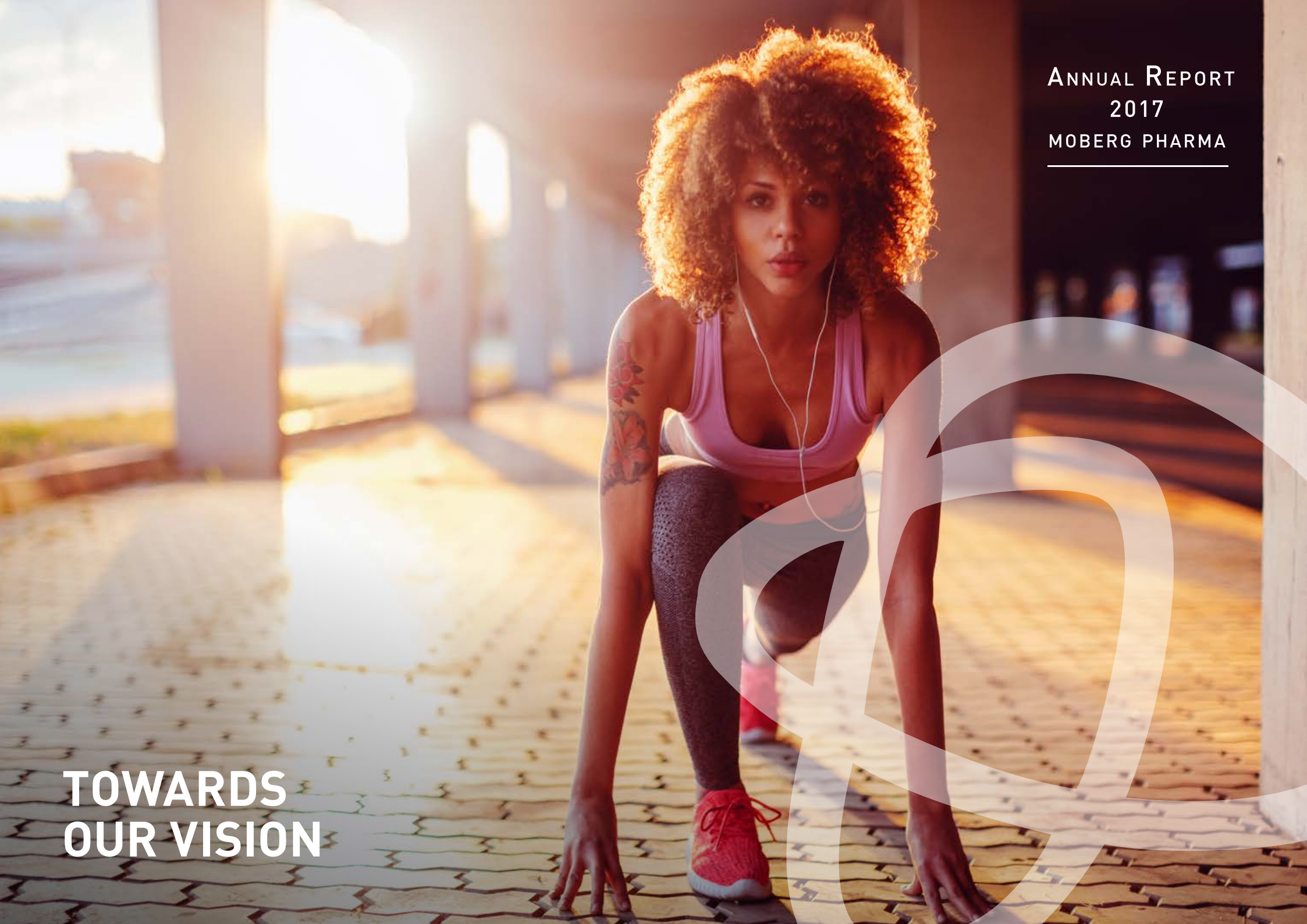


ANNUAL REPORT 2017
MOBERG PHARMA

TOWARDS OUR VISION

CONTENTS

ABOUT MOBERG PHARMA

Moberg Pharma develops and markets consumer healthcare products that relieve pain and treat skin conditions, mainly nail fungus. The portfolio consists of established brands in attractive niches with a focus on topical treatments. In addition, the company has a pipeline of late stage drug candidates with the potential to significantly exceed the sales of the current portfolio.

Moberg Pharma develops and markets consumer healthcare products for treatment of skin conditions and pain. The company has growing and profitable commercial operations, where sales have doubled in the last three years, mainly driven by acquisitions and growth for the company's three major brands: Kerasal Nail®, Dermoplast® and New Skin®. The product portfolio consists of established brands in attractive niches with a focus on topical treatments. The company has a leading position primarily in nail fungus, with a fast-acting over the counter (OTC) product on the market for a number of years and our next-generation nail fungus product in clinical development, currently in Phase 3. Moberg Pharma's long-term goal is an EBITDA margin of 25% with healthy growth. The way to achieve this is through profitable growth from strategic brands, value-creating acquisitions and commercialization of development projects with a combined peak sales potential estimated at USD 300–600 million.

COMMERCIAL OPERATIONS

Moberg Pharma markets and sells OTC products in the US and the UK through direct sales, as well as a global network of distributors that spans more than 40 countries. The main product is Kerasal Nail®, a market-leading treatment for nail fungus that is also sold outside the U.S., mainly in Europe and parts of Asia.

In 2017 the commercial operations underwent significant changes in terms of both product mix and geographical focus. Today 89% of revenue is generated from direct sales of our three major brands, each a market leader in its niche. Of the smaller brands in the product portfolio, only one remains after the divestments in recent years.

The main product, Kerasal Nail®, was joined by two acquisitions in 2016, New Skin® and Dermoplast®, which were integrated in 2017 and repositioned for growth. In just their first year under new management, these new brands produced double-digit sales growth in retail sales.

Distributor sales decreased in 2017 and are expected to continue to account for a declining share of sales in expectation of the next-generation nail fungus product, MOB-015, for which the potential is great in existing markets and beyond.

PIPELINE

Moberg Pharma has developed a clinical pipeline of late stage drug candidates with the potential to significantly exceed the sales of the current portfolio. MOB-015 is the next-generation nail fungus treatment, and BUPI is a novel 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 drug have demonstrated strong Phase 2 results which indicate that they have the potential to become market leaders in their respective niches.

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 the value of BUPI, with estimated annual sales potential of USD 50–100 million, recently validated in a market physician survey and U.S. market analysis.

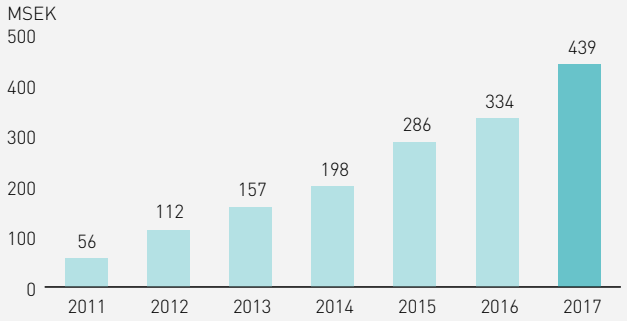
89 MSEK

EBITDA

108 %

GROWTH IN EBITDA, EXCLUDING CAPITAL GAINS

SALES REVENUE, 2011–2017



THE YEAR IN BRIEF

The commercial operations achieved growth of 31% in 2017 despite a decline in Asia, thanks to a better product mix, effective marketing and acquisitions. This resulted in increased economies of scale in the US, and a seasonal pattern with higher profitability in the second half of the year.

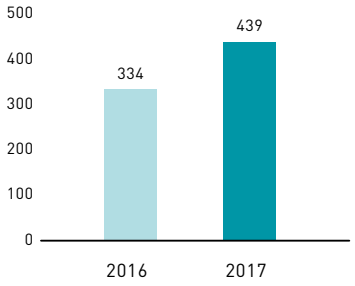
In parallel with the commercial operations, Phase 3 studies for MOB-015 advanced, but with delays, which were addressed through an extensive action plan. With these actions in place, we expect to finalize the recruitment of patients for the two ongoing studies in 2018 and deliver topline results in 2019 without further financing. For BUPI, a Phase 3 application was submitted in 2017.

In the next two years, our focus is on maximizing growth potential in the product portfolio and stabilizing sales levels outside the US, at the same time that we realize the underlying value in the pipeline.

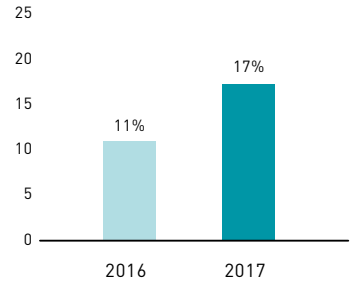
KEY FINANCIALS 2017[1]

- Revenues: 439 MSEK, +31% (334 MSEK)
- Gross margin: 71% (70%)
- EBITDA: 89 MSEK (78) doubled excluding capital gains to 76 MSEK
- EBITDA-margin was 20% (23) including, and 17% (11) excluding, capital gains
- EBIT: 57 MSEK (62 MSEK)
- Net Profit: 11 MSEK (33 MSEK)
- Operating cash flow per share 3.07 SEK (-1.24)
- Total R&D expenses (costs and investments) 89 MSEK (62 MSEK)

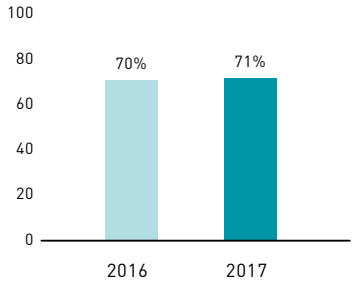
REVENUE, MSEK



EBITDA, %[1]



GROSS PROFIT MARGIN, %



[1] excluding capital gains from divestments

SIGNIFICANT EVENTS IN 2017 AND AFTER THE END OF THE YEAR

Commercial operations
Pipeline
Corporate events

In January, **additional distribution** was secured for New Skin® to a total of 3,900 Walmart stores and more than 1,500 Walgreens stores, followed by expanded distribution for Dermoplast® in April to 7,500 CVS locations and 3,500 Walmart locations.

- In March, Kerasal Nail® (locally Zanmira®) was **launched in Japan**.

In August, **positive clinical data** were reported for Kerasal Nail®/ Emtrix®. The study demonstrated visible improvement after just one week of treatment in patients suffering from nail fungus and nail psoriasis

In August, the **Fiber Choice® brand was sold** to Caret Pharma LLC. for USD 6.7 million plus inventory value, for a capital gain of about USD 1.6 million. The divestments helped to streamline the product portfolio and free up resources for the company's larger brands.

After the end of the year, Moberg Pharma received a favorable outcome from the National Advertising Division (NAD) in a challenge filed against the largest US competitor to Kerasal Nail®. NAD has recommended that the competitor discontinue its current packaging design and advertising, which was found to be deceptive.

In February, an agreement was entered to **divest the brand Balmex®** for about SEK 34,6 million plus inventory value, for a capital gain of about SEK 4,4 million. The transaction is expected to close in April 2018.

2017 JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC 2018 JAN FEB MAR

In April, the results were announced from a survey of 90 US physicians indicating that there is a **strong demand for better topical treatment** for nail fungus. Among other aspects, six out of ten physicians stated that they would prefer MOB-015 over existing topical medications. A majority also preferred MOB-015 to oral treatment with terbinafine.

The Annual General Meeting in May elected Sara Brandt as a **new member of the Board of Directors**. Sara Brandt has extensive experience from Nordic and international companies in Fast Moving Consumer Goods (FMCG), where she has held a number of executive positions, including at Unilever, Coca-Cola and Cederroth AB.

In September, Torbjörn Wärnheim, Director Pharmaceutical Innovation and Development, **was appointed to the management team**.

BUPI – Moberg Pharma received **patent protection** for BUPI in Canada. In September, the positive results from the Phase 2 study were published in Pain Reports. In the third quarter, the company's partner in India, Cadila Pharmaceuticals, submitted an application for a Phase 3 program. The Indian regulatory authority responded with concerns regarding the application which we and Cadila are evaluating possibilities to overcome.

The two Phase 3 studies continued in parallel in North America and Europe, but faced delays. An **extensive action plan** announced in November included the replacement of the CRO in the two ongoing Phase 3 studies and an updated timeline with the goal of delivering topline results in 2019 without additional financing.

In November, the sales and marketing operations were reorganized to better reflect the company's increased focus on the North American market and to maximize global synergies. **A global Consumer Health unit was established** and now manages both direct and distributor sales. Jeff Vernimb, currently General Manager North America, was appointed VP Global Consumer Health.

CEO COMMENTARY

The acquisitions and divestments in the last 18 months have resulted in a more streamlined product mix with a focus on our three major brands in the US, each a leader in its niche. The company grew 30% in the past year and doubled underlying profitability, at the same time that we have identified further potential in the current product portfolio. In parallel, our Phase 3 studies for MOB-015 are now advancing according to plan after we took extensive action in 2017 to navigate a number of challenges.

COMMERCIAL OPERATIONS WITH GOOD GROWTH POTENTIAL

The commercial operations developed positively in 2017, at the same time that we identified further potential for our current product portfolio. Successful marketing and the integration of the 2016 acquisitions resulted in double-digit sales growth at the consumer level for our three major brands, with New Skin® and Dermoplast® accounting for a growing share of sales. Kerasal Nail® has maintained a market-leading position in the US in the last two years, not least thanks to stronger claims supported by a new clinical study published in 2017, which showed visible results after just one week of treatment. Sales volumes outside the US were lower in 2017 than before, due to a decline in Asia.

In 2018, we will continue to maximize the growth potential for our three major brands, and aim to stabilize revenue levels outside the US by focusing on markets where we see the biggest opportunities, primarily in the EU and certain markets in Asia. We expect favorable market conditions for Kerasal Nail® in the US after the positive outcome to our challenge filed with the NAD forced our main competitor to radically change its marketing. A test launch is also beginning to a totally new target group, nail psoriasis patients, where there currently are no OTC treatments. We plan to increase the digital presence of all our major brands in terms of marketing and e-commerce, mainly through Amazon. We look forward as well to launching our growth plan for Dermoplast®, where we see strong underlying demand and exciting opportunities in both hospital sales and retail.

Our smaller brands performed weaker in 2017, but after several divestments in the last year, and most recently the sale of Balmex®, all that remains is Domeboro® aside from our three major brands: Kerasal®, New Skin® and Dermoplast®. The streamlining of the product portfolio frees up resources and allows us to focus on our more profitable brands. We are also seeing profitability begin to follow a seasonal pattern in line with our long-term expectations, partly thanks to increased economies of scale in the US. The acquisition strategy going forward remains focused on the brands in our core businesses as well as companies/products of value to the commercialization of our pipeline. We want, however, to see the value of our pipeline reflected in the company's valuation before we pursue any major acquisitions.

[2] Symphony IRI, U.S. MULO, during the year up to December 31, 2017

CEO Peter Wolpert

IN THE PIPELINE – THE COMPANY'S BIGGEST POTENTIAL IS IN MOB-015

During the year, we reaffirmed our previous assessment of the sales potential for MOB-015, which is estimated at USD 250–500 million with the large part of sales from high-priced US market for prescription drugs. Market demand is high; a majority of the physicians surveyed in 2017 stated that they would prefer MOB-015 to the current treatments, both topical and oral. The two Phase 3 studies for MOB-015 are underway in North America and Europe, at the same time that preparations are being made for commercialization. The extensive action plan to accelerate these studies is progressing according to plan, including the replacement of the CRO with primary responsibility in Europe with TFS International, which was completed in March. With these actions in place, our assessment remains that recruitment in North America will be finalized in the summer of 2018 and in Europe in the second half of 2018. The delays have caused increased costs but our assessment is that we can complete both studies without further external financing.

Regarding BUPI, the Indian regulatory authority has communicated concerns to our partner Cadila Pharmaceuticals regarding the Phase 3 application. We are evaluating various ways to overcome this concern and remain convinced of the opportunities to take BUPI to the market. The value of BUPI was recently reconfirmed in a market survey in the US.

FOCUS ON ADVANCING THE PIPELINE AND MAXIMIZING GROWTH POTENTIAL

With the actions taken for MOB-015 and the momentum behind our three major brands, we will continue to drive organic growth in the next two years. We feel that we have plenty of opportunity to maximize the potential in our pipeline and thereby take the company to another level.

Sincerely,

Peter Wolpert
CEO & Founder

31%

REVENUE GROWTH IN 2017
REVENUE WAS 439 MSEK (334)

DOUBLE -DIGIT

GROWTH IN RETAIL SALES FOR OUR THREE MAJOR BRANDS IN THE U.S.

250-500 MUSD

MARKET POTENTIAL FOR MOB-015

COMMERCIAL OPERATIONS
– three brands in leading positions

After the acquisitions in 2016, we followed our strategy in 2017 to focus on our profitable larger brands in the US. Fiber Choice was divested in 2017, and recently Balmex was as well. This streamlining frees up resources for organic growth and to improve profitability.

COMMERCIAL OPERATIONS

The commercial operations are dominated by three large brands, each with a leading position in its niche: nail fungus, liquid bandages and topical pain relief. The majority of revenue, 90%, comes from the US, where our brands are sold in more than 30,000 stores, including major retailers such as Walmart and Target, chain drugstores such as CVS or Walgreens, and online, mainly through Amazon. Operations are managed by an effective and scalable marketing and sales team in New Jersey, in the US, complemented by a contracted sales resources. This in addition to a small, but growing, direct sales business in the UK.

A smaller share of sales, about 10%, is generated through distributors in Canada, the EU and parts of Southeast Asia such as Hong Kong, Taiwan and Japan.

BRANDS

Kerasal Nail® is Moberg Pharma's largest product: a clinically proven OTC treatment for nail fungus that is the US market leader and is also sold under other names outside the US[1]. The product brings visible improvement after just one week of treatment, and in addition to nail fungus has been proven clinically effective against nail psoriasis. Kerasal Ointment®/Intensive Foot Repair®, designed to heal dry, cracked feet, is also marketed under the Kerasal brand in the US.

In addition to Kerasal Nail®, two acquired brands, New Skin® and Dermoplast®, represent a growing 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.

DOMEBORO®

Effective treatment for skin irritations and rashes

BALMEX®

Complete protection to treat and prevent diaper rash. The product is under divestment.

NEW SKIN®

Waterproof liquid bandage

DERMOPLAST®

Fast relief of pain and itch

KERASAL®, EMTRIX® AND ZANMIRA®

Clinically proven formulas providing a Visible Difference in Foot Care. Note that the trademark NalocTM/NaloxTM is owned by the Group´s partner

GROWTH STRATEGY

Moberg Pharma has an integrated view on marketing, development and M&A. The company increases the value of strong, established niche brands by delivering products with unique properties that solve patients' needs and add value in the product category as a whole. Product efficacy is demonstrated through clinical trials, enabling a strong brand reputation with patients, physicians and retailers.

A leading position in adjacent niches provides valuable insights into consumer and market dynamics, which creates economies of scale throughout the commercialization process and helps us to identify new opportunities through development or acquisitions. As an element in its acquisition-driven growth, Moberg Pharma actively seeks attractive products that are already on the market but can be revitalized, relaunched or sold in additional markets. In the last three years, the company's sales have doubled thanks to the successful acquisitions and integrations, followed by a number of divestments of smaller brands to free up resources and streamline the portfolio.

MANUFACTURING

We work with partners and consultants to find the best solutions to develop, manufacture and distribute our 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 our network of contract manufacturers, which are fully integrated in our supply chain. We adhere to the ISO 13485 international quality control standard, as well as other international laws and regulations that govern our commercial operations and product development.

OVERALL DEVELOPMENT IN 2017 AND FOCUS GOING FORWARD

For the commercial operations, 2017 was focused on the integration of New Skin® and Dermoplast® and the successful relaunch of New Skin®, which was preceded by extensive repositioning work. Targeted marketing and expanded distribution contributed to double-digit growth in retail sales for both brands in their first year under Moberg Pharma's management.

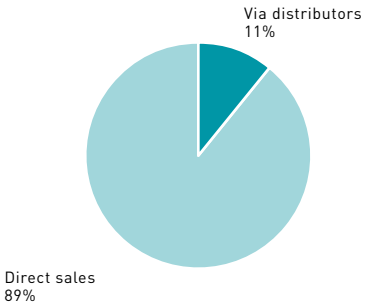
Kerasal Nail® retained a leading position in the market and maintained high growth, mainly thanks to a stronger claims based on visible results after just one week of treatment. After the end of the year, Moberg Pharma received a favorable outcome against the main competitor to Kerasal Nail® for deceptive marketing. The conclusion from the U.S. National Advertising Division (NAD) limits opportunities for effective marketing of the competing product, which is expected to benefit Kerasal Nail®.

In 2018, we will continue to drive growth for our major brands in the US, at the same time that we expand direct sales activities in the UK. For Dermoplast®, we are planning an extensive branding campaign targeting both consumers and hospitals, and for Kerasal NaiI we will begin a test launch to a new target group: nail psoriasis patients. We also plan to increase the digital presence of all our brands in terms of marketing and sales. In the rest of the EU and Asia, we plan to stabilize the decline by focusing on regions where revenue levels are satisfying and we see opportunities to introduce stronger claims.

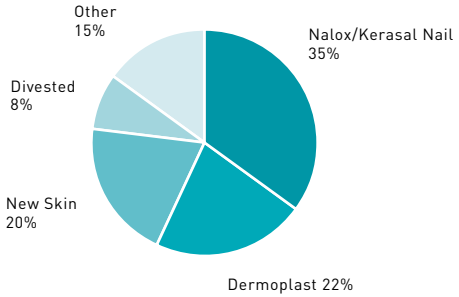
In the last two years, Moberg Pharma has divested five smaller brands to concentrate on our larger brands, where we are better positioned to gain market share and drive value. All the brands contributed positively while owned, and all were sold with capital gains or at book value. Potential acquisitions going forward will focus on brands in niches and that are of value to the commercialization of the company's pipeline assets.

DISTRIBUTION OF NET REVENUE, IN %

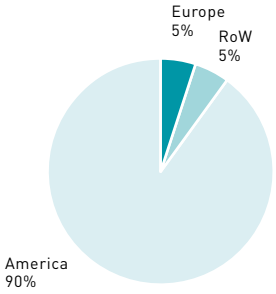
CHANNELS



PRODUCTS



GEOGRAPHY



KERASAL NAIL

In the US, Kerasal Nail has posted two years of record growth as a result of the brand repositioning in the spring of 2016. In 2017, retail sales rose 17% and the brand continues to consistently strengthen its leading position.

CLINICAL PROFILE AND TARGET GROUP

Kerasal Nail® is a patented and market-leading OTC product for nail fungus and nail psoriasis. Clinical studies have demonstrated visible improvement after just one week of treatment with further improvement in subsequent weeks, far surpassing the results from other topical treatments on the market. Application is quick and easy with the help of a silicon tip. The treatment is based on proven compounds whose efficacy has been repeatedly documented in clinical studies with more than 800 patients.

Nail fungus

Nail fungus (onychomycosis) is very common and affects around 10% of the general population. Many patients ignore the symptoms, while others begin treatment but stop before completion for various reasons. Competitors include other topical treatments based primarily on ciclopirox and amorolfine as well as prescription oral treatments based on terbinafine. Sales of Kerasal Nail® follow a seasonal pattern that peaks leading up to and during the summer season. A clinical study from 2017 documented the effect after just a week, and 93% of the patients reported visible improvement after four weeks of treatment.

Nail psoriasis

Nail psoriasis mainly affects patients who already suffer from psoriasis of the skin. Psoriasis is a chronic disease that affects 2–3% of the global population and causes skin and nail problems. About half of psoriasis patients also suffer from nail psoriasis. And as

Symphony IRI, MULO sales during the year up to December 31, 2017

17%

CONSUMER GROWTH IN THE U.S

94%

76%

SHARE OF PATIENTS REPORTING VISIBLE IMPROVEMENT AFTER ONE WEEK AND AFTER EIGTH WEEKS

many as eight of ten patients with psoriatic arthritis, a form of psoriasis that causes joint pain, also suffer from nail psoriasis. Psoriasis is hereditary and there is no cure, but the symptoms can be relieved with treatment. Unfortunately to date there have not been any effective OTC treatments for nail psoriasis, which Moberg Pharma can now offer. A clinical study from 2017 documented improvement after just a week, and 94% of the patients with nail psoriasis reported a visible improvement after eight weeks of treatment with Kerasal Nail®. The strong results are the basis for a test launch to this target group in 2018.

MARKET OVERVIEW

67% of Kerasal Nail®'s revenue comes from direct sales, mainly in the US, where the product is sold over the counter at all the major retailers in more than 30,000 stores and online primarily by Amazon. In the UK, the product is distributed by the company's own sales organization under the brand name Emtrix. In addition, Kerasal Nail® is sold in around 40 markets, mainly larger markets in the EU, Canada, Japan and Southeast Asia, where a number of partners distribute it under local brands names such as Emtrix®, Naloc®/Nalox® and Zanmira®. Distributors include Mylan, Menarini and Endo. Local regulations and consumer preferences differ significantly between markets in the region, which has affected outcomes significantly.

DEVELOPMENT IN 2017 AND FOCUS GOING FORWARD

Direct sales

In the US, Kerasal Nail® has posted two years of record growth as a result of the brand repositioning in the spring of 2016. Consumer sales rose 17% in 2017. The brand is consistently strengthening its position in the market, though market share is a less relevant measure today, since a growing share of our competitors' sales is being replaced by private label, which do not show up in the market data. Last summer's impactful advertising campaigns, supported by new, stronger claims, created an effect that lasted long into the fall.

Development in the UK is promising as well. Kerasal Nail® (under the local brand name Emtrix®) has a leading position in wholesale sales to podiatrists, and growth is continuing as planned.

In 2018 the company plans to strengthen its presence in digital marketing and e-commerce and test launches will be started in the US and the UK targeting nail psoriasis patients. The company continues to capitalize on its success from 2017 and is benefiting from a US market where the main competitor, "Fungi-nail," is forced to discontinue its previous marketing as a result of a successful challenge to National Advertising Division (NAD). NAD concluded that the competitor's ads and packaging is deceptive and should be changed.

Distributor sales

Distributor sales in the EU and Asia trended below the historical average in 2017, though we did see a certain recovery late in the year. At the same time that revenue is down and significantly less than direct sales in the US, profitability is good and the future potential for MOB-015 in these markets is high. The global potential for MOB-015 outside the US is significantly higher than for Kerasal Nail®, and a drug registration would create much more attractive opportunities in major markets such as China and Japan. As a result, there is a lot to gain by continued sales in the region and in the markets that are growing, and by better understanding consumer preferences and local regulations ahead of the commercialization of MOB-015.

This does not change the fact that sales in Asia has not met expectations. The test launch in Japan, for example, was very promising, but wasn't followed by the expected sales growth, a pattern we have seen in several markets in the region, partly due to local regulations that to varying degrees are hindering effective marketing for our current nail fungus product.

Going forward, distributor sales will focus on markets where revenue levels are significant and there are opportunities to introduce stronger claims, such as the EU ahead of high season, as well as certain markets in Asia. In other markets, including China, sales are being discontinued while awaiting MOB-015. By directing our time and resources to regions with greater potential, the goal is to stabilize sales in the year ahead.

NEW SKIN

After just one year under Moberg Pharma's management, New Skin saw growth in retail sales of 18%. This is the result of a successful integration process and the extensive repositioning that was quickly initiated and enabled new marketing campaigns to be launched for the 2017 high season.

CLINICAL PROFILE AND TARGET GROUP

New Skin® is a liquid bandage that is sprayed or brushed on damaged skin to protect wounds and prevent blisters. The brand was acquired in July 2016 and is the leader in its category in the US, with a market share of around 75%. In practice, the market is dominated by New Skin®, in addition to private label and a few smaller competitors. Since New Skin® is liquid, waterproof and antiseptic, there are good opportunities to gain market share from the much bigger category of traditional bandages – especially for people with an active lifestyle.

MARKET OVERVIEW

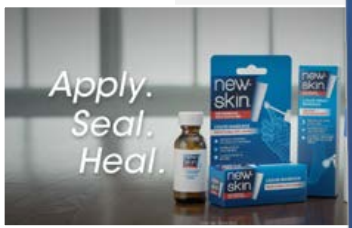
New Skin® is sold in the US and Canada through Moberg Pharma's current retailers such as department stores and drugstore chains, including Walmart, CVS and Walgreens, in a total of around 26,000 stores. It is also sold online, primarily by Amazon. Sales follow a seasonal pattern with higher demand in the warmer half of the year when people are more active outdoors.

DEVELOPMENT IN 2017 AND FOCUS GOING FORWARD

After just one year under Moberg Pharma's management, New Skin® reported sales of SEK 86.6 million. This is the result of a successful integration process and the extensive repositioning that was quickly initiated and completed last spring to steer marketing activities ahead of 2017 high season. The "Mr. Cut" ad campaign was shown on nationwide TV and generated a big response. When the commercial was broadcast, the number of units sold jumped 39% versus the comparative period. Retail sales grew 18% for the full year. The growth was also supported by increased distribution of New Skin® spray at Walmart and Walgreens. In 2018 the successful ad campaign will move to digital channels such as social media. The company also intends to increase its presence in current e-commerce channels.

18%

GROWTH IN RETAIL SALES IN THE U.S



DERMOPLAST

Dermoplast was successfully integrated at the beginning of the year with the other operations and in 2017 reported growth in retail sales of 13% at the same time that we began extensive market and channel analyses to enable a growth plan for retail sales as well as hospital sales.

CLINICAL PROFILE AND TARGET GROUP

The Dermoplast® brand was acquired by Moberg Pharma in December 2016 and is the largest pain relieving spray sold by US retailers. The brand includes two products within the category, where there is a total of around 10 different brands of topical pain relievers for burns, insect bites and other skin irritations. In addition, the target group also include hospital patients, primarily women needing relief from pain and itch after surgery or childbirth.

MARKET OVERVIEW

Dermoplast® is sold in the US through Moberg Pharma's current retailers, including Walmart, CVS and Walgreens, in a total of around 25,000 stores. Retail sales accounts for around 40% of the revenue for Dermoplast®, while the remaining 60% is to hospitals, a new channel for Moberg Pharma to develop in the coming year.

* Symphony IRI, MULO sales during the year up to December 31, 2017. Note that approximately 60% of sales of Dermoplast® are through hospitals, which means that retail sales data do not provide as complete a picture as for other brands.

DEVELOPMENT IN 2017 AND FOCUS GOING FORWARD

During the year that Dermoplast® has been owned by Moberg Pharma, retail sales increased 13% . The brand has been successfully integrated in the operations, and distribution of a second product was expanded last spring at Walmart and CVS. Total growth is still lower than expected, however, due to an inventory buildup for hospital sales prior to the takeover, which has now been worked through.

The growth plan for 2018 is based on similar methodology as previously done for New Skin® and Kerasal Nail®, to be followed by a targeted marketing and growth plan for the retail and hospital channels. The basis is a market analysis conducted in 2017, which provided valuable consumer insights and a better understanding of opportunities in the hospital channel. The growth plan for Dermoplast® also includes stronger presence in digital marketing and sales.

25,000

RETAILERS

60%

SHARE OF REVENUE FROM HOSPITAL SALES

PIPELINE

Moberg Pharma has developed a pipeline of late stage drug candidates with the potential to significantly exceed the sales of the current portfolio. MOB-015 is our next-generation nail fungus treatment and BUPI is our novel 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 drug candidates are currently in Phase 3 and have demonstrated strong Phase 2 results, which indicate that they have the potential to become market leaders in their respective niches.

In 2017, the Phase 3 studies for MOB-015 advanced at the same time that preparations for the Phase 3 program for BUPI continued with a formal application to the authorities in India. As part of the preparations for the commercialization of pipeline assets, the company validated its previous assessments of the market potential. The estimated sales potential for MOB-015 is USD 250–500 million, mainly based on conservative assumptions of the share of the high-priced US market for prescription medications. In addition the value of BUPI, is estimated to an annual sales potential of USD 50–100 million.

	MOB-015	BUPI
	**ONYCHOMACOSIS** • Topical terbinafine • Target profile: Rapid visible improvement and superior cure rates	**PAIN MANAGEMENT FOR ORAL MUCOSITIS** • Lozenge formulation of bupivacaine • Target profile: Better and longer pain relief than current standard of care
	PEAK SALES POTENTIAL ESTIMATED TO 250-500 MUSD	**PEAK SALES POTENTIAL ESTIMATED TO 50-100 MUSD**
	**PHASE 3 INITIATED** • Recruitment of 750-800 patients for 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	**PHASE 3 PREPARATIONS UNDERWAY** • Application for Phase 3 study submitted in India by Moberg´s partner Cadila Pharmaceuticals • During Q1 2017, advisory meeting was held with health authorities in Sweden and Germany
	**PATENT TERM TO 2031** • Patent granted in major territories, including U.S., EU och Japan	**PATENT TERM TO 2031** • Patent granted for EU and Canada. • Patent pending in USA
	**SUPERIOR PHASE 2 DATA IN SEVERELY AFFECTED NAILS** • 54 % Mycological Cure at 60 weeks • 100 % culture negative at 60 weeks • 1000x more terbinafine in nail vs. oral • 40x more terbinafine in nail bed vs. oral	**PHASE 2 DATA DEMONSTRATED SUPERIOR PAIN RELIEF VS STANDARD OF CARE** • Primary endpoint: 31% less pain in BUPI group (Highest VAS score in mouth/pharynx, p=0,0032) • In mouth only: 50% less pain in BUPI group (p=0,0002)

MOB-015 – targeting leadership in onychomycosis

During 2017, the Phase 3 studies are progressing after extensive actions to navigate challenges and enrollment delays. We also verified the company´s estimate of a peak sales potential of USD 250–500 million annually.

Product profile and target group

MOB-015 is our next-generation nail fungus treatment targeting both the 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 over-the-counter 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 and is 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 large need for better topical treatments without the risk of systemic side effects. MOB-015 is meeting this need and is patent protected until 2032 in most major markets, including the US, EU and Japan.

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 800 patients and the primary endpoint is a complete cure after 52 weeks. Recruitment to the studies is expected to be finalized in the summer of 2018 in North America and in the second half of 2018 in Europe. Topline results are expected approximately 15 months later for each study.

The results of the Phase 2 program were presented in the fall of 2014 and exceeded expectations. The open clinical study comprised 25 patients and was conducted by Sahlgrenska University

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

Source: Data from samples in Phase 2 study for 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

Hospital in Gothenburg. The study included patients with severe nail fungus (60% of the nail on average), who were treated with MOB-015 for twelve 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

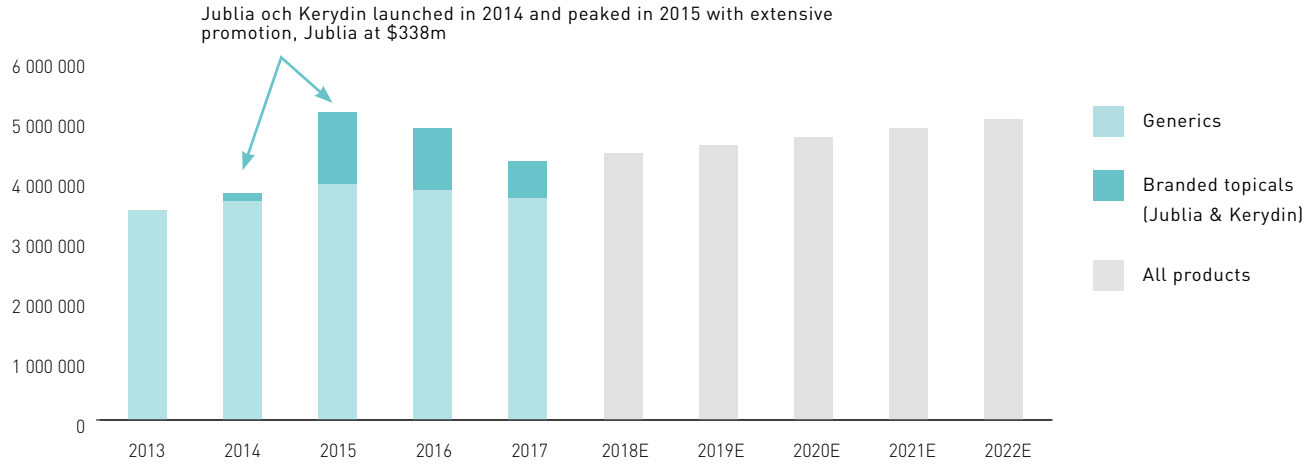
The commercialization plans for MOB-015 include a combination of direct sales, co-promotion with partners and out-licensing certain regions and markets. The strategy builds on valuable experience from the category with Kerasal Nail®, which currently is sold in around 40 markets, including the US, the 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 six of ten 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. The results further strengthen our belief in the potential for MOB-015, which we are now shifting into a higher gear to realize.

Market conditions vary from one region to the next, with prescription treatments, high list prices (about USD 1,700/package in the US) and extensive discount systems in the US, Japan and Canada, among other countries, but lower-priced over-the-counter treatments (about USD 15/package) in other regions such as the EU, Russia and Asia. With a conservative assumption of a 5–7.5% market share in the US, the potential revenue for MOB-015 in this market alone is SEK 170–300+ million depending on discount levels, and corresponds to USD 50–100 million each in Japan/Canada and the EU/rest of the world, respectively.

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



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

Development in 2017 and focus going forward

During the year, two Phase 3 studies for MOB-015 continued in parallel in North America and Europe. The timetable to finalize patient recruitment was however delayed, due to a significantly higher screening failure rate than expected. A rigorous screening process is basically positive, as it is critical to obtaining strong study results. To accelerate the program, especially in Europe, we decided to implement an extensive action plan. Among other things, we replaced the CRO with primary responsibility with TFS International, which has been tasked with finalizing the European study. TFS has extensive expertise within dermatology and nail fungus, a broad presence in Europe and a concrete strategy to accelerate patient recruitment. In North America, Moberg Pharma is currently working directly with Novella Clinical, previously a subcontractor, which is streamlining the process compared with the former setup. With these, and other, actions in place, patient enrollment is increasing and we are convinced that that the studies will be completed successfully. Our expectation remains that patient enrollment will be finalized in North America in the summer of 2018 and in Europe in the second half of 2018, and that both studies will be finalized without further external financing. Topline results are expected approximately 15 months after completion of recruitment for each study.

The focus in the next two years is to finalize both studies as scheduled, deliver convincing Phase 3 results and begin the process of registering the drug. In the meantime, we are establishing relationships with possible commercialization partners and developing launch strategies for prospective markets.

ANNUAL SALES POTENTIAL IN THE U.S. FOR MOB-015

GROSS-TO-NET DISCOUNT

MARKET SHARE, TRX	MUSD	60%	50%	40%	30%
	5%	170	213	255	298
	7.5%	255	319	383	446
	10%	340	425	510	595
	15%	510	638	765	893

5-7.5 % market share of 5 million X$ 1,700 with 50-60% discount off = $170-300+ million in annual net sales for the US market

BUPI – targeting leadership in managing oral mucositis pain

BUPI meets a large demand for pain relief in patients with oral mucositis, a serious complication of cancer treatment that prevents these patients from completing their treatment. The product is in a late clinical phase and has the potential to become the leading treatment in the field, according to a new survey of physicians.

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 of 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 suffering and expensive hospital care.

Market overview

Moberg Pharma considers the most important markets for commercialization of BUPI to be the US, the EU, Canada and Japan. In the US alone, OM affects around 400,000 patients. The company estimates the annual sales potential for BUPI at USD 50 - 100 million, given successful commercialization for oral mucositis and at least one other indication. This estimation was validated in a recent physician survey and market analyses in the U.S.

Clinical development and results

The Phase 2 results published in 2017 showed that BUPI achieved a statistically significant reduction in 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 2017 and focus going forward

In 2017, we received a granted patent in Canada, on top of the patents we already have in the EU. In the U.S. we are awaiting a decision. In September 2017, the positive results from the Phase 2 study were published in the journal Pain Reports. They showed a statistically significant reduction in pain in the oral cavity with BUPI compared with standard treatment.

In early 2017, advisory meetings were held with medical product agencies in Sweden and Germany, which served as the basis for the Phase 3 application submitted after the summer by our partner in India, Cadila Pharmaceuticals. In February, an advisory panel to the Indian regulator recommended to reject the Phase 3 application for BUPI, due to concerns for potential overdosing related to the broad access to prescription drugs in India. We do not expect this issue to be translated to the key commercial regions for the product – the US, Canada, Europe and Japan – 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.

GLOBAL TEAM

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 offer a stimulating, supportive teamwork environment and an entrepreneurial culture.

ORGANIZATION

The company employs around 40 people with a variety of specialties and extensive experience in the pharmaceutical industry. The team is based in Stockholm, Sweden, and in New Jersey, in the US. In addition, the company has a number of external suppliers, partners and consultants around the world, in manufacturing, clinical development and sales.

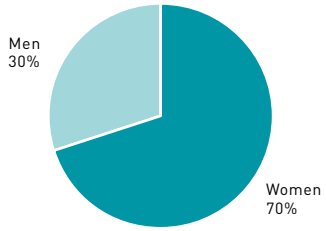
A global consumer health organization was established in New Jersey at the end of the year for both direct sales and distributor sales. The new organization reflects the company's increased focus on the North American market. By coordinating the commercial management on a global basis, marketing expertise will be shared, and we enable synergies in the continued expansion of our OTC portfolio and the preparations for the commercialization of MOB-015.

PEOPLE

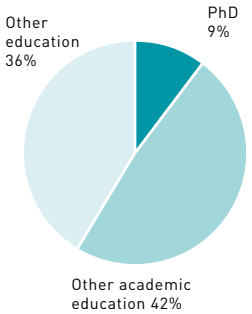
We are firm believers in strong brands and the power of innovation. Our integrated view on commercialization, development and M&A makes every member of the team important to our success. The ability to attract, motivate and retain the right people is fundamental to the company's growth strategy. We aspire to recruit the best employees and partners globally within our 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.

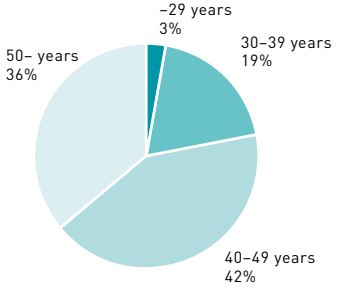
GENDER BREAKDOWN*



EDUCATION LEVEL*



AGE STRUCTURE*



*Based on 40 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 1/1/2017 to 12/31/2017.

FINANCIAL OVERVIEW 2013–2017

FROM STATEMENT OF COMPREHENSIVE INCOME (TSEK)	**2017**	**2016**	**2015**	**2014**	**2013**
Net sales	439,032	334,304	285,566	200,180	157,389
Gross profit/loss	313,853	232,949	213,646	151,116	117,422
Operating profit/loss	51,075	62,172	35,184	17,227	-14,055
Profit/loss for the year	11,158	32,668	25,537	12,268	-11,358
Comprehensive income	*-12,419*	*52,252*	*38,582*	*45,312*	*-12,083*
FROM STATEMENT OF FINANCIAL POSITION (TSEK)	**2017**	**2016**	**2015**	**2014**	**2013**
Non-current assets	989,853	1,011,303	278,341	242,275	212,390
Inventories	26,561	42,224	22,200	13,135	6,968
Current receivables	87,406	92,545	51,557	41,847	25,113
Cash and cash equivalents	119,437	86,104	45,356	62,463	27,138
Total assets	*1,223,257*	*1,232,176*	*397,454*	*359,720*	*271,609*
Equity	552,409	561,625	352,823	303,749	201,494
Non-current liabilities	597,157	596,011	0	3,333	18,527
Current liabilities	73,691	74,540	44,631	52,638	51,588
Total equity and liabilities	*1,223,257*	*1,232,176*	*397,454*	*359,720*	*271,609*
FROM CASH FLOW STATEMENT (TSEK)	**2017**	**2016**	**2015**	**2014**	**2013**
Cash flow from operating activities	53,819	-17,941	30,719	16,162	-3,150
Cash flow from investing activities	-19,677	-680,656	-43,883	-24,497	-47,158
Cash flow from financing activities	858	737,952	-4,211	42,604	24,049
Cash flow for the period	*35,000*	*39,355*	*-17,375*	*34,269*	*-26,259*

KEY RATIOS	**2017**	**2016**	**2015**	**2014**	**2013**
Net receivables (TSEK)	-472,351	-502,936	42,023	45,797	-2,862
Debt/equity ratio	107%	105%	1%	5%	15%
Equity/assets ratio	45%	46%	89%	84%	74%
Return on equity	2%	6%	7%	4%	-6%
Research and development costs (TSEK)	-14,411	-12,442	-23,255	-19,930	-29,039
Personnel expenses (TSEK)	-58,313	-50,799	-43,685	-38,551	-37,014
Number of employees at end of period	40	37	33	29	29
Share data					
Earnings/loss per share before dilution (SEK)	0.64	2.27	1.80	0.96	-1.01
Earnings/loss per share after dilution (SEK) [3]	0.64	2.25	1.78	0.95	-1.01
Equity per share (SEK)	31.67	32.26	24.82	21.75	16.94
Dividend per share	-	-	-	-	-
Number of shares at the end of the period	17,440,762	17,411,842	14,217,522	13,962,537	11,893,572
Average number of shares before dilution	17,428,719	14,413,627	14,172,130	12,719,642	11,265,704
Average number of shares after dilution	17,540,270	14,503,738	14,386,605	12,859,499	11,735,821

[3] 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.

For definitions of key ratios, see Note 33.

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

OPERATIONS

Moberg Pharma AB (publ) was formed in 2006 and is a rapidly growing Swedish pharmaceutical company with direct sales through its own sales organization in the United States and sales through distributors in more than 40 countries. The Company's product portfolio includes Kerasal Nail® (Emtrix® Zanmira® or Nalox™ in many markets outside the United States), a product for the topical treatment of 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 (under divestment).

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 proven 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 offices in Stockholm and New Jersey and its shares are traded in the Small Cap segment of NASDAQ OMX Nordic Exchange Stockholm (OMX: MOB).

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 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.

WORKFORCE

As of December 31, 2017, the Moberg Pharma Group had 40 (37) employees, of whom 70% (68%) were women. 27 (27) people were employed in the Parent Company, of whom 74% (70%) were women. Of all employees, 9% (16%) had doctorates, 66% (59%) had other academic qualifications and 26% (24%) had other qualifications. See Note 7 for more information on employees and personnel costs.

PROFIT/LOSS AND FINANCIAL POSITION

Revenue

During 2017, net revenue totaled SEK 439 million (334.3 million), up 31%. The majority, SEK 154.2 million (151.3), is derived from product sales of Kerasal Nail®. Of the products acquired in the previous financial year, New Skin® represented 20%, or SEK 86.6 million (36), and Dermoplast® represented 22%, or SEK 95.5 million (0), of revenue in 2017. Revenue from other products amounted to SEK 65.5 million (82.1) and income from divested products amounted to SEK 37.3 million (65).

Both 2017 and 2016 were transaction-intensive years, and less than half of revenue came from products that were owned for the whole of 2017 and the whole of the comparative year. Transactions during 2016–2017:

- JointFlex®, Fergon® and Vanquish® divested April 4, 2016
- New Skin® PediaCare® and Fiber Choice® acquired July 8, 2016, PediaCare® divested November 24, 2016
- Dermoplast® acquired December 31, 2016
- Fiber Choice® divested August 28, 2017

We report robust growth for both Kerasal Nail® and New Skin® in the United States, both for our own sales and for underlying consumer sales. The growth has been driven by successful marketing, especially during the second and third quarter, with good effects over the rest of the year as well. Both products have a clear seasonal pattern, with demand for Kerasal Nail® and New Skin® at its strongest in the spring and summer. As these products continue to make good progress and represent a larger share of sales, along with a change in the product mix as a result of divestments, we can see a more marked seasonal pattern for the portfolio as a whole.

For Dermoplast®, we see strong consumer sales that are not fully reflected in income. Hospital sales, which represent around 60%, were affected by the high inventory levels that arose ahead of the acquisition in December 2016.

The product Kerasal Nail® is sold through distributors, and in 2017 these sales amounted to SEK 50.2 million (60.6), a 17% reduction that can be attributed to lower sales in Asia. Distributor sales therefore accounted for 11% of total revenue. The income from sales of products to distributors includes milestone payments of SEK 8.2 million in 2017.

Our smaller brands experienced weaker development in 2017 at -20%.

The majority of the Company's invoicing is done in foreign currencies (mainly U.S. dollars and euros), and we are therefore dependent on exchange rate fluctuations against the Swedish krona. Direct sales activities were reported with a relatively stable exchange rate against the dollar in 2017 compared with 2016, which dropped by 0.3% against the krona on average over the year as a whole compared with 2016.

Sales amounted to SEK 20.4 million (19.4) in Europe, SEK 396.0 million (274.8) in America, and SEK 22.6 million (40.1) in the rest of the world.

Other operating income consists mainly of a capital gain in connection with the sale of the Fiber Choice® brand for SEK 13 million, a revision of liabilities of SEK 4 million and foreign exchange gains on working capital. Other operating income for 2016 also includes research grants, exchange rate fluctuations on operating receivables, and a capital gain of SEK 41.1 million in connection with the sale of the brands JointFlex®, Fergon®, and Vanquish®.

PROFIT/LOSS

Operating profit for 2017 was SEK 51.1 million (62.2). Note that underlying operating profit improved, as the previous year's operating profit included a capital gain of SEK 41.1 million from the divestment of Jointflex®, Fergon®, and Vanquish®. As well as effective marketing, the increase was driven mainly by the execution of acquisitions and divestments, resulting in a change in the product mix and economies of scale.

The cost of goods sold was SEK 125.2 million (101.4). Operating costs, excluding the cost of goods sold, amounted to SEK 280.1 million (220.0). The gross margin was 71% (70%). Profit after net financial items amounted to SEK 11.7 million (46.5).

Sales revenue increased by 31% in 2017 and the cost of goods sold rose by 24%, while operating expenses in 2017 rose by 27% compared with 2016. Operating expenses include selling expenses, which increased by 33%, the same rate as sales revenue. Profit for 2017 was boosted by a capital gain resulting from the divestment of Fiber Choice® for SEK 13.0 million in 2017.

Profit for the year after tax was SEK 11.2 million (32.7) and comprehensive income was SEK -12.4 million (52.3). Comprehensive income includes currency translation loss of SEK 23.6 million due to the U.S. dollar being stronger in December 2017 than at the end of 2016.

EBITDA amounted to SEK 89.4 million (77.9), leading to an EBITDA margin of 20% (23%). Adjusted for capital gains, EBITDA doubled in 2017 compared with the previous year to SEK 76.4 million, with an EBITDA margin of 17% (10%) adjusted for capital gains resulting from divestments. Adjusted for R&D and business development costs for future products, EBITDA for the existing product portfolio was 24% (28%).

INVESTMENTS

Net investments in intangible assets during 2017 mainly consisted of:

- investments in capitalized expenditure for development work of SEK 71.8 million (50.7)
- the sale of Fiber Choice® in August (divested for SEK 54 million, incl. a capital gain of SEK 13 million.

The Company has three ongoing development projects in 2017 that are being capitalized: the next generation of Kerasal Nail®/Nalox™, MOB-015, and BUPI. All development work directly attributable to the next generation of Kerasal Nail®/Nalox™ has been capitalized from 2015. Phase 3 preparations for MOB-015 were initiated in Q2 2015, meaning that direct development expenditure for MOB-015 is capitalized from this quarter. Phase 3 preparations for BUPI were initiated in Q1 2016, meaning that direct development expenditure for BUPI is capitalized from this quarter. See Note 13 for further details of intangible assets.

In addition to capitalized R&D expenditure, Moberg Pharma also had R&D expenses of SEK 12.4 million (11.2) that were expensed directly in the statement of comprehensive income, of which SEK 6.3 million (6.1) was related to future products.

Other investments in intangible assets include IT systems, amounting to SEK 1.1 million (0.2), and transaction costs of SEK 0.2 million from the acquisition of Dermoplast® in December 2016.

During 2017, SEK 0.4 million (0.3) was invested in property, plant and equipment.

LIABILITIES

Interest-bearing liabilities consist of a bond loan of SEK 600 million, which corresponds to the total upper limit of the bond loan. The loan carries a variable interest rate of STIBOR 3M + 6%. The bond loan has no covenants in terms of operating activities except where the Company wishes to increase the loan within the framework amount. In accordance with IAS 39, the bond loan is recognized less transaction costs allocated over the term of the loan, which explains the difference between SEK 600 million and the amount of SEK 591.8 million included in the statement of financial position. The full terms and conditions of the bond loan are available on the Company's website www.mobergpharma.se.

Other current liabilities include a contingent consideration to Prestige in conjunction with the acquisitions of New Skin®, Fiber Choice®, and PediaCare®. Contingent considerations of up to USD 2.5 million, equivalent to SEK 21 million, may be payable, for which the Company has recognized a liability of USD 1.85 million, equivalent to SEK 15 million. The contingent consideration limits Moberg Pharma's risk exposure with regard to returns and some overhead costs for Fiber Choice® and PediaCare®, and is expected to be settled in 2018.

LIQUIDITY AND FINANCIAL POSITION

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 Company's operations are financed by revenues from product sales, shareholder contributions through new issues and a bond loan of SEK 600 million issued by the Company in 2016. Future investments are expected to be financed through income from cash flow from operating activities. 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.

The equity/assets ratio at year-end amounted to 45% (46%). Operating cash flow before changes in working capital amounted to SEK 41.8 million (26.5). The Company has seen an improvement in tied-up capital as a result of the integration of acquired products in direct sales activities from 2016 and lower inventory. Cash flow from operations amounted to SEK 53.8 million for 2017, compared with SEK -17.9 million in the preceding year. Cash flow from investing activities amounted to SEK -19.7 million (-680.7) and consisted mainly of capitalized expenditure for development activities; see the section "Investments" above.

Cash flow from financing activities amounted to SEK 0.9 million (738.0), consisting of the cash received when subscription warrants in Moberg Pharma were used as part of the Company's share-based incentive scheme (compared with SEK 10.8 million in 2016).

Cash and cash equivalents amounted to SEK 119.4 million at the end of the year compared with SEK 86.1 million at the end of 2016.

SIGNIFICANT EVENTS IN 2017

During the year, the commercial operations underwent significant changes in terms of both product mix and geographical focus. We integrated the brands acquired in 2016 and successfully relaunched one of them, while advancing the development of Kerasal Nail® and advanced Phase 3 studies for MOB-015. In the next two years, our focus is on maximizing growth potential in the product portfolio and demonstrating the underlying value in the pipeline.

IN THE MARKET - Strong commercial operations with sales doubling in the last three years

The commercial operations underwent significant changes during the year. After having been dominated by a single brand, alongside a number of smaller products, the product portfolio today mainly consists of three major brands, each a leader in its niche. After streamlining the product portfolio, together with a successful integration process and increased economies of scale in the US, profitability for the commercial operations is beginning to follow a seasonal pattern in line with our long-term expectations. In the fourth quarter, EBITDA amounted to SEK 27 million, or an EBITDA margin of 30%. The gross margin was 72%. Sales remained strong at SEK 90.1 million, a residual effect of last summer's strong ad campaigns.

Kerasal Nail® maintains leading position and benefits from new market conditions

Kerasal Nail® has maintained a market-leading position in US in the last two years with 17% growth in retail sales, both in the quarter and for the year as a whole, thanks to new, stronger claims, supported by a new clinical study published in 2017, where visible improvements were reported after just one week of treatment. The growth rate for our own sales is slightly lower due to inventory effects at the customer level. We have maintained a strong market share at 28%, though this measure will become less relevant over time, since a growing share of our competitors' sales are being replaced by private label sales at major retailers, which is not reported in the market data. Kerasal Nail® is expected to further consolidate its leading position going forward thanks to a favorable outcome from the NAD in the US. Our main competitor has agreed to discontinue current marketing and change its packaging design, TV ads and print ads for the product. We also intend to begin test marketing Kerasal Nail® to a totally new target group: patients suffering from nail psoriasis. In the clinical trial, 94% of the patients with nail psoriasis reported visible improvement after eight weeks. The results are very compelling, since there is no over-the-counter treatment for nail psoriasis available today.

Sales volumes outside the US declined from the previous year and are expected to account for a smaller, though profitable, share of the company's total revenue going forward. The launch in Asia unfortunately has not met our expectations. Local regulations and consumer preferences differ significantly between markets in the region, which has affected outcomes to a greater degree than expected. Where revenue levels are significant and we see opportunities to introduce stronger sales arguments, we hope to stabilize the current sales trend, including in the EU, Japan, Taiwan and Hong Kong. In certain other markets, including China, we have stopped sales pending the next-generation nail fungus product. The global potential for MOB-015 in markets outside the US is significantly higher than for Kerasal Nail®, and a drug registration would create much more attractive opportunities in markets such as China and Japan. At the end of the year, the company's sales and marketing operations were reorganized to maximize global synergies and better reflect our increased focus on the North American market, which currently accounts for nearly 90% of the company's total revenue. A Global Consumer Health organization was established and now comprises both direct and distributor sales. The current General Manager North America, Jeff Vernimb, was appointed VP Global Consumer Health.

Double-digit growth for New Skin® and Dermoplast® since acquisitions

Besides Kerasal Nail®, New Skin® and Dermoplast® account for a growing share of sales. In just over a year since the takeover of these brands, a successful integration, effective marketing and an expanded number of stores for a second SKU at CVS, Walmart and Walgreens, have produced double-digit sales growth for both brands. New Skin® generated growth at the consumer level of 18% for the full year and 21% for the fourth quarter, which is a result of extensive brand positioning work, including in-depth consumer studies and nationwide TV advertising (Mr. Cut). In the coming year, we look forward to increasing our digital presence.

For Dermoplast®, which we only owned in 2017, underlying demand from end customers is strong with 13% sales growth in retail sales through drugstores during the year and 14% for the quarter[6]. Total growth is still lower than expected, due to inventory built-up for hospital sales prior to the takeover, which has now been worked through. We see good potential for a growth plan for Dermoplast®, similar to what we did for Kerasal Nail® and New Skin®, and are excited by the growth opportunities we see in both hospital and retail sales, as well as through an increased digital presence.

Streamlined portfolio to focus on larger brands

In November 2017 Fiber Choice® was sold for SEK 54 million plus inventory value, for a capital gain of SEK 13 million. PediaCare® was sold at the end of 2016 for USD 5 million plus inventory value. Every brand contributed positively while we owned it, but by streamlining the product portfolio resources are freed up for the company's larger brands. The long-term acquisition strategy is still focused on the brands in our core businesses as well as companies/products of value to the commercialization of our pipeline.

[4] Symphony IRI, U.S. MULO, during the year up to December 31, 2017
[5] In total, both New Skin® and Dermoplast® are sold in circa 25,000 stores each
[6] Note that approximately 60 % of sales of Dermoplast® are through hospitals, which means that retail sales data do not provide as complete a picture as for other brands

IN THE PIPELINE – ON THE WAY TO PHASE 3 DATA

The company's greatest potential is in MOB015

The two Phase 3 studies for MOB-015 continued in parallel in North America and Europe. The timetable to finalize patient recruitment has however been delayed, due to a significantly higher screening failure rate than expected. A rigorous screening process is basically positive, as it is critical to obtaining strong study results. To accelerate the program, especially in Europe, we decided to implement an extensive action plan. Among other things, we replaced the CRO with primary responsibility with TFS International, which has been tasked with finalizing the European study. TFS has extensive expertise within dermatology and nail fungus, a broader presence in Europe and a concrete strategy to accelerate patient recruitment. In North America, Moberg Pharma is currently working directly with Novella Clinical, previously a subcontractor, which streamlines the process compared with the former setup. With the action plan in place, the situation has improved, patient enrollment is increasing and our plan is still to finalize recruitment in North America in the summer of 2018 and in Europe in the second half of 2018, and to finalize both studies without further external financing. Topline results are expected approximately 15 months after completion of recruitment for each study.

The focus in the next two years is to finalize both studies as scheduled, produce convincing Phase 3 results and begin the process of registering the drug. In the meantime, we are establishing relationships with possible commercialization partners and developing launch strategies for prospective markets. In 2017, we extended and verified our market analysis. Among other things, a survey was conducted of 89 US physicians (podiatrists and dermatologists), where we found a high demand for a better topical treatment for nail fungus without the medical risks associated with oral treatments. Seven of ten stated that they avoid prescribing oral terbinafine due to the risk of liver damage. More than six of ten stated that they would prefer a topical treatment with MOB-015's target profile over existing topical treatments, compared with just over 25% who would continue to prescribe existing treatments. In a follow-up question for the physicians who prescribed oral treatment, 65% said they would prefer a topical treatment with MOB-015's profile, alone or in combination with oral terbinafine, just to avoid the risk of liver damage. The results further strengthen our belief in the potential for MOB-015.

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. Prior launches have shown that the market is open to new types of treatment and that the patient base grows when a new product is launched. Conditions vary from one region to the next, with prescription treatments, high list prices (about USD 1,700/package in the US) and extensive discount systems in the US, Japan and Canada, among other countries, but lower-priced over-the-counter treatments (about USD 15/package) in other regions such as the EU and Asia. With a conservative assumption of a 5–7.5% market share in the US, the potential revenue for MOB-015 in this market alone is SEK 170–300+ million depending on discount levels, and corresponds to USD 50–100 million each in Japan/Canada and the EU/rest of the world, respectively.

BUPI – ongoing preparations for Phase 3

In 2017, in addition to the protection we already have in the EU, we received patent protection in Canada until 2031. A patent decision is expected in the US in 2018. In September, the positive results from the Phase 2 study were published in the journal Pain Reports. They showed that BUPI achieved a statistically significant reduction in pain in the oral cavity compared with standard treatment.

We recently received an update on BUPI from our partner for India, Cadila Pharmaceuticals. An advisory panel to the Indian regulator has recommended to reject the Phase 3 application for BUPI, due to concerns for potential overdosing, related to the broad access to prescription drugs in India. We do not expect this issue to be translated to our key commercial regions U.S., Canada, Europe and Japan, where dispensing in pharmacy is controlled. We evaluate the possibilities to overcome this local concern as well as other options of going forward. Despite this challenge, we remain convinced of the value and feasibility of BUPI.

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 2017

At the Annual General Meeting (AGM) in 2017, six Board Members were elected for the period until the next AGM. The Board of Director's expertise encompasses the fields of drug development, med-

ical research, marketing, financial and strategic issues. The Board held 14 minuted meetings during the year, of which four were via conference calls and three were held per capsulam. Reports at the meetings were presented mainly by the CEO but also by other members of the management team.

The focus of the Board's work in 2017 was on strategic issues, particularly matters relating to product development, business development, and acquisitions and divestments, as well as the further development of the Company's business plan. The Board's work follows established rules of procedure, which regulate areas such as the division of responsibility, the number of compulsory meetings, the form of convening notices, fundamental documentation and minutes, conflicts of interest, obligatory matters that the CEO must submit to the Board, and authorized company signatories. On an ongoing basis the Board handles matters such as the current business situation, closing of accounts for each period, budget, strategies and external information. The Board has a remuneration committee which has prepared proposals on remuneration issues, and an audit committee which has prepared proposals on financing and auditing issues. Other than this, all issues have been addressed by the Board as a whole.

For detailed information about the Board of Directors, see page 76.

NOMINATION COMMITTEE

The nomination committee for the 2018 Annual General Meeting consists of four members: Thomas Eklund, Chairman of the Board, Gillis Cullin, appointed by the Baltic Sea Foundation, Anders Rodebjer, appointed by Wolco Invest, and Fredrik Persson, appointed by Zimbrine Holding. 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 proposals will be presented in the official notice convening the 2018 AGM.

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 69 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 and is mainly based on existing contracts between the Company and senior executives. 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 may apply, however total remuneration during termination including severance amounts will never be more than 12 months' salary. 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.

OUTLOOK FOR 2018

Moberg Pharma aims to create value and generate a solid return to shareholders through profitable growth, with a long-term EBITDA margin of at least 25%. The Company's growth strategy includes organic sales growth, acquisitions/in-licensing of new products, and commercialization of development projects.

During 2018, the focus is on driving organic growth, mainly of our three biggest brands, stabilizing sales outside the United States, and advancing the company's Phase 3 development program to create future growth. To enable future growth, Moberg Pharma utilizes its operating cash flow to invest mainly in the ongoing Phase 3 studies for MOB-015. The Company will also further refine the commercialization plans for its development projects, including deepening relations with potential commercialization partners in multiple territories.

PARENT COMPANY MOBERG PHARMA AB (PUBL)

Moberg Pharma AB (Publ), Corp. Reg. No. 556697-7426, is the Parent Company of the Group. Group operations are conducted primarily in the Parent Company (in addition to the sales organization in the US) and comprise research and development, sales and marketing, and administrative functions. The Parent Company's net revenue in 2017 amounted to SEK 130.1 million (103.3). Operating expenses, excluding the cost of goods sold, amounted to SEK 88 million (64.3), while profit after financial items was SEK 3.2 million (18.1). Cash and cash equivalents totaled SEK 97.2 million (72.4) at the end of the period.

PROPOSED DISTRIBUTION OF APPROPRIATED PROFIT (TSEK)

On January 1, 2017, 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 capitalized internally generated development expenditure of SEK 70.6 million in 2017 and is therefore recognizing total restricted equity of SEK 122.3 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	406,044
Profit carried forward	-30,158
Profit/loss for the year	2,249
	378,135

The Board of Directors proposes that profit for the year be carried forward. Following appropriation, unrestricted equity amounts to:

Share premium reserve	406,044
Profit carried forward	-27,909
	378,135

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. Moberg Pharma 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
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 • Proprietary sales • 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 • Goodwill and other intangible assets • Financial obligations	• Share performance and liquidity • Dividends • Shareholders with significant influence • Shareholders in other jurisdictions prevented from participating in any future preferential rights issues

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 • Reduced dependence on partners through a proprietary sales organization in the U.S. • Product liability insurance • Cooperation with reputable patent agents • Structured investment decisions

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.

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 Moberg Pharma'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.

The development of medicines and medical products is subject to uncertainty. 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 still unpredictable, and it is possible for one or more of Moberg Pharma'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.

Moberg Pharma's commercialized medical devices have been approved by an independent regulatory body, allowing the products to be marketed on the relevant markets. However, there is a risk that national authorities may take a contrary view or act to stop the product being sold in their country, which could lead to delays or a withdrawal of or failure to grant market approval.

Since Moberg Pharma markets a number of products such as Kerasal Nail® and Kerasal®, 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 Moberg Pharma'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 medi-

cal product. The accessibility of competitive alternatives that arise either during the time it takes to develop Moberg Pharma'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 Moberg Pharma'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 Moberg Pharma'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 Moberg Pharma'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 Moberg Pharma'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 Moberg Pharma 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 Moberg Pharma's sales in other markets.

Proprietary sales

The commercialization and marketing of Moberg Pharma's products in the U.S. market is carried out by the Company's subsidiary Moberg Pharma North America. In 2016, Moberg Pharma also started its own sales in the UK, but not through a subsidiary. Moberg Pharma therefore sells its products directly to retailers. Reduced demand, increased competition, and a deterioration in the capacity of Moberg Pharma and its suppliers to supply or manufacture the product in the required quantities or to successfully market the product may adversely affect Moberg Pharma.

Should one of the Company's retailers decide to no longer offer any of Moberg Pharma's products, the Company is obligated to repurchase and destroy unsold products, a factor that – in addition to reduced sales and the fact that such a repurchase could potentially reach significant amounts – could have an adverse impact on Moberg Pharma.

Moberg Pharma maintains inventories for proprietary sales, which entails exposure to the risk of obsolescence (the risk of a need for impairment of the value of inventories in their entirety or in part), and increased tied-up capital due, for example, to changes in the contractual relationships with the Company's distributors and retailers or to new regulations. There is also a risk that Moberg Pharma's products may cease to be offered in retailers' product ranges, particularly for the Company's more mature products and inventory products, which are sold in relatively low volumes.

Moberg Pharma produces and distributes marketing material. There is a risk that competitors or regulatory authorities may demand damages or amendments to such marketing material in the event that, for example, it is deemed to contravene applicable marketing legislation.

Partners and distributors

Moberg Pharma depends on cooperation and distribution agreements with partners or distributors for the marketing and sale of its products in certain markets. 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 Moberg Pharma'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 Moberg Pharma may be sued by patients suffering from side-effects, 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. The Company's current product liability insurance provides protection up to SEK 75 million per claim and a maximum of SEK 75 million annually and is valid worldwide. 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 operates 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. For Moberg Pharma's products, there are only a few suppliers, and in some cases only one supplier, of the raw materials required for manufacture. 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 include the acquisition of new products and trademarks. The Company evaluates ongoing opportunities for acquisitions as part of its daily operations. Making acquisitions

entails risks. 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 may be challenged by competing companies calling into question Moberg Pharma's right to those trademarks. Moberg Pharma is also exposed to the risk that the value of its trademarks 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 Moberg Pharma'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

Moberg Pharma is expecting to expand over the next few years. Although the Company made a number of recruitments in 2017, future expansion may create a need for recruitment within all areas of the Company. There is a risk that Moberg Pharma will not be able to recruit the number of new qualified employees that an expansion of operations requires.

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 a number of share-based incentive schemes in the form of employee stock options and subscription warrants. The purpose of the schemes is to motivate and reward key personnel by making them shareholders in Moberg Pharma 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 entail a dilution of the existing shareholders when the warrants are exercised.

FINANCIAL RISKS

For information on financial risk factors, see Note 27.

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. Since Moberg Pharma will find itself in an expansionary phase in the years immediately ahead, any capital surplus will be invested in the business. Due to this, the Board of Directors does not intend to propose a dividend for the current year or to commit itself to any fixed proportion for paying a dividend. Should Moberg Pharma's cash flow from operating activities subsequently exceed the Company's capital requirement, the Board intends to propose that the Shareholders' Meeting resolve on payment of a dividend. However, no guarantees can be made either that future cash flow will exceed the Company's capital requirement or that the Shareholders' Meeting will resolve to pay future dividends. The terms of the Company's bond loans also contain certain restrictions on dividends.

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 26, 2011 under the ticker name MOB.

NEW ISSUES DURING THE YEAR

The number of shares and votes increased by 28,920 in June 2017 to 17,440,762. The change is due to the fact that subscription warrants in Moberg Pharma were exercised within the framework of the Company's share-based incentive schemes.

SHARE PRICE MOVEMENT

The closing price on December 30, 2017 was SEK 27.20, yielding market capitalization for Moberg Pharma of SEK 483 million.

The highest and lowest share prices noted for the Moberg Pharma share during 2017 were SEK 77.00 and SEK 27.20, respectively.

During 2017, a total of 20.8 million (15.0) Moberg Pharma shares were traded, equivalent to a value of about SEK 1,088 million (721). The average daily number of shares trading hands was 82,817 shares (59,097). At year-end, the Company had a total of 3,618 (4,358) shareholders[4], with the 20 largest shareholders accounting for 67.6% (56.7%) of the shares in Moberg Pharma.

OWNERSHIP STRUCTURE

	No. of shares	%	No. of shareholders [9]
1-500	371,644	2.1%	2,293
501-1,000	445,695	2.6%	513
1,001-5,000	1,400,365	8.0%	596
5,001-10,000	722,583	4.1%	94
10,001-15,000	562,547	3.2%	45
15,001-20,000	298,141	1.7%	16
20,001-	13,639,787	78.2%	61
Total*	**17,440,762**	**100%**	**3,618**

DISTRIBUTION OF OWNERSHIP

	No. of shares	Share capital, %	No. of shareholders[10]
Physical entities	4,418,342	25.3%	3,248
Legal entities	13,022,420	74.7%	370
Total	**17,440,762**	**100.0%**	**3,618**
– of whom, residing in Sweden	10,366,087	59.4%	3,360

SHAREHOLDERS AT 12/29/2017

Shareholders	No. of shares	% of voting rights and capital
THE FOUNDATION FOR BALTIC AND EAST EUROPEAN STUDIES	2,274,179	13.0
CUSTODY ACCOUNT FOR THE EXCLUSIVE	1,734,000	9.9
ZIMBRINE HOLDING BV	1,732,849	9.9
FÖRSÄKRINGSAKTIEBOLAGET AVANZA PENSION	1,643,888	9.4
SOCIETE GENERALE	736,583	4.2
MERRILL LYNCH PROF CLEAR CORP	664,446	3.8
NORDNET PENSIONSFÖRSÄKRING AB	442,388	2.5
GRANDEUR PEAK INTERNATIONAL	334,194	1.9
LUNDMARK, ANDERS	318,000	1.8
EUROCLEAR BANK S.A/N.V, W8-IMY	314,753	1.8
GRANDEUR PEAK GLOBAL, OPPORTUNITIES	255,657	1.5
SKANDIA, INSURANCE	247,541	1.4
PRIORITET CAPITAL AB	220,368	1.3
SYNSKADADES STIFTELSE	172,201	1.0
ML, PIERCE, FENNER & SMITH INC	148,414	0.9
DANICA PENSION	118,015	0.7
HL-FAMILY OY	117,944	0.7
GRANDEUR PEAK GLOBAL REACH, FUND	111,100	0.6
SEB LIFE INTERNATIONAL	104,000	0.6
TVÅ GENERATIONER MAGNUSSON AB	100,000	0.6
TOTAL, 20 LARGEST SHAREHOLDERS	**11,790,520**	**67.6**
Other shareholders	5,650,242	32.4
TOTAL	**17,440,762**	**100**

[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

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

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

DIVIDENDS AND DISTRIBUTION 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 dividend until such a time when it is warranted by Moberg Pharma's earnings, financial position and capital requirements. The terms of the Company's bond loans also contain certain restrictions on dividends.

EQUITY ANALYSTS MONITORING MOBERG PHARMA

Sten Gustafsson, ABG Sundal Collier	**Patrick Dolezal,** LifeSci Capital	**Klas Palin,** Redeye
Björn Rydell, Remium Nordic AB	**Peter Östling,** Pareto Securities	

BOND ANALYSTS MONITORING MOBERG PHARMA

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

SHARE CAPITAL

Date[11]	Transaction	Change no. of shares	Change share capital	No. of shares	Total share capital, SEK	Nominal value, SEK	Subscription price, SEK	Invested capital
Jan 2006	Ready-made company acquired	1,000,000	100,000.00	1,000,000	100,000.00	0.10	0.10	100,000
May 2006	Private placement	47,984	4,798.40	1,047,984	104,798.40	0.10	15.00	719,760
Dec 2006	Private placement	171,120	17,112.00	1,219,104	121,910.40	0.10	33.10[12]	5,334,072
Sept 2007	New share issue	613,866	61,386.60	1,832,970	183,297.00	0.10	45.12	27,697,634
Jan 2008	New share issue	305,457	30,545.70	2,138,427	213,842.70	0.10	65.50	20,007,434
Apr 2008	New share issue	305,457	30,545.70	2,443,884	244,388.40	0.10	65.50	20,007,434
Aug 2009	New share issue	458,492	45,849.20	2,902,376	290,237.60	0.10	65.50	30,031,226
Dec 2009	New share issue	144,723	14,472.30	3,047,099	304,709.90	0.10	65.50	9,479,357
June 2010[13]	New share issue	9,895	989.50	3,056,994	305,699.40	0.10	65.50	648,123
Nov 2010	Bonus issue	3,056,994	305,699.40	6,113,988	611,398.80	0.10	-	-
Mar 2011	New share issue	414,508	41,450.80	6,528,496	652,849.60	0.10	29.00	12,020,735
May 2011	New share issue	2,550,524	255,052.40	9,079,020	907,902.00	0.10	29.00	73,965,196
Oct 2012	Private placement	907,900	90,790.00	9,986,920	998,692.00	0.10	35.00	31,776,500
Nov 2012	Cash-in-kind issue	825,652	82,565.20	10,812,572	1,081,257.20	0.10	40.27	33,249,006[14]
July 2013	Private placement	1,081,000	108,100.00	11,893,572	1,189,357.20	0.10	33.54	36,256,740
June 2014	Private placement	2,068,965	206,896.50	13,962,537	1,396,253.70	0.10	29.00	59,999,985
July 2015	Subscription warrants exercised	39,000	3,900.00	14,001,537	1,400,153.70	0.10	38.43	1,498,790
Dec 2015	Subscription warrants exercised	215,985	21,598.50	14,217,522	1,421,752.20	0.10	36.10	7,797,467
Jun 2016	Subscription warrants exercised	71,666	7,166.60	14,289,188	1,428,918.80	0.10	21.45	1,537,062
Dec 2016	Private placements	2,843,504	284,350.40	17,132,692	1,713,269.20	0.10	52.00	147,862,208
Dec 2016	Subscription warrants exercised	279,150	27,915.00	17,411,842	1,741,184.20	0.10	33.50	9,351,328
June 2017	Subscription warrants exercised	28,920	2,892.00	17,440,762	1,744,076.20	0.10	32.75	947,130
		17,440,762	**1,744,076**					

[11] Refers to the date of registration with the Swedish Companies Registration Office
[12] Also includes a private placement of 10,000 B shares to Karolinska Institutet Holding at an issue price of SEK 0.10
[13] New share issue in order to attract specific expertise to the Company
[14] The value of the capital contributed in kind was USD 5 million plus 20% of the contingent purchase consideration (USD 1 million), i.e. a total of USD 6 million.

WARRANTS OUTSTANDING

On May 16, 2017, the Annual General Meeting of Moberg Pharma AB decided to implement a directed issue of up to 304,000 subscription warrants (equal to 304,000 shares) to the Company's wholly owned subsidiary Moberg Derma Incentives AB and to introduce employee stock option scheme 2017:1. As part of employee stock option scheme 2017:1, 304,000 stock options were allotted.

If all 1,031,334 of the warrants outstanding as of December 31, 2017 were exercised to subscribe to shares, the total number of shares would increase by 1,032,168, from 17,440,762 shares to 18,472,930.

Group costs for the employee stock option program (excluding estimated social security costs) for 2017 were SEK 2.3 million; costs for the previous year were SEK 1.7 million. For more information about the employee stock option program, see Notes 7 and 19.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(TSEK)	Note	Jan-Dec 2017	Jan-Dec 2016
Net sales	2	439,032	334,304
Cost of goods sold		-125,179	-101,355
Gross profit/loss		**313,853**	**232,949**
		71%	70%
Sales expenses		-226,573	-170,833
Business development and administrative expenses		-34,614	-30,290
Research and development costs		-14,411	-12,442
Other operating income	4	17,284	49,211
Other operating expenses		-4,464	-6,423
Operating profit/loss	5-9	**51,075**	**62,172**
			,
Interest income and similar items	10	-	15,308
Interest expenses and similar items	10	-39,402	-30,935
Profit/loss before tax		**11,673**	**46,545**
Income taxes	11	-515	-13,877
Profit/loss for the year		**11,158**	**32,668**
Items that will be reclassified in the income statement			
Translation differences on foreign operations		-23,577	19,584
Other comprehensive income		**-23,577**	**19,584**
COMPREHENSIVE INCOME FOR THE YEAR		**-12,419**	**52,252**
Profit/loss attributable to Parent Company shareholders		11,158	32,668
Profit/loss attributable to non-controlling interests		-	-
Comprehensive income/loss attributable to Parent Company shareholders		-12,419	52,252
Total profit/loss attributable to non-controlling interests		-	-
Earnings/loss per share before dilution	12	**0.64**	**2.27**
Earnings/loss per share after dilution	12	**0.64**	**2.25**
Average number of shares before dilution		17,424,660	14,413,627
Average number of shares after dilution		17,548,529	14,503,738
Number of shares at year-end		17,440,762	17,411,842

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS (TSEK)	Note	12/31/2017	12/31/2016
Non-current assets			
Intangible non-current assets			
Capitalized expenditure for research and development work	13	132,292	61,742
Capitalized expenditure for computer systems	13	2,446	2,359
Goodwill	13	89,092	98,453
Product rights	13	749,193	830,963
Patents, licenses and similar rights	13	6,850	6,850
Total intangible non-current assets		*979,873*	*1,000,367*
Property, plant and equipment			
Machinery and equipment	*14*	*725*	*774*
Financial and other non-current assets			
Other non-current financial assets		-	1
Deferred tax asset	11	9,255	10,161
Total other non-current assets		*9,255*	*10,162*
		,	,
Total non-current assets		**989,853**	**1,011,303**
Current assets			
Inventories	15	26,561	42,224
Current receivables			
Trade receivables	16	67,140	67,004
Other receivables	16	10,151	12,930
Prepaid expenses and accrued income	17	10,115	12,611
Total current receivables		*87,406*	*92,545*
Cash and cash equivalents	*18*	*119,437*	*86,104*
Total current assets		**233,404**	**220,873**
TOTAL ASSETS		**1,223,257**	**1,232,176**

EQUITY AND LIABILITIES (TSEK)	Note	12/31/2017	12/31/2016
Equity	19		
Equity attributable to Parent Company shareholders			
Share capital		1,744	1,741
Other capital contributions		527,203	524,003
Translation reserve		38,542	62,119
Accumulated deficit		-26,238	-58,906
Profit/loss for the year		11,158	32,668
Total equity		**552,409**	**561,625**
Liabilities			
Non-current liabilities			
Interest-bearing liabilities	20	591,788	589,040
Deferred tax liabilities	11	5,369	6,971
Total non-current liabilities		*597,157*	*596,011*
Current liabilities			
Trade payables		25,251	16,026
Interest-bearing current liabilities	21	-	-
Other current liabilities	21	20,128	28,943
Accrued expenses and deferred income	22	28,312	29,571
Total current liabilities		*73,691*	*74,540*
Total liabilities		**670,848**	**670,551**
TOTAL EQUITY AND LIABILITIES		**1,223,257**	**1,232,176**

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, 2016	**1,422**	**367,772**	**42,535**	**-58,906**	**352,823**
Profit/loss for the period				32,668	32,668
Other comprehensive income – translation differences on translation of foreign operations			19,584		19,584
Total	**0**	**0**	**19,584**	**32,668**	**52,252**
New share issues	319	158,432			158,751
Transaction expenses, new share issues		-5,062			-5,062
Tax on transaction expenses, new share issues		1,114			1,114
Employee stock option schemes		1,747			1,747
Closing equity, December 31, 2016	**1,741**	**524,003**	**62,119**	**-26,238**	**561,625**
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**

Additional information on the share and its performance is available on pages 34–36.

CONSOLIDATED STATEMENT OF CASH FLOWS

(TSEK)	Note	2017	2016
Operating activities			
Operating profit/loss before financial items		51,073	62,171
Financial items, received and paid		-36,414	-8,319
Taxes paid		-557	-24
Adjustments for items not affecting cash flow:			
Depreciation/amortization and other adjustments	9, 28	25,369	-29,073
Employee stock option costs		2,326	1,748
Cash flow before changes in working capital		41,797	26,503
Change in working capital			
Increase (-)/Decrease (+) in inventories		12,105	-20,025
Increase (-)/Decrease (+) in operating receivables		4,219	-30,651
Increase (+)/Decrease (-) in operating liabilities		-4,302	6,232
Cash flow from operating activities		**53,819**	**-17,941**
Investing activities			
Net investments in intangible assets	13, 29	-19,295	-680,401
Investments in equipment and tools	14	-382	-255
Cash flow from investing activities		**-19,677**	**-680,656**
Financing activities			
Borrowings (+)	20	-	600,000
Expenditure for loans raised	20	-	-18,742
Full coverage	20	-	6,338
Loan repayment (-)	20	-	-3,333
Share issues		947	158,751
Issue expenditure		-89	-5,062
Cash flow from financing activities		**858**	**737,952**
CHANGE IN CASH AND CASH EQUIVALENTS		**35,000**	**39,355**
Cash and cash equivalents on January 1		86,104	45,356
Exchange rate difference in cash and cash equivalents		-1,667	1,393
Cash and cash equivalents on December 31	18	119,437	86,104
Supplementary disclosures to cash flow statement			
Interest paid /received			
Interest received		-	15,308
Interest paid		-36,414	-23,627

PARENT COMPANY INCOME STATEMENT

(TSEK)	Note	Jan–Dec 2017	Jan–Dec 2016
Net sales	2	130,086	103,348
Cost of goods sold		-16,754	-23,223
Gross profit/loss		**113,332**	**80,125**
Sales expenses		-44,827	-21,540
Business development and administrative expenses		-25,743	-24,736
Research and development costs		-13,036	-11,718
Other operating income	4	17,282	17,940
Other operating expenses		-4,431	-6,299
Operating profit/loss	5-9, 27	**42,577**	**33,772**
Interest income and similar items	10	-	15,308
Interest expenses and similar items	10	-39,402	-30,935
Profit/loss before tax		**3,175**	**18,145**
Tax on net profit for the year	11	-926	-3,713
PROFIT/LOSS		**2,249**	**14,432**

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

(TSEK)	Note	Jan–dec 2017	Jan–dec 2016
Profit/loss for the year		**2,249**	**14,432**
Other comprehensive income		-	-
COMPREHENSIVE INCOME FOR THE YEAR		**2,249**	**14,432**

PARENT COMPANY BALANCE SHEET

ASSETS (TSEK)	Note	**12/31/2017**	**12/31/2016**
NON-CURRENT ASSETS			
Intangible non-current assets			
Capitalized expenditure for research and development work	13	132,292	61,742
Capitalized expenditure for computer systems	13	2,303	2,359
Product rights	13	700,528	771,761
Patents, licenses and similar rights	13	6,850	6,850
Total intangible non-current assets		*841,973*	*842,712*
Property, plant and equipment			
Machinery and equipment	14	294	452
Financial and other non-current assets			
Shares in Group companies	25	178,106	178,106
Other non-current financial assets		-	1
Deferred tax asset	11	9,255	10,161
Total other non-current assets		*187,361*	*188,268*
Total non-current assets		**1,029,628**	**1,031,432**
CURRENT ASSETS			
Inventories	15	-	*370*
Current receivables			
Trade receivables	16	13,549	8,335
Receivables from Group companies	16	-	25,699
Other receivables	16	5,390	2,226
Prepaid expenses and accrued income	17	2,486	2,562
Total current receivables		*21,424*	*38,822*
Cash and cash equivalents	18	*97,205*	*72,379*
Total current assets		**118,630**	**111,571**
TOTAL ASSETS		**1,148,258**	**1,143,003**

EQUITY AND LIABILITIES (TSEK)	Note	**12/31/2017**	**12/31/2016**
EQUITY	19		
Restricted equity			
Share capital		1,744	1,741
Reserve for development expenditure		120,556	50,006
Total restricted equity		*122,300*	*51,747*
Unrestricted equity			
Share premium reserve		406,044	402,844
Profit carried forward/accumulated deficit		-30,158	25,960
Profit/loss for the year		2,249	14,432
Total unrestricted equity		*378,135*	*443,236*
Total equity		**500,435**	**494,983**
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	20	591,788	589,040
Total non-current liabilities		*591,788*	*589,040*
Current liabilities			
Trade payables		13,342	13,493
Liabilities to Group companies		8,194	-
Other current liabilities	21	16,990	28,871
Accrued expenses and deferred income	22	17,510	16,616
Total current liabilities		*56,035*	*58,980*
Total liabilities		**647,823**	**648,020**
TOTAL EQUITY AND LIABILITIES		**1,148,258**	**1,143,003**

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, 2016	**1,422**	**0**	**246,612**	**75,966**	**324,000**
Profit/loss for the period				14,432	14,432
Reclassification to reserve for development expenditure		50,006		-50,006	-
Appropriation of profits according to resolution by the AGM				-	-
New share issues	319		158,432		158,751
Transaction expenses, new share issues			-5,062		-5,062
Tax on transaction expenses, new share issues			1,114,		1,114
Employee stock option schemes			1,748		1,748
Closing equity, December 31, 2016	**1,741**	**50,006**	**402,844**	**40,392**	**494,983**
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 expenditure		70,550		-70,550	-
Appropriation of profits according to resolution by the AGM				-	-
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**

PARENT COMPANY CASH FLOW STATEMENT

(TSEK)	Not	Jan–Dec 2017	Jan–Dec 2016
Operating activities			
Operating profit/loss before financial items		42,577	33,772
Financial items, received and paid		-36,414	-8,319
Taxes paid		-	-
Adjustments for items not affecting cash flow:			
Depreciation/amortization and other adjustments	9, 28	20,030	-3,450
Employee stock option costs		1,598	1,312
Cash flow before changes in working capital		27,791	23,315
Change in working capital			
Increase (-)/Decrease (+) in inventories		370	36
Increase (-)/Decrease (+) in operating receivables		15,538	18,317
Increase (+)/Decrease (-) in operating liabilities		-598	11,677
Cash flow from operating activities		**43,101**	**53,345**
Investing activities			
Net investments in intangible assets	13, 29	-19,133	-740,303
Investments in equipment and tools	14	-	-115
Cash flow from investing activities		**-19,133**	**-740,418**
Financing activities			
Borrowings (+)	20	-	600,000
Expenditure for loans raised	20	-	-18,742
Full coverage	20	-	6,338
Loan repayment (-)	20	-	-3,333
Share issues		947	158,751
Issue expenditure		-89	-5,062
Cash flow from financing activities		**858**	**737,952**
CHANGE IN CASH AND CASH EQUIVALENTS		**24,826**	**50,879**
Cash and cash equivalents on January 1		72,379	21,500
Cash and cash equivalents on December 31	18	97,205	72,379
Supplementary disclosures to cash flow statement			
Interest paid /received			
Interest received		-	15,308
Interest paid		-36,414	-23,627

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.

Application of new and revised accounting policies
The following standard revisions are applied for the first time for financial years beginning on or after January 1, 2017:

Disclosure Initiative: Amendments to IAS 7 has been revised and requires additional disclosure of changes in liabilities arising from financing activities. The group and the parent company provide the information in Note 20.

Issued standards and interpretations that take effect in or after 2018
A number of new and revised IFRSs have not yet taken effect and have not been applied in advance in the preparation of Moberg Pharma's financial reports. The following standards take effect on or after January 1, 2018.

IFRS 9 Financial Instruments
IFRS 9 covers recognition of financial assets and liabilities and replaces IAS 39 Financial Instruments: Accounting and Measurement. IFRS 9 Financial instruments enters into force on January 1, 2018 and will be applied by the group and the parent company as of this date. A project has been conducted with a focus on the following areas: classification, measurement and documentation of financial liabilities and assets and calculation of effects from the transition to a new model for recognition of expected credit losses. In summary, the conclusion is that the new standard will not have a material effect on Moberg Pharma's recognition and the implementation of the new standard will not necessitate the restatement of previous periods, since the effects are not material.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 replaces all previously issued standards and interpretations relating to revenue with a unified model of revenue recognition. According to IFRS 15, revenue is recognized when a promised good or service is transferred to the customer, which can occur over time or at a single point in time. The revenue is comprised of the amount that the company expects to receive as compensation for transferred goods or services. IFRS 15 enters into force in financial years beginning on or after January 1, 2018. The standard will be applied by the group and the parent company as of this date. A project has been conducted where the following areas were analyzed: variable and fixed discounts, expected returns, contract reviews and fulfillment of performance obligations. In summary, the conclusion is that the new standard will not have a material effect on Moberg Pharma's revenue recognition and the implementation of the new standard will not necessitate the restatement of previous periods, since the effects are not material.

IFRS 16 Leases
IFRS 16 replaces IAS 17 as of January 1, 2019. According to the new standard, the lessee recognizes the obligation to pay lease payments as a lease liability in the balance sheet. The right to use the underlying asset is recognized as an asset over the lease term. Depreciation of the asset is recognized through profit or loss along with interest on the lease liability. Lease payments are recognized as payments of interest as well as amortization of the lease liability. The standard exempts leases with a term of 12 months or less (short-term leases) and leases where the underlying asset has a low value. In the coming year an analysis will begin to determine how IFRS 16 will affect the consolidated financial reports, but the standard is not expected to have a material effect on Moberg Pharma. In the parent company, the exemption to RFR 2 regarding leases will be applied. This means that the parent company's accounting policies for leases will remain unchanged. Other revisions to standards and interpretations that enter into force on January 1, 2018 are not expected to have a material effect on Moberg Pharma's financial reports.

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. Revenue is recognized at the fair value of the consideration received or that will be received, after deduction of discounts, VAT and elimination of intra-Group transactions and recorded as follows:

- *Product sales* are invoiced upon delivery and recognized in the income statement when material risks and benefits associated with ownership of the goods have been transferred to the buyer.
- *Milestone payments* are recognized when all terms and conditions for entitlement to milestone payments in accordance with the agreement have been 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 [15]	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 48 (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
VAt 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.

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

Receivables
An assessment of doubtful receivables is made when it is no longer likely that the full amount will be received. Doubtful receivables are written off in their entirety upon a confirmed loss.

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 that are recognized in the balance sheet include trade receivables, cash and bank balances, accounts payable, certain accrued costs, interest-bearing liabilities and other liabilities. The Group does not currently have any derivative instruments.

Trade receivables
Trade receivables are recognized in the balance sheet upon dispatch of invoice. Trade receivables are stated at cost less any provisions for impairment. A provision for impairment of trade receivables is made when there is objective evidence that the Group will not be able to recover all overdue amounts in accordance with the original terms and conditions for the receivables. The amount of the provision is recognized in the income statement.

Cash and cash equivalents
Cash and cash equivalents consist of bank balances.

Trade payables
Since the expected maturity of trade payables is short, the liability is recognized at the nominal amount with no discount by applying the amortized cost method.

Interest-bearing liabilities
All loans are initially recognized at cost, which is defined as the fair value of what has been received. Subsequently, the loans are recognized at amortized cost. Interest expenses are recognized as a financial expense in the period in which they belong. Non-current liabilities have an expected maturity of more than one year while current liabilities have a maturity of less than one year.

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 schemes are recognized in accordance with IFRS 2. The existing share-based incentive schemes as of December 31, 2017 consist of employee stock option schemes 2010:1, 2012:2, 2014:1, 2015:1, 2015:1B, 2016:1, and 2017:1.

Under IFRS 2, the cost of share-based payments to employees is recognized at fair value at the date of allocation. The cost is recognized, along with a corresponding increase in equity, in the period in which the performance or vesting conditions were met, until the date when the employees are fully entitled to the remuneration (the vesting date).

The accumulated cost recognized at each reporting date until the vesting date reflects the extent to which the vesting period has been completed and Moberg Pharma's estimate of the number of share-based instruments that will ultimately be vested.

The Company's employee stock option schemes constitute a transaction that is settled through equity instruments in accordance with IFRS 2, where the fair value of the allocated employee stock options is recognized in the income statement as a personnel expense over the vesting period. The fair value of the employee stock options is determined at the date of allocation using the Black-Scholes option pricing model. Vesting conditions are included in assumptions about the number of employee stock options that are expected to become exercisable. These estimates are reviewed on a regular basis. Moberg Pharma recognizes any effect of the review of the original estimate in the income statement along with a corresponding effect in equity during the remainder of the vesting period. Funds received upon exercise of employee stock options, net of any directly attributable transaction costs, are recognized in 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.

Impairment testing of goodwill and other intangible assets
The Group regularly tests goodwill and development projects in progress for impairment. Other intangible assets are tested for impairment when events or changes indicate that the carrying amount is not recoverable. In calculating value in use, future cash flows are discounted at an interest rate that takes into account the market's assessment of risk-free interest and risk (WACC). The Group bases these calculations on achieved earnings, forecasts and business plans. The estimations and assumptions made by management during impairment testing can have a major impact on consolidated profit for the year. Impairment losses, which are recognized if the estimated value in use is less than the carrying amount, are charged against profit. See also Note 13 for the material assumptions made. The possibility that goodwill will have to be impaired cannot be excluded, which would have a material impact on Moberg Pharma's financial position and earnings. As of December 31, 2017, the value of goodwill was SEK 89.1 million (98.5).

Product rights
The measurement of product rights depends on certain assumptions. These assumptions pertain to forecasts of future sales revenues, contribution to profit and the costs incurred by the particular product. Assumptions are also made concerning discount interest rates, product life and royalty rates. The maximum period of amortization for product rights applied by Moberg Pharma is 25 years. The possibility cannot be excluded that the carrying amount of product rights may have to be impaired, which would have a material impact on Moberg Pharma's financial position and earnings. As of December 31, 2017, the value of product rights was SEK 749.2 million (831.0).

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. As of December 31, 2017, the value of deferred tax assets was SEK 9.3 million (10.2).

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 three ongoing development projects, the next generation of Kerasal Nail®/Nalox™, MOB-015, and BUPI, fulfill all capitalization criteria as of December 31, 2017. 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
- 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 in the fields of nail fungus and oral mycosis .

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

As of December 31, 2017, the value of capitalized expenditure for research and development was SEK 132.3 million (61.7).

NOTE 2. REVENUE

	Parent Company		Group	
Distribution of net revenue	**2017**	**2016**	**2017**	**2016**
Sales of products	121,867	103,348	430,818	334,304
Milestone payments	8,218	-	8,214	-
	130,086	**103,348**	**439,032**	**334,304**

For 2017, the group had one customer who accounted for sek 97.1 Million, or 22% (sek 69.3 Million, 21%) of group net revenue (customer with its registered office in the united states). No other customer accounted for over 10% of sales.

	Parent Company		Group	
Net revenue by geographical market	**2017**	**2016**	**2017**	**2016**
Europe	20,434	18,885	20,434	19,412
America	87,084	50,558	396,030	274,834
Rest of the world	22,568	33,905	22,568	40,058
	130,086	**103,348**	**439,032**	**334,304**

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

	Parent Company		Group	
Net revenue by product group	**2017**	**2016**	**2017**	**2016**
Direct sales	130,086	103,348	154,169	151,289
Distribution sales	-	-	86,568	35,948
Transfer price adjustments	-	-	95,451	-
Divested products	-	-	37,340	65,003,
Balmex® (under divestment 2018)	-	-	32,777	41,694
Övriga produkter (Kerasal Ointment® och Domeboro®)	-	-	32,727	40,370
	130,086	**103,348**	**439,032**	**334,304**

The products New Skin®, PediaCare® and Fiber Choice® were acquired on July 7, 2016 and sales of these products are included in the income statement from that date. The product Dermoplast® was acquired on December 30, 2016. PediaCare® was divested in December 2016 and Fiber Choice® in August 2017.

	Parent Company		Group	
Net revenue by sales channel	**2017**	**2016**	**2017**	**2016**
Direct sales	837	285	388,790	267,219
Distribution sales	50,242	60,408	50,242	67,085
Transfer price adjustments	79,007	42,655	-	-
	130,086	**103,348**	**439,032**	**334,304**

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	
	2017	**2016**	**2017**	**2016**
Research grants received	-	2,081	-	2,081
Exchange-rate gains	811	2,445	811	2,227
Capital gains from sales of non-current assets[16]	12,998	13,291	12,998	44,780
Revaluation of deferred consideration	3,243	-	3,243	-
Other	230	123	230	123
	17,282	**17,940**	**17,282**	**49,211**

NOTE 5. ANALYSIS OF EXPENSES BY COST CATEGORY

	Parent Company		Group	
Operating expenses	**2017**	**2016**	**2017**	**2016**
Cost of goods sold	16,753	23,223	125,179	101,355
Personnel costs	40,176	38,757	58,313	50,799
Depreciation/amortization	33,029	9,842	38,367	15,734
External R&D costs	5,156	7,903	6,341	8,434
External selling expenses	4,991	4,464	140,448	118,291
Distribution	-	-	21,666	12,151
Other expenses	4,686	3,327	14,925	14,579
	104,791	**87,516**	**405,239**	**321,343**

	Parent Company		Group	
Depreciation/amortization by function	**2017**	**2016**	**2017**	**2016**
Research and development costs	1,968	1,275	1,968	1,275
Sales expenses	30,836	8,366	35,762	14,214
Business development and administrative expenses	224	201	637	245
	33,028	**9,842**	**38,367**	**15,734**

Depreciation of selling expenses pertains mainly to acquired product rights.

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

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:

	Parent Company		Group	
Operational leasing	**2017**	**2016**	**2017**	**2016**
Due for payment within one year	2,762	2,777	4,134	3,357
Due for payment between one year and five years	1,998	4,648	6,799	7,141
Due for payment after more than five years	-	-	-	674
	4,760	**7,424**	**10,934**	**11,172**

	Parent Company		Group	
Operational leasing costs during the year	**2017**	**2016**	**2017**	**2016**
Leasing of premises	2,593	2,559	3,450	3,245
Leasing of parking spaces	157	156	157	156
Cleaning contracts	128	127	128	127
Leasing of machinery	158	150	158	150
	3,036	**2,993**	**3,893**	**3,678**

NOTE 7. EMPLOYEES

	2017				2016			
	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	19	7	26	27	18	8	26	27
USA	8	5	13	13	4	4	8	10
Total	**27**	**12**	**39**	**40**	**22**	**12**	**34**	**37**

	2017		2016	
Reporting of gender distribution of members of Parent Company senior management	**Women**	**Men**	**Women**	**Men**
Board of Directors	1	5	1	5
Other senior executives	1	5	1	4

	2017		2016	
Reporting of gender distribution of members of Group senior management	**Women**	**Men**	**Women**	**Men**
Boards of Directors[17]	1	6	1	6
Other senior executives[18]	1	6	1	5

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

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

	Parent Company		Group	
Total salaries, social security expenses and pensions	**2017**	**2016**	**2017**	**2016**
Salaries and other remuneration, including pension costs	29,736	29,061	43,786	39,724
Employee stock option costs	1,598	1,312	2,338	1,760
Social security expenses	7,366	6,875	7,366	6,875
Training	142	179	142	179
Recruitment	338	240	626	445
Other expenses	996	1,090	4,056	1,816
Total	**40,176**	**38,757**	**58,313**	**50,799**
Of which pension expenses	3,898	4,119	3,898	4,119

In 2017, variable remuneration for all employees was SEK 5.9 million (5.1), of which the Parent Company accounted for SEK 3.4 million (3.2). Variable remuneration corresponded to approximately 10% (8%) of the Group's total personnel expenses. All permanent employees who have been employed for more than six months have the opportunity to receive a variable salary component, which is linked to the fulfillment of individual targets and Company 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.

President and CEO

For 2017, renumeration for the CEO Peter Wolpert was SEK 2.3 million (2.1) in basic salary and SEK 1 million (0.8) in variable remuneration. Since the CEO has a defined contribution pension, the Company has no further pension obligations in addition to those stated here. Premium payments corresponded to 27% (27%) of basic salary for 2017. The notice period is six months if the CEO resigns on their own initiative and 12 months if the Company terminates the employment.

Other senior executives

The remuneration paid to other senior executives consists of basic salary, variable remuneration, other benefits and pension benefits. The term other senior executives in the Parent Company pertains to the four executives who, in addition to the CEO, comprise the executive management group. In addition to the CEO, the Executive Management Group consisted of the following individuals in 2017:

- Vice President, Research and Development
- Chief Financial Officer
- Vice President, Sales and Marketing
- President of Moberg Pharma North America
- Director Pharmaceutical Innovation and Development

In addition to the executive management group above, the CFO of Moberg Pharma North America is included in the executive management group for the Group's operating companies and thus in the senior executives below.

Remuneration of senior executives

At the AGM on May 16, 2017, 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.

Remuneration and other benefits during 2017 for senior executives in the Group

2017	Basic salary/ directors' feese[19]	Variable remu-nera-tion[20]	Other bene-fits	Pension expenses	Share-based remuner-ation	Other remu-nera-tion	Total
Chairman of the Board, Thomas Eklund	400	-	-	-	-	-	400
Board member, Torbjörn Koivisto	185	-	-	-	-	-	185
Board member, Geert Cauwenbergh	170	-	-	-	-	-	170
Board member, Mattias Klintemar	220	-	-	-	-	-	220
Board member, Thomas Thomsen	190	-	-	-	-	-	190
Board member, Sara Brandt, Elected May 16, 2017	100	-	-	-	-	-	100
Board member, Wenche Rolfsen, Resigned May 16 2017	70	-	-	-	-	-	70
CEO, Peter Wolpert	2,310	901	-	624	375	-	4,209
Other senior executives (6 people)	8,489	2,341	-	1,158	1,162	-	13,149
Total	**12,134**	**3,241**	**0**	**1,781**	**1,536**	**0**	**18,693**

[19] Board members Thomas Eklund, Geert Cauwenbergh, 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..

[20] Variable remuneration pertains to the 2017 fiscal year, but will be paid in 2018.

[21] 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.

2016	Basic salary/ directors' feese[22]	Variable remu-nera-tion[23]	Other bene-fits	Pension expenses	Share-based remuner-ation	Other remu-nera-tion	Total
Chairman of the Board, Thomas Eklund	340	-	-	-	-	-	340
Board member, Wenche Rolfsen	230	-	-	-	-	-	230
Board member, Torbjörn Koivisto	170	-	-	-	-	-	170
Board member, Geert Cauwenbergh	170	-	-	-	-	-	170
Board member, Mattias Klintemar	170	-	-	-	-	-	170
Board member, Thomas Thomsen	170	-	-	-	-	-	170
CEO, Peter Wolpert	2,100	822	-	567	233	-	3,722
Other senior executives (5 people)	7,129	2,287	-	917	1,009	-	11,342
Total	**10,479**	**3,109**	**0**	**1,484**	**1,242**	**0**	**16,314**

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

[23] Variable remuneration pertains to the 2016 fiscal year, but will be paid in 2017.

[24] 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.

Incentive program

Moberg Pharma has introduced a share-based incentive plan in the form of employee stock options intended to promote the company's long-term interests by motivating and rewarding senior executives and other employees. All permanent employees who had been employed for at least 12 months on December 31, 2017 are either shareholders or included in the company's incentive plan. Information about the number of shares and options held by Board members, the CEO and other senior executives is disclosed under information about the Board of Directors on Page 76 and the executive management on page 75. For further information about share-based remuneration, please see Note 19.

NOTE 8. INFORMATION ON AUDITOR'S REMUNERATION

	Parent Company		Group	
Ernst & Young	**2017**	**2016**	**2017**	**2016**
Audit assignment	480	318	655	493
Auditing in addition to the assignment	193	126	193	126
Tax advice	23	-	23	-
Other services	138	192	138	192
	833	**636**	**1 008**	**811**

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. Other services were primarily connected to acquisitions, divestments, transfer pricing and capital procurement.

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

	Parent Company		Group	
Depreciation/amortization	**2017**	**2016**	**2017**	**2016**
Equipment and inventory	158	238	394	419
Intangible assets	32,871	9,603	37,973	15,288
	33,029	**9,841**	**38,867**	**15,707**

NOTE 10. FINANCIAL ITEMS

	Parent Company		Group	
Interest income and similar items	**2017**	**2016**	**2017**	**2016**
Interest income	-	992	-	992
Exchange gains on liabilities	-	14,316	-	14,316
	-	**15,308**	**-**	**15,308**

	Parent Company		Group	
Interest expenses and similar items	**2017**	**2016**	**2017**	**2016**
Interest expenses	36,543	19,794	36,543	19,794
Exchange losses on liabilities	-	9,680	-	9,680
Costs for loans raised	2,860	1,461	2,860	1,461
	39,402	**30,935**	**39,402**	**30,935**

NOTE 11. TAXES

	Parent Company		Group	
Tax recognized in the income statement	**2017**	**2016**	**2017**	**2016**
Current tax	-	-	-68	-34
Deferred tax	-926	-3,713	-447	-13,843
	-926	**-3,713**	**-515**	**-13,877**
Applicable tax rate in Sweden	22.0%	22.0%	22.0%	22.0%

	Parent Company		Group	
Income taxes	**2017**	**2016**	**2017**	**2016**
Profit/loss before tax	3,175	18,145	11,671	46,545
Tax according to the applicable tax rate for the Parent Company	-698	-3,992	-2,568	-10,240
Effects of other tax rates for foreign subsidiaries	N/A	N/A	-1,171	-3,913
Non-taxable income	0	0	0	0
Non-deductible expenses	-228	212	-258	209
Effect of change in tax rate in the U.S. on deferred tax	-	-	3,437	-
Other	0	67	45	67
Tax recognized	**-926**	**-3,713**	**-515**	**-13,877**

	Parent Company		Group	
Deferred tax assets/(liabilities)	**2017**	**2016**	**2017**	**2016**
Deferred tax asset - tax loss carryforwards	9,255	10,161	9,444	11,735
Deferred tax assets – other differences on expenses	-	-	1,012	1,616
Deferred tax liabilities - intangible assets	-	-	-6,570	-10,161
Net deferred tax balance	**9,255**	**10,161**	**3,886**	**3,190**

The net deferred tax amount in the consolidated statement of financial position for the Group comprises deferred tax assets of SEK 9.3 million (10.2) and deferred tax liabilities fo SEK 5.4 million (7.0).

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 doubtful trade receivables 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 13 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, 2017, 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 739.6 million, of which:

- SEK 16.9 million refer to Domoboro® (acquisition from December 2013),
- SEK 33.3 million refer to Balmex® (acquisition from April 2015),
- 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 Company[26]. 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.

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	2017	2016
Consolidated net profit/loss	11,158	32,668
Weighted average number of shares before dilution	17,428,719	14,413,627
Dilution effect of employee stock option schemes	111,551	90,112
Weighted average number of shares after dilution	17,540,270	14,503,738
Earnings/loss per share before dilution	0.64	2.27
Earnings/loss per share after dilution	0.64	2.25

If all 1,027,334 of the warrants outstanding as of December 31, 2017 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.

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

NOTE 13. INTANGIBLE NON-CURRENT ASSETS

	Parent Company		Group	
Capitalized development expenditure	**2017**	**2016**	**2017**	**2016**
Opening accumulated cost	62,842	12,169	62,842	12,169
Capitalized expenditure for the year	71,827	50,673	71,827	50,673
Carrying amount at the end of the period	**134,670**	**62,842**	**134,670**	**62,842**
Opening depreciation	-1,100	-433	-1,100	-433
Depreciation for the year	-1,277	-667	-1,277	-667
Closing depreciation	-2,377	-1,100	-2,377	-1,100
Carrying amount at the end of the period	**132,292**	**61,742**	**132,292**	**61,742**
Detailed analysis of capitalized development expenditure				
Capitalized expenditure for MOB-015	98,408	39,060	98,408	39,060
Capitalized expenditure for BUPI	11,604	6,812	11,604	6,812
Capitalized expenditure for the next generation of Kerasal Nail®/Nalox™	22,280	15,870	22,280	15,870
Carrying amount at the end of the period	**132,292**	**61,742**	**132,292**	**61,742**

Research and development expenditure that has not been capitalized amounted to SEK 12.4 million, compared with SEK 11.2 million in 2016.

Capitalized development expenditure refers to capitalized development expenditure for the next generation of Kerasal Nail®/Nalox™, as well as for MOB-015 and BUPI. 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.

	Parent Company		Group	
Capitalized expenditure for computer systems	**2017**	**2016**	**2017**	**2016**
Opening accumulated cost	3,954	3,670	3,954	3,670
Capitalized expenditure for the year	959	283	1,115	283
Carrying amount at the end of the period	**4,913**	**3,954**	**5,069**	**3,954**
Opening depreciation	-1,595	-783	-1,595	-783
Depreciation for the year	-1,015	-812	-1,029	-812
Closing depreciation	-2,610	-1,595	-2,623	-1,595
Carrying amount at the end of the period	**2,303**	**2,359**	**2,446**	**2,359**

	Parent Company		Group	
Goodwill	**2017**	**2016**	**2017**	**2016**
Opening accumulated cost	-	-	98,453	90,393
Translation differences	N/A	N/A	-9,361	8,060
Carrying amount at the end of the period	**0**	**0**	**89,092**	**98,453**

Goodwill relates to the acquisition of Moberg Pharma North America LLC (Alterna LLC) in 2012. Goodwill has an indefinite useful life and is tested annually for impairment.

	Parent Company		Group	
Product rights	**2017**	**2016**	**2017**	**2016**
Opening accumulated cost	782,088	65,229	863,435	175,629
Acquisitions for the year	142	774,495	142	774,495
Divestments for the year	-42,644	-57,636	-42,644	-96,453
Translation differences	N/A	N/A	-7,734	9,764
Closing accumulated cost	*739,586*	*782,088*	*813,198*	*863,435*
Opening amortization	-10,327	-3,551	-32,472	-26,302
Amortization for the year	-30,579	-8,125	-35,668	-13,838
Reversal of amortization from previous years in connection with divestments	1,847	1,349	1,847	9,467
Translation differences	N/A	N/A	2,287	-1,799
Closing amortization	*-39,058*	*-10,327*	*-64,006*	*-32,472*
Carrying amount at the end of the period	**700,528**	**771,761**	**749,193**	**830,963**

			Parent Company		Group	
Specification of product rights	**Remaining time**	**Useful life, years**	**2017**	**2016**	**2017**	**2016**
Product rights for Dermoplast®	24.0	25	416,148	433,346	416,148	433,346
Product rights for New Skin® and Fiber Choice® [26]	23.5	25	240,514	292,540	240,514	292,540
Product rights for Kerasal®	9.9	15	-	-	48,665	59,202
Product rights for Balmex® [27]	22.3	25	29,665	30,998	29,665	30,998
Product rights for Domeboro®	21.0	25	14,201	14,877	14,201	14,877
Carrying amount at the end of the period			**700,528**	**771,761**	**749,193**	**830,963**

Amortization of product rights is applied on a straight-line basis across the estimated useful life.

	Parent Company		Group	
Patents, licenses and similar rights	**2017**	**2016**	**2017**	**2016**
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**

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.

[26] Fiber Choice divested in 2017

[27] Balmex divested in 2018

Testing of impairment requirement

Intangible assets with an indeterminable useful life are tested at least annually to assess impairment requirements. Assets amortized according to plan 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).

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	
	2017	**2016**	**2017**	**2016**
Opening cost	2,420	2,306	3,522	3,150
Investments	-	114	368	297
Translation differences	N/A	N/A	-105	75
Divestments/disposals	-	-	-	-
Closing cost	*2,420*	*2,420*	*3,785*	*3,522*
Opening depreciation	-1,967	-1,731	-2,748	-2,272
Translation differences	N/A	N/A	82	-59
Depreciation for the year	-158	-236	-394	-417
Closing depreciation	*-2,125*	*-1,967*	*-3,060*	*-2,748*
Carrying amount at the end of the period	**294**	**452**	**725**	**774**

NOTE 15. INVENTORIES

	Parent Company		Group	
Inventories	**2017**	**2016**	**2017**	**2016**
Raw materials	-	316	1,672	3,609
Finished products and goods for resale	-	54	24,889	38,615
	-	**370**	**26,561**	**42,224**

No impairment of inventory took place in 2017.

NOTE 16. TRADE RECEIVABLES AND OTHER RECEIVABLES

	Parent Company		Group	
Trade receivables and other receivables	**2017**	**2016**	**2017**	**2016**
Trade receivables	13,549	8,335	67,597	67,302
Provisions for doubtful trade receivables	-	-	-456	-297
Carrying amount at the end of the period, trade receivables	**13,549**	**8,335**	**67,141**	**67,005**
Receivables from Group companies	-	25,699	N/A	N/A
Other receivables	5,390	2,226	10,151	12,930
	18,939	**36,260**	**77,291**	**79,934**

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 12/31/2017**	**% of total trade receivables**
Company A	14,493	21%
Company B	6,822	10%

Large outstanding trade receivables for the Parent Company:	**Outstanding trade receivables 12/31/2017**	**% of total trade receivables**
Company X	6,465	48%
Company Y	4,166	31%

On December 31, 2017, trade receivables amounting to SEK 21.6 million (23.7) were overdue in the Group. The age analysis is shown below.

	Parent Company		Group	
Ageing of trade receivables	**2017**	**2016**	**2017**	**2016**
Not overdue	13,063	6,115,	45,983	43,593
Less than 3 months	484	2,220	21,127	23,424
3 to 6 months	-	-	363	51
More than 6 months	-	-	124	234
	13,549	**8,335**	**67,597**	**67,302**

	Parent Company		Group	
Changes in provisions for doubtful trade receivables	**2017**	**2016**	**2017**	**2016**
On January 1	-	-	-299	-132
Provisions for impairment recognised during the year	-	-	-386	-228
Receivables written off during the year as uncollectable	-	-	192	60
Unused amount reversed	-	-	-	-
Translation differences	-	-	38	-
Carrying amount at the end of the period	**0**	**0**	**-456**	**-299**

	Parent Company		Group	
	2017	**2016**	**2017**	**2016**
Trade receivables excluding overdue accounts receivable and accounts receivable that need to be written down	13,063	6,115	45,983	43,593

NOTE 17. PREPAID EXPENSES AND ACCRUED INCOME

	Parent Company		Group	
	2017	**2016**	**2017**	**2016**
Leasing of premises	677	669	677	669
Other property expenses	-	34	-	34
Insurance expenses	1,182	1,254	1,196	1,259
Pension expenses	337	319	337	319
Marketing expenses	-	-	6,224	9,886
Other prepaid expenses	290	286	1,682	444
	2,486	**2,562**	**10,115**	**12,611**

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	**2017**	**2016**	**2017**	**2016**
Cash and cash equivalents	97,205	72,379	119,437	86,104
Carrying amount	**97,205**	**72,379**	**119,437**	**86,104**

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 39. 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.

Share capital

Date[28]	Transaction	Change in number of shares	Changes in share capital	Number of shares	Total share capital, SEK	Face value, SEK	Subscription price, SEK[29]	Invested capital
Outstanding, January 2016				**14,217,522**	**1,421,752.2**	**0.10**		
June 2016	Subscription warrants exercised	71,666	7,166.60	14,289,188	1,428,918.80	0.10	21.45	1,537,062
December 2016	Private placements	2,843,504	284,350.40	17,132,692	1,713,269.20	0.10	52.00	147,862,208
December 2016	Subscription warrants exercised	279,150	27,915.00	17,411,842	1,741,184.20	0.10	33.50	9,351,328
Closing balance, 2016				**17,411,842**	**1,741,184.20**	**0.10**		
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**		

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

[29] Average exercise price

Share-based remuneration

Employee stock options	2009:1	2010:1	2010:2	2012:2	2013:1	2014:1	2015:1	2015:1 B	2016:1	2017:1
Start day	04/20/2009	05/19/2010	05/19/2010	11/27/2012	05/02/2013	05/22/2014	05/11/2015	05/11/2015	05/16/2016	05/16/2017
Expiration date	06/30/2017	06/30/2018	06/30/2018	12/31/2018	12/31/2017	12/31/2018	12/31/2019	12/31/2019	12/31/2020	06/30/2021
Vesting date	12/31/2010	12/31/2011, 12/31/2012	12/31/2011, 12/31/2012	¼ each as at 12/31/2014, 12/31/2015, 12/31/2016 and 12/31/2017	06/30/2016	06/30/2017	06/30/2018	06/30/2018 and 09/30/2019	2019/06/30	06/30/2020
Exercise price, SEK per share	32.75	32.75	32.75	42.81	36.77	37.64	65.47	65.47	42.97	59.50
Number originally allocated	13,833	89,501	40,576	125,000	60,750	196,500	138,500	150,000	428,000	-
Outstanding, January 2017	10,833	834	40,576	12,500	16,000	140,750	132,750	92,000	413,000	-
Allocated in 2017	-	-	-	-	-	-	-	-	-	304,000
Forfeited previous years	333	-	-	75,000	24,000	55,750	5,750	58,000	15,000	-
Forfeited in 2017	-	-	-	-	-	2,000	27,000	11,000	24,500	-
Exercised in previous years	12,666	88,667	26,950	37,500	-	-	-	-	-	-
Exercised in 2017	834	-	13,626	-	-	-	-	-	-	-
Expire in 2017	-	-	-	-	16,000	-	-	-	-	-
Outstanding, 12/31/2017	-	834	-	12,500	-	138,750	105,750	81,000	388,500	304,000
Number of shares that may be subscribed to through employee stock options	**0**	**1,668**	**0**	**12,500**	**0**	**138,750**	**105,750**	**81,000**	**388,500**	**304,000**
Vested, 12/31/2017	0	834	0	12,500	0	138,750	0	0	0	0

TA total of 1,031,334 employee stock options were outstanding (including 152,084 vested employee stock options) as of December 31, 2017 and 1,032,168 shares may be subscribed to, based on the employee stock options. Employee stock options are issued by the subsidiary Moberg Derma Incentives AB. The employee stock options may be exercised by the holder at any time after the vesting day through the closing day, with each employee stock option entitling the holder to subscribe to one warrant. Each warrant in turn entitles the holder to subscribe for one common share in Moberg Pharma, with the exception of employee stock option schemes 2009:1, 2010:1 and 2010:2, which entitle holders to two common shares per subscription warrant. If employment is terminated, any granted, unvested employee stock options are forfeited.

For employee stock options entitling the holder to acquire subscription warrants, which are automatically and simultaneously exercised to subscribe to new shares, Moberg Pharma is required to pay social security contributions on the difference between the market price of the share when the option is exercised, and the exercise price paid by the employee. The expected social security contributions have been calculated and a provision has been made in the accounts.

Using the Black-Scholes valuation model, the fair value of the employee stock options granted during the period was determined at SEK 12.26 per option in the 2017:1 scheme. Key input data used in the model for the 2017:1 option plan was a market price per share of SEK 54.09, an exercise price of SEK 59.50, risk-free interest of -0.3%, volatility of 32%, an expected term of 4.6 years, staff turnover of 0%, dilution of 1.7%, and no dividend.

Group costs for the employee stock option scheme (excluding estimated social security costs) for 2017 were SEK 2.3 million; costs for the previous year were SEK 1.7 million.

A total of 1,031,334 warrants have been issued to the subsidiary Moberg Derma Incentives AB. These options are intended to be transferred and used for subscription of new shares upon exercising the same number of employee stock options.

Outstanding warrants	Moberg Derma Incentives AB	Total
2010 – Closing date for subscription: 12/31/2019 Subscription price SEK 0.10	834	834
2012:2 – Closing date for subscription: 12/31/2018 Subscription price SEK 42.81	12,500	12,500
2014:1 – Closing date for subscription: 12/31/2018 Subscription price SEK 37.64	138,750	138,750
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	428,000
2017:1 – Closing date for subscription: 12/31/2021 Subscription price SEK 59.5	304,000	304,000
	1,031,334	**1,031,334**

If all 1,031,334 outstanding warrants were exercised to subscribe to shares, the total number of shares would increase by 1,032,168, from 17,440,762 shares at the end of the period to 18,472,930 shares, corresponding to a dilution of 5.6%.

NOTE 20. INTEREST-BEARING LIABILITIES

	Parent Company		Group	
Long-term borrowings	**2017**	**2016**	**2017**	**2016**
Bond loan	591,788	589,040	591,788	589,040
Carrying amount at the end of the period	**591,788**	**589,040**	**591,788**	**589,040**

	Parent Company		Group	
Maturity dates, long-term borrowing:	**2017**	**2016**	**2017**	**2016**
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:	**2017**	**2016**	**2017**	**2016**
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	75,000	111,000	75,000	111,000
Date of maturity more than 5 years from the balance sheet date	-	-	-	-
Total expected future interest payments	**111,000**	**147,000**	**111,000**	**147,000**

	Parent Company		Group	
Carrying amount in SEK thousand, per currency, for long-term borrowing: :	**2017**	**2016**	**2017**	**2016**
SEK	591,788	589,040	591,788	589,040
USD	-	-	-	-
	591,788	**589,040**	**591,788**	**589,040**

Amounts shown above are at face value and have not been discounted.

Interest-bearing liabilities comprise as bonds initially worth SEK 300 million due to mature January 29, 2021. In July 2016, the Company completed a tap issue of SEK 85 million (at a price of 100.50% of the nominal amount). In December 2016, the Company completed a further tap issue of SEK 215 million (at a price of 102.75% of the nominal amount). At year-end, the total outstanding amount of the Company's bond loan was SEK 600 million, which equals the total framework amount of the bond loan.

The loan carries a variable interest rate of STIBOR 3M + 6%. The bond loan has no covenants in terms of operating activities except where the Company wishes to increase the loan within the framework amount. In accordance with IAS 39, the bond loan is recognized less transaction costs allocated over the term of the loan, which explains the difference between SEK 600 million and the amount of SEK 591.8 million included in the statement of financial position.

The change between opening and closing balance for the bond during 2017 is due to the release of the accrual of the transaction costs, SEK 2.7 million which does not affect the Company´s cash flow. No other changes were made during the period.The full terms and conditions of the bond loan are available on the Company's website www.mobergpharma.se.

NOTE 21. CURRENT LIABILITIES

	Parent Company		Group	
	2017	**2016**	**2017**	**2016**
Employee payroll tax	686	3,041	691	3,094
Settlement of social security contributions	502	2,011	502	2,011
Provisions for social security contributions for employee stock option plan	128	1,067	128	1,067
Liability at fair value (contingent consideration)	15,230	20,479	15,230	20,479
Other current liabilities	444	2,273	3,577	2,293
	16,990	**28,871**	**20,128**	**28,943**

Liability at fair value as of December 31, 2017 refers to contingent consideration to Prestige in conjunction with the acquisition of New Skin®, Fiber Choice®, and PediaCare®. In total, contingent consideration of a maximum of USD 2.5 million may be payable, for which the Company has made provisions for liability of USD 1.85 million (SEK 15.2 million as of December 31, 2017).

NOTE 22. ACCRUED EXPENSES AND DEFERRED INCOME

	Parent Company		Group	
	2017	**2016**	**2017**	**2016**
Accrued personnel expenses	7,586	7,049	10,422	9,435
Accrued Board expenses	419	474	419	474
Audit	170	187	345	362
Market Development Funds	-	-	2,843	4,298
Accrued marketing expenses	-	-	27	305
Returns and discounts	-	-	2,400	2,609
Coupons	-	-	40	1,694
Accrued interest	6,000	5,872	6,000	5,872
Other accrued expenses	3,334	3,034	5,816	4,522
	17,510	**16,616**	**28,312**	**29,571**

	Parent Company		Group	
Accrued personnel expenses	**2017**	**2016**	**2017**	**2016**
of which, accrued salaries	3,371	3,437	6,208	5,823
of which, accrued vacation pay liability	3,232	2,532	3,232	2,532
of which, accrued social security contributions	982	1,080	982	1,080
	7,586	**7,049**	**10,422**	**9,435**

NOTE 23. PLEDGED ASSETS AND CONTINGENT LIABILITIES

Pledged assets in the Parent Company	2017	2016
Bank guarantee, cash and cash equivalents	702	702
	702	**702**

Pledged assets in the Group	2017	2016
Bank guarantee, cash and cash equivalents	702	702
	702	**702**

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

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**
Liabilities in the balance sheet				
Bond loan			591,788[30]	591,788
Contingent purchase consideration (level 3)	15,230[31]			15,230
Trade payables and other liabilities excluding non-financial liabilities			28,958[32]	28,958
Total	**15,230**	**0**	**620,746**	**635,975**

[30] Bond loan, see Note 20

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

[32] Consist 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

Financial assets and liabilities by category December 31, 2016	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)		79,934		79,934
Cash and cash equivalents		86,104		86,104
Total		**166,038**		**166,038**
Liabilities in the balance sheet				
Bond loan			589,040[33]	589,040
Contingent purchase consideration (level 3)	20,479[34]			20,479
Trade payables and other liabilities excluding non-financial liabilities			19,386[35]	19,386
Total	**20,479**	**0**	**608,426**	**628,905**

[33] Bond loan, see Note 20

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

[35] Consist 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 items above, with the exception of borrowing, the carrying amount is an approximation of the fair value, which is why these items are not divided into levels according to the measurement hierarchy. The fair value of bond loans, according to Level 2 of the fair value hierarchy, totaled approx. SEK 621 million (626) (based on their liquid trading price) as of December 31, 2017, while the carrying amount was SEK 592 million. Contingent consideration is measured according to Level 3 of the fair value hierarchy and amounted to approx. SEK 15 million (20) as of December 31, 2017, with a revaluation of contingent considerations in the annual financial statements.

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	2017	2016
Opening cost	178,106	178,106
Acquisitions	-	-
Closing accumulated cost	**178,106**	**178,106**
	,	,
Closing carrying amount	**178,106**	**178,106**

NOTE 26. INTRA-GROUP TRANSACTIONS

Intra-Group transactions from the Parent Company's perspective	Parent Company	
	2017	2016
Transfer price adjustments	79,007	42,655
	79,007	**42,655**

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 Company's operations are financed by income from product sales, shareholder contributions through new issues and the bond loan of SEK 600 million issued by the Company in 2016. Future investments are expected to be financed through income from cash flow from operating activities. 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 distribution 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. Moberg Pharma's revenue in foreign currency is expected to increase significantly in the future, with exposure primarily in U.S. dollars and, to a lesser extent, in euros. Transaction exposure is concentrated as much as possible on the countries where the contract manufacturers are located. This is achieved by invoicing in their respective accounting currencies.

Net revenue by currency	2017	2016
USD	378,868,	270,429
EUR	36,041	47,664
SEK	13,994	13,614
Other	10,129	2,597
	439,032	**334,304**

Operating expences by currency	2017	2016
USD	307,107	239,261
EUR	58,848	49,340
SEK	100,793	78,530
Other	10,318	4,887
Capitalized expensives	-71,827	-50,673
	405,239	**321,343**

Sensitivity analysis of currency risk 2017 (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	-3,789	3,071	-718
EUR	-360	588	288
Other	-101	103	2
Total	**-4,250**	**3,763**	**-488**

The operating profit for the fiscal year was impacted by net currency losses of SEK 3.6 million, compared with currency losses of SEK 2.6 million in 2016. Future income and expenses will be affected by fluctuations in foreign currencies. The Group did not use currency hedging in 2017 but will regularly review the need for currency hedging as the business expands.

In January 2016, the Company issued bonds worth a total of SEK 600 million with a term of five years. Both interest payments and principal payments will be in Swedish kronor.

Translation exposure exists since the Company has operations outside Sweden in currencies other than SEK. For Moberg Pharma, this risk is attributable to U.S. dollars (through the subsidiary Moberg Pharma North America), where translation exposure occurs in the Group consolidation when the net assets in the Group's units are translated into SEK. The translation differences with regard to net assets in USD recognized under other comprehensive income in 2017 were SEK -23.6 million (19.6).

Net exposure of subsidiaries	2017	2016
USD	229,982	224,650

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. The Company does not currently have any measures in place to manage or hedge against interest rate risk. Even if such action were to be taken in future, there is a risk that this would not result in the desired outcome, which is to mitigate the negative impact of changes in interest rates. Changes in interest rates could therefore have an adverse effect on the Company's performance and financial position. 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 distribution and licensing agreements and financial investments. When a distribution 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 doubtful receivables 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. Even if income from product sales currently accounts for the bulk of the Company's total revenue and is planned to continue to do so in the future, non-recurring payments in the form of milestone payments will from time to time constitute a key source of income for Moberg Pharma. These non-recurring payments do not represent sustainable earnings, however.

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.

Goodwill and other intangible assets

In connection with the acquisitions undertaken by the Company, parts of the cost of the acquired companies have been classified as goodwill. Goodwill is subject to annual impairment tests, and there is a risk that Moberg Pharma may not be able to defend this goodwill value in the future. If future tests show a permanent decrease in goodwill value, leading to impairment losses, this may have a negative impact on Moberg Pharma's financial position and performance.

The measurement of product rights depends on certain assumptions. These assumptions pertain to forecasts of future sales revenues, contribution to profit and the costs incurred by the particular product. Assumptions are also made concerning discount interest rates, product life and royalty rates. The maximum period of amortization for product rights applied by Moberg Pharma is 25 years. The possibility cannot be excluded that the carrying amount of product rights may have to be impaired, which would have a material impact on Moberg Pharma's financial position and earnings.

Financial commitments

At the beginning of 2016, the Company launched a five-year, unsecured bond loan worth SEK 300 million as part of a SEK 600 million framework amount. In July 2016, the Company completed a tap issue of SEK 85 million. In December 2016, the Company issued a further tap issue of SEK 215 million. The bond loan involves various commitments on the part of Moberg Pharma, such as limitations on pledging security and dividend restrictions. There is a risk that Moberg Pharma may be in breach of its commitments in future, for example, due to economic conditions or disruption of the capital and credit markets. If Moberg Pharma should be in breach of its commitments with regard to financing agreements, it could result in a demand for immediate repayment of loans or in collateral pledged against loans being forfeited. This could have a negative impact on Moberg Pharma's operations, financial position and performance.

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

	Parent Company		Group	
Depreciation/amortization and other adjustments	**2017**	**2016**	**2017**	**2016**
Amortization of R&D investments	1,277	667	1,277	667
Amortization of product rights	30,579	8,125	35,669	13,838
Amortization of patents	-	-	-	-
Amortization of capitalized expenditure for computer systems	1,015	812	1,015	812
Depreciation of plant and equipment	158	236	408	417
Other adjustments	1	1	-2	-27
Capital gains on divestments of product rights	-12,998	-13,291	-12,998	-44,780
	20,030	**-3,450**	**25,369**	**-29,073**

Capital gains on divestments of product rights in 2017 relate to the capital gain of SEK 13.0 million from the divestment of Fiber Choice® in August.

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

	Parent Company		Group	
Net investments in intangible assets	**2017**	**2016**	**2017**	**2016**
R&D investments	-71,827	-50,674	-71,827	-50,674
Investments in capitalized expenditure for computer systems	-959	-283	-1,121	-283
Acquired product rights	-142	-774,495	-142	-774,495
Contingent consideration, acquired product rights	-	20,468	-	20,468
Contingent consideration, acquired patents	-	-4,897	-	-4,897
Divested product rights	53,795,	69,578	53,795	131,766
Translation differences (currency adjustments)	N/A	N/A	-	-2,286
	-19,133	**-740,303**	**-19,295**	**-680,401**

R&D investments 2017 relate to investments in MOB-015 of SEK 59.3 million, investments in next generation of Kerasal Nail®/Nalox™ of SEK 7.7 million and investments in BUPi of SEK 4.8 million. Divested product rights 2017 relate to the divestment of Fiber Choice®.

NOTE 30. EVENTS AFTER THE BALANCE SHEET DATE

Approval from the National Advertising Division (NAD) in a case against the main competitor to Kerasal Nail® in the United States for misleading marketing. The competitor will cease its current packaging design and advertising.

In February, an agreement was entered to divest the brand Balmex® for about SEK 34,6 million plus inventory value, for a capital gain of about SEK 4,4 million. The transaction is expected to close in April 2018.

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 1, 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 capitalized internally generated development expenditure of SEK 70.6 million in 2017 and is therefore recognizing restricted equity of SEK 122.3 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	406,044
Profit carried forward	-30,158
Profit/loss for the year	2,249
	378,135

The Board of Directors proposes that profit for the year will be carried forward. Following appropriation, unrestricted equity amounts to:

Share premium reserve	406,044
Profit carried forward	-27,909
	378,135

NOTE 33. DEFINITIONS OF KEY RATIOS

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.

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

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 9th 2018

Thomas Eklund
Chairman

Geert Cauwenbergh
Board member

Mattias Klintemar
Board member

Torbjörn Koivisto
Board member

Sara Brandt
Board member

Thomas Thomsen
Board member

Peter Wolpert
CEO

Our audit report was issued on April 9th 2018

Ernst & Young AB

Andreas Troberg
Authorized Public Accountant

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 2017. The annual accounts and consolidated accounts of the company are included on pages 20-64 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 2017 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 2017 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 132 MSEK as per December 31, 2017 and relate to MOB-015, BUPI and next generation Kerasal Nail/Nalox. Internally generated development costs should according to IFRS be capitalized as an intangible asset from the time it is technically feasible for the company to complete the product, it is probable that the product will be commercially feasible, the company has sufficient resources to complete the development and also has the resources to use or sell the intangible asset.

The company has assessed the development projects based on its particular merits and assessed that the earliest point in time for capitalization is during Phase 3 development or equivalent final development steps. The initial capitalization as well as subsequent capitalization are partially based on the company's judgments around the probability for the development projects to succeed, why capitalized development costs has 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 process for assessing which development projects fulfill the criteria for capitalization as intangible assets. We have reviewed the company's follow up on development projects, including the communication with regulatory authorities. We have evaluated and reviewed the company's process for identifying and allocating expenses to respective development project and the investment and profitability calculations.

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, 2017 goodwill, product rights and capitalized development costs amount to 971 MSEK in the consolidated statement of financial position for the group and 833 MSEK in the balance sheet for the parent company.

The company prepares annual impairment tests for goodwill and capitalized development costs and also for product rights if indications of impairment have been identified. Recoverable amounts for the assets are based on the company's future possibility and ability to sell the products on the market and by that generate cash flows. The company's assessment is based on forecasts related to future cash flows, discount rate, products useful life and expected growth rate.

With reference to the assets value in relation to the group's and the parent company's total assets and also the uncertainties related to 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 evaluated the forecasts for future sales, which includes useful life of product rights and growth rates, used by the company in its valuation models. 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.

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 1-19, 69-73 and 75-79. 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 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.

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 2017 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 16, 2017 and has been the company's auditor since 2007. Moberg Pharma AB has been a public interest entity since May 26, 2011.

Stockholm 9 april 2018
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 26, 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 has deviated from the Code only in the case of incentive schemes introduced before the Code was introduced (May 26, 2011). According to the Code, the vesting period for employee stock option plans must not be less than three years, which occurred in such schemes launched by the Company up to and including 2011.

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.

* Martin Ingman was part of the Management Group until 31 december 2017

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 representative 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 2017 AGM took place on May 16, 2017. The AGM was attended by 21 shareholders, in person or by proxy. These represented 17.9% 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 2017 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 2017 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. Moberg Pharma's Board currently consists of six members. Members of the Board of Directors are presented in the annual report on page 76.

	Attendance (no. of meetings 2017)			Directors' fees 2017, SEK thousand[36]		Independent in relation to	
	Board meetings (14)	Remuneration Committee (2)	Audit Committee (3)		Elected	The Company	Owners
Chairman of the Board, Thomas Eklund	14		3	400	2015	Yes	Yes
Board member, Geert Cauwenbergh	14			170	2012	Yes	Yes
Board member, Mattias Klintemar	13	2	3	220	2015	Yes	No
Board member, Sara Brandt*	11			100	2017	Yes	Yes
Board member, Torbjörn Koivisto	14	2		185	2009	Yes	Yes
Boardmember, Wenche Rolfsen*	5	2		70	2010	Yes	Yes
Board member, Thomas Thomsen	13		3	190	2014	Yes	Yes

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

* Sara Brandt was elected May 16, 2017, Wenche Rolfsen resigned May 16, 2017.

Remuneration Committee

The Board has a remuneration committee, which prepares proposals on remuneration issues. The remuneration committee consists of two Board members, Mattias Klintemar (Chairman) and Torbjörn Koivisto. 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 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.

The audit committee comprises three Board members: Thomas Eklund (Chairman), Mattias Klintemar and Thomas Thomsen.

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 75.

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, 2017, it was resolved that the Board's fees for 2017, totaling a maximum of SEK 1,350,000 excluding social security contributions, would be paid and distributed as follows: SEK 360,000 to the Chairman and SEK 170,000 to each of the other Board members. In addition, it was resolved that supplementary remuneration of SEK 30,000 would be paid to the Chairman of the remuneration committee and SEK 15,000 would be paid to each of the other members of the remuneration committee, as well as SEK 40,000 to the Chairman of the audit and finance committee and SEK 20,000 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 16, 2017, 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	Variable remuneration[37]	Other benefits	Pension costs	Share-based remuneration[38]	Other remuneration	Total
CEO, Peter Wolpert	2,310	901	-	624	375	-	4,209
Other senior executives (6 people)	8,489	2,341	-	1,158	1,162	-	13,149
Total	**10,799**	**3,241**	**0**	**1,781**	**1,536**	**0**	**17,358**

[37] Variable remuneration pertains to the 2017 fiscal year, but will be paid in 2018.
[38] These costs do not entail a right to payments and do not affect the company's cash flow. Estimated social security costs are not included in the carrying amounts.

Share-based incentive schemes

Moberg Pharma has introduced share-based incentive schemes comprising employee stock options designed to promote the company's long-term interests by motivating and rewarding senior executives and other employees. The employee stock options have been granted free of charge. All permanent employees who have been employed for at least 12 months as of December 31, 2017 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 75–76.

The Company's employee stock option scheme up to 2012 had a vesting period of less than three years. As an adaptation to the Code, the employee stock option scheme from 2014 and thereafter 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 76.

Remuneration to auditors

The remuneration paid to the auditor is subject to approval by a Shareholders' Meeting. The AGM on May 16, 2017 resolved to approve remuneration of the auditor on a continuous basis.

In 2017, remuneration of SEK 1.0 million was paid to the auditor, of which audit assignments accounted for SEK 0.7 million, audit work in addition to the assignment for SEK 0.2 million and other assignments for SEK 0.1 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. Other services were primarily connected to acquisitions, divestments and capital procurement.

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 proposals will be presented in the official notice convening the 2018 AGM.

The AGM on May 16, 2017 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 30, 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 2018 AGM was announced on Moberg Pharma's website and through a press release on November 4, 2017 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 Rodebjer, appointed by Wolco Invest.

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 28.

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 all 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 2017, 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 9th 2018

Thomas Eklund
Chairman

Geert Cauwenbergh
Board member

Mattias Klintemar
Board member

Torbjörn Koivisto
Board member

Sara Brandt
Board member

Thomas Thomsen
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
It is the Board of Directors who is responsible for the corporate governance statement for the year 2017 on pages 69–73 and that it has been prepared in accordance with the 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 statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm April 9, 2018

Ernst & Young AB

Andreas Troberg
Authorized Public Accountant

MANAGEMENT

Peter Wolpert | Kjell Rensfeldt | Anna Ljung | Jeff Vernimb | Torbjörn Wärnheim

PETER WOLPERT, CEO and founder, M.Sc. in Engineering, M.Sc in Economics and Business. Born 1969. Has been working for the Company since 2006. Peter Wolpert has more than 15 years' experience as a CEO, strategy consultant and entrepreneur and is a member of the board of MedUniverse AB. He was co-founder of Ibility AB and previously held positions as CEO at Athera Biotechnologies AB and strategy consultant at McKinsey & Co. Shareholding: 435,399 shares through Wolco Invest AB and 180,000 employee stock options (180,000 shares may be subscribed to, based on the employee stock options).

KJELL RENSFELDT, Vice President, Research and Development and Chief Medical Officer, certified physician, M.Sc. in Economics and Business. Born 1957. Has been working for the Company since 2007. Kjell Rensfeldt has more than 15 years of industrial experience from senior executive positions at Biogen Idec and Q-Med. Dr. Rensfeldt also has ten years' clinical experience and specialist training in urology. Shareholding: 10,000 shares and 145,000 employee stock options (145,000 shares may be subscribed to, based on the employee stock options).

ANNA LJUNG, Chief Financial Officer (CFO), M.Sc. in Economics and Business. Born 1980. Has been working for the Company since 2006. Anna Ljung previously worked as CFO at Athera Biotechnologies AB and Lipopeptide AB and independently as a consultant within technology licensing. She is also a Board member of Saniona AB. Shareholding: 12,000 shares and 110,000 employee stock options (110,000 shares may be subscribed to, based on the employee stock options).

JEFF VERNIMB, Vice President, Global Consumer Health, B.Sc. Born 1963. Has been working for the Company since 2014. Jeff Vernimb has been responsible for the company's North American operations since the start, was appointed Vice President for Global Consumer Health at the end of 2017, and is responsible for the Company's global OTC marketing and sales. Has previous experience of senior executive positions in sales and marketing and experience of changing prescribed drugs to OTC drugs in both large and smaller entrepreneurial firms, including Pfizer, Novartis, Dynova Labs and Insight Pharmaceuticals. Shareholding: 14,329 shares and 170,000 employee stock options (170,000 shares may be subscribed to, based on the employee stock options).

TORBJÖRN WÄRNHEIM, Director Pharmaceutical Innovation and Development. Born 1958. Has been working for the Company since 2014. Torbjörn Wärnheim has extensive experience of the pharmaceutical development of prescription and OTC products in the pharmaceutical industry, and is a senior lecturer at the Royal Institute of Technology (KTH) with a research background in surface chemistry and the physical chemistry of lipids. He previously worked as Vice President for R&D at Fresenius Kabi. Previous assignments also include management positions within research and development at ACO Hud and Pharmacia & Upjohn, among others. Shareholding: 1,500 shares and 35,500 employee stock options (36,500 shares may be subscribed for based on the employee stock options).

BOARD OF DIRECTORS

Thomas Eklund | Geert Cauwenbergh | Mattias Klintemar | Torbjörn Koivisto | Sara Brandt | Thomas Thomsen

THOMAS EKLUND Chairman of the Board. Born 1967. Board member since 2015. Thomas Eklund has extensive experience of senior executive positions in the pharmaceuticals industry and as CEO & Head of Europe for Investor Growth Capital AB. He was formerly Investment Director at Alfred Berg ABN AMRO Capital Investment AB and Vice President at Handelsbanken Markets. He is also Chairman of the Board for BoMill AB, Caliditas Therapeutics AB, Sedana Medical AB and Itrim Holding AB, and Board member of Swedencare AB (publ), Boules 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 Board member, Ph.D. Born 1954. Board member since 2012. Dr. Cauwenbergh has longstanding experience of the pharmaceutical industry and specific experience of product development and marketing of dermatology products in Europe and the U.S. Dr. Cauwenbergh is a Managing Partner of Phases123 LLC (U.S.), CEO and Board member of RXi Pharmaceuticals Corp. (U.S.), and a Director of Cutanea Life Sciences (private U.S.). He has previously worked as Chairman and CEO of Barrier Therapeutics (U.S.) and held senior executive positions in the Johnson & Johnson Group in the U.S. Shareholding: 0 shares.

MATTIAS KLINTEMAR Board member. Born 1967. Board member since 2015. Mattias Klintemar represents the Baltic Sea Foundation and has longstanding and extensive experience of senior executive positions in the finance and technology sector, including as CEO at Morphic Technologies, CFO at Hexaformer, senior corporate finance associate at ABG Sundal Collier and auditor at Arthur Andersen. He is the Chairman of the Board of Dilafor, a member of the Boards of Oatly, Phoniro and Axelar, and Chairman of the nomination committee for Lightlab, Pharmanest and Cellimpact. Shareholding: 7,000 shares.

TORBJÖRN KOIVISTO Board member, LL.M. Born 1969. Board member since 2009. Torbjörn Koivisto is a corporate lawyer focusing on corporate and commercial law. He has previously worked for Mannheimer Swartling, Lindahl and Bird & Bird. Since 2006 he has been working in his own company, IARU (Institutet för Affärsjuridisk Rådgivning i Uppsala AB). He works in close cooperation with the Boards of both start-ups and listed companies. He is a member of the Boards of Xspray Pharma AB, Hemcheck Sweden AB, Cinclus Pharma Holding AB and KIBACQ AB. Shareholding: 5,856 shares via the company IARU AB

SARA BRANDT Board member. Born 1963. Board member since 2017. Sara Brandt has many years of extensive experience in the marketing and sale of consumer goods and self-care products. She has held senior positions at Unilever (Nordic countries), Coca-Cola (Sweden), and Cederroth/Orkla (Nordic countries). Sara Brandt is the CEO and VP Nordic at Berner, a B2B company in the construction and automotive industry. She was previously a member of the Board of the Association of Swedish Advertisers, Gärdin & Persson, DLF, and KTF, and is now Chairman of the Board of Toxintelligence and a Board member at ClearOn.

THOMAS THOMSEN Board member. Born 1969. Thomas Thomsen has extensive experience from consumer healthcare and pharmaceuticals. Has held senior executive positions at Johnson & Johnson Consumer, Reckitt Benckiser and Novartis and was formerly Board member for Ferrosan (Denmark), Alkalon (Denmark) and Cederroth (Sweden). Thomas is CEO of Ascendis Health, and is a Board member at Symprove (UK) and NoA (Norway). Shareholding: 0 shares.

AUDITORS At the Annual General Meeting on April 18, 2011, the auditing firm Ernst & Young AB (Jakobsbergsgatan 24, PO Box 7850, SE-103 99 Stockholm) was appointed as the auditor of the Company. Authorized Public Accountant Andreas Troberg has been the Auditor-in-Charge since fall 2016. Andreas Troberg was born in 1976 and is a member of FAR.

SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on May 15, 2018, at 17.00 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 27, 2018 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 11, 2018. 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.

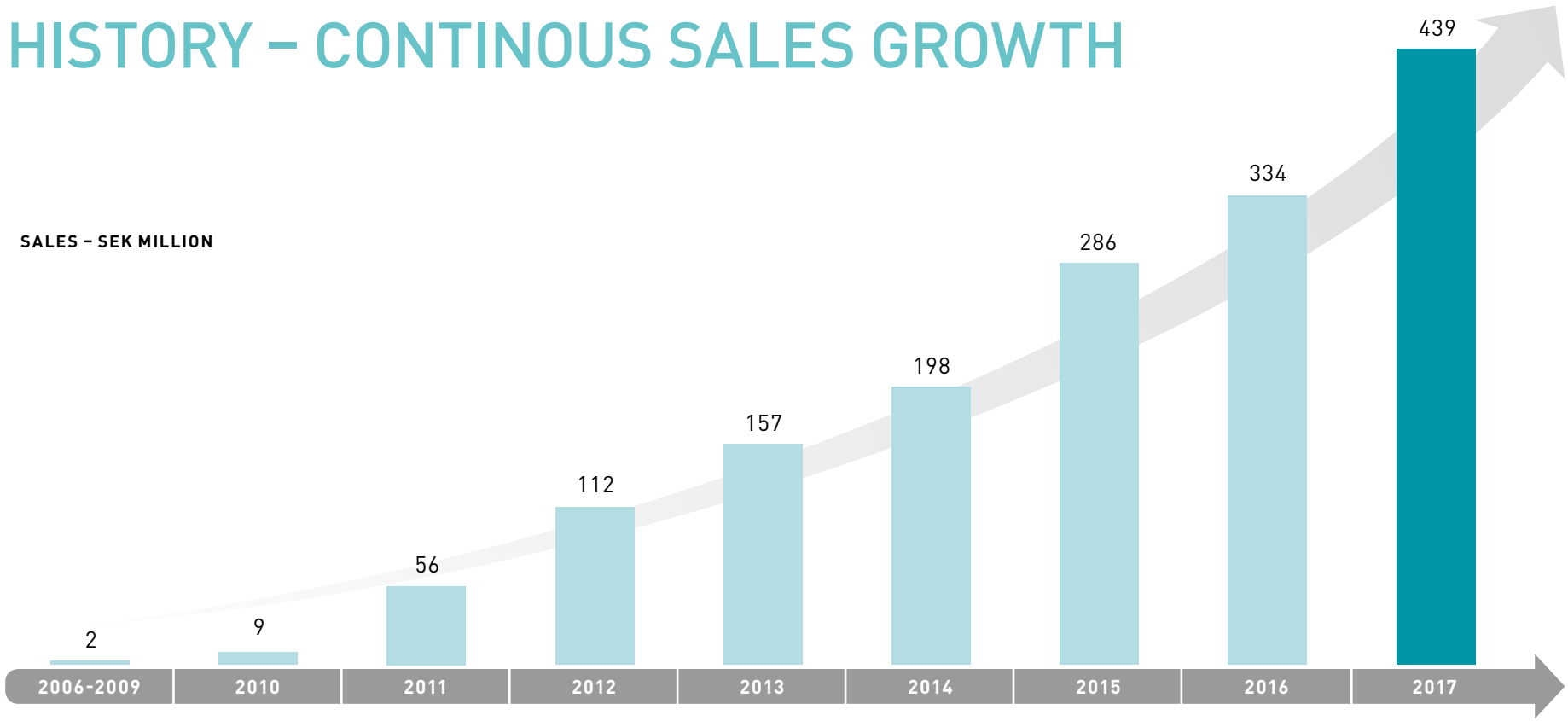
REPORT DATES 2018

Interim report for January–March 2018	May 8, 2018
Interim report for January–June 2018	August 7, 2018
Interim report for January–September 2018	November 6, 2018

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) 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®

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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