

## Karolinska Development AB (publ)

Corporate Identity Number 556707-5048

### Interim report January – June 2013

#### CEO's comment

The progress in Karolinska Development's active company portfolio remains strong. Since the first quarter 2013, positive clinical data have been presented for four projects. Our focus on business development continues to produce results. During the second quarter, Athera Biotechnologies signed an option agreement with Boehringer Ingelheim on the innovative preclinical antibody program PC-mAb for prevention of secondary events in patients with acute coronary syndrome, where Athera has granted Boehringer Ingelheim an exclusive option to acquire the entire program. Combined with the EU grant Athera received during the second quarter, the project is now fully financed through Phase I trials and thus to the point where Boehringer Ingelheim's option can be exercised. Moreover, we have launched new academic collaborations with Ospedale San Raffaele in Italy and the Medical University of Graz in Austria, aiming to further improve our access to interesting projects.

Among the positive clinical advances in our development projects during the second quarter were Axelar's preliminary Phase II study results, which showed that the lead compound, AXL1717, may be effective in second line treatment of patients with non-small cell lung cancer (NSCLC). Thus, the company assesses that it has sufficient data to support further development of AXL1717 and will therefore finalize the current study with fewer patients than initially planned. Furthermore, Umeocrine Mood announced that dosing has been initiated in a Phase I/II study of a treatment for patients with premenstrual dysphoric disorder (PMDD), a severe and disabling form of PMS. The current treatment options consist primarily of antidepressant drugs, which are not always effective and often associated with side effects. There is a definite unmet medical need for an effective and safe treatment.

After the end of the second quarter, Pergamum reported positive follow-up data from a Phase II clinical trial for prevention of post-surgical adhesions after hand surgery, a major medical problem. Given Pergamum's results, we are optimistic that the treatment has the potential to become the first drug approved for this indication. Pergamum also reported positive preliminary efficacy results from a Phase I/II study in patients with venous leg ulcers, an area in great need of new treatment methods. Pergamum's proprietary gel has the potential to be an important treatment in this area. OssDsign (formerly Oss-Q) initiated the first clinical study of its bioceramic skull implant, OssDsign Cranio PSI, for patients with severe skull injuries where previous treatments have failed. In addition, Pharmanest met both primary and secondary efficacy endpoints in its Phase II study where its lead product named SHACT was tested as pain management in connection with intrauterine device (IUD) insertion. No difference in adverse events between treated group and placebo were reported. These positive data clearly show that SHACT has the potential to become the first safe and effective pain relief product for millions of women during IUD insertion.

In total, it was another quarter in which we began to see the results of our long-term investments and the strength of our business model: to create a broader base for selecting medical innovations through university collaborations, drive the development in the project portfolio and find external funding and commercial partners for our portfolio companies.

*Torbjörn Bjerke*

Chief Executive Officer

#### Summary of significant events during and after the second quarter 2013

- Preliminary Phase II data indicates that Axelar's AXL1717 is efficacious in 2nd line treatment of patients with lung cancer
- Bo Jesper Hansen was elected as new Director at the AGM 2013 and will take over as Chairman of the Board on October 1, 2013
- The first patient was dosed in the Phase I/II study of Umeocrine Mood's candidate drug for PMDD, a severe form of PMS
- The EU decided to grant EUR 6m for the development of Athera's novel antibody therapy PC-mAb for acute coronary syndrome patients and Athera entered an option agreement with Boehringer Ingelheim on the same antibody program
- Karolinska Development finalized an initial investment in Forendo Pharma Oy, which is developing a treatment for endometriosis
- Karolinska Development initiated collaborations with Ospedale San Raffaele and Medical University of Graz with the objective to gain access to more life science innovations
- Pergamum reported positive follow-up data from a Phase II clinical trial of PXL-01 showing a significant improvement in functional hand recovery after hand surgery compared with placebo
- Pergamum met the primary safety and tolerability endpoint and reported positive preliminary efficacy results from a Phase I/II study of LL-37 in patients with venous leg ulcers showing a significant improved healing rate compared with placebo
- Karolinska Development increased its holdings in OssDsign from 16% to 26% in a share issue and OssDsign started a clinical study
- Pharmanest reported positive Phase II data with SHACT showing a significant reduction in pain in connection with IUD insertion

## Financial Summary

<i>Group</i>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<i>Amounts in SEKm</i>	<i>Apr-Jun</i>	<i>Apr-Jun</i>	<i>Jan-Jun</i>	<i>Jan-Jun</i>
<i>Income statement</i>				
Revenue	2.6	3.1	4.6	5.5
Profit/loss after tax	2.5	-100.1	391.9	-189.2
<i>Balance sheet</i>				
Cash and cash equivalents			173.0	170.3
Short-term investments			91.3	291.1
<b>Total cash, cash equivalents and short-term investments (Note 3)</b>			<b>264.3</b>	<b>461.4</b>
<i>Share information</i>				
Earnings per share before and after dilution (SEK)	0.08	-1.83	8.23	-3.52
Net asset value per share (SEK) (Note 1)			44.8	42.5
Share price, last trading day in the reporting period (SEK)			27.2	19.5
<i>Portfolio information</i>				
Investments in portfolio companies	158.8	37.7	174.4	115.7
Of which investments not affecting cash flow	0.0	0.0	3.8	0.0
Valuation of total portfolio holdings (Note 2)			1,845.9	1,564.4

## Significant events during the second quarter 2013

### **Preliminary results of a Phase II study indicate that Axelar's AXL1717 is efficacious in 2nd line treatment of patients with lung cancer**

Axelar AB announced that the preliminary interim results of its Phase II study (AXL-003) indicate that its lead compound, AXL1717, is effective in treating patients with non-small cell lung cancer (NSCLC). The study is a randomized open-label Phase II clinical study that compares AXL1717 with docetaxel, a well-established anti-cancer treatment, in patients with previously treated, locally advanced or metastatic NSCLC. The clinical study is conducted at 25 centers in five countries and has rate of progression free survival (PFS) after 12 weeks as the primary endpoint. Preliminary analysis suggests that AXL1717 has similar rate of PFS after 12 weeks as docetaxel. Thus, the company assesses that it has sufficient data to guide further development of the drug and will therefore finalize the study with fewer patients than initially planned. AXL1717 is the first targeted oral small-molecule insulin-like growth factor 1 (IGF-1) receptor pathway inhibitor with no observable effect on the closely-related insulin receptor. NSCLC is the most common form of lung cancer, with 420,000 new patients diagnosed in industrial countries every year. The 5-year survival rate for these patients is only 10-15%, resulting in an annual mortality of approximately 330,000 patients. AXL1717 has the potential to become a treatment that could extend the lifespan and increase the quality of life for these patients. The data add to the positive results obtained with AXL1717 in its Phase I/II study, which was reported in October 2011.

### **Karolinska Development's Annual General Meeting – Bo Jesper Hansen new Chairman**

Shareholders attending Karolinska Development's Annual General Meeting on May 14, 2013 approved the proposals presented. Bo Jesper Hansen was elected as a new Director. On October 1, 2013, he succeeds Hans Wigzell as Chairman of the Board and Hans Wigzell will remain as ordinary Board member from the corresponding date.

### **First patient dosed in the Phase I/II study of Umecrine Mood's candidate drug for premenstrual dysphoric disorder**

Umecrine Mood AB announced that dosing has been initiated in a randomized Phase I/II study of UC1010 for the treatment of patients with premenstrual dysphoric disorder (PMDD). PMDD has a debilitating effect on daily life and relationships to other people. The symptoms occur when a breakdown product of a sex hormone affects the brain's emotional center. Umecrine Mood is the first company to successfully develop compounds that are proven to reduce the activity of the breakdown product in healthy individuals.

### **EU grants EUR 6m to the clinical development of Athera's antibody therapy PC-mAb**

Athera Biotechnologies AB announced that the European Union's Seventh Framework Programme for Research (FP7) will grant EUR 6m to co-fund the future development of its antibody therapy PC-mAb up until proof-of-concept.

### **Athera and Boehringer Ingelheim entered into an option agreement on PC-mAb**

Athera Biotechnologies AB announced that it has entered into an option agreement with Boehringer Ingelheim International GmbH on Athera's monoclonal antibody PC-mAb and CVDefine, a companion diagnostic kit, whereby Athera has granted Boehringer Ingelheim an exclusive option to acquire the entire program. PC-mAb is intended for the treatment of patients with cardiovascular disease, who are at an increased risk of secondary events and death. Athera will conduct defined preclinical development activities and a Phase I study for the lead antibody. Following completion of such a study, Boehringer Ingelheim will have an exclusive option to acquire substantially all of Athera's assets and rights relating to the program. In exchange for Athera's granting of the option, Boehringer Ingelheim paid an option fee. The size of the fee and the other terms of the option are not being disclosed, but are in line with average terms for programs at similar stages of development.

#### **Karolinska Development invested in Forendo Pharma**

Karolinska Development AB announced that it has invested in Forendo Pharma Oy, a new drug development company based in Finland, together with Novo Seeds and Finnvera. The stepwise funding commitments are expected to reach EUR 10m over a period of three years, of which Karolinska Development will invest up to EUR 3.0m. In the first round of investment, Karolinska Development has invested EUR 1.2m in the company resulting in an ownership of 21%\*. Forendo Pharma is developing a treatment for endometriosis, a common disease affecting up to 10% of young and middle-aged women worldwide and causing painful symptoms and infertility. The portfolio also includes what potentially could be a novel treatment for patients with low testosterone levels.

#### **Karolinska Development initiated collaborations with Ospedale San Raffaele and Medical University of Graz**

Two more world class research centers are teaming up with Karolinska Development. Deal flow agreements have been signed with the Italian university hospital Ospedale San Raffaele and the Medical University of Graz in Austria, which enable Karolinska Development to identify investment opportunities among life science innovations emanating from these research institutions.

### Significant events after the interim period

#### **Pergamum reported positive follow-up data from a Phase II clinical trial of PXL-01 for prevention of post-surgical adhesions**

Pergamum AB announced that several end-points were met in a randomized Phase II trial of PXL-01 for prevention of post-surgical adhesions after hand surgery. Follow-up data from the Phase II clinical trial of PXL-01 after tendon repair surgery in the hand revealed a statistically significant improvement in functional hand recovery compared with placebo. Treatment was not associated with any safety issues and no increase in the rate of tendon rupture was observed. Many patients undergoing hand surgery suffer from debilitating scar formation, which reduces their range of motion and complicates daily activities. PXL-01 is a novel therapeutic peptide that has been developed for the purpose of reducing the formation of obstructing scars and restoring mobility and function.

#### **Pergamum reported positive preliminary efficacy results from a Phase I/II study of LL-37 in patients with hard-to-heal wounds**

Pergamum AB announced that the primary safety and tolerability end-point was met in the randomized Phase I/II trial of LL-37 for treatment of venous leg ulcers. Data from the study also showed that patients treated with LL-37 had a statistically significant improved healing rate compared with placebo. LL-37 is a multi-functional therapeutic peptide that is naturally present in the skin and has an important role in wound healing. Pergamum's proprietary gel containing LL-37 has the potential to become an important treatment option for hard-to-heal wounds, an extraordinary burden for the individual patient and for the health care system. Today, there are an estimated 15 million patients globally and the worldwide wound care market reaches annual revenues of over EUR 10bn.

#### **Oss-Q completed financing, initiated clinical study and changed its name to OssDsign**

Oss-Q AB, a portfolio company focused on implants for bone replacement, received SEK 13.7m through a share issue to fund the now initiated clinical trial with OssDsign Cranio PSI, its new implant for skull reconstruction where biomaterials, mechanical properties and implant design are optimized for skull injuries following serious accidents and open brain surgery. In connection with these important advances, the company changed its name to OssDsign AB. Karolinska Development invested SEK 6.8m in the rights issue, increasing its ownership in OssDsign AB from 16% till 26%\*.

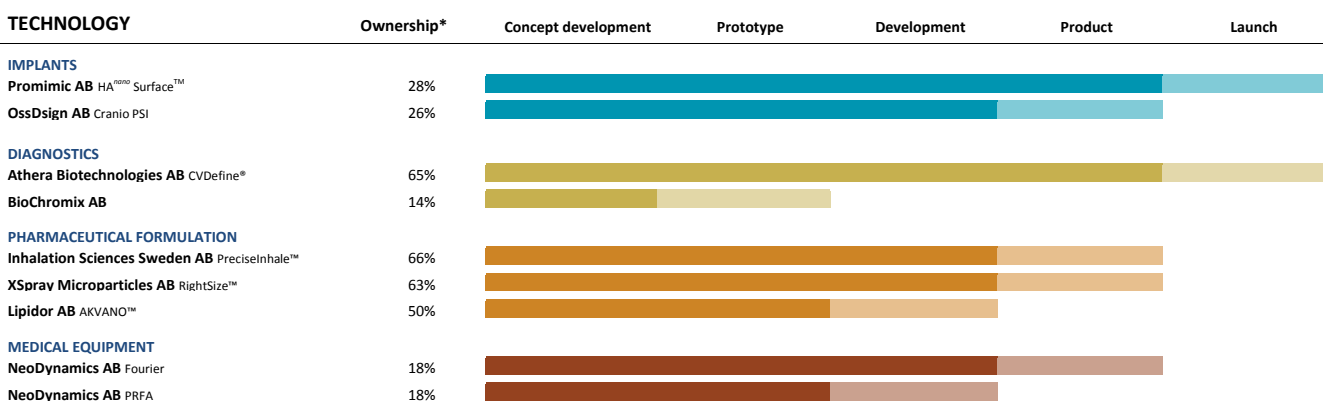
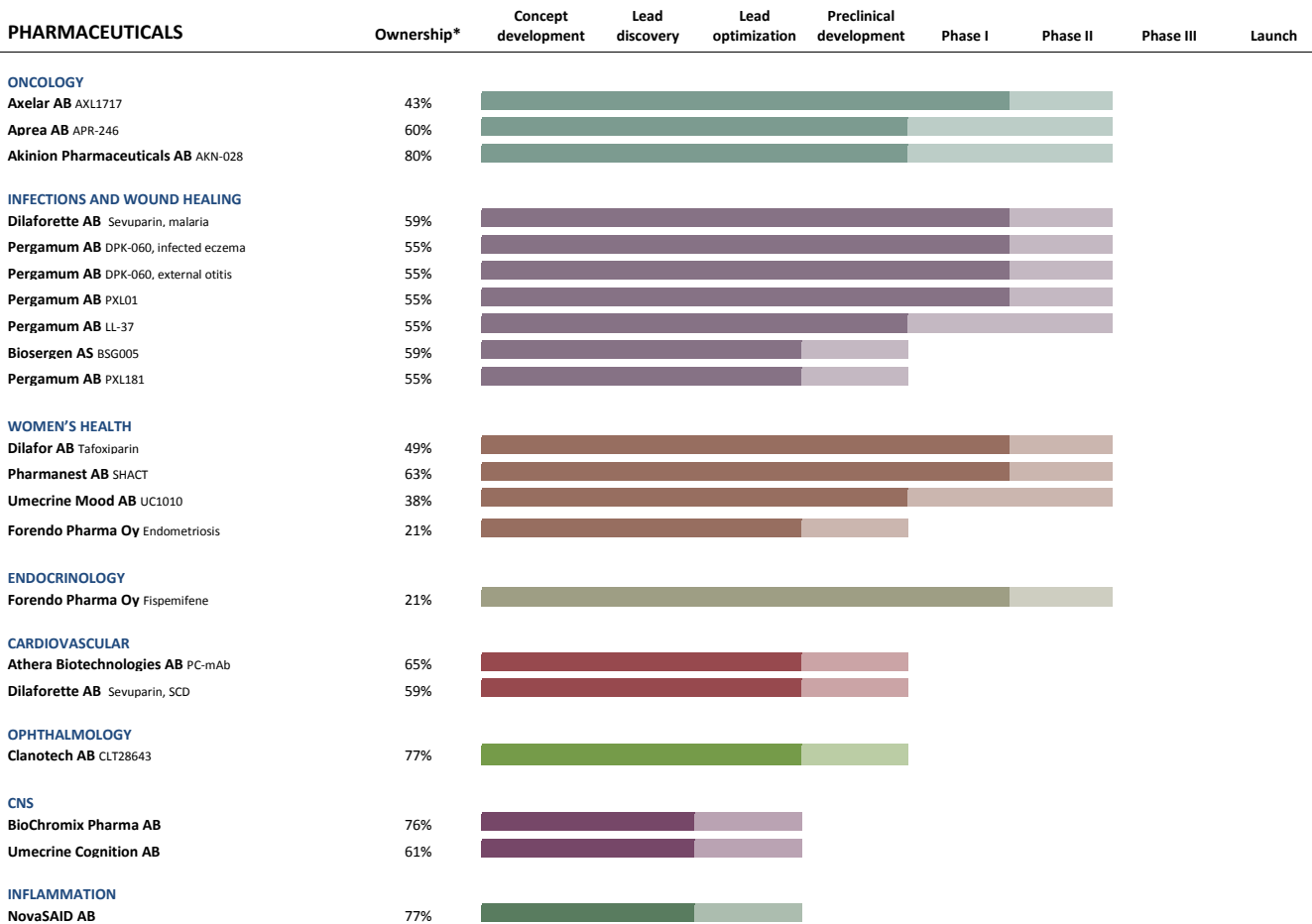
#### **Pharmanest met all efficacy and safety end points in Phase II study of SHACT**

Pharmanest AB announced positive results from a Phase II study investigating the efficacy and tolerability of SHACT as pain management in connection with intrauterine device (IUD) insertion. Data from the randomized double-blind study of 218 women shows that those who received SHACT during IUD insertion experienced over a 30% reduction in pain, measured on a visual analogue scale (VAS), compared with patients who received placebo. This effect was statistically significant ( $p < 0.0001$ ). Patients who received SHACT also experienced less discomfort ( $p < 0.05$ ) than women who received placebo. Women who received SHACT reported similar adverse events, in terms of type and frequency, as those who received placebo treatment. The most common adverse event was nausea in both treatment groups. No serious adverse events were reported. The study, conducted in Sweden at the Karolinska University Hospital in Solna and two other sites, met all primary and secondary objectives and provides a clinical foundation for the regulatory submission of SHACT in the European Union (EU) and other countries around the world.

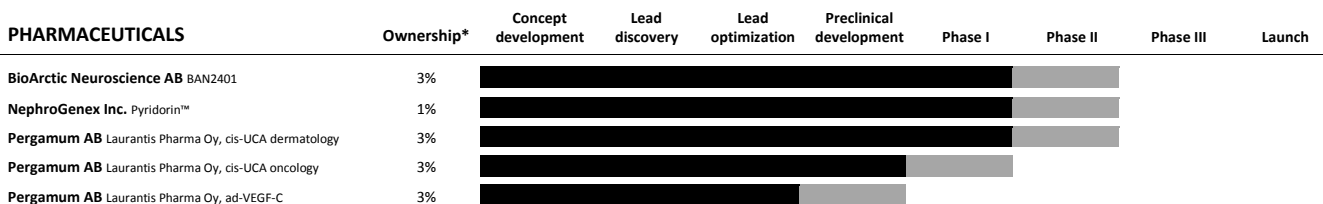
\* Direct and indirect investment and ownership through KCIF Co-Investment Fund KB

## Portfolio Development

Since the end of quarter one, 2013, two new projects have been added to the portfolio through the investment in Forendo Pharma. During the same period, Karolinska Development has decided to stop further investments in three projects: Athera will focus on PC-mAb and the rights to Annexin (preclinical development) have therefore been transferred to the original innovators, the shares in GliGene (concept development) and Cytoguide (passive portfolio, lead optimization) have been transferred to other owners. The portfolio consists of 35 projects (see below), of which 16 of the pharmaceutical projects are in clinical trials (August 21, 2013).



## FINANCIAL/PASSIVE INVESTMENTS



\*Includes indirect ownership

Solid colored area = completed phase  
Shaded colored area = ongoing phase

## Financial overview - Group

### Revenue

Consolidated revenue during the interim period amounted to SEK 4.6m, compared with SEK 5.5m in the same period in 2012. This revenue reflects services provided to portfolio companies of SEK 3.8m (2.3) and grants received by portfolio companies at SEK 0.8m (3.2).

During the second quarter, consolidated revenue amounted to SEK 2.6m compared with SEK 3.1m in the same period in 2012. This revenue reflects services provided to portfolio companies of SEK 2.1m (1.4) and grants received by portfolio companies at SEK 0.5m (1.7).

### Results

During the interim period, the Group's operating profit amounted to SEK 388.6m (-202.5), a change of SEK 591.1m year-on-year. The positive change is mainly due to the transaction with Rosetta Capital IV LP, which was finalized on 7 March 2013. The impact on results of the transaction amounted to SEK 404.6m, of which SEK 68.2m relates to a capital gain and the remaining SEK 336.4m to a gain on the revaluation to the effective fair value of the remaining holding, 86.34%, in the KDev Investments Group as represented by the deal consideration. Following the transaction, the KDev Investments Group is classified as a joint venture with changes in fair value recognized through profit or loss (Note 3). The portion of the change in fair value of other holdings affecting results amounted to SEK 48.0m (-123.4) during the period.

The Group's profit before tax during the interim period amounted to SEK 388.9m (-196.8), mainly consisting of the result from the transaction with Rosetta Capital IV LP of SEK 404.6m (0), Parent Company costs of SEK -31.2m (-28.2), subsidiary costs of SEK -32.8m (-50.9), fair value changes of SEK 48.0m (-123.4), and net financial items of SEK 0.3m (5.7).

During the second quarter, the Group's operating profit amounted to SEK 1.1m (-107.3), a change of SEK 108.4m year-on-year. The change is mainly due to the portion of the change in fair value affecting results, which amounted to SEK 25.6m (-60.9) during the second quarter, and lower operating expenses due to changes in the Group's composition resulting from the transaction with Rosetta Capital IV LP.

The Group's profit before tax during the second quarter amounted to SEK 2.5m (-105.0).

### Investments in portfolio companies

The Group's investments in portfolio companies during the interim period amounted to SEK 174.4m (115.7), of which SEK 170.7m (115.7) affected cash flow.

The largest investments during the interim period were in KDev Investments Group at SEK 103.6m, XSpray Microparticles AB at SEK 12.4m and KDev Exploratory AB at SEK 11.0m.

The Group's investments in portfolio companies during the second quarter amounted to SEK 158.8m (37.7).

The largest investments during the second quarter were in KDev Investments Group at SEK 102.6m, Forendo Pharma Oy at SEK 9.5m and XSpray Microparticles at SEK 8.6m.

### Financial position\*

The Group's equity to total assets ratio was 99% (91%) on 30 June 2013 and equity amounted to SEK 2,075.4m (2,024.2m).

The increase in the value of shares in joint ventures and associated companies is mainly due to the classification of the sub-group KDev Investments as a joint venture following the transaction with Rosetta Capital IV LP (Note 3). As a consequence, portfolio companies included in the transaction which previously were consolidated as subsidiaries are now accounted for at fair value.

Cash, cash equivalents and short-term investments in the Group amounted to SEK 264.3m (291.2m), of which SEK 201.0m is provisionally allocated for expected follow-on investments in the KDev Investments Group (Note 3).

Total assets amounted to SEK 2,099.5m (2,215.0m).

\* Comparable figures refer to 31 December 2012

## Financial overview – Parent Company

### *Revenue*

The Parent Company's revenue during the interim period amounted to SEK 2.4m (1.7).

The Parent Company's revenue during the second quarter amounted to SEK 1.2m (0.9).

### *Results*

During the interim period, the Parent Company's operating profit amounted to SEK 78.4m, compared with a previous year loss of SEK 139.1m, a change of SEK 217.5m. Operating profit includes a capital gain on the sale of shares in KDev Investments AB of SEK 123.7m as well as impairment losses on the holdings in KDev Exploratory AB (SEK -10.1m), CytoGuide Aps (SEK -3.3m), Limone AB (SEK -0.2m), KD Incentive AB (SEK -0.2m), KCIF Fund Management AB (SEK -0.1m), and KDev Oncology AB (SEK -0.1m). Impairment losses during the interim period totaled SEK -14.0m (-110.9).

The Parent Company's profit after tax during the interim period amounted to SEK 78.2m (-132.9).

During the second quarter, the Parent Company's operating loss amounted to SEK 24.4m, compared with a previous year loss of SEK 123.7m, a change of SEK 99.3m. The second-quarter operating result includes impairment losses on the holdings in KDev Exploratory AB (SEK -5.5m), CytoGuide ApS (SEK -3.3m), Limone (SEK -0.1m), and KDev Oncology AB (SEK -0.1m). Impairment losses during the second quarter totaled SEK -9.0m (-109.0).

The Parent Company's net loss during the second quarter amounted to SEK 22.6m (-121.4).

## Information on risks and uncertainties

### *Parent Company and Group*

#### *Valuation risks*

Companies active in pharmaceutical development and medical technology at an early phase are, by their very nature, difficult to value, as lead times are very long and development risks are high. Due to the uncertainty in these assessments, the estimated value of the portfolio may deviate substantially from the future generated value.

#### *Project development risks*

Risks and uncertainties are primarily associated with investments in portfolio companies and the development of projects in these companies. The operations of the portfolio companies consist of the development of early stage pharmaceutical projects. By their very nature such operations are distinguished by very high risk and great uncertainty in terms of results.

#### *Financial risks*

Financial risks consist of investments in portfolio companies as well as risks in the management of liquid assets.

#### *Future financing needs*

Future investments in new and current portfolio companies will require capital. There is no guarantee that such capital can be obtained on favorable terms or that such capital can be obtained at all.

For a description of other risks and uncertainties, please refer to the annual report 2012.

The Board of Directors and the CEO hereby certify that this interim report gives a true and fair view of the operations, financial position and results of operations of the Parent Company and the Group and describes the material risks and uncertainties faced by the Parent Company and the companies included in the Group.

Solna, 22 August 2013

Hans Wigzell  
Chairman

Per-Olof Edin

Rune Fransson

Charlotte Edenius

Vlad Artamonov

Klaus Wilgenbus

Bo Jesper Hansen

Torbjörn Bjerke  
CEO

## Dates for publication of financial information

Interim report January – September 2013  
Year-end report January – December 2013  
Annual report 2013

21 November 2013  
February 2014  
April 2014

Karolinska Development is required to make public the information in this interim report in accordance with the Securities Market Act. The information was released for publication on 22 August 2013.

This interim report, together with additional information, is available on Karolinska Development's website, [www.karolinskadevelopment.com](http://www.karolinskadevelopment.com)

### For further information, please contact:

Torbjörn Bjerke, CEO  
+46 (0) 72 744 41 23

Robin Wright, CFO  
+44 7720 300 025

See also [www.karolinskadevelopment.com](http://www.karolinskadevelopment.com)

Karolinska Development AB (publ)  
Tomtebodavägen 23A  
SE-171 65 Solna, Sweden

This interim report has not been subject to review by the Company's auditors.

*Note: This report is a translation of the Swedish interim report. In case of any discrepancies, the Swedish version shall prevail.*

## Financial reports

### Condensed consolidated income statement

<i>Amounts in SEK 000</i>	<i>Note</i>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2012</b>
		<i>Apr-Jun</i>	<i>Apr-Jun</i>	<i>Jan-Jun</i>	<i>Jan-Jun</i>	<i>Full-year</i>
Revenue		2,642	3,074	4,577	5,549	9,943
Other external expenses		-11,907	-32,927	-35,015	-52,931	-108,980
Personnel costs		-14,592	-15,684	-31,977	-29,760	-62,818
Depreciation of tangible and intangible non-current assets		-603	-957	-1,612	-1,948	-5,163
Change in fair value of shares in joint ventures and associated companies	2	27,535	-60,126	45,977	-122,509	-87,694
Change in fair value of other long-term securities holdings	2	-1,940	-726	2,025	-925	902
Result from transaction with Rosetta Capital IV LP	3	0	0	404,646	0	0
<b>Operating profit/loss</b>		<b>1,135</b>	<b>-107,346</b>	<b>388,621</b>	<b>-202,524</b>	<b>-253,810</b>
Net financial items		1,315	2,324	316	5,722	-22,161
<b>Profit/loss before tax</b>	2	<b>2,450</b>	<b>-105,022</b>	<b>388,937</b>	<b>-196,802</b>	<b>-275,971</b>
Deferred taxes		0	4,936	2,926	7,597	45,807
Current taxes		0	0	0	0	0
<b>NET PROFIT/LOSS FOR THE PERIOD</b>		<b>2,450</b>	<b>-100,086</b>	<b>391,863</b>	<b>-189,205</b>	<b>-230,164</b>
<b>Attributable to:</b>						
Parent Company's shareholders		3,642	-88,912	398,347	-170,813	-212,852
Non-controlling interests		-1,192	-11,174	-6,484	-18,392	-17,312
<b>TOTAL</b>		<b>2,450</b>	<b>-100,086</b>	<b>391,863</b>	<b>-189,205</b>	<b>-230,164</b>

### Earnings per share

<i>Amounts in SEK 000</i>	<i>Note</i>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2012</b>
		<i>Apr-Jun</i>	<i>Apr-Jun</i>	<i>Jan-Jun</i>	<i>Jan-Jun</i>	<i>Full-year</i>
Earnings per share attributable to Parent Company's shareholders, weighted average, before and after dilution		0.08	-1.83	8.23	-3.52	-4.39
Number of shares, weighted average, before and after dilution		48,380,817	48,531,417	48,380,817	48,531,417	48,529,767

### Condensed consolidated statement of comprehensive income

<i>Amounts in SEK 000</i>	<i>Note</i>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2012</b>
		<i>Apr-Jun</i>	<i>Apr-Jun</i>	<i>Jan-Jun</i>	<i>Jan-Jun</i>	<i>Full-year</i>
<b>Net profit/loss for the period</b>		<b>2,450</b>	<b>-100,086</b>	<b>391,863</b>	<b>-189,205</b>	<b>-230,164</b>
<b>Total comprehensive income for the period</b>		<b>2,450</b>	<b>-100,086</b>	<b>391,863</b>	<b>-189,205</b>	<b>-230,164</b>
<b>Attributable to:</b>						
Parent Company's shareholders		3,642	-88,912	398,347	-170,813	-212,852
Non-controlling interests		-1,192	-11,174	-6,484	-18,392	-17,312
<b>TOTAL</b>		<b>2,450</b>	<b>-100,086</b>	<b>391,863</b>	<b>-189,205</b>	<b>-230,164</b>



## Condensed consolidated statement of financial position

<i>Amounts in SEK 000</i>	<i>Note</i>	<b>30 Jun 2013</b>	<b>30 Jun 2012</b>	<b>31 Dec 2012</b>
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible non-current assets		8,725	702,305	9,864
Tangible non-current assets		3,424	4,779	4,985
Shares in joint ventures and associated companies	2	1,713,748	905,090	219,173
Other long-term securities holdings	2	28,974	25,122	26,949
Loans receivable joint ventures and associated companies		29,715	40,323	12,856
Other financial assets	3	38,113	0	8,907
<b>Total non-current assets</b>		<b>1,822,699</b>	<b>1,677,619</b>	<b>282,734</b>
<b>Current assets</b>				
Accounts receivable		1,215	990	513
Other short-term receivables		5,056	6,210	3,955
Prepaid expenses and accrued income		6,291	5,629	4,578
Short-term investments	3	91,315	291,102	174,160
Cash and cash equivalents	3	172,972	170,329	117,033
<b>Total current assets</b>		<b>276,849</b>	<b>474,260</b>	<b>300,239</b>
Assets which have been transferred to KDev Investments Group		-	-	1,632,025
<b>TOTAL ASSETS</b>		<b>2,099,548</b>	<b>2,151,879</b>	<b>2,214,998</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Share capital		24,266	24,266	24,266
Share premium		1,768,179	1,768,179	1,768,179
Retained earnings including current period result		276,293	-78,264	-122,547
<b>Equity attributable to Parent Company's shareholders</b>		<b>2,068,738</b>	<b>1,714,181</b>	<b>1,669,898</b>
Non-controlling interests		6,688	272,091	354,294
<b>Total equity</b>		<b>2,075,426</b>	<b>1,986,272</b>	<b>2,024,192</b>
<b>Long-term liabilities</b>				
Deferred taxes		0	135,989	0
Other financial liabilities		9,878	0	10,889
<b>Total long-term liabilities</b>		<b>9,878</b>	<b>135,989</b>	<b>10,889</b>
<b>Current liabilities</b>				
Interest-bearing liabilities		0	1,900	0
Accounts payable		2,372	12,323	4,215
Other short-term liabilities		2,781	3,557	2,775
Accrued expenses and prepaid income		9,091	11,838	8,166
<b>Total current liabilities</b>		<b>14,244</b>	<b>29,618</b>	<b>15,156</b>
Liabilities attributable to assets which have been transferred to KDev Investments Group		-	-	164,761
<b>Total liabilities</b>		<b>24,122</b>	<b>165,607</b>	<b>190,806</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,099,548</b>	<b>2,151,879</b>	<b>2,214,998</b>

## Condensed consolidated statement of changes in equity

Equity attributable to Parent Company's shareholders							
<i>Amounts in SEK 000</i>	Note	Share capital	Share premium	Retained earnings incl. current year result	Total	Non-controlling interests	Total equity
<b>Opening equity at 1 Jan 2013</b>		<b>24,266</b>	<b>1,768,179</b>	<b>-122,547</b>	<b>1,669,898</b>	<b>354,294</b>	<b>2,024,192</b>
<i>Net profit/loss for the period</i>				398,347	398,347	-6,484	391,863
Total comprehensive income for the period		0	0	398,347	398,347	-6,484	391,863
Change in non-controlling interests				-185	-185	4,965	4,780
Share rights incentive program PSP 2012				678	678		678
Non-controlling interests transferred to KDev Investments Group					0	-346,087	-346,087
<b>Closing equity at 30 June 2013</b>		<b>24,266</b>	<b>1,768,179</b>	<b>276,293</b>	<b>2,068,738</b>	<b>6,688</b>	<b>2,075,426</b>
<b>Opening equity at 1 Jan 2012</b>		<b>24,266</b>	<b>1,768,179</b>	<b>86,442</b>	<b>1,878,887</b>	<b>295,041</b>	<b>2,173,928</b>
<i>Net loss for the period</i>				-170,813	-170,813	-18,392	-189,205
Total comprehensive income for the period		0	0	-170,813	-170,813	-18,392	-189,205
Change in non-controlling interests				6,107	6,107	-4,558	1,549
<b>Closing equity at 30 June 2012</b>		<b>24,266</b>	<b>1,768,179</b>	<b>-78,264</b>	<b>1,714,181</b>	<b>272,091</b>	<b>1,986,272</b>
<b>Opening equity at 1 Jan 2012</b>		<b>24,266</b>	<b>1,768,179</b>	<b>86,442</b>	<b>1,878,887</b>	<b>295,041</b>	<b>2,173,928</b>
<i>Net loss for the year</i>				-212,852	-212,852	-17,312	-230,164
Total comprehensive income for the year		0	0	-212,852	-212,852	-17,312	-230,164
Acquisition of subsidiary					0	78,435	78,435
Change in non-controlling interests				6,106	6,106	-1,870	4,236
Share repurchase				-2,243	-2,243		-2,243
<b>Closing equity at 31 Dec 2012</b>		<b>24,266</b>	<b>1,768,179</b>	<b>-122,547</b>	<b>1,669,898</b>	<b>354,294</b>	<b>2,024,192</b>

## Condensed consolidated statement of cash flows

<i>Amounts in SEK 000</i>	<i>Note</i>	<b>2013</b> <i>Jan-Jun</i>	<b>2012</b> <i>Jan-Jun</i>
<b>Operating activities</b>			
Operating profit/loss		388,621	-202,524
Adjustments for depreciation, amortization and impairment losses		1,612	1,948
Adjustments for changes in fair value	2	-48,002	123,434
Result from transaction with Rosetta Capital IV LP	3	-404,646	0
Realized changes in value of short-term investments		1,057	3,763
Interest paid		-70	-20
Interest received		1,485	881
<b>Cash flow from operating activities before changes in working capital</b>		<b>-59,943</b>	<b>-72,518</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/Decrease (+) in operating receivables		2,919	-3,025
Increase (+)/Decrease (-) in operating liabilities		1,087	1,375
<b>Cash flow from operating activities</b>		<b>-55,937</b>	<b>-74,168</b>
<b>Investing activities</b>			
Investments in intangible non-current assets		-722	-711
Investments in tangible non-current assets		-398	-3,642
Investments in shares in joint ventures and associated companies		-149,124	-47,371
Investments in other long-term securities		0	-1,460
Cash and cash equivalents transferred to KDev Investments Group		-51,723	0
Change in short-term investments		84,851	166,247
Sale of shares in portfolio companies	3	190,793	3,217
Loans provided to associated companies		-25,144	-36,648
<b>Cash flow from investing activities</b>		<b>48,533</b>	<b>79,632</b>
<b>Financing activities</b>			
Share of subsidiary issue for non-controlling shareholders		3,757	1,618
Amortization of interest-bearing liabilities		0	-100
<b>Cash flow from financing activities</b>		<b>3,757</b>	<b>1,518</b>
<b>Cash flow for the period</b>		<b>-3,647</b>	<b>6,982</b>
Cash and cash equivalents at beginning of period		176,619	163,347
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	3	<b>172,972</b>	<b>170,329</b>

## Supplemental disclosure

<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>172,972</b>	<b>170,329</b>
Short-term investments, market value on closing date		91,315	291,102
<b>CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS AT END OF PERIOD</b>	3	<b>264,287</b>	<b>461,431</b>

## Condensed income statement for the Parent Company

<i>Amounts in SEK 000</i>	<i>Note</i>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2012</b>
		<i>Apr-Jun</i>	<i>Apr-Jun</i>	<i>Jan-Jun</i>	<i>Jan-Jun</i>	<i>Full-year</i>
Net sales		1,184	891	2,436	1,725	3,986
<b>Revenue</b>		<b>1,184</b>	<b>891</b>	<b>2,436</b>	<b>1,725</b>	<b>3,986</b>
Other external expenses		-7,118	-7,611	-14,246	-15,510	-28,156
Personnel costs		-9,390	-8,075	-19,407	-14,381	-31,650
Depreciation of tangible non-current assets		-3	-2	-5	-3	-6
Impairment losses on shares in subsidiaries, joint ventures, associated companies and other long-term securities holdings		-9,044	-108,998	-14,031	-110,935	-120,078
Result from sale of shares in portfolio companies	5	0	47	123,678	47	43,269
<b>Operating profit/loss</b>		<b>-24,371</b>	<b>-123,748</b>	<b>78,425</b>	<b>-139,057</b>	<b>-132,635</b>
Financial net		1,768	2,339	-238	6,192	-20,076
<b>NET PROFIT/LOSS FOR THE PERIOD</b>		<b>-22,603</b>	<b>-121,409</b>	<b>78,187</b>	<b>-132,865</b>	<b>-152,711</b>

## Condensed statement of comprehensive income for the Parent Company

<i>Amounts in SEK 000</i>	<i>Note</i>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2012</b>
		<i>Apr-Jun</i>	<i>Apr-Jun</i>	<i>Jan-Jun</i>	<i>Jan-Jun</i>	<i>Full-year</i>
<b>Net profit/loss for the period</b>		<b>-22,603</b>	<b>-121,409</b>	<b>78,187</b>	<b>-132,865</b>	<b>-152,711</b>
<b>Total comprehensive income for the period</b>		<b>-22,603</b>	<b>-121,409</b>	<b>78,187</b>	<b>-132,865</b>	<b>-152,711</b>
<b>Attributable to:</b>						
Parent Company's shareholders		-22,603	-121,409	78,187	-132,865	-152,711
<b>TOTAL</b>		<b>-22,603</b>	<b>-121,409</b>	<b>78,187</b>	<b>-132,865</b>	<b>-152,711</b>

## Condensed statement of financial position for the Parent Company

<i>Amounts in SEK 000</i>	<i>Note</i>	<b>30 Jun 2013</b>	<b>30 Jun 2012</b>	<b>31 Dec 2012</b>
<b>Assets</b>				
<b>Non-current assets</b>				
Tangible non-current assets		6	12	9
Shares in subsidiaries, joint ventures, associated companies and other long-term securities holdings		1,026,620	884,533	962,243
Loans receivable joint ventures and associated companies		29,715	40,323	12,856
Other financial assets	3	31,968	2,252	2,623
<b>Total non-current assets</b>		<b>1,088,309</b>	<b>927,120</b>	<b>977,731</b>
<b>Current assets</b>				
Accounts receivable		950	6	409
Group receivables		162	303	260
Other receivables		3,094	2,802	2,476
Prepaid expenses and accrued income		3,329	3,278	2,463
Short-term investments	3	91,315	291,102	174,160
Cash and cash equivalents	3	156,128	61,761	108,680
<b>Total current assets</b>		<b>254,978</b>	<b>359,252</b>	<b>288,448</b>
<b>TOTAL ASSETS</b>		<b>1,343,287</b>	<b>1,286,372</b>	<b>1,266,179</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
<b>Restricted equity</b>				
Share capital		24,266	24,266	24,266
<b>Unrestricted equity</b>				
Share premium reserve		1,778,253	1,778,253	1,778,253
Retained earnings		-549,302	-395,026	-397,269
Net profit/loss for the period		78,187	-132,865	-152,711
<b>Total equity</b>		<b>1,331,404</b>	<b>1,274,628</b>	<b>1,252,539</b>
<b>Long-term liabilities</b>				
Pension obligations		2,762	2,252	2,623
<b>Total long-term liabilities</b>		<b>2,762</b>	<b>2,252</b>	<b>2,623</b>
<b>Current liabilities</b>				
Accounts payable		885	2,049	2,510
Group liabilities		453	0	474
Other current liabilities		1,498	1,870	1,512
Accrued expenses and deferred income		6,285	5,573	6,521
<b>Total current liabilities</b>		<b>9,121</b>	<b>9,492</b>	<b>11,017</b>
<b>Total liabilities</b>		<b>11,883</b>	<b>11,744</b>	<b>13,640</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,343,287</b>	<b>1,286,372</b>	<b>1,266,179</b>

## Pledged assets and contingent liabilities

<i>Amounts in SEK 000</i>	<i>Note</i>	<b>30 Jun 2013</b>	<b>30 Jun 2012</b>	<b>31 Dec 2012</b>
Pledged assets		2,762	2,252	2,623
Contingent liabilities		0	200	1,200
<b>Total</b>		<b>2,762</b>	<b>2,452</b>	<b>3,823</b>

## Condensed statement of changes in equity for the Parent Company

<i>Amounts in SEK 000</i>	Restricted equity		Unrestricted equity			Total equity
	Note	Share capital	Share premium reserve	Retained earnings	Net profit/loss for the period	
<b>Opening equity at 1 Jan 2013</b>		<b>24,266</b>	<b>1,778,253</b>	<b>-397,269</b>	<b>-152,711</b>	<b>1,252,539</b>
Appropriation of loss				-152,711	152,711	0
Net profit/loss for the period					78,187	78,187
<b>Total</b>		<b>24,266</b>	<b>1,778,253</b>	<b>-549,980</b>	<b>78,187</b>	<b>1,330,726</b>
Share rights incentive program PSP 2012				678		678
<b>Closing equity at 30 June 2013</b>		<b>24,266</b>	<b>1,778,253</b>	<b>-549,302</b>	<b>78,187</b>	<b>1,331,404</b>
<b>Opening equity at 1 Jan 2012</b>		<b>24,266</b>	<b>1,778,253</b>	<b>-207,281</b>	<b>-187,745</b>	<b>1,407,493</b>
Appropriation of loss				-187,745	187,745	0
Net loss for the period					-132,865	-132,865
<b>Closing equity at 30 June 2012</b>		<b>24,266</b>	<b>1,778,253</b>	<b>-395,026</b>	<b>-132,865</b>	<b>1,274,628</b>
<b>Opening equity at 1 Jan 2012</b>		<b>24,266</b>	<b>1,778,253</b>	<b>-207,281</b>	<b>-187,745</b>	<b>1,407,493</b>
Appropriation of loss				-187,745	187,745	0
Net loss for the year					-152,711	-152,711
<b>Total</b>		<b>24,266</b>	<b>1,778,253</b>	<b>-395,026</b>	<b>-152,711</b>	<b>1,254,782</b>
Share repurchase				-2,243		-2,243
<b>Closing equity at 31 Dec 2012</b>		<b>24,266</b>	<b>1,778,253</b>	<b>-397,269</b>	<b>-152,711</b>	<b>1,252,539</b>

## Notes to the financial reports

### Note 1 Accounting principles

This report has been prepared in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting and the Annual Accounts Act. The accounting principles applied to the Group and the Parent Company correspond, unless otherwise stated below, to the accounting principles and valuation methods applied in the preparation of the most recent annual report.

#### *New and revised accounting principles 2013*

The Group applies IFRS 13 Fair Value Measurement as of 1 January 2013. The purpose of the standard is to make fair value measurements more consistent and less complex by providing an exact definition and common source in IFRS for fair value measurements and related disclosures. The standard provides guidance on fair value measurements for all types of assets and liabilities, financial and non-financial. The requirements do not expand the area of application for fair value, but provide guidance on how it is applied when other IFRS already require or allow fair value measurements. The new standard has not had a significant impact on the measurement of assets and liabilities at fair value but affects disclosures, since it contains more extensive requirements on disclosures of fair value measurements, particularly for fair values on level 3 in the fair value hierarchy.

Other new or revised IFRS standards and interpretations by IFRIC have had no impact on the Group or, to the extent that these recommendations are applied to legal entities, on the Parent Company's income or financial position.

#### *Definition of key ratios*

Net asset value per share: Estimated fair value of the total portfolio, cash and cash equivalents, and financial assets less interest-bearing liabilities in relation to the number of shares outstanding on the closing date.

#### *Other definitions*

First In Class: The first approved medicine with a defined mechanism for a specific target or a specific disease.

Portfolio companies: Companies owned fully or in part by Karolinska Development (subsidiaries, joint ventures, associated companies and other long-term securities holdings) which are active in pharmaceuticals, medtech, theranostics and formulation technology.

Fair value: The NASDAQ OMX regulations for issuers require companies listed on NASDAQ OMX to apply the International Financial Reporting Standards, IFRS, in their consolidated financial statements. The application of the standards allows groups of an investment company nature to apply so-called fair value in the calculation of the carrying amount of certain assets. These calculations are made on the basis of established principles and are not included in the opening accounts of the Group's legal entity, nor do they affect cash flows.

In addition to IFRS 13, fair value is estimated according to the International Private Equity and Venture Capital Valuation Guidelines. Accordingly, fair value can be calculated using different methods depending on which is considered to provide the best estimate of market value in each case. For Karolinska Development, this means that the fair value of many portfolio companies is determined using a model to calculate the value of discounted and risk-adjusted cash flows. In other cases, Karolinska Development's total investment is used as the best estimation of fair value. In one other case, the valuation at the time of the last capital contribution is used.

Interim period: The period from the beginning of the financial year through the closing date.

Reporting period: Current quarter.

## Note 2 Operating segments

The Board of Directors determines the allocation of resources to investments in portfolio companies and to the Parent Company. The Board of Directors monitors each investment at the project level as well as the Parent Company's results and financial position.

Karolinska Development's investments are primarily steered to companies that yield the best returns. Regardless of a project's maturity, therapeutic area and whether the company is active within pharmaceuticals or medical technology, each company's projects are evaluated by Karolinska Development in the same manner, because of which Karolinska Development has aggregated all the portfolio companies into a single reportable segment.

Karolinska Development's measure of profit is the aggregate change in the fair value of its shares in the portfolio companies, including those consolidated as subsidiaries. The Board of Directors and management monitor the investments based on changes in their fair value independently of the company's level of influence. Consequently, the Board of Directors and management monitor subsidiaries, associated companies, joint ventures and other holdings based on changes in their fair value and not on their historical acquisition costs as subsidiaries recognized in the consolidated financial statements. The accounting principles applied in the internal reporting otherwise correspond to the Group's accounting principles as described in Note 1.

### *Profit/loss per segment and reconciliation between aggregate result from change in fair value of portfolio companies and consolidated profit/loss before tax*

	Profit/loss from change in fair value of portfolio companies				
	2013 Apr-Jun	2012 Apr-Jun	2013 Jan-Jun	2012 Jan-Jun	2012 Full-year
<i>Amounts in SEK 000</i>					
<b>Subsidiaries</b>					
Change in fair value	9,503	6,454	1,233	25,345	208,201
<b>Joint ventures and associated companies</b>					
Change in fair value	27,535	45,153	45,977	-17,230	18,847
Impairment losses <sup>1</sup>	0	-105,279	0	-105,279	-106,541
<b>Other long-term securities holdings</b>					
Change in fair value	1,360	-726	5,325	-925	902
Impairment losses <sup>1</sup>	-3,300	0	-3,300	0	0
<b>Change in fair value of total portfolio holdings</b>	<b>35,098</b>	<b>-54,398</b>	<b>49,235</b>	<b>-98,089</b>	<b>121,409</b>
<b>Group eliminations</b>					
Less change in fair value of subsidiaries	-9,503	-6,454	-1,233	-25,345	-208,201
<b>Recognized gain/loss on changes in fair value</b>	<b>25,595</b>	<b>-60,852</b>	<b>48,002</b>	<b>-123,434</b>	<b>-86,792</b>
Capital gain from Rosetta transaction (Note 3)	-	-	68,232	-	-
Revaluation increase from Rosetta transaction (Note 3)	-	-	336,414	-	-
Consolidated revenue and other expenses (including financial net)	-23,145	-44,170	-63,711	-73,368	-189,179
<b>Consolidated profit/loss before tax</b>	<b>2,450</b>	<b>-105,022</b>	<b>388,937</b>	<b>-196,802</b>	<b>-275,971</b>

<sup>1</sup>In the Group's internal follow-up the change in the value of discontinued projects is recognized as impairments.

The aggregate gain on changes in the fair value of the portfolio companies amounted to SEK 49.3m (-98.1) during the interim period, which includes a positive change in the fair value of subsidiaries of SEK 1.2m (25.3). The change in the fair value of subsidiaries is not recognized in the consolidated income statement or statement of financial position, since the subsidiaries are consolidated and not measured at fair value. The Group's recognized gain on changes in the fair value of joint ventures, associated companies and other long-term securities holdings amounted to SEK 48.0m (-123.4).

The aggregate gain on changes in the fair value of the portfolio companies amounted to SEK 35.1m (-54.4) during the second quarter, which includes a positive change in the fair value of subsidiaries of SEK 9.5m (6.5). The Group's recognized gain on changes in the fair value of joint ventures, associated companies and other long-term securities holdings amounted to SEK 25.6m (-60.9).



### Assets per segment

Amounts in SEK 000	Fair value portfolio companies		
	30 Jun 2013	30 Jun 2012	31 Dec 2012
<b>Fair value of total portfolio holdings</b>			
Subsidiaries	103,151	634,165	1,010,663
Joint ventures and associated companies	1,713,748	905,090	789,578
Other long-term securities holdings	28,974	25,122	26,949
<b>Fair value of total portfolio holdings</b>	<b>1,845,873</b>	<b>1,564,377</b>	<b>1,827,190</b>
Less fair value of subsidiaries	-103,151	-634,165	-1,010,663
Less fair value of joint ventures and associated companies transferred to KDev Investments Group	-	-	-570,405
<b>Group</b>	<b>1,742,722</b>	<b>930,212</b>	<b>246,122</b>

### Shares in portfolio companies at fair value

Amounts in SEK 000	Subsidiaries	Joint	Other long-	Total
		ventures & associated companies	term securities	portfolio holdings
Opening balance at 1 Jan 2012	542,001	980,276	24,587	1,546,864
Investments	66,819	47,371	1,460	115,650
Sale of shares	0	-48	0	-48
Changes in fair value and impairment losses	25,345	-122,509	-925	-98,089
<b>Closing balance at 30 June 2012</b>	<b>634,165</b>	<b>905,090</b>	<b>25,122</b>	<b>1,564,377</b>
Opening balance at 1 Jan 2012	542,001	980,276	24,587	1,546,864
Investments	81,949	148,189	1,460	231,598
Reclassifications	178,512	-178,512	0	0
Sale of shares	0	-72,681	0	-72,681
Changes in fair value and impairment losses	208,201	-87,694	902	121,409
<b>Closing balance at 31 Dec 2012</b>	<b>1,010,663</b>	<b>789,578</b>	<b>26,949</b>	<b>1,827,190</b>
Opening balance at 1 Jan 2013	1,010,663	789,578	26,949	1,827,190
Investments	21,532	152,909	0	174,441
Reclassifications <sup>1</sup>	-930,277	930,277	0	0
Sale of shares	0	-204,993	0	-204,993
Changes in fair value and impairment losses	1,233	45,977	2,025	49,235
<b>Closing balance at 30 June 2013</b>	<b>103,151</b>	<b>1,713,748</b>	<b>28,974</b>	<b>1,845,873</b>

<sup>1</sup>The reclassification relates to KDev Investments Group, which after the transaction with Rosetta IV LP is recognized as a joint venture with changes in fair value recognized through profit or loss.

### Reconciliation between aggregate fair value of portfolio companies for segments and consolidated total assets

Amounts in SEK 000	30 Jun 2013	30 Jun 2012	31 Dec 2012
Aggregate fair value of total portfolio holdings	1,845,873	1,564,377	1,827,190
Less fair value of subsidiaries	-103,151	-634,165	-1,010,663
Other consolidated assets	356,826	1,221,667	1,398,471
<b>Consolidated total assets</b>	<b>2,099,548</b>	<b>2,151,879</b>	<b>2,214,998</b>

### Note 3 Capital gain on sale of shares in KDev Investments AB

#### About the transaction

During the period, Karolinska Development transferred 13 of its portfolio company holdings to the subsidiary KDev Investments AB. On 7 March 2013, Rosetta Capital IV LP acquired a 13.66% share in KDev Investments Group for a total purchase price of SEK 220m. Of a total of 1,073,300 shares outstanding in KDev Investments AB, 1,000,000 are common shares and 73,300 are preference shares. Rosetta Capital IV LP acquired 73,300 common shares and 73,300 preference shares in KDev Investments AB.

#### Portfolio companies in the transaction

KDev Investments Group comprises 13 companies representing development projects in various phases and various areas. Seven of the companies develop drugs and have projects in clinical trials: Akinion Pharmaceuticals AB, Aprea AB and Axelar AB, which are active in oncology; Dilafor AB and Umecrine Mood, which develop treatments in the area of women's health; Dilaforette Holding AB Group, which develops sevuparin for use against malaria and sickle cell anemia; and Pergamum AB, which develops Karolinska Development's wound healing and dermatology portfolio. Three companies have development projects in or entering preclinical development: Biosergen AS (systemic fungal infections), Clanotech AB (eye diseases) and NovaSAID AB (inflammatory diseases). Three companies are involved in the development of technology products: Inhalation Sciences Sweden AB, NeoDynamics AB and Promimic AB.

#### Consequences for financial reporting

Following the transaction, the sub-group KDev Investments is classified as a joint venture, as Karolinska Development and Rosetta Capital IV LP have joint control of KDev Investments, and is recognized at fair value with changes in value recognized through profit or loss.

#### Earnings impact

The earnings impact during the period attributable to the transaction amounted to SEK 404.6m, of which SEK 68.2m relates to a capital gain and the remaining SEK 336.4m to the gain on the revaluation to fair value of Karolinska Development's remaining holding (86.34%) in KDev Investments Group.

#### Recognized gain in connection with structural transaction involving KDev Investments AB

	Group
	2013
	Jan-Jun
<i>Amounts in SEK 000</i>	
Purchase price 13.66% of KDev Investments AB	220,000 <sup>1</sup>
Fair value of remaining holding	1,295,689
<b>Total</b>	<b>1,515,689</b>
Less assets recognized prospectively in the joint venture KDev Investments Group	-1,111,043
<b>Recognized gain</b>	<b>404,646</b>

<sup>1</sup>Of which the first tranche of SEK 190.8m was received at closing and the remaining SEK 29.2m is recognized in other financial assets

#### Distribution of recognized gain between capital gain on sale and revaluation of remaining holding at fair value

	Group
	2013
	Jan-Jun
<i>Amounts in SEK 000</i>	
Purchase price 13.66% of KDev Investments AB	220,000
Less 13.66% of net assets	-151,768
<b>Capital gain on sale</b>	<b>68,232</b>
Fair value of remaining holding	1,295,689
Less 86.34% of net assets	-959,275
<b>Revaluation of remaining holding at fair value</b>	<b>336,414</b>

### *Management of KDev Investments AB*

Karolinska Development owns 86.34% of the shares in KDev Investments AB. Management of the company is governed by a shareholders' agreement. The parties have joint control of KDev Investments AB. Karolinska Development and Rosetta intend to invest in the portfolio companies in accordance with Karolinska Development's plans prior to the transaction.

### *Terms for the preference shares*

Rosetta's preference shares will have preference to profit distributions as explained below, after which allocations will be made between holders of common shares.

(i) 100% of total future returns up to SEK 220m after Karolinska Development has received the remainder of the purchase price amounting to SEK 29.2m

(ii) 30% of total future returns between SEK 220m and SEK 880m

(iii) 18.33% of total future returns between SEK 880m and SEK 1,320m

(iv) 0% of total future returns over SEK 1,320m

### *Put option*

According to the transfer agreement, Karolinska Development is obligated, under certain conditions, to redeem Rosetta's shares in KDev Investments AB on or after 7 March 2018. According to the terms, Rosetta has the right to request a redemption if Rosetta has not received a return equivalent to 2.5 times the capital it invested to acquire the shares in KDev Investments AB. The value of the put option is based on the fair value of the shares in KDev Investments which Rosetta owns at the time of redemption. The obligation is limited to a value corresponding to ten percent of the shares outstanding in Karolinska Development and can be fulfilled through the issuance of shares or is payable in cash. Karolinska Development has the right to choose the form of payment. Karolinska Development estimates the fair value of the put option at the end of the reporting period to nil.

### *Cash and cash equivalents provisionally allocated for expected follow-on investments*

According to the transfer agreement, Karolinska Development has provisionally allocated cash and cash equivalents for expected follow-on investments, according to investment plans as at the end of the reporting period, in KDev Investment's portfolio companies amounting to SEK 201m.

## Note 4 Fair value

The table below shows financial instruments measured at fair value based on the classification in the fair value hierarchy. The various levels are defined as follows:

Level 1- Fair value determined on the basis of observed (unadjusted) quoted prices in an active market for identical assets and liabilities

Level 2- Fair value determined based on valuation models based on observable data for the asset or liability other than quoted prices included in Level 1

Level 3- Fair value determined based on valuation models where significant inputs are based on non-observable data

The carrying amount of financial instruments measured at accrued cost equals fair value as of 30 June 2013.

### Fair value as of 30 June 2013

<i>Amounts in SEK 000</i>	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Shares in joint ventures and associated companies	0	0	1,713,748	1,713,748
Other long-term securities holdings	0	0	28,974	28,974
Other financial receivables	0	0	38,113	38,113
Short-term investments	91,315	0	0	91,315
Cash and cash equivalents	172,972	0	0	172,972
<b>Total</b>	<b>264,287</b>	<b>0</b>	<b>1,780,835</b>	<b>2,045,122</b>
<b>Financial liabilities</b>				
Other financial liabilities	0	0	-9,878	-9,878
<b>Total</b>	<b>0</b>	<b>0</b>	<b>-9,878</b>	<b>-9,878</b>

### Fair value measurement when using data not based on observable market data (level 3)

<i>Amounts in SEK 000</i>	Shares in joint ventures/ associated companies	Other long-term securities holdings	Other financial assets	Other financial liabilities
At beginning of the year	789,578	26,949	8,907	-10,889
Transfers to and from level 3	-	-	-	-
Acquisitions	152,909	0	29,206	0
Reclassifications from subsidiaries	930,277	0	0	0
Disposals	-204,993	0	0	0
Gains and losses recognized through profit or loss	45,977	2,025	0	1,011
<b>Closing balance at 30 June 2013</b>	<b>1,713,748</b>	<b>28,974</b>	<b>38,113</b>	<b>-9,878</b>
Total unrealized gains and losses for the period included in profit/loss	45,977	2,025	0	1,011
<b>Gains and losses in profit/loss for the year for assets and liabilities included in the closing balance</b>	<b>45,977</b>	<b>2,025</b>	<b>0</b>	<b>1,011</b>

There have not been any changes in the valuation method during the year.

The Group recognizes transfers between levels in the fair value hierarchy on the date of an event or changes that require the transfer.

### Information on fair value measurement in level 3

The valuation of the company's portfolio is based on the International Private Equity and Venture Capital Valuation Guidelines (IPEV) and IFRS 13. Based on the valuation criteria provided by these rules, an assessment is made of each company to determine a valuation method. This takes into account whether the companies have recently been financed or involved with a transaction that includes an independent third party. If there is no valuation available based on a similar transaction, risk adjusted net present value (rNPV) calculations are made of the portfolio companies whose projects are suitable for this type of calculation. Present value calculations are made with discounted cash flows which comprise:

- Estimated revenues, which generally consist of one-time milestone payments and royalty payments on sales. The estimated contract value (including royalties) is based on an estimate of sales potential and the buyer's development, manufacturing and marketing costs for the particular project. Contract value is based on a value allocation principle in which the seller's portion of the total value increases with the maturation of the project. In the model, the portfolio company receives approximately 40% of the total rNPV after Phase II.
- Sales forecasts are made by estimating the total patient population, target patient population, prevalence and treatable patients, market penetration and treatment costs in the US, the EU and the Japanese market. These markets represent approximately 80% of global pharmaceutical sales in 2010 (IMS).
- Estimates are made regarding product launch year and time of exit based on development plans. Drug licensing is usually assumed to be carried out after Phase II. For medical technology companies, an exit is usually assumed after launch of the product. Sales are then based on these estimated times together with the product's expected patent expiry, after which sales are assumed to decrease sharply.
- Estimates are made of the cost of each phase of development based either on the companies' forecasts or according to industry standards.
- Revenue and expenses are probability adjusted for each phase of development according to accepted statistics.
- Two different discount rates (WACC) are calculated to discount net cash flow from each project: a "Biotechnology WACC" for the in-house development period and a lower discount rate from the time the project is expected to be licensed to global pharmaceutical companies, a "Pharma WACC." The components of the discount rates are (i) the risk-free interest, represented by the Swedish Riksbank's 10-year government bond, (ii) the market risk premium, defined as the difference between the expected annuity quote and risk-free interest on the NASDAQ OMX stock exchange, and (iii) the premium supplement for private/small cap companies, which is a supplement to the market risk premium which represents the risk supplement for project companies with illiquid shares. The premium is collected from companies with a market capitalization under SEK 100m on the NASDAQ OMX stock exchange. The premium supplement for private/small cap companies constitutes the difference between the Biotechnology WACC and Pharma WACC.

On 30 June 2013, the Biotechnology WACC was 11.90% (11.68%) and the Pharma WACC was 8.20% (7.78%).

To estimate the effect of changes in the discount rate on the portfolio valuation, WACC has been adjusted by -1 percent and +1 percent.

Sensitivity analysis WACC	WACC adjustment -1%		30 June 2013 Biotech WACC: 11.90% Pharma WACC: 8.20%		WACC adjustment +1%	
	Fair value	Change	Fair value	Fair value	Change	
Amounts in SEKm						
Fair value difference for shares in portfolio companies	1,937.1	92.0	1,845.9	1,765.1	-80.1	

- Current tax rates are used and exchange rates calculated according to historical averages.

A change in any of these assumptions affects the valuation and may if significant have a material effect on the Group's results.

The Group has a team responsible for the fair value measurements of the valuation of portfolio company holdings required for the financial reporting according to IPEV, including fair values according to Level 3. All valuations in Level 3 are based on assumptions and judgments that management considers reasonable under current circumstances. This team reports directly to the CFO. Significant events that have occurred since the above-mentioned time of measurement have been taken into account in the measurement to the extent they would have affected the value on the closing date. Companies that have not been valued after transactions that have included third parties or present value calculations have been valued either at net asset value or, for early-stage development projects, the amount invested by Karolinska Development.

## Note 5 Result on sale of shares in portfolio companies

	Parent Company				
	2013	2012	2013	2012	2012
<i>Amounts in SEK 000</i>	Apr-Jun	Apr-Jun	Jan-Jun	Jan-Jun	Full-year
<b>Capital gain/loss</b>					
KDev Investments AB	0	0	123,678	0	0
Oncopeptides AB	0	0	0	0	49,722
ProNoxis AB	0	0	0	0	-6,500
Independent Pharmaceutica AB	0	0	0	0	47
<b>Gain/loss on sale of portfolio companies</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>43,269</b>

The capital gain related to KDev Investments AB resulted from the sale of 13.66% to Rosetta Capital IV LP.

## Note 6 Performance Share Program 2013 (PSP 2013)

On 14 May 2013, the Annual General Meeting decided on a new Performance Share Program for employees where participants acquire shares ("Saving Shares") on the open market. Under certain circumstances participants receive, free of charge, a maximum of five Performance Shares and one Matching Share Right from the company for each Savings Share they have purchased. The Matching Share Rights and Performance Shares are allotted after three years. The maximum number of Performance Shares and Matching Share Rights is 480,000. The program comprises a maximum of seventeen participants.

There are no performance conditions for the Matching Share Rights, other than that each participant must remain an employee during the vesting period. The Performance Shares have a target related to Karolinska Development's share price performance and a comparison between the so-called Start Price and End Price. The Start Price is measured as an average over ten trading days. The Board of Directors determines the measurement period. However, the measurement must be made not later than 14 November 2013. The established measurement period was 27 June 2013 through 10 July 2013. The Start Price was set at SEK 26.44. The End Price is measured as the average over 10 trading days beginning on 2 May 2016. For an allotment to be made, the share price must rise by six percent annually. For a maximum allotment (five Performance Shares per Savings Share), the share price must rise by 30 percent. Within this span, allotments are made proportionately. Allotments are capped at twenty times the Start Price, after which the number of allotted Performance Shares is reduced. Participants will be compensated in cash for dividends paid during the period.

The company intends to cover social security contributions related to the program by acquiring and transfer not more than 150,800 of its own shares. As of 30 June 2013, no Savings Shares had been acquired and no share repurchases had been made. The Performance Share Program has not had any impact on the company's results and financial position as of 30 June 2013.