Annual Report
2018
MOBERG PHARMA

HEADING TOWARDS MOBERG PHARMA 2.0

CONTENTS

ABOUT MOBERG PHARMA

Moberg Pharma develops and commercializes medical products that relieve pain and treat skin conditions, mainly nail fungus. The OTC-business was divested at the beginning of 2019, in favor of the clinical pipeline consisting of late stage drug candidates with the potential to significantly exceed the value of the divested portfolio. The divestment of the OTC-business is a major change for Moberg Pharma going forward, allowing shareholders to recognize a compelling value for both components of the business.

As of April 2019, Moberg Pharma focuses on the commercialization of its clinical pipeline with a combined peak sales potential estimated at USD 350–700 million. MOB-015 is a next-generation nail fungus treatment, and BUPI is a novel treatment for oral pain relief in association with inflammation and ulceration of the oral mucous membranes (oral mucositis or OM), a serious complication of cancer treatment. Both drugs have demonstrated strong Phase 2 results which indicate that they have the potential to become market leaders in their respective niches. Phase 3 studies for MOB-015 are underway in North America and Europe. Topline results are expected towards the end of 2019 and spring 2020 respectively, with two license agreements in place in Canada and Europe. The company estimates the sales potential for MOB-015 at USD 250–500 million, with most of the sales expected to come from the high-priced US prescription drug market. This is in addition to BUPI, with an estimated annual sales potential of USD 100–200 million.

THE OTC-PORTFOLIO HAS BEEN DIVESTED

In March 2019, Moberg Pharma divested the OTC-business in favor of a more focused pipeline strategy, for MOB-015 in particular, while allowing shareholders to recognize a compelling value for both components of the business.

The divested operations comprised of marketing and distribution of OTC brands, mainly in the U.S. Each of the three key brands, Kerasal Nail®, New Skin® and Dermoplast®, are market leaders in their respective niches, generating double-digit growth in 2018. Revenues more than doubled in 2016-2018 thanks to strategic acquisitions, a more streamlined portfolio and an optimized product mix.

The OTC-business was sold to RoundTable Healthcare Partners and Signet Healthcare Partners for an upfront cash consideration of USD 155 million adjusted for working capital, resulting in a capital gain of around SEK 500 million and multiples of 3.3x sales and 11.6x EBITDA for the commercial operations.

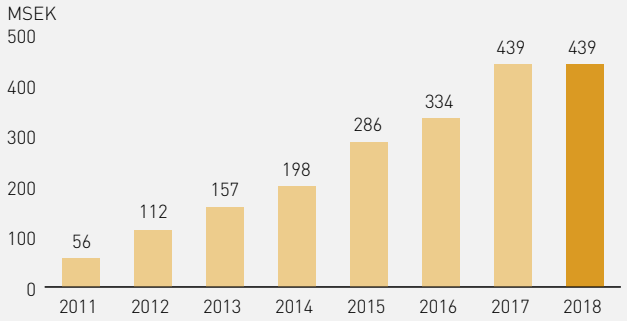
102 MSEK

EBITDA

26 %

GROWTH IN EBITDA, EXCLUDING CAPITAL GAINS

SALES REVENUE, 2011–2018



THE YEAR IN BRIEF

In 2018, direct sales in the US generated healthy growth and improved profitability while distribution sales were stabilized in line with previous year's sales levels. All-in-all net sales for the full-year amounted to SEK 439 million, and adjusted for items affecting comparability, sales grew by 17%. EBITDA increased by 15% to SEK 102 million (89) and the gross margin improved to 76% (71). The strong progress in 2018 was the result of a more streamlined portfolio, which has improved the product mix, enabled a greater focus of resources on our key products and optimized marketing in the direct sales business in the US.

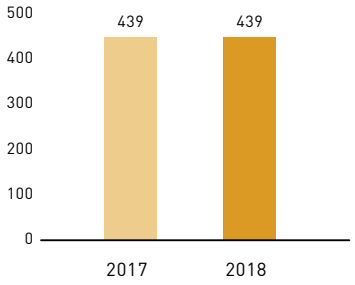
Phase 3-studies for MOB-015 progressed in Europe and North America in 2018 with finalized recruitment for both studies in the first quarter of 2019 as screening and randomization of patients to the European study was officially completed. September's entered license agreement with Cipher Pharmaceuticals in Canada was followed by yet another significant license agreement in February 2019, this time with the Consumer Health division of Bayer Group for the commercialization in Europe. Another milestone was reached in November 2018 when MOB-015 was granted patent in China, meaning that the product is now protected in all major markets, including the EU, U.S, Canada and Japan. The upcoming year will be pivotal for the company, with Phase 3 data for MOB-015 in North America expected in the fourth quarter and progressing commercialization plans with current and future partners.

With respect to BUPI, discussions are being held with potential partners, in addition to further planning of development programs leading up to registration.

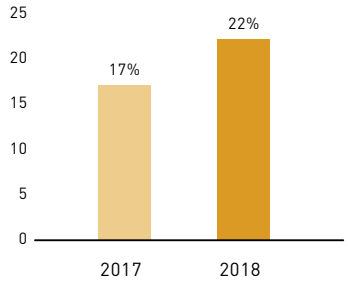
KEY FINANCIALS 2018[1]

- Revenues: 439 MSEK, (439 MSEK)
- Gross margin: 76% (71%)
- EBITDA: 102 MSEK (89 MSEK)
- EBITDA-margin 23% (20%), excluding capital gains 22% (17%)
- EBIT: 65 MSEK (51 MSEK)
- Net profit: 20 MSEK (11 MSEK)
- Operating cashflow per share: 4,23 SEK (3,07)
- Total R&D expenses 124 MSEK (89 MSEK) 28% of turnover (19%)

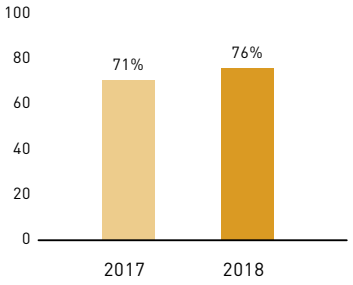
REVENUE, MSEK



EBITDA, %*

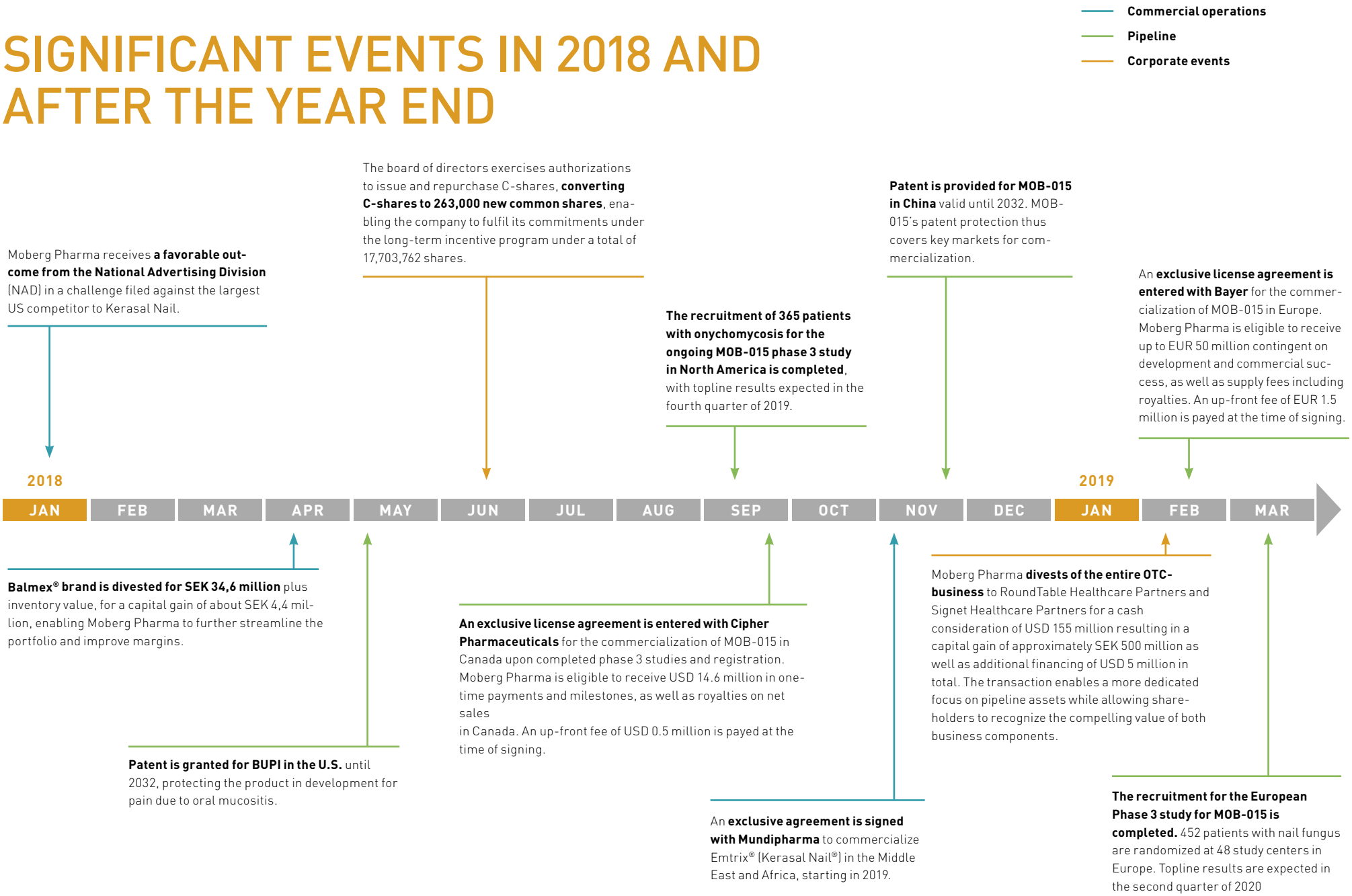


GROSS PROFIT MARGIN, %



* excluding capital gains from divestments

SIGNIFICANT EVENTS IN 2018 AND AFTER THE YEAR END



MOBERG PHARMA 2.0

As we now sum up 2018 we are in the midst of a major change at Moberg Pharma. We have recently divested one of our main businesses – the OTC operations – and freed up resources to devote to the remaining business – the development and commercialization of new pharmaceutical products. Through this transaction we have realized significant value for our shareholders, with a major payment to be distributed towards the end of the year, and are highlighting the significant upside of the remaining and fully financed pipeline business, focusing on MOB-015. Our goal is to make MOB-015 the future market leader in nail fungus (onychomycosis). In connection with this shift, the plan is that I will be transitioning to a new role as Executive Chairman, and Anna Ljung, CFO of the company since its inception, will be taking over as CEO of Moberg Pharma.

When Moberg Pharma was founded in 2006, the goal was to create a market leader in nail fungus. In 2010, we launched Kerasal Nail after completing clinical Phase 3 studies and it immediately became the market leader in the Nordic region. Additional launches followed around the world, eventually resulting in a leading position in the US. By 2016 the product portfolio had been expanded to include a number of major brands and revenue exceeded SEK 300 million, at the same time that the successor to Kerasal Nail, MOB-015, entered Phase 3. In the last three years, we have refined this product portfolio and delivered high growth and increased profitability thanks to a gradually improved product mix, distribution and marketing. Under our ownership, the Kerasal Nail, New Skin and Dermoplast brands have strengthened their market-leading positions in their respective niches, reaching SEK 439 million in sales in 2018 while EBITDA exceeded SEK 100 million for the first time.

Against the backdrop of this success, we have now successfully divested the OTC business to new owners resulting in a capital gain of SEK 500 million, while we turn our focus to a pipeline consisting of MOB-015 and BUPI, whose combined potential significantly exceeds that of the divested business. After the end of the year, enrollment was completed for Phase 3 studies for MOB-015, which are fully financed and include more than 800 patients with nail fungus in two separate clinical studies. Topline results from the North American study are expected in late 2019 with corresponding results from Europe in the first half of 2020.

VD Peter Wolpert

In the meantime, preparations are being made for commercialization of MOB-015 together with current and future partners. The most important markets are expected to be the US, EU, Japan, Canada and China, all with patent protection until 2032. During this journey we have not only financed the clinical development of our drug candidates but also gathered valuable knowledge and experience ahead of the commercialization through Kerasal Nail, where we have been involved in, or responsible for, marketing in a large number of regions, including the US. On this basis, the commercialization plans comprise a combination of direct sales and co-marketing with partners focused on the US, as well as out-licensing to many markets. Two attractive license agreements for MOB-015 are already in place in Canada (Cipher) and Europe (Bayer), and we look forward to add exciting collaborations in the future. The US will remain Moberg Pharma's most important market going forward, but this time with an emphasis on the much larger prescription market for nail fungus treatment, where we can build a significant business of our own focused on podiatrists and collaborate with one of the 10 or so companies that already have an established sales force targeting dermatologists. MOB-015 will be our lead product, but we can create a niche portfolio with additional products for the same target group through acquisitions and in-licensing.

This spring we will redeem the outstanding bond loan, making Moberg Pharma debt-free. Beginning with the Annual General Meeting on May 15, we will integrate the new organization currently taking shape in the Stockholm office under the leadership of Anna Ljung, who is proposed to take over as CEO of the company. Anna has been a driving force for Moberg Pharma since the inception of the company when she joined as CFO. This is a suitable time for new leadership, and with the new management team the company is in good hands for the challenges ahead. Personally, I look forward to taking on a new role as Executive Chairman, as proposed by the nomination committee and to be approved by the Annual General meeting, where I will mainly be working on preparations for the commercialization in the US and further developing our investor relations, at the same time that I remain close to the new leadership.

I would like to take this opportunity to thank current and former employees, without none of this would have been possible. You are simply fantastic! I would also like to express my gratitude to all shareholders who have stayed with us through this exciting journey and now stand behind us in the next stage as we aim to create the future market leader in nail fungus. It's time for Moberg Pharma 2.0!

Peter Wolpert

17%

2018 GROWTH FOR CURRENT PORTFOLIO

50 MEUR

MILESTONE PAYMENTS WHICH MOBERG PHARMA MAY BE ELIGIBLE TO UNDER THE MOB-015 AGREEMENT WITH BAYER

250-500 MUSD

MARKET POTENTIAL FOR MOB-015

THE DIVESTED OTC-OPERATIONS

In 2018, the OTC-business generated healthy growth and stronger profitability following the process of streamlining the product portfolio in 2016-2018, which improved the product mix, increased the focus on our key brands and optimized marketing in the direct sales business in the US. All-in-all net sales for the full-year amounted to SEK 439 million, EBITDA increased by 15% to SEK 102 million (89) and the gross margin improved to 76% (71). The entire OTC-business was divested in March 2019, transforming the company going forward as operational focus shifts to focus solely on the development and commercialization of pipeline assets, mainly MOB-015.

THE DIVESTED OTC-PORTFOLIO

The OTC-portfolio was dominated by three large brands, each with a leading position in its niche: nail fungus, liquid bandages and topical pain relief.

Kerasal Nail is Moberg Pharma's largest product: a US-market leading, clinically proven product for nail fungus, also sold under other names in around 30 countries. The product brings visible improvement after just one week of treatment, and has been proven clinically effective against nail psoriasis in addition to nail fungus. Kerasal Intensive Foot Repair, designed to heal dry, cracked feet, was also marketed under the Kerasal brand in the US.

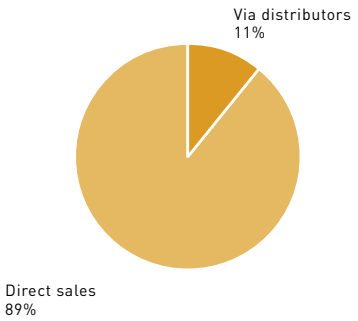
In addition to Kerasal Nail, two acquired brands, New Skin and Dermoplast, represented a significant share of the company's sales. New Skin is a waterproof liquid bandage that is applied or sprayed on damaged skin and is particularly useful for hard-to-cover areas and active users. Dermoplast is a fast-acting anesthetic spray used for relief of pain and skin irritations and is sold to both consumers and hospitals. Hospital sales are primarily focused on women, for use on chapped skin and relief of pain or itch after surgery or childbirth. Lastly, the Domeboro brand offers effective treatment for skin irritations and rashes.

The majority of revenue, 90%, came from direct sales in the US in more than 30,000 stores including major retailers such as Walmart and Target, chain drugstores such as CVS or Walgreens, as well as online, mainly through Amazon. This in addition to a small, but growing, direct sales business in the UK. A smaller share of sales, about 10%, was generated through distributors in Canada, the EU and parts of Southeast Asia such as Hong Kong, Taiwan and Japan.

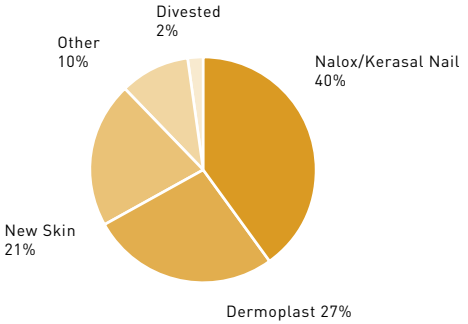
Overall, the strategy for the OTC-portfolio resulted in strong growth in sales and profitability over the years. Several successful acquisitions and good integration were followed by a number of divestments of smaller brands to free up resources and streamline the portfolio, resulting in doubled sales from 2016 to 2018. The OTC-portfolio was divested in March 2019 for an upfront cash consideration of USD 155 million adjusted for working capital, resulting in a capital gain of around SEK 500 million and multiples of 3.3x sales and 11.6x EBITDA for the commercial operations.

DISTRIBUTION OF NET REVENUE, IN %

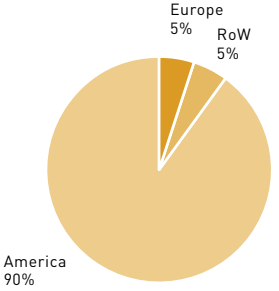
CHANNELS



PRODUCTS



GEOGRAPHY



[1] In fixed rates excluding capital gains from divestments and milestones

PIPELINE

Moberg Pharma has developed a pipeline of late stage drug candidates with the potential to significantly exceed the sales of the divested OTC-portfolio. MOB-015 is our next - generation nail fungus treatment and BUPI is our novel oral pain relief associated with inflammation and ulceration of the oral mucous membranes (oral mucositis or OM), a serious complication following cancer treatment. Both drug candidates are in Phase 3 and have demonstrated strong Phase 2 results, indicating that they have the potential to become market leaders in their respective niches. The estimated sales potential is USD 250–500 million for MOB-015 and USD 100–200 million for BUPI.

The decision to divest the commercial business is transformational for Moberg Pharma, enabling shareholders to recognize a compelling value for both components of the business. The transaction provides near-term liquidity, while enabling a more focused pipeline strategy. Moreover, additional financing as well as valuable knowledge from the new owners, allows the company to continue to create significant shareholder value.

	MOB-015	BUPI
	**NAIL FUNGUS** • Topical terbinafine • Target profile: Rapid, visible improvment, superior cure rate and shorter treatment time(vs other topical medications)	**PAIN RELIEF FOR ORAL MUCOSITIS** • Lozenge with bupivacaine • Target profile; Better and longer pain relief vs existing products
	ESTIMATED ANNUAL SALES POTENTIAL: USD 250-500 MILLION	**ESTIMATED ANNUAL SALES POTENTIAL USD 100 - 200 MILLION**
	**PHASE 3 ONGOING** • Two Phase-3 studies in North America and Europe ongoing • Primary endpoint: complete clinical cure of big toe nail and negative fungal tests after 52 weeks	**PARTNERING AND PREPERATIONS FOR PHASE 3 ONGOING** • Partnering discussions ongoing, in addition to current partner Cadila Pharmaceuticals • Advisory meetings held with agencies in Sweden and Germany
	**PATENT PROTECTION UNTIL 2032** • Patent granted in large markets, incl. U.S., Canada, EU, China and Japan • Inlude new topical formulations of allylamines (including terbinafine), and treatment methods for nail fungus using the new formulations	**PATENT PROTECTION UNTIL 2032-2033** • Patent granted in EU, Canada and U.S. • Patents include lozenges and other formulations with a local anasthetic, including bupivacaine, for the mouth or throat and for treatment of oral mucositis in cancer patients
	**PHASE 2 DATA: LEADING DATA FOR SEVERAL AFFECTED NAILS** • 54% mycological cure at 60 weeks • 100 % negative culture at 60 weeks • 1000x more terbinafine in the nail vs oral administration • 40x more terbinafine in the nail bed vs oral administration • Negligible systemic exposure of terbinafine	**PHASE 2 DATA: SIGNIFICANTLY BETTER PAIN RELIEF VS STANDARD OF CARE** • Primary endpoint: 31% less pain in the BUPI group vs Standard care (maximum VAS value in the mouth/throat, p = 0,0032) • In mouth: 50% less pain in the BUPI group (p = 0,0002)

MOB-015

In 2018, the Phase 3 studies for MOB-015 progressed in Europe and North America, patent protection was received in China and the first major license agreement was entered in Canada – followed by yet another agreement in Europe after the year-end. The recruitment for both Phase 3-studies is now completed and topline results from the first study are expected towards the year-end.

PRODUCT PROFILE AND TARGET GROUP

MOB-015 is our next-generation nail fungus treatment targeting both over-the-counter (OTC) and prescription markets around the world. The company's patented formulation technology facilitates delivery of high concentrations of a proven antifungal substance (terbinafine) into and through the nail, and has emollient and keratolytic properties that contribute to rapid, visible improvement. Nail fungus is very common and affects around 10% of the general population. There are a number of topical treatments on the market, both OTC and prescription, where Kerasal Nail® has a leading position in the OTC-category in the US. While the most effective treatment at present is oral, based on the same antifungal substance as MOB-015 (terbinafine), oral treatment is also associated with the risk of serious liver damage. Dermatologists and podiatrists around the world agree on the great need for better topical treatments without the risk of systemic side effects. MOB-015 is developed to meet this need and is patent protected until 2032 in most major markets, including the US, EU, Japan and China.

CLINICAL DEVELOPMENT AND RESULTS

Two parallel Phase 3 studies are currently underway for MOB-015 in North America and Europe. The Phase 3 program comprises more than 800 patients and the primary endpoint is a complete cure after 52 weeks. Topline results are expected in the fourth quarter 2019 and the second quarter 2020 respectively.

The results of the Phase 2 program were presented in the fall of 2014 and exceeded expectations. The open clinical study included

MOB-015 TRANSPORTS HIGH AMOUNTS OF TERBINAFINE THROUGH THE NAIL PLATE, WHILE SYSTEMIC EXPOSURE IS LOW

Tissue	Amount terbinafine (ug/g)	Compared to oral treatment
Nail	1610 (median)	**1000x higher** than oral
Nail bed	45 (median)	**40x higher** than oral
Plasma	0,0015 (max)	**1000x lower** than oral

Källa: Data från vävnadsprover i Fas 2 studie för MOB-015.

STRONG RESULTS IN PHASE 2:

40%
MYCOLOGICAL CURE AT 24 WEEKS

54%
MYCOLOGICAL CURE AT 60 WEEKS

100%
NEGATIVE CULTURE AT 60 WEEKS

25 patients and was conducted by Sahlgrenska University Hospital in Gothenburg. The study included patients with severe nail fungus (60% of the nail on average), who were treated with MOB-015 for 12 months and followed up for a total of 15 months. Of those who completed the study, 54% reached the primary endpoint, a mycological cure defined as negative microscopy and negative fungal culture after 15 months from the start of treatment. All the patients (100%) demonstrated negative fungal culture after 15 months, which included a wash-out period of three months after treatment was completed. Biopsies confirmed high levels of terbinafine in the nail and nail bed, while the risk of liver damage was negligible since plasma levels were a thousand times lower than with oral treatments. MOB-015 was generally well tolerated.

MARKET OVERVIEW

The commercialization plans for MOB-015 include a combination of direct sales, co-promotion with partners and out-licensing in certain regions and markets. The strategy is based on valuable experience from the category with Kerasal Nail® which currently is marketed in numerous markets, including the US, the most important market for Moberg Pharma.

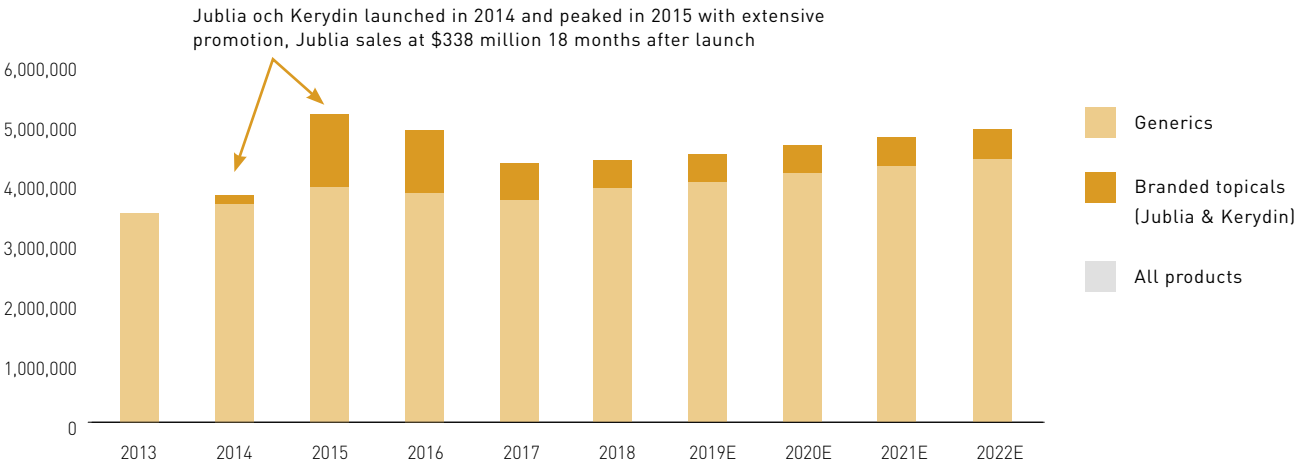
Around five million nail fungus treatments are prescribed each year in the North American market. Underlying growth in the last five years has been around 5% per year. Many patients don't treat their problem and others who do begin treatment don't complete it for various reasons. Previous launches have shown that the market is highly receptive to new products and that the patient base increases when a new product is well promoted. With 30–40 million Americans suffering from nail fungus, there is significant opportunity to grow the market with a new, effective treatment. A survey conducted in 2017 of 90 US physicians (podiatrists and dermatologists) concluded that there is high demand for better topical treatments without the safety issues associated with oral treatments. Seven of ten stated that they avoid prescribing oral terbinafine due to the risk of liver damage. More than 6 of 10 stated that they would prefer a topical treatment with this effective compound over other topical treatments available on the market today, compared with just 6-15% who would continue to prescribe existing treatments. In a follow-up question for the physicians who prescribe oral treatment, 65% said they would prefer a topical treatment with the current product profile, alone or in combination with oral terbinafine, just to avoid the risk of liver damage.

Market conditions vary from one region to the next, with prescription treatments, high list prices (more than USD 500/month) and extensive discount systems in the US, Japan and Canada among other countries, and lower-priced over-the-counter treatments (about USD 15-40/package) in other regions such as the EU, Russia and Asia. With a conservative assumption of 8-12% market share in the US and industry standard discounts, the potential revenue for MOB-015 the U.S. alone is USD 200–300 million and USD 50–100 million each in Japan/Canada and the EU/rest of the world, respectively.

DEVELOPMENT IN 2018 AND FOCUS GOING FORWARD

Phase 3 studies for MOB-015 progressed in 2018 in the EU and North America to document the product's efficacy and safety. Intense efforts were made to speed up the screening process for both studies, including the change of CRO to TFS International.

MARKET - 5M TRX EXPECTED IN US RX ONYCHOMYCOSIS BY 2022



Source: Symphony Health, Moberg Pharma analysis, assuming 3% growth 2018E-2022E

As a result, recruitments for both studies were finalized in the first quarter of 2019 – the North Americas study in September 2018 and the European study in March 2019. The U.S. study comprises 365 patients randomized at 32 clinics in the U.S. and Canada, while the number of patients recruited in Europe is 452, randomized at 48 clinics.

In fall 2018, Moberg Pharma signed an exclusive license agreement with Cipher Pharmaceuticals for the commercialization of MOB-015 in Canada. Under the terms of the agreement, Moberg Pharma is eligible to receive development and regulatory milestones up to USD 4.6 million, whereof US 0.5 million is an up-front fee at the time of signing. Pending commercial targets, Moberg Pharma is entitled to further payments up to USD 10 million, as well as royalties and supply fees for delivered products resulting in an industry standard gross margin for Cipher.

In February 2019, Moberg Pharma entered yet another major license agreement for MOB-015, this time for commercialization in Europe. The Consumer Health division of Bayer AG will be marketing, distributing and selling MOB-015 in Europe upon completion of Phase 3 clinical development and registration. Under the terms of the license agreement, Moberg Pharma will finalize the ongoing Phase 3 program, complete registration in Europe and provide supply for the product. Moberg Pharma is eligible to receive up to EUR 50 million in milestone payments, including EUR 1.5 million paid at signing. The majority of the milestone payments are contingent on sales targets, with the balance contingent on development and regulatory milestones. Moberg Pharma will also receive supply fees including royalties.

In November MOB-015 was granted patent protection in China until 2032 – an important milestone based on the company's strategy to establish broad patent protection for proprietary products. MOB-015 is now protected in most important markets for commercialization. Besides China, this includes the EU, the U.S., Japan and Canada.

Focus in the coming year will be on completing both Phase 3 studies in time, deliver compelling Phase 3-results and begin the process of registering the finished product. Topline results from the North American Phase 3 study are expected in the fourth quarter of 2019, while the corresponding European results are expected in the second quarter of 2020. In the meantime, we are establishing relationships with additional commercialization partners and developing commercialization strategies for prospective markets.

BUPI

BUPI meets a large demand for pain relief for patients with oral mucositis, a serious complication following cancer treatment that prevents completed treatment. The product is in a late clinical phase and has the potential to become the leading treatment in the field according to a study.

PRODUCT PROFILE AND TARGET GROUP

BUPI is a lozenge with bupivacaine intended for pain relief in association with inflammation and ulceration of the oral mucous membranes (oral mucositis or OM), a serious complication following cancer treatment such as radiation of tumors in the head or neck. OM also affects certain patients with other forms of cancer or as a result of transplantation. The complication prevents these patients from completing their cancer treatment and results in great suffering and expensive hospital care.

Market overview

Moberg Pharma considers the most important markets for commercialization of BUPI to be the EU, U.S and Canada, where patent protection is granted until 2032-2033. In the U.S. alone, OM affects around 400,000 patients. The company estimates the annual sales potential for BUPI at USD 100-200 million, given successful commercialization for oral mucositis and at least one other indication. This estimation was validated in a physician survey and market analysis made in the U.S. in 2018.

Clinical development and results

The Phase 2 results published in 2017 showed that BUPI achieved a statistically significant reduction of pain in the oral cavity compared with standard treatment. The primary endpoint, which was met with high statistical significance, was a measurement of pain in the mouth or pharynx 60 minutes post administration of BUPI, compared with the average pain during the day for the control group. The group treated with BUPI had a 31% reduction in pain. Both groups had access to standard treatment options for pain during the study. The control group was also allowed to use another locally acting anesthetic for the oral cavity in the form of a lidocaine gel. Moreover, the difference in the mouth, excluding the pharynx, was more significant, with BUPI reducing the pain by 50% compared with standard treatment.

Development in 2018 and focus going forward

In February 2018, an advisory panel to the Indian regulator recommended to reject the Phase 3 application for BUPI made by our partner in India, Cadila Pharmaceuticals, due to concerns for potential overdosing related to the broad access to prescription drugs in the country. We do not expect this issue to be translated to the key commercial regions for the product where dispensing by pharmacies is controlled. We are evaluating the possibilities to overcome this local concern as well as other options going forward. Despite this challenge, we remain convinced of the value and feasibility of BUPI. Discussions are currently being held with potential partners primarily in North America and Europe, in addition to further detailed planning of development programs leading up to registration. In 2019, the company's development resources will however be focused on MOB-015.

TEAM WITH GLOBAL FOCUS

The ability to attract, motivate and retain the right people is fundamental to Moberg Pharma's growth strategy. We look for experienced people with drive, commitment and integrity, and in return we offer a stimulating, supportive teamwork environment and an entrepreneurial culture.

PEOPLE

Moberg Pharma employs people with a variety of specialties and extensive experience in the pharmaceutical industry. In addition, the company has a number of external suppliers, partners and consultants around the world, offering services within manufacturing, clinical development and sales. The ability to attract, motivate and retain the right people is fundamental to the company's growth strategy. Moberg Pharma aspires to recruit the best employees and partners globally within the focus areas.

We look for experienced people with drive, commitment and integrity. We believe that a diverse workforce benefits the business and enables us to think outside the box. In return, we offer a stimulating, supportive teamwork environment and an entrepreneurial culture that emphasizes the importance of individual contributions. These concepts are also incorporated into our incentive compensation programs, which include both short-and long-term incentives for all employees. Moberg Pharma encourages innovation and initiative and rewards performance at an individual, team and company level.

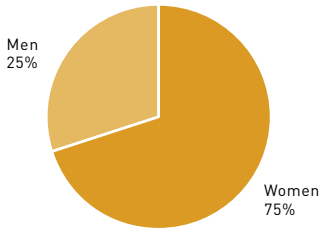
ORGANIZATION

Up until the divestment of the OTC-business, the company employed around 40 people based in Stockholm, Sweden and Jew Jersey, U.S. As of April 1st 2019, the OTC-Business with approximately half of the employees is operating under new owners. The remaning operations are focusing on clinical development, business development, commercialization, finance and administration.

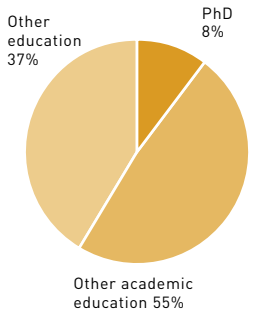
MANUFACTURING

Moberg Pharma works with partners and consultants to find the best solutions to develop, manufacture and distribute products with the smallest possible impact on the environment and the highest ethical standards. The company's internal department for sourcing and quality assurance is responsible for the network of contract manufacturers, which are fully integrated in the supply chain. Moberg Pharma adheres to the ISO 13485 international quality control standard, as well as other international laws and regulations that govern the commercial operations and product development.

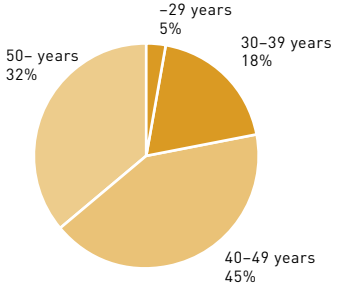
GENDER BREAKDOWN*



EDUCATION LEVEL*



AGE STRUCTURE*



*Based on 37 employees

FINANCIAL INFORMATION

DIRECTORS' REPORT

The Board of Directors and Chief Executive Officer of Moberg Pharma AB (publ), Corp. Reg. No. 556697-7426, hereby present the Annual Report and the Consolidated Financial Statements for the fiscal year January 1st, 2018 to December 31st, 2018.

FINANCIAL OVERVIEW 2014–2018

FROM STATEMENT OF COMPREHENSIVE INCOME (TSEK)	**2018**	**2017**	**2016**	**2015**	**2014**
Net sales	439,041	439,032	334,304	285,566	200,180
Gross profit/loss	334,605	313,853	232,949	213,646	151,116
Operating profit/loss	64,819	51,075	62,172	35,184	17,227
Profit/loss for the year	19,838	11,158	32,668	25,537	12,268
Comprehensive income	*40,691*	*-12,419*	*52,252*	*38,582*	*45,312*
FROM STATEMENT OF FINANCIAL POSITION (TSEK)	**2018**	**2017**	**2016**	**2015**	**2014**
Non-current assets	1,039,664	989,853	1,011,303	278,341	242,275
Inventories	24,976	26,561	42,224	22,200	13,135
Current receivables	76,189	87,406	92,545	51,557	41,847
Cash and cash equivalents	110,785	119,437	86,104	45,356	62,463
Total assets	*1,251,614*	*1,223,257*	*1,232,176*	*397,454*	*359,720*
Equity	594,018	552,409	561,625	352,823	303,749
Non-current liabilities	601,432	597,157	596,011	0	3,333
Current liabilities	56,164	73,691	74,540	44,631	52,638
Total equity and liabilities	*1,251,614*	*1,223,257*	*1,232,176*	*397,454*	*359,720*
FROM CASH FLOW STATEMENT (TSEK)	**2018**	**2017**	**2016**	**2015**	**2014**
Cash flow from operating activities	73,891	53,819	-17,941	30,719	16,162
Cash flow from investing activities	-83,641	-19,677	-680,656	-43,883	-24,497
Cash flow from financing activities	-666	858	737,952	-4,211	42,604
Cash flow for the period	*-10,416*	*35,000*	*39,355*	*-17,375*	*34,269*

KEY RATIOS	**2018**	**2017**	**2016**	**2015**	**2014**
Net receivables (TSEK)	-483,666	-472,351	-502,936	42,023	45,797
Debt/equity ratio	100%	107%	105%	1%	5%
Equity/assets ratio	47%	45%	46%	89%	84%
Return on equity	3%	2%	6%	7%	4%
Research and development costs (TSEK)	-17,321	-14,411	-12,442	-23,255	-19,930
Personnel expenses (TSEK)	-62,115	-58,313	-50,799	-43,685	-38,551
Number of employees at end of period	37	40	37	33	29
Share data	,	,	,	,	,
Earnings/loss per share before dilution (SEK)	1,14	0,64	2,27	1,80	0,96
Earnings/loss per share after dilution (SEK)[1]	1,14	0,64	2,25	1,78	0,95
Equity per share (SEK)	34,06	31,67	32,26	24,82	21,75
Dividend per share	-	-	-	-	-
Number of shares at the end of the period[2]	17,440,762	17,440,762	17,411,842	14,217,522	13,962,537
Average number of shares before dilution	17,440,762	17,428,719	14,413,627	14,172,130	12,719,642
Average number of shares after dilution	17,462,351	17,540,270	14,503,738	14,386,605	12,859,499

[1] For the periods during which the Group reports a loss, no dilutive effect occurs. The reason for this is that a dilutive effect is recognized only when a potential conversion to ordinary shares would result in lower earnings per share.

[2] Excluding repurchased own shares (263,000 shares)

For definitions of key ratios, see page 70

Amounts are expressed in TSEK (thousands of Swedish kronor) unless otherwise stated. Amounts and figures in parantheses are comparative figures from the previous year.

COMPANY INFORMATION

The Group is active as a limited liability company headquartered in Stockholm, Sweden, and with a subsidiary in the United States. The address of the head office is Gustavslundsvägen 42, 5th floor, SE-167 51 Bromma. The Group consists of the Parent company, Moberg Pharma AB (publ), corp. reg. no. 556697-7426, and its wholly owned subsidiaries Moberg Derma Incentives AB, corp. reg. no. 556750-1589 and MPJ OTC AB, corp.reg. no. 559183-3859 (aquired 2019 and divested March 29th 2019) and Moberg Pharma North America LLC (formerly Alterna LLC). The sole business conducted by Moberg Derma Incentives AB is administration of Moberg Pharma's employee stock option program. The operations of Moberg Pharma North America LLC comprise the marketing and sales of non-prescription products.

OPERATIONS

Moberg Pharma AB (publ) was formed in 2006 and is a rapidly growing Swedish pharmaceutical company that develops and commercializes medical products that relieve pain and skin conditions, especially nail fungus. The OTC-business was sold at the beginning of 2019 in favor of the company's pipeline of drug candidates in late clinical phase, whose potential significantly exceeded the revenues in the divested portfolio. The divestment represents a major change for Moberg Pharma and highlights the high value in both parts of the company for the shareholders. The OTC business contains direct sales through its own sales organization in the United States and sales through distributors in more than 30 countries. The company's product portfolio includes Kerasal Nail® (Emtrix® Zanmira® or Nalox™ in many markets outside the United States), a topical treatment for nails affected by nail fungus, Dermoplast®, a drug for alleviating pain and itching from cracked and injured skin, New Skin®, the leading brand for liquid dressings in the United States, Kerasal®, for treating dry feet and cracked heels, Domeboro®, a topical drug for the treatment of itching and irritated skin, and Balmex® for diaper rash.

Kerasal Nail® is the leading over-the-counter product for nail diseases in the United States, Canada, and several countries in the EU and Southeast Asia. The portfolio is being developed through acquisitions and in-licensing of products and through product development with the innovative drug delivery of tested substances, which reduces time to market, development costs and risk. The company has two drug projects in the late stages of clinical development: MOB-015 (nail fungus, Phase 3 studies are ongoing) and BUPI (pain relief for oral mucositis, Phase 3 preparations are ongoing). The company has its headquarters in Stockholm and its shares are traded in the Small Cap segment of NASDAQ OMX Nordic Exchange Stockholm (OMX: MOB).

WORKFORCE

As of December 31st, 2018, the Moberg Pharma Group had 37 (40) employees, of whom 75% (70%) were women. 23 (27) people were employed in the Parent company, of whom 86% (74%) were women. Approximately half of the employees follow the OTC-business and thus leave the Group on the transaction date in March 2019. See Note 7 for more information on employees and personnel costs.

PROFIT/LOSS AND FINANCIAL POSITION

Revenue

In 2018, net sales amounted to SEK 439 million (439), which meant growth of 16% in the existing product portfolio. The majority, SEK 175.9 million (154.2), came from the product sales of Kerasal Nail®. Of the products acquired in 2016, New Skin® accounted for 21%, SEK 94.1 million (86.6) and Dermoplast® for 27%, SEK 118.0 million (95.5) of sales in 2018. Other products' sales amounted to SEK 42.7 million (32.7) and revenues for divested products amounted to SEK 8.3 million (70.1). During both 2018 and 2017, products were sold from the company's product portfolio - in April 2018, the Balmex® brand was sold and in August 2017, Fiber Choice® was sold. No new brands have been acquired since 2016. As the entire OTC-business was divested on March 29, 2019, the company will have no product sales revenues after that date.

Sales in Europe during 2017 and 2018 (excluding divested products) amounted to SEK 24.3 million (20.4), in the US SEK 385.9 million (325.9) and in the rest of the world SEK 20.4 million (22.6). Most of the company's billing is made in foreign currency (mainly US dollars and euros), which is why we are dependent on the price trend against the Swedish krona. The currency effect on reported net sales was positive (3%) during the full year 2018.

Other operating income mainly consists of a capital gain in connection with the sale of the Balmex® brand of SEK 5 million, a revaluation of the additional purchase price of SEK 1.9 million related to the sale of Balmex® and exchange rate gains on working capital. In other operating income for 2017, exchange rate movements on operating receivables and a capital gain of SEK 13 million related to the sale of the Fiber Choice® brand.

PROFIT/LOSS

Operating profit 2018 was SEK 64.8 million (51.1), which is an effect of a successful streamlining of the product portfolio. Cost of goods sold amounted to SEK 104.4 million (125.2) and the gross margin was 76% (71). Operating expenses, excluding cost of goods sold, amounted to SEK 286.4 million (280.1). Profit after net financial items amounted to SEK 25.8 million (11.7) and was strengthened by a capital gain in connection with the divestment of Balmex® of SEK 5 million.

Profit for the year after tax was SEK 19.9 million (11.2) and the total result was SEK 40.7 million (-12.4). The comprehensive income includes exchange rate adjustments of SEK 20.9 million as a result of the stronger US dollar rate at the end of December compared with year-end 2017.

EBITDA was SEK 101.7 million (89.4), which resulted in an EBITDA margin of 23% (20). Adjusted for capital gains, EBITDA amounted to SEK 96.7 million in 2018, compared with SEK 76.4 million in 2017 to SEK million, with an EBITDA margin of 22% (14) adjusted for capital gains in connection with divestments. Excluding R&D / Business development costs for future products, EBITDA for the existing product portfolio was 28% (24%).

INVESTMENTS

Net investments in intangible assets in 2018 were mainly related to:

- Investments in capitalized expenditure for development work (especially the drug project MOB-015) of SEK 106.8 million (71.8)
- the sale of Balmex® in April 2018 (sold for a total of MUSD 4.25 plus inventory value).

Other investments in intangible assets are computer systems of SEK 1.3 million (1.1). See Note 13 for further information on intangible assets.

In addition to balanced expenses for research and development work, Moberg Pharma also had expenses related to research and development that were expensed directly in the statement of comprehensive income of SEK 15.1 million (12.4), of which SEK 5.8 million (6.3) was related to the future products.

LIABILITIES

Interest-bearing liabilities consist of a bond loan of SEK 600 million, which corresponds to the total loan amount of the bond loan. The loan has a variable interest rate if STIBOR 3 months + 6%. The bond loan has no covenants for the day-to-day operations, but only in case the company wants to increase the loan within the framework amount. According to IFRS 9, the bond loan must be reported after deductions for transaction costs which are accrued over the term of the loan, hence the difference between SEK 600 million and the amount in the financial position report which amounted to SEK 594.5 million.

On April 1, 2019, the company sent an irrevocable notification of early redemption to all directly registered owners and registered authorized managers in accordance with the debt book for the bonds carried by Euroclear Sweden as of March 29, 2019. The date of redemption is set to April 29, 2019. In accordance with the terms, the Bonds will be redeemed at an amount corresponding to 104.00 per cent of the nominal amount (ie SEK 1,040,000 per Bond). Full terms for the bond loan are available on the company's website www.mobergpharma.se.

LIQUIDITY AND FINANCIAL POSITION

Moberg Pharma's strategy means that the company will continue to invest considerable resources on research and development as well as business development. These efforts are today covered by cash and cash equivalents and commercial revenues and Moberg Pharma has a good financial position. Moberg Pharma is in an expansion phase and is engaged in development-intensive operations with investments aimed at obtaining revenues in the future. Liquid funds are thus consumed. The OTC business was divested at the beginning of 2019 against a cash consideration of USD 155 million (corresponding to SEK 1.43 billion) adjusted for working capital. The company intends to use the cash consideration to, among other things, redeem its outstanding bonds and distribute about SEK 43–45 per ordinary share to its shareholders in 2019. The Phase 3 program for MOB-015 is fully financed through the cash proceeds from the divestment of the OTC business and license revenue. If there are opportunities for faster growth, for example through acquisitions, Moberg Pharma may need to raise additional capital through issue or additional borrowing.

The equity / assets ratio at year-end was 47% (45). Operating cash flow before changes in working capital during the year amounted to SEK 56.4 million (41.8). Cash flow from operating activities for the year 2018 amounted to SEK 73.9 million, compared with SEK 53.8 million the previous year. Cash flow from investing activities amounted to SEK -83.6 million (-19.7) and consists mainly of capitalized expenditure for development work, see paragraph "investments" above.

Cash flow from financing activities amounted to SEK -0.7 million (0.9), which is linked to costs attributable to transaction costs for the issue of shares completed during the second quarter of 2018. Cash and cash equivalents amounted to SEK 110.8 million at year-end compared to SEK 119.4 million at year-end 2017.

INSURANCE

In addition to corporate insurance, Moberg Pharma's insurance policies include cover for patients who participate in clinical trials and product liability insurance for products under development and in the market. The insurance cover is subject to continuous review. The Board deems that the company's insurance cover is well suited to the current scope of the business.

ENVIRONMENT AND LIABILITY

Moberg Pharma conducts no operations that involve particular environmental risk or that require environmental permits or decisions from authorities. Moberg Pharma is of the opinion that the company generally operates under applicable health and safety regulations and offers its employees a safe and healthy working environment.

DISPUTES

Moberg Pharma is not, and has never been, a party to any legal proceedings or arbitration proceedings, which have or have had a significant impact on Moberg Pharma's financial position or profitability at any time.

WORK OF THE BOARD IN 2018

At the Annual General Meeting 2018, five members were elected for the period until the next Annual General Meeting. The competence of the members includes the areas of drug development, medical research, and market, finance and strategy issues. The Board of Directors has held 13 minuted board meetings during the year, including six telephone board meetings. The chairman of the board meetings has mainly been the CEO, but also other members of the management team.

The focus of the Board's work in 2018 has been strategic issues, particularly regarding product development, business development and acquisitions and divestments, as well as further development of the company's business plan. The work of the Board follows the established rules of procedure, which regulate areas such as the division of responsibilities, number of mandatory meetings, the form of summons, supporting documents and minutes, disqualifications, mandatory matters which the

CEO must submit to the Board and company signatures. The Board of Directors deals with ongoing issues such as the business situation, period accounts, budget, strategies and external information. The Board has had a Remuneration Committee which prepared proposals regarding remuneration issues, and an Audit Committee which prepared proposals for financing and audit issues. In addition, all issues have been dealt with by the Board as a whole.

For personal information about the board members, see page 67.

NOMINATION COMMITTEE

The Nomination Committee for the Annual General Meeting 2019 consists of four members, Thomas Eklund, Chairman of the Board, Gillis Cullin, appointed by the Baltic Sea Foundation, Fredrik Persson, appointed by Zimbrine Holding and Anders Lundmark. The Nomination Committee submits proposals for the election of the Chairman and other members of the Board, as well as proposals for fees and other remuneration to the Board members. The nomination committee also submits proposals for election and remuneration of the auditor. The Nomination Committee's proposal was presented in a press release on April 8, 2019, http://www.mobergpharma.com/press-releases/2019-04-08/nomination-committees-proposal-annual-general-meeting-2019.

CORPORATE GOVERNANCE

Moberg Pharma has applied the Swedish Corporate Governance Code since May 26, 2011, the date when Moberg Pharma's shares were listed on NASDAQ OMX Nordic Exchange Stockholm. See page 60 for the Corporate governance report.

INFORMATION DISCLOSURE

Moberg Pharma strives to uphold good communication with shareholders. Company information must be correct, clear, factual, credible and timely. Communication from Moberg Pharma must also be characterized by openness, with regular interim and annual reports published in Swedish and English. Events considered to influence the value of the share are announced in a press release.

PROPOSAL TO THE 2018 AGM – THE BOARD'S PROPOSAL FOR RESOLUTION ON PRINCIPLES FOR THE REMUNERATION OF SENIOR EXECUTIVES

The Board of Directors' proposal for resolution on principles for remuneration of senior executives is consistent with previous years' principles for remuneration with some minor adjustments and is mainly based on existing con¬tracts between the Company and senior executives. The Board of Directors proposes that the Annual General Meeting resolves to adopt principles for remuneration of senior executives on the following terms:

The Company is to offer a market-aligned total remuneration package that facilitates the recruitment and retention of qualified senior executives. The remuneration paid to the Chief Executive Officer and other senior executives is to comprise basic salary, variable remuneration, other benefits and pension benefits. The total remuneration is to be based on the base salary and is to be proportionate to the executive's responsibilities and authority. Variable remuneration is generally capped at 25–50 per cent of each executive's base annual salary, however the variable remuneration for the period of 2019-2020 can amount to a maximum of 15 monthly salaries in total for the two years. Variable remuneration is based on results achieved in relation to individually defined qualitative and quantitative targets, as well as the Company's results in relation to targets set by the Board of Directors. The pensionable salary comprises only the base salary. To the extent that members of the Board of Directors perform work for the Company or any other group company, in addition to work on the Board of Directors, a market-aligned fee may be payable.

In case of termination, the notice period is at least three months if this is on the initiative of the senior executive and between three and 12 months if the Company takes the initiative. Severance amounts may apply, however total remuneration during termination including severance amounts will never be more than 12 months' salary, other than what has been stated above regarding variable remuneration for 2019-2020. Any share and share-price-related programs must be adopted by a Shareholders' Meeting. Allocation from such programs must comply with a resolution from a Shareholders' Meeting. With the exception of share-based remuneration that has been allocated and vested, and what is provided for under employment contracts as referred to above, senior executives are not entitled to any post-employment/assignment benefits. Furthermore, the Board of Directors shall have the option of allocating further variable non-recurring remuneration to the management when the board deems it to be appropriate. The Board of Directors is to be entitled to ignore the aforementioned principles for remuneration of senior executives if there are special reasons for so doing.

SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

On February 12th 2019, Moberg Pharma entered into an agreement with RoundTable Healthcare Partners and Signet Healthcare Partners to divest the commercial operations for a cash consideration of $ 155 million. In addition, the new investors provide funding of USD 5 million for the development and commercialization of MOB-015. As part of the transaction, the Purchaser has subscribed and paid for 660,843 series B shares in the Company, entailing an increase of the total number of shares in the Company from 17,703,762 to 18,364,605 shares in total after the issue has been completed. The Company has also issued 659,421 warrants without consideration. Neither the newly issued series B shares nor the warrants or any shares subscribed for by exercising the warrants will entitle to the OTC-dividend. The transaction was finalized on March 29, 2019.

On February 11th 2019, Moberg Pharma entered into an exclusive licensing agreement with Bayer Consumer Health for the commercialization of MOB-015 in Europe following the completion of Phase 3 studies and registration. According to the agreement, Moberg Pharma will be able to receive up to EUR 50 million, of which EUR 1.5 million initially, in successful development and sales, in addition to royalty income and compensation for delivered products.

In conjunction with an extraordinary general meeting on March 15, 2019, the EGM resolved to convert the Company's financial year from calendar year to broken financial year, July 1 to June 30.

On March 22, 2019, it was announced that the company has completed the recruitment of 452 patients with nail fungus to the ongoing MOB-015 Phase 3 study in Europe.

On April 1, 2019, Moberg Pharma called for early redemption of all outstanding bonds on April 29, 2019 at an amount corresponding to 104.00 percent of the nominal amount.

Through a press release on April 8, 2019, it was announced that the company's nomination committee decided to propose new election of Peter Wolpert as Executive Chairman of the Board. Contingent on approval of the new board at the AGM, Anna Ljung is proposed to be appointed as the new CEO of Moberg Pharma.

See note 30 for further information regarding events after the balance sheet date.

OUTLOOK FOR 2019

Moberg Pharma's business, after the divestment of its commercial operations, has been changed to focus solely on R&D and in particular on MOB-015, which is the significantly largest product in the company's pipeline. In 2019, the focus is on completing the Phase 3 program in North America and continuing to commercialize MOB-015 and establish relations with potential partners for market introduction in several regions.

PARENT COMPANY MOBERG PHARMA AB (PUBL)

Moberg Pharma AB (publ), org. No. 556697–7426, is the parent company of the Group. The Group's operations are conducted primarily in the parent company (in addition to the sales organization in the US, sold in March 2019) and consists of research and development, sales and marketing as well as administrative functions. The parent company's net sales during 2018 amounted to SEK 142,4 million (130,1). Operating expenses, excluding cost of goods sold, amounted to SEK 88,5 million (88,0) and profit after net financial items amounted to SEK 17,3 million (3,2). Cash and cash equivalents amounted to SEK 94,0 million (97,2) at the end of the period.

PROPOSED DISTRIBUTION OF APPROPRIATED PROFIT (TSEK)

On January 1st, 2016, a change was introduced in the Swedish Annual Accounts Act meaning that, in order to capi¬talize internally generated development expenditure, the company must recognize the corresponding amount in a restricted reserve under equity, "Reserve for development expenditure". Moberg Pharma recognized capitalized internally generated development expenditure of SEK 105.3 million in 2018 and is therefore recognizing a reserve for development funds of SEK 225.9 million.

The amount available for appropriation at the Annual General Meeting comprises the following unrestricted reserves, profit carried forward and the profit for the year in the Parent company:

Share premium reserve	406,962
Profit carried forward	-133,240
Profit/loss for the year	13,010
	286,732

The Board of Directors proposes that at the disposal of the Annual General Meeting standing profits and share premium reserve be carried forward. Following appropriation, unrestricted equity amounts to:

Share premium reserve	406,962
Profit carried forward	-120,230
	286,732

RISK FACTORS

Moberg Pharma's business is exposed to risks. Risks are understood by Moberg Pharma to mean events that could lead to business interruption, damage or loss with a substantial adverse impact on the prospect of achieving the Group's objectives. How risks are managed is of fundamental significance for Moberg Pharma's success. In order to manage risk in a well-balanced way, the risks must be identified and assessed. Moberg Pharma engages in risk management that entails evaluating risks in a systematic manner. Risk factors considered to be of particular importance to Moberg Pharma's future development are described below. The list does not purport to be exhaustive, and risks are not listed in any order of significance. There is no guarantee that Moberg Pharma can successfully address the following or other risks.

RISK MANAGEMENT AND CONTROL STRATEGIES

The Company's Board conducts continuous and systematic risk-assessment work aimed at identifying risks and taking the necessary actions to cope with them. The Company applies a risk management policy in order to identify and assess risks, and to formulate a risk-management plan. Both the policy and the plan are revised at least annually and approved by the Board. The internal control environment mainly comprises the following five components: control environment, risk assessment, control activities, information and communication, and monitoring.

For each identified risk of a significant nature, a risk management strategy and an action plan are formulated. Planning work involves world-leading external expertise in terms of, for example, regulatory matters or the design of clinical studies.

OVERVIEW OF MOBERG PHARMA'S RISKS, RISK MANAGEMENT AND CONTROL STRATEGIES

RISKS RELATED TO OPERATIONS				RISKS RELATED TO THE COMPANY'S SHARES	RISKS RELATED TO THE SALE OF THE OTC-BUSINESS
Development of new products	**Marketing and sales**	**Organization**	**Financial risks**		
• Preclinical and clinical studies • Official decisions • Commercial potential of product candidates • Healthcare reforms	• Competition and pricing • Parallel imports • Cooperation partners • Disputes • Side-effects • Product liability • Patents and trademarks • Manufacturing • Inventories • Acquisitions • Economic trends	• Dependence on key individuals • Recruitment needs • Trade secrets and know-how • Security leaks • Incentive schemes	• Refinancing risk and future capital requirements • Foreign exchange risk • Interest rate risk and liquidity risk • Credit and counterparty risk • Tax • Loss carryforwards • Non-sustainable sources of income • Financial obligations	• Share performance and liquidity • Dividends • Shareholders with significant influence • Shareholders in other jurisdictions prevented from participating in any future preferential rights issues	• Commitments and guarantees • Changed risk profile • Payment of the OTC dividend
RISK MANAGEMENT AND CONTROL STRATEGIES					
• Policy documents, manuals and recommendations • Internal control activities, either preventive or detective • Analyses • Quality control in accordance with ISO13485			• Regulatory documentation prepared in parallel with clinical studies • Product liability insurance • Cooperation with reputable patent agents • Structured investment decisions aided by Innovation Engine		

DEVELOPMENT OF NEW PRODUCTS

Preclinical and clinical studies

Moberg Pharma engages in the development of new pharmaceuticals and other medical products. To obtain permits from authorities to commence sales, Moberg Pharma – or potential partners – must demonstrate the efficacy and safety of potential pharmaceuticals for each indication given. The scope of the preclinical and clinical studies needed varies depending on the product candidate's classification, indication, and previously published data, as well as the regulatory requirements that apply to the specific product candidate. However, there is a risk that ongoing or future clinical trials may not be able to demonstrate a sufficient degree of effectiveness and safety to obtain the necessary regulatory approvals, or that they may not lead to products that can be sold on the market.

Preclinical and clinical development is a time-consuming and costly activity that is affected by a variety of factors, including some that are beyond Moberg Pharma's control, such as the results of stability studies or patient recruitment being slower than expected. In the course of development work, it may be that the Company's product candidates do not have the expected effect or that they turn out to have unforeseen and undesirable side effects or other characteristics that may delay or stop ongoing product development. Moberg Pharma also uses consultants and contract research organizations ("CROs") in the development of drugs and other medical products. There is a risk that such third parties may not fulfill their commitments to Moberg Pharma or that Moberg Pharma may not be able to monitor their work adequately, which can result in delays, increased costs, quality issues or other deficiencies in the development work. There is also a risk that Moberg Pharma may not be able to procure consultants or CROs with the requisite qualifications at an affordable price, or at all. Any deficiencies or delays in the implementation of the Company's development programs may reduce or delay Moberg Pharma's ability to commercialize existing product candidates, which can result in significant costs. Difficulties in supplementing the project portfolio with new product candidates can have a material adverse effect on the Company's expected sales, earnings and financial position.

In addition, preclinical tests and clinical studies are difficult to design and implement effectively, and their outcomes are uncertain. It may take the Company or its cooperation partners many years to carry out preclinical tests and clinical studies to prove the safety and efficacy of the Company's product candidates. The initiation and completion of clinical studies may be delayed or stopped due to changes in regulatory requirements, manufacturing problems, the adoption of necessary administrative measures, slower patient recruitment than expected, changes in care standards, the accessibility or existence of similar drugs or the need for early treatment, clinical outcomes or financial limitations of the company or any of its partners.

The development of medicines and medical products is subject to significant risks. Developmental failures can occur at any time during all stages of preclinical and clinical development. Typically, a large number of product candidates are lost during preclinical and clinical development due to scientific feasibility, safety, efficacy, changes in medical standards or other factors. The risk of failure is greater for product candidates that are based on new technologies.

A number of companies have been affected by unforeseen significant failures in clinical studies due to factors such as inconclusive results with regard to side-effects and efficacy. Unexpected failures may also occur in cases where previous preclinical studies have shown positive results that were satisfactory both for the Company and for regulatory authorities. The outcome of clinical studies is unpredictable, and it is possible for one or more of the Company's clinical studies to fail due to insufficient efficacy of the products, their safety, other significant findings during the clinical study, or regulatory requirements. Results from preclinical tests or early clinical studies of a product candidate will not necessarily coincide with the results obtained at a later stage of the studies. The Company, the European Medicines Agency ("EMA"), the Food and Drug Administration ("FDA"), an IRB (independent ethics committee) or another regulatory authority may decide at any time that a clinical study needs to be discontinued for a variety of reasons. Such reasons may include a belief that patients participating in the study are being exposed to unacceptable health risks or harmful side-effects. Similarly, an IRB or an ethics committee may decide that clinical studies being performed in a particular location need to be discontinued.

Official decisions

Moberg Pharma develops and commercializes medical products and, like other companies in the industry, depends on assessments and decisions made by regulatory authorities, such as the Medical Products Agency in Sweden, the FDA in the U.S. or the EMA in the EU. Such assessments precede decisions regarding, among other things, permission to conduct clinical trials and authorization to market and sell products or medical devices. However, there is a risk that Moberg Pharma may not obtain the regulatory decisions necessary in order to develop commercially and financially valuable products on the market.

An application for market approval requires extensive documentation concerning matters such as clinical results, quality assurance and production that meets national and international requirements. Even if the Company prepares large portions of this documentation in parallel with the clinical studies, there is a risk that unforeseen circumstances may cause delays. Since the Medical Products Agency may request additions or have other comments on the application, the timeframe and costs of a possible market approval are subject to uncertainty.

If Moberg Pharma markets a number of products, which are currently classified as cosmetics and thus do not require regulatory approval in some markets, there is a risk that the authorities may make a different assessment in the future which could lead to sales of the products being prohibited.

The Company is also affected by regulatory decisions on matters such as changes in duties or taxes, conditions for prescribing pharmaceuticals, the pricing of medicinal products covered by subsidy schemes, and discounts on pharmaceuticals. There is a risk that the regulatory conditions in the market may change in a way that negatively affects the Company's ability to develop and manufacture commercially valuable products.

Commercial potential of product candidates

It is difficult to estimate the commercial potential of product candidates due to several important factors, such as safety and efficacy compared with other available treatment methods (including generic alternatives), changes in treatment standards, changes in third-party remuneration standards for medical products, the preferences of patients and doctors, and changes in the classification of the medical product. The accessibility of competitive alternatives that arise either during the time it takes

to develop the Company's product candidate or after the product candidate has been commercially launched, as well as the accessibility of generic versions of the Company's product candidates, also affects commercial potential. The accessibility of generic versions of the product candidates may be a result either of regulatory approvals for these alternatives due to the expiration of the Company's regulatory exclusivity, or of the Company's failure to prevent generic options from coming onto the market despite claiming the relevant patent rights. If the occurrence of one or more of these risks causes the market potential of one or more of the Company's product candidates to be worse than expected, this may have a negative impact on the commercial terms of any cooperation activities relating to such product candidates. If these risks do occur, cooperation activities that have already been initiated may also be adversely affected due to the negative impact on the Company's potential income from royalties and milestone payments.

The Company is also dependent on its relationship with other companies for the sale, marketing and commercialization of product candidates. If these companies do not perform sufficiently well when carrying out these activities, or if Moberg Pharma enters into disputes with these companies or if its relationship with them deteriorates, this may adversely impact the Company's performance and financial position.

Healthcare reforms

Changes in remuneration systems for medical devices may affect Moberg Pharma's ability to conduct its business profitably. At present, Moberg Pharma has no products that are covered or remunerated by public or private healthcare remuneration systems. However, the success of Moberg Pharma's future prescription products depends on whether these products qualify for remuneration from publicly or privately funded healthcare remuneration systems. A development that eliminates or reduces the remuneration levels for the Company's future products on any of the Company's existing or potential markets may have a negative impact on the Company's ability to sell its products or cause the customers in these markets to use cheaper products instead.

In domestic and international markets, sales of the Company's products that have obtained regulatory approval will to some extent depend on how they are received by doctors and patients, any price approvals from the authorities, and the options for compensation from publicly and privately funded remuneration systems. These third parties are calling the price and cost efficiency of medical products and services into question to an increasing extent. Against this background, there is uncertainty in terms of price approval and payment and of compensation for recently approved medical products. In addition, legislation and other regulations that affect the price of pharmaceuticals may be subject to change before the Company receives regulatory approval for its intended products, which may further limit price approvals and compensation from third parties. If such publicly or privately funded remuneration systems decide not to accept the pricing of the products, if they decide that the products will not be covered by their systems, or if they do not provide adequate compensation to the Company with respect to the Company's products, this will limit the commercial success of these products.

MARKETING AND SALES

Competition and pricing

The pharmaceutical industry is a highly competitive industry. Within most indications, a number of companies are competing to develop new and improved products to obtain a high market share and a favorable price. There is a risk that Moberg Pharma's products will not be favored on the market over existing or other new products, which may negatively impact Moberg Pharma's business and financial position. Price pressure for medical products in Moberg Pharma's indication areas is considerable and is expected to remain high or increase in the future. Future products currently being developed by other companies could entail an increase in competition and result in diminished opportunities for Moberg Pharma to achieve or retain an attractive market share and an attractive price for its products.

Parallel imports

There is a risk that differences in price in the markets on which the Company or its partners operate may lead to an increase in parallel imports, meaning that the Company's products can be purchased at a more affordable price in some markets and then compete with the Company's sales in other markets.

Partners and distributors

Moberg Pharma depends on cooperation and distribution agreements with partners, distributors or retailers for the marketing and sale of its products. There is a risk that it may not be possible to enter into such agreements on favorable terms or that counterparties may not meet their obligations in accordance with concluded agreements, which could include the registration of the products in the relevant country.

Accordingly, Moberg Pharma's growth is highly dependent on the ability to uphold such partnerships and their implementation. If important partnerships cannot be concluded, are terminated or function unsatisfactorily, this could have an adverse impact on the Company's continued development, growth and financial position. There is also a risk that future launches and sales may not be able to produce results that are comparable to those achieved so far.

Disputes

There is a risk that Moberg Pharma may become involved in legal processes associated with the Company's operating activities. Such legal processes may include disputes involving infringements of intellectual property and the validity of certain patents or trademarks (see "Patents and trademarks" below), as well as commercial disputes. Even if the outcome is favorable for Moberg Pharma, disputes and claims can be time-consuming, interfere with operating activities, involve significant amounts or fundamentally vital issues for the Company, and result in significant costs. Disputes that lead to unfavorable outcomes for Moberg Pharma may result in the Company incurring significant costs for settlements or being required to pay significant amounts or penalties, or having restrictions or bans imposed on it with regard to selling or marketing particular products.

Side-effects

Since the Company's primary business is the sale and development of medical products, there is a risk that patients who use the Company's products, participate in clinical studies involving the Company's products, or otherwise come into contact with the Company's products may experience side-effects. The consequences of such potential side-effects may harm patients, delay or halt continued product development, and restrict or prevent the commercial use of products. Another consequence is that patients suffering from side effects may claim damages or sue the Company, in which case the Company could incur significant legal fees, receive negative publicity or be liable for the payment of damages.

Product liability and insurance

Moberg Pharma sells medical products and conducts clinical trials of medical products, which entails risks associated with product liability. Moberg Pharma has the insurance cover customary to the industry for its clinical trial activities and holds product liability insurance policies for products under development and in the market. However, there is a risk that the insurance may not provide sufficient protection against claims for damages caused by the Company's products or product candidates. In the future, Moberg Pharma may also fail to obtain or maintain insurance cover on acceptable terms.

Moberg Pharma has operated, and can in the future continue to operate, in the U.S., where lawsuits and judicial proceedings are much more common than in Europe, for example, and often involve significant amounts, which may result in considerable costs and affect the Company's profits and financial position. Consequently, it may be more difficult to obtain adequate insurance cover in the U.S., and there are also higher costs involved in obtaining such cover.

Patents and trademarks

In the type of operations conducted by Moberg Pharma there is always a risk that the Company's patents, trademarks or other intellectual property rights will not sufficiently protect the Company, that applications will not be granted or that the Company's rights cannot be asserted. Furthermore, patent or trademark infringement could occur, which could lead to costly disputes. For the losing party, a negative outcome to a dispute over intellectual property rights could result in the loss of protection, a ban on continuing to use the right concerned or an obligation to pay damages. Patent applications have been submitted for the Company's products under development and have been granted in some but not all markets. There is a risk that the outstanding patent applications may not be granted. For the Company's current products in the market, future patent outcomes and the advent of duplicates in the market could have an adverse impact on the Company's sales.

Moberg Pharma's operations include the acquisition of new products and trademarks. There can be no guarantee that acquired trademarks will not be questioned by competing companies that appeal against Moberg Pharma's entitlement to these trademarks. Moberg Pharma is also exposed to the risk that the value of its trademarks could be reduced due to unforeseen events.

Manufacturing

Because Moberg Pharma uses contract manufacturers for production, the Company is dependent on external deliveries meeting agreed requirements for example for quantity, quality and time of delivery. There is a risk that Moberg Pharma may be impacted by delayed or failed deliveries, which could impact sales.

It may happen that the Company is faced with a limited range of critical raw and packaging materials that can only be obtained from a single supplier or a limited number of suppliers. This may cause delays in manufacturing or clinical trials, significant loss of earnings, or a liability on the part of the Company for damages or similar with respect to third parties. Any disruption of the delivery of raw materials or failure on the Company's part to acquire such raw materials on commercially acceptable terms could damage the Company's business by causing delays in the Company's clinical trials, preventing the commercialization of approved products or increasing the Company's costs.

Acquisitions

Moberg Pharma's operations has in the past included the acquisition of new assets. The Company may also in the future evaluate opportunities for acquisitions. There is a risk that the Company may be unable to make acquisitions at attractive prices, or at all. In addition, there is a risk that acquired trademarks or patents may be challenged by competing companies calling into question Moberg Pharma's right to those trademarks and patents. Moberg Pharma is also exposed to the risk that the value of its assets could be reduced due to unforeseen events.

As well as Company-specific risks, the acquired company's relationships with customers, suppliers and key personnel may be adversely affected in the event of an acquisition. Integration processes related to implemented or future acquisitions could become more costly or time-consuming than expected, and anticipated synergies could fail to materialize either in full or in part. Establishing the manufacture of acquired products with new contract manufacturers may fail or be more expensive or time-consuming than anticipated. The difficulties of combining business operations may include the coordination of geographically scattered operations and assets from an operating, financial and legal perspective.

Economic trends

Moberg Pharma's future sales are to a certain extent dependent on the general economic situation. A downturn in the markets in which the Company operates could reduce demand for the Company's products.

ORGANIZATION

Key individuals

Moberg Pharma is dependent on the Company's senior executives and other key individuals, to be able to engage in high-quality marketing, business and product development, and related operations among other things. Should the Company lose one of its key employees, this could delay or cause interruptions to development programs, the licensing-out or commercialization of the Company's product candidates. Such delays or interruptions could adversely affect the Company's expansion and growth.

In addition to internal key personnel, Moberg Pharma also depends on certain executives employed by sales and distribution organizations, contract manufacturers and other key suppliers. There is a risk that it may not be possible to maintain these relationships over time.

Recruitment requirement
There is a risk that Moberg Pharma will not be able to recruit new qualified employees which the business may need.

Trade secrets and know-how
Moberg Pharma relies to a certain extent on unpatented trade secrets, know-how and continued technological innovation in order to develop and retain its market position. If the Company is unsuccessful in protecting these trade secrets and this know-how and technology, there is a risk that the Company's market position could be adversely affected and that the value of the Company's commercialized products, technologies and product candidates could be adversely affected.

Security leaks
The Company's IT systems, as well as those of the Company's consultants and CROs, are subject to the risk of exposure to computer viruses, unauthorized access, natural disasters, terrorism, wars and breakdowns in the telecommunications network or power grid. Such events could cause disruptions to the Company's operations, such as the loss of data from ongoing and future clinical studies relating to the Company's product candidates. Such events could also cause delays in the development of products and the submission of applications for approval to regulatory authorities and increase the Company's costs. To the extent that such disruptions may result in the loss of, or damage to, the Company's data or in leaks of trade secrets and know-how, the Company could incur costs and the development of product candidates could be delayed.

Incentive program
Moberg Pharma has introduced several share-based incentive schemes in the form of employee stock options, subscription warrants and performance share units. The purpose of the schemes is to motivate and reward key personnel by making them shareholders in the Company and thereby promoting the Company's long-term interests. However, there is a risk that this purpose may not be achieved, and this could result in the Company's employees carrying out their work less efficiently than expected. Share-based incentive schemes also always involve a tax risk, as the Company's assessment of the applicable tax legislation could prove to be incorrect, and this could lead to a higher tax burden in the future and to tax-related penalties being imposed on the Company. In addition, share-based incentive schemes in the form of subscription warrants and performance share units entail a dilution of the existing shareholders when the warrants are exercised or when shares to be allocated to holders of performance share units are issued.

FINANCIAL RISKS
For information on financial risk factors, see Note 27.

RISKS RELATED TO THE DIVESTMENT OF THE OTC-BUSINESS
Commitments and guarantees
In connection with the divestment of the OTC-business in March 2019, Moberg Pharma, as a beneficiary, has taken out insurance with respect to the commitments and guarantees in the share purchase agreement. This is the only remuneration option Moberg Pharma has, according to the share purchase agreement, with respect to the business commitments provided by the company in the share purchase agreement. Unless Moberg Pharma is guilty of fraud or similar, the company's liability for breaches of such business commitments is limited to USD 1. However, there is a risk that deficiencies in customary guarantees during the share purchase agreement may lead to negative financial effects for the company and adversely affect the company's reputation.

Changed risk profile
Moberg Pharma's financial profile will change through the divestment of the OTC business. The company will no longer receive ongoing revenue from product sales from the OTC business. As a result, Moberg Pharma's dependence on positive clinical results and successful commercialization of its development projects increases. There is a risk that Moberg Pharma will not receive positive clinical results and that the commercialization of the company's development activities will not be as successful as expected, which could have a material negative effect on the company's operations, earnings and financial position.

Payment of the OTC dividend
The company intends to use the remainder of the purchase price for the sale of the OTC-business, after the bonds have been repaid and deductions for transaction costs, to carry out a payment to the company's shareholders (the OTC dividend). According to Moberg Pharma's current assessment, the OTC dividend is estimated to amount to approximately SEK 43–45 per ordinary share in the company. However, the actual and final amount of the OTC dividend may change and depend on several factors, such as transaction costs, the receipt of expected milestone payments, anticipated investments in R&D, business development, and administrative costs to complete the MOB-015 development program, exchange rate fluctuations and other factors affecting Moberg Pharma's financial situation at the actual time of disbursement of the OTC dividend. There is a risk that the OTC dividend may amount to a lower amount than the company originally assessed if the company's financial situation at the time of disbursement of the OTC dividend is such that Moberg Pharma according to current value transfer rules or otherwise not allowed to distribute a higher amount to the company's shareholders. The final amount of the OTC dividend will be made public by the company no later than in connection with the publication of the notice to the Annual General Meeting for the shortened fiscal year 1 January - 30 June 2019.

RISKS RELATED TO THE COMPANY'S SHARES

Share performance and liquidity

Investing in shares is by its very nature associated with the risk that the value of the investment can fall. There is no guarantee for how the Company's shares will perform. The price of the Moberg Pharma share has been volatile ever since the Company's share was listed on NASDAQ Nordic Exchange Stockholm and the share's liquidity has varied. It is impossible to anticipate the extent to which investor interest in Moberg Pharma will lead to active trading in the shares or how trading in the shares will develop in the future. The ability of shareholders to sell their shares, whether at all or without a negative impact on the market price, assumes constantly active and liquid trading.

Dividend

To date, the Company has not paid a dividend. As Moberg Pharma over the next few years is expected to be in a phase of development of the company's organization and portfolio, any capital surplus will be invested in the business. The Board of Directors reviews the dividend policy on an annual basis. There is a risk that future cash flows will not exceed the Company's capital requirements and that the Annual General Meeting will not decide on dividends in the future. The above does not affect the planned dividend to the shareholders of the net proceeds from the divest¬ment of the OTC business.

Shareholders with significant influence

If the principal owners are in agreement, they will have a significant influence on the Company and on most of the decisions that require the approval of the Company's shareholders. This concentration of ownership may be detrimental to the other shareholders if they have interests that are different from those of the principal owners.

Shareholders in other jurisdictions prevented from participating in any future preferential rights issues

If Moberg Pharma issues new shares in a preferential rights issue, then, as a general rule, existing shareholders will have a preferential right to subscribe to new shares relative to their shareholding at the time of the issue. However, shareholders in certain other countries may be subject to restrictions that prevent them from participating in such preferential rights issues, or their participation may otherwise be hampered or restricted.

THE MOBERG PHARMA SHARE

The Moberg Pharma share has been listed on NASDAQ OMX Nordic Exchange Stockholm, main list, since May 26th, 2011 under the ticker name MOB.

NEW ISSUES DURING THE YEAR

During June 2018, the number of shares and votes increased by 263,000 to 17,703,762. The change is linked to an issue of shares that has been made to secure commitments according to incentive programs. Excluding shares in treasury, the number of shares amounts to 17,440,762 at the end of the year 2018.

SHARE PRICE MOVEMENT

The closing price on December 28th, 2018 was SEK 43.00, which gave a market capitalization of SEK 750 million for Moberg Pharma.

The highest price recorded for the Moberg Pharma share during the year 2018 was SEK 65.00 and the lowest price was SEK 22.50.

In total, 13,6 million (20,8) Moberg Pharma shares were traded in 2018, corresponding to a value of approximately SEK 572 (1,088) million. Each trading day averaged 54,584 (82,817) shares. At year-end, Moberg Pharma had a total of 4,114 (3,618) shareholders4, with the 20 largest shareholders holding 65,3% (67,6) of the shares in Moberg Pharma.

OWNERSHIP STRUCTURE

	No. of shares	Share capital, %	No. of shareholders[7]
1 - 500	423,383	2.4%	2 760
501 – 1 000	489,681	2.8%	563
1 001 – 5 000	1,352,801	7.6%	565
5 001 – 10 000	761,768	4.3%	102
10 001 – 15 000	453,353	2.6%	36
15 001 – 20 000	315,823	1.8%	17
20 001 -	13,906,953	78.6%	71
TOTAL	**17 703 762**	**100%**	**4 114**

DISTRIBUTION OF OWNERSHIP

	No. of shares	Share capital, %	No. of shareholders[7]
Physical entities	5,114,923	28.9%	3,759
Legal entities	12,588,839	71.1%	355
Total	**17,703,762**	**100.0%**	**4,114**
– of whom, residing in Sweden	11,564,549	65.3%	3,866

SHAREHOLDERS AT 2018-12-28

Shareholders	No. of shares	% of voting rights and capital
ÖSTERSJÖSTIFTELSEN	2,274,179	12.85
ZIMBRINE HOLDING BV	1,902,849	10.75
FÖRSÄKRINGSAKTIEBOLAGET, AVANZA PENSION[8]	1,761,042	9.95
UBS SECURITIES LLC, W9	1,676,000	9.47
NORDNET PENSIONSFÖRSÄKRING AB	668,034	3.77
SOCIETE GENERALE	519,631	2.94
JP MORGAN SECURITIES LLC, W9	348,101	1.97
LINDBÄRG, ERIK	333,825	1.89
LUNDMARK, SVEN ANDERS	320,000	1.81
EUROCLEAR BANK S.A/N.V, W8-IMY	317,943	1.8
MOBERG PHARMA AB	263,000	1.49
SYNSKADADES STIFTELSE	172,201	0.97
BNP PARIBAS SEC SERV LUXEMBOURG, W8IMY	150,000	0.85
ML, PIERCE, FENNER & SMITH INC	147,414	0.83
GAMLA LIVFORSAKRINGSAKTIEBOLAGET	131,760	0.74
HL-FAMILY OY	130,275	0.74
SKANDIA, FÖRSÄKRINGS	120,784	0.68
PLAIN CAPITAL BRONX	111,930	0.63
NORMAN, CARL ERIK	105,000	0.59
SEB LIFE INTERNATIONAL	104,000	0.59
TOTAL, 20 LARGEST SHAREHOLDERS	**11,557,968**	**65.3**
Other shareholders	6,145,794	34.7
TOTAL	**17,703,762**	**100**

GEOGRAPHIC BREAKDOWN

	No. of shares	Share capital %	No. of share-holders[7]
Sweden	11,564,549	65.3%	3,866
United States	2,353,477	13.3%	12
Netherlands	2,002,849	11.3%	2
France	519,916	2.9%	4
Belgium	386,481	2.2%	5
Other countries	876,490	5.0%	225
TOTAL	**17,703,762**	**100%**	**4,14**

[7] Excluding individuals holding nominee registered shares, for example via Avanza Pension

[8] Includes 435,399 shares owned by the Company's CEO Peter Wolpert via an endowment policy

DIVIDEND POLICY

Moberg Pharma is in a phase of expansion. The Board is therefore of the opinion that the company's earnings are best used to finance further development and expansion of the business. The Board does not intend to propose any recurring dividend until such a time when it is warranted by Moberg Pharma's earnings, financial position and capital requirements.

In March 2019, the OTC business was divested for a cash consideration of USD 155 million (corresponding to SEK 1.43 billion) adjusted for working capital. The company intends to use the cash consideration to, among other things, redeem its outstanding bonds and distribute approximately SEK 43–45 per ordinary share to its shareholders in 2019.

Payment of the OTC dividend presupposes that the company has established the annual report for the current financial year in order for Moberg Pharma to be able to present sufficient distributable funds. In order to be able to pay the OTC dividend during 2019, the extraordinary general meeting in March 2019 decided to shorten the current financial year to the period 1 January - 30 June 2019.

The payment of the OTC dividend will be subject to a decision at the Annual General Meeting for the abbreviated fiscal year 1 January to 30 June 2019. According to Moberg Pharma's current assessment, the OTC dividend is expected to amount to approximately SEK 43–45 per ordinary share in the company. However, the actual and final amount of the OTC dividend may change and depend on several factors, such as transaction costs, the receipt of expected milestone payments, anticipated investments in R&D, business development, and administrative costs to complete the MOB-015 development program, exchange rate fluctuations and other factors affecting Moberg Pharma's financial situation at the actual time of disbursement of the OTC dividend. The final amount of the OTC dividend will be made public by the company no later than in connection with the publication of the notice to the Annual General Meeting for the shortened financial year.

ANALYSTS MONITORING MOBERG PHARMA

Dan A Johansson, Nordea	**Hans Mähler,** Nordea
Klas Palin, Redeye	**Peter Östling,** Pareto Securities

BOND ANALYSTS MONITORING MOBERG PHARMA

Gustav Larsson, Swedbank	**Jacob Zachrison,** Carnegie

LONG TERM INCENTIVE PROGRAMS

The Annual General Meeting of Moberg Pharma AB decided on May 15th, 2018, to authorize the Board to decide to carry out a directed issue of a maximum of 263,000 C shares to secure the company's commitments according to the incentive program LTI 2018. The Board decided to use the issue authorization and issued 263,000 C shares to Nordea Bank. These C shares were repurchased at a quota value of SEK 0.10 per share and converted into ordinary shares in June 2018.

In total there are 770,750 outstanding warrants and 263,000 performance shares as of December 31st, 2018. If all warrants are exercised for subscription of shares, the number of shares will increase by a total of 770,750 shares, from 17,440,762 shares (which excludes 263,000 shares in treasury) to 18 474,512 shares.

The Group's costs for employee stock option programs (excluding estimated costs for social security contributions) for 2018 amounted to SEK 2,2 million, for the previous year the expenses amounted to SEK 2,3 million. For further information on the option programs, see Note 7 and Note 19.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(TSEK)	Note	Jan-Dec 2018	Jan-Dec 2017
Net sales	2	439,041	439,032
Cost of goods sold		-104,436	-125,179
Gross profit/loss		**334,605**	**313,853**
		76%	71%
Sales expenses		-226,962	-226,573
Business development and administrative expenses		-41,010	-34,614
Research and development costs		-17,321	-14,411
Other operating income	4	16,644	17,284
Other operating expenses		-1,137	-4,464
Operating profit/loss	5–9	**64,819**	**51,075**
Interest income and similar items	10	1	-
Interest expenses and similar items	10	-38,974	-39,402
Profit/loss before tax		**25,846**	**11,673**
Income taxes	11	-6,008	-515
Profit/loss for the year		**19,838**	**11,158**
Items that will be reclassified in the income statement			
Translation differences on foreign operations		20,853	-23,577
Other comprehensive income		**20,853**	**-23,577**
		,	,
COMPREHENSIVE INCOME FOR THE YEAR		**40,691**	**-12,419**
Profit/loss attributable to Parent company shareholders		19,838	11,158
Profit/loss attributable to non-controlling interests		-	-
Comprehensive income/loss attributable to Parent company shareholders		40,691	-12,419
Total profit/loss attributable to non-controlling interests		-	-
Earnings/loss per share before dilution	12	**1,14**	**0,64**
Earnings/loss per share after dilution	12	**1,14**	**0,64**
Average number of shares before dilution		17,440,762	17,424,660
Average number of shares after dilution		17,462,351	17,548,529
Number of shares at year-end		17,440,762	17,440,762

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS (TSEK)	Note	**2018-12-31**	**2017-12-31**
NON-CURRENT ASSETS			
Intangible non-current assets			
Capitalized expenditure for research and development work	13	237,624	132,292
Capitalized expenditure for computer systems	13	2,359	2,446
Goodwill	13	97,088	89,092
Product rights	13	690,297	749,193
Patents, licenses and similar rights	13	6,850	6,850
Total intangible non-current assets		*1,034,218*	*979,873*
Property, plant and equipment			
Machinery and equipment	*14*	*382*	*725*
Financial and other non-current assets			
Other non-current financial assets		-	-
Deferred tax asset	11	5,064	9,255
Total other non-current assets		*5,446*	*9,255*
Total non-current assets		**1,039,664**	**989,853**
CURRENT ASSETS			
Inventories	15	24,976	26,561
Current receivables			
Trade receivables	16	67,460	67,140
Other receivables	16	5,629	10,151
Prepaid expenses and accrued income	17	3,100	10,115
Total current receivables		*76,189*	*87,406*
Cash and cash equivalents	*18*	*110,785*	*119,437*
Total current assets		**211,950**	**233,404**
TOTAL ASSETS		**1,251,614**	**1,223,257**

EQUITY AND LIABILITIES (TSEK)	Note	**2018-12-31**	**2017-12-31**
EQUITY	19		
Equity attributable to Parent company shareholders			
Share capital		1,744	1,744
Other capital contributions		528,122	527,203
Translation reserve		59,394	38,542
Accumulated deficit		-15,080	-26,238
Profit/loss for the year		19,838	11,158
Total equity		**594,018**	**552,409**
LIABILITIES			
Long-term liabilities			
Non-current liabilities	20	594,451	591,788
Interest-bearing liabilities		65	-
Deferred tax liabilities	11	6,916	5,369
Total non-current liabilities		*601,432*	*597,157*
Current liabilities			
Trade payables		25,381	25,251
Interest-bearing current liabilities	21	-	-
Other current liabilities	21	2,096	20,128
Accrued expenses and deferred income	22	28,687	28,312
Total current liabilities		*56,164*	*73,691*
Total liabilities		**657,596**	**670,848**
TOTAL EQUITY AND LIABILITIES		**1,251,614**	**1,223,257**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to Parent company shareholders				
(TSEK)	Share capital	Other capital contributions	Translation reserve	Profit/loss carried forward including profit/loss for the year	Total equity
Opening equity, January 1, 2017	**1,741**	**524,003**	**62,119**	**-26,238**	**561,625**
Profit/loss for the period				11,158	11,158
Other comprehensive income – translation differences on translation of foreign operations			-23,577		-23,577
Total	**0**	**0**	**-23,577**	**11,158**	**-12,419**
New share issues	3	944			947
Transaction expenses, new share issues		-89			-89
Tax on transaction expenses, new share issues		20			20
Employee stock option schemes		2,325			2,325
Closing equity, December 31, 2017	**1,744**	**527,203**	**38,542**	**-15,080**	**552,409**
Opening equity, January 1, 2018	**1,744**	**527,203**	**38,542**	**-15,080**	**552,409**
Profit/loss for the period				19,838	19,838
Other comprehensive income – translation differences on translation of foreign operations			20,852		20,852
Total	**0**	**0**	**20,852**	**19,838**	**40,690**
New share issues	26				26
Transaction expenses, new share issues		-666			-666
Tax on transaction expenses, new share issues		147			147
Repurchased own shares	-26,				-26
Employee stock option schemes		1,438			1,438
Closing equity, December 31, 2018	**1,744**	**528,122**	**59,394**	**4,758**	**594,018**

Additional information on the share and its performance is available on pages 27-28.

CONSOLIDATED STATEMENT OF CASH FLOWS

(TSEK)	Note	2018	2017
Operating activities			
Operating profit/loss		64,819	51,073
Adjustments for items not affecting cash flow:			
Depreciation/amortization and other adjustments	9, 28	31,861	25,369
Revaluation contingent consideration and unrealized foreign exchange rate differences		-4,552	-
Employee stock option costs		1,438	2,326
Financial items, received and paid		-36,410	-36,414
Taxes paid		-736	-557
Cash flow before changes in working capital		56,420	41,797
Change in working capital			
Increase (-)/Decrease (+) in inventories		3,822	12,105
Increase (-)/Decrease (+) in operating receivables		17,592	4,219
Increase (+)/Decrease (-) in operating liabilities		-3,943	-4,302
Cash flow from operating activities		**73,891**	**53,819**
Investing activities			
Net investments in intangible assets	13, 29	-83,641	-19,295
Investments in equipment and tools	14	-	-382
Cash flow from investing activities		**-83,641**	**-19,677**
Financing activities			
Share issues		26	947
Repurchase own shares		-26	-
Issue expenditure		-666	-89
Cash flow from financing activities		**-666**	**858**
CHANGE IN CASH AND CASH EQUIVALENTS		**-10,416**	**35,000**
Cash and cash equivalents on January 1		119,437	86,104
Exchange rate difference in cash and cash equivalents		1,764	-1,667
Cash and cash equivalents on December 31	18	110,785	119,437
Supplementary disclosures to cash flow statement			
Interest paid /received			
Interest received		1	-
Interest paid		-36,411	-36,414

PARENT COMPANY INCOME STATEMENT

(TSEK)	Note	Jan–Dec 2018	Jan–Dec 2017
Net sales	2	142,394	130,086
Cost of goods sold		-14,130	-16,754
Gross profit/loss		**128,263**	**113,332**
Sales expenses		-42,346	-44,827
Business development and administrative expenses		-29,226	-25,743
Research and development costs		-16,207	-13,036
Other operating income	4	16,914	17,282
Other operating expenses		-1,077	-4,431
Operating profit/loss	5-9, 27	**56,321**	**42,577**
Interest income and similar items	10	1	-
Interest expenses and similar items	10	-38,974	-39,402
Profit/loss before tax		**17,347**	**3,175**
Tax on net profit for the year	11	-4,337	-926
PROFIT/LOSS		**13,010**	**2,249**

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

(TSEK)	Note	Jan–Dec 2018	Jan–Dec 2017
Profit/loss for the year		**13,010**	**2,249**
Other comprehensive income		-	-
COMPREHENSIVE INCOME FOR THE YEAR		**13,010**	**2,249**

PARENT COMPANY BALANCE SHEET

ASSETS (TSEK)	Note	**2018-12-31**	**2017-12-31**
NON-CURRENT ASSETS			
Intangible non-current assets			
Capitalized expenditure for research and development work	13	237,624	132,292
Capitalized expenditure for computer systems	13	2,259	2,303
Product rights	13	642,612	700,528
Patents, licenses and similar rights	13	6,850	6,850
Total intangible non-current assets		*889,346*	*841,973*
Property, plant and equipment			
Machinery and equipment	14	114	294
Financial and other non-current assets			
Shares in Group companies	25	178,106	178,106
Deferred tax asset		5,064	9,255
Total other non-current assets	11	*183,170*	*187,361*
Total non-current assets		**1,072,630**	**1,029,628**
CURRENT ASSETS			
Inventories	15	*728*	-
Current receivables			
Trade receivables	16	12,472	13,549
Other receivables	16	4,485	5,390
Prepaid expenses and accrued income	16	2,086	2,486
Total current receivables	17	*19,043*	*21,424*
Cash and cash equivalents	18	*93,998*	*97,205*
Total current assets		**113,769**	**118,630**
TOTAL ASSETS		**1,186,399**	**1,148,258**

EQUITY AND LIABILITIES (TSEK)	Note	**2018-12-31**	**2017-12-31**
EQUITY	19		
Restricted equity			
Share capital		1,744	1,744
Reserve for development expenditure		225,888	120,556
Total restricted equity		*227,632*	*122,300*
Unrestricted equity			
Share premium reserve		406,962	406,044
Profit carried forward/accumulated deficit		-133,240	-30,158
Profit/loss for the year		13,010	2,249
Total unrestricted equity		*286,732*	*378,135*
Total equity		**514,364**	**500,435**
LIABILITIES			
Non-current liabilities			
Interest-bearing non-current liabilities	20	594,451	591,788
Other non-current liabilities		65	-
Total non-current liabilities		*594,516*	*591,788*
Current liabilities			
Trade payables		18,055	13,342
Liabilities to Group companies	16	41,306	8,194
Other current liabilities	21	2,171	16,990
Accrued expenses and deferred income	22	15,987	17,510
Total current liabilities		*77,519*	*56,035*
Total liabilities		**672,035**	**647,823**
TOTAL EQUITY AND LIABILITIES		**1,186,399**	**1,148,258**

CHANGES IN EQUITY FOR THE PARENT COMPANY

	Restricted equity		Unrestricted equity		
(TSEK)	Share capital	Reserve for development expenditure	Share premium reserve	Other unrestricted equity	Total equity
Opening equity, January 1, 2017	**1,741**	**50,006**	**402,844**	**40,392**	**494,983**
Profit/loss for the period				2,249	2,249
Reclassification to reserve for development expendi-ture		70,550		-70,550	0
New share issues	3		944		947
Transaction expenses, new share issues			-89		-89
Tax on transaction expenses, new share issues			20		20
Employee stock option schemes			2,325		2,325
Closing equity, December 31, 2017	**1,744**	**120,556**	**406,044**	**-27,909**	**500,435**
Opening equity, January 1, 2018	**1,744**	**120,556**	**406,044**	**-27,909**	**500,435**
Profit/loss for the period				13,010	13,010
Reclassification to reserve for development expendi-ture		105,332		-105,332	0
New share issues	26				26
Transaction expenses, new share issues			-666		-666
Tax on transaction expenses, new share issues			147		147
Repurchase own shares	-26				-26
Employee stock option schemes			1,438		1,438
Closing equity, December 31, 2018	**1,744**	**225,888**	**406,962**	**-120,230**	**514,364**

PARENT COMPANY CASH FLOW STATEMENT

(TSEK)	Note	Jan–Dec 2018	Jan–Dec 2017
Operating activities			
Operating profit/loss		56,321	42,577
Adjustments for items not affecting cash flow:			
Depreciation/amortization and other adjustments	9, 28	26,429	20,030
Revaluation contingent consideration and unrealized foreign exchange rate differences		-4,552	-
Employee stock option costs		607	1,598
Financial items, received and paid		-36,410	-36,414
Taxes paid		-	-
Cash flow before changes in working capital		42,395	27,791
Change in working capital			
Increase (-)/Decrease (+) in inventories		-728	370
Increase (-)/Decrease (+) in operating receivables		2,381	15,538
Increase (+)/Decrease (-) in operating liabilities		33,989	-598
Cash flow from operating activities		**78,037**	**43,101**
Investing activities			
Net investments in intangible assets	13, 29	-80,578	-19,133
Investments in equipment and tools	14	-	-
Cash flow from investing activities		**-80,578**	**-19,133**
Financing activities			
Share issues		26	947
Repurchase own shares		-26	-
Issue expenditure		-666	-89
Cash flow from financing activities	**-666**	**-666**	**858**
CHANGE IN CASH AND CASH EQUIVALENTS		**-3,207**	**24,826**
Cash and cash equivalents on January 1		97,205	72,379
Cash and cash equivalents on December 31	18	93,998	97,205
Supplementary disclosures to cash flow state-ment			
Interest paid /received			
Interest received		1	-
Interest paid		-36,411	-36,414

NOTES

Information in the notes pertains to both the Parent company and the Group unless otherwise stated. If only one set of values is stated in a note, with no reference to the Group or Parent company, the values for the Group and Parent company are identical in this note.

NOTE 1. ACCOUNTING POLICIES

Company information
The Annual Report for Moberg Pharma AB 2016 was approved for publication by decision of the Board on April 9, 2018. The Annual Report will be submitted to the Annual General Meeting (AGM) for adoption on May 15, 2018. Moberg Pharma AB, corporate registration number 556697-7426, is a limited liability company registered in Bromma, Sweden. The company's main business is described in the Directors' Report.

Basis of preparation and IFRS
The following accounting and valuation principles pertain to both the consolidated financial statements and the Parent company's annual accounts unless otherwise specified.

The consolidated financial statements have been prepared in accordance with international accounting standards, the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as well as interpretations from the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Commission for application in the EU.

The consolidated financial statements have also been prepared in accordance with Swedish law (the Annual Accounts Act) by application of Recommendation RFR 1 of the Swedish Financial Reporting Board.

The Parent company's Annual Report has been prepared in accordance with the Swedish Annual Accounts Act (ÅRL) by application of Recommendation RFR 2 of the Swedish Financial Reporting Board. This means that, as the main rule, the IFRS valuation and disclosure rules, as applied in the consolidated financial statements, also apply to the Parent company.

Standards, amendments and interpretations to be applied as of 2018
In the annual report for 2018, the Group and the Parent company apply for the first time the amendments to standards and interpretative statements that are to be applied for financial years beginning January 1st, 2018 or later. New and amended standards that came into effect from 2018, such as IFRS 15, which regulate revenue recognition and IFRS 9 for financial instruments, have had no material effect on the Group and the implementation of the new standards does not entail any recalculation of earlier periods when the effects are not essential. The Group has applied the transition to IFRS 15 through the modified retroactive transition method, which means that no comparison periods are recalculated according to the new standard. All income is reported at a given time and not over time.

Standards, amendments and interpretations to be applied as of 2019
The Group will apply IFRS 16 Leases as of January 1st, 2019. According to the new standard, most leased assets shall be recognized in the balance sheet and lessees shall divide the cost into interest payments and depreciation of the asset. The Group has chosen to apply the modified retroactive approach to the new standard, which does not require a recalculation of comparative periods. The Group's initial estimate of the transition to the new standard is SEK 15.2 million of leasing liabilities and assets with rights of use, with a leasing portfolio comprising primarily leased offices. The calculation of depreciation of assets with rights of use instead of leasing fees is expected to have a less positive impact on operating profit. Interest on the lease liabilities is expected to have a minor negative impact on net financial items. The Group has chosen not to report short-term lease agreements and leasing agreements for which the underlying asset has a low value as an asset with rights of use and leasing liabilities, respectively.

Translation of foreign currency
Functional currency and reporting value
Items included in the financial statements of the various Group companies are measured in the currency used in the economic environment in which the particular companies are active (functional currency). Moberg Pharma AB's functional currency is Swedish kronor (SEK), which also represents the reporting currency of the Parent company and the Group. Consequently, the company's financial reports are presented in Swedish kronor and rounded to the nearest thousand unless otherwise stated. Rounding to the nearest thousand may mean that certain amounts do not match when added up.

Transactions and balance-sheet items
Transactions in foreign currency are translated to the functional currency based on the exchange rates on the transaction date. Monetary assets and liabilities in foreign currency are translated to the functional currency at the exchange rate on the balance sheet date. Exchange-rate differences arising from translation are recognized in net financial items in the income statement. Non-monetary assets and liabilities are normally recognized at historical cost and are translated at the exchange rate on the transaction date.

Translation of foreign subsidiaries
Assets and liabilities in foreign operations, including goodwill and other surplus and deficit value, are translated to SEK using the exchange rate on the balance sheet date. Revenues and costs in foreign operations are translated to SEK at the average exchange rate that represents an approximation of the exchange rates prevailing on the transaction date. Translation differences arising from translation of foreign operations are recognized directly in the statement of comprehensive income as a translation difference.

Basis of valuation
Moberg Pharma uses cost to recognize balance-sheet items unless stated otherwise.

Consolidation principles
Subsidiaries are consolidated in accordance with the acquisition method. The cost of an acquisition comprises the fair value of assets provided as payment, issued equity instruments and the liabilities incurred or taken over at the date of transfer. Identifiable acquired assets, assumed liabilities and contingent liabilities arising from a corporate acquisition are initially measured at fair value on the acquisition date. The surplus represented by the difference between cost and the fair value of the Group's share of identifiable acquired net assets is recognized as goodwill.

Intra-Group transactions and balance-sheet items, as well as unrealized gains on transactions between Group companies, are eliminated in their entirety.

Revenue
Two types of income are included in net revenue: product sales and milestone payments. All revenues are recognized at the fair value of what has been received or will be received less deductions for discounts, VAT and after elimination of intra-group transactions and are recorded as follows:

- *Product sales are reported as revenue when control of the goods has been transferred to the customer, which is on delivery taking into account the current shipping conditions.*
- *Milestone payments are recognized when all conditions of eligibility for milestone payment under the agreement are met.*

Other income
Government grants and research grants are recognized in the income statement as other income in the same period as the expenses that the grants are intended to offset.

Goodwill
Goodwill comprises the amount by which cost exceeds the fair value of the Group's share of the acquired subsidiary's identifiable net assets on the acquisition date. Goodwill arising from acquisitions of subsidiaries is recognized as an intangible asset. Goodwill is tested annually to identify any impairment need and is recognized at cost less accumulated impairment losses.

Product rights
Product rights are recognized at cost. Product rights have a limited useful life and are recognized at cost less accumulated amortization and, where appropriate, impairment losses. The value of product rights is impairment tested regularly.

Non-current assets
Non-current assets are recognized at cost less accumulated depreciation or amortization and any impairment loss. Depreciation and amortization are applied according to plan over the asset's estimated useful life from the time of an acquisition.

Depreciation/amortization periods
The following useful lives are applied for different types of assets:

Product rights	15–25 years
Patents	useful life of the patent
Capitalized expenditure for research and development work	anticipated useful life
Capitalized expenditure for computer systems	5 years
Machinery	7 years
Equipment	5 years
Computer equipment	3 years

Amortization of patents commences from the time of commercialization. Once commercialization has commenced, patents are amortized over the term of the patent or on a straight-line basis over the anticipated useful life of the patent if this is less than the term of the patent. Amortization of product rights is applied straight line over the anticipated useful life.

Research and development costs
Research costs are expensed as incurred.

Expenditure relating to internally generated development projects is capitalized as intangible assets in accordance with IAS 38 Intangible Assets insofar as this expenditure is expected to generate future economic benefits. The cost of such intangible assets is amortized over the asset's estimated useful life. Other development costs are expensed as incurred. Moberg Pharma's assessment of this policy for ongoing development projects is presented on page 39 (Significant estimates and assessments). Expenditure arising before the time when all capitalization criteria have been fulfilled will continue to be expensed. Direct expenses of completing the product, such as those for patents, registration applications and product testing, including employee benefits, are recognized in cost. Depreciation/amortization will be applied using the straight-line method to distribute development expenses on the basis of estimated useful life.

The useful life is based on the term of the underlying patent; amortization is applied on a straight-line basis from the date of commercialization until the end of the patent, or on a straight-line basis across the anticipated useful life if this is less than the term of the underlying patent. Accordingly, the amortization period for capitalized development expenditure will exceed the five years that, according to the Annual Accounts Act, should normally be the amortization period in the Parent company. The reason for the longer amortization period is that the next generation of Kerasal Nail®/Nalox™ is expected to generate revenue throughout the entire term of the patents. Expenditure relating to acquired development projects is capitalized as intangible assets.

Impairment losses excluding goodwill
At each reporting date, the carrying amounts for intangible assets and property, plant and equipment are tested for impairment. If an indication of impairment exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of the fair value of the asset less selling expenses and the asset's value in use.

Value in use is determined by estimating and discounting future incoming and outgoing payments generated by the asset. If the recoverable amount is lower than the carrying amount, the asset is written down to the recoverable amount. This impairment loss is recognized directly in the income statement.

Leasing
Leases in which a significant share of the risks and benefits of ownership are retained by the lessor are classified as operating leases. All lease agreements have been classified as operating leases. The leasing fee for operational leases is expensed straight line over the leasing period unless another systematic approach better reflects the user's economic benefit over time.

Inventories
Inventories are recognized at the lower of cost (weighted average price) and net realizable value. Acquisition costs are defined as costs for finished goods and raw materials. Cost includes purchasing costs, customs and transport costs and other direct costs associated with the purchase of goods. Net realizable value is the estimated selling price in the company's operating activities less selling costs. The risk of obsolescence and confirmed obsolescence have been taken into account in the valuation. As the goods in inventory are sold, the carrying amount is expensed during the period in which the corresponding revenue is recognized. Losses on goods in inventory are recognized in the income statement during the period to which they relate.

Financial instruments
Financial instruments reported in the statement of financial position include, on the asset side, cash and cash equivalents, accounts receivable and financial receivables. Liabilities include accounts payable, other interest-bearing liabilities and contingent consideration.

[6] PCs are not recognized as assets but are instead recognized directly in the income statement

Reporting in an removal from report on financial position
A financial asset or liability is recognized in the statement of financial position when the company becomes a party according to the instrument's contractual terms. A claim is raised when the company has performed and there is a contractual obligation for the counterparty to pay, even if the invoice has not yet been sent. Accounts receivable are recognized in the statement of financial position when the invoice has been sent. Debt is raised when the counterparty has performed and there is a contractual obligation to pay, even if the invoice has not yet been received. Accounts payable are recognized when the invoice is received.

A financial asset is removed from the statement of financial position when the rights in the agreement are realized, expire or the company loses control over them. The same applies to part of a financial asset. A financial liability is removed from the statement of financial position when the obligation in the agreement is fulfilled or otherwise extinguished. The same applies to part of a financial debt. A financial asset and a financial liability are offset and reported with a net amount in the statement of financial position only when there is a legal right to offset the amounts and that there is an intention to settle the items with a net amount or to simultaneously realize the asset and settle the debt. Acquisitions and divestments of financial assets are reported on the business day. The business day is the day on which the company commits to acquire or dispose of the asset.

Classification and valuation of financial assets
Debt instruments: the classification of financial assets that are debt instruments is based on the Group's business model for managing the asset and the nature of the asset's contractual cash flows.

The instruments are classified into:

- accrued acquisition value
- fair value through other comprehensive income, or fair value through profit or loss.

The Group's assets in the form of debt instruments are classified at amortized cost. Financial assets classified at amortized cost are initially measured at fair value with the addition of transaction costs. Accounts receivable are initially recognized at the invoiced value. After the first accounting opportunity, the assets are valued according to the effective interest method. Assets classified at amortized cost are held according to the business model to collect contractual cash flows that are only payments of principal amounts and interest on the outstanding capital amount. The assets are covered by a loss reserve for expected loan losses.

Equity instruments are classified at fair value through profit or loss, with the exception if they are not held for trading, as an irrevocable choice can be made to classify them at fair value through other comprehensive income without subsequent reclassification to the result. The Group classifies equity instruments at fair value through profit or loss.

Classification and valuation of financial liabilities
Financial liabilities are classified at amortized cost, except for contingent considerations. Financial liabilities recognized at amortized cost are initially measured at fair value including transaction costs. After the first accounting date, they are valued at accrued acquisition value according to the effective interest method. Supplementary consideration is reported at fair value through profit or loss.

Comparative year according to IAS 39
Financial instruments are reported in accordance with IAS 39 in the comparative year 2017. IAS 39 had other classification categories than IFRS 9. The classification categories according to IAS 39 nevertheless entailed corresponding accounting at amortized cost or at fair value in the result or other comprehensive income. Furthermore, IAS 39 had another method for provisions for loan losses, which meant that a provision was made at an established credit event, unlike the method in IFRS 9, where provision is made for expected loan losses.

The transition has not resulted in any change in reported values. Otherwise, there are no differences between the standards for the Group. The Group has not had any significant effects on the transition from IAS 39 to IFRS 9

Impairment of financial instruments
The Group's financial assets, other than those that are classified at fair value through profit or loss, are subject to write-downs for expected loan losses. The reserve for loan losses is calculated and reported initially based on twelve-month expected loan losses. If the credit risk has increased significantly since the financial asset was first recognized, the reserve for credit losses is calculated and reported based on expected loan losses for the entire remaining term of the asset. For accounts receivable and contract assets, a simplified method is applied and the reserve for credit losses is calculated and reported based on expected loan losses for the entire remaining term. The calculation of expected loan losses is mainly based on an individual assessment of the current receivable or the asset together with information on historical losses for similar assets and counterparties. The historical information is evaluated and adjusted continuously based on the current situation and the expectation of future events. The financial assets are reported in the balance sheet at amortized cost, ie net of gross value and loss reserve. Changes in the loss reserve are reported in the income statement.

Provisions
Provisions are recognized in the balance sheet when the Group has a legal or informal obligation arising from previous events and it is more probable than not that an outflow of resources will be required to settle the obligation and the amount can be reliably calculated.

Pensions and other committed post-employment benefits
Moberg Pharma has only defined contribution plans for its employees. Defined-contribution plans and other short-term benefits for employees are recognized as personnel expenses during the period that the employee performed the service associated with the remuneration. Prepaid fees are recognized as an asset to the extent that cash repayment or a reduction of future payments may benefit Moberg Pharma.

Equity
Transaction costs directly attributable to the issue of new shares are recognized in equity, net after tax, as a deduction from the issue proceeds.

Employee stock option schemes
Share-based incentive programs are reported in accordance with IFRS 2. According to IFRS 2, the cost of share-based remuneration to employees is reported at fair value per grant date. The cost, together with a corresponding increase in equity, is reported during the period during which the performance and earnings conditions are met, up to and including the date on which the employees concerned are fully entitled to the compensation (vesting day). The accumulated cost recognized at each reporting date until the vesting date reflects the extent to which the vesting period has been harvested and Moberg Pharma's estimate of the number of equity-linked instruments that will ultimately be fully earned.

The company's employee stock option program constitutes a transaction that is regulated with equity instruments in accordance with IFRS 2, where the fair value of the allocated employee stock options is reported in the income statement as a personnel cost during the vesting period. The fair value of the employee stock options is determined at the time of allotment using the Black-Scholes option pricing model. Earnings terms are taken into account in assumptions about the number of employee stock options that are expected to be possible to utilize. This estimate is revised regularly. Moberg Pharma reports the possible effect of the revision of the original estimate in the income statement with a corresponding effect on equity during the remainder of the vesting period. Funds received on exercise of employee stock options, net of any directly attributable transaction costs, are added to equity.

Related-party transactions
Remuneration and benefits to senior executives are recognized in accordance with IAS 19 Employee Benefits and IFRS2 Share-based Payment. Other disclosures on related-party transactions are recognized in accordance with IAS 24 Related Party Disclosures and the Swedish Annual Accounts Act; see Note 31.

Tax
Current tax and changes in deferred tax are recognized as Moberg Pharma's tax expense or tax income. Current tax is calculated on the taxable results for the year in accordance with tax regulations. Current tax also includes adjustments from previous tax years.

Deferred tax is the tax calculated based on the taxable or deductible temporary differences between the carrying amount and tax value of assets and liabilities.

In accordance with the balance sheet method, deferred tax is recognized in its entirety on all temporary differences arising between the tax assessment value of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is calculated by applying the tax rates and laws that have been enacted or that have been enacted in principle on the balance sheet date and that are expected to apply when the deferred tax asset is realized, or the deferred tax liability is settled.

Deferred tax assets and liabilities pertaining to tax-deductible temporary differences and tax loss carryforwards are recognized only insofar as it is considered likely that they will be utilized and will result in lower tax payments in the future.

Parent company accounting policies
The Parent company's accounting policies essentially comply with the accounting policies of the Group. For the Parent company, an income statement and a statement of comprehensive income are presented, while for the Group, this is presented in a single report in the statement of comprehensive income. Furthermore, for the Parent company, the terms balance sheet and cash flow statement are used for those statements that in the Group are called consolidated statement of financial position and consolidated statement of cash flows, respectively. The income statement and balance sheet for the Parent company are drawn up according to the presentation stipulated in the Annual Accounts Act, while the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the Group are based on IAS 1 Presentation of Financial Statements and IAS 7 Statement of Cash Flows. The differences concerning the consolidated financial statements that are relevant to the Parent company's income statements and balance sheets consist mostly of the recognition of equity. Starting from 2016, a special restricted reserve will be introduced within equity relating to the Group's own expenditure for development work. A sum equivalent to capitalized expenditure for the Group's own development work is to be transferred from unrestricted to restricted equity. The reserve for development expenditure will be released as amounts are amortized.

Shares in subsidiaries
Shares in subsidiaries are recognized at cost, less any impairment losses, in accordance with the Annual Accounts Act.

Significant estimates and assessments
Estimates and assessments are evaluated on an ongoing basis, based on historical experience and other factors as well as expectations of future events that are considered reasonable based on prevailing circumstances. Prospective estimates and assessments are made. Accounting estimates will, by definition, rarely match actual outcomes. Estimates and assumptions that involve a significant risk of material adjustments to carrying amounts during the coming fiscal year are discussed below.

Taxes
Deferred tax assets pertaining to tax-deductible temporary differences and tax losses carried forward are recognized only insofar as it is considered likely that they will be utilized and will result in lower tax payments in the future. The deferred tax asset has been calculated on the basis of the assessment made by management and the Board of Directors concerning the future utilization, in the foreseeable future, of tax deficits accumulated in the Group. A changed assessment of how losses carried forward can be recovered through future taxable surpluses could impact recognized taxes on earnings and on items in the balance sheet in forthcoming periods.

Internal development expenditure
Development costs are to be capitalized as intangible assets when it is probable that the project will succeed. Each development project is unique and must be assessed based on its particular merits. The earliest assessed timing for capitalization is during Phase 3 development or equivalent final development steps for types of products other than pharmaceuticals. But even after completion of such development steps, a number of uncertainty factors could remain so that the criteria for capitalization cannot be considered satisfied.

Given premature capitalization, there is a risk that a project will fail and that the costs offset will not be justified, but will have to be expensed directly. In turn, this would imply that previous and current year results would be misleading because of an excessively optimistic assessment of the likelihood of success.

Status reports on the development projects were presented to the Board of Directors on a number of occasions during the year.. The Board has evaluated the development projects and determined that two ongoing development projects, MOB-015, and BUPI, fulfill all capitalization criteria as of December 31st, 2018. This assessment is made according to the criteria defined in IFRS:

It is technically feasible for the company to complete the product candidates
- Efficacy and safety have been proved in phase II studies as well as previous in vitro and ex vivo studies.
- The products are based on well-known and well documented substances. Significant parts of the regulatory dossier can be based on literature data when applying for market approval which may potentially lead to a shorter path to approval.
- Scientific advice meetings with regulatory agencies have been conducted to discuss the development program to market approval which indicates a high probability of obtaining a market approval
- Moberg Pharma has been granted patents and has pending patent applications in major territories

Moberg Pharma has the intention to complete the product candidates
- The Board of Directors has approved the continued development plans
- The company has entered into several agreements with external parties on continued development

Moberg Pharma has the ambition and ability to sell the products
- Both via existing distributors and partners and through its own sales channels

The asset will generate significant future economic benefits
- Market research has shown significant potential for new products

Moberg Pharma has access to adequate technical, financial and other resources to complete development of the product candidates
- Moberg Pharma has secured the availability of all necessary resources

NOTE 2. REVENUE

	Parent company		Group	
Distribution of net revenue	**2018**	**2017**	**2018**	**2017**
Sales of products	136,549	121,867	433,196	430,818
Milestone payments	5,845	8,218	5,845	8,214
	142,394	**130,086**	**439,041**	**439,032**

For the year 2018, the Group had a customer who accounted for SEK 97.1 million, 22% (SEK 97.1 million, 22%) of the Group's net sales (customer with registered office in the US). No additional customer accounted for more than 10% of sales.

	Parent company		Group	
Net revenue by geographical market	**2018**	**2017**	**2018**	**2017**
Europe	24,328	20,434	24,328	20,434
America	97,667	87,084	394,314	396,030
Rest of the world	20,399	22,568	20,399	22,568
	142,394	**130,086,**	**439,041**	**439,032**

Net revenue is based on the geographic market from which the product is sold.

	Parent company		Group	
Net revenue by sales channel	**2018**	**2017**	**2018**	**2017**
Direct sales	1,918	837	389,946	388,790
Distribution sales	49,095	50,242	49,095	50,242
Intra-Group sales	91,381	79,007	-	-
	142,394	**130,086,**	**439,041**	**439,032**

	Parent company		Group	
Net revenue by product category	**2018**	**2017**	**2018**	**2017**
Nalox™/Kerasal Nail®	137,842	130,086	175,889	154,169
New Skin®	-	-	94,107	86,568
Dermoplast®	-	-	117,984	95,451
Divested products	-	-	8,382	37,340
Other products	4,552	-	42,680	65,504
	142,394	**130,086**	**439,041**	**439,032**

The products Nalox/Kerasal Nail, New Skin, Dermoplast and Domeboro were divested om March 29, 2019.

Revenue from product sales is reported as revenue when the control of the goods has been transferred to the customer, which is on delivery taking into account the current shipping conditions. Invoicing is done in conjunction with delivery with a credit time on 16-60 days. Milestone payments are reported when all the conditions for entitlement to milestone payment under the agreement are fulfilled. Payments are received in connection with the achievement of the current milestone.

	Parent company		Group	
Contract balances	**2018**	**2017**	**2018**	**2017**
Trade and other receivables	16,958	18,939	73,089	77,291
Contract liabilities	-	-	3,482	2,913

Contract liabilities relate to estimated cash discounts and similar reserves. Final settlement for these is normally done within an 1-2 month period.

NOTE 3. SEGMENT INFORMATION

Moberg Pharma's operations comprise only one area of operation, the development and commercialization of medical products. Since the operations are conducted in one area of operation, no separate segment information is presented.

NOTE 4. OTHER OPERATING INCOME

	Parent company		Group	
	2018	**2017**	**2018**	**2017**
Exchange-rate gains	5,318	811	5,304	811
Capital gains from sales of non-current assets	5,007	12,998	4,752	12,998
Revaluation defferred purchase price	6,459	3,243	6,459	3,243
Other	130	230	130	230
	16,914	**17,282**	**16,644**	**17,282**

Revaluation defferred purchase price during 2018 refers to revaluation of defferred purchase amounts for Fiber Choice USD 0.5 million (USD 0.5 million) and Balmex USD 0.2 million.

NOTE 5. ANALYSIS OF EXPENSES BY COST CATEGORY

	Parent company		Group	
Operating expenses	**2018**	**2017**	**2018**	**2017**
Cost of goods sold	14,130	16,753	104,436	125,179
Personnel costs	39,710	40,176	62,115,	58,313
Depreciation/amortization	31,493	33,029	36,925	38,367
External R&D costs	2,640	5,156	3,874	6,341
External selling expenses	3,160	4,991	138,241	140,448
Distribution costs	-	-	23,939	21,666
Other expenses	11,853	4,686	21,336	14,925
	102,986	**104,791**	**390,866**	**405,239**

[16] Including foreign exchange gains/losses on capital gains

Depreciation/amortization by function	Parent company 2018	Parent company 2017	Group 2018	Group 2017
Research and development costs	2,225	1,968	2,225	1,968
Sales expenses	28,881	30,836	33,892	35,762
Business development and administrative expenses	387	224	808	637
	31,493	**33,028**	**36,925**	**38,367**

Depreciation of selling expenses pertains mainly to acquired product rights.

NOTE 6. LEASING

Moberg Pharma has no financial leasing liabilities. Moberg Pharma's operational leasing obligations are presented below. Leasing fees for operational leases are to be expensed straight line over the leasing period. On the balance sheet date, the total amount of future minimum leasing fees pertaining to non-cancelable operational leases was distributed as follows:

Operationell leasing	Parent company 2018	Parent company 2017	Group 2018	Group 2017
Due for payment within one year	2,830	2,762	3,660	4,134
Due for payment between one year and five years	10,629	1,998	13,756	6,799
Due for payment after more than five years	-	-	-	-
	13,459	**4,760**	**17,416**	**10,934**

Operational leasing costs during the year	Parent company 2018	Parent company 2017	Group 2018	Group 2017
Leasing of premises	2,661	2,593	4,163	3,450
Leasing of parking spaces	160	157	160	157
Cleaning contracts	147	128	147	128
Leasing of machinery	150	158	150	158
	3,118	**3,036**	**4,620**	**3,893**

NOTE 7. EMPLOYEES

	2018				2017			
	Average number of employees			No. of employees on Dec 31	Average number of employees			No. of employees on Dec 31
No. of employees	Women	Men	Total	Total	Women	Men	Total	Total
Sweden	20	6	26	23	19	7	26	27
USA	8	5	13	14	8	5	13	13
Total	**28**	**11**	**39**	**37**	**27**	**12**	**39**	**40**

Reporting of gender distribution of members of Parent company senior management	2018 Women	2018 Men	2017 Women	2017 Men
Board of Directors	2	3	1	5
Other senior executives	1	5	1	5

Reporting of gender distribution of members of Group senior management	2018 Women	2018 Men	2017 Women	2017 Men
Boards of Directors[8]	2	4	1	6
Other senior executives[9]	1	6	1	6

[17] Boards of Directors of the Group's operating companies

[18] Management teams in the Group's operating companies

Total salaries, social security expenses and pensions	Parent company 2018	Parent company 2017	Group 2018	Group 2017
Salaries and other remuneration, including pension costs	28,592	29,736	46,939	43,786
Employee stock option costs	607	1,598	1,427	2,338
Social security costs	8,819	7,366	8,819	7,366
Training	217	142	226	142
Recruitment	493	338	493	626
Other expenses	982	996	4,211	4,056
Total	**39,710**	**40,176**	**62,115**	**58,313**
Of which pension costs	3,537	3,898	3,537	3,898

Variable remuneration totaled SEK 6.9 million (5.9) for the entire workforce in 2018, of which SEK 3.6 (3.4) million was in the parent company. Variable remuneration corresponded to approximately 11% of the Group's total personnel costs. All permanent employees who have been employed for more than 6 months have the opportunity to receive a variable salary component that is linked to the fulfillment of individual goals and the company's goals for the year.

Senior executive benefits

Board and committees

The Chairman of the Board and other Board members receive director's fees as resolved by the Shareholders' Meeting.

Managing Director

For the year 2018, the company paid SEK 2,4 million (2,3) in basic salary to the CEO Peter Wolpert and SEK 1,5 million (1,0) in variable remuneration. The CEO's pension is defined-contribution, whereby the company has no pension obligations in addition to those stated here. Premium payments have been made with 27% (27) of basic salary for the year 2018. The notice period is six months in the event of termination on the initiative of the CEO and twelve months on termination by the company.

Other senior executives

Remuneration to other senior executives consists of basic salary, variable remuneration, other benefits and pensions. By other senior executives in the parent company is meant the four persons who together with the CEO constitute the management group. In addition to the CEO, the management team consisted of the following persons 2018:

- Chief Medical Officer
- CFO
- Vice President, Global Consumer Health
- Vice President Finance
- Vice President Pharmaceutical Innovation and Development

In addition to the management group above, the CFO or Moberg Pharma North America is also included in management groups in the Group's operating companies and is included in senior executives below.

Remuneration to senior executives

At the Annual General Meeting on May 15th, 2018, the following guidelines were decided upon for senior executives in Moberg Pharma: Moberg Pharma shall offer a market-based total compensation that enables qualified senior executives to be recruited and retained. Remuneration to the President and other senior executives may consist of basic salary, variable remuneration, other benefits and pension. The basic salary forms the basis of the total remuneration and shall be proportionate to the executive's responsibilities and powers. The variable remuneration may not exceed 25–50% of the annual basic salary for each executive. The variable remuneration is based on earnings in relation to individually defined qualitative and quantitative targets and results for the company in relation to the goals set by the Board. Pensionable salary consists solely of basic salary. To the extent that the Board member performs work for the company or other Group companies, in addition to the work of the Board, market-based consulting fees shall be payable.

The notice period shall be at least three months upon termination on the initiative of the senior executive and upon termination by the company between three and twelve months. Severance pay may be payable, however, the total remuneration may never exceed 12 months' salary. Share-related and share-price-related programs shall, where appropriate, be decided by the General Meeting. Allocation shall be made in accordance with the decision of the Annual General Meeting. Except for the employee stock options that have been allocated and earned and what follows from the employment contract according to the above, the senior executives are not entitled to any benefits after termination of the employment / assignment. In addition, the Board of Directors must be able to allocate further variable remuneration to senior executives when the Board finds it appropriate.

The Board of Directors shall have the right to deviate from the above guidelines for remuneration to senior executives if there are special reasons.

Remuneration and other benefits during 2018 for the Managing Director and other senior executives in the Group

2018	Basic salary[10]	Variable remuneration[11]	Other benefits	Pension costs	Share-based remuneration[12]	Other remuneration	Total
Managing Director	2,379	1,278	-	642	414	-	4,714
Other Executivies (6 persons)	8,232	2,785	-	668	1,388	-	13,073
Total	**10,611**	**4,063**	**0**	**1,311**	**1,802**	**0**	**17,787**

2017	Basic salary	Variable remuneration[13]	Other benefits	Pension costs	Share-based remuneration[14]	Other remuneration	Total
Managing Director	2,310	901	-	624	375	-	4,209
Other Executivies (6 persons)	8,489	2,341	-	1,158	1,162	-	13,149
Total	**10,799**	**3,242**	**0**	**1,782**	**1,537**	**0**	**17,358**

[10] Mark Beveridge and Shaw Sorooshian have invoiced their renumeration as consultant fees through companies.

[11] Variable remuneration pertains to the 2018 fiscal year and 1 613 KSEK of the total will be paid in 2019.

[12] These costs will not entail a payment and do not affect the Company's cash flow. Estimated social security costs are not included in the carrying amounts.

[13] Variable remuneration pertained to the 2017 fiscal year, but paid in 2018.

[14] These costs will not entail a payment and do not affect the Company's cash flow. Estimated social security costs are not included in the carrying amounts.

Long term incentive programs

Moberg Pharma has introduced share-based incentive programs in the form of employee stock options that are intended to promote the company's long-term interests by motivating and rewarding senior executives and other employees. All permanent employees with a term of employment exceeding 12 months on December 31st, 2018 are included in the company's incentive program. The number of shares and options held by Board members, the President and other senior executives is stated on the Board's information on page 57 and management on page 56. For further information on share-based payments, see Note 19.

Directors' Fees

	2018		2017	
	Directors' Fees[15]	Other Remuneration	Directors' Fees[15]	Other Remuneration
Thomas Eklund (Chairman)	416	-	400	-
Board members:				
Torbjörn Koivisto (to 2018-05-15)	76	-	185	-
Geert Cauwenbergh	170	-	170	-
Mattias Klintemar	222	-	220	-
Thomas Thomsen (to 2018-05-15)	78	-	190	-
Sara Brandt	170	-	100	-
Anna Malm Bernsten (from 2018-05-15)	113	-	-	-
Wenche Rolfsen (to 2017-05-16)	-	-	70	-
Total	**1,245**	**-**	**1,265**	**-**

[15] Board members Thomas Eklund, Geert Cauwenbergh, Mattias Klintemar and Thomas Thomsen have, for work performed until May 15th 2018, invoiced their directors' fees plus social security contributions and VAT through companies. This procedure is cost neutral for Moberg Pharma. All fees for the period after the AGM 2018 have been paid out as income of services and are therefore subject for social security contributions in Moberg Pharma AB.

[16] Board members Thomas Eklund, Geert Cauwenbergh, Wenche Rolfsen, Mattias Klintemar and Thomas Thomsen have invoiced their directors' fees plus social security contributions and VAT through companies. This procedure is cost neutral for Moberg Pharma.

NOTE 8. INFORMATION ON AUDITOR'S REMUNERATION

	Parent company		Group	
Ernst & Young	**2018**	**2017**	**2018**	**2017**
Audit assignment	744	480	800	655
Auditing in addition to the assignment	118	193	118	193
Tax advice	35	23	35	23
Other services	3	138	3	138
	900	**833**	**956**	**1,008**

Audit assignments are defined as the examination of the annual report and accounting records and of the Board of Directors and CEO's administration of the company, other tasks incumbent on the auditor, as well as advice and other assistance occasioned by observations made in the course of such examinations or the performance of such other tasks. Audit work in addition to the assignment comprises examinations of interim reports, prospectus, pro forma and issue-in-kind certificates and preparing other opinions in accordance with the Companies Act.

NOTE 9. DEPRECIATION/AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE NON-CURRENT ASSETS

	Parent company		Group	
Depreciation/amortization	**2018**	**2017**	**2018**	**2017**
Equipment and inventory	91	158	286	394
Intangible assets	31,402	32,871	36,639	37,973
	31,493	**33,029**	**36,925**	**38,867**

NOTE 10. FINANCIAL ITEMS

	Parent company		Group	
Interest income and similar items	**2018**	**2017**	**2018**	**2017**
Interest income	1	-	1	-
Exchange gains on liabilities	-	-	-	-
	1	**0**	**1**	**0**

	Parent company		Group	
Interest expenses and similar items	**2018**	**2017**	**2018**	**2017**
Interest expenses	36,311	36,543	36,311	36,543
Exchange losses on liabilities	-	-	-	-
Costs for loans raised	2,663	2,860	2,663	2,860
	38,974	**39,402**	**38,974**	**39,402**

NOTE 11. TAXES

	Parent company		Group	
Tax recognized in the income statement	**2018**	**2017**	**2018**	**2017**
Current tax	-	-	-639	-68
Deferred tax	-4,337	-926	-5,369	-447
	-4,337	**-926**	**-6,008**	**-515**
Applicable tax rate in Sweden	22.0%	22.0%	22.0%	22.0%

	Parent company		Group	
Income taxes	**2018**	**2017**	**2018**	**2017**
Profit/loss before tax	17,347	3,175	25,846	11,671
Tax according to the applicable tax rate for the Parent company	-3,816	-698	-5,686	-2,568
Effects of other tax rates for foreign subsidiaries	N/A	N/A	206	-1,171
Non-taxable income	-	-	-	-
Non-deductible expenses	-379	-228	-417	-258
Effect of change in tax rate on deferred tax	-142	-	-142	3,437
Other	0	0	31	45
Tax recognized	**-4,337**	**-926**	**-6,008**	**-515**

	Parent company		Group	
Deferred tax assets/tax liabilities	**2018**	**2017**	**2018**	**2017**
Deferred tax asset for deficit	5,064	9,255	5,378	9,444
Deferred tax assets – other temporary differences	-	-	1,422	1,012
Deferred tax liabilities	-	-	-8,652	-6,570
	5,064	**9,255**	**-1,852**	**3,886**

Deferred tax assets pertaining to tax-deductible temporary differences and tax losses carried forward are recognized only insofar as it is considered likely that they will be utilized and will result in lower tax payments in the future. Since the Board is of the opinion that the company's development means that there are convincing reasons to believe that future taxable surpluses will be available against which unused tax losses can be offset, the losses have been assigned a value. Current tax loss carry forwards can be utilized for an unlimited time in Sweden and over a period of 20 years in the U.S.

Deferred tax asset – other temporary differences under Group refers partly to provisions for expected credit losses and partly to provisions for UNICAP, variable salaries and inventory obsolescence.

In connection with the acquisition of the U.S. operation in 2012, push down accounting was applied, which means that surplus value is recognized in a legal entity. Fair-value adjustments totaling USD 19,8 million are deductible in connection with income taxation in the U.S., primarily through tax depreciation over a 15-year period following the acquisition; remaining fair-value adjustments over the period 2018–2038 amount to approx. USD 11.8 million, which is deductible in connection with income taxation in the U.S. The temporary difference that arises over time results in a deferred tax liability in the Group.

The Parent Company, up to and including December 31, 2018, has not recognized any excess amortizations in connection with acquisitions of intangible assets. Acquired intangible assets in the Parent Company consist of patents worth SEK 7.2 million (refers to BUPI, acquired in 2014) and acquired product rights of a total of SEK 706.3 million, of which:

- SEK 16.9 million refer to Domoboro® (acquisition from December 2013)
- SEK 255.9 million refer to New Skin® and Fiber Choice® (acquisitions from July 2016), and
- SEK 433.3 million refer to Dermoplast® (acquisition from December 2016),

Acquired patents have not been amortized in the Parent company26. Acquired product rights have been amortized over 25 years in the Parent company. It will therefore be possible to recognize significant excess amortizations in the Parent company in the future, according to Swedish Income Tax Act regulations.

[25] Amortization of patents commences from the time of commercialization. Acquired patents refer to BUPI, which has not yet been commercialized.

NOTE 12. EARNINGS PER SHARE

Calculations have been made in accordance with IAS 33 Earnings Per Share. Earnings per share before dilution are calculated by dividing the results for the year by a weighted average number of shares outstanding during the year.

Earnings per share	2018	2017
Consolidated net profit/loss	19,838	11,158
Weighted average number of shares before dilution	17,440,762	17,428,719
Dilution effect of employee stock option schemes	21,589	111,551
Weighted average number of shares after dilution	17,462,351	17,540,270
Earnings/loss per share before dilution	1.14	0.64
Earnings/loss per share after dilution	1.14	0.64

If all 1,027,334 of the warrants outstanding as of December 31st, 2018 were exercised to subscribe to shares, the total number of shares would increase by 1,028,168, from 17,440,762 shares to 18,468,930.

NOTE 13. INTANGIBLE NON-CURRENT ASSETS

	Parent company		Group	
Capitalized development expenditure	**2018**	**2017**	**2018**	**2017**
Opening accumulated cost	134,670	62,842	134,670	62,842
Capitalized expenditure for the year	106,793,	71,827	106,793	71,827
Carrying amount at the end of the period	**241,462**	**134,670**	**241,462**	**134,670**
	,	**,**	**,**	**,**
Opening depreciation	-2,377	-1,100	-2,377	-1,100
Depreciation for the year	-1,461	-1,277	-1,461	-1,277
Closing depreciation	-3,838	-2,377	-3,838	-2,377
Carrying amount at the end of the period	**,237,624**	**,132,292**	**237,624**	**132,292**
Detailed analysis of capitalized development expenditure				
Capitalized expenditure for MOB-015	203,173	98,408	203,173	98,408
Capitalized expenditure for BUPI	13,632	11,604	13,632	11,604
Capitalized expenditure for the next generation of Kerasal Nail®/Nalox™	20,819	22,280	20,819	22,280
Carrying amount at the end of the period	**,237,624**	**132,292**	**237,624**	**132,292**

Expenditures for research and development that were not capitalized amounted to SEK 15.1 million, compared with SEK 12.4 million in 2017. Capitalized development expenditure during 2018 relates to capitalized development expenses for MOB-015 and BUPI. The useful life is based on the lifetime of the underlying patent, depreciation is made linearly from the time of commercialization to the end of the patent, or linearly over the expected useful life if this is less than the lifetime of the underlying patent.

	Parent company		Group	
Capitalized expenditure for computer systems	**2018**	**2017**	**2018**	**2017**
Opening accumulated cost	4,913	3,954	5,069	3,954
Capitalized expenditure for the year	1,314	959	1,314	1,115
Carrying amount at the end of the period	-	-	14	-
Redovisat värde vid periodens slut	**6,227**	**4,913**	**6,398**	**5,069**
Opening depreciation	-2,610	-1,595	-2,623	-1,595
Depreciation for the year	-1,357	-1,015	-1,414	-1,029
Translation differences	-	-	-1	-
Closing depreciation	-3,968	-2,610	-4,038	-2,623
Carrying amount at the end of the period	**2,259**	**2,303**	**2,359**	**2,446**

	Parent company		Group	
Goodwill	**2018**	**2017**	**2018**	**2017**
Opening accumulated cost	-	-	89,092	98,453
Translation differences	E/T	E/T	7,996	-9,361
Carrying amount at the end of the period	**0**	**0**	**97,088**	**89,092**

Goodwill relates to the acquisition of Moberg Pharma North America LLC (Alterna LLC) in 2012, which was sold 2019-03-29 together with the remaining OTC-business. In total, the divestment raised USD 155 million (corresponding to SEK 1.43 billion) adjusted for working capital, resulting in a capital gain of approximately SEK 500 million. Goodwill has an indefinite useful life and is tested annually for impairment.

	Parent company		Group	
Product rights	**2018**	**2017**	**2018**	**2017**
Opening accumulated cost	739,586	782,088	813,198	863,435
Acquisitions for the year	-	142	-	142
Divestments for the year	-33,331	-42,644	-33,331	-42,644
Translation differences	E/T	E/T	6,606	-7,734
Closing accumulated cost	*706,255*	*739,586*	*786,474*	*813,198*
Opening depreciation	-39,058	-10,327	-64,006	-32,472
Depreciation for the year	-28,584	-30,579	-33,765	-35,668
Reversal of amortization from previous years in connection with divest-ments	3,999	1,847	3,999	1,847
Translation differences	E/T	E/T	-2,405	2,287
Closing depreciation	*-63,643*	*-39,058*	*-96,177*	*-64,006*
Carrying amount at the end of the period	**642,612**	**700,528**	**690,297**	**749,193**

		Useful	Parent company		Group	
Specification of product rights	**Remaining time**	**life, ye ars**	**2018**	**2017**	**2018**	**2017**
Product rights for Dermoplast®	23.0	25	398,808	416,148	398,808	416,148
Product rights for NewSkin®	22.5	25	230,279	240,514	230,279	240,514
Product rights for Kerasal®	8.9	15	-	-	47,685	48,665
Product rights for Balmex® [18]	0	25	-	29,665	-	29,665
Product rights for Domeboro®	20.0	25	13,525	14,201	13,525	14,201
Carrying amount at the end of the period			**642,612**	**700,528**	**690,297**	**749,193**

Amortization of product rights is applied on a straight-line basis across the estimated useful life. All product rights have been divested on March 29, 2019.

	Parent company		Group	
Patents, licenses and similar rights	**2018**	**2017**	**2018**	**2017**
Opening accumulated cost	7,150	7,150	7,150	7,150
Acquisitions for the year	-	-	-	-
Closing accumulated cost	*7,150*	*7,150*	*7,150*	*7,150*
Opening depreciation	-300	-300	-300	-300
Depreciation for the year	-	-	-	-
Closing depreciation	*-300*	*-300*	*-300*	*-300*
Carrying amount at the end of the period	**6,850**	**6,850**	**6,850**	**6,850**

[18] Balmex divested in 2018

Investments in patents primarily refers to the acquisition from Oracain II ApS of rights to a patent-pending formulation of the proven substance bupivacaine for the treatment of pain in the oral cavity, BUPI, which has not yet been commercialized. Amortization of patents commences from the time of commercialization.

Testing of impairment requirement

Intangible assets with an indeterminable useful life are tested at least annually to assess impairment requirements. Assets amortized and intangible assets under development are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount is not recoverable, or at least annually.

In the impairment test, the present value of the anticipated future cash flow from the Group's product portfolio is calculated. The future cash flows are based on next year's budget adopted by the Board of Directors, and a forecast for the following years. The adopted budget is based on a large number of detailed assumptions pertaining to volume growth, exchange rates, cost trends, etc. In addition, the budget is based on knowledge from management and other key individuals within the organization, on history and forward-looking information. The forecast for the time frame following the budget for the year and forward is based on the long-term forecast planning by company management. This is based on several more comprehensive assumptions pertaining to industrial trends, economic trends, volume growth, competition, exchange rates, cost trends, etc. The calculations and forecasts are based on external sales statistics and internal trend analysis. This, combined with management's experience, estimated forecasts, business plans, as well as existing agreements with suppliers and customers, forms the basis of assessment. The most significant assumptions applied during the year's test include volume growth, EBITDA, investment requirements and discount rates (WACC).

For the company's intangible fixed assets that are under development, the expected cash flows are likely to be adjusted to take into account the development risk. The cash flow is calculated based on forecasts for total market size, expected market share, estimated price level etc. The size of the market, price level and probability assessment is based on external market information and accepted probability assumptions for the corresponding product to reach the market. The costs include development costs based on the company's business plan. The forecast period for income and expenses extends to the end of the patent in 2032. The most significant assumptions mainly consist of market size, market share and probability.

WACC

The discount rate used has been calculated as WACC (weighted average cost of capital) and amounts to 8.9% (8.9). The discount rate is based on a market-based assessment of the average capital cost taking into account the estimated existing risk level.

Other significant assumptions

Calculations are based on a five-year forecast, after which the annual growth rate is expected to be 2% (2). All of the company's operations are treated as a single cash flow generating unit.

Sensitivity analysis

Sensitivity analyses are conducted to analyze how changes in WACC and growth rates influence the calculated value in use. Sensitivity analyses that have been carried out indicate that no reasonable changes in significant assumptions lead to a need for impairment.

NOTE 14. PROPERTY, PLANT AND EQUIPMENT

	Parent company		Group	
	2018	**2017**	**2018**	**2017**
Opening cost	2,420	2,420	3,785	3,522
Investments	-	-	-	368
Translation differences	E/T	E/T	122	-105
Divestments/disposals	-195	-	-195	-
Closing cost	*2,224*	*2,420*	*3,712*	*3,785*
Opening depreciation	-2,125	-1,967	-3,060	-2,748
Translation differences	E/T,	E/T,	-90	82
Depreciation for the year	15	-158	-180	-394
Closing depreciation	*-2,110*	*-2,125*	*-3,330*	*-3,060*
Carrying amount at the end of the period	**114**	**294**	**382**	**725**

NOTE 15. INVENTORIES

	Parent company		Group	
Inventories	**2018**	**2017**	**2018**	**2017**
Raw materials	-	-	4,050	1,672
Finished products and goods for resale	728	-	20,926	24,889
	728	**0**	**24,976**	**26,561**

No impairment of inventory took place in 2017-2018.

NOTE 16. TRADE RECEIVABLES AND OTHER RECEIVABLES

	Parent company		Group	
Trade receivables and other receivables	**2018**	**2017**	**2018**	**2017**
Trade receivables	12,472	13,549	67,716	67,597
Provisions for expected credit losses	-	-	-256	-456
Carrying amount at the end of the period, trade receivables	**12,472**	**13,549**	**67,461**	**67,141**
Receivables from Group companies	-	-	N/A	N/A
Other receivables	4,485	5,390	5,629	10,151
	16,957	**18,939**	**73,089**	**77,291**

Fair value for trade receivables corresponds to the carrying amount. The maximum exposure to credit risk at the balance sheet date corresponds to the carrying amount of trade receivables and other receivables. Trade receivables are deemed to be of good credit quality.

Large outstanding trade receivables for the Group:	**Outstanding trade receivables 12/31/2018**	**% of total trade receivables**
Company A	16,593	25%
Company B	9,602	14%

Large outstanding trade receivables for the Group:	**Outstanding trade receivables 12/31/2018**	**% of total trade receivables**
Company X	3,648	29%
Company Y	2,101	17%

On December 31st, 2018, trade receivables amounting to SEK 8,8 million (21,6) were overdue in the Group. The age analysis is shown below.

	Parent company		Group	
Ageing of trade receivables	**2018**	**2017**	**2018**	**2017**
Not overdue	9,858	13,063	58,881	45,983
Less than 3 months	2,612	484	8,573	21,127
3 to 6 months	-	-	173	363
More than 6 months	2	-	89	124
	12,472	**13,549**	**67,716**	**67,597**

	Parent company		Group	
Changes in provisions for expected credit losses	**2018**	**2017**	**2018**	**2017**
On January 1	-	-	-456	-299
Additional provisions for expected credit losses	-	-	-368	-386
Receivables written off during the year as non-recoverable	-	-	604	192
Reversed unutilized amount	-	-	-	-
Translation differences	-	-	-36	38
Carrying amount at the end of the period	**0**	**0**	**-256**	**-456**

	Parent company		Group	
	2018	**2017**	**2018**	**2017**
Non-overdue trade receivables not subject to impairment	9,858	13,063	58,881	45,983

NOTE 17. PREPAID EXPENSES AND ACCRUED INCOME

	Parent company		Group	
	2018	**2017**	**2018**	**2017**
Leasing of premises	695	677	695	677
Insurance costs	1,030	1,182	1,261	1,196
Pension costs	201	337	201	337
Marketing costs	-	-	639	6,224
Other prepaid expenses	160	290	304	1,682
	2,086	**2,486**	**3,100**	**10,115**

NOTE 18. CASH AND CASH EQUIVALENTS

Moberg Pharma receives interest on cash and cash equivalents at rates based on the banks' daily deposit rates. The cash flow statement includes the following cash and cash equivalents.

	Parent company		Group	
Cash and cash equivalents	**2018**	**2017**	**2018**	**2017**
Cash and cash equivalents	93,998	97,205	110,785	119,437
Carrying amount	**93,998**	**97,205**	**110,785**	**119,437**

Cash and cash equivalents in both the Parent company and the Group include bank accounts pledged as security for bank guarantees of SEK 0.7 (0.7) million.

NOTE 19. EQUITY

Capital

Moberg Pharma's managed assets comprise equity. Changes in managed equity are described in "Consolidated Statement of Changes in Equity", page 31. Moberg Pharma seeks to add value and generate a good return for shareholders through profitable growth from organic sales growth, acquisitions and in-licensing of new products

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Share Capital

Date[19]	**Transaction**	**Change in number of shares**	**Changes in share capital**	**Number of shares**	**Total share capital, SEK**	**Face value, SEK**	**Subscription price, SEK**[20]	**Invested capital**
Outstanding, January 2017				**17,411,842**	**1,741,184.20**	**0.10**		
June 2017	Subscription warrants exercised	28,920	2,892.00	17,440,762	1,744,076.20	0.10	32.75	947,130
Closing balance 2017				**17,440,762**	**1,744,076,20**	**0.10**		
Outstanding, January 2018				**17,440,762**	**1,744,076.20**	**0.10**		
June 2018	New share issue (own shares)	263,000	26,300.00	17,703,762	17,770,376,20	0.10	-	-
Closing balance 2018				**17,703,762**	**1,770,376,20**	**0.10**		

[28] Refers to the date of registration with the Swedish Companies Registration Office

[29] Average exercise price

Share-based remuneration

Employee stock options	2010:1	2012:2	2014:1	2015:1	2015:1 B	2016:1	2017:1	2018:1[21]
Start day	2010-05-19	2012-11-27	2014-05-22	2015-05-11	2015-05-11	2016-05-16	2017-05-16	2018-05-15
Expiration date	2018-06-30	2018-12-31	2018-12-31	2019-12-31	2019-12-31	2020-12-31	2021-06-30	2021-05-10
Vesting date	2011-12-31/ 2012-12-31	¼ each as at 12/31/2014, 12/31/2015, 12/31/2016 and 12/31/201	2017-06-30	2018-06-30	2018-06-30 and 2019-09-30	2019-06-30	2020-06-30	2021-05
Exercise price, SEK per share	32.75	42.81	37.64	65.47	65.47	42.97	59.50	35.00
Number originally allocated	89,501	125,000	196,500	138,500	150,000	428,000	304,000	263,000
Outstanding, January 1, 2018	834	12,500	138,750	105,750	81,000	388,500	304,000	-
Allocated in 2018	-	-	-	-	-	-	-	263,000
Forfeited previous years	-	75,000	57,750	32,750	69,000	39,500	-	-
Forfeited in 2018	-	-	-	-	-	56,000	52,500	-
Exercised in previous years	88,667	37,500	-	-	-	-	-	-
Exercised in 2018	-	-	-	-	-	-	-	-
Expire in 2018	834	12,500	138,750	-	-	-	-	-
Outstanding, December 31, 2018	0	0	0	105,750	81,000	332,500	251,500	263,000
Number of shares that may be subscribed to through employee stock options	**0**	**0**	**0**	**105,750**	**81,000**	**332,500**	**251,500**	**263,000**
Vested, December 31, 2018	0	0	0	105,750	0	0	0	0

In total there are 770,750 outstanding employee stock options (of which 105,750 employee stock options earned) and 263,000 performance share rights ("PSU") as of December 31st, 2018. If all employee stock options were exercised, the number of shares would increase by 770,750. Performance share rights are issued and managed, and the actual number of shares that can be transferred varies between 0 and 100% depending on the share's value development. If all warrants were exercised and all shares were allocated, the total number of shares would increase from 17,440,762, which excludes shares in treasury, to 18,474,512 shares.

The employee stock options are issued by the subsidiary Moberg Derma Incentives AB. The employee stock options can be exercised by the holder at any time after the vesting day up to and including the end date, where each employee stock option entitles the holder to subscribe for a warrant. Each warrant gives in turn the right to subscribe for one common share in Moberg Pharma. If the employment is terminated, the non-earned employee stock options will be forfeited.

For employee stock options that entitle the holder to acquire warrants that are automatically and at the same time used to subscribe for new shares, Moberg Pharma must pay social security contributions on the difference between the market value of the share when the option is exercised and the exercise price paid by the employee. Expected social costs have been calculated and provisions have been made in the accounts.

The fair value of the performance share rights granted during the period was determined using the Black-Scholes valuation model at SEK 7.38 per PSU in program 2018: 1. Important data in the model for program 2018: 1 was market value per share of SEK 54.09, exercise price of SEK 35.00, risk-free interest of -0.3%, volatility of 40%, expected duration of 4.5 years, personnel turnover 0 %, dilution 1.7% and no dividend.

The Group's costs for employee stock option programs (excluding estimated costs for social security contributions) for 2018 amounted to SEK 1.4 million (2.3).

Overall, 879,250 warrants have been issued to the subsidiary Moberg Derma Incentives AB. These options are intended to be transferred and utilized for new subscription of shares upon the exercise of the same number of employee stock options.

Outstanding warrants	Moberg Derma Incentives AB	Totat
2015:1 – Closing date for subscription: 12/31/2019 Subscription price SEK 65.47	186,750	186,750
2016:1 – Closing date for subscription: 12/31/2020 Subscription price SEK 42.97	388,500	388,500
2017:1 – Closing date for subscription: 12/31/2021 Subscription price SEK 59.5	304,000	304,000
	879,250	**879,250**

[21] Refers to performance share units as opposed to previous years incentive program with employee stock options

NOTE 20. NON-CURRENT LIABILITIES

	Parent company		Group	
Long-term borrowings	**2018**	**2017**	**2018**	**2017**
Bond loan	594,451	591,788	594,451	591,788
Carrying amount at the end of the period	**594,451**	**591,788**	**594,451**	**591,788**

	Parent company		Group	
Maturity dates, long-term borrowing:	**2018**	**2017**	**2018**	**2017**
Maturity date 1–2 years from the balance sheet date	-	-	-	-
Maturity date 2–5 years from the balance sheet date	600,000	600,000	600,000	600,000
Date of maturity more than 5 years from the balance sheet date	-	-	-	-
Carrying amount at the end of the period	**600,000**	**600,000**	**600,000**	**600,000**

	Parent company		Group	
Expected future interest payments:	**2018**	**2017**	**2018**	**2017**
Maturity date 1–2 years from the balance sheet date	36,000	36,000	36,000	36,000
Maturity date 2–5 years from the balance sheet date	39,000	75,000	39,000	75,000
Date of maturity more than 5 years from the balance sheet date	-	-	-	-
Total expected future interest payments	**75,000**	**111,000**	**75,000**	**111,000**

Long-term liabilities consist of a bond loan of initially SEK 300 million with maturity on January 29th, 2021. In July 2016, the company increased the bond loan by an additional SEK 85 million (the bond was issued at 100.50% of the nominal value). In December 2016, the company increased the outstanding bond loan by SEK 215 million (the bond was issued at 102.75% of the nominal value). At year-end, the company's total outstanding bond loan amounts to SEK 600 million, which corresponds to the total loan amount of the bond loan.

The loan has a variable interest rate if STIBOR 3 months + 6%. The bond loan has no covenants for the day-to-day operations, but only if the company wants to increase the loan within the framework amount. According to IFRS 9, the bond loan shall be reported after deductions for transaction costs which are accrued over the term of the loan, hence the difference between SEK 600 million and the amount in the financial position report amounting to SEK 594.4 million.

On April 1, 2019, the company sent an irrevocable notification of early redemption. The date of redemption is set to April 29, 2019. In accordance with the terms, the Bonds will be redeemed at an amount corresponding to 104.00 percent of the nominal amount. Full terms for the bond loan are available on the company's website www.mobergpharma.se.

NOTE 21. CURRENT LIABILITIES

	Parent company		Group	
	2018	**2017**	**2018**	**2017**
Employee payroll tax	615	686	540	691
Settlement of social security contributions	641	502	641	502
Provisions for social security contributions for employee stock option plan	915	128	915	128
Liability at fair value (contingent consideration)	-	15,230	-	15,230
Other current liabilities	-	444	-	3,577,
	2,171	**16,990**	**2,096**	**20,128**

Contingent consideration at fair value as of 31 December 2017 relates to the deferred purchase price for New Skin, Fiber Choice and PediaCare payable to Prestige. During 2018, SEK 10 million has been paid to Prestige, with SEK 5 million being revalued as reported in the Statement of Comprehensive Income. The balance of the contingent consideration payable to Prestige as at 31 December 2018 is zero.

NOTE 22. ACCRUED EXPENSES AND DEFERRED INCOME

	Parent company		Group	
	2018	**2017**	**2018**	**2017**
Accrued personnel expenses	7,369	7,586	11,301	10,422
Accrued Board expenses	374	419	374	419
Audit	285	170	460	345
Market Development Funds	-	-	2,733	2,843
Accrued marketing expenses	-	-	899	27
Returns and discounts	-	-	3,282	2,400
Coupons	-	-	31	40
Accrued interest	5,900	6,000	5,900	6,000
Other accrued expenses	2,059	3,334	3,707	5,816
	15,987	**17,510**	**28,687**	**28,312**

	Parent company		Group	
Accrued personnel expenses	**2018**	**2017**	**2018**	**2017**
of which, accrued salaries	2,861	3,371	6,793	6,208
of which, accrued vacation pay liability	3,668	3,232	3,668	3,232
of which, accrued social security contributions	840	982	840	982
	7,369	**7,586**	**11,301**	**10,422**

NOTE 23. PLEDGED ASSETS AND CONTINGENT LIABILITIES

	Parent company		Group	
Pledged assets in the Parent company	**2018**	**2017**	**2018**	**2017**
Bank guarantee, cash and cash equivalents	702	702	702	702
	702	**702**	**702**	**702**

NOTE 24. FINANCIAL ASSETS AND LIABILITIES BY CATEGORY FOR THE GROUP

Financial assets and liabilities by category **December 31, 2018**	**Assets/liabilities measured at fair value via the income statement**	**Financial assets at amortised cost**	**Finanicial debt at amortised cost**	**Total**
Assets in the balance sheet				
Trade receivables and other receivables (excluding prepaid expenses)		73,089		73,089
Cash and cash equivalents		110,785		110,785
Total		**183,874**		**183,874**
Liabilities in the balance sheet				
Bond loan			594,451[22]	594,451
Non-current non-interest-bearing liabilities			65	65
Trade payables and other liabilities excluding non-financial liabilities			26,296[23]	26,296
Total	**0**	**0**	**620,812**	**620,812**

[22] Bond loan see note 20

[23] Refers to the date of registration with the Swedish Companies Registration Office 29 Average exercise price

Financial assets and liabilities by category **December 31, 2017**	**Assets/liabilities measured at fair value via the income statement**	**Loan receivables and trade receivables**	**Other financial liabilities**	**Total**
Assets in the balance sheet				
Trade receivables and other receivables (excluding prepaid expenses)		77,291		77,291
Cash and cash equivalents		119,437		119,437
Total		**196,728**		**196,728**
Skulder i balansräkningen				
Bond loan			591,788[24]	591,788
Contingent purchase consideration (level 3)	15,230[25]			15,230
Trade payables and other liabilities excluding non-financial liabilities			28,958[26]	28,958
Total	**15,230**	**0**	**620,746**	**,635,975**

[24] Bond loan, see Note 20

[25] Refers to contingent consideration to Prestige in conjunction with the acquisition of New Skin®, Fiber Choice®, and PediaCare®, see Note 21

[26] Consists of trade payables of SEK 25,251 plus other current liabilities (excluding contingent consideration, employee payroll tax and social security contributions) of SEK 3,707, see Note 21

IFRS 13 Fair Value Measurement contains a measurement hierarchy pertaining to input data for the measurements. This measurement hierarchy is divided into three levels, which correspond to the levels that were introduced in IFRS 7 Financial instruments: Disclosures. The three levels comprise:

Level 1: Listed prices (unadjusted) in active markets for identical assets or liabilities to which the company has access at the time of measurement.

Level 2: Input data other than the listed prices included in Level 1, which is directly or indirectly observable for the asset or liability. It may also pertain to input data other than the listed prices that are observable for the asset or liability, such as interest rates, yield curves, volatility and multiples.

Level 3: Non-observable input data for the asset or liability. At this level, the assumption that market players would use for pricing of the asset or liability, including risk taking, must be taken into account.

For all of the above items, with the exception of borrowing, the book value is an approximation of the fair value, which is why these items are not divided into levels according to the valuation hierarchy. The fair value of the bond loan, according to level 2 of the valuation hierarchy, amounted to approximately SEK 599 million (based on liquidity trading price) as of December 31st, 2018, while the book value was SEK 594 million. Supplementary purchase price is valued according to level 3 of the valuation hierarchy and amounted to approximately SEK 15 million as of December 31st, 2017, with a revaluation in connection with the annual accounts for additional purchase consideration.

NOTE 25. SHARES IN GROUP COMPANIES

Holdings in subsidiaries	Corp. Reg. No.	Reg. Office	Proportion	Carrying amount
Moberg Derma Incentives AB	556750-1589	Stockholm, Sweden	100%	100
Moberg Pharma North America LLC	N/A	New Jersey, USA	100%	178,006

Change in carrying amounts, shares in subsidiaries	2018	2018
Opening cost	178,106	178,106
Acquisitions	-	-
Closing accumulated cost	**178,106**	**178,106**
	,	,
Closing carrying amount	**178,106**	**178,106**

After the end of the financial year, the group has acquired the subsidiaries MPJ OTC AB and Moberg Pharma 2019 AB. The subsidiaries Moberg Pharma North America LLC and MPJ AB were divested March 29, 2019.

NOTE 26. INTRA-GROUP TRANSACTIONS

Intra-Group transactions from the Parent company's perspective	Parent company	
	2018	2017
Intra-Group sales to subsidiaries	91,381	79,007
	91,381	**79,007**

NOTE 27. FINANCIAL RISKS AND FINANCIAL POLICY

Financial risk management

Financing and management of financial risks are handled in the Group under the governance and supervision of the Board of Directors. Moberg Pharma applies a cautious investment policy.

Through its activities, Moberg Pharma is exposed to various types of financial risks, such as fluctuations in the company's earnings and cash flow caused by changes in exchange rates and interest rates, as well as refinancing risk. At present, Moberg Pharma's policy is to not hedge financial risks relating to loans, transactions and translation exposures. This decision has been taken in view of the cost of hedging against risks.

Refinancing risk and future capital requirements

Moberg Pharma's strategy means that the company will continue to invest significant resources in research and development and in business development. At present, these efforts are covered by available cash and cash equivalents and commercial revenue, and Moberg Pharma is in a good financial position. Moberg Pharma is in an expansion phase and conducts development-intense activities with investments aimed at generating future income. These activities consume cash and cash equivalents. The OTC- business was divested at the beginning of 2019 for a cash consideration of USD 155 million (corresponding to SEK 1.43 billion) adjusted for working capital. The company intends to use the cash consideration to, among other things, redeem its outstanding bonds and distribute approximately SEK 43–45 per ordinary share to its shareholders in 2019. The Phase 3 program for MOB-015 is fully financed through the cash proceeds from the divestment of the OTC business and license revenues. Should the opportunity arise for faster growth, for example through acquisitions, Moberg Pharma may raise additional capital through issuing new shares or taking out further loans. In addition, in the event of an economic downturn or adverse conditions in the credit markets, this could have an impact on the company's ability to continue to finance its operations. There is a risk that financing cannot be secured for future capital requirements or that such financing cannot be obtained on favorable terms, or at all.

Refinancing risk refers to the risk that Moberg Pharma will be unable to meet its obligations and continue to develop its business due to difficulties in finding financial backers or lenders who are prepared to invest in the company or because existing loans are cancelled, in part to the risk that the refinancing of a loan that falls due cannot be implemented, and in part to the risk that refinancing must occur under adverse market conditions at unfavorable terms.

Currency risk

Currency risk is the risk that changes in exchange rates will have a negative impact on Moberg Pharma's income statement, financial position and/or cash flows. It also affects comparability between periods of changes in exchange rates. Exchange rate risks exist in the form of transaction and translation risks.

The collaboration and licensing agreements signed with counterparties outside Sweden are often concluded in currencies other than Swedish kronor. As income from such agreements increases, the company's currency exposure will gradually increase.

Net revenue by currency	2018	2017
USD	384,532	378,868
EUR	31,670	36,041
SEK	12,874	13,994
Other	9,965	10,129
	439,041	**439,032**

Operating expences by currency	2018	2017
USD	321,481	307,107
EUR	67,867	58,848
SEK	99,431	100,793
Other	8,879	10,318
Capitalized expenses	-106,793	-71,827
	390,866	**405,239**

Sensitivity analysis of currency risk 2018 (SEK thousand)

Effect on the Group's revenue and operating profit should the SEK appreciate by 1%.

Currency	Revenue	Operating expenses	Operating profit/loss
USD	-3,845	3,215	-631
EUR	-317	679	362
Other	-100	89	-11
Total	**-4,262**	**3,982**	**-279**

Operating profit was affected during the financial year by net gains of SEK 4,2 million in exchange gains, compared with SEK 3,6 million in exchange rate losses for 2017. Future income and expenses will be affected by fluctuations in foreign exchange rates. The Group has not used currency hedging in 2018, but will regularly evaluate the need for currency hedging as the business develops.

Translation exposure arises when operations are conducted outside Sweden in other accounting currencies than SEK. For Moberg Pharma's part, this risk is attributable to the US dollar (through the subsidiary Moberg Pharma North America), where translation exposure arises during consolidation when the net assets in the Group's units are converted to SEK. The translation differences regarding net assets in USD reported in other comprehensive income during 2018 were SEK 20,9 million (-23,6). Since this subsidiary was sold in March 2019, there is no translation exposure thereafter.

Net exposure of subsidiaries	2018	2017
USD	257,662	229,982

Interest rate risk and liquidity risk

Liquidity risk is defined as the Group being unable to pay foreseen or unforeseen costs. Excess liquidity is placed in bank accounts or invested in fixed income instruments subject to a low interest rate risk, issued by established banks or credit institutions. Moberg Pharma secures its short-term ability to meet payment obligations by maintaining adequate liquidity in the form of cash balances.

Interest rate risk pertains to the risk that changes in the general interest rate situation will have a negative impact on the Group's net profit. The speed by which changes in interest rates will impact the net profit depends on the fixed-interest period for the loan. Moberg Pharma's current loan has a fixed-interest period of three months. Outstanding interest-bearing liabilities are reported in Note 20. Interest-bearing liabilities increase the company's expenditure and exposure to capital loss. The company's interest costs are subject to changes in applicable interest rates. Changes in interest rates can lead to changes in the company's market value, cash flow and performance. Since the company has sent an irrevocable notification of early redemption of outstanding bond loans, the company's exposure to interest rate risk is expected to be low in the future. The company does not currently have any measures in place to manage or hedge against interest rate risk. A change in interest rates of 1% would result in a SEK 6 million increase/decrease in interest expenses on an annual basis.

Credit and counterparty risk

Counterparty risk is the risk that a party to a transaction involving financial instruments will be unable to meet its obligations and thus incur a loss for the other party. Moberg Pharma is exposed to counterparty risk primarily in connection with collaboration and licensing agreements and financial investments. When a collaboration or licensing agreement is to be entered into, the counterparty is always evaluated prior to signing the agreement. Payment of accounts receivable is monitored continuously, thus making Moberg Pharma's exposure to expected credit losses low. The Group limits its current counterparty risk in connection with financial investments by investing excess liquidity with counterparties with very high credit ratings. There is a risk that the company's assessment and evaluation of counterparty credit risks and counterparty credit ratings is not correct. In the event that a counterparty is unable to meet its commitments to Moberg Pharma, this may adversely affect the company's performance and financial position.

Tax

Moberg Pharma operates in several countries. As far as the Board of Directors is aware, business activities are conducted in accordance with applicable tax legislation in respect of both the operations in Sweden and operations abroad. However, there is a risk that the company's interpretation of these tax rules may be incorrect or that legislation might change, possibly with retroactive effect. The company's previous or current tax situation could therefore change as a result of decisions taken by Swedish and foreign revenue services, which may have a negative impact on the company's business activities, performance and financial position.

Tax loss carry forwards

The company currently has declared tax loss carry forwards which may be lost if a new owner gains control of over 50% of the votes in the company or new owners each gain control of at least 5% of the votes and collectively control more than 50% of the votes in the company. Losing these tax loss carry forwards would result in a financial loss for Moberg Pharma, which may have a negative impact on the company's business activities and financial position.

Non-sustainable sources of income

Moberg Pharma's business and income model is partly based on license agreements with so-called milestone payments. One-off payments in the form of milestone payments constitute an important source of revenue for Moberg Pharma but are not a sustainable source of income. In addition, milestone payments are dependent on certain pre-determined targets in the sales, research and development activities of the company's business partners, which means that they are difficult to forecast. Consequently, there is a risk that the company's revenue and profit/loss could vary significantly from one period to the next.

Financial commitments

Loans included include certain commitments for Moberg Pharma. There is a risk that Moberg Pharma may in the future break the commitments, for example due to the general economic situation or disruptions in the capital and credit markets. If Moberg Pharma were to breach commitments in financing agreements, this could lead to the loans being terminated for immediate payment. This would have a negative effect on Moberg Pharma's operations, financial position and results.

NOTE 28. DEPRECIATION/AMORTIZATION AND OTHER ADJUSTMENTS IN THE CASH FLOW STATEMENT

	Parent company		Group	
Depreciation/amortization and other adjustments	**2018**	**2017**	**2018**	**2017**
Amortization of R&D investments	1,461	1,277	1,461	1,277
Amortization of product rights	28,584	30,579	33,766	35,669
Amortization of patents	-	-	-	-
Depreciation of capitalized expenditure for computer systems	1,357	1,015	1,412	1,015
Depreciation of plant and equipment	91	158	287	408
Other adjustments	-	1	-1	-2
Capital gains on divestments of product rights	-5,064	-12,998	-5,064	-12,998
	26,429	**20,030**	**31,861**	**-25,369**

Capital gain on divested product rights in 2018 relates to capital gain in connection with the divestment of Balmex® in April of SEK 5 million.

NOTE 29. NET INVESTMENTS IN INTANGIBLE ASSETS IN THE CASH FLOW STATEMENT

	Parent company		Group	
Net investments in intangible assets	**2018**	**2017**	**2018**	**2017**
R&D investments	-106,793	-71,827	-106,793	-71,827
Investments in capitalized expenditure for computer systems	-1,314	-959	-1,314	-1,121
Acquired product rights	-	-142	-	-142
Contingent consideration, acquired product rights	-	-	-	-
Contingent consideration, acquired patents	-	-	-	-
Divested product rights	27,529	53,795	24,466	53,795
Translation differences (currency adjustments)	E/T	E/T	1	1
	-80,578	**-19,133**	**-83,641**	**-19,295**

Investments in R&D relate to investments in MOB-015 totaling SEK 104,8 million and investments in BUPI totaling SEK 2,0 million. Divested product rights relate to the sale of Balmex®.

NOTE 30. EVENTS AFTER THE BALANCE SHEET DATE

In February 2019, the company entered into an agreement with RoundTable Healthcare Partners and Signet Healthcare Partners to divest the commercial operations for a cash payment of $ 155 million. In addition, the new investors provide funding of USD 5 million for the development and commercialization of MOB-015. In conjunction with an extraordinary general meeting on March 15th, 2019, a decision was made to approve the transaction and accompanying decisions relating to the transaction, such as repositioning the company's financial year, introducing a new class of shares, authorizing the Board to make a decision on directed issue of B shares and issue of warrants and election of the buyer's candidate, Andrew B. Hochman, to the board member of the company. The transaction was completed on March 29th 2019 .

In February, an exclusive licensing agreement was signed with Bayer Consumer Health regarding the commercialization of MOB-015 in Europe after the completion of Phase 3 studies and registration. According to the agreement, Moberg Pharma will be able to receive up to EUR 50 million, of which EUR 1.5 million initially, in successful development and sales, in addition to royalty income and compensation for delivered products.

On March 22, 2019, it was announced that the company has completed the recruitment of 452 patients with nail fungus to the ongoing MOB-015 Phase 3 study in Europe.

On April 1, 2019, Moberg Pharma called for early redemption of all outstanding bonds on April 29, 2019 at an amount corresponding to 104.00 percent of the nominal amount.

Through a press release on April 8, 2019, it was announced that the company's nomination committee decided to propose new election of Peter Wolpert as Executive Chairman of the Board. Contingent on approval of the new board at the AGM, Anna Ljung is proposed to be appointed as the new CEO of Moberg Pharma.

NOTE 31. RELATED-PARTY TRANSACTIONS

Remunerations to the Board of Directors and management are described in Note 7.All transactions with related parties have been concluded on market terms. No Board members or senior executives, or their related parties, have or have had any direct or indirect involvement in any business transactions with Moberg Pharma that are or were unusual in terms of their character or terms and conditions of contract, and that were concluded in the current year. Nor has Moberg Pharma granted loans, issued guarantees or provided surety bonds to or on behalf of any Board member or senior executive of the company.

NOTE 32. PROPOSED APPROPRIATION OF PROFITS

On January 1st, 2016, a change was introduced in the Swedish Annual Accounts Act meaning that, in order to capitalize internally generated development expenditure, the company must recognize the corresponding amount in a restricted reserve under equity, "Reserve for development expenditure". Moberg Pharma recognized capital¬ized internally generated development expenditure of SEK 105.3 million in 2018 and is therefore recognizing a reserve for development funds of SEK 225.9 million.

The amount available for appropriation at the Annual General Meeting comprises the following unrestricted reserves, profit carried forward and the profit for the year in the Parent company:

Share premium reserve	406,962
Profit carried forward	-133,240
Profit/loss for the year	13,010
	286,732

The Board of Directors proposes that at the disposal of the Annual General Meeting standing profits and share premium reserve be carried forward. Following appropriation, unrestricted equity amounts to:

Share premium reserve	406,962
Profit carried forward	-120,230
	286,732

ASSURANCE BY THE BOARD OF DIRECTORS

The undersigned certify that the consolidated financial statements and the annual report have been prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by the EU, and with generally accepted accounting practices, and give a true and fair view of the financial position and results of the Group and the Parent company and that the Director's Report for the Group and the Parent company provide a fair overview of the development of the Group's and the Parent company's operations, financial position and results, as well as a fair description of significant risks and uncertainties faced by the companies included in the Group.

Stockholm April 15th, 2019

Thomas Eklund
Chairman

Geert Cauwenbergh
Board member

Mattias Klintemar
Board member

Sara Brandt
Board member

Anna Malm Bernsten
Board member

Andrew B. Hochman
Board member

Peter Wolpert
CEO

AUDITOR'S REPORT

To the general meeting of the shareholders of Moberg Pharma AB (publ), corporate identity number 556697-7426

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

OPINIONS

We have audited the annual accounts and consolidated accounts of Moberg Pharma AB (publ) for the year 2018. The annual accounts and consolidated accounts of the company are included on pages 15-55 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 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 2018 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 consolidated statement of comprehensive income and the consolidated statement of financial position for the group.

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

BASIS FOR OPINIONS

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

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

KEY AUDIT MATTERS

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

CAPITALIZED DEVELOPMENT COSTS

Description

The capitalized development costs for the group and the parent company amount to 203 MSEK for MOB-015 and 14 MSEK for BUPI as per December 31. Internally generated development costs for the group and the parent company are capitalized as an intangible asset when certain conditions are met according to IFRS.

The initial capitalization as well as subsequent capitalization are based on the company's judgments around the probability for the development projects to succeed, why capitalized development costs have been assessed as a key audit matter.

Judgments used and the Board of Director's decision that form basis for this assessment is described in section "Significant estimates and assessments" in note 1. The capitalized development costs are described in note 13.

How our audit addressed this key audit matter

In our audit we have assessed and reviewed the company's documentation and internal analysis for assessing which development projects that meet the conditions for capitalization as intangible assets according to IFRS. We have reviewed the company's follow up on development projects, including the communication with regulatory authorities. We have reviewed the company's process for identifying and allocating expenses to respective development project.

In addition, we have reviewed the related disclosures in the financial statements.

VALUATION OF GOODWILL, PRODUCT RIGHTS AND CAPITALIZED DEVELOPMENT COSTS

Description

As per December 31, 2018 goodwill, product rights and capitalized development costs amount to 1 025 MSEK in the consolidated statement of financial position for the group and 880 MSEK in the balance sheet for the parent company. The company prepares annual impairment tests for goodwill and capitalized development costs and for product rights if indications of impairment have been identified.

With reference to the assets value in relation to the group's and the parent company's total assets and the significant assumptions and judgments involved when calculating the recoverable amount, valuation of goodwill, product rights and capitalized development costs has been assessed as a key audit matter.

A description of the company's impairment test process is described in section "Significant estimates and assessments" in note 1. Further information on the current year's impairment test including significant assumptions are described in note 13.

How our audit addressed this key audit matter

In our audit we have reviewed the forecasts for future sales, used by the company in its valuation models. We have reviewed the assumptions used in these valuations, such as growth rates, profit levels and discount rate and for ongoing development projects for example expected market share, probability assessment and remaining development costs. The forecasts have been evaluated for reasonableness based on our knowledge of the company's business, historical information, industry comparison to companies with similar business and also the company's forecast capabilities. We have included valuation specialists in our audit to evaluate and review the company's valuation model and sensitivity analysis. Vi have reviewed significant subsequent events after 31 December 2018, for example the company's divestment of the OTC-business.

In addition, we have reviewed the related disclosures in the financial statements.

OTHER INFORMATION THAN THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-14, 60-64 and 66-71. 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.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

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 responsibilities for the audit of the annual accounts and the consolidated accounts is located at Revisors-inspektionen's (the Swedish Inspectorate of Auditors) website at: http://www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf.

This description forms part of our 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 Moberg Pharma AB (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

BASIS FOR OPINIONS

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

AUDITOR'S RESPONSIBILITY

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibilities for the audit of the administration is located at Revisorsinspektionen's (the Swedish Inspectorate of Auditors) website at: http://www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf.

This description forms part of our auditor's report.

Ernst & Young AB, Box 7850, 103 99 Stockholm was appointed auditor of Moberg Pharma AB by the general meeting of the shareholders on May 15, 2018 and has been the company's auditor since 2007. Moberg Pharma AB has been a public interest entity since May 26, 2011.

Stockholm April 16th, 2019
Ernst & Young AB

Andreas Troberg
Authorized Public Accountant

CORPORATE GOVERNANCE REPORT

Moberg Pharma AB (publ), corporate registration number 556697-7426, is a Swedish limited liability company headquartered in Stockholm, Sweden.

Prior to its listing on NASDAQ OMX Nordic Exchange Stockholm, the company's corporate governance activities were based on Swedish law and internal rules and regulations. The company was listed on the NASDAQ OMX Nordic Exchange Stockholm on May 26th, 2011 and has adhered to NASDAQ OMX Nordic Exchange Stockholm's rules for issuers and applied the Swedish Code of Corporate Governance ("the Code") as of that date. This Corporate Governance Report has been prepared in accordance with the Annual Accounts Act and the Swedish Code of Corporate Governance.

The Code applies to all Swedish companies whose shares are listed on a regulated market in Sweden and must be applied in full from the date of listing. Companies are not required to comply with all rules contained in the Code but may choose alternative solutions that are deemed more appropriate for each company's specific circumstances, provided that deviations are explained, the alternative solution is described, and the reasons explained (the "comply or explain" principle) in the company's Corporate Governance Report. Moberg Pharma follows all the rules in the Code, with the exception that the Nomination Committee has submitted a proposal to the AGM 2019 in the guidelines for the next AGM that the composition of the Nomination Committee shall be announced no later than four months before the next AGM. Due to the shortened financial year 1 January 2019 - 30 June 2019, the next AGM will fall within six months after the AGM on May 15, therefore a deviation from the Swedish Code of Corporate Governance is made.

Good corporate governance is an essential component of the work of generating value for Moberg Pharma's shareholders. The objective is to create sound prospects for an active and responsible ownership role, a well-balanced division of responsibility between the owners, Board of Directors and management and transparency towards owners, the capital markets, employees and society at large.

The figure below on the left illustrates Moberg Pharma's corporate governance model and how the central bodies operate.

Internal regulatory structures and policies that affect corporate governance

- Articles of Association
- Board of Directors' Rules of Procedure and CEO's Instructions
- Remuneration Principles for Senior Executives
- Risk Management Policy
- Finance Policy
- IT Policy
- Finance manual
- Employee handbook
- Authorization manual
- Information policy
- Code of Conduct

External regulatory structures that affect corporate governance

- Swedish Companies Act
- Accounting standards
- Nasdaq OMX Nordic Exchange Stockholm's issuer regulations
- Code of Corporate Governance

SHAREHOLDERS' MEETINGS

In accordance with the Swedish Companies Act, Moberg Pharma's highest decision-making body is a Shareholders' Meeting. At Shareholders' Meetings, shareholders exercise their right to vote on key issues, such as the adoption of the statement of comprehensive income and financial position, appropriation of the company's earnings, discharge of the Board of Directors and Chief Executive Officer from personal liability, election of Board members and auditors, and remuneration of the Board of Directors and auditors. In addition to the Annual General Meeting, Extraordinary Shareholders' Meetings may also be convened. The Articles of Association state that official notice of an AGM or Extraordinary Shareholders' Meeting must be provided in the form of an advertisement in Post- och Inrikes Tidningar and published on Moberg Pharma's website. Information that the official notice of an AGM or Shareholders' Meeting has taken place is published in Dagens Industri.

Right to attend a Shareholders' Meeting

Shareholders who would like to attend a Shareholders' Meeting must be registered in the shareholder register maintained by Euroclear five working days before the meeting, and must also notify the Company that they will attend the Shareholders' Meeting no later than the date stated in the notice of the Meeting. In addition to notifying the Company of their attendance, shareholders whose shares are registered in the name of a nominee via a bank or financial institution, must, via the nominee, temporarily register their shares in their own name with Euroclear in order to be entitled to attend the meeting. Shareholders should notify the nominee about this in good time before the reconciliation date. Shareholders may attend the Shareholders' Meeting in person or via an authorized represen-tative and may be accompanied by up to two advisors. One share entitles the holder to one vote at General Meetings, and there are no limits as to how many votes each shareholder can cast at a General Meeting. Shareholders are normally able to register for a Shareholders' Meeting in several ways, details of which are given in the notice of the meeting

Shareholder initiatives

Shareholders who would like a particular issue to be addressed at a Shareholders' Meeting are required to submit a written request to the Board of Directors. Such requests should normally be received by the Board no later than seven weeks before the Shareholders' Meeting.

Given the composition of the company's owners, it is not considered justified in view of the company's financial status to provide simultaneous interpretation to another language nor to translate in full or in part Shareholders' Meeting material, including the minutes.

Information about past Shareholders' Meetings is available on Moberg Pharma's website. The website also provides information on shareholders' right to have matters considered at the meeting and the deadline before which such requests must reach the company.

The 2018 AGM took place on May 15th, 2018. The AGM was attended by 15 shareholders, in person or by proxy. These represented 25.4% of shares and votes in Moberg Pharma. Thomas Eklund, Chairman of the Board, was elected Chairman of the meeting. The CEO and all Board Members attended the AGM. The minutes from the AGM are available at www.mobergpharma.se under corporate governance. At the AGM, shareholders resolved to authorize the Board until the next AGM to decide on the issuance of new shares, on one or more occasions, either with preferential rights or disapplying the shareholders' preferential rights. The total number of shares encompassed by such new share issues may not exceed 20% of the shares in the company at the time of the 2018 AGM.

BOARD OF DIRECTORS AND THE WORK OF THE BOARD OF DIRECTORS

After the Shareholders' Meeting, the Board of Directors is the company's highest decision-making body. Under the Companies Act, the Board is responsible for the company's administration and organization, which means that the Board is responsible for adopting goals and strategies, ensuring that procedures and systems for evaluating adopted goals are in place, monitoring Moberg Pharma's financial position and results and evaluating the company's operational management. The Board is responsible for ensuring that the Annual Report and consolidated financial statements and interim reports are prepared in time. It also appoints the Chief Executive Officer. Board members are elected each year at the AGM for the period until the end of the next AGM. According to Moberg Pharma's Articles of Association, the Board should consist of at least three and no more than ten Board members and no more than two alternates. According to the Code, no alternates are to be appointed for AGM-elected Board members.

The Chairman of the Board is elected by the AGM and holds a special responsibility for leading the work of the Board and ensuring that the Board operates in an organized and efficient manner. The Chairman of the Board is not involved in the operational management of the company.

The Board operates in accordance with written rules of procedure that are reviewed and adopted annually at the statutory Board meeting. The rules of procedure regulate Board procedures, functions and the division of responsibilities between the Board members and CEO. In connection with the first Board meeting, the Board also establishes instructions for financial reporting and instructions for the CEO.

The Board normally convenes four to six times annually. In addition to these meetings, further meetings may be arranged to address issues that cannot be deferred to a scheduled meeting. The Chairman and CEO also engage in continuous dialogue concerning the company's significant issues. Moberg Pharma conducts an annual evaluation of the work of the Board. The 2018 evaluation primarily focused on internal issues relating to the quality of decisions, the management of the Board, and the composition and competence of the Board. The results have been presented to and discussed by the Board and have also been disclosed to the nomination committee. At the end of 2018, Moberg Pharma's Board consisted of five members. In connection with an extraordinary general meeting on March 15, 2019, a decision was made to approve the divestment of the OTC-business and accompanying decisions related to the transaction, including the election of the buyer's candidate, Andrew B. Hochman, as board member of the company. Therefore, Moberg Pharma's Board of Directors currently consists of six members. Members of the Board of Directors are presented in the annual report on page 67.

	Attendance (no. of meetings 2018)					Independent in relation to	
	Board meetings (13)	Remuneration Committee (14)	Audit Committee (1)	Directors' fees 2018, TSEK [27]	Elected	The company	Owners
Chairman of the Board, Thomas Eklund	13	1	1	416	2015	Yes	Yes
Board member, Geert Cauwenbergh	12			170	2012	Yes	Yes
Board member, Mattias Klintemar	13	4	1	222	2015	Yes	No
Board member, Sara Brandt	11			170	2017	Yes	Yes
Board member, Anna Malm Bernsten (from 2018-05-15)	7	1		113	2018	Yes	Yes
Thomas Thomsen (to 2018-05-15)	3		1	78	2014	Yes	Yes
Torbjörn Koivisto (to 2018-05-15)	5	3		76	2009	Yes	Yes
Andrew B. Hochman (from 2019-03-29)				-	2019	Yes	Yes

[27] Board members Thomas Eklund, Geert Cauwenbergh, Mattias Klintemar and Thomas Thomsen have, for work performed until May 15th 2018, invoiced their directors' fees plus social security contributions and VAT through companies. This procedure is cost neutral for Moberg Pharma. All fees for the period after the AGM 2018 have been paid out as income of services and are therefore subject for social security contributions in Moberg Pharma AB.

REMUNERATION COMMITTEE

The Board has a remuneration committee, which prepares proposals on remuneration issues. The remuneration committee consists of three Board members, Thomas Eklund (Chairman), Anna Malm Bernsten and Mattias Klintemar. All members are independent in relation to the company and the company's senior executives. The committee's principal tasks are to (i) prepare the Board's decisions on issues relating to principles of remuneration, remuneration and other terms of employment for management, (ii) monitor and evaluate ongoing and recently completed variable remuneration schemes for management, and (iii) monitor and evaluate the application of principles for remuneration of senior executives that are legally subject to approval by the AGM and of applicable structures and levels of remuneration in the company. Decisions on remuneration issues must, after preparation by the committee, be adopted by the Board as a whole.

Audit Committee

The audit committee comprises two Board members: Mattias Klintemar (Chairman) and Thomas Eklund. The Board of Directors has an audit committee with the following primary duties:

- Monitoring the company's financial reporting and submitting recommendations and suggestions for ensuring the reliability of reporting.
- With regard to financial reporting, monitoring the effectiveness of the company's internal control, internal audit and risk management.
- Staying informed about the audit of the annual accounts and consolidated financial statements, as well as the quality control of the Supervisory Board of Public Accountants.
- Looking at the way in which the audit contributed to the reliability of financial reporting and the function performed by the Board.
- Reviewing and monitoring the auditor's impartiality, paying special attention to whether the auditor is providing the company with services other than auditing services.
- Assisting with the preparation of proposals for the Shareholders' Meeting's decision on the election of auditor.
- Preparing the Board's decisions in the above matters.

CEO AND OTHER SENIOR EXECUTIVES

The CEO reports to the Board and is primarily responsible for the company's day-to-day operations. The division of responsibilities between the Board and CEO is set out in the rules of procedure governing the activities of the Board and the instructions for the CEO. The CEO is also responsible for drafting reports and compiling information from management in preparation for Board meetings and for presenting the material at the meetings.

Under the instructions for financial reporting, the CEO is responsible for financial reporting in the company and is thus required to ensure that the Board obtains sufficient information to enable it to continuously evaluate Moberg Pharma's financial position.

The CEO is required to keep the Board informed of Moberg Pharma's development, the company's performance and financial position, liquidity and credit situation, important business events and other circumstances that cannot be assumed to be irrelevant for the company's shareholders (including material disputes, the termination of agreements that are important to Moberg Pharma and significant circumstances affecting the company's products and projects). The CEO and senior executives are presented in more detail in the annual report on page 66.

REMUNERATION TO DIRECTORS AND SENIOR EXECUTIVES

Remuneration to Directors

Fees and other remuneration to the Board of Directors, including the Chairman, are set by a Shareholders' Meeting. At the AGM on May 16, 2018, it was resolved that the Board's fees for 2018, totaling a maximum of SEK 1,200,00 excluding social security contributions, would be paid and distributed as follows: SEK 360,000 to the Chairman and SEK 170,000 thousand to each of the other Board members. In addition, it was resolved that supplementary remuneration of SEK 45,000 would be paid to the Chairman of the remuneration committee and SEK 22,500 would be paid to each of the other members of the remuneration committee, as well as SEK 45,000 to the Chairman of the audit and finance committee and SEK 22,500 to the other members of the audit and finance committee.

None of the company's Board members are entitled to any benefits after stepping down from the Board.

Remuneration of senior executives

At the AGM on May 15th, 2018, the following guidelines were resolved for senior executives of Moberg Pharma: Moberg Pharma is to offer a market-aligned total remuneration package that facilitates the recruitment and retention of qualified senior executives. The remuneration paid to the Chief Executive Officer and other senior executives is to comprise basic salary, variable remuneration, other benefits and pension benefits. The total remuneration is to be based on the basic salary and is to be proportionate to the executive's responsibilities and authority. Variable remuneration is capped at 25–50% of each executive's basic annual salary. Variable remuneration is based on results achieved in relation to individually defined qualitative and quantitative targets, as well as the company's results in relation to goals set by the Board of Directors. The pensionable salary comprises only the basic salary. To the extent that Board members perform work for the company or any other Group company, in addition to work on the Board of Directors, a market-aligned consultancy fee may be payable.

In case of termination, the notice period is at least three months if this is on the initiative of the senior executive and between three and 12 months if the company takes the initiative. Severance amounts are not payable. Any share and share-price-related programs must be adopted by a Shareholders' Meeting. Allocation from such programs must comply with a resolution from a Shareholders' Meeting. With the exception of the employee stock options that have been allocated and vested, and what is provided for under employment contracts as referred to above, senior executives are not entitled to any post-employment/assignment benefits.

The Board of Directors is to be entitled to ignore the aforementioned principles for remuneration of senior executives if there are special reasons for so doing.

	Basic salary[28]	Variable remuneration[29]	Other benefits	Pension costs	Share-based remuneration[30]	Other remuneration	Total
CEO, Peter Wolpert	2,379	,1,278	-	642	414	-	4,714
Other senior executives (6 people)[31]	8,232	2,785	-	668	1,388	-	13,073
Total	**10,611**	**4,063**	**0**	**1,311**	**1,802**	**0**	**17,787**

[28] Mark Beveridge and Shaw Sorooshian have invoiced their renumeration as consultant fees through companies.

[29] Variable remuneration pertains to the 2018 fiscal year and 1 613 KSEK of the total will be paid in 2019.

[30] These costs will not entail a payment and do not affect the Company's cash flow. Estimated social security costs are not included in the carrying amounts.

[31] In cases where senior executives were elected to the management during the year, remuneration is only included for the period in which the senior executives were a part of the management team.

Share-based incentive schemes

Moberg Pharma has introduced share-based incentive schemes comprising employee stock options and performance share units designed to promote the company's long-term interests by motivating and rewarding senior executives and other employees. The employee stock options and the performance share units have been granted free of charge. All permanent employees who have been employed for at least 12 months as of December 31st, 2018 are included in the company's incentive schemes. The number of shares and stock options held by Board members, the CEO and other senior executives is presented in the annual report on pages 66–67.

The company's employee stock option scheme has a vesting period of more than three years.

AUDIT

The auditor must audit the company's annual report and financial statements, as well as the administration of the company by the Board and the CEO. After the end of each fiscal year, the auditor is required to submit an audit report and consolidated audit report to the AGM.

The audit firm Ernst & Young Aktiebolag has been the company's auditor since 2007. Authorized Public Accountant Andreas Troberg has been the Auditor-in-Charge since fall 2016. The company's auditor is presented in more detail in the annual report on page 67.

Remuneration to auditors

The remuneration paid to the auditor is subject to approval by a Shareholders' Meeting. The AGM on May 15th, 2018 resolved to approve remuneration of the auditor on a continuous basis.

In 2018, remuneration of SEK 1.0 million was paid to the auditor, of which audit assignments accounted for SEK 0.8 million, audit work in addition to the assignment for SEK 0.1 million and other assignments for SEK 0.04 million. Audit assignments are defined as the examination of the annual report and accounting records and of the Board of Directors and CEO's administration of the company, other tasks incumbent on the auditor as well as advice and other assistance occasioned by observations made in the course of such examinations or the performance of such other tasks. Audit work in addition to the assignment comprises examinations of interim reports and other opinions in accordance with the Swedish Companies Act.

NOMINATION COMMITTEE

The nomination committee submits proposals for electing the Chairman of the Board and other Board members, as well as proposals concerning remuneration and fees for Board members. The nomination committee also submits proposals concerning the election and remuneration of Auditors. The Nomination Committee's proposal was presented in a press release on April 8, 2019, http://www.mobergpharma.com/press-releases/2019-04-08/nomination-committees-proposal-annual-general-meeting-2019.

The AGM on May 15th, 2018 resolved to entrust the Chairman of the Board to contact the three largest shareholders or groups of owners in terms of the number of voting rights (hereby referring to both directly registered shareholders and nominee registered shareholders), according to Euroclear's shareholder register on September 30st, 2017. These parties are offered the opportunity to each appoint a representative, who together with the Chairman of the Board will make up the nomination committee for the time until a new nomination committee is appointed by mandate from the next AGM. If any of these shareholders declines the entitlement to appoint a representative, this entitlement transfers to that shareholder with the largest shareholdings after these shareholders until the Nomination Committee consists of four members.

If a member leaves the committee before their work is completed and if the committee considers it necessary to replace this member, the nomination committee will appoint a new member in accordance with the procedure above but based on Euroclear's shareholder register applicable as soon as possible after the member steps down. Any change in the composition of the nomination committee must be announced immediately. No fee is paid to members for their work on the committee.

The nomination committee for the 2019 AGM was announced on Moberg Pharma's website and through a press release on November 8th, 2018 and it consists of four members: Thomas Eklund, Chairman of the Board, Gillis Cullin, appointed by the Baltic Sea Foundation, Fredrik Persson, appointed by Zimbrine Holding, and Anders Lundmark.

INTERNAL CONTROL AND RISK MANAGEMENT OF FINANCIAL REPORTING

The overall purpose of internal controls is to obtain reasonable assurance that the company's operational strategies and goals are monitored, and that shareholders' investments are protected. Additionally, internal controls should provide reasonable assurance that external financial reporting is reliable, and prepared in accordance with generally accepted accounting practice, that applicable laws and ordinances are complied with and that the requirements of listed companies are observed. At Moberg Pharma, internal control over financial reporting is designed, for example, to ensure efficient and reliable management and accounting of purchases and sales, other income recognition and accounting of the company's financing arrangements.

The internal control environment mainly comprises the following five components: control environment, risk assessment, control activities, information and communication, and monitoring.

Control environment

The control environment at Moberg Pharma forms the framework of the direction and culture with which the company's Board and management communicate their messages to the organization. Internal management and control in accordance with customary frameworks is assigned high priority. Moberg Pharma's Board and management define and design decision paths, authorities and responsibilities that are clearly defined and communicated throughout the organization. The company's Board also strives to

ensure that steering documents, such as internal policies and principles, cover identified areas of significance, and that these provide the right guidance to the work of the various executives in the company.

Risk assessment

The company's Board conducts continuous and systematic risk-assessment work aimed at identifying risks and taking the necessary actions to cope with them. Risk assessment is also designed to identify such risks that have a significant impact on internal control of financial reporting.

The commercialization and development of new drugs is a risky and capital-intensive process. Risk factors considered of particular significance for Moberg Pharma's future development include competitors' results and price scenario, production, business partners and distributors, clinical studies, actions of public authorities, liability risks and insurance, integration risks, patent and trademarks, key individuals, cyclical sensitivity, future capital requirements and financial risk factors. A more detailed description of Moberg Pharma's risk exposure and how the company manages it can be found in the annual report on page 21.

Control activities

The primary purpose of control activities is to prevent, discover and rectify misstatements in financial reporting. Processes and activities have been structured to manage and address significant risks related to financial reporting. These activities include analytical updates and comparisons of the progress in terms of profits or items, reconciliation of accounts and balances, and approval of business transactions and collaboration agreements, powers of attorney and certification instructions, as well as accounting and valuation policies. Access to ERP systems is limited by authority, responsibility and role.

Information and communication

Moberg Pharma is a listed company in one of the most regulated industries in the world – pharmaceuticals. In addition to the high demands that NASDAQ OMX Nordic Stockholm and the supervisory authorities impose on the scope and accuracy of information, Moberg Pharma's internal information and communication functions are designed to ensure that correct financial and other corporate information is communicated to employees and other stakeholders.

The company's internal instructions and policies, which are available for all employees, provide information on applicable procedures in all parts of the company and describe control functions and how they are implemented.

The security of all information that could affect the market value of the company and the mechanisms to ensure that such information is communicated in a correct and timely fashion are cornerstones of the company's undertaking as a listed company. These two factors, and the procedures for managing them, ensure that financial reports are received by all players in the financial market at the same time, and that they provide an accurate presentation of the company's financial position and performance.

Monitoring compliance

Monitoring compliance with internal policies, principles, manuals and codes as well as the appropriateness and functionality of the established control activities is conducted regularly. Measures and procedures for financial reporting are subject to regular follow up. Moberg Pharma's management conducts monthly performance follow-up, including an analysis of deviations from budget and the preceding period, also on a project level. The Board reviews the annual report and interim reports prior to publication. The Board meets the company's external auditor each year to discuss the company's internal control and financial reporting procedures.

Assessment of the need for internal audit

Moberg Pharma has no separate auditing function (internal audit). The Board evaluates the need for such a function annually and, in view of the company's size, with relatively few employees, and the scope of transactions, in which most significant transactions are similar in character and relatively uncomplicated, has not found it necessary to establish a formal internal audit function.

Compliance with the Swedish stock exchange rules, etc. during the fiscal year

During fiscal year 2018, Moberg Pharma was not subject to decisions passed by the NASDAQ OMX Nordic Exchange Stockholm's disciplinary committee or statements by the Swedish Securities Council regarding infringement of Nasdaq OMX Nordic Exchange Stockholm's regulations or accepted market practices.

Stockholm April 15th, 2019

Thomas Eklund
Chairman

Geert Cauwenbergh
Board member

Mattias Klintemar
Board member

Sara Brandt
Board member

Anna Malm Bernsten
Board member

Andrew B. Hochman
Board member

Peter Wolpert
CEO

AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE REPORT

To the Annual General Meeting of Moberg Pharma AB
Corp. ID. No. 556697–7426

ASSIGNMENT AND ALLOCATION OF RESPONSIBILITY

The Board of Directors is responsible for the Corporate Governance Report for the year 2018 on pages 60–64 and for ensuring that the Corporate Governance Report is prepared in accordance with the Swedish Annual Accounts Act.

FOCUS AND SCOPE OF THE REVIEW

Our review has been carried out in accordance with FAR's statement RevU 16 Auditors' review of the corporate governance report. This means that our review of the Corporate Governance Report has a different aim and is of significantly smaller scope than the aim and scope of an audit in accordance with the International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that this review provides sufficient grounds for our opinions.

OPINION

A corporate governance report has been prepared. Disclosures in accordance with chapter 6, section 6(2), nos. 2–6 of the Swedish Annual Accounts Act and chapter 7, section 31(2) of the same Act are consistent with the financial statements and consolidated financial statements and comply with the Swedish Annual Accounts Act.

Stockholm April 16th, 2019
Ernst & Young AB

Andreas Troberg
Authorized Public Accountant

MANAGEMENT

Peter Wolpert | Shaw Sorooshian | Anna Ljung | Torbjörn Wärnheim | Mark Beveridge

PETER WOLPERT, CEO and founder, M.Sc. at Kungliga Tekniska Högskolan, Stockholm and M.Sc BA at Handelshögskolan, Stockholm. Born 1969. Active in the company since 2006. Peter Wolpert has more than 20 years of experience as CEO, strategy consultant and entrepreneur and is a board member of MedUniverse AB. He was co-founder of Ibility AB and previously held positions as CEO of Athera Biotechnologies AB and strategy consultant at McKinsey & Co. Shareholding: 435,399 shares, via the company Wolco Invest AB and 130,000 employee stock options (130,000 shares may be subscribed based on the employee stock options).

SHAW SOROOSHIAN, Vice President, Chief Medical Officer MD at University of Edinburgh, FFPM. Born 1964. Active in the company since 2018. Shaw Sorooshian has 14 years of experience in the pharmaceutical industry and had senior roles within Organon Labs, Lundbeck, Shire and Sobi. Dr Sorooshian also has 18 years of clinical experience and is a specialist in anaesthesiology and pharmaceutical medicine. Shareholding: 5,399 shares and 20,000 performance shares

ANNA LJUNG, CFO, MSc oak at Handelshögskolan, Stockholm. Born 1980. Active in the company since 2006. Anna Ljung has more than 15 years of experience. She previously worked as CFO of Athera Biotechnologies AB and Lipopeptide AB and as an independent consultant in technology licensing. She is also a board member of Saniona AB. Shareholding: 12,000 shares, 14,500 performance shares and 95,000 employee stock options (95,000 shares may be subscribed based on the employee stock options).

TORBJÖRN WÄRNHEIM, Head of Innovation and Development. PhD, Assoc Prof, BA. Born 1958. Active in the company since 2014. Torbjörn Wärnheim has a broad experience of pharmaceutical development of Rx and OTC products in the pharmaceutical industry, and is an associate professor at KTH with a research background in surface chemistry and lipids physical chemistry. Previously he worked as Vice President R&D at Fresenius Kabi. Previous assignments also include managerial positions in research and development, including ACO Hud and Pharmacia & Upjohn. Shareholding: 4,500 shares, 15,526 share rights and 26,500 employee stock options (26,500 shares may be subscribed based on the employee stock options).

MARK BEVERIDGE, Vice President Finance, B.Com (Accounting) at University of Western Sydney (Australien) and GradDipCA at Institute of Chartered Accountants Australia. Born 1978. Active in the company since 2015. Mark Beveridge has more than 15 years of experience as an advisor in accounting, insurance and auditing, primarily from Crowe Horwath and Visma Services. Mark has also worked as an independent consultant within financial control, transaction consultancy and implementation of business systems. Shareholding: 26,537 shares, 27,500 performance shares and 25,500 employee stock options (25,500 shares may be subscribed, based on employee stock options).

BOARD OF DIRECTORS


Thomas Eklund


Geert Cauwenbergh


Mattias Klintemar


Sara Brandt


Anna Malm Bernsten


Andrew B. Hochman

AUDITORS At the Annual General Meeting on April 18, 2011, the auditing firm Ernst & Young AB (Jakobsbergsgatan 24, Box 7850, 103 99 Stockholm) was appointed auditor of the company. Authorized public accountant Andreas Troberg has been appointed chief auditor since autumn 2016. Andreas Troberg was born in 1976 and is a member of FAR.

THOMAS EKLUND Chairman of the Board. M.Sc. at Handelshögskolan, Stockholm. Born 1967. Member since 2015. Thomas Eklund has extensive experience from board positions in the pharmaceutical industry and as CEO & Head of Europe for Investor Growth Capital AB. He has previously been Investment Director at Alfred Berg ABN AMRO Capital Investment AB and Vice President at Handelsbanken Markets. He is also Chairman of the Board of BoMill AB, Caliditas Theraputics AB, Sedana Medical AB and Itrim Holding AB, and Board member of Swedencare AB (publ), Boule Diagnostics AB, Biotage AB, Circassia AB, Rodebjer Form AB, Memira Holding AB, Excillum Aktiebolag, Neoventa Medical AB, TEDCAP AB and Eklund konsulting AB. Shareholding: 99,208 shares

GEERT CAUWENBERGH Member, Ph.D. Department of Medicine Catholic University Leuven, Belgien. Born 1954. Member since 2012. Dr. Cauwenbergh has extensive experience from the pharmaceutical industry and has special experience in product development and marketing of dermatology products in Europe and the USA. Dr. Cauwenbergh is the Managing Partner of Phases123 LLC (USA), CEO and Board Member of RXi Pharmaceuticals Corp (U.S) and Board Member of Cutanea Life Sciences (Private USA). He has previously worked as chairman and CEO of Barrier Therapeutics (USA) and in senior positions within the Johnson & Johnson Group in the United States. Shareholding: 0 shares

MATTIAS KLINTEMAR Member. M.Sc. at Karlstad University. Born 1967. Member since 2015. Mattias Klintemar represents the Baltic Sea Foundation and has a long and broad experience from senior positions in the finance and technology sector, including as CEO of Morphic Technologies, CFO of Hexaformer, senior corporate finance associate of ABG Sundal Collier and auditor of Arthur Andersen. He is chairman of the board of Dilafor and board member of Oatly, Phoniro and Axelar and chairman of the nomination committee for Lightlab, Pharmanest and Cellimpact. Shareholding: 3,000 shares.

SARA BRANDT Member. M.Se. at Handelshögskolan, Stockholm. Born 1963. Member since 2017. Sara Brandt has a long and broad experience from the marketing and sales of consumer goods and self-care products. She has held senior positions in Unilever (the Nordic countries), Coca-Cola (Sweden) and Cederroth / Orkla (the Nordic region). Sara Brandt has been CEO and VP Nordic for Berner, a B2B company in the construction and automotive industry and is now an external VP at Almi Businesspartner. She was a former board member of Sweden's Advertisers, Gärdin & Persson, DLF and KTF and is now chairman of the board of Toxintelligence and a board member of ClearOn.Shareholding: 0 shares

ANNA MALM BERNSTEN Member. M.Sc. at Kungliga Tekniska Högskolan, Stockholm. Born 1961. Member since 2018. Anna Malm Bernsten conducts consulting business in her own company within business development and management. She has previously been CEO and CEO of Carmeda AB and held leading positions in international marketing and sales at Pharmacia, ASSA ABLOY and GE Healtcare. Anna Malm Bernsten is chairman of the board of Medivir AB and Björn Axén AB and member of Cellavision AB, Probi AB and Pågengruppen AB and has previously held directorships for, among others, Arcam AB, Biophausia AB, Neurovive AB and Oatly AB. Shareholding: 0 shares

ANDREW B. HOCHMAN Member. Born 1979. Member since 2019. Andrew B. Hochman has over 16 years of experience in investments in pharmaceutical and consumer health care and is currently a partner at RoundTable Healthcare Partners, where he is involved in all parts of the transaction process, including deal sourcing, transaction structuring, valuation, due diligence, negotiations, financing and business strategy implementation. He joined RoundTable in 2007 from Graceway Pharmaceuticals, where he worked as Vice President of Business Development, and before that he was an associate at GTCR Golder Rauner and an analyst at William Blair & Company. He holds a Bachelor of Science degree in economics from Wharton School and a Bachelor of Arts in Psychology from the University of Pennsylvania. He is a board member of Santa Cruz Nutritionals, Revision Skincare / Goodier Cosmetics, Deerland Probiotics & Enzymes and Advantice Health, and has previously been a board member of Aqua Pharmaceuticals. Shareholding: 0 shares

SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on May 15th, 2019, at 16.00 CET at Moberg Pharma's premises on Gustavslundsvägen 42, 5th floor, Bromma, Stockholm. Shareholders who wish to have an issue addressed by the Annual General Meeting must submit their request by March 27th, 2019 by post to the company's address or e-mail to arsstamma@mobergpharma.se.

To be eligible to participate in the Meeting, shareholders should be registered in the shareholder register maintained by Euroclear Sweden on May 8th, 2019. Shareholders whose shares are registered in the name of a nominee must, via the nominee and in good time before this date, temporarily register their shares in their own name in order to be entitled to attend the Meeting.

SHORTENED FINANCIAL YEAR AND DIVIDEND

In March 2019, the OTC-business was divested for a cash consideration of USD 155 million (corresponding to SEK 1.43 billion) adjusted for working capital. The company intends to use the cash consideration to, among other things, redeem its outstanding bonds and distribute approximately SEK 43–45 per ordinary share to its shareholders in 2019.

Payment of the OTC dividend presupposes that the company has established the annual report for the current financial year in order for Moberg Pharma to be able to present sufficient distributable funds. In order to be able to pay the OTC dividend during 2019, the extraordinary general meeting in March 2019 decided to shorten the current financial year to the period 1 January - 30 June 2019.

The payment of the OTC dividend will be subject to a decision at the Annual General Meeting for the abbreviated fiscal year 1 January to 30 June 2019. According to Moberg Pharma's current assessment, the OTC dividend is expected to amount to approximately SEK 43–45 per ordinary share in the company. However, the actual and final amount of the OTC dividend may change and depend on several factors, such as transaction costs, the receipt of expected milestone payments, anticipated investments in R&D, business development, and administrative costs to complete the MOB-015 development program, exchange rate fluctuations and other factors affecting Moberg Pharma's financial situation at the actual time of disbursement of the OTC dividend. The final amount of the OTC dividend will be made public by the company no later than in connection with the publication of the notice to the Annual General Meeting for the shortened financial year.

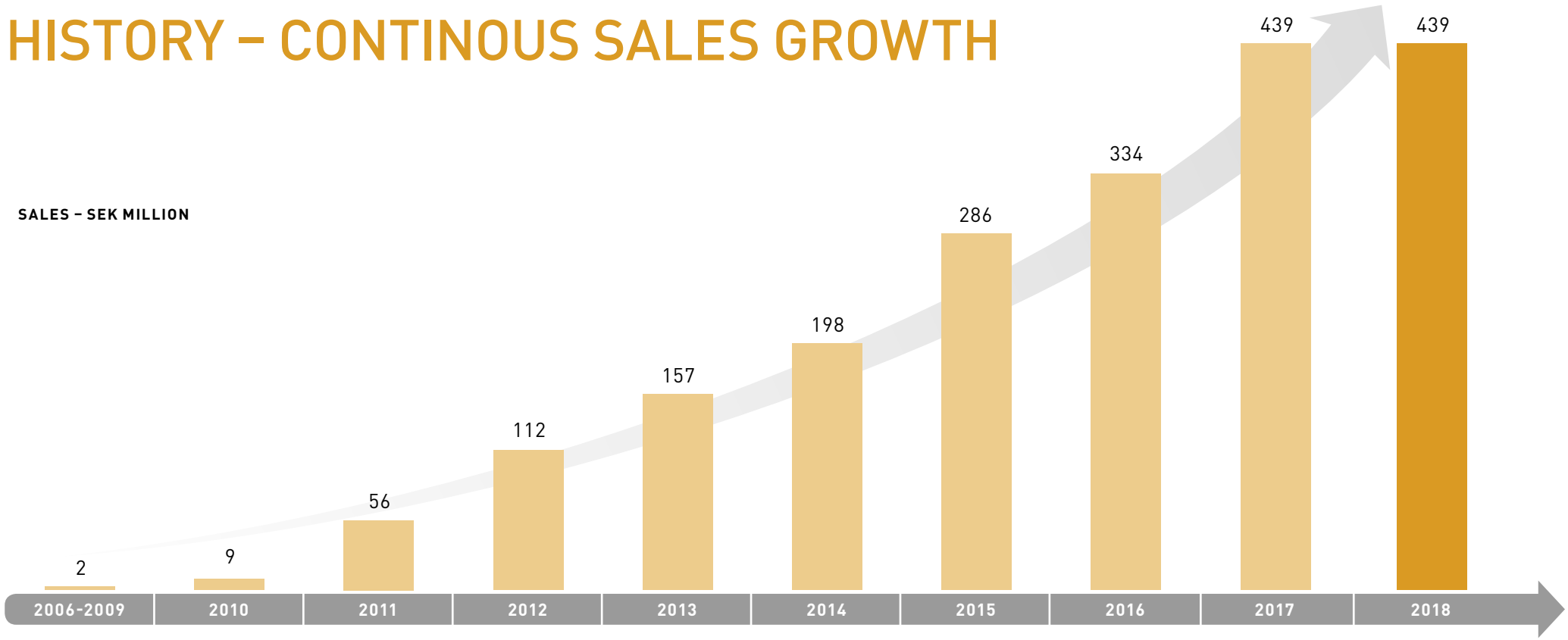
REPORT DATES 2019

Interim report for January–March 2019	May 14th, 2019
Year-end report for January–June 2019	August 29nd, 2019
Annual report for January–June 2019	September 30th, 2019

FINANCIAL INFORMATION

The reports are available in Swedish and English at www.mobergpharma.se. Contact Investor Relations, Anna Ljung, +46 8 522 807 01, e-mail: anna.ljung@mobergpharma.se

HISTORY – CONTINOUS SALES GROWTH



2006-2009

Moberg Derma is founded by Peter Wolpert and Marie Moberg

Initiation of clinical phase III for Kerasal Nail®

Distribution agreement signed with Antula (today Meda OTC, a part of Mylan) regarding Kerasal Nail®

2010

Kerasal Nail® phase 3 clinical trial completed and the product is approved for the Nordic market – No 1 in the Nordic region after only one quarter

2011

Listing on Nasdaq Stockholm

Continued strong development for Kerasal Nail®, which increases the Nordic market several times over

2012

Kerasal Nail® is successfully launched in 19 markets

Moberg Derma acquires Alterna and gains a direct sales channel in North America

2013

Moberg Derma changes name to Moberg Pharma

Acquisition of product portfolio from Bayer Healthcare

2014

Positive data for MOB-015 phase II study

Acquisition of product candidate from Oracain II ApS

2015

Acquisition of Balmex® from Chattem (Sanofi)

2016

Acquisition of the brands New Skin®, Fiber Choice®, PediaCare® and Dermoplast® from Prestige Brands in the U.S.

Divestment of the brands Jointflex®, Fergon®, Vanquish® and PediaCare®

Start of phase 3 study for MOB-015

Positive data from BUPI phase 2 study

Bond issue and additional tap issues of a total of SEK 600 million

New issue of 2,843,504 shares

2017

Divestment of the FiberChoice® brand

Phase 3 studies for MOB-015 in progress in the United States, Canada, Germany and Poland

Patents for BUPI in the EU and Canada

Clinical study published showing that Kerasal Nail® leads to a visible improvement after just one week of treatment

Expanded distribution for New Skin® and Dermoplast®

2018

Sale of the Balmex® brand

The recruitment to the Phase 3 study for MOB-015 in North America was completed

Patent granted for MOB-015 in China

License agreement signed for MOB-015 in Canada

Patent granted for BUPI in the US

DEFINITIONS AND GLOSSARY

DEFINITIONS OF KEY RATIOS

GROSS MARGIN
Gross profit/loss as a percentage of net revenue

EBITDA
Operating profit/loss before depreciation/amortization and impairment of intangible assets and property, plant and equipment

EBITDA margin
EBITDA as a percentage of net revenue

EBITDA for the existing product portfolio
Operating profit/loss before depreciation, amortization and impairment of intangible assets and property, plant and equipment, and before business development costs and research and development costs for brand new product candidates

PROFIT MARGIN
Profit/loss after tax as a percentage of net revenue

NET RECEIVABLES
Cash and cash equivalents less interest-bearing liabilities

DEBT/EQUITY RATIO
Interest-bearing liabilities in relation to equity at the end of the reporting period

EQUITY/ASSETS RATIO
Equity at year-end in relation to balance sheet total

RETURN ON EQUITY
Profit/loss for the year divided by closing equity at the end of the reporting period

EARNINGS PER SHARE*
Profit/loss after tax divided by the average number of outstanding shares after dilution

OPERATING CASH FLOW PER SHARE
Cash flow from operating activities divided by the average number of outstanding shares after dilution

EQUITY PER SHARE
Equity at the end of the reporting period divided by the number of outstanding shares at the end of the period

* Defined in accordance with IFRS

Moberg Pharma presents some financial performance measures in its annual report that are not defined in accordance with IFRS. In Moberg Pharma's opinion, these measures provide valuable additional information as they provide investors and company management with an opportunity to evaluate the Company's performance. These financial performance measures are not always comparable with those used by other companies since not all companies calculate them in the same manner. Accordingly, these financial performance measures are not to be regarded as a replacement for the performance measures as defined in accordance with IFRS.

GLOSSARY

ANTIMICROBIAL
A substance with properties capable of destroying or inhibiting the growth of microorganisms (e.g. bacteria).

BUPIVACAINE
A long-term locally administered oral anesthetic of the amid type that had previous only been injected.

CLINICAL STUDIES
A study of the effects of a pharmaceutical on humans.

DERMATOLOGY
The science of the skin and its diseases.

DRUG DELIVERY
The method or process of administering active substances to achieve a therapeutic effect in humans or animals. Drug delivery technologies refer to patent-protected formulation technologies that modify drug profile with respect to the release or absorption of pharmaceuticals in the body, for example, with the aim of achieving more effective and simpler treatment and/or reduced side effects.

FORMULATION
To develop the most appropriate preparation form of a pharmaceutical, for example, cream, tablet or liquid form.

IAS (INTERNATIONAL ACCOUNTING STANDARDS) AND IFRS (INTERNATIONAL FINANCIAL REPORTING STANDARDS)
New accounting rules adopted by the EU. The rules are designed to facilitate comparability of annual reports in Europe.

KERATOLYTIC
To remove/shed dead cells from the epidermis/nail.

MICROSCOPY
Studies on the microscopic level of objects not visible to the naked eye.

MYCOLOGY
The study of fungi.

NAIL FUNGUS
Fungus infection of the nail that often results in the thickening and crumbling of the nail and the separation of the nail from the nail bed. Nail fungus is normally caused by dermatophytes.

ORAL MUCOSITIS
Oral mucositis is defined as damage and inflammation of the mucosa and adjacent underlying tissue in the oral cavity and the throat. This condition frequently affects patients receiving chemotherapy and/or with radiation therapy during their cancer treatment. The condition causes redness and ulceration, which can be very painful. In severe cases, cancer therapy has to be terminated or delayed due to the patient not being able to eat or drink, thus requiring nutrition to be provided in some other way and perhaps hospitalization.

PATENT FAMILY
A patent family consists of all patents and patent applications submitted in different countries for the same invention.

PREVALENCE
The number of individuals in a certain group having a certain disease at a certain time.

TERBINAFINE
An antifungal agent, developed by Novartis, now without patent protection. It belongs to a class of pharmaceuticals called allylamines, which block the activity of an enzyme, squalene epoxidase, which has a central role in the synthesis of the fungal cell membrane.

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