Karolinska Development AB (publ)

Corporate Identity Number 556707-5048

Interim report January – June 2014

CEO's comment

The ongoing efforts to partner Axelar's drug candidate AXL1717 following the results presented in December last year from the Phase II study in non-small cell lung cancer has so far not met our expectations. The timeline and near-term commercial value of the company has therefore been adjusted. As a consequence, the fair value of Axelar for the second quarter has therefore been written down, which has a significant effect on the interim fair value and net profit. Axelar remains active in finding a partner in order to move the project into the next clinical development steps.

During the second quarter, study results were reported in three of our portfolio companies' drug development projects and another important clinical trial was initiated.

Our portfolio company Aprea has developed substances that can that can restore normal function to the p53 protein, which plays a decisive role in cancer cells' programmed death (apoptosis). In around half of all tumor cells, p53 has mutated and no longer functions normally. As a result, the cancer cells survive, leading to rapid tumor growth. In April, Aprea initiated a clinical trial with its substance APR-246 in patients with relapsed platinum sensitive ovarian cancer, a disease with a very poor prognosis. About 60% of all ovarian cancer patients have mutated p53 and the survival of these patients is lower than those with wild type p53.

Dilaforette took a step forward during the quarter in the development of an effective treatment for malaria. The results of an exploratory Phase I/II clinical trial with the drug candidate sevuparin found it to be safe and well tolerated. Due to problems recruiting a sufficient number of patients, however, the study was prematurely terminated. No statistical significance was found between sevuparin and the current standard treatment with regards to the appearance of mature parasitized red blood cells in circulation, which was the primary end-point of the study. The results however, indicate that sevuparin can produce better blood circulation and hence an improved clinical effect. Based on these findings, Dilaforette intend to approach relevant stakeholders in the malaria community with the aim to progress the program into the intended patient group, patients with severe malaria.

Protein kinase inhibitors (PKI) are a class of drug that plays an important role in the treatment of various types of cancer and inflammation. Unfortunately, many PKIs have properties that make treatment unnecessarily complicated and in the worst cases can lead to a suboptimal effect or serious side-effects. Based on its proprietary HyNap drug delivery technology, XSpray Microparticles AB is developing a new formulation of the PKI nilotinib. The goal is to provide patients with a simpler and safer treatment. In May, the company presented study results clearly indicating that HyNap nilotinib has a better uptake in the body than the formulation of nilotinib used today. The results of the study also indicate that HyNap nilotinib uptake is not affected by food intake, one of the problems with current therapies. After these promising data, XSpray is evaluating strategies to fully capture the potential in the HyNap technology.

Premenstrual dysphoric disorder (PMDD) is a condition with a debilitating effect on the quality of life of about five percent of all women of child-bearing age. Umecrine Mood is the first company to develop substances that inhibit the metabolites believed to cause PMDD. In June, it reported data from an exploratory clinical trial that show positive treatment effects among patients with severe symptoms. While the primary end point in the study was not reached, the substance was well tolerated and further analyses will now be conducted before a decision is made whether to continue development.

We are continuously evaluating and developing the portfolio through our clearly defined selection criteria with the aim to develop differentiated pharmaceutical and technology products based on prominent research. Our efforts continue to invest in our portfolio companies and their further efforts to address major medical needs and thereby build significant value for patients and shareholders.

Torbjörn Bjerke
Chief Executive Officer

Summary of significant events during the second quarter 2014

- Dosing initiated in Phase I/II clinical trial of APR-246 in patients with relapsed platinum sensitive ovarian cancer
- XSpray announced positive Phase I data for HyNap™ nilotinib, demonstrating better bioavailability than for the current formulation of nilotinib
- New Board Directors elected at the company's Annual General Meeting
- Dilaforette presented results from exploratory Phase I/II clinical trial in uncomplicated malaria, demonstrating that sevuparin is safe and well tolerated but due to premature termination of the trial, no evidence on effect could be concluded
- Umecrine Mood reported preliminary data with UC1010 from exploratory Phase II study in premenstrual dysphoric disorder (PMDD), UC1010 was well tolerated but the trial did not reach its primary efficacy end point
- Due to the partnering progress not reaching expectations the value of Axelar was written down

Summary of significant events after the second quarter 2014

There were no significant events after the reporting period.

Financial summary*

Investment entity *Amounts in SEKm*	***2014*** *Apr-Jun*	***2013*** *Apr-Jun* *(restated)*	***2014*** *Jan-Jun*	***2013*** *Jan-Jun* *(restated)*
Condensed Income statement				
Change in fair value of portfolio companies	-177.3	49.8	-183.4	64.0
Net profit/loss	-189.5	35.8	-207.9	33.5
Condensed Balance sheet				
Cash and cash equivalents			29.8	156.1
Short-term investments			99.1	91.3
Total cash, cash equivalents and short-term investments			**128.9**	**247.4**
Share information				
Earnings per share, weighted average, before and after dilution (SEK)	-3.92	0.74	-4.31	0.69
Net asset value per share (SEK) (Note 1)			36.4	44.5
Equity per share (SEK) (Note 1)			36.3	44.4
Share price, last trading day in the reporting period (SEK)			22.0	27.2
Portfolio information				
Portfolio companies' net cash[1]			51.6	186.9
Investments in portfolio companies	33.8	158.8	49.3	174.4
Of which investments not affecting cash flow	6.7	0.0	6.7	3.8
Fair value of portfolio holdings			1,595.4	1,845.9

[1]Portfolio companies' net cash is comprised of the sum of cash, cash equivalents and short-term investments less external loans in portfolio companies regardless of Karolinska Development's ownership interest
*For comments on the financial development, please refer to page 5

Significant events during the second quarter 2014

Dosing initiated in Phase I/II clinical trial of APR-246 in ovarian cancer

Aprea AB announced that dosing has begun in the Phase I/II proof-of-concept clinical trial of APR-246 in combination with chemotherapy in patients with relapsed platinum sensitive high grade serous ovarian cancer. The cancer develops and spreads due to the malfunction of the cells' normal growth control mechanisms. One of the best-known cancer genes that can trigger the cellular suicide program to eliminate cancer cells is the protein p53. In about half of all tumors, p53 is mutated and no longer functions normally. This allows cancer cell survival and rapid tumor growth. About 60% of all ovarian cancer patients have mutated p53 and the survival of these patients who are treated with platinum-based chemotherapy is lower than those with wild type p53. Aprea has successfully developed substances that can restore normal function to the p53 protein and thereby induce efficient cancer cell death and overcome resistance to antitumoral therapy. To the company's knowledge, APR-246 is the only compound with this mechanism of action in clinical development.

About Aprea AB

Based on prominent research on the tumor suppressor protein p53 at Karolinska Institutet, Aprea was founded in 2003. The discoveries by the founders Professor Klas Wiman, Professor Galina Selivanova, Associate Professor Vladimir Bykov, Professor Staffan Strömblad, Wenjie Bao and Natalia Issaeva regarding the restoration of function of defective p53 led to the identification of the lead drug candidate APR-246 that is now in Phase I/II clinical development.

XSpray announced positive Phase I data for HyNap™ nilotinib

XSpray Microparticles AB announced that its proprietary HyNap™ formulation of nilotinib demonstrated significantly improved uptake and reduced food interaction in a Phase I clinical trial compared to previously reported data for the commercial available formulation of nilotinib. Protein kinase inhibitors (PKIs) are used in the treatment of cancer and inflammation. Food interaction is a common problem with this class of drugs, and to have control of the uptake from the gastrointestinal tract into the blood stream patients are often restricted to fasting in connection with administration. Several PKIs are also associated with pH dependent absorption, which means that patients cannot use acid reducing agents together with the PKI treatment.

In the completed cross-over Phase I clinical trial, XSpray measured the exposure of its proprietary HyNap™ formulation of nilotinib in healthy individuals. When administered in the fasting state, a HyNap™ nilotinib dose of 150 mg produced the same AUC (area under the curve) values as those reported for a dose of 400 mg of the marketed product. The study also showed an increase in drug exposure of 25 percent for HyNap™ nilotinib after a high-fat meal, measured both as peak concentration (Cmax) and AUC. For the marketed product the corresponding reported increases after a high-fat meal are 112 percent and 82 percent, respectively.

In addition to the clinical results obtained for HyNap™ nilotinib, XSpray has in a number of comparative *in vivo* preclinical studies showed improved results for both exposure and reduced pH dependency for a number of other marketed PKIs.

About XSpray Microparticles AB

XSpray Microparticles is a drug delivery company working to overcome the significant problem of variable bioavailability due to pH dependent absorption, food effect and poor solubility in gastric fluid. XSpray formulates compounds as HyNap™ – hybrid nanoparticles that are stable amorphous solid dispersions, which can be formed using a wide range of excipients. The technology is used both to improve and enhance the product profile of currently marketed drugs and to speed up the development of new drugs for the future.

New Board Directors elected at the company's Annual General Meeting
Karolinska Development's Annual General Meeting on May 14 elected Robert Holland, Henrijette Richter and Carl Johan Sundberg as new members of the Board of Directors. The Annual General Meeting re-elected Bo Jesper Hansen (Chairman), Vlad Artamonov, Charlotte Edenius, Hans Wigzell and Klaus Wilgenbus. Rune Fransson and Per-Olof Edin declined re-election.

Dilaforette presented results from exploratory Phase I/II clinical trial in uncomplicated malaria
Dilaforette AB announced the results from an exploratory Phase I/II clinical trial in malaria with its candidate drug sevuparin. The effects of adjunct treatment with sevuparin were studied in adult patients with uncomplicated falciparum malaria as adjunct treatment and found to be safe and well tolerated. The study results indicate important early anti-adhesive effects with a potential to improve the outcome for patients with severe malaria, even though the primary efficacy endpoint was not met.

The aim of the trial was to study sevuparin in adult patients with uncomplicated falciparum malaria prior to studies in patients with severe malaria. Due to slow recruitment and in order to progress the program into severe malaria, it was decided to prematurely terminate the study when a total of 53 of the planned 89 patients had been treated. Among the 53 patients that were treated, 23 patients received standard-of-care (SoC), atovaquone/proguanil, and 30 patients received SoC plus sevuparin. The study results showed that sevuparin is safe and well-tolerated in adult patients with uncomplicated falciparum malaria. The study did not reach statistical significance on its primary efficacy endpoint, i.e. an increase in appearance of mature parasitized red blood cells into the blood circulation over the first 11 hours after start of sevuparin treatment. However, due to the premature termination of the trial, the results do not suffice as the basis for conclusive determination of the effect of sevuparin.

Exploratory analyses indicate a higher number of mature parasites in the circulating blood already one hour after the first dose of sevuparin. This observation is consistent with the intended effect of sevuparin, which is to reverse blockage of blood vessels by mature parasitized red blood cells which normally stick to the vessel wall and obstruct the blood flow. In addition, the number of young parasitized cells consistently decreased over the early time period after the initial sevuparin injection, in line with the assumed capacity of sevuparin to block parasite invasion into red blood cells. As patients with uncomplicated malaria have a much lower parasite load than patients with severe disease, the exploratory analysis supports further clinical studies in severe malaria with the aim to show that sevuparin can reverse the binding, which should improve blood flow and clinical outcome.

About Dilaforette AB
Dilaforette is a Swedish drug development company developing sevuparin, a heparan sulfate mimetic, for the treatment of severe malaria and vaso-occlusive crisis in sickle cell disease.

Umecrine Mood reported preliminary data from exploratory Phase II study in premenstrual dysphoric disorder (PMDD)
Umecrine Mood AB reported data from an exploratory Phase II study with its candidate drug UC1010 in patients with PMDD. The primary end point was not met in the study, but a post hoc analysis indicated positive treatment effects in a subgroup of patients with the most severe problems. UC1010 was well tolerated and there were no safety concerns.

Most women experience some form of premenstrual symptoms, but in about five percent of young and middle-aged women that have PMDD, the symptoms are so severe that they in a debilitating way affect daily life and relationships to other people. The severity of the symptoms confers huge costs on society.

In an exploratory double blind, randomized multicenter study, 120 patients with PMDD received, during one menstrual cycle, either placebo or one of two different doses of the drug candidate UC1010, a GABA-A modulating steroid antagonist (GAMSA). The objective of the trial was to study the safety and effect of UC1010. The primary end point in the study was to assess symptoms using a validated daily rating scale (DRSP) containing the sum of the four cardinal symptoms for diagnosis of PMDD measured as the average score during the late luteal phase (the premenstrual week) in the active dose arms combined vs. placebo.

The outcome of the study shows a reduction in the average late luteal phase score after treatment vs. before treatment of 61% in the active group and 55% in the placebo group. The difference between the active group and placebo was not statistically significant and the primary end-point of the study was thus not met. In a post hoc analysis there was a statistically significant difference ($p<0.05$) between active treatment and placebo in patients with severe problems during a week or more per cycle. Moreover, differences were observed in the PMDD symptoms that are clinically most relevant. There were no safety concerns with UC1010 and it was well tolerated.

About Umecrine Mood AB
Based on research performed at Umeå University, Umecrine Mood specializes in the development of drugs to mitigate the negative effects of endogenous sex and stress hormones on the brain in patients with premenstrual dysphoric disorder. The company has a unique development program that could result in first-in-class products. In addition to the drug candidate UC1010, Umecrine Mood also has substances in early preclinical development. Its goal, after obtaining positive Phase II results, is to find a partner for further development.

Due to the partnering progress not reaching expectations the value of Axelar was written down
The ongoing efforts to partner Axelar's drug candidate AXL1717 following the results presented in December last year from the Phase II study in non-small cell lung cancer has so far not met our expectations. The timeline and near-term commercial value of the company has therefore been adjusted. As a consequence, the fair value of Axelar for the second quarter has therefore been written down, which has a significant effect on the interim fair value and net profit. Axelar remains active in finding a partner in order to move the project into the next clinical development steps.

Significant events after the second quarter 2014
No significant events occurred after the reporting period.

Portfolio development

During the second quarter, XSpray reported positive Phase I data for HyNap™ nilotinib, Dilaforette presented the results of an exploratory Phase I/II clinical trial in uncomplicated malaria, and Umecrine Mood reported preliminary data from an exploratory Phase II study in premenstrual dysphoric disorder (PMDD). Moreover, dosing was initiated in a Phase I/II clinical trial with Aprea's drug candidate APR-246 in ovarian cancer. The portfolio currently consists of 33 projects (see below), of which 16 pharmaceutical projects are in clinical development.

PHARMACEUTICALS	Indication	Ownership*	Research Phase	Lead Optimization	Preclinical Development	Phase I	Phase II
ONCOLOGY							
Axelar AB AXL1717	Non-small cell lung cancer	43%					
Aprea AB APR-246	Ovarian cancer	62%					
Akinion Pharmaceuticals AB AKN-028	Acute myeloid leukemia	81%					
INFECTIONS AND WOUND HEALING							
Dilaforette AB Sevuparin	Malaria	63%					
Pergamum AB DPK-060	Infected eczema	56%					
Pergamum AB DPK-060	External otitis	56%					
Pergamum AB PXL01	Surgical adhesions	56%					
Pergamum AB LL-37	Venous leg ulcers	56%					
Biosergen AS BSG005	Systemic fungal infection	60%					
Pergamum AB PXL181	Skin infection	56%					
WOMEN'S HEALTH							
Dilafor AB Tafoxiparin	Protracted labor	49%					
Pharmanest AB SHACT	Pain at IUD-insertions	63%					
Umecrine Mood AB UC1010	PMDD and severe PMS	38%					
Pharmanest AB SHACT	Pain at hysteroscopies	63%					
Forendo Pharma Oy	Endometriosis	21%					
ENDOCRINOLOGY							
Forendo Pharma Oy Fispemifene	Hypogonadism	21%					
CARDIOVASCULAR AND HEMATOLOGY							
Athera Biotechnologies AB PC-mAb	Acute coronary syndrome	65%					
Dilaforette AB Sevuparin	Sickle-cell disease	63%					
OPHTHALMOLOGY							
Clanotech AB CLT28643	Glaucoma surgery	80%					
CNS							
Umecrine Cognition AB	Hepatic encephalopathy	66%					
INFLAMMATION							
NovaSAID AB	Inflammatory pain	77%					

TECHNOLOGY	Indication	Ownership*	Concept development	Prototype	Development	Product	Launch
IMPLANTS							
Promimic AB HA^{nano} Surface™	Bone implant surface	30%					
OssDsign AB Cranio PSI	Cranial implants	26%					
DIAGNOSTICS							
Athera Biotechnologies AB CVDefine®	Cardiovascular diagnostic kit	65%					
PHARMACEUTICAL FORMULATION							
Inhalation Sciences Sweden AB PreciseInhale™	Respiratory precision dosing system	68%					
Lipidor AB AKVANO™	Topical drug delivery	51%					
XSpray Microparticles AB RightSize™	Drug formulation technology	63%					
MEDICAL EQUIPMENT							
NeoDynamics AB Fourier	Fine needle biopsy	18%					
NeoDynamics AB PRFA	Tumor ablation	18%					

FINANCIAL/PASSIVE INVESTMENTS

PHARMACEUTICALS	Indication	Ownership*	Research Phase	Lead optimization	Preclinical development	Phase I	Phase II
BioArctic Neuroscience AB BAN2401	Alzheimer's	3%					
Pergamum AB Herantis Pharma Plc, cis-UCA	Atopic dermatitis	1%					
Pergamum AB Herantis Pharma Plc, cis-UCA	Dry Eye	1%					
Pergamum AB Herantis Pharma Plc, Lymfactin	Lymph edemas	1%					

*Includes indirect ownership
Status as per August 20, 2014

Solid color = Completed phase
Shaded color = Current phase

Financial development – Investment Entity*

Revenue

During the six month period ended 30 June 2014, the effect of the change in fair value of portfolio investments amounted to SEK -183.4m (SEK 64.0m).

During the second quarter ended 30 June 2014, the effect of the change in fair value of portfolio investments amounted to SEK -177.3m (SEK 49.8m).

Value development

During the six month period, the Investment Entity's operating loss amounted to SEK -207.5m (SEK 32.7m), a change of SEK -241.0m compared with the same period in 2013. During the six month period, several projects in the portfolio met development milestones, which had a positive effect on fair values of these portfolio companies. At the same time a number of projects in the portfolio developed at a slower rate than previously projected, which resulted in negative changes in fair values. Operating loss during the six month period was affected by a change in fair value of the holding by KDev Investments AB in Axelar AB amounting to SEK -220.7m due to the partnering progress not reaching expectations. During the six month period, the fair value was affected positively by adjustments of the discount rates (WACC) (see 'Information on fair value measurement in level 3' on page 19). Other external expenses have decreased by SEK 5.7m year-over-year, of which SEK 3.5m is due to one-time expenses in the first quarter 2013 related to the Rosetta transaction. The portion of the change in fair value of shares in portfolio companies during the six month period amounted to SEK -183.4m (SEK 64.0m).

During the second quarter, the Investment Entity's operating loss amounted to SEK -188.9m (SEK 34.5m), a change of SEK -223.4m compared with the same period in 2013. The portion of the change in fair value of shares in portfolio companies during the second quarter amounted to SEK -177.3m (SEK 49.8m). The change in fair value of the holding by KDev Investments AB in Axelar AB amounted to SEK -205.7m during the second quarter due to the partnering progress not reaching expectations. The fair value per the report date was affected by adjustments of the discount rates (WACC) (see 'Information on fair value measurement in level 3' on page 19). The effect of the WACC adjustments on fair value amounted to SEK 151.4m compared to the valuation based on the WACC applied during the previous period.

Results

The Investment Entity's loss before tax during the six month period amounted to SEK -207.9m (SEK 33.5m).

The Investment Entity's loss before tax during the second quarter amounted to SEK -189.5m (SEK 35.8m).

Investments in portfolio companies
Investments in portfolio companies during the six month period amounted to SEK 49.3m (SEK 174.4m).

During the six month period investments were made in KDev Investments' portfolio at SEK 27.0m (Dilaforette Holding AB, SEK 10.7m; Dilafor AB, SEK 6.0m, Umecrine Mood AB, SEK 4.8m; Clanotech AB, SEK 2.8m; Promimic AB, SEK 1.8m; and Inhalation Sciences Sweden AB, SEK 0.9m) as well as in Umecrine Cognition AB, SEK 11.0m; XSpray Microparticles AB, SEK 4.9m; Pharmanest AB, SEK 4.1m; and KCIF Co-Investment Fund KB, SEK 2.3m.

Investments in portfolio companies during the second quarter amounted to SEK 33.8m (SEK 158.8m).

During the second quarter investments were made in KDev Investments' portfolio at SEK 18.7m (Dilaforette Holding AB, SEK 8.1m; Dilafor AB, SEK 6.0m; Clanotech AB, SEK 2.8m; and Promimic AB, SEK 1.8m) as well as in Umecrine Cognition AB, SEK 5.0m; XSpray Microparticles AB, SEK 4.9m; Pharmanest AB, SEK 4.1m; and KCIF Co-Investment Fund KB, SEK 1.1m.

Financial position (comparative figures refer to 31 December 2013)
The Investment Entity's equity to total assets ratio was 99% (99%) on 30 June 2014 and equity amounted to SEK 1,750.7 (SEK 1,957.6m).

Cash, cash equivalents and short-term investments in the Investment Entity amounted to SEK 128.9m (SEK 200.7m), of which SEK 76.9m is provisionally allocated for anticipated follow-on investments in the KDev Investments portfolio. In addition, SEK 75.0m will be allocated to these portfolio companies as additional liquidity becomes accessible to Karolinska Development. Total assets amounted to SEK 1,772.0 (SEK 1,979.6m).

Change in accounting principle to investment entity
Karolinska Development is an investment entity in accordance with IFRS 10 *Consolidated Financial Statements*. Karolinska Development has implemented the amended accounting principle retroactively in accordance with IFRS 10 and IAS 8. Note 3 shows the effects of the amended accounting principle on the comparative figures for 2013 and 2012.

* The Investment Entity refers to the parent company, Karolinska Development AB, and its subsidiaries, joint ventures, associated companies and other long-term securities holdings.

Financial development – Parent Company

During the six month period ended 30 June 2014, the Parent Company's operating loss amounted to SEK -24.5m (SEK 78.4m), a change of SEK -102.9m compared with the same period in 2013. Operating profit for the comparative period includes a capital gain of SEK 123.7m on the sale of shares in KDev Investments AB to Rosetta as part of the Rosetta transaction. Other external expenses have decreased by SEK 5.7m year-over-year, of which SEK 3.5m is due to one-time expenses in the first quarter 2013 related to the Rosetta transaction.

During the second quarter, the Parent Company's operating loss amounted to SEK -11.9m (SEK -24.4m), a change of SEK 12.5m compared with the same period in 2013 mainly due to lower write-downs of shares in portfolio companies.

The Parent Company's net loss during the six month period amounted to SEK -23.3m (SEK 78.2m).

The Parent Company's net loss during the second quarter amounted to SEK -11.4m (SEK -22.6m).

Information on risks and uncertainties

Parent Company and Investment Entity

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 and subjectivity of inputs used in these assessments, the estimated value of the portfolio may deviate substantially from 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. Decisions about investment strategies may also have an impact on the valuation.

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 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. Investments in portfolio companies will decrease compared to the prior year due to license agreements that several portfolio companies have entered into with partners, expected increases in EU subsidies and increased share of third party financing. The portfolio company projects are continuously evaluated and prioritizations are made in order to assure that investments are made with the intention of increasing the long term value of the portfolio. However, as an investor, we can make no guarantees that the necessary capital to fund the projects can be obtained on favorable terms or that such capital can be obtained at all. If the projects within the portfolio cannot be funded as planned, this can also have a significant negative impact on the valuation of the portfolio companies.

No new risk areas have been identified since 31 December 2013. For a detailed description of risks and uncertainties, see the 2013 annual report.

Significant events after the second quarter 2014

No significant events occurred after the reporting period.

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 Investment Entity and describes the material risks and uncertainties faced by the company.

Solna, 21 August 2014

Bo Jesper Hansen Chairman	Klaus Wilgenbus	Charlotte Edenius
Vlad Artamonov	Hans Wigzell	Carl Johan Sundberg
Henrijette Richter	Robert Holland	Torbjörn Bjerke CEO

Dates for publication of financial information

Interim report January-September 2014	20 November 2014
Year-end report January-December 2014	February 2015
Annual report 2014	April 2015

Karolinska Development is required by law to publish the information in this interim report. The information was published on 21 August 2014.

This interim report, together with additional information, is available on Karolinska Development's website, www.karolinskadevelopment.com

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Note: This report is a translation of the Swedish year-end report. In case of any discrepancies, the Swedish version shall prevail.

Auditors' review report

Introduction

We have reviewed the condensed financial information (interim report) for Karolinska Development AB (publ) as per 30 June 2014 and the six-month period ended on this date. The Board of Directors and the CEO are responsible for the preparation and presentation of this financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this financial information based on our review.

Scope of review

We conducted our review in accordance with the Swedish Standard on Review Engagements SÖG 2410, Review of Interim Report Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA) and other generally accepted auditing standards. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion based on an audit.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report for the Group is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act, and for the Parent Company in accordance with the Swedish Annual Accounts Act.

Stockholm, 21 August 2014
Deloitte AB

Thomas Strömberg
Authorized Public Accountant

Financial statements

Condensed income statement for the Investment Entity

Amounts in SEK 000	*Note*	***2014*** *Apr-Jun*	***2013*** *Apr-Jun (restated)*	***2014*** *Jan-Jun*	***2013*** *Jan-Jun (restated)*	***2013*** *Full-year (restated)*
Revenue		1,107	1,184	2,356	2,436	4,948
Other external expenses		-4,837	-7,118	-8,505	-14,246	-25,292
Personnel costs		-8,982	-9,390	-19,392	-19,407	-38,290
Depreciation of tangible non-current assets		-53	-3	-106	-5	-114
Change in fair value of shares in portfolio companies	2	-177,271	49,815	-183,359	63,952	-139,996
Result from sale of shares in portfolio companies		1,184	0	1,531	0	0
Operating profit/loss		**-188,852**	**34,488**	**-207,475**	**32,730**	**-198,744**
Financial net		-666	1,313	-413	774	41,429
Profit/loss before tax		**-189,518**	**35,081**	**-207,888**	**33,504**	**-157,315**
Deferred taxes		0	0	0	0	0
Current taxes		0	0	0	0	0
NET PROFIT/LOSS FOR THE PERIOD		**-189,518**	**35,801**	**-207,888**	**33,504**	**-157,315**

Earnings per share

Amounts in SEK	*Note*	***2014*** *Apr-Jun*	***2013*** *Apr-Jun (restated)*	***2014*** *Jan-Jun*	***2013*** *Jan-Jun (restated)*	***2013*** *Full-year (restated)*
Earnings per share, weighted average, before and after dilution		-3.92	0.74	-4.31	0.69	-3.25
Number of shares, weighted average		48,287,132	48,380,817	48,287,132	48,380,817	48,350,016

Condensed statement of comprehensive income for the Investment Entity

Amounts in SEK 000	*Note*	***2014*** *Apr-Jun*	***2013*** *Apr-Jun (restated)*	***2014*** *Jan-Jun*	***2013*** *Jan-Jun (restated)*	***2013*** *Full-year (restated)*
Net profit/loss for the period		-189,518	35,801	-207,888	33,504	-157,315
Total comprehensive income for the period		**-189,518**	**35,801**	**-207,888**	**33,504**	**-157,315**

Condensed balance sheet for the Investment Entity

Amounts in SEK 000	*Note*	*30 June 2014*	*30 June 2013 (restated)*	*31 Dec 2013 (restated)*	*31 Dec 2012 (restated)*
Assets					
Non-current assets					
Tangible non-current assets		423	4	529	9
Shares in portfolio companies, at fair value through profit or loss		1,595,433	1,845,873	1,729,465	1,827,190
Loans receivable from portfolio companies		5,190	29,715	5,894	12,856
Other financial assets		38,113	38,113	38,113	8,907
Total non-current assets		**1,639,159**	**1,913,705**	**1,774,001**	**1,848,962**
Current assets					
Accounts receivable		0	0	3	106
Receivables from portfolio companies		366	1,112	254	563
Other short-term receivables		1,938	3,094	3,225	2,476
Prepaid expenses and accrued income		1,595	3,329	1,477	2,463
Short-term investments, at fair value through profit or loss		99,114	91,315	165,334	174,160
Cash and cash equivalents		29,778	156,128	35,323	108,680
Total current assets		**132,791**	**254,978**	**205,616**	**288,448**
TOTAL ASSETS		**1,771,950**	**2,168,683**	**1,979,617**	**2,137,410**
Equity and liabilities					
Equity and liabilities					
Share capital		24,266	24,266	24,266	24,266
Share premium		1,768,179	1,768,179	1,768,179	1,768,179
Retained earnings		-41,714	357,242	165,159	323,060
Total equity		**1,750,731**	**2,149,687**	**1,957,604**	**2,115,505**
Long-term liabilities					
Other financial liabilities		11,032	9,878	9,438	10,889
Total long-term liabilities		**11,032**	**9,878**	**9,438**	**10,889**
Current liabilties					
Accounts payable		1,185	885	2,426	2,510
Liabilities to portfolio companies		442	453	442	473
Other current liabilities		1,597	1,496	1,593	1,512
Accrued expenses and prepaid income		6,963	6,284	8,114	6,521
Total current liabilities		**10,187**	**9,118**	**12,575**	**11,016**
Total liabilities		**21,219**	**18,996**	**22,013**	**21,905**
TOTAL EQUITY AND LIABILITIES		**1,771,950**	**2,168,683**	**1,979,617**	**2,137,410**

Condensed statement of changes in the Investment Entity's equity

		Equity attributable to Parent Company´s shareholders					
Amounts in SEK 000	Note	Share capital	Share premium	Retained earnings	Total	Non-Controlling interests	Total equity
Opening equity at 1 Jan 2014 (restated)		**24,266**	**1,768,179**	**165,159**	**1,957,604**	**0**	**1,957,604**
Net profit/loss for the period				-207,888	-207,888	0	-207,888
Total comprehensive income for the period		0	0	-207,888	-207,888	0	-207,888
Effect of incentive programs				1,015	1,015		1,015
Closing equity at 30 June 2014		**24,266**	**1,768,179**	**-41,714**	**1750,731**	**0**	**1,750,731**
Opening equity at 1 Jan 2013		**24,266**	**1,768,179**	**-122,547**	**1,669,898**	**354,294**	**2,024,192**
Effect of change in accounting principle to investment entity	3			445,607	445,607	-354,294	**91,313**
Adjusted opening equity at 1 Jan 2013 (restated)		**24,266**	**1,768,179**	**323,060**	**2,115,505**	**0**	**2,115,505**
Net profit/loss for the period				33,504	33,504	0	33,504
Total comprehensive income for the period		0	0	33,504	33,504	0	33,504
Effect of incentive programs				678	678		678
Closing equity at 30 June 2013 (restated)		**24,266**	**1,768,179**	**357,242**	**2,149,687**	**0**	**2,149,687**
Opening equity at 1 Jan 2013		**24,266**	**1,768,179**	**-122,547**	**1,669,898**	**354,294**	**2,024,192**
Effect of change in accounting principle to investment entity	3			445,607	445,607	-354,294	**91,313**
Adjusted opening equity at 1 Jan 2013 (restated)		**24,266**	**1,768,179**	**323,060**	**2,115,505**	**0**	**2,115,505**
Net profit/loss for the year				-157,315	-157,315	0	157,315
Total comprehensive income for the year		0	0	-157,315	-157,315	0	-157,315
Effect of incentive programs				1,897	1,897		1,897
Share repurchase				-2,483	-2,483		-2,483
Closing equity at 31 Dec 2013 (restated)		**24,266**	**1,768,179**	**165,159**	**1,957,604**	**0**	**1,957,604**
Opening equity at 1 Jan 2012		**24,266**	**1,768,179**	**-122,547**	**1,669,898**	**354,294**	**2,024,192**
Effect of change in accounting principle to investment entity	3			404,640	404,640	-354,294	**50,346**
Adjusted opening equity at 1 Jan 2012 (restated)		**24,266**	**1,768,179**	**282,093**	**2,074,538**	**0**	**2,074,538**
Net profit/loss for the year				43,210	43,210	0	43,210
Total comprehensive income for the year		0	0	43,210	43,210	0	43,210
Share repurchase				-2,243	-2,243		-2,243
Closing equity at 31 Dec 2012 (restated)		**24,266**	**1,768,179**	**323,060**	**2,115,505**	**0**	**2,115,505**

Condensed statement of cash flows for the Investment Entity

Amounts in SEK 000	*Note*	***2014*** *Jan-Jun*	***2013*** *Jan-Jun (restated)*
Operating activities			
Operating profit/loss		-207,475	32,730
Adjustments for depreciation and amortization		106	5
Adjustments for changes in fair value	2	183,359	-63,952
Result from sale of portfolio companies		-1,531	0
Realized change in value of short-term investments		836	1,057
Interest paid		-4	-3
Interest received		151	947
Investments in shares in portfolio companies		-42,677	-170,656
Sale of shares in portfolio companies		1,240	190,793
Loans provided to portfolio companies		-5,190	-25,144
Change in short-term investments		67,131	84,851
Cash flow from operating activities before changes in working capital		**-4,054**	**50,628**
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in operating receivables		897	-2,298
Increase (+)/Decrease (-) in operating liabilities		-2,388	-882
Cash flow from operating activities		**-5,545**	**47,448**
Cash flow for the period		**-5,545**	**47,448**
Cash and cash equivalents at beginning of the year		35,323	108,680
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**29,778**	**156,128**

Supplemental disclosure

CASH AND CASH EQUIVALENTS AT END OF PERIOD	**29,778**	**156,128**
Short-term investments, market value at closing date	99,114	91,315
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS AT END OF PERIOD	**128,892**	**247,443**

Condensed income statement for the Parent Company

Amounts in SEK 000	*Note*	***2014*** *Apr-Jun*	***2013*** *Apr-Jun*	***2014*** *Jan-Jun*	***2013*** *Jan-Jun*	***2013*** *Full-year*
Net sales		1,107	1,184	2,356	2,436	4,948
Revenue		**1,107**	**1,184**	**2,356**	**2,436**	**4,948**
Other expenses		-4,837	-7,118	-8,505	-14,246	-25,293
Personnel costs		-8,982	-9,390	-19,392	-19,407	-38,290
Depreciation of tangible non-current assets		-53	-3	-106	-5	-114
Impairment losses on shares in subsidiaries, joint ventures, associated companies and other long-term securities holdings		-300	-9,044	-369	-14,031	-24,701
Result from sale of shares in portfolio companies		1,184	0	1,531	123,678	90,909
Operating profit/loss		**-11,881**	**-24,371**	**-24,485**	**78,425**	**7,459**
Financial net		471	1,768	1,182	-238	39,855
NET PROFIT/LOSS FOR THE PERIOD		**-11,410**	**-22,603**	**-23,303**	**78,187**	**47,314**

Condensed statement of comprehensive income for the Parent Company

Amounts in SEK 000	*Note*	***2014*** *Apr-Jun*	***2013*** *Apr-Jun*	***2014*** *Jan-Jun*	***2013*** *Jan-Jun*	***2013*** *Full-year*
Net profit/loss for the period		-11,410	-22,603	-23,303	78,187	47,314
Total comprehensive income for the period		**-11,410**	**-22,603**	**-23,303**	**78,187**	**47,314**

Condensed balance sheet for the Parent Company

Amounts in SEK 000	*Note*	***30 Jun 2014***	***30 Jun 2013***	***31 Dec 2013***
Assets				
Non-current assets				
Tangible non-current assets		423	6	529
Shares in subsidiaries, joint ventures, associated companies and other long-term securities holdings		1,119,555	1,026,620	1,070,597
Loans receivable from portfolio companies		5,190	29,715	5,894
Other financial assets		32,672	31,968	32,522
Total non-current assets		**1,157,840**	**1,088,309**	**1,109,542**
Current assets				
Accounts receivable		350	950	202
Receivables from subsidiaries		16	162	55
Other receivables		1,938	3,094	3,225
Prepaid expenses and accrued income		1,595	3,329	1,477
Short-term investments		99,114	91,315	165,334
Cash and cash equivalents		29,778	156,128	35,323
Total current assets		**132,791**	**254,978**	**205,616**
TOTAL ASSETS		**1,290,631**	**1,343,287**	**1,315,158**
Equity and liabilities				
Equity				
Restricted equity				
Share capital		24,266	24,266	24,266
Unrestricted equity				
Share premium reserve		1,778,253	1,778,253	1,778,253
Retained earnings		-502,237	-549,302	-550,566
Net profit/loss for the period		-23,303	78,187	47,314
Total equity		**1,276,979**	**1,331,404**	**1,299,267**
Long-term liabilities				
Pension obligations		3,465	2,762	3,315
Total long-term liabilities		**3,465**	**2,762**	**3,315**
Current liabilities				
Accounts payable		1,185	885	2,426
Liabilities to subsidiaries		442	453	442
Other current liabilities		1,597	1,498	1,594
Accrued expenses and prepaid income		6,963	6,285	8,114
Total current liabilities		**10,187**	**9,121**	**12,576**
Total liabilities		**13,652**	**11,883**	**15,891**
TOTAL EQUITY AND LIABILITIES		**1,290,631**	**1,343,287**	**1,315,158**

Pledged assets and contingent liabilities

Amounts in SEK 000	*Note*	***30 Jun 2014***	***30 Jun 2013***	***31 Dec 2013***
Pledged assets		3,465	2,762	3,315
Total		**3,465**	**2,762**	**3,315**

Condensed statement of changes in equity for the Parent Company

		Restricted equity	Unrestricted equity			
Amounts in SEK 000	Note	Share capital	Share premium reserve	Retained earnings	Net profit/loss for the period	Total equity
Opening equity at 1 Jan 2014		**24,266**	**1,778,253**	**-550,566**	**47,314**	**1,299,267**
Appropriation of loss				47,314	-47,314	0
Net profit/loss for the period					-23,303	-23,303
Total		**24,266**	**1,778,253**	**-503,252**	**-23,303**	**1,275,964**
Effect of incentive programs				1,015		1,015
Closing equity at 30 Jun 2014		**24,266**	**1,778,253**	**-502,237**	**-23,303**	**1,276,979**
Opening equity at 1 Jan 2013		**24,266**	**1,778,253**	**-397,269**	**-152,711**	**1,252,539**
Appropriation of profit				-152,711	152,711	0
Net profit/loss for the period					78,187	78,187
Total		**24,266**	**1,778,253**	**-549,980**	**78,187**	**1,330,726**
Effect of incentive programs				678		678
Closing equity at 30 Jun 2013		**24,266**	**1,778,253**	**-549,302**	**78,187**	**1,331,404**
Opening equity at 1 Jan 2013		**24,266**	**1,778,253**	**-397,269**	**-152,711**	**1,252,539**
Appropriation of profit				-152,711	152,711	0
Net profit/loss for the period					47,314	47,314
Total		**24,266**	**1,778,253**	**-549,980**	**47,314**	**1,299,853**
Effect of incentive programs				1,897		1,897
Share repurchase				-2,483		-2,483
Closing equity at 31 Dec 2013		**24,266**	**1,778,253**	**-550,566**	**47,314**	**1,299,267**

Notes to the financial statements

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 Investment Entity and the Parent Company correspond, unless otherwise stated below, to the accounting principles and valuation methods used in the preparation of the most recent annual report.

Information on the parent company

Karolinska Development AB (publ), Corporate identity Number 556707-5048, is a limited liability company with its registered office in Solna, Sweden. Karolinska Development AB aims to create value for investors, patients and researchers by developing innovations from world-class science into products that can be sold or out-licensed with high returns. The business model is to select the most commercially attractive medical innovations, develop innovations to the stage where the greatest return on investment can be achieved, and commercialize the innovations through the sale of companies or out-licensing of products. At the end of the six month period ended 30 June 2014 the portfolio consisted of 33 projects, of which 16 are in clinical development.

New and revised accounting principles 2014

Karolinska Development AB ("Karolinska Development" or the "Company"), together with its subsidiaries, is an Investment Entity according to IFRS 10 *Consolidated Financial Statements*, which took effect for financial years beginning on 1 January 2014, with early adoption permitted. Pursuant to the rules for investment entities, Karolinska Development do not consolidate its wholly-owned subsidiaries. Separate financial statements are instead prepared for Karolinska Development AB and its subsidiaries (the "Investment Entity" or the "Group"), where subsidiaries, joint ventures, associated companies and other financial investments are measured at fair value in the statement of financial position with changes in value in profit or loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. According to the Swedish Financial Reporting Board, these separate financial statements meet the requirements for consolidated financial statements according to the Annual Accounts Act. Karolinska Development has also adopted the other new and amended consolidation standards in the "package of five" as of 1 January 2014: IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12, *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statements*, and IAS 28 *Investments in Associates and Joint Ventures*. Karolinska Development has implemented the amended accounting principles retroactively in accordance with the transition rules of IFRS 10 *Consolidated Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Note 3 shows the effects of the changed accounting principle on the comparative figures for 2013.

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

Definitions

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.

Fair value is estimated according to the International Private Equity and Venture Capital Valuation Guidelines and adhere to the guidance of IFRS 13 *Fair Value Measurement*. 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.

Equity per share: Equity on the closing date in relation to the number of share 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 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 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

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

The carrying amounts of financial assets and liabilities recorded at amortized cost approximates their fair value.

Fair value as of 30 June 2014

Amounts in SEK 000	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Shares in portfolio companies	0	0	1,595,433	1,595,433
Loans receivable from portfolio companies	0	5,190	0	5,190
Other financial receivables	0	0	38,113	38,113
Receivables from portfolio companies	0	366	0	366
Short-term investments	99,114	0	0	99,114
Cash and cash equivalents	29,778	0	0	29,778
Total	**128,892**	**5,556**	**1,633,546**	**1,767,994**
Financial liabilities				
Other financial liabilities	0	0	11,032	11,032
Accounts payable	0	1,185	0	1,185
Liabilities to portfolio companies	0	442	0	442
Total	**0**	**1,627**	**11,032**	**12,659**

Fair value as of 30 June 2013

Amounts in SEK 000	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Shares in portfolio companies	0	0	1,845,873	1,845,873
Loans receivable from portfolio companies	0	29,715	0	29,715
Other financial receivables	0	0	38,113	38,113
Receivables from portfolio companies	0	1,112	0	1,112
Short-term investments	91,315	0	0	91,315
Cash and cash equivalents	156,128	0	0	156,128
Total	**247,443**	**30,827**	**1,883,986**	**2,162,256**
Financial liabilities				
Other financial liabilities	0	0	9,878	9,878
Accounts payable	0	885	0	885
Liabilities to portfolio companies	0	453	0	453
Total	**0**	**1,338**	**9,878**	**11,216**

Fair value (level 3) as of 30 June 2014

Amounts in SEK 000	**Shares in portfolio companies**	**Other financial assets**	**Other financial liabilities**
At beginning of the year	1,729,465	38,113	9,438

Transfers to and from level 3	-	-	-
Acquisitions	49,335	0	0
Disposals	-8	0	0
Gains and losses recognized through profit or loss	-183,359	0	1,594
Closing balance 30 Jun 2014	**1,595,433**	**38,113**	**11,032**
Total unrealized gains and losses for the period included in profit/loss	-183,359	0	-1,594
Gains and losses in profit/loss for the period for assets and liabilities included in the closing balance	**-183,359**	**0**	**-1,594**

There were no transfers between level 1 and 2 during the six month period ended 30 June 2014.

Fair value (level 3) as of 30 June 2013

Amounts in SEK 000	**Shares in portfolio companies**	**Other financial assets**	**Other financial liabilities**
At beginning of the year	1,773,675	8,907	10,889
Transfers to and from level 3	-	-	-
Acquisitions	174,441	29,206	0
Disposals	-219,710	0	0
Gains and losses recognized through profit or loss	117,467	0	-1,011
Closing balance 30 Jun 2013	**1,845,873**	**38,113**	**9 878**
Total unrealized gains and losses for the period included in profit/loss	49,235	0	-1,011
Gains and losses in profit/loss for the period for assets and liabilities included in the closing balance	**49,235**	**0**	**-1,011**

There were no transfers between level 1 and 2 during the six month period ended 30 June 2013.

The Group recognizes transfers between levels in the fair value hierarchy on the date when an event or changes occur that give rise to 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 *Fair Value Measurement*. 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 revenue, 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, Europe and the Japanese market. These markets represent approximately 70% of global pharmaceutical sales in 2012 (according to *IMS Health*).
- 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 (weighted average cost of capital, or "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 2014, the Biotechnology WACC was 11.02% (11.90%) and the Pharma WACC was 7.32% (8.20%). The adjustments of the WACC for the second quarter portfolio valuation was due to changes in the risk-free interest of -0.48% and the market risk premium of -0.4% compared to the previous WACC adjustment on 30 June 2013.

  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 Amounts in SEKm	**WACC adjustment –1%** Fair value	 Change	**30 June 2014** **Biotech WACC: 11.02%** **Pharma WACC: 7.32%** Fair value	**WACC adjustment +1%** Fair value	 Change
Fair value difference for shares in portfolio companies	1,784.5	189.0	1,595.4	1,430.4	-165.1

- 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 portfolio company holdings required for the financial reporting according to IPEV, including Level 3 fair values. All valuations in Level 3 are based on assumptions and judgments that management considers reasonable under current circumstances. This team reports directly to the Chief Financial Officer. 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 (i) net asset value or (ii) for early-stage development projects; the amount invested by Karolinska Development.

Note 3 Transition to investment entity

Karolinska Development has adopted IFRS 10, *Consolidated financial statements*, IFRS 11, *Joint arrangements*, IFRS 12, *Disclosure of interests in other entities*, IAS 27 (revised 2011), *Separate financial statements* and IAS 28, *Investments in associates and joint ventures*, and has applied the transition guidance amendments to IFRSs 10, 11 and 12, all effective 1 January 2013. Karolinska Development has early adopted the Investment Entities amendments to IFRS 10, IFRS 12 and IAS 27 (the "Amendments") which are effective 1 January 2014, with early adoption permitted.

IFRS 10 *Consolidated financial statements*, including the amendments to it establish principles for the presentation and preparation of consolidated financial statements. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements. The amendments to IFRS 10 define an investment entity and introduce an exception from the consolidation requirements for investment entities.

On adoption, Karolinska Development has determined that it meets the definition of an investment entity. As a result, Karolinska Development has changed its accounting policy with respect to its investment in its subsidiaries. The subsidiaries, which was previously consolidated, is now accounted for at fair value through profit or loss. This change in accounting policy has been applied retrospectively in accordance with the transition provisions of IFRS 10 and the Amendments to IFRS 10. The transition provisions require retrospective application in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. However, they specify that an entity needs only to present the quantitative information required by paragraph 28(f) of IAS 8 for the annual period immediately preceding the date of initial application.

IFRS 12, *Disclosure of interests in other entities* and the amendments to it requires entities to disclose significant judgments and assumptions made in determining whether the entity controls, jointly controls, significantly influences or has some other interests in other entities. Entities will also be required to provide more disclosures around certain 'structured entities'. The amendments also introduce new disclosure requirements related to investment entities. Adoption of the standard has impacted the Karolinska Development's level of disclosures in certain of the above noted areas.

IAS 27 (revised 2011), *Separate financial statements,* including the amendments to it prescribe the accounting and disclosure requirements when an entity prepares separate financial statements. The Amendments require an investment entity as defined in IFRS 10 to present separate financial statements as its only financial statements in the case where it measures all of its subsidiaries at fair value through profit or loss and to disclose that fact.

IFRS 11, *Joint arrangements* and IAS 28 (revised 2011), *Associates and joint ventures* and related amendments have also been early adopted, however, these standards have had no impact on Karolinska Developments' financial statements.

Investment entity

Karolinska Development has multiple unrelated investors and indirectly holds multiple investments

Karolinska Development has been deemed to meet the definition of an investment entity per IFRS 10 as the following conditions exist:

- Karolinska Development AB obtains funds from investors/shareholders in connection with the issuance or sale of equity instruments/shares.
- Karolinska Development's business purpose, which was communicated directly to investors, is investing these funds in medical innovations and solely for returns from capital appreciation and investment income.
- The performance of investments made through Karolinska Development are measured and evaluated on a fair value basis.

Amended accounting policy for shares in portfolio companies

Shares in portfolio companies are categorized as financial assets/liabilities at fair value in the condensed balance sheet for the Investment Entity. These assets and liabilities are recognized at estimated fair value on each closing date, while changes in fair value are recognized in the condensed income statement. Transaction costs are recognized through profit or loss in the condensed income statement.

Summary of effects of change in accounting policy to investment entity

The largest effects of the change in accounting policy are that:

- Investment entities do not consolidate subsidiaries that they control. This means that the individual income statement, balance sheet and cash flow line items of previously consolidated subsidiaries are not included in the Investment Entity's financial statements
- Deferred tax liabilities related to surplus values from subsidiary acquisitions are no longer recognized
- Non-controlling interests are no longer recognized

The effects of the change in accounting policies on the Group's financial position, comprehensive income and cash flow for the three and six month period ended 30 June 2013 are reported in the following tables (see also the annual report for 2013).

Effects of change in accounting policy on income statement for comparative figures 2013

Amounts in SEK 000	***2013*** *Apr-Jun (as previously reported)*	*Change in accounting policy*	***2013*** *Apr-Jun (restated)*	***2013*** *Jan-Jun (as previously reported*	*Change in accounting policy*	***2013*** *Jan-Jun (restated)*
Revenue	2,642	-1,458	1,184	4,577	-2,141	2,436
Other external expenses	-11,907	4,789	-7,118	-35,015	20,769	-14,246
Personnel costs	-14,592	5,202	-9,390	-31,977	12,570	-19,407
Depreciation and amortization of tangible and intangible non-current assets	-603	600	-3	-1,612	1,607	-5
Change in fair value of shares in portfolio companies	0	49,815	49,815	0	63,952	63,952
Change in fair value of shares in joint ventures and associated companies	27,535	-27,535	0	45,977	-45,977	0
Change in fair value of other long-term securities holdings	-1,940	1,940	0	2,025	-2,025	0
Result from sale of subsidiary	0		0	0		0
Result from transaction with Rosetta Capital IV LP	0		0	404,646	-404,646	0
Operating profit/loss	**1,135**	**33,353**	**34,488**	**388,621**	**-355,891**	**32,730**
Financial net	1,315	-2	1,313	316	458	774
Profit/loss before tax	**2,450**	**33,351**	**35,801**	**388,937**	**-355,433**	**33,504**
Deferred taxes	0	0	0	2,926	-2,926	0
Current taxes	0	0	0	0	0	0
NET PROFIT/LOSS FOR THE PERIOD	**2,450**	**33,351**	**35,801**	**391,863**	**-358,359**	**33,504**
Attributable to:						
Parent Company's shareholders	3,642	32,159	35,801	398,347	-364,843	33,504
Non-controlling interests	-1,192	1,192	0	-6,484	6,484	0
TOTAL	**2,450**	**33,351**	**35,801**	**391,863**	**-358,359**	**33,504**

Effects of change in accounting policy on earnings per share for comparative figures 2013

Amounts in SEK	***2013*** *Apr-Jun (as previously reported*	*Change in accounting policy*	***2013*** *Apr-Jun (restated)*	***2013*** *Jan-Jun (as previously reported*	*Change in accounting policy*	***2013*** *Jan-Jun (restated)*
Earnings per share attributable to Parent Company's shareholders, weighted average, before and after dilution	0.08	0.66	0.74	8.23	-7.54	0.69
Number of shares, weighted average	48,380,817		48,380,817	48,380,817		48,380,817

Effects of change in accounting policy on statement of comprehensive income for comparative figures 2013

Amounts in SEK 000	***2013*** *Apr-Jun (as previously reported*	*Change in accounting policy*	***2013*** *Apr-Jun (restated)*	***2013*** *Jan-Jun (as previously reported*	*Change in accounting policy*	***2013*** *Jan-Jun (restated)*
Net profit/loss for the period	2,450	33,351	35,801	391,863	-358,359	33,504
Total comprehensive income for the period	**2,450**	**33,351**	**35,801**	**391,863**	**-358,359**	**33,504**
Attributable to:						
Parent Company's shareholders	3,642	32,159	35,801	398,347	-364,843	33,504
Non-controlling interests	-1,192	1,192	0	-6,484	6,484	0
TOTAL	**2,450**	**33,351**	**35,801**	**391,863**	**-358,359**	**33,504**

Effects of change in accounting policy on consolidated balance sheet for comparative figures 2013

Amounts in SEK 000	***30 Jun 2013*** *(as previously reported*	*Change in accounting policy*	***30 Jun 2013*** *(restated)*	***31 Dec 2013*** *(as previously reported*	*Change in accounting policy*	***31 Dec 2013*** *(restated)*
Assets						
Non-current assets						
Intangible non-current assets	8,725	-8,725	0	8,340	-8,340	0
Tangible non-current assets	3,424	-3,420	4	529		529
Shares in joint ventures and associated companies	1,713,748	-1,713,748	0	1,605,469	-1,605,469	0
Other long-term securities holdings	28,974	-28,974	0	24,568	-24,568	0
Shares in portfolio companies	0	1,845,873	1,845,873	0	1,729,465	1,729,465
Loans receivable from portfolio companies	29,715		29,715	5,894		5,894
Other financial assets	38,113		38,113	38,113		38,113
Total non-current assets	**1,822,699**	**91,006**	**1,913,705**	**1,682,913**	**91,088**	**1,774,001**
Current assets						
Accounts receivable	1,215	-1,215	0	258	-255	3
Receivables from portfolio companies	0	1,112	1,112	0	254	254
Other short-term receivables	5,056	-1,962	3,094	3,803	-578	3,225
Prepaid expenses and accrued income	6,291	-2,962	3,329	1,767	-290	1,477
Short-term investments	91,315		91,315	165,334		165,334
Cash and cash equivalents	172,972	-16,844	156,128	41,639	-6,316	35,323
Total current assets	**276,849**	**-21,871**	**254,978**	**212,801**	**-7,185**	**205,616**
TOTAL ASSETS	**2,099,548**	**69,135**	**2,168,683**	**1,895,714**	**83,903**	**1,979,617**
Equity and liabilities						
Equity						
Share capital	24,266		24,266	24,266		24,266
Share premium	1,768,179		1,768,179	1,768,179		1,768,179
Retained earnings	276,293	80,949	357,242	74,380	90,779	165,159
Equity attributable to Parent Company's shareholders	**2,068,738**	**80,949**	**2,149,687**	**1,866,825**	**90,779**	**1,957,604**
Non-controlling interests	6,688	-6,688	0	3,514	-3,514	0
Total equity	**2,075,426**	**74,261**	**2,149,687**	**1,870,339**	**87,265**	**1,957,604**
Long-term liabilities						
Other financial liabilities	9,878		9,878	9,438		9,438
Total long-term liabilities	**9,878**		**9,878**	**9,438**		**9,438**
Current liabilities						
Accounts payable	2,372	-1,487	885	3,779	-1,353	2,426
Liabilities to portfolio companies	0	453	453	0	442	442
Other current liabilities	2,781	-1,285	1,496	2,636	-1,043	1,593
Accrued expenses and prepaid income	9,091	-2,807	6,284	9,522	-1,408	8,114
Total current liabilities	**14,244**	**-5,126**	**9,118**	**15,937**	**-3,362**	**12,575**
Total liabilities	**24,122**	**-5,126**	**18,996**	**25,375**	**-3,362**	**22,013**
TOTAL EQUITY AND LIABILITIES	**2,099,548**	**69,135**	**2,168,683**	**1,895,714**	**83,903**	**1,979,617**

Effects of change in accounting policy on consolidated balance sheet for comparative figures 2012

Amounts in SEK 000	***31 Dec 2012 (as previously reported)***	*Change in accounting policy*	***31 Dec 2012 (restated)***
Assets			
Non-current assets			
Intangible non-current assets	9,864	-9,864	0
Tangible non-current assets	4,985	-4,976	9
Shares in joint ventures and associated companies	219,173	-219,173	0
Othet long-term securities holdings	26,949	-26,949	0
Shares in portfolio companies, at fair value through profit of loss	0	1,827,190	1,827,190
Loans receivable from portfolio companies	12,856		12,856
Other financial assets	8,907		8,907
Total non-current assets	**282,734**	**1,566,228**	**1,848,962**
Current assets			
Accounts receivable	513	-407	106
Receivables from portfolio companies	0	563	563
Other short-term receivables	3,955	-1,479	2,476
Prepaid expenses and accrued income	4,578	-2,115	2,463
Short-term investments, at fair value through profit or loss	174,160		174,160
Cash and cash equivalents	117,033	-8,353	108,680
Total current assets	**300,239**	**-11,791**	**288,448**
Assets which have been transferred to KDev Investments Group	1,632,025	-1,632,025	0
TOTAL ASSETS	**2,214,998**	**-77,588**	**2,137,410**
Equity and liabilities			
Equity			
Share capital	24,266		24,266
Share premium	1,768,179		1,768,179
Retained earnings	-122,547	445,607	323,060
Equity attributable to Parent Company´s shareholders	**1,669,898**	**445,607**	**2,115,505**
Non-controlling interest	354,294	-354,294	0
Total equity	**2,024,192**	**91,313**	**2,115,505**
Long-term liabilities			
Other financial liabilities	10,889		10,889
Total long-term liabilities	**10,889**		**10,889**
Current liabilties			
Accounts payable	4,215	-1,705	2,510
Liabilites to portfolio companies	0	473	473
Other current liabilities	2,775	-1,263	1,512
Accrued expenses and prepaid income	8,166	-1,645	6,521
Total current liabilties	**15,156**	**-4,140**	**11,016**
Liabilities attributable to assets which have been transferred to KDev Investments Group	164,761	-164,761	0
Total liabilities	**190,806**	**-168,901**	**21,905**
TOTAL EQUITY AND LIABILITIES	**2,214,998**	**-77,588**	**2,137,410**

Effects of change in accounting policy on statement of cash flows for comparative figures 2013

Amounts in SEK 000	***2013*** *Jan-Jun (as previously reported*	*Change in accounting policy*	***2013*** *Jan-Jun (restated)*
Operating activities			
Operating profit/loss	388,621	-355,891	32,730
Adjustments for depreciation and amortization	1,612	-1,607	5
Adjustments for changes in fair value	-48,002	-15,950	-63,952
Result from transaction with Rosetta Capital IV LP	-404,646	404,646	0
Realized change in value of short-term investments	1,057		1,057
Interest paid	-70	67	-3
Interest received	1,485	-538	947
Investments in intangible non-current assets	-722	722	0
Investments in tangible non-current assets	-398	398	0
Investments in shares in portfolio companies	0	-170,656	-170,656
Investments in shares in joint ventures and associated companies	-149,124	149,124	0
Cash and cash equivalents which have been transferred to KDev Investments Group	-51,723	51,723	0
Change in short-term investments	84,851		84,851
Sale of shares in portfolio companies	190,793		190,793
Loans provided to associated companies	-25,144		-25,144
Cash flow from operating activities before changes in working capital	**-11,410**	**62,038**	**50,628**
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in operating receivables	2,919	-5,217	-2,298
Increase (+)/Decrease (-) in operating liabilities	1,087	-1,969	-882
Cash flow from operating activities	**-7,404**	**54,852**	**47,448**
Financing activities			
Share of subsidiary issue for non-controlling interests	3,757	-3,757	0
Cash flow from financing activities	**3,757**	**-3,757**	**0**
Cash flow for the period	**-3,647**	**51,095**	**47,448**
Cash and cash equivalents at beginning of the year	176,619	-67,939	108,680
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**172,972**	**-16,844**	**156,128**

Note 4 Unconsolidated subsidiaries

Karolinska Development is an investment entity according to IFRS 10. Subsidiaries are not consolidated in the Investment Entity's financial statements. The table below indicates all unconsolidated subsidiaries. Ownership interests include indirect ownership through portfolio companies. The ownership interest corresponds to formal voting rights through participating interests.

		Total holding			
Name	**Registered office**	**30 June 2014**	**30 June 2013**	**31 Dec 2013**	**31 Dec 2012**
Avaris AB (dormant)	Huddinge	94.87%	94.87%	94.87%	94.87%
HBV Theranostica AB (in liquidation)	Stockholm	-	100.00%	100.00%	100.00%
KCIF Fund Management AB	Solna	37.5%	37.5%	37.5%	37.5%
KD Incentive AB	Solna	100.00%	100.00%	100.00%	100.00%
KDev Oncology AB	Solna	100.00%	100.00%	100.00%	100.00%
Gligene AB (in liquidation)	Solna	-	34.65%	100.00%	34.65%
Limone AB (in liquidation)	Solna	-	100.00%	100.00%	100,00%
Pharmanest AB	Solna	63.09%	62.99%	62.99%	60.24%

Influence over the portfolio companies

In addition to the above named subsidiaries, Karolinska Development holds a majority interest, however non-controlling interest in KDev Investments AB, Athera Biotechnologies AB, Lipidor AB, Umecrine Cognition AB and XSpray Microparticles AB.

Karolinska Development's ownership interests in these portfolio companies ranges from 50% up to nearly 90%. Karolinska Development has entered into shareholder agreements with other shareholders regarding these companies. The shareholder agreements ensure other investors or founders influence. Therefore, Karolinska Development is not considered to have controlling interest, even if its ownership interest formally exceeds 50%. Karolinska Development has concluded that in these situations the holdings should be accounted for as investments in associated companies or joint ventures, depending on the degree of influence.

Note 5 Performance based share incentive program 2014 (PSP 2014)

On 14 May 2014, the Annual General Meeting adopted a new performance based share incentive program for employees where participants acquire shares ("Savings Shares") on the open market. Under certain conditions participants may receive, free of charge, a maximum of five Performance Shares and one Matching Share Right from the company for each Savings Share they purchase. Matching Share Rights and Performance Shares are allotted after three years. The maximum number of Performance Shares and Matching Share Rights is 761,350. The program comprises a maximum of fourteen participants.

Although there are no performance conditions for the Matching Share Rights, 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, measured as an average over ten trading days from 18 May 2014 through 28 May 2014, is SEK 24.45. The End Price is measured as the average over ten trading days beginning on 2 May 2017. For an allotment, the share price must rise by a total of 30% above the Start Price. For a maximum allotment (five Performance Shares per Savings Share), the share price must rise by 75% above the Start Price. Within this band, allotments are made proportionately. Allotments are capped at 35 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 transferring a maximum of 182,000 of its own shares. As of 30 June 2014, no Savings Shares had been acquired and none of the company's own shares had been repurchased. The performance based share incentive program has not had any effect on the Parent Company's' nor the Investment Entity's results or financial position as of 30 June 2014.

Note 6 Related party transactions

No significant related party transactions have occurred since 31 December 2013. For a detailed description of related party transactions, see the 2013 annual report.