorization shall not exceed 10 per cent of the registered share capital, at the time of issue resolution. Issues may be made with or without deviation from the shareholders preferential rights and with or without non-cash issue, or set-off or other conditions.

The purpose of the authorization is to increase the company's financial flexibility and to facilitate acquisitions with payment in shares. If the Board decides on a new share issue deviating from the shareholders preferential rights, the reason may be to raise new funds and/or new strategic shareholders in the company and/or acquisitions of other companies or businesses. In case of deviation from the shareholders preferential right, the issue shall be made on market terms. Other conditions may be determined by the Board.

The Board did not use the authorization during 2016.

DIVIDEND

In view of the company's earnings ability, the Board has decided to propose to the Annual General Meeting a dividend of SEK 0.50 per share. The dividend consists of SEK 0.22 as a one-off dividend from the sale of Oasmia shares and a dividend of SEK 0.28 per share.

CORPORATE GOVERNANCE REPORT

Karo Pharma's corporate governance report is available at the company website www.karopharma.com and is also included in this Annual Report.

System for internal control and risk management

The Group's systems for internal control and risk management regarding the consolidated financial reports are described in the section internal control and risk management regarding financial reporting in Karo Pharma's corporate governance report.

FUTURE DEVELOPMENT

The Board of Directors has a stated goal of creating a profitable company and an increasing shareholder value.

RISKS

The Group's operations may be affected by many different events. Described below are the principal risks that are considered essential for operations since they could have a significant impact on financial position, performance, and/or reputation. The risks are not listed in any particular order or priority. Other risks, that are unknown to Karo Pharma or not considered essential, could have similar impact on operations.

Commercial risks and operational risks

Acquisition-related risks
In December 2016, the company acquired BioPhausia AB and its product portfolio Nordic Brands. The acquisition involves integration risks. Difficulties in integration may include problems with utilization of the accompanying products or that current management cannot manage the expanded business. Described difficulties may mean that integration becomes more costly than expected. Furthermore, the integration process may require so much attention from key personnel that their focus on ongoing operations will suffer, which may cause, for example, other acquisition opportunities to be missed. There is also a risk that the company has misjudged the value of BioPhausia and / or its product portfolio. In addition, there is a risk that communicated and calculated synergies cannot be fully realized, or at all.

All of the above-described risks associated with the acquisition of BioPhausia may, individually or together, upon entry, have a material adverse effect on the company's operations, financial position and results.

The company has an active acquisition strategy and may acquire new, more mature projects and enter into cooperation agreements with stakeholders for the purpose of creating cash flows. Karo Pharma continuously evaluates potential acquisitions. If Karo Pharma is unable to find suitable acquisitions and / or find necessary financing for future acquisitions at acceptable terms, it may lead to declining growth, which may adversely affect operations, financial position and earnings.

Should the company find a suitable acquisition target, there is a risk that competitors may also be interested in the same target, which may result in Karo Pharma failing to acquire the target, or acquire the target, but at unforeseen terms. Acquisitions may also be hindered by competition law. Furthermore, there is a risk that completed acquisitions will not be received positively by the market. This could have a negative impact on business, financial position and earnings.

Acquisitions generally involve integration risks. In addition to company-specific risks, the acquired company's relationships with key individuals, customers and suppliers can be adversely affected. There is also a risk that integration processes may take longer or become more costly than calculated. Likewise, expected synergies and goals of the transaction may be wholly or partially missed. Integration of acquisi-

tions may entail organizational changes that in the short term cause delays in implementing plans and objectives. All of these risks may have a negative impact on Karo Pharma's business, financial position and earnings.

Launch of products
A launch of a new health care product can take time and involve substantial investments, especially in sales and marketing, warehousing of products prior to launch, as well as other expenses. There is a risk that new product launches fail for various reasons. Examples can be failure to demonstrate advantages over other products, or intellectual property rights being undermined. If Karo Pharma fails in launches of upcoming products, it may have a negative impact on business, financial position and earnings.

Some of the company's products are prescription-only and sold only through pharmacies. There is a risk that doctors choose not to prescribe the company's medicines to their patients, which could result in a declining sale of the company's prescription drugs. Regardless of whether a doctor would prescribe any of the company's medicines, the respective pharmacy is free to provide the patient with any corresponding substance of their choice. Should one or more pharmacies stop offering Karo Pharma's drugs, it may have a material adverse effect on the business, financial position and earnings.

Competitive market
A large number of companies providing health care products, or substances and treatments, or are active in the research and development of substances and treatments, may compete with products from Karo Pharma and its potential partners. Some of these companies may have significantly more financial and / or other resources than Karo Pharma, and may therefore have better prerequisites for success in, for example, contacts with licensing authorities as well as in their marketing, sales and distribution organizations, as well as in research and development. Closer competition may pose a risk that Karo Pharma cannot maintain current margins on its products, which may adversely affect operations, financial position and results.

There is also a risk that product candidates or products developed by partners will not be preferred to existing or newly created products. Some of Karo Pharma's products are purchased by or entitle to compensation for the end customer from paying third parties. Changes such parties implement may have negative commercial and financial impact on Karo Pharma.

High competition can affect Karo Pharma's operations, financial position and earnings negatively.

Rapid change in the pharmaceutical industry
A characteristic of the industry in which Karo Pharma operates is its changeability and rapid development. This means that products are added and treatment methods improved continuously.

There is a risk that Karo Pharma will not develop at the same rate or that its products do not meet the demands of the market. If Karo Pharma does not manage to meet the market's new requirements, its operations, financial position and earnings may be adversely affected.

Economic growth prospects
The healthcare industry is to some extent affected by the general economic development and Karo Pharma believes that the company in that respect is no different from the rest of the industry. External factors such as inflation, currency and interest rate fluctuations, supply and demand, and the economic downturns may have an impact on operating expenses, selling prices and share valuation. An economic downturn could reduce demand, which may adversely affect the company´s business, earnings, and financial position.

The ability to retain and recruit key personnel
The company's business strategy, which focuses on sales as opposed to earlier on research and development, has led Karo Pharma to depend on employees with specialist expertise in marketing and sales to a greater extend. There is a risk that the company will not succeed in adjusting its organization to the corresponding extent, which could lead to rising costs and management focusing on ongoing operations. This can have a negative impact on the business, financial position and earnings.

The company is largely dependent on a small number of key individuals, especially senior executives who have extensive experience and expertise in developing pharmaceutical companies and acquiring and integrating new businesses. A loss of any of these can have a negative financial and commercial effects for Karo Pharma.

The ability to recruit and retain qualified employees is of utmost importance to ensure the organization's competence level.

There is a risk that Karo Pharma will not succeed in attracting and retaining qualified employees on acceptable terms or at all, which may adversely affect business, financial position and earnings.

Financing
The acquisition of BioPhausia is financed to a large extent by bank loans. There is a risk that Karo Pharma will not succeed in generating a sufficiently large cash flow in order to handle the costs associated with the bank loan. Furthermore, there is a risk that the terms of the loan will change negatively or that Karo Pharma violates the current terms and conditions of the loan agreement. Failure to comply with the terms of the loan agreement may cause Karo Pharma to be forced to repay part of or the entire outstanding debt. In case any of these risks are actualized, business, financial position and results may be significantly affected.

Additional funding needs
Karo Pharma may need to turn to financial markets or raise funding through loans or similar arrangements. There is a risk that new funding cannot be raised when need arises, it cannot be raised on favourable terms, or that such capital is insufficient to fund the operations according to plans. In the event that Karo Pharma fails to raise additional capital, the company may miss possible acquisitions or other opportunities in the market, which may adversely affect operations, financial position and earnings. The inability to raise capital on favourable terms can also have a negative impact on the financial position and earnings.

Supplier and cooperation agreements
The Group's products consist of raw materials and inputs from several different suppliers. To ensure sales, the Group is dependent on third party deliveries matching the agreed volumes, quality and delivery requirements. Incorrect or missing deliveries from suppliers may cause production to be delayed, which in the short term may result in reduced sales.

Karo Pharma's operations are partly dependent on agreements with medical technology companies that allow Karo Pharma to market and sell medical technology products in the Nordic market, so-called sales agencies. There is always a risk that these are terminated or that disputes arise regarding these agreements. In cases where the agreements are terminated, Karo Pharma risks losing future revenues and earnings, which may adversely affect operations, financial position and earnings.

Some of the customers are county councils and pharmacy chains. Agreements with these customers about the delivery of products require public procurement, which usually are conducted every other year or every three years. If Karo Pharma does not win a contract, the company will lose sales for the period in question. Such conduct may adversely affect operations, financial position and earnings.

Commercialisation of drug substances
There is a risk that some of Karo Pharma's drugs will not have commercial success. In order to enable commercialization of pharmaceutical substances, it is necessary for the company to enter into cooperation with larger pharmaceutical companies. There is a risk that the company will not be able to enter into necessary collaborations, and failure to cooperate will result in Karo Pharma not realizing the value of its projects. Even if the company succeeds in entering into partnerships, there is a risk that these will not result in the projects being commercialized. Collaborative agreements mean that the decision-making rights in the projects are transferred to the counterparty and there is a risk that the counterparty will not fulfil its commitments, which may adversely affect Karo Pharma's operations, financial position and earnings.

Production risks
The production consists of a chain of processes where interruptions or disturbances in any way can affect the ability to produce the company's products to the extent they are demanded. Such interruptions may adversely affect operations, financial position and earnings.

Product liability and insurance
Karo Pharma's activities include, amongst other, a risk of product liability. There is a risk that claims for damages arising from the use of the company's products are so high that they are not covered by insurance. A claim that is not covered by current insurance policies can adversely affect operations, financial position and earnings. Furthermore, even if they are covered by the insurance, claims may result in an increase of insurance premiums, that the Group pays according to its insurance contracts. There is also a risk that in the future, the Group will not be able to subscribe or maintain necessary insurance cover on acceptable terms. Substantial increases in insurance premiums or insurance entered into under unfavourable conditions may adversely affect operations, financial position and earnings.

Intellectual property rights
Karo Pharma has acquired intellectual property rights developed by other companies. There is a risk that some of the trademarks may suffer from impaired reputation, which may adversely affect the sales ability of the drug. Karo Pharma's prerequisites for success depends in part on its ability to obtain and defend patent protection for potential and / or existing products as well as to ensure trademark protection for these products.

There is a risk that Karo Pharma and its partners will develop non-patentable products, that patents will not be enforceable, that future discoveries will not lead to patents, or that patents granted will not provide adequate protection for Karo Pharma's rights. There is also a risk that patents will not provide a competitive advantage for the company's products or that competitors will be able to circumvent patents. If Karo Pharma is forced to defend its rights against a competitor, it may incur significant costs, which in turn may adversely affect operations, financial position and results.

If the company and its partners in their research use substances or methods that are patented or patented by third parties, owners of these patents could claim that Karo Pharma or its partners commit a patent infringement. A third party patent or patent application could prevent any of Karo Pharma's licensees from using a licensed substance freely. Expenses that such disputes may imply may have a material adverse effect on the business, financial position and results.

There is a risk that patents granted will not provide long term protection, since objections or other invalidity claims against issued patents may be made after the granting of patents.

Karo Pharma and its subsidiaries own trademark registrations for a number of brands. There is always a risk that disputes may arise concerining infringement of trademark or other intellectual property or trademark protection. Disputes of this kind could adversely affect the company's operations, financial position and results. Karo Pharma is furthermore dependent on know-how and it cannot be ruled out that competitors develop the corresponding know-how or that Karo Pharma does not succeed in effectively protecting its knowledge, which may adversely affect its business, financial position and results.

Currency, interest and credit risks
Karo Pharma's operations are exposed to currency risk, as part of Karo Pharma's purchases and sales of products are with foreign currencies. Exchange rates can change significantly, which could adversely affect the company's operations, financial position and earnings.

Some of the Group's operating costs arise in EUR, while most of the revenue is generated in SEK. In addition, the company has some revenues in NOK. Changed exchange rates risk having a negative impact on business, financial position and earnings.

Because the company's financing today consists of, and in the future may consist of interest-bearing liabilities, the Group's net income is affected by changes in the general interest rate level. A changed interest rate can have a negative impact on the business, financial position and earnings.

Credit risk occur through liquid funds and credit exposures to customers, including outstanding receivables and agreed transactions. There is a risk that the company's risk assessment of a customer's creditworthiness, and credit risk management in general, is insufficient, which may adversely affect business, financial position and earnings.

Tax related risks
The company conducts and could conduct its operations in Sweden as well as in other countries. The company considers that the business is conducted in accordance with relevant interpretations of tax legislation, tax treaties and other tax regulations in each relevant jurisdiction and statements from the relevant tax authorities. Tax settlement is complex and subject to different interpretations, why there is a risk that Karo Pharma's interpretation and application of applicable laws, rules, jurisprudence or other practices have not been, or will continue to be, correct. Furthermore, such laws, rules and practices may be amended in such a way that Karo Pharma's current interpretation and application are considered incorrect. In the event that Karo Pharma's interpretation and / or application of tax law, tax treaties and other similar tax regulations are incorrect or if one or more authorities succeed in making negative tax adjustments or that the aforesaid laws and regulations are changed retroactively, the company's current and historical management of tax issues are questioned. Should tax authorities successfully claim claims, this could lead to increased tax costs, tax rebates and interest rates, which could have a material adverse effect on business, financial position and earnings.

Goodwill and product rights
Karo Pharma reports significant value of goodwill and product rights. Goodwill is the only intangible assets recognized with an indefinite useful life. Product rights are amortized mainly linearly. Impairment tests are reviewed continuously. Significant impairment may occur in the future, for various reasons, such as adverse market conditions, either on company specific, whole industry or more generally. Significant depreciation may also be required for other reasons. This may have an adverse effect on Karo Pharma's earnings and financial position.

Limited number of projects and early stages of development
The three research projects Karo Pharma conducts, two of which are outlicensed, are in an early phase and there is a risk that projects will not be successful. Furthermore, these products may require approvals from authorities before they can be commercialized. In the event that an approval cannot be obtained, the products will not be launched and thus will not generate any revenue, which may adversely affect the business, financial position and results.

Preclinical and clinical studies
There is a risk that any of the preclinical and clinical studies conducted by partners will not be able to begin or be performed as planned or that they cannot demonstrate sufficient safety and efficacy to obtain the required regulatory permits for further review or that the trials will lead to a drug that can be sold on the market. If Karo Pharma and its collaborative partners during development work cannot demonstrate with sufficient reliability that potential drugs are safe and effective, or if it is estimated that changing market prospects or competitive situations prevail for a developing drug, the planned development of the product may be lowered or prioritized lower on the initiative of Karo Pharma and its partner. If a project is terminated, it may mean that significant values are destroyed for Karo Pharma, which in turn can adversely affect the business. Early successes do not necessarily produce positive results in clinical trials later on. Historically, there are many examples where successful results in a preclinical stage are not repeated in later clinical trials. This means that the company cannot know whether a product or project will be successful, and if the investment in the development process is justified, until the subsequent clinical studies have been completed.

Furthermore, prior to the sale of new products, Karo Pharma or its partners must be able to show that the potential products are safe and effective for humans for each indicated indication. If the company or its partners cannot demonstrate that the potential products are safe and effective for humans for the indicated indication and therefore not obtain regulatory approvals, the products cannot be sold on the market. This may adversely affect operations, financial position and results.

Partner agreements
Karo Pharma may collaborate with other pharmaceutical companies for marketing and development. Unauthorized cooperation agreements or non-compliance with counterparties' commitments under the cooperation agreement, or where the quality does not reach the desired level, may adversely affect the business, financial position and results.

Regulatory approval and product standards
Research and development as well as manufacturing and marketing of pharmaceuticals are subject to inspections by several authorities. Prior to launch, any drug developed by Karo Pharma, its partners or licensed by Karo Pharma must undergo a comprehensive process for obtaining regulatory approval. There is a risk that authorities do not approve drugs developed by Karo Pharma, its partners or licensed by the company. There is also a risk that the approval process will lead to increased studies and additional documentation of a drug substance, thereby increasing costs and delays in projects, or even closure of projects due to unmanageably high development costs. This can have a material adverse effect on business, financial position and results.

Although regulatory approval for a drug launch has been received, there is a risk that when the drug is used by patients, it shows such adverse effects that the product is forced to be withdrawn from the market with unsuccessful earnings.

If Karo Pharma's products or operations would be subject to further or modified measures or restrictions from regulatory authorities, this could have negative commercial and financial effects on Karo Pharma, which may have a negative impact on operations, financial position and earnings.

Changes within healthcare systems
In the future, changes in healthcare systems may be implemented in countries where the company and its partners intend to market pharmaceuticals. Such changes may affect the sales potential of these products as well as the ability to acquire new partners.

Regulatory costs and resources
The pharmaceutical industry is subject to extensive regulation. In order to succeed in compliance, Karo Pharma is required to have the necessary permits and comply with the rules to which the business is subject. Such compliance is resource intensive, both economically and operationally, and there is a risk that Karo Pharma will not succeed in maintaining the standard required, at acceptable costs or at all. In case

the company fails, it may have a material adverse effect on the business, financial position and results.

Risks related to the share

New share issues and sales of securities
Karo Pharma may need to issue additional shares or other securities in the future, which may adversely affect the market price of outstanding shares. In addition, issuance of new shares may result in existing shareholders being diluted in case they do not use, or may not use, their preferential rights or if the AGM decides to waive such preferential rights.

Karo Pharma has an outstanding warrants program which, when exercised, will dilute existing shareholders not included in the program. In the future, the company may also offer warrants to certain senior executives and other employees in Karo Pharma.

In addition, significant sales of shares from major shareholders or a general perception that a share issue may take place may adversely affect the market price of Karo Pharma's shares.

Dividends
Decisions on future dividends are decided by the shareholders at the Annual General Meeting. Any future dividends and the size of such dividends depend, amongst others, on Karo Pharma's future operations, prospects, earnings, financial position, distributable funds, cash flow, working capital requirements and general financial and legal restrictions. There are many risks that may adversely affect Karo Pharma's operations, thus causing Karo Pharma not to perform a result that will allow dividends of the shares in the future. Due to Karo Pharma's history of negative operating profit, the company has so far not paid any dividend to the shareholders.

Share price development
Securities trading is always associated with risk and risk taking. As a share investment can both increase and decrease in value, it is not certain that an investor may recover all or even parts of the capital invested. The price of the shares may be subject to fluctuations as a result of a changed perception of the capital market, regarding the shares or similar securities, due to various circumstances and events such as changes in applicable laws and other rules affecting the company's operations or changes in the company's earnings and business development. Stock markets may from time to time show significant fluctuations in price and volume that do not need be related to the company's business or prospects. In addition, the company's earnings and prospects may from time to time be lower than the expectations from the capital markets, analysts or investors. Some or all of these factors may adversely affect the share price and, in turn, lead to losses for the shareholders. The risk of fluctuations in the share price is greater for underperforming stocks.

Listing requirements
The company's shares are admitted to trading on Nasdaq Stockholm. The Company's shares may be derecognised in case Karo Pharma does not fulfil the requirements applicable to shares admitted to trading on Nasdaq Stockholm. A delisting would make it difficult for shareholders to sell their shares in Karo Pharma.

Share liquidity
Karo Pharma cannot predict the extent to which investor interest will lead to the development and maintenance of an active and liquid trading of the share. If an active and liquid trading cannot be maintained, it may be difficult to sell the shares at a price and at a time deemed appropriate or at all.

PROPOSED PROFIT DISPOSITION

At the Annual General Meeting 2017's disposal, the following profit is available:

- Share premium reserve SEK 612,243,379
- Profit for the year SEK 74 ,611,722

Total disposable earnings SEK 686.855,101

The Board of Directors recommends the following disposition of the disposable earnings:

- To be distributed to shareholders SEK 0.50 per share, totalling SEK 41,083,195.50
- To be carried forward to new account SEK 645,771, 905.50
- Total SEK 686,855,101

CONSOLIDATED INCOME STATEMENTS AND INCOME STATEMENT FOR THE PARENT COMPANY

		GROUP		PARENT COMPANY	
KSEK	**Note**	**2016**	**2015**	**2016**	**2015**
Net sales	**1**	**347 261**	**69 095**	**48 885**	**3 923**
Cost of goods sold		-198 536	-40 494	-12 567	-
Gross profit		148 725	28 601	36 318	3 923
Other operating income and costs	2-5				
Selling expenses		-112 787	-26 718	-4 079	-
Administrate expenses		-28 689	-27 150	-20 126	-25 354
Research and development		-5 259	-34 957	-5 259	-34 851
Other operating income and expenses	6	27 583	-14 639	28 956	-141
		-119 152	-103 464	-508	-60 346
Operating profit/loss		**29 573**	**-74 863**	**35 810**	**-56 423**
Income from financial investments					
Income from shares in group companies		-	-	-	-
Depreciation of shares in group companies	14	-	-	-26 234	-5 000
Interest income and similar items	7	75	75	2	18
Interest expenses and similar items	8	-9 810	-509	-8 706	-281
		-9 735	-434	-34 938	-5 263
Profit/Loss after financial items		**19 838**	**-75 297**	**872**	**-61 686**
		-	-	-1 260	-
Tax	9	75 718	-2 894	75 000	-
NET PROFIT		**95 556**	**-78 191**	**74 612**	**-61 686**
Profit attributable to: Parent company shareholders		95 556	-77 632		
Non-controlling interests		0	-559		
Earnings per share attributable to parent company shareholders					
– based on the weighted average number outstanding shares	10	1.59	-1.73		

GROUP AND PARENT COMPANY STAMEMENT OF COMPREHENSIVE INCOME

		GROUP		PARENT COMPANY	
KSEK	**Note**	**2016**	**2015**	**2016**	**2015**
Net income		95 556	-78 191	74 612	-61 686
Other comprehensive income for the year, net of tax translation differences		357	-315	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**95 913**	**-78 506**	**74 612**	**-61 686**
Total comprehensive income attributable to:					
Parent company shareholders		95 911	-77 947		
Non-controlling interests		2	-559	-	-

Definition of operating profit: Profit including all income and expenses from operating activities, ie earnings excluding financial items and income tax.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND PARENT COMPANY BALANCE SHEET

ASSETS (KSEK)		GROUP		PARENT COMPANY	
December 31	**Note**	**2016**	**2015**	**2016**	**2015**
NON-CURRENT ASSETS					
Intangible assets	12				
Balanced expenses for development work		619	-	619	-
Licenses and Product Rights		700 668	239 481	75 709	73 965
Goodwill		730 725	236 174	-	-
Total Intangible assets		1 432 012	475 655	76 328	73 965
Tangible assets					
Inventories, buildings and land	13	12 297	5 701	666	1 372
Financial assets					
Participations in Group companies	14	-	-	1 308 367	397 788
Deferred tax asset	19	9 444	-	75 000	-
Other financial assets	15	28 357	21	28 357	21
Total non-current assets		**1 482 110**	**481 377**	**1 488 718**	**473 146**
CURRENT ASSETS					
Current receivables					
Raw materials and consumables		-	6 977	-	-
Merchandise inventory		79 101	35 825	-	6 575
Accounts receivable		79 519	32 121	1 643	631
Other receivables		5 037	5 265	1 412	589
Receivables from group companies		-	-	58 055	124
Prepaid expenses and accrued income	16	5 733	4 482	173	1 382
		169 390	**84 670**	**61 283**	**9 301**
Cash and cash equivalents	17	121 346	76 490	85 743	68 732
Total current assets		**290 736**	**161 160**	**147 026**	**78 033**
TOTAL ASSETS		**1 772 846**	**642 537**	**1 635 744**	**551 179**

EQUITY AND DEBT (KSEK)		GROUP		PARENT COMPANY	
December 31	**Note**	**2016**	**2015**	**2016**	**2015**
SHAREHOLDERS' EQUITY	18				
Share capital		25 563	19 970	25 563	19 970
Other contributed capital		1 726 100	1 473 614	-	-
Total non-restricted equity (Parent Company)				*25 563*	*19 970*
Share premium reserve (Parent Company)				612 243	492 867
Accumulated loss (incl. Group profit/loss for the year)		-1 034 773	-1 130 127	-	-71 423
Non-controlling interests		122	1 124	-	-
Profit/loss for the year (Parent company)				74 612	-61 686
Total non-restricted equity (Parent company)				*686 855*	*359 758*
Total shareholders' equity		**717 012**	**364 581**	**712 418**	**379 728**
LIABILITIES					
Non-current liabilities					
Deferred tax liabilities	19	59 371	31 740	-	-
Liabilities to Group companies		-	-	13 924	15 315
Liabilities to credit institutions	20	539 857	21 000	524 857	-
Other non-current liabilities	20	26	26	26	26
Total non-current liabilities		**599 254**	**52 766**	**538 807**	**15 341**
CURRENT LIABILITIES					
Liabilities to credit institutions	20	375 643	6 000	369 643	-
Accounts payable		37 186	29 379	-	2 128
Payables to Group companies		-	-	1 350	2 500
Other current liabilities	21	12 160	160 616	2 643	140 899
Accrued expenses and deferred income	22	31 591	29 195	10 883	10 583
Total current liabilities		**456 580**	**225 190**	**384 519**	**156 110**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**1 772 846**	**642 537**	**1 635 744**	**551 179**

CONSOLIDATED STATMENTS OF CASH FLOW AND CASH FLOW STATEMENTS FOR THE PARENT COMPANY

		GROUP		PARENT COMPANY	
KSEK	**Note**	**2016**	**2015**	**2016**	**2015**
Operating activities					
Operating profit/loss before financial items		29 573	-74 863	35 810	-56 423
Items not effecting cash flow					
Depreciation and amortization	5	21 937	3 153	4 794	1 828
Other	24	-28 779	4 996	-28 952	1 478
		22 731	**-66 714**	**11 652**	**-53 117**
Financial income received	24	75	77	2	20
Dividends received	24	-14 694	-399	-13 168	-
Financial items paid		-2 458	-	57	-
Cash flow from operating activities before changes in working capital		**5 654**	**-67 036**	**-1 457**	**-53 097**
Changes in working capital					
Changes in merchandise inventory		-11 688	-5 923	6 575	-6 575
Changes in current operating receivables		-15 952	1 201	-64 242	2 137
Changes in accounts payable		3 463	330	-2 777	-1 586
Changes in other current operating liabilities		-17 595	19 217	-9 442	11 533
Cash flow from operating activities		**-36 118**	**-52 211**	**-71 343**	**-47 588**
Financing activities					
Investments in equipment		-8 836	-261	-	-137
Investments in tangible fixed assets		-61 052	-	-65 417	-
Changes in other current operating liabilities		-	-6	-	-6
Investments in acquired operations/shares in subsidiaries	11, 14	-926 183	-220 570	-926 907	-234 515
Divestment of tangible fixed assets		144	-	-	-
Cash flow from operating activities		**-995 927**	**-220 837**	**-992 324**	**-234 658**
Investing activities					
Rights issue		279 629	249 919	279 629	249 919
Transaction costs rights issue		-22 071	-17 545	-22 071	-17 545
Warrants paid		460	-	460	-
Transactions with shareholders with non-controlling interests		-1 561	-	-1 561	-
Obtained loans		900 000	67 055	900 110	67 055
Instalment of loans		-80 055	-1 500	-75 889	-
Cash flow from financing activities		**1 076 402**	**297 929**	**1 080 678**	**299 429**
CASH FLOW FOR THE YEAR		**44 357**	**24 881**	**17 011**	**17 183**
Cash and cash equivalents at the beginning of the year		76 490	51 609	68 732	51 549
Foreign exchange effects in cash		499	-	-	-
Cash and cash equivalents at the end of the year		121 346	76 490	85 743	68 732

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

GROUP KSEK	Share capital	Other contributed capital	Retained earnings	Non-controlling interests	Total
Balance at January 1, 2015	**13 525**	**1 079 562**	**-1 052 180**	**-**	**40 907**
Total earnings	-	-	-77 947	-559	-78 506
Transactions with shareholders					
Non-controlling interests	-	-	-	1 683	1 683
New issue of shares in business combinations	270	19 730	-	-	20 000
New issue of shares in business combinations	1 020	130 820	-	-	131 840
New issue of shares in business combinations	4	-	-	-	4
New issue of shares in business combinations	153	16 130	-	-	16 283
New issue (net after deduction of transaction related costs)	4 998	227 372	-	-	232 370
Total transactions with shareholders	**6 445**	**394 052**	**-**	**1 683**	**402 180**
Balance at January 1, 2016	**19 970**	**1 473 614**	**-1 130 127**	**1 124**	**364 581**
Profit/loss for the year	-	-	95 911	2	95 913
Transactions with shareholders					
Non-controlling interests	-	-	-557	-1 004	-1 561
Warrants	-	520	-	-	520
New issue (net after transaction related costs)	5 593	251 966	-	-	257 559
Total transactions with shareholders	**5 593**	**252 486**	**-557**	**-1 004**	**256 518**
BALANCE AT DECEMBER 31, 2016	**25 563**	**1 726 100**	**-1 034 773**	**122**	**717 012**

THE PARENT COMPANY'S STATEMENT OF CHANGES IN EQUITY

PARENT COMPANY KSEK	Share capital	Premium reserve	Retained earnings	Net profit/loss	Total	
Amount at January 1, 2015	**13 525**	**98 815**	**-12 142**	**-59 281**	**40 917**	
Total profit/loss	-	-	-	-61 686	-61 686	
Transactions with shareholders						
New issue of shares in business combinations	270	19 730	-	-	20 000	
New issue of shares in business combinations	1 020	130 820	-	-	131 840	
New issue of shares in business combinations	4	-	-	-	4	
New issue of shares in business combinations	153	16 130	-	-	16 283	
New issue (net after deduction of transaction related costs)	4 998	227 372	-	-	232 370	
Treatment of loss	-	-	-59 281	59 281	-	
Amount January 1, 2016	**19 970**	**492 867**	**-71 423**	**-61 686**	**379 728**	
Total profit/loss	-	-	-	74 612	74 612	
Transactions with shareholders						
Warrants	-	520	-	-	520	
New issue (net after deduction of transaction related costs)	5 593	251 965	-	-	257 558	
Disposition of earnings	-	-	-61 686	61 686	-	
Utilization of share premium reserve		-	-133 109	133 109	-	-
AMOUNT AT DECEMBER 31, 2016	**25 563**	**612 243**	**-**	**74 612**	**712 418**	

ACCOUNTING PRINCIPLES

THE GROUP

Statement of compliance

The consolidated financial statements of Karo Pharma have been prepared in accordance with the Swedish Annual Accounts Act, RFR 1 Supplementary Accounting Regulations for Groups, International Financial Reporting Standards (IFRS) and statements concerning interpretation published by IFRIC as adopted by the European Union. The statements have been prepared on a historical cost basis, except for financial assets available for sale and financial assets and liabilities at fair value through profit and loss.

CHANGES IN ACCOUNTING PRINCIPLES AND INFORMATION

New accounting standards, amendments and interpretations applied to the Group

No standards, amendments and interpretations applied by the Group for the first time for the financial year beginning January 1, 2016 has a material effect on the consolidated financial statement.

New standards and interpretations not yet in force but will be applied in future periods

A number of new standards and interpretations will come into effect for fiscal years beginning after January 1, 2016 and have not been applied in preparing these financial statements. None of these are expected to have a material impact on the consolidated financial statements with exception of the following below:

IFRS 9 "Financial instruments" addresses the classification, measurement and recognition of financial assets and liabilities. It replaces parts of IAS 39, which deals with classification and valuation of financial instruments. IFRS 9 retains a mixed valuation approach, but simplifies this approach in some respects. There will be three valuation categories for financial assets, amortized cost, fair value through other comprehensive income and fair value in the income statement. How an instrument should be classified depends on the company's business model and the instrument characteristics. Investments in equity instruments should be recognized at fair value in the income statement but there is also a possibility that upon initial recognition reporting instrument at fair value through other comprehensive income. No reclassification to the income statement will then be at the disposal of the instrument. IFRS 9 also introduces a new model for calculating loan loss reserves based on expected losses. For financial liabilities do not change the classification and valuation except in cases where a liability is recognized at fair value through profit or loss based on the fair value option. Changes in value attributable to changes in credit risk shall then be reported in other comprehensive income. IFRS 9 reduces the requirements for application of hedge accounting by 80-125 criterion is replaced with demands for economic relationships between hedging instruments and hedged items and hedging ratio should be the same as used in risk management. Even hedge documentation changed little compared with that drawn up under IAS 39. The new model for calculating loan loss reserves based on expected losses which can result in earlier recognition of credit losses. The standard is effective for fiscal years beginning January 1, 2018. Earlier application is permitted. The standard was adopted by the EU on November 22, 2016.

The company's work to analyse the effects of the introduction of IFRS 9 will have limited impact on the Group's financial reporting. According to the present timetable, the analysis work including the determination of the effects of the implementation of IFRS 9 should be completed in October 2017.

IFRS 15 "Revenue from contracts with customers" regulates how the accounting for revenue should be made. The principles that IFRS 15 is built on shall provide users of financial statements more useful information about the company's revenue. The expanded disclosure requirements means that information about the type of revenue, the date of settlement, uncertainties related to revenue recognition and cash flow attributable to the company's customer contract should be submitted. A revenue should in accordance with IFRS 15, be recognized when the customer obtains control over sold goods or services and are able to use and receive the benefits of the product or service. IFRS 15 supersedes IAS 18 Revenue and IAS 11 Construction Contracts and related SIC and IFRIC. IFRS 15 shall enter into force on January 1, 2018. Early application is permitted. The standard was adopted by the EU on September 22, 2016. The company's work to analyse the effects of the introduction of IFRS 15 is ongoing. Based on analyses carried out so far, the assessment is that the introduction of IFRS 15 will have limited effects on the Group's financial reporting. According to the present timetable, the analysis work including the determination of the effects of the implementation of IFRS 15 will be completed in October 2017. According to preliminary assessment, IFRS 15 will be introduced with a modified application (accounting for possible transition effects against capitalized earnings per 2018-01-01).

IFRS 16, "Leases" is published by the IASB in January 2016. The standard regulates the accounting of leases and will replace IAS 17 "leases" and related interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires assets and liabilities relating to all the leases, with some exceptions, are recognized in the balance sheet. This report is based on the view that the lessee has a right to use an asset for a specific period of time and at the same time an obligation to pay for that right. The accounts of the lessor will essentially be unchanged. The standard is applicable to fiscal years beginning on January 1, 2019 or later. Early application is permitted. The EU has not yet adopted the standard. The Group has not yet assessed the impact of IFRS 16.

No other of the IFRS or IFRIC interpretations not yet in force is expected to have any material impact on the Group.

Accounting Standards

The consolidated financial statements have been prepared under the historical cost, except for certain financial instruments valued at fair value. Amounts are expressed in thousands (thousands of Swedish kronor or KSEK) unless otherwise stated. MSEK stands for million Swedish kronor. Amounts or figures in parentheses indicate comparative figures for 2015.

Important estimates and assessments for accounting purposes

When preparing financial statements, some important accounting estimates must be made. It also requires management to make certain assessments when applying the company's accounting principles. Estimates and assessments are continuously evaluated and are based primarily on historical experience and other factors, including expectations of future events that are considered reasonable under prevailing conditions.

The areas that include a high degree of assessment or complexity, or areas where assumptions and estimates are essential for accounting purposes, refers to the valuation of tax loss carry forwards and impairment testing of goodwill and determination of the useful life of product rights. Upon acquisition, the Group assesses whether the transaction is a business combination or acquisition of assets, based on IFRS 3 Business Combinations. When a transaction is assessed as a business combina-

tion, all identifiable assets and liabilities in the acquired company are recognized at fair value. When the fair value cannot be calculated reliably, the value in goodwill is included.

When a transaction is assessed as an asset acquisition, the identifiable assets and liabilities assumed are identified and recognized. The acquisition value is allocated to the individual assets and liabilities based on their relative fair values per acquisition date. An asset acquisition does not give rise to goodwill. For further information, see below for the respective accounting and valuation principles as well as Note 12.

The consolidated financial statements

The consolidated financial statements comprise the financial statements of Karo Pharma AB and its subsidiaries at December 31 each year. The financial statements of subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies. All intra-group transactions, income and expenses, profits and losses and balance sheet items resulting from intra-group transactions are eliminated in full in the consolidated financial statements.

A subsidiary is a company over which the Parent Company has a controlling influence. The Group controls a company when exposed to or has the right to variable returns from its holdings in the company and have the ability to affect yields though their influence in the company. A subsidiary is included in the consolidated financial statements as of the date of the acquisition, being the day on which the Parent Company obtains controlling influence, until that date where the controlling influence ceases.

Acquisitions and goodwill

Acquisitions are recognized with the acquisition accounting method. The acquisition is considered to be a transaction by which the Group indirectly acquires the assets of the subsidiary and assumes its liabilities and other obligations. The purchase value of an acquisition consists of the fair value of the assets provided, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially valued at fair value on the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recognized as goodwill. Goodwill is reported as an asset in the balance sheet. If the difference is negative it is recognized directly in the income statement. Shareholders' equity in the subsidiary is entirely eliminated upon acquisition. The Group's equity comprises the equity in the Parent Company and equity in the subsidiaries earned after the acquisition.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. When the recoverable amount is less than the carrying value, an impairment loss is reported. The recoverable amount is defined as the higher of an asset's fair value less costs of disposal and its value in use. Acquisition-related costs are expensed when incurred. Conditional purchase price is reported at fair value at the acquisition date. Subsequent changes in the fair value of a conditional purchase consideration classified as debt are recognized in the income statement.

When a transaction is regarded as an asset acquisition, the individual identifiable assets and liabilities assumed are identified and recognized. The acquisition value is allocated to the individual assets and liabilities by virtue of their relative fair values at the acquisition date. An asset acquisition does not give rise to goodwill.

Product rights

Valuation of product rights depends on certain assumptions. These assumptions refer to forecasts of future sales, subscription grants and expenses for each product. In addition, assumptions are made regarding discount rates, product life and royalty rates. The maximum amortization time of product rights that are applied in the group is 15 years. It cannot be ruled out that the valuation of product rights may need to be reassessed, which may affect the consolidated financial condition and results. The Group examines regularly whether impairment exists for product rights. At December 31, 2016, the value of product rights amounted to MSEK 700.7 (MSEK 239.5).

Foreign currency translation

The consolidated financial statements are presented in Swedish Kronor (SEK), which is the functional currency of the company's operations. Transactions in foreign currencies are initially recorded at the functional currency rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling on the balance sheet date. Any differences in the rate of exchange arising from the translation are recognized in the income statement. Non-monetary assets and liabilities that are valued at cost are recognized at historical rates of exchange, i.e. at the rates of exchange on the respective transaction dates. Items measured at fair value are translated at the rate of exchange on the valuation date. Assets and liabilities in foreign operations, including goodwill and other surplus and underlying values, are translated into Swedish kronor at the exchange rate prevailing on the balance sheet date. Income and expenses in a foreign operation are translated into Swedish kronor at an average price that approximates the rates at each transaction date. Translation differences arising from foreign currency translation of foreign operations are reported in other comprehensive income.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Goods
Sales of goods are recognized when the significant risks and rewards are transferred from seller to buyer in accordance with the terms of sale. Sales are recognized net of VAT and discounts. A small portion of sales are to external wholesalers. Revenues are adjusted for the value of expected returns, which are based on historical data for returns.

Revenue from strategic research collaboration
Karo Pharma may receive four types of revenues from its strategic collaborative research projects: upfront payments, research funding, milestone payments and royalties. The specific recognition criteria for the different types of revenue described below must be met before revenue is recognized.

Compensation received for research collaborations, and that intends liabilities in particular in the agreement that Karo Pharma has not yet done, is amortized over the term under the contract during which Karo Pharma fulfilling commitments.

Research grants are received on a regular basis, often quarterly in advance, as a fixed amount for a defined number of Karo Pharma's researchers working in the project during the period. The awarded research allowance is distributed over the period to which it relates.

Milestone payments are triggered when a certain result has been

achieved or a certain event has occurred, e.g. when compounds enter or pass a major step in the development process, as defined in the research collaboration agreement. These steps are usually linked to significant decision points in the partner's drug development process. A milestone payment is accounted for when all requirements specified in the research collaboration agreement for earning the milestone are met.

Royalty payments are based on the sale of finished partnered pharmaceutical products in the market. Royalty payments are accounted for when they are reported by the partner.

Other revenue
Revenue from out-licensing agreements other than research and development collaborations can be either in the form of upfront payments that is recognized as revenue when the conditions for receiving them are fulfilled, or as license maintenance fees that are allocated over the duration of a specified license period. Karo Pharma may also receive compensation for services provided, which is recognized as revenue when contractual terms are met.

Government grants and other public funding are recognized as other operating income in the income statement over the period necessary to match the grant to the cost that it is intended to compensate.

Interest income is recognized on a time proportion basis using the effective interest method. Interest income is recognized as a financial item and not included in operating profit and loss.

Taxes

Income tax
Income tax comprises current and deferred taxes. Income tax is recognized in the income statement in respect of items recognized in the income statement, and recognized directly in equity when the tax is related to items recognized directly in equity.

Deferred tax is calculated as the difference between, on the one hand, the tax base of assets and liabilities and, on the other hand, their carrying amounts in the financial statements (temporary differences). Deferred tax is calculated based on the tax rates estimated to apply to settlement of the tax. As required by IAS 12 Income Taxes, deferred tax liabilities are recognized for all taxable temporary differences using the liability method.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which unused tax losses and deductible temporary differences can be balanced. As Karo Pharma historically has reported losses, deferred tax assets are recognized only when there is convincing evidence that sufficient taxable profits will be available.

Value added tax (VAT)
Revenues, expenses and assets are recognized net of VAT. The net amount of VAT recoverable from, or payable to, the Tax Agency is included as part of receivables or payables in the balance sheet.

Intangible assets

Acquired intangible assets are reported as assets in the balance sheet. Intangible assets acquired separately are initially recognized at acquisition cost. The cost of intangible assets in an acquisition is recognized at fair value on the date of the acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The period of use of all intangible assets of the Group have been assessed to be finite. Intangible assets with finite use, are amortized over their economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and amortization method for an intangible asset is reviewed at least at each financial year-end. Changes in the expected period of use or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense is recognized in the income statement in the expense category consistent with the function of the intangible asset.

Reserach and development costs

Costs regarding development activities shall, as stipulated by IAS 38 Intangible Assets, be capitalized and reported in the balance sheet if certain criteria are met, while research costs are expensed as incurred. An intangible asset arising from development expenditure is recognized only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale; its intention to complete and its ability to use or sell the asset; how the asset will generate future economic benefits; the availability of resources to complete; and the ability to reliably measure the expenditure during the development. To date the Group has expensed all development costs as incurred since the recognition criteria for capitalization have not been met.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes, in addition to the purchase price, expenses directly related to bringing the asset into use. The difference between cost and estimated residual value is depreciated on a straight-line basis over the useful life of the assets.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may no longer be recoverable. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial yearend.

Depreciation and amortization of non-current assets

Property, plant and equipment and intangible non-current assets are depreciated and amortized, using a straight-line depreciation and amortization method, over their estimated useful life based on the asset's cost as per the following schedule.

Year	
Licences	3–10
Leasehold improvements, IT equipment and other equipment	4
Land and buildings	25
Product rights	15

Impairment of non-current assets

At each reporting date the Group assesses whether there is an indication that an asset may be impaired. If any such indication exists, Karo Pharma makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Investments and other financial assets

Financial investments in the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit and loss, loans and receivables, held to maturity investments, or financial assets available for sale. When financial assets are recognized initially, they are measured at fair value plus directly attributable transaction costs, except for financial assets at fair value through profit and loss for which attributable transaction costs are included in the income statement. The classification of a financial asset is determined at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivable are derecognized or impaired.

Currency forward contracts

Karo Pharma may hedge known future cash flows in foreign currencies from large currency rate fluctuations as provided in the company's financial policy. In this respect, a certain level of assurance must exist in order to consider possible transactions and related cash flows. Currency hedging is accomplished through currency forward contracts. In accordance with IAS 39, all derivatives are to be measured at fair value defined as market value by Karo Pharma. The derivatives which can be used by the company do not qualify for hedge accounting in accordance with IAS 39.The classification of these instruments provides for them to be reported in the balance sheet at fair value with changes in fair value included in other operating income and expenses in the income statement. There were no outstanding forward exchange contracts as of December 2015 and December 2016 respectively.

Inventories

Inventories are valued by using the first-in, first-out method (FIFO), at the lower of cost and net realizable value on the balance sheet date. Homogeneous groups of goods are valued collectively.

Short-term investment

Short-term investments consist of investments in money market instruments, highly liquid bonds with maturities of less than five years and investments in highly liquid fixed income mutual funds. Short-term investments are classified as financial assets at fair value through profit or loss (financial assets held for trading purposes). This entails that the assets are stated at fair value in the balance sheet, defined as market value.

Changes in fair value are included in financial items in the income statement. Acquisitions and dispositions of short-term investments are reported as of the transaction day, the day when Karo Pharma is committed to buy or sell the asset.

Fair value estimation of financial instruments measured in the balance sheet at fair value
When the group value on financial instruments at fair value, fair value is determined using a valuation hierarchy. The different levels are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from process).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

According to Karo Pharma's financial policy, funds shall be invested in financial instruments classified as level 1. The fair value of such financial instruments, traded in active markets, is based on quoted market prices on the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. For further information, see Note 28.

Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. Write-downs are made when there is objective evidence that Karo Pharma will not be able to collect the debts.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet consist of cash and bank balances and short-term investments with the acquisition remaining maturity of 90 days. Other investments are recognized as financial assets at fair value through profit or loss. See Note 17 and Note 28 for additional information on the classification of the company's investments.

In the Group´s cash flow cash and cash equivalents consists according to the definition above. The cash flow statements for each year show direct cash flows from investing and financing activities. Operating cash flow is based on the indirect method.

Debt

Debt is reported initially at fair value, net of transaction costs. Debt is then reported at accrued acquisition value and any difference between the amount received (net after transaction costs) and the repayment amount are recognized in the income statement over the loan period, using the efficient interest method.

Provisions

Provisions are recognized when the Group has a legal or formal obligation as a consequence of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and that a reliable estimate can be made of the amount of the obligation. The expenses relating to any provision is presented in the income statement net of any reimbursement.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence is confirmed only by one or more uncertain future events or when there is a commitment not recognized as a liability or provision because it is unlikely that an outflow of resources will be required.

Pensions and other post-employment benefits

Salaried employees in Sweden are secured by the ITP 2 plan's defined benefit pension obligations for retirement and family pension by insurance in Alecta. In accordance with an announcement (UFR 3) from the Swedish Financial Reporting Council, this arrangement is considered a defined benefit multi-employer plan. For the financial year 2016 the Company had no access to information in order to account for its proportionate share of the plan´s obligations, plan assets and costs, which meant that the plan has not been possible to account for as a defined benefit plan. The pension plan ITP 2, which is secured though insurance an Alecta is recognized as a defined contribution plan. The premium for the defined benefit retirement and family pension is individually calculated and is dependent on factors including salary, previously earned pension an expected remaining working lives. Expected charges for the nest reporting period for ITP 2 insurance with Alecta amounted to MSEK 0.3 (2016: MSEK 0.3). The Group´s share of the total contributions to the plan amounts to 0.002 per cent (2016: 0.003 per cent).

The collective consolidation level is the market value of Alecta´s assets as a percentage of the insurance obligations calculated according to Alecta´s actuarial methods and assumptions, which are not consistent with IAS 19. The collective consolidation level is normally allowed to vary between 125 and 155 per cent. If Alecta´s collective consolidation level is below 125 per cent or above 155 per cent action must be taken in order to create conditions for the consolidation to return to normal range. At low consolidation, a measure can be to raise the agreed price for new and expansion of existing benefits. At high consolidation, a measure can be to introduce premium reductions. At the end of 2016, Alecta´s surplus in the form of collective consolidation level was 149 per cent (2015: 153 per cent).

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Karo Pharma recognizes termination benefits when it is demonstrably committed to either terminating the employment with current employees according to a detailed formal plan without possibilities of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Leasing

A financial lease transfers substantially all the risks and benefits incidental to ownership of the leased asset to Karo Pharma. All other lease contracts are considered operating leases.

Financial leases are capitalized at the inception of the lease at fair value of the leased property or, if lower, at the present value of the minimum lease payments. Thus, the equipment under lease is recorded as an asset and the net present value of future minimum lease payments is recorded as a liability. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Karo Pharma Group will obtain ownership by the end of the lease term. Property, plant and equipment are depreciated as described under the heading Depreciation and amortization of non-current assets.

Operating lease payments are recognized in the income statement over the lease term in the period they relate to.

Stock option program

The Group has a share-based incentive program where employees have paid for options at a market price, so no cost is recognized in the income statement. Remaining option premium is credited to other contributed capital.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker is the function responsible for allocating resources and assessing performance of the operating segments' result. See Note 29.

Share capital

Stock shares are classified as equity. Transaction costs directly attributable to the issue of new common shares or options are reported, net of tax, in equity as a deduction from the emission allowance.

PARENT COMPANY

The annual report of the Parent Company is prepared in accordance with the Swedish Annual Accounts Act and in compliance with the Swedish Financial Accounting Standards Council's Recommendation RFR 2 and statements from the Financial Accounting Standards Council. The Parent Company's accounting and valuation principles are the same as the Group's with the exception for leasing. In the Parent Company, all leasing contracts are reported as operating leases. Shares in subsidiaries are reported according to the acquisition cost method (acquisition-related costs are included in the acquisition value).

NOTES

NOTE 1 NET SALES

The turnover from 2016 comes mainly from product sales.

Karo Pharma AB has not purchased services or goods of subsidiaries in 2015 and 2016.

Karo Pharma AB has invoiced 38,447,000 SEK (0 SEK) to subsidiaries, of which 10,227,000 SEK relates to management fee and 22,228,000 SEK relates to compensation for license sales of Allevo products.

NOTE 2 PERSONNEL AND REMUNERATION TO MEMBERS OF THE BOARD AND EXECUTIVE MANAGEMENT

	2016		2015	
AVAREGE NUMBER OF EMPLOYEES	**Number of employees**	**Men**	**Number of employees**	**Men**
Parent company	4	1	12	7 [1]
Group				
Sweden	61	32	54	30
Norway	4	3	6	5
Total	**69**	**36**	**72**	**42**

		2016		2015	
WAGES, SALARIES, OTHER REMUNERATION AND SOCIAL SECURITYY EXPENSES	**Note**	**Wages, salaries, other remuneration**	**Social security expenses (of which pension costs)**	**Wages, salaries, other remuneration**	**Social security expenses (of which pension costs)**
Board and CEO	[1]	4 778	1 007	6 337	1 766
			(391)		(613)
Other employees					
Parent company		5 581	2 978	16 224	8 181
			(958)		(2 784)
Group companies					
Sweden		28 001	12 014	4 205	1 509
			(2 988)		(496)
Norway		3 440	722	1 317	225
			(181)		(50)
		41 800	16 721	28 083	11 681
			(4 518)		(3 943)

1) Of salaries and other remuneration, 1,392 KSEK (2,899) relates to the CEO.

Remuneration and other benefits during the year to the board of directors an executive management 2016

KSEK	Board remuneration/Base salary	Variable salary	Other benefits	Other remuneration	Social costs	Pension expense	Total
Board of Directors							
Anders Lönner	420			2 479 [1)]			2 899
Per-Anders Johansson	150				47		197
Thomas Hedner	150				25		175
Jean Lycke	150						150
Göran Wessman (until AGM 2016)	38				6		44
Executive management							
Maria Sjöberg, CEO	1 392				538	391	2 321
Other members of Executive management (3 persons)	4 364		29	89	1 397	951	6 829
	6 663	**0**	**29**	**2 567**	**2 013**	**1 342**	**12 614**

1) In addition to this compensation, Anders Lönner received a total of 18.7 MSEK in commissions and compensation for underwriting rights issues. For further information see the text under the heading Transactions with related parties.

Remuneration and other benefits during the year to the board of directors an executive management 2015

KSEK	Board remuneration/Base salary	Variable salary	Other benefits	Other remuneration	Social costs	Pension expense	Total
Board of Directors							
Anders Lönner	420			2 282 1)			2 702
Göran Wessman	150				15		165
Per-Anders Johansson	150				47		197
Thomas Hedner	150			98	8		256
Jean Lycke (until AGM 2015)	113				-		113
Christer Fåhraeus (until AGM 2015)	37				12		49
Sibylle Lenz (until AGM 2015)	37				12		49
Executive management							
Per Bengtsson, CEO until January 2015	1 389				437	221	2 047
Maria Sjöberg, CEO since February 2015	1 510				474	392	2 376
Other members of Executive management (2 persons)	2 138	400	8		797	487	3 830
	6 094	**400**	**8**	**2 380**	**1 802**	**1 100**	**11 784**

1) In addition to this compensation, Anders Lönner received a total of MESK 19.7 in commissions and compensation for underwriting rights issues.

Remuneration to board members

The Board consists of four Board members elected by the annual general meeting (AGM).

The Chairman of the Board receives annual remuneration of KSEK 420, each Board member who is not paid as an employee or consultant by the company receives KSEK 150 based on the decision at the 2016 annual general meeting.

In 2016, a total of KSEK 908 (KSEK 1170) was paid in Board members' fees. Board members are reimbursed for direct expenses such as travel costs. All committee work is done by the full Board, and thus no specific committee fees are paid.

In 2016, a total of KSEK 2 479 (2 282 KSEK) was paid to the chairman for serving as chairman of the board.

Total expensed compensation for 2016 for each member of the Board is specified in the table above.

Remuneration to executive management

The Board of directors has decided that the full Board should carry out the tasks that are to be performed by the compensation committee and thus deal with all matters regarding executive management compensation and benefits.

Riktlinjerna för ersättningar till ledande befattningshavare som fastställts på årsstämman 2016 och styrelsens förslag till riktlinjer som ska fastställas på årsstämman 2017 presenteras i förvaltningsberättelsen. Nedan är en beskrivning hur riktlinjerna tillämpats under 2016.

The guidelines for remuneration of the executive management adopted by the AGM 2016, as well as the Board's proposal for guidelines to be adopted by the AGM 2017, are included in the Administration report. Below is a description of the application of the guidelines in 2016.

Members of the executive management are paid a fixed monthly salary, and some executives have received other benefits in 2016, such as health care insurance. In 2016, two members of executive management has participated in a bonus program. Executive management is entitled to pension benefits in accordance with the nationwide ITP Plan as are all other Swedish employees, unless otherwise stated. Pension benefits are based on a retirement age of 65 years and paid as long as the retiree lives. The ITP Plan provides for no pension benefits for annual salaries currently exceeding KSEK 1,779.

Executive management has also been eligible to participate in companywide share-based incentive programs that occur from time to time. An extra general meeting on the July 21, 2016, decided on an incentive program for the employees. A total of 4,600,000 options were subscribed, of which 3,900,000 were senior executives. The Executive Chairman Anders Lönner signed 2,740,000 options.

Please refer to Note 27 Option program for further information.

At year-end 2016, the executive management consisted of, in addition to the working Executive Chairman Anders Lönner and CEO Maria Sjöberg, of three (two) persons. They were Henrik Palm, CFO, Peter Blom, Country Manager Sweden and Thomas Kraft, Country Manager Norway.

Agreements regarding severance pay

The CEO has a notice period of six months and is entitled to six months' salary as severance pay if employment is terminated by the company. Other members of executive management have a notice period of six months and are not entitled to severance pay.

Transactions with related parties

Karo Pharma has not granted any loans, collateral, or personal guarantees to or for the benefit of any of its Board members, executive management or auditors. For their guarantee commitment in the new issue in 2016, Anders Lönner received MSEK 16.16. In addition, Anders Lönner received interest of MSEK 2.5, corresponding to 10 per cent, in respect of the loan of MSEK 67 that Anders Lönner had granted to fund the acquisition of Allevo. In 2016, one of Karo Pharma's subsidiaries marketed two products licensed from a company owned by Anders Lönner, and the subsidiary has received commission on a market basis of approximately SEK 300,000 excluding expenses.

NOTE 3 PENSION COSTS

Commitments for retirement and family pension under the ITP plan for the Parent Company employees are secured through an insurance arrangement with Alecta Pension insurance (Alecta). Premiums regarding pension insurance with Alecta total KSEK 291 (KSEK 745) for the year and premiums to other pension institutions under the ITP plan total KSEK 4 227 (KSEK 3 196).

Please refer to Accounting and valuation principles for additional information on pensions.

NOTE 4 OPERATING EXPENSES BY TYPE

Operating expenses are distributed on expense type as follows.

		GROUP		MODERBOLAGET	
KSEK	**Note**	**2016**	**2015**	**2016**	**2015**
Depreciation		-19 744	-3 153	-4 794	-1 829
Personnel costs		-56 372	-43 313	-10 940	-29 468
Facilities costs		-7 183	-9 420	-495	-7 732
External costs		-63 436	-32 939	-13 235	-21 176
Other operating income and expenses	6	27 583	-14 639	28 956	-141
		-119 152	**-103 464**	**-508**	**-60 346**

NOTE 5 DEPRECIATION AND AMORTIZATION

Depreciation and amortization costs are allocated to the company's functions and types of assets as follows.

		GROUP		PARENT COMPANY	
KSEK	**Note**	**2016**	**2015**	**2016**	**2015**
Function					
Costs of sales		18 926	1 304	3 979	0
Administrative costs		157	90	154	90
Research and development costs		661	1 758	661	1 738
		19 744	**3 152**	**4 794**	**1 828**
Type of asset					
Costs of sales	12	109	0	109	0
Administrative costs	12	17 540	775	3 979	0
Research and development costs	13	2 095	2 377	706	1 828
		19 744	**3 152**	**4 794**	**1 828**

NOTE 6 OTHER OPERATING INCOME AND EXPENSES

	GROUP		MODERBOLAGET	
KSEK	**2016**	**2015**	**2016**	**2015**
Foreign exchange gains and losses, net	997	-513	4	-141
Profit from sale of projects [1]	28 952	-	28 952	-
Impairment of product rights and licenses	-2 193	-3 590	-	-
Acquisition costs	-	-10 536	-	-
Realized capital gains/losses fixed assets	-173	-	-	-
	27 583	**-14 639**	**28 956**	**-141**

[1] Refers to shares received as consideration for the cancer project KB 9520, valued at market price on the transaction date.

NOTE 7 INTEREST INCOME AND OTHER SIMILAR INCOME

	GROUP		PARENT COMPANY	
KSEK	**2016**	**2015**	**2016**	**2015**
Interest income, capital gains/losses and dividends from short-term investments	75	75	2	18
Fair value gains and losses	-	-	-	-
	75	**75**	**2**	**18**

NOTE 8 INTEREST EXPENSE AND OTHER SIMILAR EXPENSES

	GROUP		PARENT COMPANY	
KSEK	**2016**	**2015**	**2016**	**2015**
Interest expense Group companies	-	0	-422	-225
Interest expenses other companies	-5 677	-509	-4 168	-56
Other financial expenses	-4 133	0	-4 116	0
	-9 810	**-509**	**-8 706**	**-281**

The item Other financial expenses relates mainly to an arrangement fee for debt financing.

NOTE 9 TAXES

	GROUP		PARENT COMPANY	
KSEK	**2016**	**2015**	**2016**	**2015**
Reported profit/loss before tax	**19 838**	-75 297	-388	-61 686
Tax at nominal tax rate 22.0 %	-4 364	16 565	85	13 571
Tax effect from foreign tax rates	-40	-	-	-
Tax effect from deductible non-expensed items	4 856	3 909	4 856	3 910
Tax effect from adjustment of previous years' tax	-137	-	-	-
Tax effect from other non-deductible items	-553	-7 758	-5 780	-1 111
Tax effect from non-taxable income	117	-	-	-
Tax effect of losses for which no deferred tax assets are recognized	839	-15 770	839	-16 370
Tax effect of previously unrecognized loss carryforwards	75 000	160	75 000	-
Tax on reported profit/loss	**75 718**	**-2 894**	**75 000**	**-**

The tax expense consists of the following components:

	GROUP		PARENT COMPANY	
KSEK	**2016**		**2016**	**2015**
Current tax:				
On this year's result	**-799**	-2 894	-	-
Adjustment of previous years' tax	**-137**	-	-	-
Total current tax	**-936**	**-2 894**	**-**	**-**
Deferred tax:				
Change temporary differences	10 878	-	-	-
Tax effect from previously non-activated loss carryforwards	75 000	-	75 000	-
Utilization of tax loss carryforwards	-9 224	-	-	-
	76 654	**-**	**75 000**	**-**
Total reported tax	**75 718**	**-2 894**	**75 000**	**-**

On December 31, 2016, there were tax losses of approximately MSEK 2,324 (2,285) in the Group and MSEK 2,281 (2,285) in the Parent Company. Deferred tax assets attributable to tax losses are recognized only to the extent that they are likely to be utilized. As the Group and the Company's future opportunities for utilization of loss carryforwards have increased since the previous financial year, MSEK 75 has been booked as deferred tax asset.

NOTE 10 EARNINGS PER SHARE

For 2016, 100 per cent of the profit for the year is attributable to the Parent Company's shareholders and the remainder of non-controlling interest. For 2015, 99 per cent of the loss for the year was attributable to the parent company's shareholders and the remainder of non-controlling interest.

Earnings per share is calculated as earnings for the year in relation to weighted average number of outstanding shares during the year. Data per share is calculated based on the following number of shares. The number of shares each year before the rights issue have been adjusted for the bonus element of the rights issues in accordance with IAS 33 Earnings per share and adjusted for the reverse share stock split.

The warrants acquired by senior executives 2016 do not entail any dilution effect. Please refer to Note 27.

NUMBER OF SHARES OUTSTANDING (1000)	2016	2015
At the beginning of the year	49 926	36 975
Weighted-average during the year	59 924	44 862
At year-end	63 907	49 926

EARNINGS PER SHARE	2016	2015
Profit/Loss attributable to the Parent Company's shareholders	95 556	-77 632
Weighted average number of shares outstanding	59 924	44 862
Earnings	1,59	-1,73

NOTE 11 ACQUISITIONS

In December, Karo Pharma acquired Bio Phausia AB for approximately MSEK 920. Bio Phausia has an annual turnover of approximately MSEK 200. The product portfolio consists mainly of well-known Nordic brands with long history and stable sales.

Acquired assets, Real value (KSEK)	Bio Phausia
Consideration	**928 973**
Product rights	429 431
Intangible assets	49 810
Deferred tax assets	18 668
Fixed assets	153
Other current assets	56 113
Accounts payable and other liabilities	-7 013
Deferred tax liabilities	-113 505
Long-term liabilities	-
Cash	764
	434 422
Non-controlling interests	-
Goodwill	494 551
Total	**928 973**

Impact on cash flow from the acquisition of operations in 2016 KSEK	
Consideration	**-928 973**
Paid through offset issue	2 025
Cash and cash equivalents in acquired companies	764
	-926 183

On December 15, 2016, Karo Pharma acquired all shares in the pharmaceutical company BioPhausia AB. The acquisition includes a portfolio of 13 well-known Nordic pharmaceutical brands. The brand portfolio is characterized by long history with stable sales, strong expected cash flows, and low marketing and maintenance costs. Goodwill is attributable to the flows and processes that have been accumulated in BioPhausia, thereby creating an excellent platform for continued expansion. No part of reported goodwill is expected to be tax deductible. The acquisition analysis of the acquisition of BioPhausia AB is preliminary until the final breakdown between goodwill, product rights and other intangible assets has been determined.

The company is currently evaluating the future potential and life of the acquired products. The valuation of product rights in the acquisition analysis is based on a preliminary estimate of the various products' future sales and economic life. Once this in-depth analysis is complete, the acquisition analysis will be determined, which may lead to a change in the distribution of product rights and goodwill. A changed valuation of product rights would also affect the size of deferred tax liability.

The preliminary acquisition analyzes for the acquisitions in 2015 were established in 2016 without adjustments. The acquired business contributed earnings of MSEK 8.9 and net earnings of MSEK 3.5 to the Group for the period December 15 to December 31, 2016. Had the acquisition been completed on January 1, 2016, consolidated pro forma shows income and earnings after net financial items per December 31, 2016 of MSEK 193.8 and MSEK 68.5 respectively. These amounts have been calculated using the subsidiary's earnings with adjustment for:

- the change in depreciation that would have arisen provided that the fair value adjustment and the adjusted depreciation period for product rights had been applied from January 1, 2016, together with attributable tax effects.

- the additional interest expenses on loan financing net after the funding from the share issue as if the loan financing and the share issue were executed as of January 1, 2016 together with attributable tax effects.

Acquisition-related costs of KSEK 1,000 are included in other operating expenses in the income statement and in the ongoing operations in the cash flow statement.

NOTE 12 GOODWILL, PRODUCTS, LICENSES AND SIMILAR RIGHTS

	GROUP						
	2016				2015		
	Licenses and similar rights	Capitalized develop-ment costs	Goodwill	Total	Licenses and Product Rights	Goodwill	Total
Opening balance acquisition cost	273 899	-	236 174	510 073	33 779	-	33 779
Increase through business acquisitions	479 241	-	494 551	973 792	180 917	236 174	417 091
This year's acquisitions	1 359	728	-	2 087	59 434	-	59 434
Divestment/impairment	-866	-	-	-866	-	-	-
Translation difference	349	-	-	349	-231	-	-231
Closing balance accumulated cost value	**753 982**	**728**	**730 725**	**1 485 435**	**273 899**	**236 174**	**510 073**
Opening balance depreciation	-34 418	-	-	-34 418	-33 779	-	-33 779
This year's depreciation	-17 540	-109	-	-17 649	-648	-	-648
This year's impairment	-1 327	-	-	-1 327	-	-	-
Translation difference	-29	-	-	-29	9	-	9
Closing balance accumulated depreciation	**-53 314**	**-109**	**-**	**-53 423**	**-34 418**	**-**	**-34 418**
Closing residual value	**700 668**	**619**	**730 725**	**1 432 012**	**239 481**	**236 174**	**475 655**

	PARENT COMPANY			
	2016			2015
	Licenses and Product Rights	Capitalized develop-ment costs	Total	Licenses and Product Rights
Opening balance acquisition cost	148 684	-	148 684	74 719
Increase through business acquistions	-	-	-	-
This year's acquisition	5 724	728	6 452	73 965
Divestment/impairment	-	-	-	-
Translation difference	-	-	-	-
Closing balance accumulated cost value	**154 408**	**728**	**155 136**	**148 684**
Opening balance depreciation	-74 719	-	-74 719	-74 719
This year's depreciations	-3 980	-109	-4 089	-
This year's impairment	-	-	-	-
Translation difference	-	-	-	-74 719
Closing balance accumulated depreciation	**-78 699**	**-109**	**-78 808**	
Closing residual value	**75 710**	**619**	**76 328**	**73 965**

Material assumptions in the calculation of value in use
Each year the Group examines if any impairment need for goodwill exists. Goodwill relating to BioPhausia has been assessed separately in connection with the acquisition in the acquisition analysis, see Note 11. Other goodwill has been tested for impairment for the acquisitions of Swereco Group, MedCore and Apropharm / DnE, which together constitute a cash-generating unit. All of these acquisitions were made in 2015. The recoverable amount of this cash-generating unit has been determined by calculation of value in use, which requires that some assumptions are made. The calculations are based on cash flow profiles based on budget and internal long-term plans for the next five years. The forecasts include growth rates as a parameter, which include assumptions about price trends and sales volumes. Furthermore, it includes the parameter gross margin that includes the assumptions of sales and cost of goods sold, as well as a discount rate parameter.

Cash flows after the five-year period are extrapolated using an estimated growth rate of 2 per cent per annum. With an average capital cost (WACC) of 10.5 per cent and an estimated gross margin of 48 per cent, the recoverable value of the tested entities exceeds their reported values with a good margin. With a change in the growth rate of 2 to 0 per cent per year, the recoverable amount would still exceed the reported values of the tested units. The company has estimated that reasonable changes in other parameters would not result in the carrying amount exceeding the recoverable amount. The company's long-term ability to generate future business is an important factor in motivating reported goodwill.

NOTE 13 EQUIPMENT, BUILDINGS AND LAND

	GROUP						PARENT COMPANY	
	2016			2015			2016	2015
	Equipment	Buildings and land	Total	Equipment	Buildings and land	Total	Equipment	Equipment
Opening acquisition cost	55 380	2 138	57 518	74 989	-	74 989	52 533	66 489
Increase through business acquisitions	153	-	153	2 623	2 138	4 761	-	-
This year's acquisition	1 293	7 544	8 836	267	-	267	-	137
Sales and disposals	-46 123	-	-46 123	-22 487	-	-22 487	-41 417	-14 093
Translation difference	25	-	25	-12	-	-12	-	-
Closing balance accumulated cost value	**10 728**	**9 682**	**20 410**	**55 380**	**2 138**	**57 518**	**11 116**	**52 533**
Opening balance depreciation	-51 791	-27	-51 818	-70 939	-	-70 939	-51 161	-62 568
Sales and disposals	45 805	-	45 805	20 895	-	20 895	41 417	12 623
This year's depreciations	-1 986	-109	-2 095	-1 747	-27	-1 774	-706	-1 216
This year's impairment	-	-	-	-	-	-	-	-
Translation difference	-5	-	-5	-	-	-	-	-
Closing balance accumulated depreciation	**-7 977**	**-135**	**-8 112**	**-51 791**	**-27**	**-51 818**	**-10 450**	**-51 161**
Closing residual value	**2 751**	**9 546**	**12 297**	**3 589**	**2 112**	**5 701**	**666**	**1 372**

NOTE 14 PARTICIPATION IN GROUP COMPANIES

	PARENT COMPANY	
	2016	2015
Opening balance acquisition cost	407 038	4 400
Acquisition	928 973	402 638
Liquidation	-41	0
Acquisition from minorities	1 561	0
Shareholder contributions	6 320	0
Liquidation	0	0
Closing balance acquisition cost	**1 343 851**	**407 038**
Opening balance depreciation	-9 250	-4 250
Depreciation	-26 234	-5 000
Liquidation	0	0
Closing balance accumulated depreciation	**-35 484**	**-9 250**
Net book value	**1 308 367**	**397 788**

Name	Domicile	Reg.no.	Holding	No. of shares	Book value
Karo Pharma Research AB	Huddinge, Sweden	556588-3641	100%	1 000	100
Karo Bio Discovery AB	Huddinge, Sweden	556880-1541	100%	50 000	50
Karo Pharma Med AB	Huddinge, Sweden	556757-3158	100%	1 803	15 000
Karo Pharma Sverige AB	Huddinge, Sweden	556767-3784	100%	157 011	283 074
MedCore AB	Huddinge, Sweden	556470-2065	99%	47 054 878	-
Karo Pharma AS	Oslo, Norway	913913914	100%	8 831	81 171
Bio Phausia AB	Huddinge, Sweden	556485-0153	100%	342 564 194	928 973
Sum shares and participations in Group companies				**389 837 717**	**1 308 367**

NOTE 15 OTHER FINANCIAL ASSETS

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Opening balance acquisition cost	21	21	21	21
Received as consideration	28 952		28 952	0
Unrealized loss recognized in P&L account	-616	0	-616	0
Closing balance acquisition cost	**28 357**	**21**	**28 357**	**21**

Received as consideration refers to the payment in shares for the sale of the cancer project KB9520 to Oasmia.

NOTE 16 PREPAID EXPENSES AND ACCRUED INCOME

	GROUP		PARENT COMPANY	
KSEK	**2016**	**2015**	**2016**	**2015**
Prepaid rent	815	1 593	80	1 208
Prepaid insurance	163	145	82	105
Prepaid licenses and other IT related expenses	171	68	-	68
Other	4 584	2 676	11	-
	5 733	**4 482**	**173**	**1 381**

NOTE 17 CASH AND CASH EQUIVALENTS

	GROUP		PARENT COMPANY	
Amount at December 31, KSEK	**2016**	**2015**	**2016**	**2015**
Cash and bank balances	121 346	76 490	85 743	68 732
	121 346	**76 490**	**85 743**	**68 732**

NOTE 18 SHAREHOLDERS' EQUITY

Share capital per 2016-12-31	**No. of shares**	**Quotient**	**KSEK**
Registered share capital			
Common shares	63 907 194	0,40	25 563
	63 907 194	**0,40**	**25 563**

Share capital per 2015-12-31	**No. of shares**	**Quotient**	**KSEK**
Registered share capital			
Common shares	49 925 755	0,40	19 970
	49 925 755	**0,40**	**19 970**

In April 2016, two share issues were carried out, which resulted in 13,981,438 new shares. In total, this resulted in an increase in the share capital of SEK 5,592,000 to SEK 25,563,000. In total, SEK 257,558,000 was raised after transaction costs of KSEK 22,070. At the end of the year there were 4,600,000 outstanding warrants. For further information on outstanding warrants, see Note 27.

Management of capital

The Group's objective regarding the capital structure is to ensure the Group's ability to continue its operations so that it can continue to generate returns to shareholders and benefit other stakeholders and to maintain an optimal capital structure to keep the cost of capital down. In the same way as other companies in the industry, the Group assesses capital on the basis of debt-to-equity ratio. This key figure is calculated as net debt divided by total capital. The debt / equity ratio at December 31, 2016 and 2015 was as follows:

KSEK	**2016**	**2015**
Total borrowing	921 000	27 000
Deduction: cash and cash equivalents	-121 346	-76 490
Net debt	799 654	-49 490
Total equity	712 418	379 728
Total capital	1 772 846	642 537
Debt-to-equity ratio	45%	-8%

NOTE 19 DEFERRED TAXES

Amounts regarding deferred tax assets and liabilities in the balance sheet include:

	GROUP		PARENT COMPANY	
KSEK	**2016**	**2015**	**2016**	**2015**
Deferred tax assets:				
Deferred tax assets to be paid after more than 12 months	78 409	4 876	75 000	-
Deferred tax assets to be paid within 12 months	10 911	1 467	-	-
	89 320	6 343	75 000	-
Offsetting	-79 876	-6 343	-	-
Reported deferred tax asset	**9 444**	**-**	**75 000**	**-**
Deferred tax liabilities:				
Deferred tax liabilities to be paid after more than 12 months	119 553	35 182	-	-
Deferred tax liabilities to be paid within 12 months	19 694	2 901	-	-
	139 247	38 083	-	-
Offsetting	-79 876	-6 343	-	-
Reported deferred tax liability	**59 371**	**31 740**	**-**	**-**

Deferred tax assets and liabilities reported in the balance sheet relate to the following:

	GROUP 2016			GROUP 2015			PARENT COMPANY 2016		
KSEK	**Receivables**	**Liabilities**	**Net**	**Receivables**	**Liabilities**	**Net**	**Receivables**	**Liabilities**	**Net**
Intangible fixed assets	4 876	125 157	-120 281	6 343	33 655	-27 312	-	-	-
Untaxed reserves	-	13 975	-13 975	-	4 349	-4 349	-	-	-
Loss carryforward	84 444	0	84 444	-	-	-	75 000	-	75 000
Other	-	115	-115	-	78	-78	-	-	-
Tax assets and liabilities, net	**89 320**	**139 247**	**-49 927**	**6 343**	**38 082**	**-31 739**	**75 000**	**-**	**75 000**

Changes in deferred taxes is as follows:

KSEK	**Intangible assets**	**Untaxed reserves**	**Loss carryforward**	**Other**	**Sum**
At December 31, 2015	-27 312	-4 349	-	-78	-31 739
Acquisitions of operations	-94 475	-19 030	18 668	-	-94 837
Translation differences	-	-	-	-6	-6
Through the Income Statement	1 506	9 404	65 776	-31	76 655
At December 31, 2016	**-120 281**	**-13 975**	**84 444**	**-115**	**-49 927**

The Group has deferred tax assets relating to loss carryforwards not reported in the balance sheet of KSEK 426,850 (KSEK 502,690). The deferred tax assets for loss carryforwards reported in the balance sheet of KSEK 84,444 (KSEK 0) are those that the company believes will be utilized in the foreseeable future. Please refer to Note 9 regarding cancellation of deferred tax assets of KSEK 75,000.

NOTE 20 LONG-TERM LIABILITIES

	GROUP		PARENT COMPANY	
Amount at December 31, KSEK	**2016**	**2015**	**2016**	**2015**
After one year, but within five years	539 883	21 026	524 883	26
After five years	-	-	-	-
	539 883	**21 026**	**524 883**	**26**
Liabilities to credit institutions	545 357	21 000	530 357	-
Deposit	26	26	26	26
Accrued expenses during the term of the loan	-5 500	-	-5 500	-
	539 883	**21 026**	**524 883**	**26**

The group has three loans with different maturities and interest rates. One short-term loan of MSEK 350 at 4.5 per cent interest due in February 2017. One five-year loan of MSEK 21 signed in June 2015 at variable interest Stibor 3 months + 3.20 percentage points. The third loan is a five-year loan of MSEK 550, entered into in December 2016 at 3.5 per cent interest.

	GROUP		PARENT COMPANY	
KSEK	**2016**	**2015**	**2016**	**2015**
2016	-	6 000	-	-
2017	375 643	6 000	369 643	-
2018	84 571	6 000	78 571	-
2019	84 571	6 000	78 571	-
2020	81 571	3 000	78 571	-
2021	294 644	-	294 644	-
	921 000	**27 000**	**900 000**	**-**

For liabilities to credit institutions, there are collateral of MSEK 1,368 (KSEK 49). Collateral consists mainly of shares in subsidiaries. The fair value of borrowing at floating rate amounts to MSEK 921 (MSEK 27), compared to the reported value of MSEK 921 (MSEK 27).

NOTE 21 OTHER CURRENT LIABILITIES

	GROUP		PARENT COMPANY	
KSEK	**2016**	**2015**	**2016**	**2015**
Unpaid purchase price	2 025		2 025	
Short-term loans		92 292		74 055
Short-term debt for the purchase of product rights	-	65 539	-	65 539
Tax liabilities	-	2 621	-	-
Unearned revenue	-	1 039	-	384
VAT, withholding tax etc.	10 135	5 125	618	921
	12 160	**166 616**	**2 643**	**140 899**

Unpaid purchase price 2016 relates to the acquisition of BioPhausia AB, where KSEK 2,025 was paid in January 2017. The amount of short-term loans in 2015 relates mainly to loans from Anders Lönner in connection with the acquisition of Allevo and the guarantee commission.

NOTE 22 ACCRUED EXPENSES AND DEFERRED INCOME

	GROUP		PARENT COMPANY	
KSEK	**2016**	**2015**	**2016**	**2015**
Accrued employee related expenses	12 719	11 753	5 370	4 803
Deferred income	117	-	-	-
Accrued interest expenses	1 653	-	1 653	-
Accrued return expenses relating to the expiry date	1 595	4 439	-	-
Accrued research and development expenses	2 300	1 372	-	1 372
Accrued expenses for marketing support and joint marketing	5 000	-	-	-
Other	8 207	11 631	3 860	4 408
	31 591	**29 195**	**10 883**	**10 583**

NOTE 23 CONTINGENS LIABILITIES

	GROUP		PARENT COMPANY	
KSEK	**2016**	**2015**	**2016**	**2015**
Shares in subsidiaries	1 328 400	-	1 308 300	
Chattel mortgage	40 000	48 784	-	-
Loan receivables	-	1 965	-	-
Contingent liabilities	-	500	-	-

In 2013, Karo Pharma was awarded a research grant of MUSD 0.5 from the National MS Society with conditional repayment. In the event that Karo Pharma manages to out-license the ERbeta MS project, the MS Society is entitled to 20 per cent of what Karo Pharma from time to time receives in the form of milestone payments and similar payments up to a cumulative amount of five times the financing provided corresponding to MUSD 2.5.

Karo Pharma's collaboration agreements with former partners Abbot Laboratories and Bristol-Myers Squibb remain in effect. The agreements have varying terms in the event that one of the parties wishes to conclude its active participation.

Certain situations stipulate mutual rights of participation in the other party's future revenue from a concluded collaboration or compound surrendered. Regarding the agreement with Bristol-Myers Squibb and the compound KB2115 (eprotirome), Karo Pharma is obligated to pass on part of its future revenue from the compound to Bristol-Myers Squibb, both in the form of one-time payments from a licensing partner and in the form of royalty payments on future product sales.

Pursuant to agreements with a handful of external partners, they are entitled to royalty and/or milestone payments attributable to Karo Pharma's future revenues. One agreement gives the counterparty the right to receive a milestone payment and royalty payments attributable to Karo Pharma's future US-related revenues from the thyroid receptor area. These payments constitute, in full, a limited share of Karo Pharma's future revenue in this area. Another agreement gives the counterparty the right to royalty payments of 5 per cent attributable to Karo Pharma's future revenue from certain indications within the GR area.

Collateral in subsidiaries relates to the loans raised in connection with the acquisition of BioPhausia.

NOTE 24 ADDITIONAL INFORMATION ON CASH FLOW STATEMENTS

	GROUP		PARENT COMPANY	
KSEK	**2016**	**2015**	**2016**	**2015**
Other non-cash items:				
Realization income fixed assets	173	1 592	-	1 470
Acquired shareholdings	-28 952	-	-28 952	-
Other	-	3 404	-	8
	-28 779	**4 996**	**-28 952**	**1 478**
Interest received	75	77	2	20
Interest paid	-5 694	-451	-4 168	-
Paid loan arrangement fees	-9 000	-	-9 000	-

NOTE 25 OPERATING LEASING

	GROUP		PARENT COMPANY	
KSEK	**2016**	**2015**	**2016**	**2015**
Operating leases refer to:				
Office rent	5 283	6 870	334	5 469
Other leasing expenses	782	372	1	20
	6 065	**7 242**	**335**	**5 489**
Future operational minimum lease payments:				
Within one year	3 244	4 624	254	880
After one year, but within five years	6 557	10 538	572	826
After five years	-	-	-	-
	9 801	**15 162**	**826**	**1 706**

Future operating minimum lease payments mainly relate to leases for the group's premises at Nybrokajen 7 in Stockholm. The lease expires in 2020.

NOTE 26 REMUNERATION TO AUDITORS

	GROUP		PARENT COMPANY	
KSEK	**2016**	**2015**	**2016**	**2015**
PWC				
Auditing commission	1 106	855	500	500
Auditing in addition to the audit commission	447	355	334	355
Tax guidance	100	29	100	28
Other assignments	0	0	0	0
	1 653	**1 239**	**934**	**883**

NOTE 27 WARRANTS

An extraordinary general meeting on July 21 resolved on an incentive program for employees. Interest to participate in the program was large. In August 2016, a total of 4,600,000 options were subscribed, of which 3,900,000 were subscribed for by senior executives. Executive Chairman Anders Lönner subscribed for 2,740,000 warrants. Each warrant entitles the holder to subscribe for a new share in the company at a price of SEK 74 per share. The price of the warrants corresponds to the fair value determined using the Black-Scholes valuation model. The option period is 18 months. With full subscription of shares on the basis of all warrants, the share capital increases by SEK 2,079,977.10, which corresponds to a dilution of approximately 7.5 per cent of the share capital and votes. A total of KSEK 460 was paid for the warrants.

NOTE 28 FINANCIAL INSTRUMENTS AND RISK AS WELL AS SENSITIVITY ANALYSIS

Financial instruments per category

December, 31 2016 (KSEK)	**Liabilities and accounts receivable**	**Financial assets measured at fair value through profit or loss**	**Total**
Assets on the balance sheet			
Shares in listed companies	-	28 336	28 336
Accounts receivable and other receivables	79 519	-	79 519
Cash and cash equivalents	121 346	-	121 346
	200 865	**28 336**	**229 201**

December, 31 2016 (KSEK)	**Other financial liabilities**	**Total**
Liabilities on the balance sheet		
Borrowing	921 000	921 000
Short-term liabilities to related parties	-	-
Accounts payable and other liabilities (excluding non-financial debt)	49 346	49 346
	970 346	**970 346**

December, 31 2015 (KSEK)	**Liabilities and accounts receivable**	**Financial assets measured at fair value through profit or loss**	**Total**
Assets on the balance sheet			
Accounts receivable and other receivables	32 121	-	32121
Cash and cash equivalents	76 490	-	76 490
	108 611	**-**	**108 611**

December, 31 2015 (KSEK)	**Other financial liabilities**	**Total**
Liabilities on the balance sheet		
Borrowing	33 683	33 683
Short-term liabilities to related parties	74 055	74 055
Accounts payable and other liabilities (excluding non-financial debt)	94 918	94 918
	202 656	**202 656**

Maturity analysis
The amounts included in the table are contractual undiscounted cash flows

December, 31 2016 (KSEK)	**Less than 12 months**	**Between 1 and 5 years**	**Total contractual cash flows**	**Carrying value assets/ liabilities**
Accounts payable and other liabilities (excluding non-financial debt)	49 346	-	49 346	49 346
Borrowing	399 363	612 795	1 012 158	921 000
	448 709	**612 795**	**1 061 504**	**970 346**

Maturity analysis accounts receivables

December, 31 2016 (KSEK)	**Not due**	**Expired 0-3 months**	**Expired 3-6 months**	**Expired +6 months**	**Total**
Accounts receivables	71 895	5 255	2 111	742	80 003
Reserve unsecured receivables	-484				-484
	71 411	**5 255**	**2 111**	**742**	**79 519**

Currency effects
Effect on consolidated revenues and operating result before hedging transactions, when the Swedish krona strengthens by 10 per cent.

Currency	Revenue	Operating profit
NOK	-7.0	-6.7
EUR	-1.5	5.9
USD	0.0	0.7
Other	-2.2	-1.9

FINANCIAL RISKS

Karo Pharma, like any other business enterprise, is exposed to various risks that change over time. The relevant risks for Karo Pharma can be broken down into commercial risks and financial risks. Karo Pharma's financial policy determines allocation of responsibility for the finance operations, which financial risks the company is willing to assume and guidelines for how such risks are to be reduced and managed. Financial risk management is centralized and is the responsibility of the chief financial officer. The policy, which is reviewed and approved annually by the Karo Pharma Board of directors, is developed to control and manage the following risks:

- Foreign currency risk
- Funding risk
- Liquidity risk
- Interest rate risk
- Credit risk in investments and accounts receivalble
- Price risk

FOREIGN CURRENCY RISKS

Changes in foreign currency rates have an impact on Karo Pharma's earnings and equity in two different ways:

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

Operational currency risks

Karo Pharma operates in an international industry. Most of the company's revenues have been denominated in Swedish krona and approximately 69 (64) per cent of expenses are incurred in Swedish krona. The remainder of Karo Pharma's expenses is mainly denominated in euros, British pounds (GBP), Norwegian krona (NOK) and US dollars (USD). This leads to an exposure to currency fluctuations, a combination of translation and transaction risks. Karo Pharma's reporting currency is Swedish krona.

The table above indicates the effect on Karo Pharma's revenues and operating result, if the Swedish krona is strengthened by 10 per cent. Both translation and transaction risks have been considered. The total effect on the operating result would be MSEK -2.0 (-3.3).

At year-end 2016, there were no active forward contracts. The operating results for 2016 and 2015 have not been affected by any overdue forward contracts.

Financial currency risks

Currency risks in financial flows attributable to liabilities and investments are mitigated by investing in Swedish kronor, unless a foreign currency position would constitute hedging for an existing exposure.

Funding risk

The risk that the company will not have access to necessary financing at all times is defined as funding risk. From time to time, the company has raised additional funds in the capital market to secure sufficient funds for the operations and stability of the company. The aim is to always have sufficient capital for at least 12 months of operations. A recurring review of funding needs is carried out in combination with an assessment of capital market developments to evaluate financing strategies.

Liquidity risk

Liquidity risk refers to the risk that the company will not have sufficient monetary assets readily available to pay current foreseen or unforeseen expenditures. The risk is associated with the supply and maturity of short-term investments and the risk that there is no market for a specific instrument that the company intends to sell. Liquidity risk is managed by structuring the maturities of investments based on cash flow forecasts as well as by limiting investments in bonds with low liquidity on the second-hand market. Weighted remaining duration of short-term investments was 0 months (0) at year-end.

Interest rate risk

Interest rate risk is the risk that a change in interest rates will cause a negative impact on the value of interest-bearing assets. In accordance with policy, investments are made with variable terms and maturities. The immediate impact on short-term investments if the interest rate would decrease by one percentage is 0 per cent (0) or MSEK 0 (0 and 0, respectively). Interest-bearing short-term borrowing is mainly attributable to a bridge loan taken in conjunction with the acquisition of BioPhausia of approximately MSEK 350, which will be settled through a new issue in February 2017. Other short-term borrowing is mainly attributable to bank loans of MSEK 571, of which the short-term part amounts to approximately MSEK 26. If interest rates would change instantaneously +/- 1 percentage point Karo Pharma's profit after tax would change +/- MSEK 5.7 (0.3) on an annual basis, given the loan amount and interest rate on December 31, 2016.

Credit risk in investments accounts receivable

Credit risk refers to the risk that Karo Pharma will not receive payment for an investment. The credit risk is divided into an issuer's risk and a counterparty risk. Issuer's risk is the risk that the securities, which Karo Pharma owns, will lose their value because the issuer cannot meet its commitments in the form of interest payments and payments on the due date.

Counterparty risk is the risk that the party that from which Karo Pharma buys investments from or sells investments to cannot provide securities or fails to make payments as agreed.

The policy manages credit risk by regulating which parties Karo Pharma can do business with and what credit ratings are required for investments. There is no material concentration of credit risks. Credit risk in accounts receivable is very low as customers are recurring and mainly consist of large pharmacy chains and through procurement with municipalities and county councils.

Price risk

Price risk is linked to the shares Karo Pharma received in connection with the sale of the cancer project. The shares are classified as financial assets that are valued at fair value through profit or loss. This means that the assets are reported at fair value, defined as market value, in the balance sheet and changes in fair value are reported in the net financial income statement.

The financial instruments held by Karo Pharma are those traded on an active market and for which there are easily and regularly available quoted prices that represent real and regularly occurring market transactions at arm's length. All in all, according to IFRS 7, these are classified as level 1. The fair value of Karo Pharma's shares defined as market-listed values amounts to MSEK 28.3 (0).

NOTE 29 SEGMENT INFORMATION

Based on the information that is processed by the Group's management team and used to make strategic decisions, Karo Pharma's operations consists of a single operating segment, namely development and sales of products to pharmacies and health care. When evaluating the business and in strategic discussions and decisions, no break-downs are made of the business in additional operating segments. Development of Karo Pharma´s drug projects is an integrated process in Karo Pharma´s operations.

	Group	
KSEK	**2016**	**2015**
Revenues		
Sweden	241 449	43 810
Norway	70 851	25 051
Rest of the world	34 961	234
	347 261	**69 095**
Non-current assets		
Sweden	1 402 949	373 637
Norway	79 161	107 740
Rest of the world	-	-
	1 482 110	**481 377**

No single customer accounts for more than 10 per cent of the Group's external revenues.

NOTE 30 TRANSACTIONS WITH RELATED PARTIES

Karo Pharma has transactions with related parties as defined in IAS 24 Related party disclosures to disclose other than those named in Note 2 regarding remuneration to Members of the Board and executive management.

NOTE 31 SIGNIFICANT EVENTS AFTER THE END OF THE FISCAL YEAR

An extraordinary general meeting on January 18 decided to implement a rights issue of MSEK 374 before transaction costs of approximately MSEK 24, to repay part of the loans raised in connection with the acquisition of BioPhausia. The issue was subscribed to approximately 132 per cent, of which 98.5 per cent of the shares were subscribed for through subscription rights. The share capital increased by SEK 7,303,599 by issuing 18,259,198 shares. After probing with possible guarantors, the Executive chairman Anders Lönner stepped forward and guaranteed 92 per cent of the rights issue of MSEK 374 and received a compensation of 5 per cent of the guaranteed amount corresponding to approximately MSEK 17 in guarantee compensation. In addition, Anders Lönner, without compensation, guaranteed his own holding of 5 per cent, as did also board member Per-Anders Johansson for his holding of 3 per cent.

The Board of Directors and the CEO declare that the consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and give a true and fair view of the Group's financial position and results of operations. The annual report has been prepared in accordance with generally accepted accounting principles and give a true and fair view of the Parent company's financial position and results of operation.

The statutory Administration report for the Group and the Parent company provides a fair review of the development of the Group's and the Parent company's operations, financial position and results of operations and describes material risks and uncertainties facing the parent company and the companies included in the Group.

The income statements and balance sheets will be presented for the annual general meeting on May 11, 2017 for adoption.

STOCKHOLM APRIL 20, 2017

Maria Sjöberg
CEO

Anders Lönner
Executive chairman

Thomas Hedner
Board member

Per-Anders Johansson
Board member

Jean Lycke
Board member

OUR AUDIT REPORT WAS ISSUED APRIL 20, 2017

PricewaterhouseCoopers AB

Mikael Winkvist
Authorized Public Accountant

AUDITOR'S REPORT

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 2016. The annual accounts and consolidated accounts of the company are included on pages 14-44 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 parent company as of 31 December 2016 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 2016 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 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.

Audit focus and scope

The group's operations are undertaken, in principle, entirely through the wholly-owned subsidiary, Karo Pharma Sverige AB, but certain significant assets are owned by the newly acquired, Biophausia AB. During the last two years, the group has undergone a far-reaching transformation from a research company without any continual revenue streams to a health care company with ongoing revenues. Through the acquisition of product rights and companies within the pharmaceutical and health care industries, the group has expanded significantly. We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Our audit activities

Overview

- The scope and focus of the audit was impacted by our materiality assessment. With the help of certain quantitative materiality ratios and qualitative considerations, we determined the focus and scope of the audit

- The audit of the consolidated accounts has been focused on the parent company and the largest Swedish unit, Karo Pharma Sverige AB, and on the newly acquired Biophausia AB

- Valuation of intangible fixed assets
- Significant business combinations

Key audit matters

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

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Valuation of intangible fixed assets As seen in the balance sheet and Note 12, intangible assets total approximately MSEK 1,432, which is equivalent to approximately 80% of the balance sheet total. Of this amount, approximately MSEK 731 refers to goodwill and MSEK 701 to product rights. In our audit, we have focused on the valuation of intangible assets as this is, as seen in the company's accounting policies and Note 12, an area involving significant judgements and estimations undertaken by company management regarding, amongst other things, future sales and results, as well as regards the discount factor. As the company's intangible assets including goodwill refer to acquisitions undertaken in 2015 and 2016, there is limited information available in terms of the historical outcome compared with the prepared forecasts.	In executing our audit, we requested and received management's cash flow forecasts and the estimations and assessments providing the basis of these forecasts. The major portion, MSEK 973, of intangible assets arose in conjunction with the acquisition of Biophausia in December 2016, which is the reason that the valuation of the goodwill and product rights in this acquisition is comprised of the assessed market value of these operations as at 31 December 2016. We have examined and assessed the reasonability of the assumptions regarding the annual growth rate, sales volumes and the discount rate as presented to us by company management. As a part of our audit of management's estimations and judgements, we compared the estimations and judgements undertaken in the 2015 year-end closing, against the actual outcome for 2016, in order to, in this manner, assess management's capability to make realistic estimations. We also examined whether the cash flow forecast agrees with budget and the internal long-term plans produced by company management.
Significant business combinations As seen in the Administration Report and Note 11, the company acquired Biophausia from Medivir AB at a purchase price of MSEK 928. In conjunction with the acquisition, the company prepared a purchase price allocation in which all acquired assets and liabilities were valued at fair value. The difference between the purchase price and the fair value of acquired assets and liabilities was comprised of goodwill. See Note 11 for details regarding this purchase price allocation, which is preliminary until the valuation of individual product rights has been finalised. In our audit, we have focused on the valuation undertaken by the company of, primarily, product rights, as this area involves significant judgements and estimations made by management regarding, amongst other things, the acquired products' estimated useful lives, future sales and results.	With the help of our valuation specialists, we evaluated the company's model and methods for the valuation of acquired product rights and the model for determining the discount factor. We studied the acquisition agreement and other documentation, such as minutes from Board meetings, including documentation provided for decision-making purposes which was produced in conjunction with the acquisition, in order to confirm that all identifiable assets had been included in the company's valuation model and that the choice of accounting method was reasonable. We challenged the company's assumptions on the estimated useful lives of the products, as regards sales and overheads based on the seller's historical sales figures, and as regards costs, and we compared these with the company's forecasts. We noted that the acquisition analysis is, still, preliminary whilst waiting for the company to take a final position as regards the products' estimated useful lives and as regards the long-term sales development.

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 2-13. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on the Swedish Inspectorate of Auditors' website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

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 2016 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.

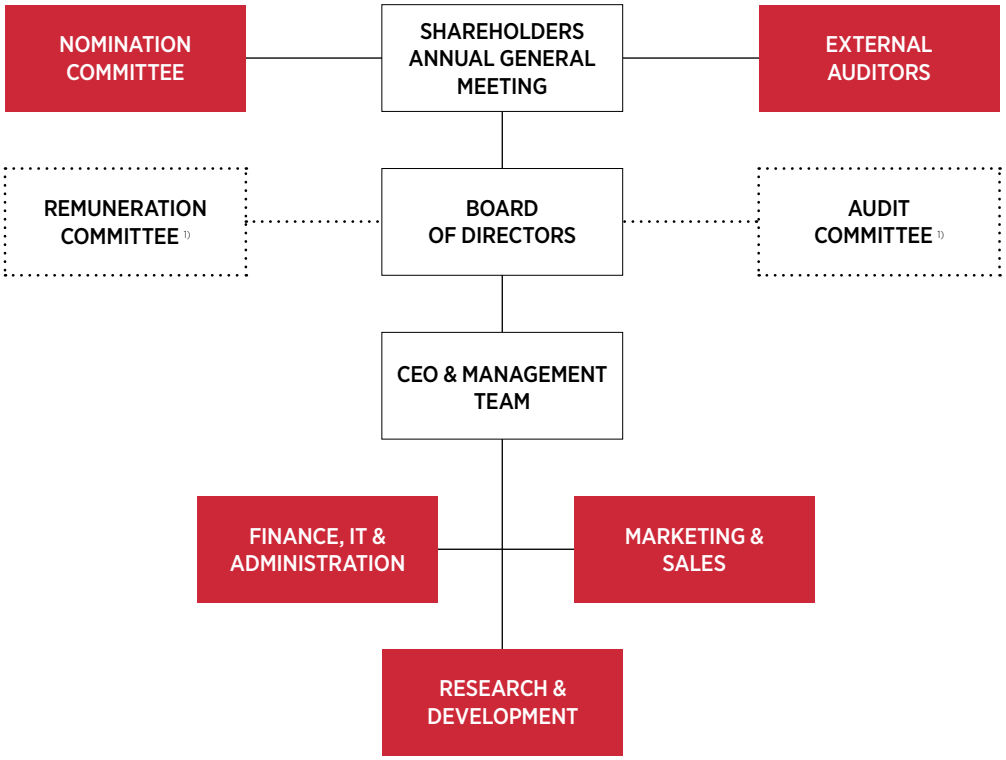
A further description of our responsibility for the audit of the administration is available on the Swedish Inspectorate of Auditors' website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

Stockholm, 20 April 2017

PricewaterhouseCoopers AB

Mikael Winkvist

Authorised Public Accountant



IMPORTANT EXTERNAL AND INTERNAL RULES, REGULATIONS AND POLICIES AFFECTING CORPORATE GOVERNANCE

Important internal rules, regulations and policies

- Articles of Association
- The Board of Directors' work procedure
- Instructions for the CEO including instructions regarding financial reporting
- Instructions to the respective Board committees
- Information policy
- Insider policy
- Financial policy
- Risk management policy
- Financial manual
- Code of Conduct and provisions regarding business ethics

Important external rules and regulations

- Swedish Companies Act
- Swedish Book-keeping Act
- Swedish Annual Accounts Act
- NASDAQ Stockholm's Rule Book for Issuers
- Swedish Code of Corporate Governance

1) All tasks of the committee are handled by the Board as a whole.

CORPORATE GOVERNANCE REPORT

Introduction

The Board of Directors of Karo Pharma hereby submits the corporate governance report for 2016, compliant with the Annual Report Act (ÅRL 6 chapter 8 §) and the Swedish Code of Corporate Governance ("the Code") (available at www.corporategovernanceboard.se). Karo Pharma has applied the Code since July 1, 2008.

The corporate governance report has been reviewed by the company's auditor, in accordance with the Annual Reports Act. It does not constitute a section of the formal annual report documentation.

The Group consists of the parent company Karo Pharma AB and the subsidiaries Karo Pharma Sverige AB (previously Swereco Group AB), Karo Pharma AS (previously Apropharm AS), BioPhausia AB, Karo Pharma Med AB (previously Tanomed AB), Karo Bio Discovery AB, Karo Pharma Research AB, MedCore AB. The three last-mentioned companies do not conduct any business operations.

Deviation from the Code

Karo Pharma complies with the Code's principle of "comply or explain" and in 2016, Karo Pharma had two deviations to report. The first is in terms of code rule 9.1 that the Board of Directors shall establish a remuneration committee. The second is in terms of code rule 9.7 that the agreement period for share-based incentive programs shall not be less than three years.

The Board of Directors has, based on its size and composition, determined that the tasks of the remuneration committee and of the audit committee are best performed by the Board of Directors as a whole, and has therefore decided not to appoint any particular committees, which is a deviation from code rule 9.1 that the Board of Directors shall establish a remuneration committee.

The Board has deemed that an 18-month agreement period is more relevant for the option program introduced in 2016, which is a deviation from code rule 9.7 that the agreement period for share-based incentive programs shall not be less than three years.

Shareholders

Karo Pharma AB's shares have been listed on NASDAQ Stockholm since 1998. As per December 31, 2016 the number of shareholders were 16,268 (16,146). According to the shareholder list provided by Euroclear Sweden AB as per December 31, 2016 Försäkringsaktiebolaget Avanza Pension had accumulated shareholdings of 9.0 (9.4) per cent, Anders Lönner 5.6 (4.8) and JP Morgan 4.4 (4.4) per cent. The ten largest shareholders held 29.4 (29.6) per cent of the total number of shares. The proportion of foreign shareholders amounted to 10 (12) per cent. A proportion of 2.2 (2.9) per cent of shareholders held 500 shares or fewer.

There are no limitations that apply to the transferability of Karo Pharma shares due to either legal restrictions or the Articles of Association. To the best of Karo Pharma's knowledge, no agreements exist between any shareholders that could possibly limit the transferability of shares. No single shareholder controls more than 10 per cent of the total number of shares in Karo Pharma.

No breaches of the listing agreement or good practice on the stock market according to resolutions from the Exchange's disciplinary committee or the Swedish Securities Council disciplinary committee occurred during the financial year.

Information regarding outstanding shares in Karo Pharma

On December 31, 2015, the total number of shares amounted to 49,925,755 with a quota value of SEK 0.40. Each share carries entitlement to one vote and carries the same right to share in the company's assets and profits.

In April, new share issues were conducted; partly to existing shareholders in which a total of 12,481,438 shares were issued, and partly a new share issue without preference to the shareholders in which a total of 1,500,000 shares were issued. Both issues were carried out at a subscription price of SEK 20, corresponding to an issue of approximately MSEK 280 before issue costs.

In August, 5,200,000 warrants were issued to the subsidiary Karo Pharma Research AB, which offered employees to acquire warrants. Each warrant entitles the holder to subscribe to a new share for SEK 74 during a period of 18 months. A total of 4,600,000 warrants were subscribed by the Group's employees, of which the company's executive chairman Anders Lönner subscribed 2,740,000 warrants. Upon full subscription of shares on the basis of all warrants, the share capital increases by SEK 2,079,977.10, which corresponds to a dilution of approximately 7.5 per cent of the share capital and votes.

On December 31, 2016, the number of shares in Karo Pharma were to 63,907,193.

Annual General Meeting

The highest decision-making body is the general shareholder meeting, where the shareholders exercise their influence in the company. Shareholders wishing to participate in the general meeting of shareholders, either in person or via a representative, must have their names entered in the shareholders' register maintained by Euroclear Sweden AB no later than five weekdays before the general meeting and must report their intention to attend to the company in accordance with the notice.

Notice of a general shareholder meeting is given through notices in the press and the company website (www.karopharma.se). The annual general meeting shall be held within six months from the end of the financial year. At the annual general meeting, the shareholders decide, among other things, on the Board of Directors and, when applicable, on auditors, how the Nomination Committee is to be appointed, and discharge from responsibility for the Board of Directors and the CEO for the past year. Resolutions are also adopted regarding the preparation of the financial statements, the allocation of profit or treatment of loss, the fees for the Board of Directors and auditors, and guidelines for remuneration to the CEO and other members of the executive management team.

BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

BOARD OF DIRECTORS

ANDERS LÖNNER (1945)
EXECUTIVE CHAIRMAN OF THE BOARD
Elected 2014
Education: MSc.Pol. Sci.
Primary experience: President and CEO of Meda AB, Board Member of Valeant Pharmaceuticals International Inc., CEO of Astra Pharmaceuticals with responsibility for, among other things, Astra's Nordic subsidiaries, CEO of Karo Bio AB and Chairman of LIF (the Research-Based Pharmaceutical Industry).
Other assignments: Advisor EQT
Övrigt: Honorary Doctor of Medicine at Karolinska Institutet
Holding: 5,832,716 shares and 2,740,000 warrants

THOMAS HEDNER (1949)
Elected 2014
Education: M.D., Ph.D and MBA.
Primary experience: Professor in Clinical Pharmacology at the Faculty of Medicine at Gothenburg University at the Department for Innovation and Entrepreneurship. Founder of several biomedical start-ups such as Blood Pressure AB, DuoCort AB and Laccure AB.
Other assignments: Chairman of the Board of Medical Manual Europe AB
Holding: 263,504 shares

PER-ANDERS JOHANSSON (1954)
Elected 2012
Education: Engineer
Primary experience: Per-Anders Johansson is an active investor through CIMON Enterprise and has extensive experience in technology and development. CIMON Enterprise has invested in and developed several successful companies. Johansson also has extensive industrial experience from Karlshamnsgruppen, Nordico and Ellos, where he held senior positions.
Other assignments: Majority owner, Chairman of the Board and CEO of CIMON AB. Chairman of the Board of Sparbanken in Karlshamn and Board member of TC TECH Sweden AB.
Holding: 2,141,665 shares

JEAN LYCKE (1964)
Elected 2015
Education: Engineering and marketing management
Primary experience: Former Chairman of the Board of Tanomed AB and several other senior positions in life science. Extensive background in business development in the pharmaceutical industry.
Other assignments: Chairman of the Board and CEO of Emerentia Gruppen AB. Chairman of the Board of Santax Nordic AS.
Holding: 35,701 shares

MANAGEMENT

ANDERS LÖNNER (1945)
EXECUTIVE CHAIRMAN OF THE BOARD
Elected 2014
Education: MSc.Pol. Sci.
Primary experience: President and CEO of Meda AB, Board Member of Valeant Pharmaceuticals International Inc., CEO of Astra Pharmaceuticals with responsibility for, among other things, Astra's Nordic subsidiaries, CEO of Karo Bio AB and Chairman of LIF (the Research-Based Pharmaceutical Industry).
Other assignments: Advisor EQT
Övrigt: Honorary Doctor of Medicine at Karolinska Institutet
Holding: 5,832,716 shares and 2,740,000 warrants

MARIA SJÖBERG (1964)
CEO, HEAD OF PRECLINICAL DEVELOPMENT
Employed 2011
Education: Ph.D., Associate Professor.
Primary experience: R&D/Production Director SentoClone AB, Senior Scientist AstraZeneca Biotech, Section Head/Project Leader KaroBio AB and Group Leader Karolinska Institutet.
Holding: 7,022 shares and 100,000 warrants

HENRIK PALM (1958)
VICE PRESIDENT, CHIEF FINANCIAL OFFICER
Employed 2011
Education: Business Administration, Gothenburg University.
Primary experience: Business controller within the Ericsson Group (1982-2000), CFO ElektronikGruppen BK AB (publ) (2000-2009) and CFO Feelgood Svenska AB (publ) (2009-2010).
Holding: 22,262 shares and 200,000 warrants

PETER BLOM (1961)
COUNTRY MANAGER SWEDEN
Employed 2011
Education: IFL management and various courses in management
Primary experience: Managing Director Sony Sweden, Nordic Sales Director Hi3G access, COO Viasat Broadcasting, CEO Valio Sweden and COO Häagen Dazs Scandinavia.
Holding: 12,633 shares and 400,000 warrants

THOMAS KRAFT (1976)
COUNTRY MANAGER NORWAY
Employed 2015
Education: Engineer Technical Design, NTNU
Primary experience: Managing Director consumer products Farma Holding (2010–2015) and Sales Director Leiv Vidar (2008-2009).
Holding: 200,000 warrants

Extraordinary General Meeting in March 2016

An extraordinary General Meeting was held on March 16, 2016 to decide on a new share issue. The General Meeting approved a new share issue of approximately MSEK 250 with preferential rights for existing shareholders, with an increase in the share capital by no more than SEK 4,992,520.47 by issuing no more than 12,481,439 shares. The General Meeting decided that shareholders shall be entitled to subscribe for one (1) new share for each four (4) shares they hold at a subscription price of SEK 20.

The General Meeting also decided to approve the Board's proposal to authorize the Board to decide on the issue of additional shares no more than 1,500,000 shares at a subscription price of SEK 20, in case of a possible oversubscription in the rights issue to allow the company to raise an additional approximately MSEK 30.

The General Meeting approved the Board's proposal for a change of name from Karo Bio Aktiebolag (publ) to Karo Pharma Aktiebolag. The company is public.

The General Meeting also approved the Board's proposal to decide to amend the Articles of Association regarding the provisions of the Articles of Association regarding the limits on the company's share capital and the number of shares, and to amend § 8 of the Articles of Association by removing "at 16.00".

Minutes from the extraordinary General Meeting can be found on Karo Pharma's website (www.karopharma.se).

Annual General Meeting 2016

The Board of Directors presented a statement of its work during the past year, as well as of corporate governance issues in general. The Chairman of the Board informed the Annual General Meeting (AGM) of the Group's development and position and commented on the financial performance in 2015.

The AGM adopted the Annual Report for 2015, resolved on the disposition of the company's loss and granted members of the Board and CEO discharge from liability. The meeting decided that no dividend would be paid out.

The AGM also approved the Board of Directors' proposal for a decision to amend the Articles of Association as follows:

The seat of the Board of Directors is moved to Stockholm from Huddinge. (§ 2)

The object of the company's operations is changed to conduct research, development, manufacturing and trade in healthcare, medical care and health maintenance, from developing, acquiring and selling pharmaceutical products and conducting commissioned research. (§ 3)

The Board of Directors shall consist of at least three and no more than ten members (presently at least five and no more than nine members). (§ 5)

§ 6 is amended as follows: "One or two auditors shall be appointed at the AGM. An auditing firm may also be appointed as auditor."

In § 7, "or in Huddinge" is deleted.

The AGM authorized the Board of Directors to, on one or more occasions or until the next AGM, decide on the issue of shares representing no more than 10 per cent of the registered share capital. The purpose of the authorization is to increase the company's financial flexibility and to enable acquisitions through payment with shares.

The Nomination Committee's chairman presented the committee's work during the year and presented the rationale for the its proposals. In accordance with this proposal, Anders Lönner (re-election) was appointed Chairman of the Board, and Thomas Hedner (re-election), Jean Lycke (re-election) and Per-Anders

Johansson (re-election) were appointed as Board members. Göran Wessman had declined re-election. The AGM decided on the election of auditors and on remuneration to the Board of Directors and auditor in accordance with the Nomination Committee's proposal.

Minutes from the AGM held on May 12, 2016 are available on Karo Pharma's website www.karopharma.se.

Extraordinary General Meeting in July 2016

An extraordinary General Meeting was held on July 21, 2016 to decide on an incentive program for employees. The AGM decided to issue 5,200,000 warrants to Karo Pharma AB's wholly-owned subsidiary Karo Pharma Research AB, which in turn will offer the employees of Karo Pharma Group to acquire the warrants. The Executive Chairman and senior executives were authorized to acquire 4,200,000 warrants. Each warrant was decided to give the holder the right to subscribe for a new share in the company for a period of 18 months at a price equal to twice the current share price, according to specified calculation principles.

Extraordinary General Meeting in January 2017

An extraordinary General Meeting was held on January 18, 2017 to decide on a directed share issue that will raise approximately MSEK 375. The motive for the issue is to repay loans taken in connection with the acquisition of BioPhausia AB, which was completed in December 2016. The Board of Directors was authorized to determine the main terms of the issue.

Annual General Meeting 2017

Karo Pharma´s Annual General Meeting 2017 will be held on Thursday, May 12, at 16:00 at Näringslivets hus, Storgatan 19, Stockholm. Shareholders who wish to have a matter addressed at the Annual General Meeting must submit a written request to the Board in advance of the meeting. More information is available on Karo Pharma's website.

REPORT JANUARY 1 – DECEMBER 31 2016

Board member	Elected	Total annual fee, KSEK	Attendence ordinary meetings1[1)]	Attendence extraordinary meetings[1)]	Independent in relation to the company and executive management	Independent in relation to the company's major shareholders
Anders Lönner (ordförande)	2014	420	6 (6)	7(7)	No	Yes
Thomas Hedner	2014	150	6 (6)	7(7)	Yes	Yes
Per-Anders Johansson	2012	150	6 (6)	7(7)	Yes	Yes
Jean Lycke	2015	150	6 (6)	7(7)	Yes	Yes
Göran Wessman [2)]	2011	37	2 (2)	2(2)	Yes	Yes

1) The figures in parentheses indicate the number of meetings held during each member's term
2) Left at the annual general meeting 2016

Nomination Committee

The AGM 2016 decided to change the regulations should continue of the Nomination Committee. The Chairman of the Board shall ensure that by the end of the third quarter each year, the company's by voting rights four largest shareholders or shareholder groups are offered to appoint one representative to the Nomination Committee. Where one or more shareholders decline to appoint a member of the Nomination Committee, the next shareholder in turn based on ownership should be contacted with a mandate to appoint a member to the committee.

The nomination committee consists of the following members: Anders Lönner (Chairman) Chairman of the Board, representing own ownership, Hans Ek, representing SEB Investment Management, Leif Edlund, representing own ownership and Per-Anders Johansson, representing own ownership (Nomic AB).

The Chairman is the convener of the Nomination Committee. If a member leaves the Nomination Committee before the work is completed, the Nomination Committee shall, if it deems it necessary, invite the same shareholder, or if it is no longer one of the major shareholders, the next shareholder in terms of size, to appoint a replacement. A change of this kind shall be announced on the company's website.

The Nomination Committee shall prepare proposals for resolution as regards the election of chairman for the general meeting, the number of board members and deputies, fees to the Board of Directors and Auditor, the election of Chairman of the Board and other Directors of the Board and Auditors. The term of office for the Nomination Committee runs until a new committee is appointed. The Nomination Committee shall not receive any remuneration, but to the extent it considers necessary have the right to contract other resources such as external consultants as part of their assignment at the company's expense, and to a reasonable extent.

External Auditors

According to the Articles of Association, Karo Pharma shall engage a registered public accounting firm as external auditor. At the 2016 AGM, the registered public accounting firm PricewaterhouseCoopers AB was re-elected as auditor until the AGM 2017. Since the 2008 AGM, auditor Mikael Winkvist was appointed head auditor.

The auditors review the accounting records and administration of the Parent Company and the Group on behalf of the AGM. The external audit of the accounting records of the Parent Company and the Group and the administration of the Board of Directors and the CEO is performed according to generally accepted auditing standards in Sweden.

The company has entrusted the auditor to review one of the interim reports for 2016 in accordance with the Code's statues. Information regarding the auditors' fee is included in Note 26 in the 2016 annual report.

The Board of Directors

The Board of Directors has the overall task of administering the company's affairs on behalf of the shareholders in the best possible manner. The Board shall continuously assess the Group's operations, development and financial situation, as well as assessing its operative management. Among its other work, the Board determines issues concerning the Group's strategic direction and organization, business plans, financial plans and budget, and also makes decisions regarding important agreements, major investments and commitments, in addition to financial, information and insider and risk management policies.

The Board of Directors works according to a work procedure that is determined annually and which governs the frequency and agenda of Board meetings, the distribution of material for meetings and matters to be presented to the Board as information or for resolution. The working procedure further regulates the manner in which the tasks of the Board are divided between the members of the Board and any Board committees. The Board has also approved instructions for the CEO, which regulate the division of duties between the Board of Directors, the Chairman of the Board, and the CEO, as well as defining the authorities of the CEO.

The Chairman of the Board plans the Board meetings together with the CEO. In advance of each Board meeting, the Directors receive a written agenda and adequate supporting documents. At each regular Board meeting, a review of operations is conducted, which includes developments and progress within research and development, business development, the Group's operating results and financial position, financial reporting and forecasts.

The Chairman leads the work of the Board of Directors, represents the company in ownership issues, and is responsible for the assessment of the Board of Directors' work. In addition, the Chairman is responsible for on-going interaction with management and for monitoring that the Board fulfils its duties.

According to the Articles of Association, the Board shall consist of a minimum of five and a maximum of nine members, elected by the general meeting of shareholders, with no deputy members. The Board is competent to make decisions when more than half of the total numbers of Directors are present.

The work of the Board of Directors in 2016

In 2016, six regular meetings and 18 extra board meetings have been held. At all of these meetings, the Board of Directors has been competent to make decisions.

Resolutions are made after an open discussion in the Board, led by the Chairman.

Major matters dealt with in 2016 have included rights issues to shareholders, incentives programmes for employees, the acquisition of new businesses and cooperation possibilities for development projects.

Board Committees

Based on its size and composition, the Board has resolved that the respective tasks of the Compensation Committee and the Audit Committee are best conducted by the Board in its entirety, and that no preparatory committees should be appointed, which is a deviation from the Code rule that the Board should form a remuneration committee.

The Board in its entirety thus attends to the matters designated for preparatory Compensation and Audit Committees according to the Companies Act and the Code.

Compensation committee

The Compensation Committee's responsibilities are discharged by the full Board. The work is governed by instructions determined annually by the Board of Directors, and included in the work procedures for the Board. These include submitting proposals for guidelines for remuneration of senior executives, proposals to the Board on the salary and other terms of employment of the CEO, determine salaries and employment terms for other members of the executive management and develop proposals for incentive programs and other forms of bonuses or similar compensation to employees. The CEO may be rapporteur on issues relating to the Compensation Committee but does not participate in decisions on his or her own salary and employment terms.

At the AGM, the Board proposes guidelines for determining salaries and other compensation for the CEO and other senior executives, for approval by the shareholders.

For further description of the employment terms for senior executives and remuneration of the Board of Directors, see the administration report in the annual report for 2016.

Audit Committee

The Board as a whole fulfills the tasks of the Audit Committee. The tasks follow from instructions set annually by the Board and contained in the Board's work procedures. These include supporting the Board in efforts to monitor and ensure the quality of financial reporting and the effectiveness of the Company's internal control and risk management.

The Board continuously meets the Company's auditors, evaluate audit work, the auditors' independence and approve any supplementary services the company may procure from its external auditors.

CEO and executive management team

In his role as Executive Chairman, the Chairman leads the work of the management team where the CEO and CFO are included. The management team has joint monthly meetings to discuss the Group´s earnings and financial position, the status of research and development projects, strategic issues, and the monitoring of budgets and forecasts.

The CEO is responsible for the ongoing management of the company in accordance with the Board's instructions and guidelines.

The CEO execute the management's decisions in the organization, based on the Board´s established strategy and business objectives. Each function responsible ensures that decisions are implemented and follows up enforcements.

The executive management team is responsible for formulating proposals regarding the Group's overall strategies and for implementing these, as well as dealing with matters such as acquisitions and divestments. Information about the members of the executive management team´s age, primary education, work experience, significant assignments outside Karo Pharma, own and affiliated holdings of shares in the company, is reported on page 51.

INTERNAL CONTROL AND RISK MANAGEMENT REGARDING FINANCIAL REPORTING

Introduction

The Board of Directors and the CEO are responsible for internal control, as stipulated in the Swedish Companies Act. The responsibility of the Board is also stipulated in the Code. The Annual Reports Act includes requirements regarding the provision of information to external parties about the company's system for internal control and risk management regarding the financial reporting.

Karo Pharmas's processes for internal control regarding the financial reporting are designed to provide with reasonable security, quality and correctness in the reporting. The process is designed to ensure that the reporting is prepared in accordance with applicable laws and regulations as well as requirements for listed companies in Sweden.

One premise to achieving this is that there is a satisfactory control environment, reliable risk assessments are conducted, the existence of established control structures and control activities and that information, communication, as well as follow-up, all function in a satisfactory manner.

Internal audit

The Board of Directors has assessed the need for an internal audit function, and has concluded that no such function can be justified in Karo Pharma at present, with consideration of the scope of operations and the fact that the Board of Directors' follow-up of internal control is deemed to be sufficient to ensure the effectiveness of internal control. The Board of Directors will reassess the need for an internal audit function when any changes arise that may cause reassessment, although at least once per year.

The Control Environment

Karo Pharma's organization is designed to respond quickly to market changes. Operational decisions are therefore made at corporate level. Decisions on strategy, alignment, acquisitions and general financial issues are made by Karo Pharma's Board of Directors and the Group's Management Team.

The Board's work on internal control include internal control of financial reporting and internal control from an operational perspective. Risk management is an integral part of the Board's internal control whose purpose is to ensure that operations are managed in an effective and efficient manner.

Control Structure

A clear specification of roles and responsibilities is stipulated in the Board's work procedures and in the instructions for the CEO and the Board Committees, respectively. The Board of Directors has the overall responsibility for internal control. The CEO is responsible for the system of procedures, processes and controls that have been developed for the ongoing operations. These include guidelines and role descriptions for the various officers of Karo Pharma and for the regular reporting to the Board. Policies, processes, procedures, instructions and standard formats for the financial reporting and the on-going work with the financial administration and financial issues are documented in Karo Pharma's Finance manual. Procedures and activities have been designed to handle and address significant risks which are related to the financial reporting and which are identified in the risk analysis. In addition to the Finance manual, the most significant, overall groupwide governance documents are the finance policy, information policy, insider policy, and the risk management policy.

Risk Assessment

At least once a year, a review is undertaken to identify and evaluate Karo Phrma's risk profile. This work also involves the assessment of the preventive measures which are to be undertaken to reduce and prevent risks in the Group. This work includes ensuring that the Group is sufficiently insured and also includes the preparation of decision-making documentation as regards to any possible changes in policies, guidelines and insurance coverage.

Karo Pharma's system for identifying, reporting and addressing risks is an integrated part of the on-going reporting to the management team and the Board of Directors and forms a key foundation for the assessment of risks in terms of errors in the financial reporting. As part of the process, items in the income statement and balance sheet where the risk of significant error is greater are identified.

For Karo Pharma cash equivalents and financial assets represents a substantial part of Karo Pharma's total assets and are thus a potential source of risk in financial reporting. Furthermore, Karo Pharma appears in a competitive market with risks of price pressure and volume loss. Karo Pharma reports significant values for goodwill and product opportunities where depreciation may occur in the future for various reasons. For more information, see the management report

Control activities

The major goal of the control activities is to prevent and, at an early stage, identify errors in the financial reporting so that these can be addressed and corrected. There are control activities both at the overall and more detailed levels and these are both manual and automated in nature. Authorization in the IT system is limited according to the established authorizations and specified responsibilities.

The finance function compiles monthly financial reports in which results and cash flows for the former period are reported and in which budget deviations are analysed and commented.

Follow-up is conducted via regular meetings which review and analyse these reports, together with the line managers and project managers. In this manner, significant fluctuations and deviations are followed which minimizes the risk of error in the financial reporting.

The closing of the books and annual financial statement work involves processes which add further risks for errors in the financial reporting. This work is of a less repetitive nature and includes a number of instances characterized by assessment. Important control activities include securing that there is a well-functioning reporting structure in which the line managers and project managers report according to standardized reporting formats, and that important income statement and balance sheet items are specified and commented.

Information and communication

Karo Pharma's information and communication channels shall support a complete and accurate financial reporting which are timely. This is achieved by all relevant guidelines and instructions for the internal processes which are available to all affected employees. If necessary, regular updates and notifications of changes to accounting rules/guidelines, reporting requirements and requirements on information disclosure are provided.

Information operations are regulated by an information policy. For external communication, there are guidelines that ensure that the company meets the highest demands on accurate information to shareholders and the financial market. Karo Pharma's communication shall be correct, transparent, timely and simultaneous to all stakeholders. All communication shall be conducted in accordance with NASDAQ Stockholm's Rule Book for Issuers. The financial information shall provide a comprehensive and clear view of the company, its operations, strategy and financial development.

The Board of Directors adopts the annual reports, financial statements and interim reports. All reports are published on the website (www.karopharma.se) after having been published in accordance with stock exchange regulations.

The annual report is distributed via the company website, and is made available in print on request.

Follow-up

The Board's review of internal control regarding financial reporting is conducted by, among other things, reviewing the work and reports of the Chief Financial Officer and the external auditors.

This work includes ensuring that measures have been taken regarding any deficiencies and also includes presenting proposals for measures which have been produced in the context of the external audit.

The review is conducted with a focus on the manner in which Karo Pharma complies with its framework and on the basis of the existence of efficient and goal-oriented processes for risk management, operational management and internal control.

The external auditors review, on an annual basis, selected parts of the internal control within the framework of the statutory audit. The auditor reports the outcome of the review to the Board of Directors and the executive management.

Significant observations are reported, as applicable, directly to the Board of Directors. In 2016, as part of the audit of accounts, the external auditors have reviewed the internal control of select key processes and have reported on these to the Audit Committee, the Board of Directors and the executive management.

AUDITOR'S OPINION ON THE CORPORATE GOVERNANCE STATEMENTPORTEN

To the annual meeting of the shareholders in Karo Pharma AB, corporate identity number 556309-3359

Assignments and responsibilities

It is the board of Directors who is responsible for the corporate governance statement for the year 2016 on pages 49-55 and that it has been prepared in accordance with the Annual Accounts Act.

The scope and scope of the review

Our audit has been conducted according to FAR's statement Rev U 16 Auditor's review of the corporate governance report. This means that our review of the corporate governance report has a different focus and a significantly smaller extent than the focus and scope of an audit under International Standards on Auditing and good auditing practice in Sweden. We consider this review to provide us with sufficient grounds for our statements.

Statement

A corporate governance report has been established. Information in accordance with Chapter 6. Section 6, second paragraph, paragraphs 2 to 6 of the Annual Accounts Act and 7 chap. Section 31, second paragraph, the same act is consistent with the annual report and the consolidated accounts and is in accordance with the Annual Accounts Act.

Stockholm on April 20, 2017

PricewaterhouseCoopers AB

Mikael Winkvist

Certified Public Accountant

Telephone +46(0)10-330 23 10
info@karopharma.se, www.karopharma.se
Address
Nybrokajen 7
111 48 Stockholm
SWEDEN