

## Karolinska Development AB (publ)

Corporate Identity Number 556707-5048

### Year-end report January – December 2013

#### CEO's comment

In 2013 Karolinska Development made extensive commercial and scientific progress. In March, we completed the previously announced strategic transaction with Rosetta Capital, which acquired shares in a selection of our portfolio companies, at a premium to reported fair value, for SEK 220 million. A few months later, Boehringer Ingelheim agreed an option deal with Athera. The agreement, which provides Boehringer Ingelheim an option to license to the program on predetermined terms, is a concrete example of how we can create value in projects even in early development.

Our business strategy is to invest in world class innovation and to develop these to a point where we can do partnerships and thereby create value to our shareholders. The main focus for management in 2014 continues to be business development. Importantly, we advanced the clinical development of the project portfolio in 2013 and received positive clinical data from Pergamum, Pharmanest and Lipidor. The positive clinical data obtained from two of Pergamum's projects and the very clear Phase II data from Pharmanest give us a good opportunity to create value through partnering or exits of the companies. We are currently in active discussions with potential partners on several of the companies in our portfolio.

Axelar presented final data from its Phase II study with AXL1717 against lung cancer. The trial did not demonstrate that AXL1717 was superior to the comparator docetaxel, which has affected the valuation of the project – and therefore Karolinska Development's net result – negatively for the period. New and valuable data was generated during the study, which supports that AXL1717 potentially can be developed for patients with advanced lung cancer who currently have no treatment options. We are now seeking a partner that will explore this opportunity.

During the year, we also invested in a new portfolio company – Forendo Pharma, aiming at a cure for endometriosis – and Karolinska Development now has twelve projects, in its active portfolio, in clinical development for diseases with clear unmet medical needs.

In early 2014, we announced a collaboration agreement for NovaSAID which will help the company to take the project through the next development phases. We are looking forward to important clinical data from our portfolio during the first half of 2014. Data are expected from Umecrine Mood's Phase I/II study with its candidate drug for severe premenstrual symptoms, from Dilaforette's Phase I/II study with sevuparin against malaria, from the multiple ascending dose part of Akinion's Phase I/II trial in acute myeloid leukemia, and from XSpray's Phase I trial with its reformulation of a protein kinase inhibitor to treat cancer. Furthermore, during 2014, Aprea is expected to initiate and complete the first part of its Phase I/II study in ovarian cancer. Each of these potential medicines could change the life of patients with severe diseases around the world, this is the true value of investing in life science innovations.

In our ongoing efforts to create value for patients and for our shareholders, we will continuously seek partners to the portfolio companies for co-funding or development of projects in these companies to secure further advancement towards the market.

*Torbjörn Bjerke*  
Chief Executive Officer

#### Summary of significant events during the fourth quarter

- Axelar announced final data from Phase II study with AXL1717 in lung cancer
- The EU awarded research grants of more than EUR 1m to three of Karolinska Development's portfolio companies
- Pergamum announced positive final data from Phase I/II study of LL-37 in patients with chronic leg ulcers

#### Summary of significant events after the reporting period

- Karolinska Development announced that Christian Tange has been appointed Chief Financial Officer, to replace Robin Wright
- NovaSAID initiated a partnership with Cadila Pharmaceuticals to develop innovative treatments in inflammation and pain management

## Financial summary

Group	2013	2012	2013	2012
Amounts in SEKm	Oct-Dec	Oct-Dec	Full-year	Full-year
<i>Income statement</i>				
Revenue	2.6	2.6	9.9	9.9
Profit/loss after tax	-113.1	85.8	188.1	-230.2
<i>Balance sheet</i>				
Cash and cash equivalents			41.6	117.0
Short-term investments			165.3	174.2
<b>Total cash, cash equivalents and short-term investments (Note 3)</b>			<b>206.9</b>	<b>291.2</b>
<i>Share information</i>				
Earnings per share before and after dilution (SEK)	-2.31	1.60	4.08	-4.39
Net asset value per share (SEK) (Note 1)			40.82	44.01
Share price, last trading day in the reporting period (SEK)			30.9	15.3
<i>Portfolio information</i>				
Unconsolidated portfolio companies' total net cash <sup>1</sup>			111.6	118.6
Investments in portfolio companies	88.2	24.6	266.2	231.6
Of which investments not affecting cash flow	64.3	4.5	68.1	77.8
Valuation of total portfolio holdings (Note 2)			1,729.5	1,827.2

<sup>1</sup>Net cash is comprised of the sum of cash, cash equivalents and short-term investments less external loans in unconsolidated portfolio companies regardless of Karolinska Development's ownership interest.

## Significant events during the fourth quarter

### Axelar announced final data from Phase II study with AXL1717 in lung cancer

The final results from the Phase II study AXL-003 in patients with non-small cell lung cancer (NSCLC) were announced in December 2013 and showed no statistically significant difference in the rate of progression-free survival (PFS) between the patients treated with AXL1717 compared with the group treated with docetaxel, confirming the previously communicated preliminary data. These clinical data, taken together with new data on a second mechanism of action, suggest that AXL1717 has the potential to be developed for patients that have relapsed after treatment with docetaxel in this difficult-to-treat indication, where there is a clear unmet medical need.

A total of 101 patients with locally advanced or metastatic non-small cell lung cancer (NSCLC, stage IIIB or IV) were randomized in the study. The primary objective was to compare the rate of progression-free survival (PFS) at 12 weeks between the group of patients treated with AXL1717 and the docetaxel group. The 12-week PFS rate for the 99 patients who received study medication was 25.9% in the AXL1717 group and 39.0% in the docetaxel group, the difference was not statistically significant (p=0.19).

The main secondary endpoints were PFS and overall survival (OS). Neither of these endpoints showed a statistically confirmed difference between the two treatment groups for all patients or for any of the histological subgroups. The OS results for patients with adenocarcinoma suggested a more favorable outcome following treatment with AXL1717 compared with the outcome for patients with squamous cell carcinoma.

The main side effects in both groups were hematological, mainly reduced neutrophil granulocyte counts in blood (neutropenia): 22.4% of the AXL1717 treated patients reported at least one event of CTCAE (Common Terminology Criteria for Adverse Events) grade 3/4 neutropenia compared with 53.7% of the docetaxel treated patients. Some of the early neutropenic episodes in the AXL1717 group developed into serious events and some of these were fatal. The neutropenia side effects were managed with a dose reduction of AXL1717 coupled with increased supervision of the patients.

There is increasing evidence that AXL1717, in addition to the IGF-1R pathway inhibition, also suppress tumor cell division by arresting cells in mitosis through a non-IGF-1R dependent mechanism. This proposed additional mechanism of action would explain the differences in efficacy and side effect profile compared with other substances inhibiting the IGF-1R pathway.

Axelar is planning to present more data from AXL-003 at scientific meetings during 2014.

### About Axelar AB

Axelar was founded in 2003 as a result of research led by Professor Magnus Axelson and Professor Olle Larsson on the insulin-like growth factor-1 receptor's (IGF-1R) molecular and biological role in cancer cells. The company's development work has resulted in the drug candidate AXL1717, which is now being tested in clinical trials.

### EU research grants awarded to three of Karolinska Development's portfolio companies

In December 2013, the portfolio companies Pergamum, Inhalation Sciences Sweden (ISS) and XSpray Microparticles were awarded research grants totaling more than EUR 1 million within the framework of the international research project FORMAMP. The goal is to develop new ways to treat infectious diseases in order to reduce the problem of antibiotic resistance.

The three portfolio companies are engaged in potentially pioneering activities in the anti-infective area – Pergamum's antimicrobial peptide DPK-060 has been documented in a Phase II clinical trial and both XSpray and ISS are developing technologies to transport

drug substances to the right place in the body. The EU project provides increased opportunities to exploit synergies between the involved companies' knowledge and projects.

In the EU project FORMAMP (Innovative Nano Formulation of Antimicrobial Peptides to Treat Bacterial Infectious Diseases), a team of researchers, coordinated by the SP Technical Research Institute of Sweden, will develop new strategies for the treatment of infections. A total of 16 partners are engaged in the project, which has a total budget of over EUR 10 million and runs over four years. Karolinska Development's portfolio company Pergamum has been allocated EUR 250,000, ISS EUR 384,000 and XSpray Microparticles EUR 401,000. The project was launched at a kick-off meeting in Stockholm on 12 December 2013.

#### **About Pergamum AB and DPK-060**

Pergamum was incorporated in 2009 and a year later merged with three innovative biotech startups now wholly owned by Pergamum. One of these startups, Dermagen, was founded in 2004 as a result of research and development on antimicrobial peptides by Associate Professor Artur Schmidtchen at Lund University and Professor Martin Malmsten at Uppsala University. The company has developed the product candidate DPK-060, whose antimicrobial effect has been confirmed in two Phase II trials.

#### **About Inhalation Sciences Sweden AB**

Inhalation Sciences sells tools and services that accelerate drug discovery timelines and reduce attrition rates in the clinical phase when developing pharmaceuticals intended for inhalation administration. The company was founded in 2003 by Dr Per Gerde as a result of research and development work at Lovelace Respiratory Research Institute in New Mexico, USA, and at Karolinska Institute.

#### **About XSpray Microparticles AB**

XSpray was founded in 2003 by Mustafa Demirbükler together with Mikael Bisrat, and Håkan Nyqvist with the goal of creating new and improved formulations of drug substances. The company has developed a scalable manufacturing technology for hybrid nano particles that improves bioavailability and pH-dependent absorption of targeted cancer drugs.

### **Pergamum announced final data from Phase I/II study of LL-37 in patients with chronic leg ulcers**

Pergamum AB, a portfolio company of Karolinska Development AB, announced in October 2013 that it had finalized the Clinical Study Report of a randomized Phase I/II trial of LL-37 for treatment of venous leg ulcers. Patients treated with LL-37 had a statistically significant improved healing rate compared with placebo and no safety or tolerability concerns were noted. The clinical trial report thereby confirms the positive top-line data reported in July 2013.

Chronic leg ulcers are usually defined as those that fail to heal after six weeks or more of appropriate treatment over three months. Venous leg ulcers account for more than 70% of all hard-to-heal leg wounds, making it the most common type of wound in this category in the developed world.

LL-37 is a human peptide that is involved in acute wound healing. Data from independent research groups suggest that chronic wounds have a relative deficit of LL-37 and should benefit from therapeutic, exogenous application of the peptide.

In a double blind multicenter study, 34 patients with venous leg ulcers received either placebo or one of three different doses of LL-37 (0.5, 1.6, and 3.2 mg/ml) of Pergamum's potential first-in-class therapeutic peptide LL-37 in a gel formulation. The primary objective of the trial was to assess the safety and tolerability and the data demonstrate that there are no safety concerns with LL-37. The investigational drug was well tolerated when it was applied to venous leg ulcers at the two lower doses (0.5 mg/mL and 1.6 mg/mL). However, an increased incidence of local reactions at the treated wounds was observed in the highest dose group (3.2 mg/ml).

The results also show that the healing rate for the patients who received the lowest dose (0.5 mg/ml) and the middle dose (1.6 mg/ml) of LL-37 were approximately 6 and 3-fold higher, respectively, compared to the patients who received placebo ( $p=0.003$  for 0.5 mg/mL and  $p=0.088$  for 1.6 mg/ml). There was no improvement in healing rate in the highest dose group.

The company is now focusing its efforts on finding the right industrial partner to bring this novel treatment concept to market.

#### **About Pergamum AB and LL-37**

Pergamum was incorporated in 2009 and a year later merged with three innovative biotech startups now wholly owned by Pergamum. One of these startups was based on findings on the role of the endogenous active peptide LL-37 made by Professor Mona Ståhle and Dr Johan Heilborn at Karolinska Institute. The technology and related product concepts in wound healing were incorporated in Lipopeptide AB in early 2003 and are now part of the Pergamum Group.

## **Significant events after the reporting period**

### **Karolinska Development appointed new Chief Financial Officer**

Karolinska Development announced that Christian Tange has been appointed Chief Financial Officer. He will succeed Robin Wright, who will be leaving the company at the end of February, following the audit and report of the 2013 annual results. Christian Tange (b. 1966) has over 15 years' experience in international growth companies. In recent years, he has acted as an industrial advisor and consultant for Private Equity funds and Corporate Finance advisors in M&A deals within life science. During the period 2003-2012, he worked as global CFO of CMC Biologics, an international biotech contract manufacturing company. Christian holds a master's degree in economics and law from Copenhagen Business School. He joined Karolinska Development on February 1, 2014 and takes on the CFO role on March 1, 2014.

### **NovaSAID initiated partnership with Cadila Pharmaceuticals to develop innovative treatments in inflammation and pain management**

NovaSAID and Cadila Pharmaceuticals announced a strategic partnership on preclinical and clinical development of a number of drug candidates that have been developed by NovaSAID. Development will be conducted at Cadila Pharmaceuticals' facility in Ahmedabad, India. All revenue generated from the sale and marketing in India, Middle East and Africa of products covered by the

agreement will be retained by Cadila and net sales in all other countries will be shared by the two companies. Cadila will bear all costs associated with the program through to Phase II.

Most of today's medical treatments for inflammation and pain are associated with unwanted side effects such as an increased risk for myocardial infarction and gastric ulcers. NovaSAID's drug candidates target an enzyme called microsomal prostaglandin E synthase -1 (mPGES-1), a critically important mediator of inflammation and pain, which theoretically should reduce the risk of side effects. The collaboration with Cadila will provide the resources to take this program into clinical development and further towards the market.

#### **About NovaSAID AB**

NovaSAID's founders, Associate Professor Per-Johan Jakobsson and Professor Ralf Morgenstern at Karolinska Institute, have developed methods to purify the enzyme mPGES-1 and to screen inhibitors for the enzyme which play a key role in pain and inflammation. The company was founded in 2003 based on these discoveries with the goal of developing drugs to treat inflammatory conditions such as rheumatoid arthritis.

## The year in brief

### **Strategy and business development**

- Athera and Boehringer Ingelheim entered an option agreement on a novel therapy for atherosclerosis
- The EU granted EUR 6m for the clinical development of Athera's antibody therapy for acute coronary syndrome
- Karolinska Development and Rosetta Capital announced the closing of their strategic SEK 220m deal
- Pergamum AB entered into a strategic collaboration with Cadila Pharmaceuticals Ltd
- Karolinska Development launched a collaboration with the Mayo Clinic in the US, Ospedale San Raffaele in Milan, Italy, and the Medical University in Graz, Austria

### **Board of Directors and management**

- Bo Jesper Hansen was elected as the new Chairman of the Board

### **Research and development**

- Axelar announced final data from Phase II study with AXL1717 in lung cancer
- The EU awarded research grants of more than EUR 1m to three of Karolinska Development's portfolio companies
- Pergamum announced final data from Phase I/II study of LL-37 in patients with chronic leg ulcers
- Lipidor announced positive clinical Phase I/II data in treatment of psoriasis
- All endpoints met in Pharmanest's Phase II study of SHACT
- Oss-Q completed financing, initiated clinical study and changed its name to OssDsign
- Pergamum reported positive follow-up data from a Phase II clinical trial of PXL-01 for prevention of post-surgical adhesions
- First patient dosed in the Phase I/II study of Umecrine Mood's candidate drug for premenstrual dysphoric disorder
- Dilaforette initiated a Phase II trial with sevuparin for the treatment of severe malaria

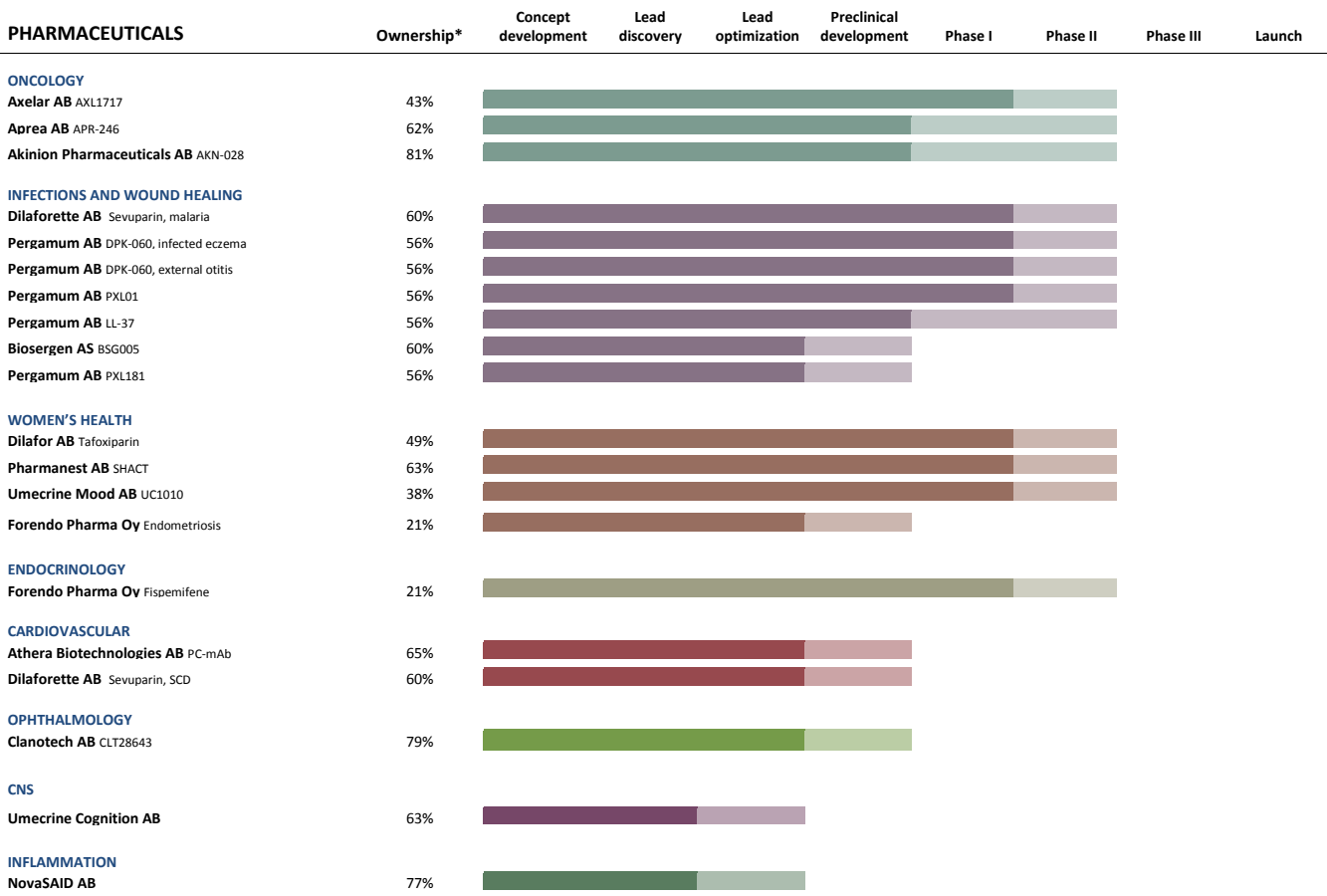
### **Investments and financing**

- Shares repurchased to cover social security fees related to incentive program
- Karolinska Development made an initial investment in Forendo Pharma

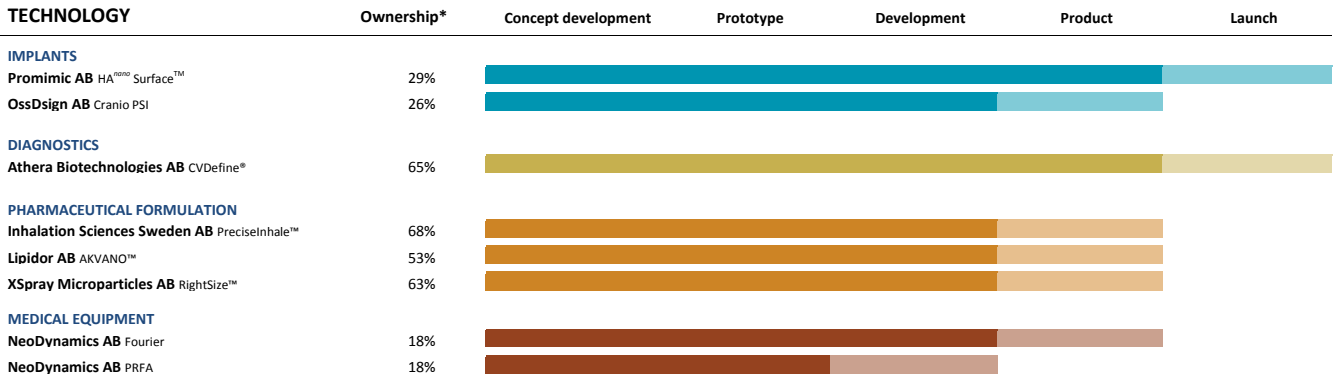
## Portfolio development

At the time of this report's publication, Karolinska Development's portfolio consisted of 33 projects in various stages. Of the pharmaceutical projects, 16 were in clinical trials. In 2013, Karolinska Development's portfolio companies took important steps forward. New clinical trials were launched in three projects; the first patient was dosed in a Phase I/II trial of Umecrine Mood's drug candidate for premenstrual dysphoric disorder, OssDsign initiated a clinical trial with the bioceramic skull implant OssDsign Cranio PSI, and a Phase II trial with Dilaforette's sevuparin for treatment of severe malaria was launched. The preclinical companies BioChromix Pharma and BioChromix AB have been divested after failing to reach their targets. Data from clinical trials were presented for Axelar's AXL1717, Pergamum's PXL-01 and LL-37, Pharmanest's SHACT and Lipidor's AKVANO/calcipotriol spray. During the year, Karolinska Development invested in a new portfolio company, Forendo Pharma. In total, twelve projects in the company's active portfolio are now in clinical development for conditions where current treatments are ineffective or lacking completely.

**PHARMACEUTICALS**

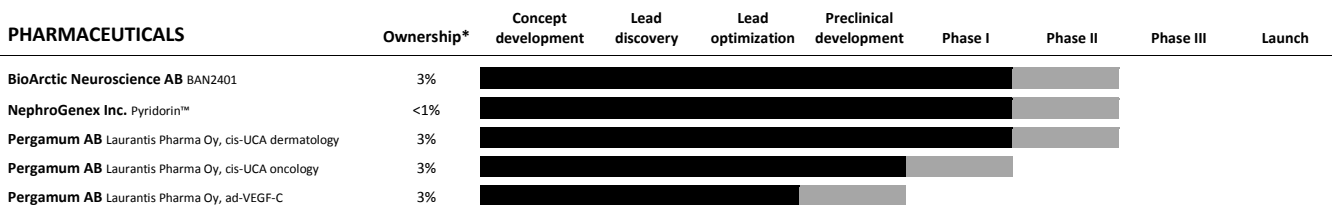


**TECHNOLOGY**



**FINANCIAL/PASSIVE INVESTMENTS**

**PHARMACEUTICALS**



\*Includes indirect ownership  
Status as per February 18, 2014

Solid color = Completed phase  
Shaded color = Current phase

## Financial overview - Group

### Revenue

Consolidated revenue during the year amounted to SEK 9.9m (SEK 9.9m). Consolidated revenue is comprised of services provided to portfolio companies, amounting to SEK 8.8m (SEK 5.1m) and grants received by portfolio companies, amounting to SEK 1.1m (SEK 4.8m).

During the fourth quarter, consolidated revenue amounted to SEK 2.6m (SEK 2.6m). Consolidated revenue is comprised of services provided to portfolio companies, amounting to SEK 2.5m (SEK 2.2m) and grants received by portfolio companies, amounting to SEK 0.1m (SEK 0.4m).

### Results

During the year, the Group's operating profit amounted to SEK 144.3m (SEK -253.8m), a change of SEK 398.1m compared with the previous year. The positive change is mainly due to the transaction with Rosetta Capital IV LP, which was finalized on 7 March 2013. The transaction's effect on results was SEK 404.6m, of which SEK 68.2m relates to capital gains and the remaining SEK 336.4m to the revaluation to effective fair value of Karolinska Development's holding, 86.34%, in the KDev Investments Group based on 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 -156.0m (SEK -86.8m) during the year.

The negative change in fair value is mainly due to delays in three portfolio companies, which shifts the estimated free cash flows in the risk-adjusted present value calculations to later quarters. The Group has switched from a valuation based on the deal consideration for KDev Investments Group to a valuation based on risk adjusted net present value (rNPV) calculations.

The Group's profit before tax during the year amounted to SEK 185.2m (SEK -276.0m), mainly consisting of the result from the transaction with Rosetta Capital IV LP of SEK 404.6m (SEK 0m), Parent Company costs of SEK -58.7m (SEK -55.8m), subsidiary costs of SEK -46.4m (SEK -111.2m), fair value changes of SEK -156.0m (SEK -86.8m), the sale of KDev Exploratory AB of SEK 0.8m (SEK 0m) and net financial items of SEK 40.9m (SEK -22.2m) which includes the reversal of previously impaired loans to Pergamum AB in connection with a share conversion in the amount of SEK 32.0m.

During the fourth quarter, the Group's operating loss amounted to SEK -152.5m (SEK 49.9m), a change of SEK -202.4m year-on-year. The change is mainly due to the portion of the change in fair value affecting results, which amounted to SEK -132.1m (SEK 102.1m) during the fourth quarter.

The negative change in fair value is due to the same main reasons as mentioned for the annual result.

The Group's loss before tax during the fourth quarter amounted to SEK -113.1m (SEK 50.7m).

### Investments in portfolio companies

Investments in portfolio companies during the year amounted to SEK 266.2m (SEK 231.6m) of which SEK 198.1m (SEK 153.8m) affected cash flow.

The largest investments during the year were in KDev Investments Group at SEK 185.5m (comprised of Karolinska Development's 90% interest in KDev Investments Group's investments in Pergamum AB, SEK 48.1m; Axelar AB, SEK 24.1m; Akinion Pharmaceuticals AB, SEK 23.5m; Aprea AB, SEK 19.7m; Clanotech AB, SEK 15.3m; Dilafor AB, SEK 10.8m; Biosergen AS, SEK 10.1m; Dilaforette Holding AB, SEK 9.0m; Umecrine Mood AB, SEK 8.2m; NeoDynamics AB, SEK 7.5m; Inhalation Sciences Sweden AB, SEK 5.4m; Promimic AB, SEK 2.7m; and KDev Investments AB, SEK 1.1m), as well as in XSpray Microparticles AB, SEK 17.5m, and Forendo Pharma Oy, SEK 9.5m.

The Group's investments in portfolio companies during the fourth quarter amounted to SEK 88.2m (SEK 24.6m), of which SEK 24.0m (SEK 20.1m) affected cash flow.

The largest investments during the fourth quarter were in KDev Investments Group at SEK 81.2m (comprised of investments in Pergamum AB, SEK 40.2m; Aprea AB, SEK 13.2m; Clanotech, SEK 12.2m; NeoDynamics AB, SEK 7.5m; Dilafor AB, SEK 6.3m; and Inhalation Sciences Sweden AB, SEK 1.8m) and in XSpray Microparticles AB, SEK 5.0m.

### Financial position

The Group's equity to total assets ratio was 99% (91%) on 31 December 2013 and equity amounted to SEK 1,870.3m (SEK 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 206.9m (SEK 291.2m), of which SEK 178.1m is provisionally allocated for expected follow-on investments in the KDev Investments Group (Note 3). Total assets amounted to SEK 1,895.6m (SEK 2,215.0m).

## Financial overview – Parent Company

### Revenue

The Parent Company's revenue during the year amounted to SEK 4.9m (SEK 4.0m).

The Parent Company's revenue during the fourth quarter amounted to SEK 0.9m (SEK 1.3m).

### Results

During the year, the Parent Company's operating profit amounted to SEK 7.5m (SEK -132.7m), a change of SEK 140.2m year-on-year. Operating profit includes capital gains on the sales of shares in KDev Investments AB (to Rosetta as part of the Rosetta transaction) of SEK 123.7m and KDev Exploratory AB of SEK 0.7m as well as capital losses on the holdings in BioChromix Pharma AB (SEK -29.8m) and BioChromix AB (SEK -3.7m). During the year, impairment losses were recognized on the holdings in KDev Exploratory AB, SEK -15.1m; KDev Oncology AB, SEK -5.3m; CytoGuide ApS, SEK -3.3m; Limone AB, SEK -0.2m; KD Incentive AB, SEK -0.2m; KCIF Fund Management AB and share of result in KCIF Co-Investment Fund KB, SEK -0.4m, SEK -0.2m. Impairment losses during the year totaled SEK -24.7m (SEK -120.1m).

The financial net includes the reversal of previously impaired loans to Pergamum AB in connection with a share conversion in the amount of SEK 32.0m.

The Parent Company's profit after tax during the year amounted to SEK 47.3m (SEK -152.7m).

During the fourth quarter, the Parent Company's operating loss amounted to SEK -53.6m (SEK 0.1m), a change of SEK -53.7m year-on-year. Fourth-quarter operating profit includes a capital gain on the sale of shares in KDev Exploratory AB of SEK 0.7m, capital losses on the holdings in BioChromix Pharma AB, SEK -29.8m, and BioChromix AB, SEK -3.7m, as well as impairment loss on the holding in KDev Oncology AB, SEK -5.2m, and share of result in KCIF Co-Investment Fund KB, SEK -0.3m.

The Parent Company's net loss during the fourth quarter amounted to SEK -14.7m (SEK 1.8m).

### Dividend

The Board of Directors proposes that no dividend be paid to the shareholders for the financial year 2013.

## 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. This is largely due to sensitivities in the valuation calculations to movement of expected milestone or exit dates, costs of trials and similar assumptions, which are not necessarily accounted for in arriving at an actual deal value in negotiations with partners.

#### 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 both timing and nature of the development 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 CEO hereby certifies 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, 19 February 2014

Torbjörn Bjerke  
CEO

## Dates for publication of financial information

Annual report 2013	10 April 2014
Interim report January-March 2014	8 May 2014
Annual General Meeting	14 May 2014
Interim report January-June 2014	21 August 2014
Interim report January-September 2014	20 November 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 19 February 2014.

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

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This year-end report has not been reviewed by the company's auditors.

*Note: This report is a translation of the Swedish year-end 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> <i>Oct-Dec</i>	<b>2012</b> <i>Oct-Dec</i>	<b>2013</b> <i>Full-year</i>	<b>2012</b> <i>Full-year</i>
Revenue		2,604	2,572	9,940	9,943
Other external expenses		-10,325	-34,966	-53,772	-108,980
Personnel costs		-13,238	-18,597	-58,745	-62,818
Depreciation of tangible and intangible non-current assets		-299	-1,245	-2,627	-5,163
Change in fair value of shares in joint ventures and associated companies	2	-128,684	101,783	-153,711	-87,694
Change in fair value of other long-term securities holdings	2	-3,387	319	-2,289	902
Result from sale of subsidiary		834	0	834	0
Result from transaction with Rosetta Capital IV LP	3	0	0	404,646	0
<b>Operating profit/loss</b>		<b>-152,495</b>	<b>49,866</b>	<b>144,276</b>	<b>-253,810</b>
Net financial items		39,394	835	40,890	-22,161
<b>Profit/loss before tax</b>	2	<b>-113,101</b>	<b>50,701</b>	<b>185,166</b>	<b>-275,971</b>
Deferred taxes		0	35,051	2,926	45,807
Current taxes		0	0	0	0
<b>NET PROFIT/LOSS FOR THE PERIOD</b>		<b>-113,101</b>	<b>85,752</b>	<b>188,092</b>	<b>-230,164</b>
<b>Attributable to:</b>					
Parent Company's shareholders		-111,519	77,840	197,163	-212,852
Non-controlling interests		-1,582	7,912	-9,071	-17,312
<b>TOTAL</b>		<b>-113,101</b>	<b>85,752</b>	<b>188,092</b>	<b>-230,164</b>

### Earnings per share

<i>Amounts in SEK</i>	<i>Note</i>	<b>2013</b> <i>Oct-Dec</i>	<b>2012</b> <i>Oct-Dec</i>	<b>2013</b> <i>Full-year</i>	<b>2012</b> <i>Full-year</i>
Earnings per share attributable to Parent Company's shareholders, weighted average, before and after dilution		-2.31	1.60	4.08	-4.39
Number of shares, weighted average		48,287,132	48,524,869	48,350,016	48,529,767

### Condensed consolidated statement of comprehensive income

<i>Amounts in SEK 000</i>	<i>Note</i>	<b>2013</b> <i>Oct-Dec</i>	<b>2012</b> <i>Oct-Dec</i>	<b>2013</b> <i>Full-year</i>	<b>2012</b> <i>Full-year</i>
<b>Net profit/loss for the period</b>		<b>-113,101</b>	<b>85,752</b>	<b>188,092</b>	<b>-230,164</b>
<b>Total comprehensive income for the period</b>		<b>-113,101</b>	<b>85,752</b>	<b>188,092</b>	<b>-230,164</b>
<b>Attributable to:</b>					
Parent Company's shareholders		-111,519	77,840	197,163	-212,852
Non-controlling interests		-1,582	7,912	-9,071	-17,312
<b>TOTAL</b>		<b>-113,101</b>	<b>85,752</b>	<b>188,092</b>	<b>-230,164</b>

## Condensed consolidated statement of financial position

<i>Amounts in SEK 000</i>	<i>Note</i>	<b>31 Dec 2013</b>	<b>31 Dec 2012</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible non-current assets		8,340	9,864
Tangible non-current assets		529	4,985
Shares in joint ventures and associated companies	2	1,605,469	219,173
Other long-term securities holdings	2	24,568	26,949
Loans receivable joint ventures and associated companies		5,894	12,856
Other financial assets	3	38,113	8,907
<b>Total non-current assets</b>		<b>1,682,913</b>	<b>282,734</b>
<b>Current assets</b>			
Accounts receivable		258	513
Other short-term receivables		3,803	3,955
Prepaid expenses and accrued income		1,767	4,578
Short-term investments	3	165,334	174,160
Cash and cash equivalents	3	41,639	117,033
<b>Total current assets</b>		<b>212,801</b>	<b>300,239</b>
Assets which have been transferred to KDev Investments Group		-	1,632,025
<b>TOTAL ASSETS</b>		<b>1,895,714</b>	<b>2,214,998</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital		24,266	24,266
Share premium		1,768,179	1,768,179
Retained earnings including current period result		74,380	-122,547
<b>Equity attributable to Parent Company's shareholders</b>		<b>1,866,825</b>	<b>1,669,898</b>
Non-controlling interests		3,514	354,294
<b>Total equity</b>		<b>1,870,339</b>	<b>2,024,192</b>
<b>Long-term liabilities</b>			
Other financial liabilities		9,438	10,889
<b>Total long-term liabilities</b>		<b>9,438</b>	<b>10,889</b>
<b>Current liabilities</b>			
Accounts payable		3,779	4,215
Other short-term liabilities		2,636	2,775
Accrued expenses and prepaid income		9,522	8,166
<b>Total current liabilities</b>		<b>15,937</b>	<b>15,156</b>
Liabilities attributable to assets which have been transferred to KDev Investments Group		-	164,761
<b>Total liabilities</b>		<b>25,375</b>	<b>190,806</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,895,714</b>	<b>2,214,998</b>

## Condensed consolidated statement of changes in equity

<i>Amounts in SEK 000</i>	Equity attributable to Parent Company's shareholders						Non-controlling interests	Total equity
	Note	Share capital	Share premium	Retained earnings incl. current year result	Total			
<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 year</i>				197,163	197,163	-9,071	188,092	
Total comprehensive income for the year		0	0	197,163	197,163	-9,071	188,092	
Change in non-controlling interests				350	350	4,378	4,728	
Share repurchase				-2,483	-2,483		-2,483	
Share rights incentive programs PSP 2012, PSP 2013					1,897		1,897	
Non-controlling interests transferred to KDev Investments Group					0	-346,087	-346,087	
<b>Closing equity at 31 Dec 2013</b>		<b>24,266</b>	<b>1,768,179</b>	<b>74,380</b>	<b>1,866,825</b>	<b>3,514</b>	<b>1,870,339</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>Full-year</i>	<b>2012</b> <i>Full-year</i>
<b>Operating activities</b>			
Operating profit/loss		144,276	-253,810
Adjustments for depreciation, amortization and impairment losses		2,627	5,163
Adjustments for changes in fair value	2	156,000	86,792
Result from transaction with Rosetta Capital IV LP	3	-404,646	0
Realized changes in value of short-term investments		1,062	9,868
Interest paid		-70	-56
Interest received		5,353	3,345
Other items not affecting cash flow		2,171	0
<b>Cash flow from operating activities before changes in working capital</b>		<b>-93,227</b>	<b>-148,698</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/Decrease (+) in operating receivables		8,421	-2,516
Increase (+)/Decrease (-) in operating liabilities		2,779	-1,431
<b>Cash flow from operating activities</b>		<b>-82,027</b>	<b>-152,645</b>
<b>Investing activities</b>			
Investments in intangible non-current assets		-879	-1,963
Investments in tangible non-current assets		-1,018	-5,233
Sale of tangible non-current assets		4,000	0
Sale of subsidiaries		4,031	0
Acquired/divested cash and cash equivalents in subsidiaries		-2,548	5,363
Investments in shares in joint ventures and associated companies		-176,330	-70,564
Investments in other long-term securities		-8	-1,460
Cash and cash equivalents transferred to KDev Investments Group		-51,723	0
Change in short-term investments		7,105	278,555
Sale of shares in portfolio companies	3	190,893	3,217
Loans provided to associated companies		-27,750	-43,467
<b>Cash flow from investing activities</b>		<b>-54,227</b>	<b>164,448</b>
<b>Financing activities</b>			
Share of subsidiary issue for non-controlling shareholders		3,757	4,137
Amortization of interest-bearing liabilities		0	-425
Share repurchase		-2,483	-2,243
<b>Cash flow from financing activities</b>		<b>1,274</b>	<b>1,469</b>
<b>Cash flow for the year</b>		<b>-134,980</b>	<b>13,272</b>
Cash and cash equivalents at beginning of year		176,619	163,347
Cash and cash equivalents to be transferred to KDev Investments Group		-	-59,586
<b>CASH AND CASH EQUIVALENTS AT YEAR-END</b>	3	<b>41,639</b>	<b>117,033</b>

## Supplemental disclosure

<b>CASH AND CASH EQUIVALENTS AT YEAR-END</b>		<b>41,639</b>	<b>117,033</b>
Cash and cash equivalents to be transferred to KDev Investments Group		-	59,586
Short-term investments, market value on closing date		165,334	174,160
<b>CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS AT YEAR-END</b>	3	<b>206,973</b>	<b>350,779</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>
		<i>Oct-Dec</i>	<i>Oct-Dec</i>	<i>Full-year</i>	<i>Full-year</i>
Net sales		945	1,285	4,948	3,986
<b>Revenue</b>		<b>945</b>	<b>1,285</b>	<b>4,948</b>	<b>3,986</b>
Other external expenses		-5,477	-6,707	-25,293	-28,156
Personnel costs		-10,653	-9,382	-38,290	-31,650
Depreciation of tangible non-current assets		-107	-2	-114	-6
Impairment losses on shares in subsidiaries, joint ventures, associated companies and other long-term securities holdings		-5,539	14,888	-24,701	-120,078
Result from sale of shares in portfolio companies	5	-32,769	0	90,909	43,269
<b>Operating profit/loss</b>		<b>-53,600</b>	<b>82</b>	<b>7,459</b>	<b>-132,635</b>
Financial net		38,914	1,762	39,855	-20,076
<b>NET PROFIT/LOSS FOR THE PERIOD</b>		<b>-14,686</b>	<b>1,844</b>	<b>47,314</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>
		<i>Oct-Dec</i>	<i>Oct-Dec</i>	<i>Full-year</i>	<i>Full-year</i>
<b>Net profit/loss for the period</b>		-14,686	1,844	47,314	-152,711
<b>Total comprehensive income for the period</b>		<b>-14,686</b>	<b>1,844</b>	<b>47,314</b>	<b>-152,711</b>
<b>Attributable to:</b>					
Parent Company's shareholders		-14,686	1,844	47,314	-152,711
<b>TOTAL</b>		<b>-14,686</b>	<b>1,844</b>	<b>47,314</b>	<b>-152,711</b>

## Condensed statement of financial position for the Parent Comp

<i>Amounts in SEK 000</i>	<i>Note</i>	<b>31 Dec 2013</b>	<b>31 Dec 2012</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Tangible non-current assets		529	9
Shares in subsidiaries, joint ventures, associated companies and other long-term securities holdings		1,070,597	962,243
Loans receivable joint ventures and associated companies		5,894	12,856
Other financial assets	3	32,522	2,623
<b>Total non-current assets</b>		<b>1,109,542</b>	<b>977,731</b>
<b>Current assets</b>			
Accounts receivable		202	409
Group receivables		55	260
Other receivables		3,225	2,476
Prepaid expenses and accrued income		1,477	2,463
Short-term investments	3	165,334	174,160
Cash and cash equivalents	3	35,323	108,680
<b>Total current assets</b>		<b>205,616</b>	<b>288,448</b>
<b>TOTAL ASSETS</b>		<b>1,315,158</b>	<b>1,266,179</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
<b>Restricted equity</b>			
Share capital		24,266	24,266
<b>Unrestricted equity</b>			
Share premium reserve		1,778,253	1,778,253
Retained earnings		-550,566	-397,269
Net profit/loss for the year		47,314	-152,711
<b>Total equity</b>		<b>1,299,267</b>	<b>1,252,539</b>
<b>Long-term liabilities</b>			
Pension obligations		3,315	2,623
<b>Total long-term liabilities</b>		<b>3,315</b>	<b>2,623</b>
<b>Current liabilities</b>			
Accounts payable		2,426	2,510
Group liabilities		442	474
Other current liabilities		1,594	1,512
Accrued expenses and deferred income		8,114	6,521
<b>Total current liabilities</b>		<b>12,576</b>	<b>11,017</b>
<b>Total liabilities</b>		<b>15,891</b>	<b>13,640</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,315,158</b>	<b>1,266,179</b>

## Pledged assets and contingent liabilities

<i>Amounts in SEK 000</i>	<i>Note</i>	<b>31 Dec 2013</b>	<b>31 Dec 2012</b>
Pledged assets		3,315	2,623
Contingent liabilities		0	1,200
<b>Total</b>		<b>3,315</b>	<b>3,823</b>

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

	Restricted equity		Unrestricted equity			
	Note	Share capital	Share premium reserve	Retained earnings	Profit/loss for the period	Total equity
<i>Amounts in SEK 000</i>						
<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 for the year					47,314	47,314
<b>Total</b>		<b>24,266</b>	<b>1,778,253</b>	<b>-549,980</b>	<b>47,314</b>	<b>1,299,853</b>
Share rights incentive programs PSP 2012-2013				1,897		1,897
Share repurchase				-2,483		-2,483
<b>Closing equity at 31 Dec 2013</b>		<b>24,266</b>	<b>1,778,253</b>	<b>-550,566</b>	<b>47,314</b>	<b>1,299,267</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.

#### *New and revised accounting principles as of 1 January 2014*

Karolinska Development considers the Group to be a so-called Investment Entity according to IFRS 10. Investment Entities do not consolidate subsidiaries; instead, all holdings in subsidiaries and associated companies are measured at fair value with changes in fair value recognized through profit or loss. The Parent Company's financial reports are prepared according to previously applied principles.

#### *Definitions*

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

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.

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

Reporting period: Current quarter.



## Note 2 Operating segments

*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 Oct-Dec	2012 Oct-Dec	2013 Full-year	2012 Full-year
<i>Amounts in SEK 000</i>				
<b><i>Subsidiaries</i></b>				
Change in fair value	8,694	164,874	1,287	208,201
<b><i>Joint ventures and associated companies</i></b>				
Change in fair value	-128,684	82,508	-153,711	18,847
Impairment losses <sup>1</sup>	0	19,275	0	-106,541
<b><i>Other long-term securities holdings</i></b>				
Change in fair value	-3,387	319	1,011	902
Impairment losses <sup>1</sup>	0	0	-3,300	0
<b>Change in fair value of total portfolio holdings</b>	<b>-123,377</b>	<b>266,976</b>	<b>-154,713</b>	<b>121,409</b>
<b><i>Group eliminations</i></b>				
Less change in fair value of subsidiaries	-8,694	-164,874	-1,287	-208,201
<b>Recognized gain/loss on changes in fair value</b>	<b>-132,071</b>	<b>102,102</b>	<b>-156,000</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)	18,970	-51,401	-63,480	-189,179
<b>Consolidated profit/loss before tax</b>	<b>-113,101</b>	<b>50,701</b>	<b>185,166</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 -154.7m (121.4) during the year, which includes a change in the fair value of subsidiaries of SEK 1.3m (208.2). 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 loss on changes in the fair value of joint ventures, associated companies and other long-term securities holdings amounted to SEK -156.0m, against a year-earlier loss of SEK 86.8m.

The aggregate loss on changes in the fair value of the portfolio companies amounted to SEK 123.4m during the fourth quarter, against a year-earlier gain of SEK 267.0m. This includes a change in the fair value of subsidiaries of SEK 8.7m (164.9). The Group's recognized loss on changes in the fair value of joint ventures, associated companies and other long-term securities holdings amounted to SEK 132.1m, against a year-earlier loss of SEK 102.1m.

*Assets per segment*

<i>Amounts in SEK 000</i>	Fair value portfolio companies	
	31 Dec 2013	31 Dec 2012
<i>Fair value of total portfolio holdings</i>		
Subsidiaries	99,428	1,010,663
Joint ventures and associated companies	1,605,469	789,578
Other long-term securities holdings	24,568	26,949
<b>Fair value of total portfolio holdings</b>	<b>1,729,465</b>	<b>1,827,190</b>
Less fair value of subsidiaries	-99,428	-1,010,663
Less fair value of joint ventures and associated companies transferred to KDev Investments Group	-	-570,405
<b>Group</b>	<b>1,630,037</b>	<b>246,122</b>

*Shares in portfolio companies at fair value*

<i>Amounts in SEK 000</i>	Subsidiaries	Joint ventures & associated companies	Other long-term securities	Total portfolio holdings
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 2013-01-01	1,010,663	789,578	26,949	1,827,190
Investments	21,786	244,379	8	266,173
Reclassifications <sup>1</sup>	-930,277	930,277	0	0
Sale of shares	-4,031	-205,054	-100	-209,185
Changes in fair value and impairment losses	1,287	-153,711	-2,289	-154,713
<b>Closing balance at 31 Dec 2013</b>	<b>99,428</b>	<b>1,605,469</b>	<b>24,568</b>	<b>1,729,465</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 and liabilities*

<i>Amounts in SEK 000</i>	31 Dec 2013	31 Dec 2012
Aggregate fair value of total portfolio holdings	1,729,465	1,827,190
Less fair value of subsidiaries	-99,428	-1,010,663
Other consolidated assets	265,677	1,398,471
<b>Consolidated total assets</b>	<b>1,895,714</b>	<b>2,214,998</b>
Equity	1,870,339	2,024,192
Consolidated liabilities	25,375	190,806
<b>Consolidated equity and liabilities</b>	<b>1,895,714</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 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

	<b>Group</b>
	<b>2013</b>
	Full-year
<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

	<b>Group</b>
	<b>2013</b>
	Full-year
<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 86.98% 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 in issue 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 in KDev Investment's portfolio companies amounting to SEK 178.1m.

## 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 the fair value as of 31 December 2013.

### Fair value as of 31 December 2013

Amounts in SEK 000	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Shares in joint ventures and associated companies	0	0	1,605,469	1,605,469
Other long-term securities holdings	0	0	24,568	24,568
Other financial receivables	0	0	38,113	38,113
Short-term investments	165,334	0	0	165,334
Cash and cash equivalents	41,639	0	0	41,639
<b>Total</b>	<b>206,973</b>	<b>0</b>	<b>1,668,150</b>	<b>1,875,123</b>
<b>Financial liabilities</b>				
Other financial liabilities	0	0	-9,438	-9,438
<b>Total</b>	<b>0</b>	<b>0</b>	<b>-9,438</b>	<b>-9,438</b>

### Fair value (level 3)

Amounts in SEK 000	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	244,379	8	29,206	0
Reclassifications from subsidiaries	930,277	0	0	0
Disposals	-205,054	-100	0	0
Gains and losses recognized through profit or loss	-153,711	-2,289	0	1,451
<b>Closing balance at 31 Dec 2013</b>	<b>1,605,469</b>	<b>24,568</b>	<b>38,113</b>	<b>-9,438</b>
Total unrealized gains and losses for the period included in profit/loss	-153,711	-2,289	0	1,451
<b>Gains and losses in profit/loss for the year for assets and liabilities included in the closing balance</b>	<b>-153,711</b>	<b>-2,289</b>	<b>0</b>	<b>1,451</b>

During the first two quarters, the Group valued the KDev Investments Group based on the deal consideration. During the third quarter, the Group switched from a valuation based on the deal consideration for the KDev Investments Group to a valuation based on risk-adjusted present value calculations.

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 31 December 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%		31 December 2013 Biotech WACC: 11.90% Pharma WACC: 8.20%	WACC adjustment +1%	
	Fair value	Change	Fair value	Amounts in SEKm	Fair value
Amounts in SEKm					
Fair value difference for shares in portfolio companies	1,935.3	205.9	1,729.5	1,549.6	-179.9

- 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 for early-stage development projects, or the amount invested by Karolinska Development.

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

	Parent Company			
	2013	2012	2013	2012
<i>Amounts in SEK 000</i>	Oct-Dec	Oct-Dec	Full-year	Full-year
<b>Capital gain/loss</b>				
BioChromix AB	-3,734	0	-3,734	0
BioChromix Pharma AB	-29,790	0	-29,790	0
Independent Pharmaceutica AB	0	0	0	47
KDev Exploratory AB	755	0	755	0
KDev Investments AB	0	0	123,678	0
Oncopeptides AB	0	0	0	49,722
ProNoxis AB	0	0	0	-6,500
<b>Gain/loss on sale of portfolio companies</b>	<b>-32,769</b>	<b>0</b>	<b>90,909</b>	<b>43,222</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. For each Savings Share participants receive, free of charge, a maximum of one Matching Share Right and five Performance Shares. The maximum number of Performance Shares and Matching Share Rights is 480,000. The program comprises a maximum of seventeen participants.

Each Performance and Matching Share Right is entitled to the allotment of one subscription option. Each subscription option entitles its holder to acquire one series B share at a subscription price corresponding to the share's par value and assuming that the option is exercised as soon as possible after receiving the subscription option. Subscription options will be allotted after publication of the company's interim report for the first quarter 2016, though no earlier than three years after the agreement on PSP 2013 was signed (the vesting period).

There are no performance conditions for the Matching Share Rights, but each participant must remain an employee during the vesting period and may not have sold their Saving Shares. The Performance Shares have the same terms as the Matching Share Rights. In addition, there is 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.

In September 2013, participants acquired 49,700 Saving Shares. The fair value of a Matching Share Right on the allotment date in September 2013 was set at SEK 26.12 based on the Black-Scholes option-pricing model. The inputs in the model were a share price of SEK 26.60, an exercise price of SEK 0.5, an anticipated maturity of 3.1 years, an anticipated volatility of 42.5%, an anticipated dividend of zero percent and a risk-free rate of interest of 1.47%. The fair value of a Performance Share on the allotment date in September 2013 was set at SEK 14.98 based on a Monte Carlo simulation. The inputs in the model were a share price of SEK 26.60, an exercise price of SEK 0.5, an anticipated maturity of 3.1 years, an anticipated dividend of zero percent and a risk-free rate of interest of 1.47%. The condition related to share price performance has been taken into account in the valuation of the Performance Share Rights.

Anticipated volatility is based on historical volatility and comparisons with similar companies.

The company covers social security contributions related to the program by acquiring and transferring not more than 150,800 of its own shares. As of 31 December 2013, the company has repurchased 93,685 shares. The Performance Share Program has not had any significant impact on the company's results and financial position as of 31 December 2013.