FINANCE MANUAL

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# Introduction and purpose

The purpose of this Finance Manual is to describe how the financial systems of Karo Pharma (“KP”) work by comprising the financial policies and procedures that guide the operations of the Company. The manual primarily deals with rules, guidelines and routines that are common to all entities within the Karo Pharma group.

In KP´s decentralized organization, with delegated financial responsibility to local finance mangers and with many users across different geographical and functional areas, there is a need to clarify how to treat different situations and transactions to ensure both compliance with regulatory requirements and generally accepted business practices, and consistency within the Group.

In brief, the main purpose of the Finance Manual can be summarized by:

* Providing guidance to everyone affected by the financial treatment of different transactions, such as authorizers of invoices or cost center owners,
* Standardizing the way Finance activities are carried out to ensure consistency;
* Assignment of responsibilities and establishment of expectations;
* Safeguarding of assets by maintaining an adequate system of internal controls;
* Accurate, reliable, and relevant financial reporting, in accordance with KP defined standards;
* Maintaining compliance with regulatory requirements;
* Reduction of risks in several areas of the business

## **1.1 Scope**

All accounting and financial policies contained within this manual are all-inclusive and supersede any and all previously adopted accounting and financial policies and manuals. Furthermore, any exception to the policy must be clearly documented and approved by the CFO.

## **1.2. Regular Review and Updates**

The Finance Manual is a document that should be regularly subjected to review and updates. As organizations change in size and complexity, implement new systems, or are subjected to changes in regulations or accounting standards, it is likely the processes or policies that existed will need to be modified. Further, it’s important that any best practices or ‘lessons learned’ are regularly incorporated into the financial policies and procedures for continual process improvements.

The dedicated owner of each section in the manual is responsible for keeping their part of the manual updated with changes that occur, and to add clarifications and examples based on questions raised by the organization. It is the collective responsibility of all users of the manual to report to either the Section Owner or the Corporate Finance function when the text is considered unclear or even factually wrong.

Updates to the contents of the manual are made once a year. Changes that are deemed to be significant are updated continuously. Updates in the manual will be clearly communicated by Group Accounting.

When updating, information about the current update with chapter and page reference will be given at one special cover page before the table of contents.

Contact Group Accounting to suggest changes.

# General accounting principles

## **2.1 Accounting framework**

The consolidated accounts and external financial statements of Karo Pharma are prepared in accordance with the Swedish Annual Accounts Act (ÅRL) and International Financial Reporting Standards (IFRS). Therefore, all group entities are expected to comply with the accounting principles as outlined in this manual. Some IFRS adaptions are (still) performed on group level, mainly the adjustment of amortizations. For this reason, reporting entities do not need to adjust goodwill amortization in their reporting until further notice from Group Finance, but can report it as it is shown in local books.

Questions about its contents are directed to Corporate Finance.

## **2.2 General underlying assumptions**

General accounting assumptions refer to the general accounting concepts that have been considered and followed while recording financial information even if these are not explicitly disclosed. They are part of GAAP (Generally Accepted Accounting Principles). These assumptions are defined a bit differently by different sources, ranging from 3 to 7. However, when preparing financial statements according to IAS 1 (International Accounting Standards Board) the fundamental accounting assumptions are considered to be the following, and thus these are what we are mainly focusing on:

|  |  |
| --- | --- |
| **Going concern** | The business will continue to operate for the foreseeable future. The going concern principle allows a business to defer prepaid expenses to future accounting periods, rather than recognizing them all at once, as well as allocating depreciation/amortization to future periods etc. |
| **Accrual basis of accounting** | All financial statements except cash flow information are prepared following accrual basis of accounting, meaning revenue and expenditure is recognized in the year it is realized irrespective of when the payment is made. |
| **Consistency** | Unless otherwise disclosed, a company's [financial statements](https://www.accountingcoach.com/blog/what-is-a-financial-statement) are assumed to follow the same accounting principles, methods, practices and procedures from one accounting period to the next, allowing the readers of the financial statements to make meaningful comparisons between years. Any change to a more preferred accounting method, and its effects on the financial statements, must be clearly disclosed. |
| Materiality and aggregation | Each material class of similar items should be presented separately in the financial statements. Items of dissimilar nature or function should also be presented separately unless they are immaterial. Immaterial amounts can be aggregated with items of a dissimilar nature and need not be presented separately. |
| Offsetting | As a basic rule, assets against liabilities and income against expenses cannot be offset unless permitted or required by IFRS. |

Among these five, first three (in bold letters) are given more importance when preparing financial statements in accordance with IFRS.

## **2.3 Qualitative Characteristics of Financial Statements**

Qualitative characteristics are the attributes that make the information provided in financial reports useful to users. Also for these, different sources define slightly different characteristics but the four principal qualitative characteristics are usually stated to be:

1. **Relevance** – the information should be relevant in order to influence the economic decisions of users
2. **Reliability** – relates to the confidence in the accounting information in the sense that the information must reliably represent what it intends to represent. Information should be free of material error. The key aspects of reliability are faithful representation, substance over form, neutrality, prudence and completeness.
3. **Comparability** – accounting information for an entity is useful when it is comparable with information for the same entity in other periods in time and with similar information regarding other entities at the same time.
4. **Understandability** – information should be readily understandable by users who are expected to have a reasonable knowledge of business, economics and accounting, and a willingness to study the information with reasonable diligence.

## **2.4 Internal Audit**

Karo Pharma has to date not implemented an internal audit function, but this is planned to be introduced in some shape or form in the future, at which the documentation will be updated.

## **2.5 External Audit**

The external audit of Karo Pharma is performed by Ernst & Young (EY) and coordinated by the primary team in Stockholm. The audit plan for the year is discussed and agreed with the CFO and Head of Corporate Finance and is approved by the Audit Committee and covers among other things:

**Risk assessment** – identification of audit areas in need of extra audit focus. The assessment could be connected to the inherent risks of our business that is more or less constant – such as valuation of intangible assets due to its significance in the balance sheet – but also to risks that arise more momentarily, related to new systems, or Covid crisis etc.

**Scoping of entities** for group audit purposes – based on the materiality (relative size) of each entity in combination with the risk assessment made, the entities are assigned different audit scopes for the group audit procedures. The most significant entities for the consolidated statements will be assigned a Full scope audit, meaning basically that the full audit needs to be finalized and signed off by the local auditors before the consolidated accounts can be signed-off. The smallest entities may be Out of scope for the group audit, meaning they will only need to have their audit when required by statutory regulations. Sometimes there is also a need for a Specific scope audit, which means that certain explicit audit procedures will need to be performed and signed off by local auditor before the consolidated accounts can be finalized; but the rest of the procedures can be postponed.

**Timetable** for the audit procedures during the year, or at least on high-level, fixing dates for group deliverables in relation to Audit committee meetings etc. The general plan normally looks something like this:

* Interim procedures (Sep-Oct): Walkthrough of financial processes, interim substantive audit procedures, early warning reporting to group
* Year-end (Jan-Feb): Audit for group reporting purposes depending on scope
* Statutory annual report (Deadline TBD): Audit for statutory purposes (procedures not covered by group audit)

When the audit plan is finalized, the EY Primary team prepares and distributes audit instructions to the local teams, where the risk assessment, timetable and scoping of entities are included. Based on this, the local EY teams can start planning for their audit procedures together with the local Finance departments.

It should be highlighted that the tolerance for error is often higher on group level than in the individual entities. This means that a local auditor may sign off on the reported numbers for Group consolidation purposes but may still want to continue the local audit and possibly request corrections in the local books before signing off on the statutory financial statements.

Audit fees are negotiated and agreed centrally for all entities. Any overruns to those agreed fees should be communicated to Head of Corporate Finance/CFO asap.

Should any conflict arise around the audit fee due to overruns, the local entity should attempt to solve the conflict directly with the local audit team. Only if this fails, should the conflict be escalated to Group Finance/CFO.

EY has an independence policy in place that specifies the types of services they can provide to an entity that is an audit client. Similar regulations are in place in other countries, and services that EY is prohibited from delivering to their audit clients (including KP) worldwide are:

* Bookkeeping or other services related to the accounting records or financial statements
* Financial information systems design and implementation,
* Appraisal or valuation services, fairness opinion, or contribution in kind reports,
* Actuarial services,
* Internal audit outsourcing services,
* Management functions or human resources,
* Broker or dealer, investment adviser or investment banking services,
* Legal services and expert services unrelated to the audit,
* Any other service determined later, by regulation, to be impermissible.
* Local regulations in different countries may have additional restrictions that need to be considered by the local auditors.

Any services we ask EY to perform outside of the regular audit assignment needs to be pre-approved by the EY partner in charge of the group audit who will coordinate advance approval of any services with KP’s audit committee. No work can commence until the pre-approval has been received.

## **2.6 Segregations of duties (coming soon)**

# Financial Recording

## **3.1 Financial ledger and records**

To classify financial events and the financial position, Karo Pharma (KP) uses an accounting plan. The accounting plan is a model for classifying accounting data. The accounting plan consists of two parts: chart of accounts (CoA) and code part. The chart of accounts classifies types of financial events and balance sheet items. The code part classifies the accounting objects to which the events related, for example a specific department or function within the Karo Group.

The financial ledgers shall be maintained on the principle of double entry book-keeping i.e., that every transaction has a twofold aspect. Every debit in the ledger has a corresponding credit, and vice-versa. Consequently, at any moment in time, the total of the debits in the ledgers shall agree to the total of the credits. This balancing of totals shall be proved by a Trial Balance.

**The financial Subsidiary ledgers in IFS are:**

* Accounts payable ledger
* Accounts receivable ledger
* Fixed assets ledger
* Inventory ledger
* Purchases ledger
* Value Added Tax Ledger

Subsidiary ledgers shall be reconciled with the general ledger at least monthly. It is also possible to make manual journal entries directly to the general ledger.

All records of financial transactions shall be kept and maintained in accordance with the IFRS and shall comply with local regulations. Records shall be taken to include both hard copy and electronic records and according to the financial regulations in each country where KP are represented by a legal company.

### **3.1.1 Chart of accounts**

**Introduction**

All the subsidiaries in the Karo Group use a common global chart of accounts (CoA) stated in IFS. Subsidiaries outside IFS translate and adapt their chart of accounts to match the global chart of accounts when reporting. All account numbers consist of six digits.

Karo Pharma follows the BAS accounting plan. BAS is divided into eight account classes for financial accounting. The chart of accounts also includes an account class 9 for supplementary information, such as statistics when implementing IFS in new companies. Class 9 contains information that is not classified as accounting information and is therefore excluded from the formal chart of accounts.

The accounts in account classes 1 to 8 are arranged according to the formats for balance sheet and income statement prescribed in ÅRL (Swedish Annual Accounts Act). BAS follows the income statement classified by nature of expense. The BAS Accounting Plan and its coding instructions are linked to accounting recommendations and statements from Swedish and international standard-setters.

In IFS, it is possible to use a local chart of accounts. This may be an option if there are more than minor differences in accounting principles or local requirements. At present, there are no companies in the Group that use a local chart of accounts. All companies use only the global chart of accounts. If a need arises to implement a local chart of accounts, the local finance team should contact Corporate Finance to evaluate and plan for this.

See the following section in IFS for a complete Accounts list:

**New accounts or changes to existing accounts**

The Head of Corporate Finance is responsible for maintaining the Chart of Accounts in IFS. The Master data team has access to create new accounts in IFS and to make changes to existing accounts, but they still must notify the Head of Corporate Finance for approval.

If a new account regarding sales, reduction of sales and any I/C account is created in IFS, the Business Controlling team needs to be notified. They make sure that the account is mapped correctly in the BI-tool. This also applies if a new account group is set up in IFS. If new accounts below Net Sales are set up, no notification needs to be made to the Business Controlling team. In all cases where an account is set up in IFS, notification needs to be made to the Senior Accountant in the Swedish team as this person is responsible for mapping up the accounts in IFS Business Reporter.

**Chart of accounts structure**

The BAS Chart of Accounts is based on so-called decimal classification, according to which an account’s position in the chart of accounts is shown through the positioning of digits (levels). Here is an example.

The first digit in the account number is the account class and the first three the account group. A control account is designated by four digits ending in 00, which means that only one account is used for all transactions belonging to the account group in question. Five digits ending in 0 designate a main account. A six-digit number ending in 1–9 designates a sub-account.

**6** Other external operating expenses/costs Account class

**640** Administration cost Account group

**64000** Administration cost Control account

**642000** Audit fees Main account

**642001** Consulting provided by auditor’s Sub-account

**Division into account classes**

1 Assets

2 Equity and liabilities

3 Operating income/revenue

4 Cost of goods sold, materials and certain sub-contract work

5–6 Other external operating expenses/costs

7 Personnel costs, depreciation etc.

8 Financial and other income and expenses

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Balance sheet accounts | | Income Statements accounts | | | | | | Accounts for supplementary information, statistics etc. |
|  |  | Accounts for operating profit/loss | | | | | Accounts for other items |
| Assets |  | Main revenue | Operating expenses/costs | | | | Financial items | Free |
| Equity |  |  |
| Provision | Own work capitalized |  | Other external items | |  | Extraordinary items  Appropriations  Taxes  Profit/loss for the year |
| Liabilities |  | Cost of goods sold and material  Change in inventories |  |  | Personnel costs  Write downs  Depreciation |  |
|  | Other operating income | Other operating expenses |  |
| **Account class 1** | **Account class 2** | **Account class 3** | **Account class 4** | **Account class 5** | **Account class 6** | **Account class 7** | **Account class 8** | **Account class 9** |

### **3.1.2 Account Groups**

The account groups have a special function when it comes to uniting the chart of accounts with different dimensions in a systematic way, i.e. to make large and small charts of accounts comparable. An account group may in certain cases be the smallest unit, and in such cases consist of one account. To be able to differentiate between account headings and accounts in an account group, the principle of two-digit heading numbers and four-digit account numbers has been used.

If an account group must be used as an account, two noughts (00) are added to the three-digit number forming a so-called control account. Not all account groups contain a control account. In most cases, more than one account is used within an account group.

The account groups become very useful when building reports in IFS and BI-tool. Because you only need to define the account group and then you automatically get a self-updating report when new accounts are created within the various existing account groups. If a new Account Group needs to be set up in IFS, the Business Controlling team needs to be notified. They make sure that the account group is mapped correctly in the BI-tool.

Overview – Account Groups in IFS:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Financial position** | **Balance Sheet** | **Balance Sheet** | **Income Statement** | **Income Statement** |
| **Account Classes** | **Account class 1** | **Account class 2** | **Account class 3** | **Account class 4** |
| **Type** | **Assets** | **Equity, Provisions and Liabilities** | **Revenue** | **Cost of goods sold** |
| **Account Groups** | 100 Intangible Assets 110 Buildings and Land 120 Machinery and Equipment 130 Financial Assets 140 Inventory and work in progress 150 Accounts receivable trade 160 Other current Receivables 170 Prepaid expenses and accrued income  180 Short term investments 190 Cash and bank balances | 200 Capital 210 Untaxed reserves 220 Provisions 230 Long term liabilities 240 Current liab. cred inst cust acc pay 250 Income tax liabilities 260 VAT special excise duty 270 Employee taxes fees and payroll ded  280 Other current liabilities 290 Accrued exp and deferred income | 300 Main revenue 310 Main revenue 320 Main revenue 330 Main revenue 340 Main revenue 350 Invoiced costs 360 Secondary revenue from business 370 Revenue adjustments 380 Capitalized work on own account 390 Other operating revenue | 400 Cost of goods sold and materials 410 Cost of goods sold and materials 420 Cost of goods sold and materials 430 Cost of goods sold and materials 440 Cost of goods sold and materials 450 Cost of goods sold and materials 460 Subcontract work 470 Price reduction on purchase price 490 Change in inv., work in progress |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Financial position** | **Income Statement** | **Income Statement** | **Income Statement** | **Income Statement** |
| **Account Classes** | **Account class 5** | **Account class 6** | **Account class 7** | **Account class 8** |
| **Type** | **Operating expenses/costs** | **Operating expenses/costs** | **Operating expenses/costs** | **Financial items** |
| **Account Groups** | 520 Hire of fixed assets 530 Energy costs 540 Consumable equipment and supplies 550 Repairs and maintenance 560 Costs for transport equipment 570 Freight and carriage 580 Travel costs 590 Advertising and PR | 600 Other sales costs 610 Office supplies and printed matter 620 Telecommunication and post 630 Corp ins and other risk rel. costs 640 Administration costs 650 Other external services 680 Hired staff 690 Other external costs | 700 Pay to blue collar employees 720 Pay to man and white collar empl. 730 Cost remunerate and benefits in kind 740 Pension costs 750 Stat and contrac soc sec oth contr 760 Other personnel costs 770 Write down and reverse of write d 780 Amortization according to plan 790 Entry lump sum other oper costs | 800 P Lon stocks and sh. in affil. comp 810 P Lon stocks and sh,. in assoc. comp 820 P Lon other sec and long term rec 830 Oth interest inc and simil P L item 840 Interest exp and similar P L items 870 Extraordinary income and expenses 880 Appropriations 890 Taxes and net P L for the year |

See the following section in IFS for a complete Accounting Groups list:

### **3.1.3 Attribute**

To translate the chart of accounts in IFS to the chart of accounts in Aaro, the Attribute function in IFS is used. It gives us the opportunity to see all accounting transactions in both IFS account and Aaro account directly in IFS. It also facilitates the import of all GL-balances from IFS to Aaro for consolidation.

The Head of Corporate Finance is responsible for maintaining the Aaro Attributes.

See the following section in IFS for a complete Aaro Attribute list:

## **3.2 Code Parts**

In order for it to be possible for us to analyze the activities at KP at a detailed level, we have chosen that in addition to the chart of accounts to use a code part string.

Each account in the chart of Accounts is set up with different requirements for code parts. All Code Parts are descripted in the following sections.

The Code part string in IFS:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Cost Center | Brand | Site | Country | Cust Group | Count Part | Project | Fixed Ass | Currency |

See the following section in IFS for a complete Code Part list:

### **3.2.1 Cost Center**

Cost center is used to follow up costs and revenues. A cost center corresponds to a limited sub-function within KP that consumes resources or generates revenue. Cost centers are also an important part of KP´s income Statement sins it is presented by function.

All costs that are booked through supplier invoices at the various cost centers needs to be approved by the person responsible for each cost center. Cost center consists of a 5-digit code that should be stated in all accounting transactions in IFS where cost center is mandatory at account level. All the subsidiaries in the Karo Group use a common global cost center list stated in IFS.

**Combination of Account and Cost Center**

The cost centers cannot be combined with all accounts in the chart of accounts.

All sales of goods are booked automatically in IFS against cost center 10000. All standard cost of goods sold are automatically booked against cost center 10500.

Overview – Allowed combination of accounts and cost centers:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  | | --- | --- | --- | | **Type** | **IFS Account** | **Cost Center** | | Gross Sales | 301000, 301200, 309000-309100, 351000-369000, 376000 | 10000 | | Other Income | 301400-301600 | 10000 | | -GTN (Rebates, Discounts) | 370000-375005 | 10001-10008 | | **=Net sales** |  |  | |  |  |  | | COGS | 402100-402500 | 10500 | | COGS other | 402300-464100 | 10501 | | COGS Std cost variance | 492001-499100 | 10502 | | COGS, Inventory adjustments | 496000 | 10503 | | Revaluation Std Cost | 499500-499600 | 10504 | | **=Gross profit** |  |  | | **Sales & marketing expenses (OPEX)** | 50000-789999 |  | | A&P, Purchased data |  | 41000-43000, 70000-70901 | | Central sales & marketing expenses |  | 41000-43000, 70000 | | Local sales & marketing expenses |  | 70100-70901 | | Depr/amort of marketing related Intang. |  | 41000-43000, 70000-70901 | | **Administrative expenses (OPEX)** | 50000-789999 |  | | Corporate expenses |  | 20000 | | Business Development expenses |  | 20100-20400 | | Facility/office expenses |  | 20500 | | HR expenses |  | 20200 | | Finance expenses |  | 30000-30800 | | IT expenses |  | 30100 | | Scientific Affairs expenses |  | 50000-50500 | | Supply Chain expenses |  | 60000-60400 | | Depr/amort of Administrative Intang. |  | 20000-30800, 50000-60400 | | **Other operating inc./exp. (OPEX)** |  |  | | Exchange gains/losses on operating items | 396000-396100, 796000-797000 | 10000-70901 | | Other operating income/expenses | 397000-399900 | 10000-70901 | | **=Operating profit** |  |  | |  |  |  | | **Net financial items** |  |  | | Interest expense/income | 80000-849999 | 20000-70901 | | **=Profit before tax** |  |  | |  |  |  | | **Income tax expense** | 89100-894000 | 20000-70901 | | **=Net Profit** |  |  | |  |  |  | |  |  |
|  |  |  |
|  |  |  |

**New Cost Center or changes to existing**

New cost centers or changes to existing cost centers need to be approved by the CFO and posted in IFS by Master Data. Notification should be made to Business Controlling and the Group Accounting teams.

Overview –cost centers and function groups:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Cost Center** | **Cost Center Description** | **Function Group** | **Function in External IS** | **Authorized By** |
| 10000  10001  10002  10003  10004  10005  10006  10007  10008 | Sales  Commercial SE  Commercial NO  Commercial DK  Commercial FI/Baltics  Commercial UK  Commercial DACH  Commercial Western Europé  Commercial ITB | Sales  Sales Reduction  Sales Reduction  Sales Reduction  Sales Reduction  Sales Reduction  Sales Reduction  Sales Reduction  Sales Reduction | Revenues  Revenues  Revenues  Revenues  Revenues  Revenues  Revenues  Revenues  Revenues | n/a  Country Manager Sweden  Country Manager Norway  Country Manager Denmark  Country Manager Finl./Baltics  Country Manager UK  Country Manager DACH  Country Manager W.E  Country Manager ITB |
| 10500  10501  10502  10503  10504 | COGS  COGS Other  COGS Other Cost Variance  Inventory adjustments COGS  Revaluation Std Cost | Cost of goods sold (STD)  Cost of goods sold (OTH)  Cost of goods sold (OTH)  Cost of goods sold (OTH)  Cost of goods sold (OTH) | Cost of goods sold  Cost of goods sold  Cost of goods sold  Cost of goods sold  Cost of goods sold | n/a  Logistic Manager  Logistic Manager  Head of Planning & Supply  Head of Supply Chain Finance |
| 20000  20100  20200  20300  20301  20400  20500  30000  30100  30200  30500  30600  30700  30900  50000  50100  50200  50300  50400  50500  60000  60100  60200  60300  60400 | Corporate  PMO  HR  Business Development  Legal  Hospital Supply  Office  Finance  IT  Local Finance  Group Controlling  Digital Finance  Group Accounting  Supply Chain Finance  Scientific Affairs  MDCS  RA Pharma  Patient Safety/MI  Medical Affairs  QA  Operations  Manuf. & Operations Proj.  ITB Customer Mgm.  Sourcing and Supplier Mgm.  Planning and Logistics | Corporate  Corporate  Corporate  Corporate  Corporate  Corporate  Corporate  Corporate  Corporate  Corporate  Corporate  Corporate  Corporate  Corporate  Corporate  Corporate  Corporate  Corporate  Corporate  Corporate  Corporate  Corporate  Corporate  Corporate  Corporate | Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses  Administrative Expenses | CEO  Integration Manager  Head of People & Organization  V.P Business Development  Head of Legal  Head of Hospital Supply  Local Office Manager  CFO  Head of IT  Local Finance Managers  Head of Fin. Planning & Analysis  Head of Digital Finance  Head of Corporate Finance  Head of Supply Chain Finance  VP Scientific Affairs  Head of Reg. Affairs Pharma  Head of Patient Safety & QPPV  Head of Medical Affairs  VP Operations  Head of Planning & Supply  Head of Manufacturing  Head of Lenhovda Operations  Head of ITB Customer Mgn.  Head of Sourcing & Supplier Mg.  Logistics Manager |
| 41000  42000  42400  42500  43000  70000  70100  70101  70200  70201  70300  70301  70400  70401  70500  70501  70600  70601  70700  70701  70800  70801  70900  70901 | Marketing A  Marketing B  Digital Strategy  Artwork  Corporate Communication  Global Sales  Commercial Sweden  Local Marketing Sweden  Commercial Norway  Local Marketing Norway  Commercial Denmark  Local Marketing Denmark  Commercial Finland/Baltics  Local Marketing Fin/Baltics  Commercial UK  Local Marketing UK  Commercial Dach  Local Marketing Dach  Commercial Western Europe  Local Marketing Wes. Europe  Commercial ITB  Local Marketing ITB  Commercial Italy  Local Marketing Italy | Commercial  Commercial  Commercial  Commercial  Commercial  Commercial  Commercial  Commercial  Commercial  Commercial  Commercial  Commercial  Commercial  Commercial  Commercial  Commercial  Commercial  Commercial  Commercial  Commercial  Commercial  Commercial  Commercial  Commercial | Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp.  Sales & Marketing Exp. | Marketing Manager  Marketing Manager  Head of Digital and E-Commerce  Head of Artwork  Head of Corporate Communic.  Chief Sales Officer  Country Manager Sweden  Marketing Manager Sweden  Country Manager Norway  Marketing Manager Norway  Country Manager Denmark  Marketing Manager Denmark  Country Manager Fin./Baltics  Marketing Manager Fin./Baltics  Country Manager UK  Marketing Manager UK  Country Manager Dach  Marketing Manager Dach  Country Manager We. Europe  Marketing Manager We. Europe  Country Manager ITB  Marketing Manager ITB  Country Manager Italy  Marketing Manager Italy |

### **3.2.2 Brand**

Brands codes are used to follow up and analyze the financial contribution that each of KP's brands contributes to the business.

Analyzing the brand contribution helps managers make several types of decisions, from whether to add or subtract a product line to how to price a product to how to plan for strategic advertising and promotion activities.

Brands consists of a 4-digit code that should be stated in all accounting transactions in IFS where brand is mandatory at account level. All the subsidiaries in the Karo Group use a common global brand list stated in IFS. The account types where brand is a mandatory field are:

* Inventory
* Provision for “Goods received not invoiced”
* Sales of goods
* Sales Reduction
* Cost of goods sold
* Advertising and promotion cost (A&P)

Our brand portfolio includes over 80 brands across six categories:

|  |  |
| --- | --- |
| **Category** | **Top Selling Products** |
| Intimate Care | Proct Family  Multi-Gyn  Pevaryl |
| Dermatology | Locobase  Decubal  Indy Beauty |
| Foot Care | Pevaryl Foot  Nailner  Mabs |
| Pain, Cough & Cold | Paracet  Ibux  Mollipect |
| Wellness | Flux  Daily/Lactocare  Allévo |
| Rx Pharma | Selexid  Burinex  Kaleorid |

In each of these categories we have products ranging from prescription drugs (Rx) to over the counter (OTC) products.

All products, raw materials and components that we sell and market are registered with a unique Part number in IFS. Each Part number is mapped to the associated brand.

See the following section in IFS for a complete Brand list:

**New Brands or changes to existing**

New brands or changes to existing brands need to be approved by the CFO and posted in IFS by Master Data. Notification should be made to Business Controlling and the Group Accounting teams.

### **3.2.3 Country**

At Karo Pharma, it is not only the brands that are segmented, the markets we sell and market our products are also segmented within different areas. We call this the "Area of Responsibility" (AOR).

Our products are available in 60 countries through our direct sales channels and distributor networks and are sold to consumers through pharmacies and retailers. We need to be able to measure the result in each country for each brand. We use the code part dimension Country to ensure that we can evaluate the performance in each market.

A Country code consists of 2-characters that should be stated in all accounting transactions in IFS where Country is mandatory at account level. All the subsidiaries in the Karo Group use a common global Country list stated in IFS. The account types where Country is a mandatory field are:

* Sales of goods
* Sales Reduction
* Cost of goods sold
* Advertising and promotion cost (A&P)

Segmentation of AOR & countries:

|  |  |
| --- | --- |
| **Area of responsibility (AOR)** | **Countries** |
| SE | Sweden |
| NO | Norway |
| DK | Denmark  Iceland |
| WE (Western Europe) | The Netherlands  Belgium  France |
| DACH | Germany  Austria  Switzerland |
| Finland/Baltics | Finland  Estonia  Latvia & Lithuania |
| IT | Italy |
| UK | United Kingdom  Ireland |
| Japan | Japan |
| ITB | Rest of the world |

See the following section in IFS for a complete Country list:

### **3.2.4 Site**

The operating companies in the Group in most cases own warehouses in more than one country. In order to be able to follow up goods transactions in and out of each warehouse, the Code Part Site in IFS is used. Site is also important in the work to reconcile stock values in each stock in IFS against the stock values at 3PL.

Site consists of a code consisting of 2 letters and 2 numbers, the first two letters indicate which country the warehouse is in. An example of a Site code is AT01, which is a Site in Austria for the stock KP owns at Third-party logistics partner (3PL) Sanova. Sites are unique in each company in IFS for adaptation to each company's needs. In those cases where we do not own stock but own manufactured products that are sold directly to customers from a contract manufacturer (CMO), the site is called Fictive Site.

See the following section in IFS for a complete Site list:

### **3.2.5 Customer Group**

At KP, many of our customers are pharmacy stores that belong to the same pharmacy chain. To get one P&L per pharmacy chain, we have chosen to group the customers who belong to the same chain.

Grouping of our customers allows marketers to better tailor their marketing efforts to various audience subsets. Those efforts can relate to both communications and product development. Grouping of our customers help us to:

* Create and communicate targeted marketing messages that will resonate with specific groups of customers,
* Select the best communication channel for the group, which might be email, social media posts, radio advertising, or another approach, depending on the group.
* Identify ways to improve products or new products or service opportunities.
* Establish better customer relationships.
* Test pricing options.
* Focus on the most profitable customers.
* Upsell and cross-sell other products.

Customer Group consists of a 6-digit code that should be stated in all accounting transactions in IFS where Customer Group is mandatory at account level. All the subsidiaries in the Karo Group use a common global brand list stated in IFS. The account types where Customer Group is a mandatory field are:

* Sales of goods
* Sales Reduction (not mandatory but often used)
* Cost of goods sold
* Advertising and promotion cost (not mandatory but often used)

See the following section in IFS for a complete Customer Group list:

### **3.2.6 Project**

When KP entities buys something, it can be booked as an expense or as an investment. Investments are assets that have a value in the business for a longer period and that will provide a return in the future. The value is consumed when the product is delivered, or the service is performed. An expense is booked in the income statement while an investment becomes an asset in the balance sheet. In order for it to be possible to follow up investments in the accounting, a project code is assigned in IFS.

All bookkeeping transactions need to be posted with the assigned project code. A project has a beginning and an end and can extend over more than one financial year.

There are several criteria that must be met for an activity to be classified as a project in the accounts. If the conditions for projects are not met, the activity must be reported as "ongoing" activity. *Please see chapter 3.6 for information about the criterion.*

Project number consists of a 7-digit code that should be stated in all accounting transactions in IFS where Project is mandatory at account level. The account where Project is a mandatory field are:

* 108200, Work in progress of intangible fixed assets (automatic)

All costs that are classified as none recurring costs (NRI) need to be approved by the CFO and should be coded with project code 2001050 after approval.

See the following section in IFS for a complete Project list:

### **3.2.7 Counterparty**

To simplify and streamline accounting for the administration of intra-group transactions and to ensure good and appropriate accounting, counterparty codes in IFS are used. Counterparty codes are an important part of eliminating intra-group transactions in the Group's consolidation. Counterparties are a mandatory part of the code in IFS and are stated when posting to all internal accounts in the chart of accounts, both in the balance sheet and the income statement. Counterparty tells which subsidiary a transaction is related to.

Each company has its own number consisting of 2 letters and 2 numbers. For example, Karo Pharma AB has a counterparty code IC01. The list of counterparty codes is a global list that is common to all companies in IFS.

See the following section in IFS for a complete Counterparty list:

### **3.2.8 Fixed Assets**

Each fixed asset needs to be registered in IFS Fixed Assets register and given a unique fixed asset number. The facilities at KP are divided into different object groups. Each object group is regulated against different balance accounts and linked to different number series in the system.

Fixed Assets (FA) consists of a code consisting of 2 letters and 8 numbers, the first two letters indicate the object group the asset is classified to. An example of a FA code is FA33000015, which is a FA in Karo Pharma AB for the trademark rights of Burinex. FA-numbers are unique in each company in IFS for adaptation to each company's fixed assets. The object groups are a global list in IFS that is used by all entities.

Object groups in IFS for fixed assets:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Object Group** | **Object Group Description** | **Acquisition Account** | **Fixed ID** | **Est.Life** |
| 10 | Goodwill | 107000 | FA1 | 15 YEARS |
| 20 | License | 104000 | FA2 | 15 YEARS |
| 30 | Trademarks | 105000 | FA3 | 15 YEARS |
| 40 | Software | 101000 | FA4 | 5 YEARS |
| 50 | Machinery | 121000 | FA5 | 5 YEARS |

### **3.2.9 Currency**

Each subsidiary uses the establishment of the country's main currency as its functional currency. The Group's reporting currency is SEK. Accounting transactions occur in several foreign currencies

Accounting transactions occur in several foreign currencies that are revalued to the functional currency at the time of posting. Exchange rates are collected daily to IFS via integration with the European Central Bank (ECB). Currency codes are unique in each company in IFS for adaptation to each company's needs. Currency consists of a code consisting of 3 letters.

See the following section in IFS for a complete Counterparty list:

## **3.3 Voucher entries**

For each business event, there must be a voucher that documents the business event. A voucher must also be available for other accounting items and must, according to the Accounting Act, contain certain mandatory information.

A voucher contains information that documents a business event or an adjustment in the accounting The verification must ensure that there is evidence that the business event has occurred and must document its meaning. Proofs must also be available for other accounting items, e.g. corrections and year-end transactions.

A voucher can be information contained in an invoice, delivery note or other documents that are prepared in connection with a business event. A voucher can either be received by the company or drawn up within the company.

**What information should a voucher contain?**

The information that a voucher must contain must be durable and must not be deleted or otherwise made illegible. This applies regardless of whether it is a received or self-created verification.

A verification must, according to Swedish Accounting Act contain information about:

* when the voucher has been compiled
* when the business event has occurred
* as regards the business event
* amount
* who is the counterparty (company name, address, VAT-number)
* verification number
* other necessary to establish the connection between the voucher and the recorded business event.

The requirements also apply to verifications for accounting items other than those relating to business events, e.g. documentation prepared in connection with year-end events.

**Amount limit for manual voucher entries**

The local finance manager needs to review and approve any entry generated by the accounting staff if it exceeds SEK 100.000 and has an impact on the earnings.

The voucher number in IFS consists of a 10-digit number starting with 2. The first two digits indicate which financial year a voucher is booked in. For example, YE 2001000000 is a year-end voucher from the year 2020.

Voucher types in IFS:

|  |  |
| --- | --- |
| **Voucher type** | **Description** |
| YE | Year end |
| N | Mixed payments |
| M | Manual vouchers |
| I | Supplier invoice, entry |
| R | Interim vouchers |
| M | Supplier invoice, entry |
| TC | Tax Clearance |
| K | Corrections |
| Q | Opening balances |
| J | Supplier invoice, final posting |
| B | Payments received |
| F | Customer Invoice |
| X | Period allocation voucher |
| MPL | Stock movements |

## **3.4 Functional organizational structure**

At KP, we have chosen to operate under a functional organizational structure, which is a business structure that groups employees according to related roles. It is based on hierarchy levels that include different departments, under the leadership of appointed leaders.

There are many advantages to employing a functional structure in our business. They include:

* Increased productivity
* Skill development
* Clarity
* Minimized cost of operation

|  |  |  |  |
| --- | --- | --- | --- |
| **Function** | **Sub function** | **Cost Center** | **Typical costs** |
| Corporate | n/a | 20000 | Cost only related to CEO. |
| Business Development | n/a  PMO  Legal | 20300  20100  20301 | Personnel costs and consulting fees.  Legal fees and court costs, Trademark and patent expenses. Personnel costs. |
| HR | n/a  Office | 20200  20500 | Function specific personnel costs.  Premises and rental costs, corporate insurance, office supplies and depreciation of equipment and tools. |
| Finance & IT | n/a  Local finance  Group Controlling  Digital Finance  Group Accounting  Supply Chain Finance  IT | 30000  30200  30500  30600  30700  30900  30100 | Audit fee, Annual Shares fee, IC Service fee.  Function specific personnel, consulting and IT system costs.  -||-  -||-  -||-  -||-  IT hosting services and consulting fees. |
| Scientific Affairs | n/a  Medical Devices/Cosmetics  RA Pharma  Patient Safety/MI  Medical Affairs  Quality Assurance | 50000  50100  50200  50300  50400  50500 | Function specific personnel costs, consulting fees.  Fees to regulatory authorities OTC. Personnel and consulting costs  Fees to regulatory authorities RX. Personnel and consulting costs.  Function specific personnel costs, consulting fees.  Function specific personnel costs, consulting fees.  Function specific personnel costs, consulting fees. |
| Operations | n/a  Manufacturing and Oper. Projects  ITB Customer Management  Sourcing and Supplier Management  Planning and Logistics | 60000  60100  60200  60300  60400 | Function specific personnel, consulting and IT system costs.  -||-  -||-  -||-  -||- |
| Central sales & marketing | Marketing A  Marketing B  Digital Strategy  Corporate Communication  Global Sales | 41000  42000  42400  43000  70000 | Function specific personnel costs, strategic A&P-costs. Personnel cost only related to CSO. Amortization of licenses, trademarks, patents and goodwill.  -||-  -||-  -||-  Personnel cost only related to CSO. Amortization of licenses, trademarks, patents and goodwill. |
| Local sales & marketing | Local Commercial (one cc for each area)  Local Marketing (one cc for each area) | 70100-70901 | Function specific personnel costs, consulting fees.  A&P-costs |

### **3.4.1 Handling of common costs (coming soon)**

## **3.5 Direct costs and indirect support costs (coming soon)**

## **3.6 Project accounting, CAPEX vs. OPEX (coming soon)**

## **3.7 Systems**

### **3.7.1 IFS**

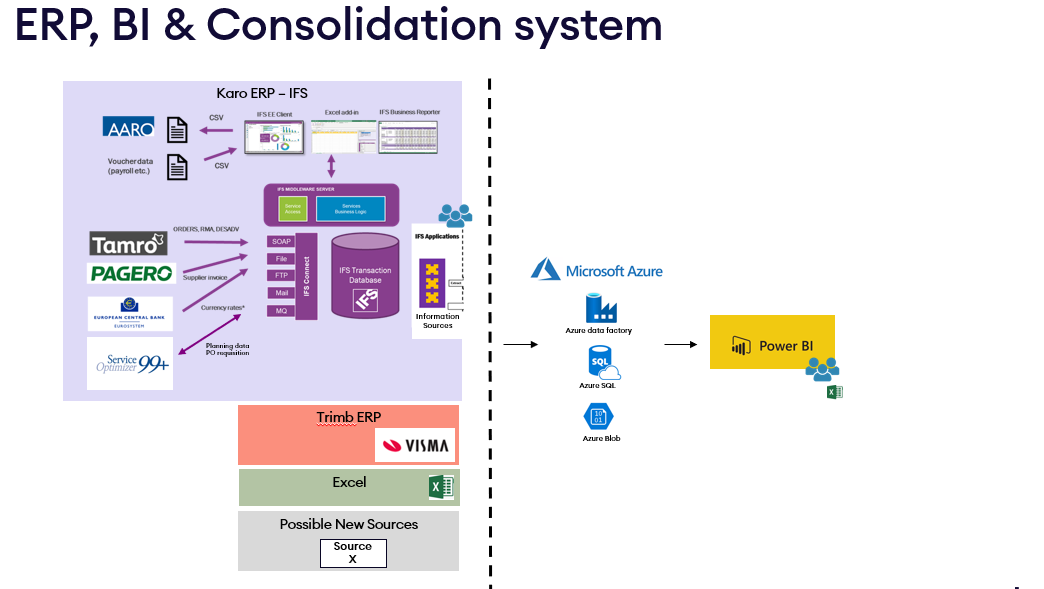
The ERP system at KP is IFS and consists of several modules. The system includes general ledger, fixed asset register, purchasing -, inventory-, accounts payable and accounts receivable ledgers. All employees within the finance function and external agencies that are providing KP with accounting services gets access to the windows clint based system after approval from their nearest manger. User administration and system support is handled by the IT function.

IFS Aurena is the web-based user interface for approval of incoming invoices.

There is an integration between IFS Aurena and Pagero for scanning of incoming supplier invoices in different formats.

IFS are also integrated with some 3PL:s to get daily transaction information. There is also an integration between IFS and ECB to get daily currency-rates in the system.

Another integration is available between IFS and a SQL server to transfer all accounting transaction to the KP Groups BI-tool.



**3.7.2 Power BI**

Power BI is used to follow up on sales, COGS, A&P (Advertising & Promotion) and department expenses. There are also reports showing Brand/Market contribution (result after A&P) and AOR contribution (result after department costs). Country managers and sales teams have access to their AOR (Area of Responsibility), which could be either one country (for example Sweden) or several countries (for example DACH, Western Europe, ITB). Brand managers have access to the category they are responsible of and can see all countries for that category. For department costs, only the budget owner has access based on cost center. We have loaded all the proforma data (ie historical data from our acquisitions), forecasts and budget. Also historical data from old ERP’s has been loaded. Current data is loaded from IFS every night. Once the data is final for one month, everyone uses the various reports in Power BI to analyze their result. This is commented by each country manager in a monthly report uploaded in the Commercial Teams group.

Since the ITB team are working with sales orders three months ahead, they have a report based on sales orders from IFS. Here they can follow orders on specific customers (partners), countries, brands etc.

As much of the master data as possible is loaded from IFS. New accounts will be updated automatically in BI. The currency rates are the same as in IFS, but budget rates are shown as default in Power BI, in order to avoid currency exchange effects. The budget rate is changed once a year. There are some mappings done in IFS (for example SKU to brand, SKU to category (Footcare, Dermatology etc), regulatory classification (Rx/OTC)). Other mappings, for example country to AOR, is done in BI.

### **3.7.3 Aaro**

Aaro is used in the KP Group for reporting the financial statements. The system provides us with consolidated balance sheet, income statement and cash flow report every month and quarter. Notes are also made in Aaro in quarterly and annual financial statements.

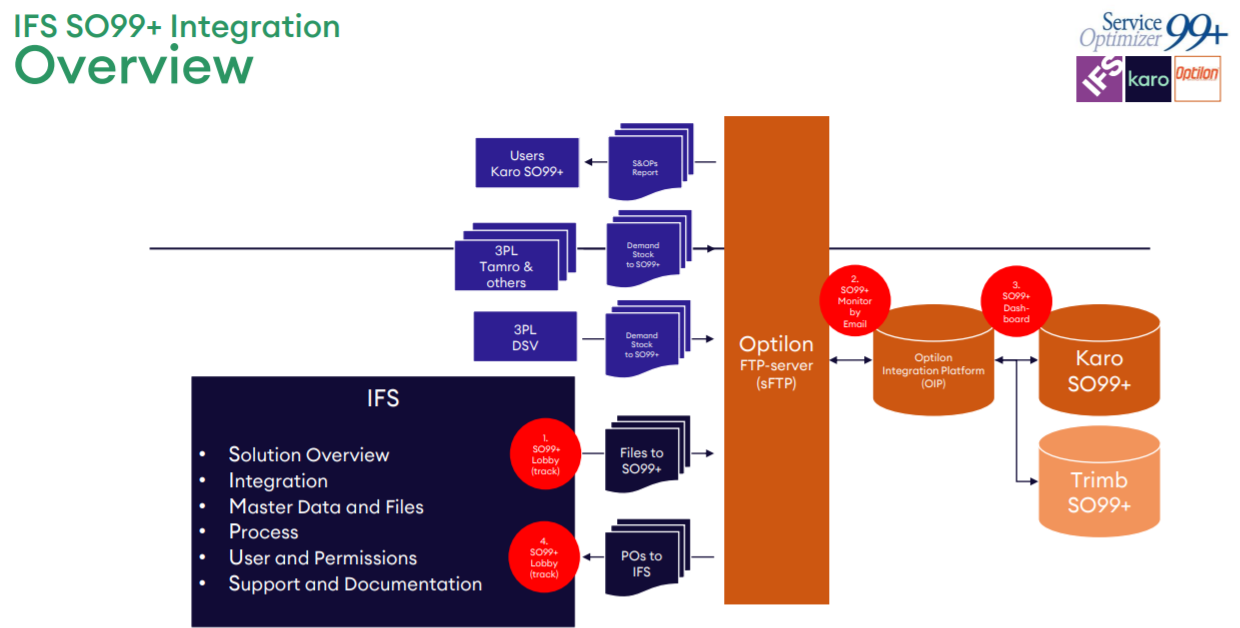
Gl-balances are exported twice a month from IFS by a robot that processes the csv-files and imports them to Aaro.

Imported data from IFS contains information such as Aaro account number, cost center, brand code, country code, project code, counterparty code, currency code, local currency amount and transaction currency amount.

The Group's closing exchange rates are updated manually in Aaro on a monthly basis.

### **3.7.4 SO99+**

SO99+ is KP´s demand planning system. The system provides statistical forecasts (demand planning), stock optimization, managing replenishment, KPIs, Dashboards etc. Currently used only for Make to Stock products (and not Make to Order). SO99+ generates purchase order proposals which is analyzed by Supply planners, then sent to IFS, where PO is created/approved and released.



### **3.7.4 Historical Systems**

Previous ERP systems (such as Visma, Pyramid, Navision) and BI tools (such as Exopen, Clicksense) remain in the Group for storing historical transaction data. Archiving will take place in accordance with statutory requirements.

# Fixed Assets (coming soon)

## **4.1 General Underlying Assumptions**

## **4.2 Capitalization Policy**

## **4.3 Recording**

## **4.4 Class of asset and depreciation**

## **4.5 Revaluation**

## **4.6 Impairment**

## **4.7 Retirement and disposal**

# Intangible Assets (coming soon)

## **5.1 General Underlying Assumptions**

## **5.2 Recognition**

## **5.3 Amortization**

## **5.4 Retirement and disposal**

# Revenue and receivables (coming soon)

## **6.1 Revenue recognition**

## **6.2 Ordering**

## **6.3 Customer invoicing external**

## **6.4 Customer invoicing - internal**

## **6.4.1 Customer invoicing - internal services**

## **6.4.2 Customer invoicing - internal goods**

## **6.5 Accrued income**

## **6.6 New Customer**

## **6.7 Payment terms**

## **6.8 Claims process**

## **6.9 Bad debt**

## **6.10 Aging of receivables**

## **6.11 Recharge of expenses**

Reinvoicing (pass-through) of expenses to third parties

In order to determine the accounting and VAT treatment of any expenses that we pass on to another company, we need to distinguish between

1) expenses we pay on behalf of another party, and

2) our own expenses that are being passed on (fully or partially) to another party

When both of the following two requisites are at hand, we can assume that we are paying the expenses on behalf of someone else, according to 1) above:

• we (KP) are not (legally) liable for the payment of the invoice, i.e. we are not the contracting party (the invoice is not addressed to KP), and

• we (KP) cannot add any mark-up on our invoice, meaning the customer should pay the same to us as we paid the supplier,

Please note that paying invoices for another party should only be done in exceptional cases. As a general rule, invoices should be issued to the company that should carry the cost, and our first measure should always be to ask the supplier for a credit note and a new invoice to the correct contracting party.

If/when we determine that we have paid an invoice on behalf of another party, neither the original invoice nor the reinvoice should hit the income statement but should only be posted on the balance sheet.

In this case, according to Swedish tax regulations we cannot deduct the VAT on the invoice, but (under normal circumstances) the ultimate recipient of the invoice can deduct the VAT and so the original invoice should always be attached with the reinvoice. If reinvoicing occurs in any other country, please ensure the correct VAT treatment.

If we, on the other hand, determine that we are passing through our own expenses to another party (with or without a mark-up), the received invoice should be posted to our income statement, and the invoice we issue should be recorded as revenue (a/c 351000).

When this is the case, we can deduct the VAT on the invoice we received, and we include VAT on the invoice we issue. This is typically the case when one company within a Group purchases goods or services to be consumed by several of the companies in the Group. However, the cost cannot simply be allocated to other companies but need to be duly invoiced from one company to the other.

Please note, that the VAT to apply on the reinvoice can vary even within the same country (depending on type of expenses) and needs to be verified to comply with local regulations.

# Treasury (coming soon)

## **7.1 General Guidelines**

## **7.2 Bank accounts**

## **7.3 Cash pool**

## **7.4 Currencies**

## **7.5 Bank receipts and payments**

## **7.6 Disbursements and payments**

## **7.7 Bank reconciliations**

## **7.8 External Loans**

### **7.8.1 External Interest**

## **7.9 Internal Loans**

### **7.9.1 Internal Interest**

# Expenses, Payables and Accruals (coming soon)

## **8.1 Obligation Process**

## **8.2 Purchase order**

## **8.3 Supplier invoices**

## **8.4 Delegation of authority**

## **8.5 New supplier**

## **8.6 Accrued expenses**

## **8.7 Prepaid expenses**

## **8.8 Advertising and promotion process**

## **8.9 Payment of salaries and staff expenses**

## **8.10 Staff Credit Card**

# Inventory

## **9.1 Warehouse management**

Three different types of warehouses. Warehouse represented by the dimension Site in IFS.

**3PL Site** Karo owns physical stock but warehouse activities and invoicing of customers are outsourced to external partner.

**CMO Site** Karo Pharma owns stock at CMO (contract manufacturer organization)

**Fictive Site** Site used for make to order flow not a physical warehouse.

## **9.2 Inventory valuation methods**

Pursuant to IAS 2, goods in inventory should be valued at the lower of cost and net realizable value. The cost of goods in inventory must include all expenditure for procurement, expenditure for production and other expenditure necessary to bring the goods to their current site and condition.  
In connection with the implementation of a new ERP system in 2020, Karo Pharma transferred to a new inventory valuation method. In those group companies where the system has been implemented, inventory is valued on the basis of a standard costing model, which includes the  
purchase price of finished goods and a computed cost for delivery into warehousing, quality test and quality approval.  
In other group companies, where the ERP system has not yet been implemented, inventory is measured using the first in first out (FIFO) method, at the lower cost or market on the reporting date. For homogeneous goods groups, collective valuation is applied.

## **9.3 Inventory reconciliation**

All sites with physical stock (3PL and CMO site) are reconciled monthly against external warehouse stock report.

Inventory ledger quantities reconciled against external stock report quantities.

Inventory Ledger reconciled against Gl balance on site level for account 145000 Inventory of raw material and finished products and 141000 Raw Material and components.

## **9.4 Obsolescence stock**

A provision for obsolescence in inventory is made when there is objective evidence to assume that the group will not be able to realize the value on future sales that the inventory is reported at. The size of this reserve is the difference between the asset’s carrying amount and the value of  
estimated future cash flows. The reserved amount is recognized in profit or loss.

Monthly Provision for obsolescence made based on expired data. And the following assumption:

Expired 100 %

Expires within 6 month 70 % (100% RX)

Expires within 6-12 month 30 %

**IFS Accounts:**

145900 Provision for obsolescence

493000 Provision for obsolescence

494000 Scrapping (automatic)

## **9.5 Inbound process**

Planner in Operations organization receives delivery note (the goods is ready for pick up) from CMO. Transport is booked and the goods is delivered to 3PL. 3PL makes physical inbound of the stock and send information to Planner.

Planner to create receipt of Purchase order which will create result in a quantity in the inventory ledger and value on the related account in the inventory.

Receipt of stock:

145000 Inventory of raw material Debit

249500 Goods received not invoiced Credit

The transactions on Goods received but not invoiced will be matched against the supplier invoice.

Any variance between Goods receipt and supplier invoice will automatically be booked as Purchase Price Variance

**IFS Accounts:**

499000 Purchase Price Variance Currency

499100 Purchase Price Variance other

## **9.6 Outbound process**

3PL handling outbound process. Karo to mirror monthly invoicing and stock adjustment in IFS based on monthly report from 3PL.

## **9.7 CMO Process**

Inbound handled as 9.5.

Stock at CMO of Raw Material consumed and finished product created in IFS based on packing list from CMO. Finished product sent to CMO.

## **9.8 Overhead cost process**

Karo Pharma is basing the inventory value on standards costing. The standard cost is based on the supplier price with added overhead.

In Karo Pharma we use three different overhead elements.

* Landed Cost (LC)
* Quality release (QR)
* Quality Test (QT)

OH Element Comment Guideline:

Table

Description automatically generated

The overhead is based on percentage added on to the supplier price.

The percentage is calculated from outcome from earlier period from LC.

During Q4-2021 the model of OH calculation is revisited due to a new central transportation agreement.

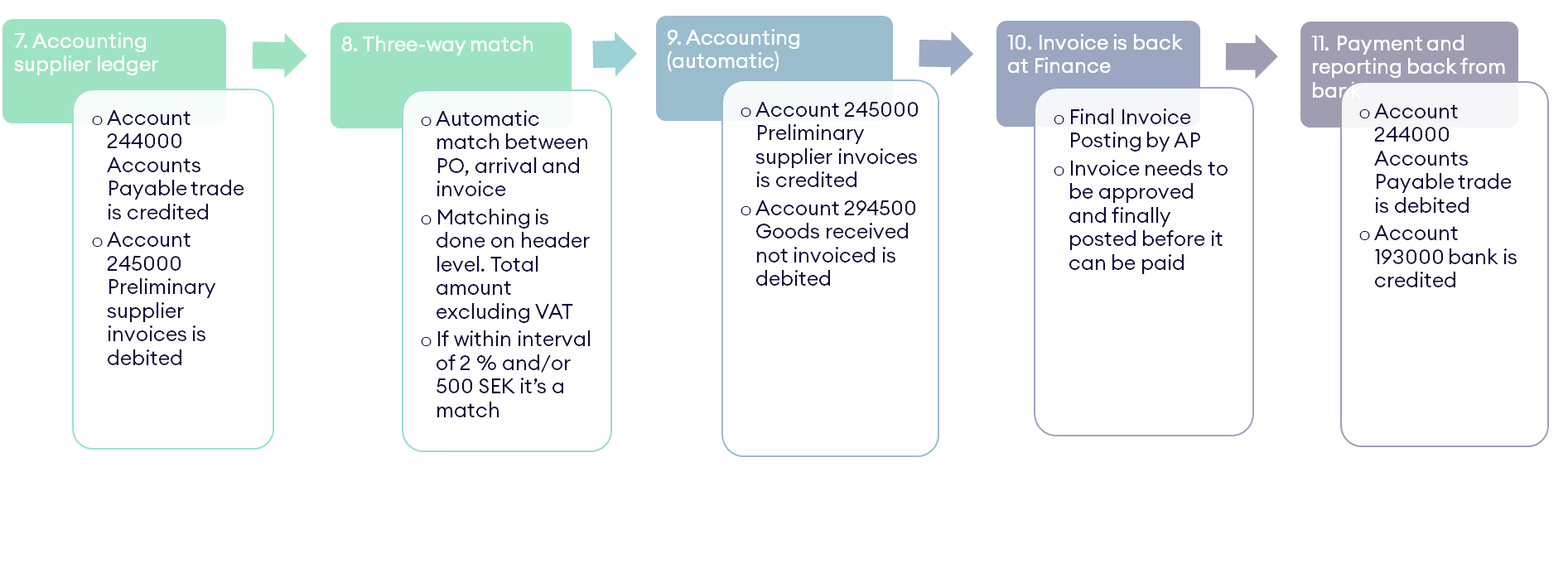
## **9.10 Purchase Order – Direct material**

The start of a Purchase order is that there is an indication of a demand for a product. An example for this can be a need for replenishment. From this a Purchase Order is created in IFS. When the Purchase Order is authorized, it will be release and confirmed and sent to the supplier. When the goods are received at the 3PL or CMO an inbound is done in IFS. This inbound for the Purchase order is then matched with invoice from the supplier.

Purchase order - inventory En bild som visar text

Automatiskt genererad beskrivning

Accounts payable process purchasing invoices:



# 10. Intercompany invoicing and Transfer Pricing

## **10.1 The arm’s length principle**

The arm’s length principle is a standard that the OECD member countries have agreed must be used to allocate taxable income between associated enterprises. The arm’s length principle states that cross-border intercompany transactions shall be priced as if the transaction took place between two unrelated parties in comparable circumstances, each party acting in its own best interest.

The Karo Pharma group performs quarterly transfer pricing reviews and, where necessary, transfer pricing adjustments to make sure that the group companies comply with the arm’s length principle. The economic analysis, which includes the selection of the most appropriate OECD transfer pricing method and the external comparability data/benchmarking ranges, undertaken to prove to the Tax Authorities that the Karo entities’ intercompany transactions are compliant, is documented in the Karo Group’s two-tiered transfer pricing documentation, the Master File and the Local Files.

## **10.2 Intercompany Transaction Categories and Applied OECD Transfer Pricing Methods**

### **10.2.1 Entity Characterization**

The Karo Group entities shall be compensated at arm’s length based on their value creating functions performed, risks assumed, and assets owned or controlled. The functional, risk and asset analysis, as documented in the Transfer Pricing Local Files, forms basis for the entity characterization and, hence, the relevant intercompany transaction category. Please note that a legal entity can qualify within several of the transaction categories.

For FY 2021, the Karo entities can be characterized as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Entrepreneur** | **Brand Owner outside Sweden** | **Distributor**  **T2, T3, T4** | **Sales Support Company**  **T1** |
| KPAB+KPSE | XX |  |  |  |
| YouMedical |  | X | X | X |
| BioClin |  | X | X |  |
| KP GmbH |  |  | X | X |
| KP AG |  |  | X | X |
| KP Oy |  |  |  | X |
| UAB Trimb | X | X | X | X |
| KP ApS |  |  | X | X |
| KP AS | X | X | X | X |
| KP UK |  |  | X | X |
| KP ITA |  |  |  | X |

### **10.2.2 T1 Sales Support Services**

A Sales Support Service Provider is a group company that facilitates the sales and marketing of products in the local market on behalf of another group entity. A Sales Support Company does not take title to the products sold.

Sales Support Service Providers are remunerated with an arm’s length commission using the Transactional Net Margin Method (“TNMM”) with Operating Margin (EBIT/Net Revenues) as profit level indicator. The commission is calculated as a percentage of the other group company’s, i.e. the Karo Distributor’s, net sales in Sales Support Service Provider’s territory. The commission must fall within the interquartile range of results as established by the latest available benchmarking study. Transfer Pricing Adjustment is made quarterly to the median point in the range.

A Sales Support Service provider is entitled to full cost coverage for its direct and indirect costs of providing the sales support services. Full cost coverage is always borne by Karo Pharma AB. Where the sales support service provider does not report external revenues in its P&L, its direct and indirect costs shall be included in the service fee charged to Karo Pharma AB in addition to the commission.

Example:

Karo Distributor has incurred net revenues of 100 from sales in the territory/market of Karo Sales Support Service Provider.

External benchmarking report concludes an interquartile range of arm’s length results of 0,8 % – 3,5 % with a median of 2 %.

Karo Sales Support Service Provider is entitled to a commission corresponding to the median 2 % of Karo Distributor’s net revenues 100.

### **10.2.3 T2, T3 and T4 Distribution**

A Distributor is a Karo group company that purchase products from a CMO or from another group entity for resale externally in the local market. The most appropriate method to remunerate Distributors at arm’s length is the TNMM using Operating Margin (EBIT / Net Revenues) as profit level indicator.

The Distributor shall earn an Operating Margin within the arm’s length interquartile range of results established by the latest available benchmarking study. Adjustment is made quarterly to the median point in the range. Residual profits above the arm’s length range shall be allocated to Karo Pharma AB. If the result of the Karo Distributor instead falls below the arm’s length range, the Karo Distributor shall be compensated by Karo Pharma AB to the median point in the range.

There are three categories of internal Karo Distributors:

##### **T2 Distribution**

Karo Distributor purchase product directly from a CMO or from Karo Pharma AB for resale in local market/territory. The IP/brands are owned or controlled by a Swedish group company.

Quarterly transfer pricing adjustment are performed to make sure that the Karo Distributor earns and arm’s length Operating Margin, i.e. to the median point in the range of the latest available benchmarking study.

Example

Karo Distributor reports net sales of 100 and an EBIT of 1. The median operating margin established in the benchmarking study is 3 %, i.e. the operating margin in Karo Distributor shall be adjusted to (3% \* 100) 3 to be considered arm’s length.

Karo Pharma AB shall compensate Distributor through transfer pricing adjustment with 3 – 1 = 2.

If Karo Distributor instead had reported an EBIT 7, Karo Pharma AB shall invoice Karo Distributor 7 – (3% x 100) = 4.

##### **T3 Distribution**

Karo Distributor purchase product from a CMO or from a Karo Brand Owner outside of Sweden for resale in local market/territory. The IP/brands are owned by a non-Swedish Karo company.

In step 1, Karo Distributor compensates the Karo Brand Owner with a license fee for the right to sell products under this brand. The OECD method employed to establish an arm’s length license fee is the Comparable Uncontrolled Price Method (“CUP”) where third party license fees are retrieved from external databases. Karo targets the median point in the interquartile CUP range of results.

This intercompany license fee payment is included as a cost in the Karo Distributor’s P&L. In step 2, transfer pricing adjustment as described above for T2 is performed quarterly to make sure that the Karo Distributor earns and arm’s length Operating Margin, i.e. to the median point in the range of the latest available benchmarking study.

Example

Karo Distributor purchase products from CMO for resale in local market. The brand for these products is owned by a non-Swedish Karo Pharma entity. Karo Distributor’s net sales of the products is 100 and pre-adjusted EBIT is 10. The arm’s length operating margin is 3 % and the arm’s length license fee is 2 %.

Karo Distributor shall as a first step pay a license fee of 2 % x 100 = 2 to the brand owner. The license fee is then included as a cost in the calculation of the adjustment to reach the targeted operating margin of 3 %. The EBIT of 10 is therefore reduced to 8.

Distributor shall compensate Karo Pharma AB through transfer pricing adjustment with 8 - (3% x 100) = 5.

##### **T4 Distribution**

Karo Distributor purchase product from a CMO for resale in local market/territory. The Karo Distributor owns the IP/brands for these products.

Transfer pricing adjustment as described above for T2 is performed quarterly to make sure that the Karo Distributor earns and arm’s length Operating Margin, i.e. to the median point in the range of the latest available benchmarking study.

In addition, since the Distributor also owns the brands, it is entitled to retain a notional royalty/license fee. The CUP method for calculating the royalty is described in T3.

If Karo Distributor has incurred costs for T1 Sales Support Services, these costs shall be included when adjusting to the targeted arm’s length operating margin.

Example

Karo Distributor has net sales of 100 for products that it owns the brands to. The pre-adjusted EBIT is 10.

Karo Distributor reimbursed other group entities for T1 sales support services with a commission amounting to a total of 4.

The arm’s length operating margin for distribution is 3 % and the arm’s length license fee/royalty is 2 % of net sales.

The transfer pricing adjustment is calculated as:

Step 1) The adjusted EBIT after payment for intercompany sales support services is calculated as 10 – 4 = 6.

Step 2) Since the overall EBIT of Karo distributor should amount to (3 % + 2 %) x 100 = 5, Karo Distributor shall compensate Karo Pharma AB with the difference of 6 – 5 = 1.

## **Booking instructions IFS**

### 

**T1 Sales Support Service Provider**

Service Provider:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Description** | **Account** | **Acc Desc.** | **Cost centre** | **Counter part IFS** | **Debit** | **Credit** | **Currency** |
| T1b Sales Support | 175001 | Accrued income (royalties/expenses) I/C | 30000 | ICXX | Service fee |  | Local |
| T1b Sales Support | 369000 | Service fees I/C | 30000 | ICXX |  | Service fee | Local |

Counter Part/Distributor acquiring the services:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Description** | **Account** | **Acc Desc.** | **Cost centre** | **Counter part** | **Debit** | **Credit** | **Currency** |
| T1b Sales Support | 298001 | Accrued expenses (royalties/service fees) I/C | 30000 | ICXX |  | Service fee Amount | Service provider’s currency |
| T1b Sales Support | 691300 | Service fees I/C | 30000 | ICXX | Service fee Amount |  | Service provider’s currency |

**License fee to non-Swedish brand owner**

Karo Non-Swedish Brand Owner / Licensor

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Description** | **Account** | **Acc Desc.** | **Cost center** | **Counter part IFS** | **Debit** | **Credit** | **Currency** |
| T3 License fee to Brand Owner | 175001 | Accrued income (royalties/expenses) I/C | 30000 | ICXX | Adj. Amount |  | Karo Brand Owner Local Currency |
| T3 License fee to Brand Owner | 396000 | Service fees I/C | 30000 | ICXX |  | Adj. Amount | Karo Brand Owner Local Currency |

Karo Distributor/ Licensee

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Description** | **Account** | **Acc Desc.** | **Cost center** | **Counter part IFS** | **Debit** | **Credit** | **Currency** |
| T3 License fee to Brand Owner | 298001 | Accrued expenses (royalties/service fees) I/C | 30000 | ICXX |  | Adj. Amount | Karo Brand Owner Local Currency |
| T3 License fee to Brand Owner | 691300 | Service fees I/C | 30000 | ICXX | Adj. Amount |  | Karo Brand Owner Local Currency |

**T2, T3 and T4 Distribution**

##### **Downward adjustment**

The following applies where the operating-margin in the Karo Distributor is higher than the arm’s length targeted operating margin and, hence, Karo Distributor shall pay such residual profits to Karo Pharma AB.

Karo Distributor

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Description** | **Account** | **Acc Desc.** | **Cost center** | **Counter part IFS** | **Debit** | **Credit** | **Currency** |
| T2, T3 or T4 Adjustment Distribution | 298001 | Accrued expenses (royalties/service fees) I/C | 30000 | IC01 |  | Adj. Amount | Karo Distributor Local Currency |
| T4 Adjustment Distribution | 691300 | Service fees I/C | 30000 | IC01 | Adj. Amount |  | Karo Distributor Local Currency |

Karo Pharma AB

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Description** | **Account** | **Acc Desc.** | **Cost center** | **Counter part IFS** | **Debit** | **Credit** | **Currency** |
| T2, T3 or T4 Adjustment Distribution | 175001 | Accrued income (royalties/expenses) I/C | 30000 | ICXX |  | Adj. Amount | Karo Distributor Local Currency |
| T4 Adjustment Distribution | 369000 | Service fees I/C | 30000 | ICXX | Adj. Amount |  | Karo Distributor Local Currency |

##### **Upward adjustment**

The following applies where the operating-margin in the Karo Distributor falls below the arm’s length targeted operating and, hence, Karo Pharma AB shall compensate Karo Distributor to the median.

Karo Distributor

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Description** | **Account** | **Acc Desc.** | **Cost center** | **Counter part IFS** | **Debit** | **Credit** | **Currency** |
| T2, T3 or T4 Adjustment Distribution | 175001 | Accrued income (royalties/expenses) I/C | 30000 | IC01 | Adj. Amount |  | Karo Distributor Local Currency |
| T4 Adjustment Distribution | 396000 | Service fees I/C | 30000 | IC01 |  | Adj. Amount | Karo Distributor Local Currency |

Karo Pharma AB

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Description** | **Account** | **Acc Desc.** | **Cost center** | **Counter part IFS** | **Debit** | **Credit** | **Currency** |
| T2, T3 or T4 Adjustment Distribution | 298001 | Accrued expenses (royalties/service fees) I/C | 30000 | ICXX |  | Adj. Amount | Karo Distributor Local Currency |
| T4 Adjustment Distribution | 691300 | Service fees I/C | 30000 | ICXX | Adj. Amount |  | Karo Distributor Local Currency |

## **10.4 Invoicing**

Deadline for booking transfer pricing accruals is Day 10 in the quarterly closing process.

Invoicing for intercompany transfer pricing adjustments shall take place the following month.

The threshold for invoicing is EUR 1000. Intercompany Payment terms is 10 days.

## **10.5 Policy for Intercompany Sale of Goods transactions**

### **10.5.1 Intercompany sale of goods**

The transactions between affiliated companies must be considered and eliminated for the financial consolidation of affiliates (Karo Group Accounting function).

### **10.5.2 Price**

The price to which the goods are sold should be the **standard cost calculated in the selling company**. Standard cost considers the purchase price of finished goods and a computed cost for delivery into warehousing, and, where applicable, quality testing and quality approval.

No additional charges should be applied or added on the invoice. The rational is that it should be cost neutral sourcing products internally compared to from a CMO. Moreover, individual pricing can lead to harmful internal competition. An arm’s length operating profit margin on distribution is instead implemented separately through the quarterly transfer pricing adjustments.

### **10.5.3 Currency**

The invoice currency should be the **selling company’s** base currency, i.e. SEK for Swedish companies, DKK in Danish companies, EUR in Dutch or German companies etc.

### **10.5.4 Payment Terms**

Payment terms for intercompany invoices are always 10 days.

### **10.5.5 Incoterms**

Incoterms (International Commercial Terms) are a series of pre-defined commercial terms published by the International Chamber of Commerce (ICC). Incoterms provide a universal set of rules and guidelines that help facilitate trade.

Karo group applies **incoterms FCA** on all intercompany transactions of goods. FCA stands for “Free Carrier,” where Seller's obligations are to deliver the goods to an agreed-upon port. Delivery and transfer of risk takes place when the truck or other transport vehicle arrives at this place. If more than one carrier, the risk transfers upon delivery to first carrier. Seller is responsible for exporting the shipment, and all steps before that. FCA can be used for any type of transport, such as air freight, sea freight, road freight and rail freight. Buyer assumes all risks and responsibilities once the goods reach the point of export.

|  |  |
| --- | --- |
| FCA | |
| Transfer of Title | At agreed place/port and should be the same as for transfer of risk.  Need to be specified in IC agreement |
| Exporting Party | Seller |
| Importing Party | Buyer |
| Insurance and to what point in the delivery chain | Subject to negotiation  Recommendation that Buyer has insurance coverage for transport Seller need insurance coverage up until place of delivery |
| Transfer of Risk | Risk transfer to Buyer at agreed place of delivery or when goods are handed over to first transporter. |

## 

### **10.5.6 Freight**

Under FCA Incoterm, Buyer is responsible for all freight costs.

Invoices for inbound freight in the intercompany flows should be posted **to account 295001 Landed cost.**

Please note that inbound freight costs, i.e. from CMO to warehouse of first group company, are accounted for and included in the standard costs and should therefore not be added to the price of goods nor recharged for separately.

Where applicable, outbound freight costs, i.e. for the delivery from warehouse of first group company to the second group company, needs to be borne by the Buyer. If Seller arranges for such transport, these costs need to be recharged at actual cost. Costs for outbound freight shall be posted on the following accounts to enable correct elimination at group level:

**Revenue:** 351200 Invoiced freight I / C

**Cost:** 464100 Outgoing Freight I / C

In case of export, please make sure that transport costs are added to the customs value.

### **10.5.7 Insurance**

Karo Pharma AB holds an insurance with group coverage for product liability, interruptions in supply, business interruptions, property and products in transport. Where so required due to local legislation, certain group entities have additional insurances for product liability.

Please refer to the Karo Pharma group insurance manual for further details.

### **10.5.8 VAT**

Seller must be registered for VAT in country of departure and Buyer must be registered for VAT in country of destination.

For intracommunity (**EU**) sales, reverse charge applies, i.e. Seller invoices without VAT and state “reverse charge” on invoice and Buyer is responsible for declaring the VAT in its VAT return.

For **exports**, Seller invoices without VAT and the Buyer is responsible for declaring the import VAT in addition to customs. “Export” must be stated on the invoice.

### **10.5.9 Documentation**

To protect the group from unnecessary compliance issues and registration costs Seller must be able to support the intra-community or export transport. In most cases this is substantiated by a copy of the transport documentation (CMR) or the export documentation from the Customs Authorities.

# 11. VAT & Intrastat (coming soon)

## **11.1 VAT Registrations**

## **11.2 VAT on domestic trade**

### **11.2.1 Input VAT**

### **11.2.2 Output VAT**

## **11.3 VAT on foreign trade**

### **11.3.1 Input VAT**

### **11.3.2 Output VAT**

## **11.4 Reporting VAT**

## **11.5 Intrastat**

## **11.6 Reporting Intrastat**

# 12. Closing procedures (coming soon)

## **12.1 Closing activities**

## **12.2 Period end reporting**

## **12.3 Intercompany reconciliation**

## **12.4 Reporting to consolidation system**

## **12.5 Additional requirements for quarterly, half-year and annual closing activities**

# 13. Presentation of consolidated financial statements (coming soon)

## **13.1 Underlying assumptions**

## **13.2 Statement of financial Position**

## **13.3 Cash Flow statement**

## **13.4 Distribution and publication of financial statements**

## **13.5 Insider**

# 14. Financial Plan

## **14.1 Budget Framework**

Forecast and Budget are made on Volume, Gross sales, Gross to net, Net sales and Frozen cogs on SKU level and by month. Previous periods of actuals are used as base for forecast and forecast is the base for next years budget. Nr of units and gross price per SKU are entered by sales teams. They also enter GtN as % of gross sales. From this, Net sales is being calculated automatically. Frozen cogs is entered from our frozen cogs master list, administrated by operations controller. Frozen cogs is calculated by nr of units times the frozen cogs by SKU.

Other cogs have not been in scope by brand and market yet, but is planned to be included in future forecasts and budgets.

A&P is planned by brand, market and account by month.

Department costs are as of now planned on total year, on a few rows. With nr of FTE’s by department. This process will be improved to include amounts by months, with more details on account level.

## **14.2 Budget planning and preparation process**

The process starts by downloading historical actuals for volumes, gross sales and net sales by SKU. An input file is being prepared with a mathematical suggested forecast and budget based on historical data. The file is prepared with the possibility to adjust the numbers by a percentage. The numbers can also be overwritten by month for future months. In the file there are reports with totals for quick overview over YoY development by brand.

Before the files sends out, the numbers are recalculated to local currency (one currency by AOR). One file per AOR is saved and distributed to country managers. The teams have about two weeks to prepare their forecast and budget. After two weeks they submit their files, and these are being consolidated and recalculated to SEK. Analysis of total sales together with reviews with CM’s leads to a second submission of the numbers. After the second submission, the numbers should be final and preparations for board meeting will be done. The budget for the following year is to be signed off by the board.

When the numbers are finalized, all versions (actuals, prior forecast and next years budget) will be recalculated to a new budget rate.

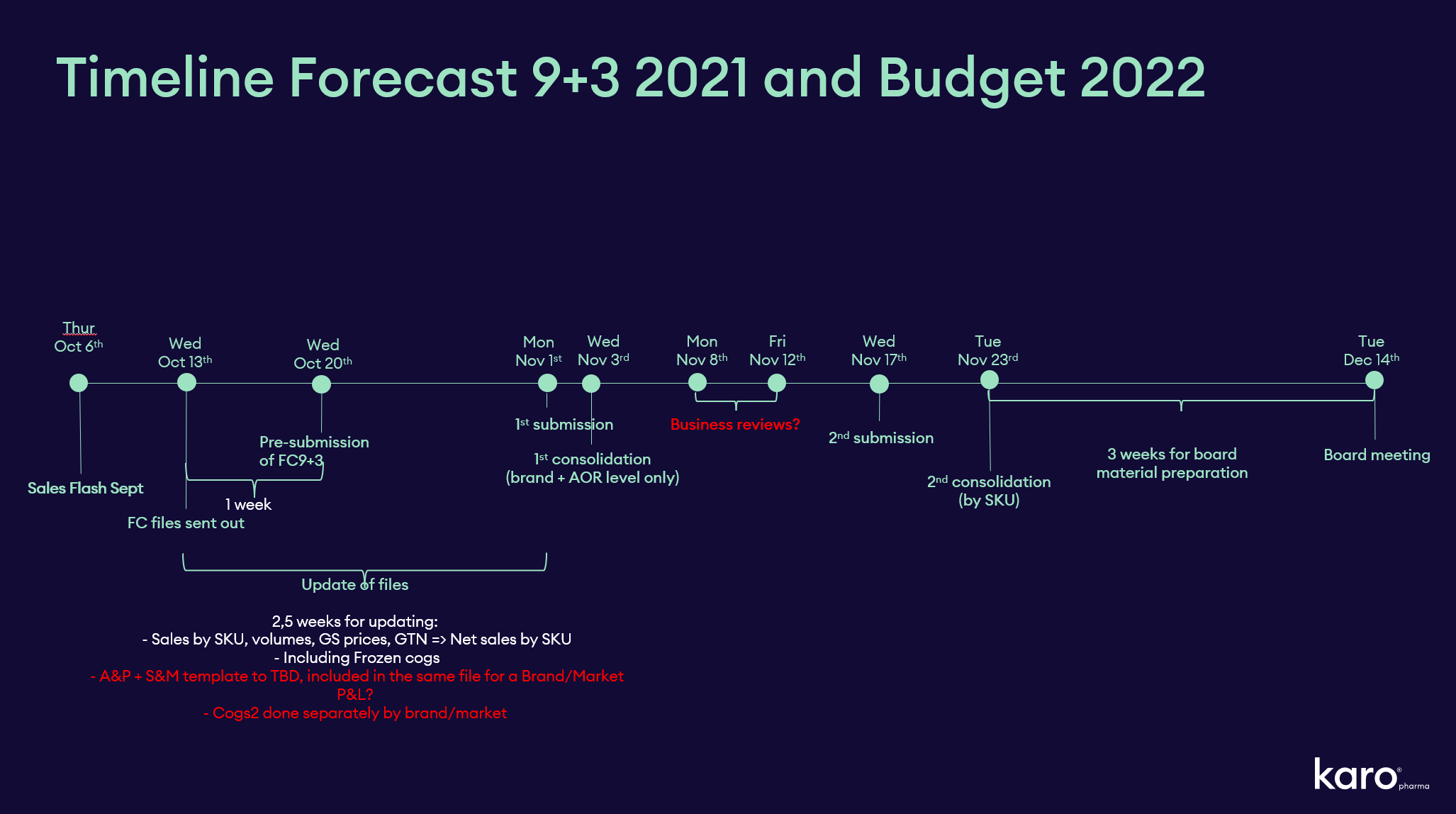
We are currently looking for a suitable tool for planning, but the process should remain similar to the above.

## **14.3 Budget Calendar**

We make one forecast in the spring. After the actuals is finalized for April, it is suitable to update the expectations for the rest of the year.

During August, the preparation of the next forecast and budget file starts. These files should be sent out after the closing of September sales.

*Preliminary timeline for FC9+3 2021 and Budget 2022:*



## **14.4 Implementation and monitoring**

Once the forecast and budget is done, it will be uploaded to BI. The actuals in Q4 will be compared to the latest forecast. And once the new year start, the actuals will be compared to the budget for that year. Country managers submit comments on major variances on a monthly basis.

## **14.5 Budget Revisions**

The budget is normally done by two submissions, with budget reviews in between. During the budget reviews, changes to the first submission is agreed upon and updates will be sent in short after the review.

## **14.6 Forecast process**

First forecast is made in the spring, after the April sales is finalized. The second forecast is done in conjunction with the budget for next year. This is done after the September sales is finalized.

# 15. Leasing (coming soon)

# 16. Invoice addresses

|  |  |  |
| --- | --- | --- |
| Company | Invoice Address | E-mail (only) for invoices in PDF-format |
| Karo Pharma AB | Karo Pharma AB Box 16184 103 24 Stockholm SWEDEN | [kpab.invoice.pagero@process.esker.net](mailto:kpab.invoice.pagero@process.esker.net) |
|
|
|
| Karo Pharma Sverige AB | Karo Pharma Sverige AB Box 16184 103 24 Stockholm SWEDEN | [kpsab.invoice.pagero@process.esker.net](mailto:kpsab.invoice.pagero@process.esker.net) |
|
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