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## Significant events during the third quarter

- Klaus Wilgenbus appointed as acting CEO
- Umecrine Mood announced final results from an exploratory Phase I/II study with UC1010 in premenstrual dysphoric disorder
- Bruno Lucidi appointed as CEO in Karolinska Development oncology companies

## Significant events after the third quarter

- Bruno Lucidi appointed as new CEO of Karolinska Development
- Forendo Pharma announced the US licensing of fispemifene to Apricus Biosciences
- Clanotech received orphan drug designation in the EU
- OssDsign's Cranioplug received marketing approval in the US
- Athera initiated Phase I study with cardiovascular antibody PC-mAb
- Karolinska Development presented an updated strategy
- Danske Bank appointed as financial advisor

## Financial Summary

SEKm	2014 Jul-Sep	2013 Jul-Sep (restated)	2014 Jan-Sep	2013 Jan-Sep (restated)	2013 (restated)
<i>Condensed Income Statement</i>					
Change in fair value of portfolio companies	-107.7	-80.6	-291.1	-16.6	-140.0
Net profit/loss	-128.1	-91.6	-336.0	-58.1	-157.3
<i>Condensed Balance sheet</i>					
Cash, cash equivalents and short-term investments			112.3	232.1	200.7
<i>Share information</i>					
Earnings per share, weighted average, before and after dilution (SEK)	-2.65	-1.90	-6.96	-1.20	-3.25
Net asset value per share (SEK) (Note 1)			33.9	42.6	40.7
Equity per share (SEK) (Note 1)			33.6	42.6	40.5
Share price, last trading day in the reporting period (SEK)			13.0	31.0	30.9
<i>Portfolio information</i>					
Portfolio companies' net cash <sup>1)</sup>			-2.8	186.9	111.6
Investments in portfolio companies	7.2	2.7	56.5	176.9	266.2
Of which investments not affecting cash flow	0.0	0.0	6.7	3.8	68.1
Fair value of portfolio holdings			1,494.0	1,767.8	1,729.5

<sup>1)</sup> Portfolio companies' net cash is comprised of sum of cash, cash equivalents and short-term investments less external loans in portfolio companies regardless of Karolinska Development's ownership interest (cash, cash equivalents and short-term investments amounting to SEK 92.7m less external loans amounting to SEK -95.5m)



Bruno Lucidi, CEO

## CEO's Comment

My appointment as CEO of Karolinska Development coincides with the announcement of a new strategy for the future investments in our portfolio. I am convinced that these strategic measures will be a good foundation for our continued efforts to realize value in the portfolio.

Our portfolio companies have been selected into a Strategic and an Opportunistic Portfolio that we further specify in this report. We will focus our financial and managerial efforts in the Strategic Portfolio and develop those towards important near-to mid-term value inflection point within specialized care areas and orphan diseases such as Dilaforette's program in sickle-cell disease or OssDsign's advanced implant technology. At the same time we will utilize a more differentiated investment strategy depending on the properties of the programs within the portfolio. In order to maximize value and future returns, the investment horizon for each asset will for example vary depending on the optimal exit strategy within the specific therapeutic fields.

We were pleased to announce Forendo Pharma's licensing agreement granting Apricus Bioscience US development and commercialization rights for fispemifene after the reporting period. The agreement does not only signify the Forendo team's expert abilities in developing drug candidates that targets organ specific hormone mechanisms, but also exemplifies the value potential in our portfolio of carefully selected innovations based on outstanding science.

According to the deal terms, Forendo is entitled to a total of USD 310 million in milestone and upfront payments, common shares in Apricus and tiered double-digit royalties on US net sales. The fispemifene development program will focus on hypogonadism, a condition that results in low testosterone levels in men, where two Phase II studies has shown therapeutic potential. In addition, Apricus will expand the development into other urological conditions where the fispemifene mode of action is believed to be able to ameliorate symptoms.

It is important to emphasize that the Opportunistic Portfolio also hold a considerable value potential. During the third quarter, Umecrine Mood presented final data from the company's exploratory Phase I/II study in patients with premenstrual dysphoric disorder (PMDD). While the study's primary endpoint was not met, as we announced during the summer, post-hoc analyses correcting for some important issues identified in the study, shows significant reductions in symptoms compared to placebo. Should these data be confirmed in new studies, UC1010 could make a profound difference to the millions of women who suffer from PMDD. Based on these data, Umecrine Mood are now in the process of finding a partner to continue the clinical development of UC1010.

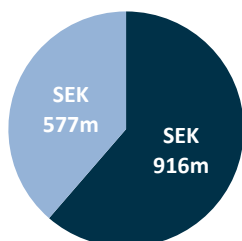
In October, Athera Biotechnologies passed an important milestone in the development of PC-mAb for the treatment of cardiovascular disease when the first patients were dosed in a Phase I study. In addition, Clanotech received orphan drug designation in the EU for the development of the company's lead candidate within glaucoma surgery. Furthermore, OssDsign received 510(k) clearance by the US FDA for the burr hole plug Cranioplug.

In our continuous effort to evaluate the portfolio, the fair value of Biosergen has written down as the company has not been able to secure external financing to the systemic fungal infection in preclinical development.

I am looking forward to leading Karolinska Development in this decisive period for the company. With a new strategy in place, we will move forward determinately to unlock the value in our portfolio. Our belief that investing in outstanding life science innovations will shape future treatments for patients that today are not offered adequate treatment options. The management in our portfolio companies are key to the success of our ambitions. The new strategy will also take into consideration the specific needs within the portfolio of accountable and experienced leadership.

**Bruno Lucidi**  
Chief Executive Officer

Net asset value



- Strategic Portfolio
- Opportunistic Portfolio

*Karolinska Development invests in medical innovations that addresses unmet medical needs and develop them to the phase when the highest return on investments may be generated by IPO, trade sale of companies or licensing of projects. Karolinska Development intends to finance its investments through capital injections from its shareholders, proceeds from trade sales of shares in its portfolio companies, and dividends from its portfolio companies. Karolinska Development holds a number of portfolio companies at varying degrees of ownership in the form of subsidiaries, joint ventures, associates, as well as other long term securities holdings. The holdings are valued at fair value.*

## Company Overview

### New Strategy

After the end of the quarter, Karolinska Development’s Board and management have decided on a new and more focused strategy to optimize and unlock the value in the existing portfolio.

Firstly, Karolinska Development will focus on company programs with drug candidates, which address relevant unmet medical needs of patients with serious debilitating and/or life-threatening diseases, so-called orphan diseases. This *Strategic Portfolio* will contain companies with scientifically and commercially attractive programs with significant near- to mid-term value inflection points.

The strategic portfolio will be supported by a second portfolio, an *Opportunistic Portfolio*, with a number of company programs that have entered into third party development agreements or already have products on the market. Through pay-offs from near- to midterm exits in the opportunistic portfolio, Karolinska Development will have further investment capabilities to invest in the Strategic Portfolio.

Secondly, Karolinska Development will enforce and reward strong leadership at portfolio company level by requiring management in portfolio companies to have a strong focus on deal flow and return on investments. Karolinska Development will strengthen its active ownership approach and remain actively engaged as a committed investor, e.g. via its representation on the boards, either directly or via experienced professional independent board directors, and will provide the right incentives for management to be responsible and accountable for running and developing their respective companies

Thirdly, Karolinska Development will maximize value creation in the company programs through a differentiated asset-centric and patient-focused investment approach. This means that Karolinska Development - as part of every investment decision – will consider significant value-inflection points, exit scenarios and capital requirements to be reached. As a consequence, company programs may be supported throughout development, if relevant from a value inflection point of view.

Finally, Karolinska Development will broaden the portfolio companies’ access to capital by building strong investor relations and by proactively seeking syndicated financing together with other specialized life science investors. The proactive syndication strategy enables Karolinska Development to strengthen governance, not only by its own representation in the company boards, but also to add to the boards further committed and experienced life science expertise from co-investors or its network of specialized investors.

Karolinska Development’s Board and management are convinced this new strategy will put Karolinska Development in a stronger position to take advantage of the business opportunities that the portfolio companies offer.

	Karolinska Development	KDEV Investments (KDEV Investments owned 87% by KD and 13% by Rosetta Capital)
Strategic portfolio	<ul style="list-style-type: none"> <li>▪ Forendo Pharma</li> <li>▪ OssDsign</li> <li>▪ Pharmanest</li> <li>▪ Umecrine Cognition</li> <li>▪ XSpray</li> </ul> <p><b>Net Asset Value:</b> MSEK 343 <b>Investment Strategy:</b> Proceeds from exits/new funds, existing KD funds and co-investors</p>	<ul style="list-style-type: none"> <li>▪ Aprea</li> <li>▪ Akinion</li> <li>▪ Clanotech</li> <li>▪ Dilaforette</li> </ul> <p><b>Net Asset Value:</b> MSEK 573 <b>Investment Strategy:</b> Primarily existing KD and Rosetta Capital funds combined with co-investors</p>
Opportunistic portfolio	<ul style="list-style-type: none"> <li>▪ Athera</li> <li>▪ BioArctic</li> <li>▪ Lipidor</li> </ul> <p><b>Net Asset Value:</b> MSEK 128 <b>Investment Strategy:</b> Limited investments required, co-investors</p>	<ul style="list-style-type: none"> <li>▪ Axelar</li> <li>▪ BioSergen</li> <li>▪ Dilafor</li> <li>▪ ISS</li> <li>▪ NeoDynamics</li> <li>▪ NovaSaid</li> <li>▪ Pergamum</li> <li>▪ Promimic</li> <li>▪ Umecrine Mood</li> </ul> <p><b>Net Asset Value:</b> MSEK 450 <b>Investment Strategy:</b> Rosetta Capital, license deals, co-development, co-investors</p>

## Significant events during the third quarter

### **Bruno Lucidi appointed as CEO in Karolinska Development oncology companies.**

Bruno Lucidi was appointed Chief Executive Officer of the wholly owned subsidiary KDev Oncology and the portfolio companies Aprea and Akinion Pharmaceuticals. KDev Oncology assists the clinical portfolio companies in developing cancer drugs and attracting strategic partners and co-investors.

### **Umecrine Mood announced final results from an exploratory Phase I/II study with UC1010 in premenstrual dysphoric disorder**

In an exploratory double blind, randomized multicenter study, 120 patients with PMDD received placebo or one of two doses of UC1010 during one menstrual cycle. The objectives of the trial were to study the safety and efficacy of UC1010. The primary efficacy end-point was assessed using a validated daily rating scale (DRSP), to measure the average late luteal phase symptoms in patients treated with UC1010 vs. those given placebo. As previously reported in June 2014, the primary efficacy end-point of the study was not met.

Following final analysis of the study data, post hoc analysis revealed that two key variables that impacted the study outcome: (i) despite patient randomization, the baseline follicular phase symptoms showed a skewed distribution between study groups. Correcting for individual follicular symptoms indicate a statistically significant improvement of symptoms by UC1010 compared to placebo in the total study population ( $p < 0.05$  for the total premenstrual symptom score). (ii) due to inconsistencies in the assessment of ovulation, 32% of patients did not receive treatment as intended according to the protocol. Inclusion only of patients treated as intended results in significant beneficial effects of UC1010 (both doses) compared to placebo, both for the cardinal PMDD symptoms ( $p = 0.003$ ) and total premenstrual symptom scores ( $p = 0.006$ ) as well as for the impairment score ( $p = 0.01$ ), which specifically measures the impact of symptoms on daily life in the week prior to menstruation. There were no safety concerns with UC1010 and it was well tolerated. These encouraging data based on post hoc analysis needs to be confirmed in future trial.

### **Klaus Wilgenbus was appointed acting CEO of Karolinska Development**

Torbjörn Bjerke left his position as CEO on September 30 and Klaus Wilgenbus was appointed acting CEO until the appointment of a new permanent CEO. Klaus Wilgenbus simultaneously left his directorship at the Karolinska Development Board.

## Significant events after the third quarter

### **Bruno Lucidi appointed as CEO of Karolinska Development**

Bruno Lucidi was appointed CEO of Karolinska Development on October 15. Bruno Lucidi has extensive international experience in the pharmaceutical, biotechnology and financial industry. In his previous positions as founding CEO of Idenix and Chairman of Pharmasset, he has contributed to maturing the companies to a level that eventually resulted in both companies being acquired by multinational pharmaceutical companies. He has also held senior positions within Bristol-Myers Squibb, Johnson & Johnson and at GlaxoSmithKline. Since September 8, 2014, Bruno Lucidi is CEO of the Karolinska Development's wholly owned subsidiary KDev Oncology as well as of the portfolio companies Aprea and Akinion. Bruno will keep these positions and will assume his new role as CEO of Karolinska Development.

#### **About Forendo Pharma Oy**

Forendo Pharma's development programs are based on research conducted at Turku University, Oulu University and Åbo Akademi. The company is specialized in pharmaceutical development within tissue specific hormone mechanisms.

#### **About OssDsign AB**

The mission of OssDsign is advancing bone repair based on its innovative bioceramics technology platform. OssDsign has started sales in selected EU countries of lead product OssDsign® Craniomosaic, a next generation patient-specific implant for cranial repair. OssDsign was founded by researchers at the Karolinska University Hospital and Uppsala University.

#### **About Clanotech AB**

Clanotech is a Swedish biotech company active in ophthalmology and based on research conducted at Karolinska Institutet. Clanotech's lead candidate is an inhibitor of the  $\alpha 5\beta 1$ -integrin receptor which is present in fibroblast and on vascular endothelial cells.  $\alpha 5\beta 1$ -integrin is strongly up-regulated in fibroblast when switching to the fibrotic state and in scars after glaucoma surgery, which is the company's primary therapeutic focus.

#### **About Athera Biotechnologies AB**

Athera is a pharmaceutical company focused on development of drugs and diagnostics around anti-inflammatory targets. The company's current programs were initiated in 2005 and are based on innovative research at Karolinska Institutet.

#### **Forendo Pharma announced the US licensing of fispemifene to Apricus Biosciences**

Forendo Pharma announced today that it has entered into a definitive agreement to out-license the US development and commercialization rights for fispemifene to Apricus Biosciences Inc. Under the terms of the agreement, Apricus will make a \$5 million upfront cash payment to Forendo, and will transfer approximately 3.6 million Apricus common shares, representing \$7.5 million in value based on the 360-day average market price of the Apricus stock. The agreement includes additional potential clinical and regulatory milestone payments to Forendo for up to \$45 million, including FDA approval, as well as commercial milestone payments totaling up to \$260 million based on achieving specified annual net sales of fispemifene levels up to \$1 billion in the US. Apricus will also pay tiered double-digit royalties based on net sales once the product is commercialized. Apricus will be responsible for the clinical development and costs of the program, as well as all future commercialization in the US. Apricus anticipates to commence a Phase IIb clinical trial during the first half of 2015 to confirm the optimal fispemifene doses to treat men with secondary hypogonadism, and provide proof-of-concept data to evaluate the anti-estrogenic and anti-inflammatory effects on the lower urinary tract and prostate in aging men.

#### **OssDsign's Cranioplug received marketing approval in the US**

OssDsign AB today that its bioceramic burr hole plug - Cranioplug - had received 510(k) clearance by the US Food and Drug Administration (FDA). In the 500,000 open brain surgeries carried out annually worldwide, burr holes and circular cuts between the burr holes are made to allow the surgeon to remove a piece of the skull - the bone flap - and thereby access the brain for the intended intervention. The bone flap is then re-anchored to the surrounding skull bone after the procedure is completed. Cranial fixation today uses metal-based devices that anchor the bone flap to the skull. These devices typically leave the burr hole open, to the cosmetic and psychological detriment of patients. Cranioplug, based on bone-like ceramic materials, in contrast to metal-based competitors, has the potential of integrating with surrounding bone.

#### **Clanotech received orphan drug designation in the EU**

Clanotech AB received orphan drug designation by the European Medicines Agency (EMA) for prevention of scarring post glaucoma filtration surgery. Clanotech's lead substance, an  $\alpha 5\beta 1$ -integrin antagonist, has anti-angiogenic, anti-fibrotic and anti-inflammatory properties that are expected to benefit the wound healing processes following glaucoma surgery. The orphan drug designation will significantly shorten a future market approval process and reinforce market exclusivity for a launched product.

#### **Athera initiated Phase I study with cardiovascular antibody PC-mAb**

Athera Biotechnologies AB announced that first dosing of healthy volunteers has been done in a Phase I study of its fully human antibody PC-mAb. Athera's fully human monoclonal antibody PC-mAb is intended for the treatment of patients with cardiovascular disease, who are at an increased risk of secondary events and death. It is known from previous published studies that low plasma levels of endogenous antibodies against phosphorylcholine (anti-PC) are linked to poor prognosis in acute heart attack patients, as well as in patients with peripheral arterial disease undergoing vein graft surgery. The current Phase I study will include up to 48 healthy volunteers in a single ascending dose protocol with safety outcome measures.

#### **Danske Bank appointed as financial advisor**

Danske Bank has been appointed as financial advisor to Karolinska Development and will assist in the evaluation of upcoming financing alternatives.

## Portfolio Development

As a part of Karolinska Development's strategy, the portfolio is divided into a Strategic Portfolio and an Opportunistic Portfolio, as below. During the third quarter Umechrine Mood announced final results from a Phase I/II study in premenstrual dysphoric disorder, Forendo Pharma selected a drug candidate for the company's planned clinical studies in endometriosis and OssDsign has initiated a wider market launch of its implant product and also received FDA approval for a follow-up product to the company's cranial implant. After the end of the third quarter, Athera initiated a Phase I study with PC-mAb

### Strategic Portfolio

PHARMACEUTICALS	Indication	Owner-ship*	Research Phase	Preclinical Development	Phase I	Phase II
Pharmanest AB SHACT	Pain at IUD-insertions	63%	[Solid color]		[Shaded color]	
Aprea AB APR-246	Ovarian cancer	62%	[Solid color]		[Shaded color]	
Akinion Pharmaceuticals AB AKN-028	Acute myeloid leukemia	81%	[Solid color]		[Shaded color]	
Pharmanest AB SHACT	Pain at hysteroscopies	63%	[Solid color]		[Shaded color]	
Forendo Pharma Oy FP-5677	Endometriosis	21%	[Solid color]	[Shaded color]		
Dilaforette AB Sevuparin	Sickle-cell disease	64%	[Solid color]	[Shaded color]		
Clanotech AB CLT28643	Glaucoma surgery	80%	[Solid color]	[Shaded color]		
Umechrine Cognition AB	Hepatic encephalopathy	67%	[Solid color]	[Shaded color]		

TECHNOLOGY	Application	Owner-ship*	Concept Development	Prototype	Development	Product	Launch	
OssDsign AB Cranio PSI	Cranial implants	26%	[Solid color]				[Shaded color]	
XSpray Microparticles AB RightSize™	Drug formulation technology	63%	[Solid color]			[Shaded color]		

### Opportunistic Portfolio

PHARMACEUTICALS	Indication	Owner-ship*	Research Phase	Preclinical Development	Phase I	Phase II
Axelar AB AXL1717	Non-small cell lung cancer	43%	[Shaded color]		[Solid color]	
BioArctic Neuroscience AB BAN2401	Alzheimer's	3%	[Shaded color]		[Solid color]	
Dilafor AB Tafoxiparin	Protracted labor	49%	[Shaded color]		[Solid color]	
Dilaforette AB Sevuparin	Malaria	64%	[Shaded color]		[Solid color]	
Forendo Pharma Oy Fispemifene	Hypogonadism	21%	[Shaded color]		[Solid color]	
Pergamum AB DPK-060	Infected eczema	56%	[Shaded color]		[Solid color]	
Pergamum AB DPK-060	External otitis	56%	[Shaded color]		[Solid color]	
Pergamum AB PXL01	Surgical adhesions	56%	[Shaded color]		[Solid color]	
Umechrine Mood AB UC1010	PMDD and severe PMS	38%	[Shaded color]		[Solid color]	
Pergamum AB LL-37	Venous leg ulcers	56%	[Shaded color]	[Solid color]		
Athera Biotechnologies AB PC-mAb	Acute coronary syndrome	65%	[Shaded color]	[Solid color]		
Biosergen AS BSG005	Systemic fungal infection	60%	[Shaded color]	[Solid color]		
Pergamum AB PXL181	Skin infection	56%	[Shaded color]	[Solid color]		
NovaSAID AB	Inflammatory pain	77%	[Shaded color]	[Solid color]		

TECHNOLOGY	Application	Owner-ship*	Concept Development	Prototype	Development	Product	Launch	
Promimic AB HA <sup>nano</sup> Surface™	Bone implant surface	31%	[Shaded color]				[Solid color]	
Athera Biotechnologies AB CVDefine®	Cardiovascular diagnostic kit	65%	[Shaded color]				[Solid color]	
Inhalation Sciences Sweden AB PreciseInhale™	Respiratory precision dosing	68%	[Shaded color]				[Solid color]	
Lipidor AB AKVANO™	Topical drug delivery	51%	[Shaded color]		[Solid color]			
NeoDynamics AB Fourier	Fine needle biopsy	18%	[Shaded color]		[Solid color]			
NeoDynamics AB PRFA	Tumor ablation	18%	[Shaded color]	[Solid color]				

\*Includes indirect ownership  
Status as per October 20, 2014

**Solid color** = Completed phase  
**Shaded color** = Current phase



## Financial development – Investment Entity\*

### Revenue

During the nine-month period ended 30 September 2014, the effect of the change in fair value of portfolio investments amounted to SEK -291.1m (SEK -16.6m).

During the third quarter ended 30 September 2014, the effect of the change in fair value of portfolio investments amounted to SEK -107.7m (SEK -80.6m).

### Value development

During the nine-month period, the Investment Entity's operating loss amounted to SEK -331.9m (SEK -60.1m), a change of SEK -271.8m compared with the same period in 2013. During the nine-month period, several projects in the portfolio met development milestones, which had a positive effect on the 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 nine-month period was affected by a change in fair value of the holding by KDev Investments in Axelar AB amounting to -220.7 due to the partnering progress not reaching expectations, and in Biosergen AS amounting to -28.3m due to lack of financing for future development. During the nine-month period, the fair value was affected positively by adjustments of the discount rates (WACC) (see 'Information on fair value measurement in level 3' in note 2). Other expenses have decreased by SEK 8.1m year-over-year. Expenses for legal services, consultants and travel have decreased year-over-year, and the comparative period's operating result was charged with one-off expenses of SEK 3.5m related to the Rosetta transaction. During the period, personnel costs were charged with severance provisions for the former CEO of SEK 8.7m, including pension and social security expenses.

The portion of the change in fair value affecting income related to portfolio holdings amounted to SEK -291.1m (SEK -16.6m) during the nine-month period.

During the third quarter, the Investment Entity's operating loss amounted to SEK -124.4m (SEK -92.8m), a change of SEK -31.6m compared with the same period in 2013. The portion of the change in fair value affecting income related to portfolio holdings amounted to SEK -107.7m (SEK -80.6m) during the third quarter. The change in fair value of the holding by KDev Investments in Biosergen AS amounted to -28.3m during the third quarter. Other expenses have decreased by SEK 2.4m year-over-year due to lower expenses for legal services, consultants and travel. During the quarter, personnel costs were charged with severance provisions for the former CEO of SEK 8.7m, including pension and social security expenses.

### Results

The Investment Entity's loss before tax during the nine-month period amounted to SEK -336.0m (SEK -58.1m).

The Investment Entity's loss before tax during the third quarter amounted to SEK -128.1m (SEK -91.6m).

### Investments in portfolio companies

Investments in portfolio companies during the nine-month period amounted to SEK 56.5m (SEK 176.9m).

During the nine-month period investments were made in KDev Investments' portfolio at SEK 33.4m (Dilaforette Holding AB, SEK 10.7m; Dilafor AB, SEK 6.0m, Umecrine Mood AB, SEK 4.8m; Aprea AB, SEK 4.6m; Clanotech AB, SEK 2.8m; Pergamum AB, SEK 1.8m; Promimic AB, SEK 1.8m; and Inhalation Sciences Sweden AB, SEK 0.9m) as well as in Umecrine Cognition AB, SEK 11.8m; 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 third quarter amounted to SEK 7.2m (SEK 2.7m). During the third quarter investments were made in KDev Investments' portfolio at SEK 6.4m (Aprea AB, SEK 4.6m and Pergamum AB, SEK 1.8m) as well as in Umecrine Cognition AB, SEK 0.8m.

\* The Investment Entity refers to the Parent Company, Karolinska Development AB, and all subsidiaries, joint ventures, associated companies and other long-term securities holdings which are all recognized at fair value.

### Financial position (comparative figures refer to 31 December 2013)

The Investment Entity's equity to total assets ratio was 98% (99%) on 30 September 2014 and equity amounted to SEK 1,621.9m (SEK 1,957.6m).

Cash, cash equivalents and short-term investments in the Investment Entity amounted to SEK 112.3m (SEK 200.7m), of which SEK 69.8m is provisionally allocated for anticipated follow-on investments in the KDev Investments portfolio. In addition, up to SEK 75.0m will be allocated to these portfolio companies as additional liquidity becomes accessible to Karolinska Development. Total assets amounted to SEK 1,651.3m (SEK 1,979.6m).

### Change in accounting policy to Investment Entity

Karolinska Development is an Investment Entity in accordance with IFRS 10 Consolidated Financial Statements. Karolinska Development has retroactively changed its accounting policy in accordance with IFRS 10 and IAS 8. Note 3 shows effects of the change in accounting policy for the comparative periods.

## Financial development – Parent Company

During the nine-month period ended 30 September 2014, the Parent Company's operating loss amounted to SEK -55.4m (SEK 61.1m), a change of SEK -116.5m 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. The operating result for the nine-month period was charged with write-downs of shares in portfolio companies of SEK -14.5m. Other expenses have decreased by SEK 8.1m year-over-year. Expenses for legal services, consultants and travel have decreased year-over-year, and the comparative period's operating result was charged with one-off expenses of SEK 3.5m related to the Rosetta transaction. During the period, personnel costs were charged with severance provisions for the former CEO of SEK 8.7m, including pension and social security expenses.

During the third quarter, the Parent Company's operating loss amounted to SEK -30.9m (SEK -17.4m), a change of SEK -13.5m compared with the same period in 2013. The operating result for the third quarter was charged with write-downs of share in portfolio companies of SEK -14.2m. Other expenses have decreased by SEK 2.4m year-over-year due to lower expenses for legal services, consultants and travel. During the quarter, personnel costs were charged with severance provisions for the former CEO of SEK 8.7m, including pension and social security expenses.

The Parent Company's net loss during the nine-month period amounted to SEK -57.6m (SEK 62.0m).

The Parent Company's net loss during the third quarter amounted to SEK -34.3m (SEK -16.2m).

## 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 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 valuations.

#### 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 additional capital in order for Karolinska Development to maintain or increase its share of the value in these companies. As an investor, however, 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. Investments in portfolio companies will decrease compared to the prior year due to license agreements that several portfolio companies have entered into licensing agreements with partners, expected increases in EU subsidies and an increased share of third party financing. However, the value of the portfolio companies in general assumes additional future investments to be made in order to materialize the values in the portfolio companies. If Karolinska Development does not invest as planned, this could have a negative impact on Karolinska Development's valuation of the portfolio companies.

As of September 30, 2014, it is the board's view that the liquidity available to the Karolinska Development AB is sufficient for the parent company's current operations before investments for a period of at least 12 months from the balance sheet date. Consequently the report has been prepared under the assumption of going concern.

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

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 October 2014

Bo Jesper Hansen  
Chairman

Charlotte Edenius

Vlad Artamonov

Hans Wigzell

Carl Johan Sundberg

Henriette Richter

Robert Holland

Bruno Lucidi  
CEO

## Dates for publication of financial information

Year-end report January-December 2014	18 February 2015
Annual report 2014	10 April 2015
Interim report January-March 2015	6 May 2015
Annual General Meeting	20 May 2015
Interim report January-June 2015	26 August 2015
Interim report January-September 2015	25 November 2015

Karolinska Development is required by law to publish the information in this interim report. The information was published on 21 October 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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See also [www.karolinskadevelopment.com](http://www.karolinskadevelopment.com)

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

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) (the "Investment Entity") as per 30 September 2014 and the nine-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 International Standard on Review Engagements ISRE 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 Investment Entity 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 October 2014  
Deloitte AB

Thomas Strömberg  
Authorized Public Accountant

## Financial statements

### Condensed income statement for the Investment Entity

SEK 000	Note	2014 Jul-Sep	2013 Jul-Sep (restated)	2014 Jan-Sep	2013 Jan-Sep (restated)	2013 Full year (restated)
Revenue		1,094	1,567	3,450	4,003	4,948
Other expenses		-3,174	-5,572	-11,679	-19,818	-25,292
Personnel costs		-14,759	-8,230	-34,151	-27,637	-38,290
Depreciation of tangible non-current assets		-53	-2	-159	-7	-114
Change in fair value of shares in portfolio companies	2	-107,739	-80,571	-291,098	-16,619	-139,996
Result from sale of shares in portfolio companies		205	-	1,736	-	-
<b>Operating profit/loss</b>		<b>-124,426</b>	<b>-92,808</b>	<b>-331,901</b>	<b>-60,078</b>	<b>-198,744</b>
Financial net		-3,700	1,179	-4,113	1,953	41,429
<b>Profit/loss before tax</b>		<b>-128,126</b>	<b>-91,629</b>	<b>-336,014</b>	<b>-58,125</b>	<b>-157,315</b>
Deferred taxes		-	-	-	-	-
Curren taxes		-	-	-	-	-
<b>NET PROFIT/LOSS FOR THE PERIOD</b>		<b>-128,126</b>	<b>-91,629</b>	<b>-336,014</b>	<b>-58,125</b>	<b>-157,315</b>

### Earnings per share for the Investment Entity

SEK 000	Note	2014 Jul-Sep	2013 Jul-Sep (restated)	2014 Jan-Sep	2013 Jan-Sep (restated)	2013 Full year (restated)
Earnings per share, weighted average, before and after dilution		-2.65	-1.90	-6.96	-1.20	-3.25
Number of shares, weighted average		48,287,132	48,352,304	48,287,132	48,371,208	48,350,016

### Condensed statement of comprehensive income for the Investment Entity

SEK 000	Note	2014 Jul-Sep	2013 Jul-Sep (restated)	2014 Jan-Sep	2013 Jan-Sep (restated)	2013 Full year (restated)
Net/profit loss for the period		-128,126	-91,629	-336,014	-58,125	-157,315
<b>Total comprehensive income for the period</b>		<b>-128,126</b>	<b>-91,629</b>	<b>-336,014</b>	<b>-58,125</b>	<b>-157,315</b>

Condensed balance sheet for the Investment Entity

SEK 000	Note	30 Sep 2014	30 Sep 2013 (restated)	31 Dec 2013 (restated)	31 Dec 2012 (restated)
<b>ASSETS</b>					
<b>Non-current assets</b>					
Tangible non-current assets		370	1	529	9
Shares in portfolio companies, at fair value through profit or loss		1,494,027	1,767,772	1,729,465	1,827,190
Loans receivable from portfolio companies		2,744	30,152	5,894	12,856
Other financial assets		38,113	38,113	38,113	8,907
<b>Total non-current assets</b>		<b>1,535,254</b>	<b>1,836,038</b>	<b>1,774,001</b>	<b>1,848,962</b>
<b>Current assets</b>					
Accounts receivable		1	12	3	106
Receivables from portfolio companies		600	698	254	563
Other short-term receivables		1,819	3,795	3,225	2,476
Prepaid expenses and accrued income		1,295	2,995	1,477	2,463
Short-term investments, at fair value through profit or loss		104,416	167,174	165,334	174,160
Cash and cash equivalents		7,915	64,908	35,323	108,680
<b>Total current assets</b>		<b>116,046</b>	<b>239,582</b>	<b>205,616</b>	<b>288,448</b>
<b>TOTAL ASSETS</b>		<b>1,651,300</b>	<b>2,075,620</b>	<b>1,979,617</b>	<b>2,137,410</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
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		-170,592	263,589	165,159	323,060
<b>Total equity</b>		<b>1,621,853</b>	<b>2,056,034</b>	<b>1,957,604</b>	<b>2,115,505</b>
<b>Long-term liabilities</b>					
Other financial liabilities		11,373	9,878	9,438	10,889
<b>Total long-term liabilities</b>		<b>11,373</b>	<b>9,878</b>	<b>9,438</b>	<b>10,889</b>
<b>Current liabilities</b>					
Accounts payable		3,115	1,391	2,426	2,510
Liabilities to portfolio companies		442	453	442	473
Other current liabilities		1,162	1,566	1,593	1,512
Accrued expenses and prepaid income		13,355	6,298	8,114	6,521
<b>Total current liabilities</b>		<b>18,074</b>	<b>9,708</b>	<b>12,575</b>	<b>11,016</b>
<b>Total liabilities</b>		<b>29,447</b>	<b>19,586</b>	<b>22,013</b>	<b>21,905</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,651,300</b>	<b>2,075,620</b>	<b>1,979,617</b>	<b>2,137,410</b>

Condensed statement of changes in the Investment Entity's equity

SEK 000	Note	Equity attributable to Parent Company's shareholder				Non-controlling interests	Total equity
		Share capital	Share premium	Retained earnings	Total		
<b>Opening equity at 1 Jan 2014</b>		<b>24,266</b>	<b>1,768,179</b>	<b>165,159</b>	<b>1,957,604</b>		<b>1,957,604</b>
<b>Net profit/loss for the period</b>				-336,014	-336,014		-336,014
Total comprehensive income for the period				-336,014	-336,014		-336,014
Effect of incentive programs				263	263		263
<b>Closing equity at 30 Sep 2014</b>		<b>24,266</b>	<b>1,768,179</b>	<b>-170,592</b>	<b>1,621,853</b>		<b>1,621,853</b>
<b>Opening equity at 1 Jan 2013 (restated)</b>		<b>24,266</b>	<b>1,768,179</b>	<b>323,060</b>	<b>2,115,505</b>	-	<b>2,115,505</b>
<b>Net profit/loss for the period</b>				-58,125	-58,125		-58,125
Total comprehensive income for the period				-58,125	-58,125		-58,125
Effect of incentive programs				1,137	1,137		1,137
Share repurchase				-2,483	-2,483		-2,483
<b>Closing equity at 30 Sep 2013 (restated)</b>		<b>24,266</b>	<b>1,768,179</b>	<b>263,589</b>	<b>2,056,034</b>	-	<b>2,056,034</b>
<b>Opening equity at 1 Jan 2013 (restated)</b>		<b>24,266</b>	<b>1,768,179</b>	<b>323,060</b>	<b>2,115,505</b>	-	<b>2,115,505</b>
<b>Net profit/loss for the year</b>				-157,315	-157,315		-157,315
Total comprehensive income for the year				-157,315	-157,315		-157,315
Effect of incentive programs				1,897	1,897		1,897
Share repurchase				-2,483	-2,483		-2,483
<b>Closing equity at 30 Dec 2013 (restated)</b>		<b>24,266</b>	<b>1,768,179</b>	<b>165,159</b>	<b>1,957,604</b>	-	<b>1,957,604</b>
<b>Opening equity at 1 Jan 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>
Effect of change in accounting policy to Investment Entity	3			404,640	404,640	-354,294	50,346
<b>Adjusted opening equity at 1 Jan 2012</b>		<b>24,266</b>	<b>1,768,179</b>	<b>282,093</b>	<b>2,074,538</b>	-	<b>2,074,538</b>
<b>Net profit/loss for the year</b>				43,210	43,210		43,210
Total comprehensive income for the year				43,210	43,210		43,210
Share repurchase				-2,243	-2,243		-2,243
<b>Closing equity at 31 Dec 2012 (restated)</b>		<b>24,266</b>	<b>1,768,179</b>	<b>323,060</b>	<b>2,115,505</b>	-	<b>2,115,505</b>



Condensed statement of cash flows for the Investment Entity

SEK 000	Note	2014 Jan-Sep	2013 Jan-Sep (restated)	2013 Full year (restated)
<b>Operating activities</b>				
Operating profit/loss		-331,901	-60,078	-198,744
<b>Adjustments for items not affecting cash flow</b>				
Depreciation		159	7	114
Change in fair value	2	291,098	16,619	139,996
Result from sale of shares in portfolio companies		-1,736	-	-
Other items		9,017	2,245	2,171
Proceeds from short-term investments		946	1,072	1,062
Interest paid/received		334	1,753	5,312
<b>Cash flow from operating activities before changes in working capital and operating investments</b>		<b>-32,083</b>	<b>-38,382</b>	<b>-50,089</b>
<b>Cash flow from changes in working capital</b>				
Increase (-)/Decrease (+) in operating receivables		397	-2,051	1,116
Increase (+)/Decrease (-) in operating liabilities		-3,256	-292	2,575
<b>Operating investments</b>				
Proceeds from sales of shares in portfolio companies		1,923	190,793	194,924
Acquisitions of shares in portfolio companies		-49,866	-173,126	-198,120
Loans provided to portfolio companies		-6,394	-25,581	-27,750
Proceeds from sales of short-term investments <sup>1)</sup>		61,871	7,350	7,105
Investments in tangible non-current assets		-	-	-635
<b>Cash flow from operating activities</b>		<b>-27,408</b>	<b>-41,289</b>	<b>-70,874</b>
<b>Financing activities</b>				
Repurchased shares		-	-2,483	-2,483
<b>Cash flow from financing activities</b>		<b>-</b>	<b>-2,483</b>	<b>-2,483</b>
<b>Cash flow for the period</b>		<b>-27,408</b>	<b>-43,772</b>	<b>-73,357</b>
Cash and cash equivalents at the beginning of the year		35,323	108,680	108,680
<b>CASH AND CASH EQUIVALENTS AT THE END OF PERIOD</b>		<b>7,915</b>	<b>64,908</b>	<b>35,323</b>

Supplemental disclosure<sup>1)</sup>

<b>CASH AND CASH EQUIVALENTS AT THE END OF PERIOD</b>	<b>7,915</b>	<b>64,908</b>	<b>35,323</b>
Short-term investments, market value at closing date	104,416	167,174	165,334
<b>CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS AT THE END OF PERIOD</b>	<b>112,331</b>	<b>232,082</b>	<b>200,657</b>

<sup>1)</sup> Surplus liquidity in the investment entity is invested in interest-bearing instruments and is recognized as short-term investments with a maturity exceeding three months. These investments are consequently not reported as cash and cash equivalents and are therefore included in the statements of cash flows from operating activities. The supplemental disclosure is presented to provide a total overview of the investment entity's available funds including cash, cash equivalents and short-term investments described here.

Condensed income statement for the Parent Company

SEK 000	Note	2014 Jul-Sep	2013 Jul-Sep	2014 Jan-Sep	2013 Jan-Sep	2013 Full year
Net sales		1,094	1,567	3,450	4,003	4,948
<b>Revenue</b>		<b>1,094</b>	<b>1,567</b>	<b>3,450</b>	<b>4,003</b>	<b>4,948</b>
Other expenses		-3,174	-5,570	-11,679	-19,816	-25,293
Personnel costs		-14,759	-8,230	-34,151	-27,637	-38,290
Depreciation of tangible non-current assets		-53	-2	-159	-7	-114
Impairment losses on shares in subsidiaries, joint ventures, associated companies and other long-term securities holdings		-14,154	-5,131	-14,523	-19,162	-24,701
Result from sale of shares in portfolio companies		154	0	1,685	123,678	90,909
<b>Operating profit/loss</b>		<b>-30,892</b>	<b>-17,366</b>	<b>-55,377</b>	<b>61,059</b>	<b>7,459</b>
Financial net		-3,360	1,179	-2,178	941	39,855
<b>NET PROFIT/LOSS FOR THE PERIOD</b>		<b>-34,252</b>	<b>-16,187</b>	<b>-57,555</b>	<b>62,000</b>	<b>47,314</b>

Condensed statement of comprehensive income for the Parent Company

SEK 000	Note	2014 Jul-Sep	2013 Jul-Sep	2014 Jan-Sep	2013 Jan-Sep	2013 Full year
<b>Net profit/loss for the period</b>		<b>-34,252</b>	<b>-16,187</b>	<b>-57,555</b>	<b>62,000</b>	<b>47,314</b>
<b>Total comprehensive income for the period</b>		<b>-34,252</b>	<b>-16,187</b>	<b>-57,555</b>	<b>62,000</b>	<b>47,314</b>

### Condensed balance sheet for the Parent Company

SEK 000	Note	30 Sep 2014	30 Sep 2013	31 Dec 2013
<b>ASSETS</b>				
<b>Non-current assets</b>				
Tangible non-current assets		370	1	529
Shares in subsidiaries, joint ventures, associated companies and other long-term securities holdings		1,111,683	1,023,959	1,070,597
Loans receivable on portfolio companies		2,744	30,152	5,894
Other financial assets		32,746	32,038	32,522
<b>Total non-current assets</b>		<b>1,147,543</b>	<b>1,086,150</b>	<b>1,109,542</b>
<b>Current assets</b>				
Accounts receivable		576	562	202
Receivables from subsidiaries		25	148	55
Other receivables		1,819	3,795	3,225
Prepaid expenses and accrued income		1,295	2,995	1,477
Short-term investments		104,416	167,174	165,334
Cash and cash equivalents		7,915	64,908	35,323
<b>Total current assets</b>		<b>116,046</b>	<b>239,582</b>	<b>205,616</b>
<b>TOTAL ASSETS</b>		<b>1,263,589</b>	<b>1,325,732</b>	<b>1,315,158</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
<i>Restricted equity</i>				
Share capital		24,266	24,266	24,266
<i>Unrestricted equity</i>				
Share premium reserve		1,778,253	1,778,253	1,778,253
Accumulated losses		-502,989	-551,326	-550,566
Net profit/loss for the period		-57,555	62,000	47,314
<b>Total equity</b>		<b>1,241,975</b>	<b>1,313,193</b>	<b>1,299,267</b>
<b>Long-term liabilities</b>				
Pension obligations		3,540	2,831	3,315
<b>Total long-term liabilities</b>		<b>3,540</b>	<b>2,831</b>	<b>3,315</b>
<b>Current liabilities</b>				
Accounts payable		3,115	1,391	2,426
Liabilities to subsidiaries		442	453	442
Other current liabilities		1,162	1,566	1,594
Accrued expenses and prepaid income		13,355	6,298	8,114
<b>Total current liabilities</b>		<b>18,074</b>	<b>9,708</b>	<b>12,576</b>
<b>Total liabilities</b>		<b>21,614</b>	<b>12,539</b>	<b>15,891</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,263,589</b>	<b>1,325,732</b>	<b>1,315,158</b>

### Pledged assets and contingent liabilities

SEK 000	Note	30 Sep 2014	30 Sep 2013	31 Dec 2013
Pledged assets		3,540	2,831	3,315
<b>Total</b>		<b>3,540</b>	<b>2,831</b>	<b>3,315</b>

Condensed statement of changes in equity for the Parent Company

SEK 000	Note	Restricted equity	Unrestricted equity			Total equity
		Share capital	Share premium reserve	Accumulated losses	Net profit/loss for the period	
<b>Opening equity at 1 Jan 2014</b>		<b>24,266</b>	<b>1,778,253</b>	<b>-550,566</b>	<b>47,314</b>	<b>1,299,267</b>
Appropriation of loss				47,314	-47,314	
Net profit/loss for the period					-57,555	-57,555
<b>Total</b>		<b>24,266</b>	<b>1,778,253</b>	<b>-503,252</b>	<b>-57,555</b>	<b>1,241,712</b>
Effect of incentive programs				263		263
<b>Closing equity at 30 Sep 2014</b>		<b>24,266</b>	<b>1,778,253</b>	<b>-502,989</b>	<b>-57,555</b>	<b>1,241,975</b>
<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 profit				-152,711	152,711	
Net profit/loss for the period					62,000	62,000
<b>Total</b>		<b>24,266</b>	<b>1,778,253</b>	<b>-549,980</b>	<b>62,000</b>	<b>1,314,539</b>
Effect of incentive programs				1,137		1,137
Share repurchase				-2,483		-2,483
<b>Closing equity at 30 Sep 2013</b>		<b>24,266</b>	<b>1,778,253</b>	<b>-551,326</b>	<b>62,000</b>	<b>1,313,193</b>
<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 profit				-152,711	152,711	
Net profit/loss 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>
Effect of incentive programs				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>

## Notes to the financial statements

### NOTE 1 Accounting policies

This report has been prepared in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting and the Annual Accounts Act. The accounting policies applied to the Investment Entity and the Parent Company correspond, unless otherwise stated below, to the accounting policies 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 nine-month period ended 30 September 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 does 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 policies 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 Stockholm regulations for issuers require companies listed on NASDAQ Stockholm 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 adheres 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, loans receivable from portfolio companies, short-term investments, 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 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 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 non-observable data

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

### Fair value as of 30 September 2014

SEK 000	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Shares in portfolio companies, at fair value through profit or loss	-	-	1,494,027	1,494,027
Loans receivable from portfolio companies	-	2,744	-	2,744
Other financial assets	-	-	38,113	38,113
Accounts receivable	-	1	-	1
Receivables from portfolio companies	-	600	-	600
Short-term investments, at fair value through profit or loss	104,416	-	-	104,416
Cash and cash equivalents	7,915	-	-	7,915
<b>Total</b>	<b>112,331</b>	<b>3,345</b>	<b>1,532,140</b>	<b>1,647,816</b>
<b>Financial liabilities</b>				
Other financial liabilities	-	-	11,373	11,373
Accounts payable	-	3,115	-	3,115
Liabilities to portfolio companies	-	442	-	442
<b>Total</b>	<b>-</b>	<b>3,557</b>	<b>11,373</b>	<b>14,930</b>

### Fair value as of 30 September 2013

SEK 000	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Shares in portfolio companies, at fair value through profit or loss	-	-	1,767,772	1,767,772
Loans receivable from portfolio companies	-	30,152	-	30,152
Other financial receivables	-	-	38,113	38,113
Accounts receivable	-	12	-	12
Receivables from portfolio companies	-	698	-	698
Short-term investments, at fair value through profit or loss	167,174	-	-	167,174
Cash and cash equivalents	64,908	-	-	64,908
<b>Total</b>	<b>232,082</b>	<b>30,862</b>	<b>1,805,885</b>	<b>2,068,829</b>
<b>Financial liabilities</b>				
Other financial liabilities	-	-	9,878	9,878
Accounts payable	-	1,391	-	1,391
Liabilities to portfolio companies	-	453	-	453
<b>Total</b>	<b>-</b>	<b>1,844</b>	<b>9,878</b>	<b>11,722</b>

### Fair value (level 3) as of 30 September 2014

SEK 000	Shares in portfolio companies	Other financial assets	Other financial liabilities
At the beginning of the year	1,729,465	38,113	9,438
Transfers to and from level 3	-	-	-
Acquisitions	56,524	-	-
Disposals	-864	-	-
Gains and losses recognized through profit or loss	-291,098	-	1,935
<b>Closing balance 30 September 2014</b>	<b>1,494,027</b>	<b>38,113</b>	<b>11,373</b>
Total unrealized gains and losses for the period included in profit or loss	-291,098	-	-1,935
<b>Gains and losses in profit or loss for the period for assets and liabilities included in the closing balance</b>	<b>-291,098</b>	<b>-</b>	<b>-1,935</b>

There were no transfers between level 1 and 2 during the nine-month period ended 30 September 2014.



Fair value (level 3) as of 30 September 2013

SEK 000	Shares in portfolio companies	Other financial assets	Other financial liabilities
At beginning of the year	1,827,190	8,907	10,889
Transfers to and from level 3	-	-	-
Acquisitions	176,911	29,206	-
Disposals	-219,710	-	-
Gains and losses recognized through profit or loss	-16,619	-	-1,011
<b>Closing balance 30 September 2013</b>	<b>1,767,772</b>	<b>38,113</b>	<b>9,878</b>
Total unrealized gains and losses for the period included in profit/loss	-16,619	-	1,011
<b>Gains and losses in profit/loss for the period for assets and liabilities included in the closing balance</b>	<b>-16,619</b>	<b>-</b>	<b>1,011</b>

There were no transfers between level 1 and 2 during the nine-month period ended 30 September 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, 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 September 2014, the Biotechnology WACC was 11.02% (11.90%) and the Pharma WACC was 7.32% (8.20%). The adjustments of the WACC made 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

SEKm	WACC adjustment -1%		30 September 2014 Biotech WACC: 11.90% Pharma WACC: 8.20%	WACC adjustment +1%	
	Fair value	Change	Fair value	Fair value	Change
Fair value difference for shares in portfolio companies	1,664.9	170.8	1,494.0	1,347.7	-146.3

- 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 IFRS 10, 11 and 12, all effective 1 January 2013. Karolinska Development has early adopted the investment entity 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, 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 exemption 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 amended its accounting policies with respect to its investments in subsidiaries. The subsidiaries, which were previously consolidated, are now measured at fair value through profit or loss. This change in accounting policy has been applied retroactively in accordance with the transition provisions of IFRS 10 and the Amendments to IFRS 10. The transition provisions require retroactive

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 require 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), Consolidated and Separate Financial Statements, including the Amendments, 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 cases 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 adopted early, although these standards have had no impact on Karolinska Development's 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 as 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 solely to generate 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 nine-month periods ended 30 September 2013 are reported in the following tables (see also the annual report 2013).

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

SEK 000	2013 Jul-Sep (as previously reported)	Change in accounting policy	2013 Jul-Sep (restated)	2013 Jan-Sep (as previously reported)	Change in accounting policy	2013 Jan-Sep (restated)
Revenue	2,759	-1,192	1,567	7,336	-3,333	4,003
Other external expenses	-8,432	2,860	-5,572	-43,447	23,629	-19,818
Personnel costs	-13,530	5,300	-8,230	-45,507	17,870	-27,637
Depreciation and amortization of tangible and intangible non-current assets	-716	714	-2	-2,328	2,321	-7
Change in fair value of shares in portfolio companies	-	-80,571	-80,571	-	-16,619	-16,619
Change in fair value of shares in joint ventures and associated companies	-71,004	71,004	-	-25,027	25,027	-
Change in fair value of other long-term securities holdings	-927	927	-	1,098	-1,098	-
Result from transaction with Rosetta Capital IV LP	-	-	-	404,646	-404,646	-
<b>Operating profit/loss</b>	<b>-91,850</b>	<b>-958</b>	<b>-92,808</b>	<b>296,771</b>	<b>-356,849</b>	<b>-60,078</b>
Financial net	1,180	-1	1,179	1,496	457	1,953
<b>Profit/loss before tax</b>	<b>-90,670</b>	<b>-959</b>	<b>-91,629</b>	<b>298,267</b>	<b>-356,392</b>	<b>-58,125</b>
Deferred taxes	-	-	-	2,926	-2,926	-
Current taxes	-	-	-	-	-	-
<b>NET PROFIT/LOSS FOR THE PERIOD</b>	<b>-90,670</b>	<b>-959</b>	<b>-91,629</b>	<b>301,193</b>	<b>-359,318</b>	<b>-58,125</b>
<b>Attributable to:</b>						
Parent Company's shareholders	-89,665	-1,964	-91,629	308,682	-366,807	-58,125
Non-controlling interests	-1,005	1,005	-	-7,489	7,489	-
<b>TOTAL</b>	<b>-90,670</b>	<b>-959</b>	<b>-91,629</b>	<b>301,193</b>	<b>-359,318</b>	<b>-58,125</b>

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

SEK 000	2013 Jul-Sep (as previously reported)	Change in accounting policy	2013 Jul-Sep (restated)	2013 Jan-Sep (as previously reported)	Change in accounting policy	2013 Jan-Sep (restated)
Earnings per share attributable to Parent Company's shareholders, weighted average, before and after dilution	-1.85	-0.04	-1.90	6.38	-7.58	-1.20
Number of shares, weighted average	48,352,304		48,352,304	48,371,208		48,371,208

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

SEK 000	2013 Jul-Sep (as previously reported)	Change in accounting policy	2013 Jul-Sep (restated)	2013 Jan-Sep (as previously reported)	Change in accounting policy	2013 Jan-Sep (restated)
<b>Net profit/loss for the period</b>	-90,670	-959	-91,629	301,193	-359,318	-58,125
<b>Total comprehensive income for the period</b>	<b>-90,670</b>	<b>-959</b>	<b>-91,629</b>	<b>301,193</b>	<b>-359,318</b>	<b>-58,125</b>
<b>Attributable to:</b>						
Parent Company's shareholders	-89,665	-1,964	-91,629	308,682	-366,807	-58,125
Non-controlling interests	-1,005	1,005	-	-7,489	7,489	-
<b>TOTAL</b>	<b>-90,670</b>	<b>-959</b>	<b>-91,629</b>	<b>301,193</b>	<b>-359,318</b>	<b>-58,125</b>

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

SEK 000	30 Sep 2013 (as previously reported)	Change in accounting policy	30 Sep 2013 (restated)	31 Dec 2013 (as previously reported)	Change in accounting policy	31 Dec 2013 (restated)
<b>ASSETS</b>						
<b>Non-current assets</b>						
Intangible non-current assets	8,533	-8,533	-	8,340	-8,340	-
Tangible non-current assets	1	-	1	529	-	529
Shares in joint ventures and associated companies	1,644,964	-1,644,964	-	1,605,469	-1,605,469	-
Other long-term securities holdings	28,047	-28,047	-	24,568	-24,568	-
Shares in portfolio companies, at fair value through profit or loss	0	1,767,772	1,767,772	-	1,729,465	1,729,465
Loans receivable from portfolio companies	30,152	-	30,152	5,894	-	5,894
Other financial assets	38,113	-	38,113	38,113	-	38,113
<b>Total non-current assets</b>	<b>1,749,810</b>	<b>86,228</b>	<b>1,836,038</b>	<b>1,682,913</b>	<b>91,088</b>	<b>1,774,001</b>
<b>Current assets</b>						
Accounts receivable	5,679	-5,667	12	258	-255	3
Receivables from portfolio companies	-	698	698	-	254	254
Other short-term receivables	4,644	-849	3,795	3,803	-578	3,225
Prepaid expenses and accrued income	4,126	-1,131	2,995	1,767	-290	1,477
Short-term investments, at fair value through profit or loss	167,174	-	167,174	165,334	-	165,334
Cash and cash equivalents	77,469	-12,561	64,908	41,639	-6,316	35,323
<b>Total current assets</b>	<b>259,092</b>	<b>-19,510</b>	<b>239,582</b>	<b>212,801</b>	<b>-7,185</b>	<b>205,616</b>
<b>TOTAL ASSETS</b>	<b>2,008,902</b>	<b>66,718</b>	<b>2,075,620</b>	<b>1,895,714</b>	<b>83,903</b>	<b>1,979,617</b>
<b>EQUITY AND LIABILITIES</b>						
<b>Equity</b>						
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	184,541	79,048	263,589	74,380	90,779	165,159
<b>Equity attributable to Parent Company's shareholders</b>	<b>1,976,986</b>	<b>79,048</b>	<b>2,056,034</b>	<b>1,866,825</b>	<b>90,779</b>	<b>1,957,604</b>
Non-controlling interests	5,746	-5,746	-	3,514	-3,514	0
<b>Total equity</b>	<b>1,982,732</b>	<b>73,302</b>	<b>2,056,034</b>	<b>1,870,339</b>	<b>87,265</b>	<b>1,957,604</b>
<b>Long-term liabilities</b>						
Other financial liabilities	9,878	-	9,878	9,438	-	9,438
<b>Total long-term liabilities</b>	<b>9,878</b>	<b>-</b>	<b>9,878</b>	<b>9,438</b>	<b>-</b>	<b>9,438</b>
<b>Current liabilities</b>						
Accounts payable	3,135	-1,744	1,391	3,779	-1,353	2,426
Liabilities to portfolio companies	-	453	453	-	442	442
Other current liabilities	3,601	-2,035	1,566	2,636	-1,043	1,593
Accrued expenses and prepaid income	9,556	-3,258	6,298	9,522	-1,408	8,114
<b>Total current liabilities</b>	<b>16,292</b>	<b>-6,584</b>	<b>9,708</b>	<b>15,937</b>	<b>-3,362</b>	<b>12,575</b>
<b>Total liabilities</b>	<b>26,170</b>	<b>-6,584</b>	<b>19,586</b>	<b>25,375</b>	<b>-3,362</b>	<b>22,013</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,008,902</b>	<b>66,718</b>	<b>2,075,620</b>	<b>1,895,714</b>	<b>83,903</b>	<b>1,979,617</b>

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

SEK 000	31 Dec 2012 (as previously reported)	Change in accounting	31 Dec 2012 (restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible non-current assets	9,864	-9,864	-
Tangible non-current assets	4,985	-4,976	9
Shares in joint ventures and associated companies	219,173	-219,173	-
Other long-term securities holdings	26,949	-26,949	-
Shares in portfolio companies	-	1,827,190	1,827,190
Loans receivable from portfolio companies	12,856	-	12,856
Other financial assets	8,907	-	8,907
<b>Total non-current assets</b>	<b>282,734</b>	<b>1,566,228</b>	<b>1,848,962</b>
<b>Current assets</b>			
Accounts receivable	513	-407	106
Receivables from portfolio companies	-	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	174,160	-	174,160
Cash and cash equivalents	117,033	-8,353	108,680
<b>Total current assets</b>	<b>300,239</b>	<b>-11,791</b>	<b>288,448</b>
Assets transferred to KDev Investments Group	1,632,025	-1,632,025	-
<b>TOTAL ASSETS</b>	<b>2,214,998</b>	<b>-77,588</b>	<b>2,137,410</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	-122,547	445,607	323,060
<b>Equity attributable to Parent Company's shareholders</b>	<b>1,669,898</b>	<b>445,607</b>	<b>2,115,505</b>
Non-controlling interests	354,294	-354,294	-
<b>Total equity</b>	<b>2,024,192</b>	<b>91,313</b>	<b>2,115,505</b>
<b>Long-term liabilities</b>			
Other financial liabilities	10,889	-	10,889
<b>Total long-term liabilities</b>	<b>10,889</b>	<b>-</b>	<b>10,889</b>
<b>Current liabilities</b>			
Accounts payable	4,215	-1,705	2,510
Liabilities to portfolio companies	-	473	473
Other current liabilities	2,775	-1,263	1,512
Accrued expenses and prepaid income	8,166	-1,645	6,521
<b>Total current liabilities</b>	<b>15,156</b>	<b>-4,140</b>	<b>11,016</b>
Liabilities attributable to assets transferred to KDev Investments Group	164,761	-164,761	-
<b>Total liabilities</b>	<b>190,806</b>	<b>-168,901</b>	<b>21,905</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,214,998</b>	<b>-77,588</b>	<b>2,137,410</b>

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

SEK 000	2013 Jan-Sep (as previously reported)	Change in accounting policy	2013 Jan-Sep (restated)
<b>Operating activities</b>			
Operating profit/loss	296,771	-356,849	-60,078
<i>Adjustments for non-cash items</i>			
Adjustment for depreciation and amortization	2,328	-2,321	7
Adjustment for changes in fair value	23,929	-7,310	16,619
Result from transaction with Rosetta Capital IV LP	-404,646	404,646	-
Other non-cash items	2,245	-	2,245
Realized change in value of short-term investments	1,072	-	1,072
Interest paid	-70	66	-4
Interest received	1,757	-	1,757
<b>Cash flow from operating activities before changes in working capital and operating investments</b>	<b>-76,614</b>	<b>38,232</b>	<b>-38,382</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/Decrease (+) in operating receivables	4,681	-6,732	-2,051
Increase (+)/Decrease (-) in operating liabilities	3,134	-3,426	-292
<b>Operating investments</b>			
Investments in intangible non-current assets	-722	722	-
Investments in tangible non-current assets	-398	398	-
Investments in shares in portfolio companies	-	-173,126	-173,126
Investments in shares in joint ventures and associated companies	-151,344	151,344	-
Cash and cash equivalents which have been transferred to KDev Investments Group	-51,723	51,723	-
Change in short-term investments	7,350	-	7,350
Sale of shares in portfolio companies	190,793	-	190,793
Loans provided to associated companies	-25,581	-	-25,581
<b>Cash flow from operating activities</b>	<b>-100,424</b>	<b>62,135</b>	<b>-41,289</b>
<b>Financing activities</b>			
Share of subsidiary issue for non-controlling interests	3,757	-3,757	-
Share repurchase	-2,483	-	-2,483
<b>Cash flow from financing activities</b>	<b>1,274</b>	<b>-3,757</b>	<b>-2,483</b>
<b>Cash flow for the period</b>	<b>-99,150</b>	<b>55,378</b>	<b>-43,772</b>
Cash and cash equivalents at beginning of the year	176,619	-67,939	108,680
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>77,469</b>	<b>-12,561</b>	<b>64,908</b>



## 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.

Name	Registered office	Total holding			
		30 Sep 2014	30 Sep 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	37.50%	37.50%	37.50%	37.50%
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	100.00%	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 majority interests, though not controlling interests, 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 September 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 results or financial position of the Parent Company or the Investment Entity as of 30 September 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.