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Karolinska Development - Q2 Highlights

- Evolved strategy focused on transforming Karolinska Development into a leading Nordic Venture Capital Company
- Further streamlining of the Karolinska Development portfolio to allow resources to be focused on the portfolio companies with the best chances of delivering returns
- The Company's current level of funding provides sufficient runway to execute its strategy and to unlock the potential value of its portfolio
- New Board Directors elected at the Company's Annual General Meeting

Portfolio Developments – Q2 Highlights

- Clanotech had a EU patent approved for its lead drug candidate CLT-28643, an $\alpha 5\beta 1$ integrin inhibitor for ophthalmic use
- Inhalation Sciences broadened its investor base by raising venture money from Stockholms Affärsänglar (Stockholm Business Angels) and Almi Invest
- Aprea had a US patent approved for a new formulation of APR-246, a first-in-class lead candidate drug that reactivates dysfunctional p53 tumor suppressor protein
- SEK 14.9m was invested in the portfolio companies during Q2
- Karolinska Development announced July 9th that it has adopted a more prudent and representative approach to reporting the fair value of its portfolio

Post period events

- Divestment of Pharmanest in July to an investment consortium comprising Östersjöstiftelsen, Recipharm Venture Fund and Praktikerinvest in an earn-out agreement. Consortium will finance Pharmanest to its next value inflection point
- Aprea strengthened its Board by electing Bernd R. Seizinger as Executive Chairman

Financial Update

- Cash, cash equivalents and short term liquidity investments decreased with SEK 57.0m during the second quarter and amounted to SEK 383.4m
- Net profit/loss amounted to SEK -654.6m during the second quarter (SEK -191.1m)
- Total Fair Value of the portfolio decreased from SEK 1,399m to SEK 679m during the second quarter. When adjusted for potential distribution to Rosetta Capital IV LP Net Fair Value amounted to SEK 319.9m (SEK 1,113.5m)
- Adjustment of Total Fair Value was due to
 - SEK -368.2m from new assessment of valuation principles
 - SEK -351.8m from divestments/write-offs

Jim Van heusden, CEO of Karolinska Development, comments:

"Over the last several months we have been working hard to create a strong foundation, based around a more focused streamlined portfolio of companies, to ensure the future success of Karolinska Development. We have evolved our strategy so that we can achieve our medium-term goal of becoming a leading Nordic Venture Capital company.

"We have also adopted a more prudent and representative approach to valuing our investment portfolio as we believe that this will make it easier for shareholders to track the value that could be generated by our investee companies."



Jim Van heusden,
Chief Executive Officer

Chief Executive's Report

Evolved Strategy

I'm pleased to report that Karolinska Development has been making good progress towards its goal of becoming a leading Nordic Venture Capital company. This more ambitious strategy is designed to generate attractive and more consistent returns for our shareholders.

Streamlining Our Portfolio

This strategic change has led to a thorough review of all of the investee companies in our portfolio to assess their potential to deliver value for our shareholders.

This review has resulted in a further streamlining of our investment portfolio as we focus our resources on the companies which we believe have the best chance of developing new innovative medicines or medtech products that meet a clear medical need. This streamlining has led to the divestment of a number of companies including Axelar and Pharmanest. The latter in a creative deal which will see Pharmanest benefit from new funding from an investment syndicate that will allow it to reach its next major value inflection point. Karolinska Development will retain an economic interest in Pharmanest's success via an earn-out agreement.

We have also written off completely our investments in Athera Biotechnologies, NeoDynamics, NovaSAID, Pergamum, Umecrine Mood and XSpray Microparticles. These decisions were made following extensive efforts to secure additional financing, licensing deals or an M&A solution. While such outcomes were clearly unsatisfactory, they illustrate the risks that all investors in the life science sector have to accept, particularly when working with early stage companies.

As result of these developments, our portfolio now comprises 12 companies, this compares with 21 companies at the end of June 2014.

More Prudent Valuation Approach

We have also adopted a more prudent and representative approach to valuing our portfolio companies, bringing us into line with our international venture capital peers. We believe that making this change will deliver a more consistent valuation of our portfolio and will also make it easier to see the impact of our portfolio companies delivering important and value-generating milestones.

As part of this more prudent approach we have provided greater detail on our deal with Rosetta Capital IV LP and the way it is reflected in the overall fair value of the Karolinska Development portfolio.

Working with Experienced International Life Science Investors

Looking to the future, one of the key elements of our investment strategy is to develop much closer and productive links with experienced international life sciences investors. We have started to build our relationships with a number of these firms and hope that over time these discussions will lead to them investing in some of our current portfolio companies as well as the new companies we plan to create in the future. By doing this we will be able to share the risks associated with investing in early stage life companies and gain access to their network and expertise.

We also anticipate that these relationships will provide us with access to a broader deal flow which augments and balances the opportunities that we can select to invest in. This would provide us with more opportunities to potentially generate greater returns while at the same time allowing us to better manage the risk profile of our overall portfolio.

We would anticipate investing in a small number of new companies over the next 12 months in conjunction with other experienced life science investors.

The changes we have made during the course of 2015 have given Karolinska Development a more ambitious strategy and positioned the Company to execute that strategy successfully.

New Karolinska Development Board Members

At the Company's Annual General Meeting in May, the following new Directors were elected to the Board:

- Mr Tse Ping, Vice Chairman of Karolinska Development, The Founder and Chairman of Sino Biopharmaceutical Limited, one of the largest and most successful pharmaceutical companies in Hong Kong. Mr Tse Ping is also Vice Chairman of Charoen Pokphand Group (CP Group), the largest company in Thailand, where he has extensive experience of major merger and acquisition activity
- Khalid Islam, PhD. Dr Islam is a Board member of Pcovery Aps, Adenium Aps, Oxthera AB, Fennec Pharma Inc. and Molmed SpA. He is also Advisor to the Kurma Biofund as well as a member of the Editorial Board of Current Drug Discovery & Technologies and of the International Scientific Advisory Board of The Network of Excellence for Pathogenomics
- Niclas Adler, PhD, MSc. Dr Adler is the Managing Partner Accelerated Innovation Ltd, President Indonesian International Institute for Life-sciences, Chairman PT Accelerated Value, Chairman e-Cognition PTE Ltd, Chairman ITH Immune Therapy Holdings AB, Chairman TLA Targeted Immunotherapies AB, Chairman Accelerated Drug Development AB and Babson Global Professor of Entrepreneurship Practice

The elections of Mr Ping, Dr Islam and Dr Adler to the Board will give Karolinska Development access to significant, commercial, investment and operational expertise which will be important for enhancing the support that can be provided to the Company's portfolio companies.

We would like to thank the outgoing members Charlotte Edenius and Robert Holland, who during their time on the Board have made significant contributions to the company's development.

Portfolio Overview

The changes we have made over the last several months have resulted in a smaller, more-focused portfolio, built around a number of companies that are developing highly innovative therapeutic and medtech products.

We believe it is crucial that Karolinska Development invests in companies which are developing highly differentiated and commercially attractive products. This is because it is increasingly clear that potential pharmaceutical/medtech partners, driven by the demands of healthcare payers, are focused on gaining access to novel products that can deliver compelling health economic benefits.

This focus on novel products carries a higher degree of risk and we plan to manage this in two ways:

- by increasing the level of support that we provide to our investee companies on the levels of leadership and fundraising, and
- by diversifying our portfolio through investment ideas from Karolinska Institutet and from other potential collaborators.

Supporting Our Portfolio Companies

The success of our portfolio companies is not solely dependent on the novelty of their products or technology but also requires having the right leadership team in place and the funding needed to support their product development activities to deliver value generating milestones.

Leadership Teams

In the last several months we have been working to provide support in both of these two areas. During this period we have seen Bernd R. Seizinger, M.D., PhD, appointed as the Chairman of Aprea. Dr Seizinger is a very experienced biotech leader and is currently Chairman of Opsona Therapeutics Ltd. He was formerly Vice President, Oncology Drug Discovery at Bristol-Myers Squibb, Director of the Molecular Neuro-Oncology Laboratory at Massachusetts General Hospital and Associate Professor at Harvard Medical School in Boston, MA, USA, as well as President & CEO of oncology drug discovery and clinical development company GPC Biotech (U.S. and Germany). Over the remainder of 2015 we would expect to see further important additions to the leadership teams of our key portfolio companies.

Finance

We have also been working to ensure that our portfolio companies are financed to deliver success. In June, Inhalation Sciences Sweden received new investment from the venture finance companies Stockholms Affärsänglar AB (STOAF) and Almi Invest, who are both now minority share owners. The investment is to support Inhalation Sciences strategy of commercializing its world-leading technology platform for the development of inhaled therapeutics.

In July we announced that Pharmanest would receive SEK 28 million in new investment from The Foundation for Baltic and East European Studies (Östersjöstiftelsen), Recipharm Venture Fund AB and Praktikerinvest AB. The funds will be used for the further development of Pharmanest's SHACT topical pain relief product for use in conjunction with insertion of intra-uterine devices to the point of its first regulatory approval submission in Europe. This financing will allow Karolinska Development to benefit from Pharmanest's success via an earn-out following the disposal of its shareholding in the company.

Both of these financings provide external validation of the technologies and products being developed by these companies. Over the remainder of 2015, we will continue to utilise our own financial resources and those of selected co-investors to ensure that the companies which we believe can deliver value are properly financed.

Karolinska Development is currently conducting a cost reduction program. The program is in part the result of the streamlining of our portfolio which means we are now able to focus our management resources on a smaller number of investee companies.



Selected Portfolio Company Updates

Therapeutic Companies

Aprea AB - A unique approach to treating a broad range of cancers

Aprea AB is a Swedish biotech company focusing on discovery and development of novel anticancer compounds targeting the tumor suppressor protein p53. De-activation of p53 results in uncontrolled growth of the cell that may lead to cancer. Mutations of the p53 gene occur in around 50% of tumors and restoring its normal function represents a very attractive approach for treating a broad range of cancers including those resistant to cancer chemotherapeutics.

Aprea's lead drug candidate APR-246 has been shown to reactivate the tumor suppressor protein p53, inducing programmed cell death in many human cancer cells. Two Phase I/II studies with APR-246 have been completed, demonstrating a favorable safety profile and both biological responses and clinical signs of activity.

Aprea is now conducting a Phase Ib/II proof-of-concept study in ovarian cancer patients carrying defective p53. This trial is designed to evaluate the safety, efficacy, pharmacokinetics and pharmacodynamics of APR-246 in combination with carboplatin and pegylated doxorubicin, a second line standard-of-care chemotherapy for relapsed platinum-sensitive, high-grade serous ovarian cancer.

The Phase Ib/II trial is a two-part study that will enrol approximately 180 patients. The initial part of the trial is an open-label, multiple ascending dose-finding study.

Aprea then plans to initiate the second part of this study. This will be a Phase II randomized, controlled study investigating the safety and antitumor activity of APR-246 administered in combination with carboplatin and pegylated doxorubicin, compared with carboplatin and pegylated doxorubicin alone. The primary endpoint of this Phase II study will be Progression Free Survival (PFS).

The market potential in ovarian cancer is substantial. There are around 225,000 women living with ovarian cancer in the seven major markets with 67,000 new patients are diagnosed each year. Of those diagnosed annually, approximately 20,000 have stage III-IV, recurrent disease with mutated p53. This is the primary target population for APR-246. The overall ovarian cancer pharmaceutical market is expected by analysts to grow by more than 13% annually to 2020, reaching a total market value at USD 2.3bn.

Recent progress

- Bernd R. Seizinger appointed Executive Chairman (July 2015)
- US patent approved for a new formulation of APR-246 (June 2015)
- APR-246 granted European orphan drug designation for ovarian cancer (January 2015)

Next milestone

- Results from the phase Ib part of the phase Ib/II study in ovarian cancer (H2-2015)



Dilaforette AB – Targeting relief for sickle cell disease sufferers

Dilaforette, a Swedish drug development company, is developing sevuparin, a proprietary polysaccharide drug derived from heparin, which has been designed to retain the anti-adhesive effects of heparin, while reducing its anti-coagulant property. Sevuparin has the potential to be of clinical use in several therapeutic conditions and is about to enter a Phase II trial in patients with Sickle Cell Disease (SCD).

Sevuparin is an innovative, disease-modifying drug. Based on its unique mechanism of action and excellent tolerability, sevuparin has the potential to become the best-in-class treatment for SCD. Sevuparin's mechanism of action is based on the prevention and resolution of microvascular obstructions (via a multimodal, anti-adhesive mechanism). The microvascular obstructions cause the severe pain during Vaso-Occlusive Crises (VOCs) and the high morbidity through organ damage as well the risk of premature death.

Preclinical data show that sevuparin can have rapid and clinically relevant effects on the microvascular obstructions. Therefore, initially, Dilaforette intends to develop sevuparin for the acute treatment of VOCs starting with a randomized double blind placebo controlled Phase II study in hospitalized SCD patients. This trial, which is due to begin shortly, will be conducted in conjunction with Ergomed, the company's co-development partner for this study.

Ultimately, it is believed that sevuparin could be self-administered by SCD patients to prevent VOCs developing.

SCD is an orphan disease with approximately 100,000 patients in the US and 35,000 patients in Europe. In addition to this, there is a large patient pool in the Middle East, India, South America and in Africa. The average number of VOCs per patient seeking hospital care is in the order of one VOC per year. The commercial impact of a SCD treatment that reduces hospital stay and the use of opioid analgesics is expected to be substantial. A label expansion to include also the preventive treatment would expand the market size significantly.

Recent progress

- Sevuparin receives Orphan Drug Designation in SCD from the US FDA (March 2015)
- Dilaforette entered into a co-development agreement with Ergomed for the Phase II clinical development of sevuparin in patients with SCD experiencing acute VOCs (February 2015)
- Sevuparin receives positive opinion from the Committee for Orphan Medicinal Products (COMP) on orphan drug designation in the EU (January 2015)

Next milestone

- Start of phase II clinical trial in SCD (H2-2015)



Medtech Companies

OssDsign AB – Commercializing the best craniofacial implants

OssDsign is commercialising novel cranio and facial implants that deliver strong bone healing and good final aesthetic results. The Craniomosaic™ customized cranial implant represents a completely new approach to cranioplasty. Due to the excellent biological and biomechanical properties of its titanium-reinforced calcium phosphate tiles, it has a documented ability to integrate with surrounding tissue structures and stimulate bone regeneration. The company's implants allow free circulation of blood and tissue fluids, while providing a mechanical scaffold for bone healing. The product has so far shown excellent clinical results in complex cases.

Patient experience with OssDsign's cranio implant, Craniomosaic, which is now on the market in Europe, has demonstrated bone ingrowth and healing in large/severe cranial defects as well as sustained soft tissue improvement resulting in a permanent solution with good aesthetic results. Currently used implant materials cannot achieve these outcomes and also carry the lifetime risk of skin penetration and infection. Such failures lead to difficult and expensive clinical complications. OssDsign's implants have resulted in very promising clinical outcomes reducing the complication rate, leading to improved quality of life for patients and reduced costs for hospitals.

OssDsign's craniofacial implants are designed to provide new clinical opportunities for treatment of various facial bone deformities including:

- Repair of hereditary facial defects such as paranasal augmentation in cleft patients and correction of hemifacial microsomia.
- Reconstruction of facial bone after trauma, tumor resection or growth retardation due to irradiation.

The market for biomaterials products in orthopedics was worth EUR 1.5bn in 2013. The planned introduction of its facial implants will significantly expand the commercial opportunity that OssDsign is targeting.

OssDsign's target market is attractive as the procedures that use its implants are carried out in a limited number of easily identifiable hospitals. In addition the price sensitivity for the company's patient-specific implants is limited particularly given the clear benefits that they can deliver.

Recent progress

- OssDsign's follow-up product Cranioplug received marketing approval in the US (Q4-2014)

Next milestone

- Launch of new custom-designed facial implant in Europe (H2-2015)



Promimic AB – Coatings that enhance the properties of orthopedic implants

Promimic is a biomaterials company that develops and markets a unique implant coating – HAnano Surface, which accelerates bone integration and increases the anchoring strength of implants. HAnano Surface's key advantage is that it can convert any implant to a material that resembles human bone and thereby create an improved osteo-conductive interface between human tissue and the implant.

The HAnano Surface is nanometer thin, which helps preserve the micro-structure of the implant and reduces the risk of cracks in the coating. Furthermore, the coating improves the hydrophilicity of the implant which increases the possibility for bone cells to attach to the surface. The HAnano Surface has been evaluated in both in vitro and in vivo studies, which have shown that it can reduce healing times. The coating process is easy to implement in the industrial scale production of implants.

The implant industry is a large, high-growth market which delivers high profit margins. The competition amongst implant manufacturers is fierce and each market segment is dominated by four to eight global companies. Many of these follow a strategy of licensing new technology in order to differentiate their products and strengthen their market position.

Promimic has a business model which is designed to take advantage of these industry dynamics. It is centered on out-licensing its HAnano Surface technology to leading implant manufacturers so that they can incorporate it into their products.

Next milestone

- License agreements with major manufacturers

Financial development – Investment Entity

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. Amounts in parenthesis refer to corresponding period in the prior year unless otherwise stated.

Financial development in summary

SEKm	2015 Apr-Jun	2014 Apr-Jun (restated)	2015 Jan-Jun	2014 Jan-Jun (restated)	2014 Full-year (restated)
<i>Condensed income statement</i>					
Change in fair value in portfolio companies	-635.1	-178.9	-863.7	-180.9	-306.1
Net profit/loss	-654.6	-191.1	-905.6	-205.5	-371.5
<i>Condensed balance sheet</i>					
Cash, cash equivalents and short-term investments			383.4	128.9	141.3
<i>Share information</i>					
Earnings per share, weighted average, before and after dilution (SEK)	-12.3	-4.0	-17.0	-4.3	-7.6
Net asset value per share (SEK) (Note 1)			7.7	28.3	23.5
Equity per share (SEK) (Note 1)			7.5	28.2	23.7
Share price, last trading day in the reporting period (SEK)			10.7	22.0	13.3
<i>Portfolio information</i>					
Investments in portfolio companies	14.9	33.8	64.9	49.3	84.0
Of which investments not affecting cash flow	0.3	6.7	0.3	6.7	6.7
Net fair value of portfolio holdings (Note 2)			319.9	1,204.8	1,113.5

Value development January-June 2015

During the period January-June 2015, the Investment Entity's operating loss amounted to SEK -888.0m (SEK -205.0m), of which the effect of the change in fair value of portfolio investments amounted to SEK -863.7m (SEK -180.9m) compared with the same period in 2014. The effect of the change in fair value is mainly due to the more prudent portfolio valuation implemented starting the second quarter and the write offs and divestments made during the first half of 2015:

- Adoption of a more prudent approach to valuing the early stage companies to the amount of SEK 368.2m
- Decisions to write off fair value in portfolio companies below as Karolinska Development is implementing its new strategy and focus its portfolio:
 - Athera Biotechnologies AB, to the amount of SEK 89.0m
 - NeoDynamics AB, to the amount of SEK 9.7m
 - NovaSAID AB, to the amount of SEK 74.4m
 - Pergamum AB, to the amount of SEK 120.2m
 - Pharmanest AB, to the amount of SEK 124.2m
 - Umecrine Mood AB, to the amount of SEK 58.9m
 - XSpray Microparticles AB, to the amount of SEK 83.0m

Value development second quarter 2015

During the second quarter the Investments Entity's operating loss amounted to SEK -646.2 (SEK -190.4m), of which the effect of change in fair value of portfolio investments amounted to SEK -635.1m (SEK -178.9m) compared with the same period 2014.

Results

The Investment Entity's loss before tax during the period January-June 2015 amounted to SEK -905.6m (SEK -205.5m).

The Investment Entity's loss before tax during the second quarter amounted to SEK -654.6m (SEK -191,1m).

Investments and loans in portfolio companies January-June 2015

Investments in portfolio companies during the period January-June 2015 amounted to SEK 64.9m (SEK 54.5m). Investments were made in Akinion Pharmaceuticals AB SEK 9.0m, Aprea AB SEK 18.5m, Dilaforette Holding AB SEK 8.7m, KDev Oncology AB at SEK 0.3m OssDsign AB SEK 11.0m, Pharmanest AB SEK 0.6m, Promimic AB SEK 1.8m, Umecrine Cognition AB SEK 13.0 and XSpray Microparticles SEK 2.0m.

Investments and loans in portfolio companies second quarter 2015

Investments in portfolio companies during the second quarter amounted to SEK 14.9m (SEK 38.1m). Investments were made in Akinion Pharmaceuticals AB SEK 9.0m, KDev Oncology AB at SEK 0.3m, Pharmanest AB SEK 0.6m, Umecrine Cognition SEK 3.0m and XSpray Microparticles SEK 2.0m.

Financial position (comparative figures refer to 31 December 2014)

The Investment Entity's equity to total assets ratio was 53% (95%) on 30 June 2015 and equity amounted to SEK 396.9m (SEK 1,256.8m).

Cash, cash equivalents and short-term investments in the Investment Entity amounted to SEK 383.4m (SEK 141.3m), of which SEK 94.9m is provisionally allocated for anticipated follow-on investments in the KDev Investments portfolio. Total assets amounted to SEK 748.1 m (SEK 1,321.6m).

Financial development – Parent Company

The Parent Company refers to Karolinska Development AB.

During the period January-June 2015, the Parent Company's operating loss amounted to SEK -707.5m (SEK -132.7m), a change of SEK -574.8m compared with the same period in 2014. During the period January-June 2015, impairment losses were recognized on the holdings in KDev Investments AB SEK -457.4m, Athera Biotechnologies AB SEK -89.0m, XSpray Microparticles AB SEK -60.8m, Pharmanest AB SEK -39.3m, Lipidor AB SEK -11.1m, Umecrine AB SEK -6.5m, share of result in KCIF Co-Investment Fund KB SEK -18.0m, KDev Oncology AB SEK -0.6m, KCIF Fund Management AB SEK -0.3m and KD Incentive AB SEK -0.2m. Impairment losses during the period January-June 2015 totaled SEK -683.2m (SEK -108.6m).

During the second quarter the Parent Company's operating loss amounted to SEK -514.2m (SEK -120.1m).

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 equity and loan instruments in portfolio companies as well as risks in the management of liquid assets.

Future financing needs

Karolinska Development invests in companies deemed to generate considerable returns. Development of the portfolio companies' research projects will require capital contributions by their investors in order to capitalize on the value potential. The portfolio companies have no guarantees that required capital will be obtained to finance their projects on favourable terms, or that such capital may be obtained at all.

Long-term financing of the portfolio companies' capital requirements is provided by Karolinska Development investing alone or in syndication with other investors. Karolinska Development maintains a strategy to continuously invest in the portfolio companies in syndicate with other investors. However, Karolinska Development may deviate from investing its pro-rata share in portfolio companies, which may have an impact on the valuations of portfolio companies. If portfolio companies are not successful in attracting other investors, Karolinska Development may choose to invest alone, which may also have an impact on the valuations of portfolio companies.

Priorities must be made to optimize returns. Portfolio companies may fail to achieve milestones or meet development milestones according to plan. In such case, Karolinska Development may decide to discontinue investing in a project. If so, the portfolio companies may have to limit their operations. Karolinska Development's shareholdings may also be diluted by other investors, and other investors may refrain from co-investing on equal terms. In the event that any of the above risks take place, it may have a negative impact on the portfolio companies operations and on the valuations of the portfolio companies. There is also a risk that Karolinska Development decides not to invest in the opportunistic portfolio. If projects lack co-investors which validate the valuations of the portfolio companies it may also have a negative impact on valuations.

Investments in portfolio companies during 2015 are expected to increase compared to the previous year as a consequence of several companies in the strategic portfolio currently undergoing value-critical activities, or intend to initiate such activities during the year. Several companies are expected to enter license agreements with partners, receive non-dilutive grants such as EU contributions, and third party investments are expected to increase. In both the strategic and the opportunistic portfolio, the strategy to seek a higher degree of co-investors which may contribute to higher prospects of success.

Other than the above, no new risk areas have been identified since 31 December 2014. For a detailed description of risks and uncertainties, see the annual report 2014.

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, 26 August 2015

Bo Jesper Hansen
Chairman

Tse Ping

Niclas Adler

Vlad Artamonov

Khalid Islam

Henriette Richter

Carl Johan Sundberg

Hans Wigzell

Jim Van heusden
CEO

Dates for publication of financial information

Interim report January-September 2015

17 November 2015

Karolinska Development is required by law to publish the information in this interim report. The information was published on 26 August 2015.

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 interim report. In case of any discrepancies, the Swedish version shall prevail.

Review report

Karolinska Development AB, corporate identity number 556707-5048

Introduction

We have reviewed the condensed interim report for Karolinska Development AB as at June 30, 2015 and for the six months period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report 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 Financial Statements 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 and other generally accepted auditing standards in Sweden. 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. Accordingly, we do not express an audit opinion.

Conclusion

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

Solna, August 26, 2015

Ernst & Young AB

Björn Ohlsson
Authorized Public Accountant

Financial statements

Condensed income statement for the Investment Entity

SEK 000	Note	2015 Apr-Jun	2014 Apr-Jun (restated)	2015 Jan-Jun	2014 Jan-Jun (restated)	2014 Full-year (restated)
Revenue		1,118	1,107	2,110	2,356	5 030
Other expenses		-5,750	-4,837	-10,249	-8,505	-16 447
Personnel costs		-6,421	-8,982	-16,079	-19,392	-51 933
Depreciation of tangible non-current assets		-53	-53	-106	-106	-212
Change in fair value of shares in portfolio companies	2	-635,096	-178,853	-863,675	-180,932	-306,072
Result from sale of shares in portfolio companies		-	1,184	-	1,531	1,745
Operating profit/loss		-646,202	-190,434	-887,999	-205,048	-367,889
Financial net		-8,437	-666	-17,560	-413	-3,599
Profit/loss before tax		-654,639	-191,100	-905,559	-205,461	-371,488
Deferred taxes		-	-	-	-	-
Current taxes		-	-	-	-	-
NET PROFIT/LOSS FOR THE PERIOD		-654,639	-191,100	-905,559	-205,461	-371,488

*Interest on convertible loans at 8 percent nominal interest rate.

Earnings per share for the Investment Entity

SEK	Note	2015 Apr-Jun	2014 Apr-Jun (restated)	2015 Jan-Jun	2014 Jan-Jun (restated)	2014 Full-year (restated)
Earnings per share, weighted average, before and after dilution		-12.32	-3.96	-17.04	-4.25	-7.64
Number of shares, weighted average		53,140,273	48,287,132	53,140,273	48,287,132	48,606,243

Condensed statement of comprehensive income for the Investment Entity

SEK 000	Note	2015 Apr-Jun	2014 Apr-Jun (restated)	2015 Jan-Jun	2014 Jan-Jun (restated)	2014 Full-year (restated)
Net/profit loss for the period		-654,639	-191,100	-905,559	-205,461	-371,488
Total comprehensive income for the period		-654,639	-191,100	-905,559	-205,461	-371,488

Condensed balance sheet for the Investment Entity

SEK 000	Note	30 Jun 2015	30 Jun 2014 (restated)	31 Dec 2014 (restated)
ASSETS				
Non-current assets				
Tangible non-current assets		211	423	317
Shares in portfolio companies at fair value through profit or loss	1,2	319,903	1,204,801	1,113,454
Loans receivable from portfolio companies		-	5,190	12,062
Other financial assets		38,113	38,113	38,113
Total non-current assets		358,227	1,248,527	1,163,946
Current assets				
Receivables from portfolio companies		1,339	366	895
Other short-term receivables		2,688	1,938	3,103
Prepaid expenses and accrued income		2,463	1,595	12,364
Short-term investments, at fair value through profit or loss		278,233	99,114	128,443
Cash and cash equivalents		105,135	29,778	12,885
Total current assets		389,858	132,791	157,690
TOTAL ASSETS		748,085	1,381,318	1,321,636
EQUITY AND LIABILITIES				
Equity				
Share capital		26,692	24,266	26,692
Share premium		1,874,236	1,768,179	1,828,844
Retained earnings		-1,503,998	-432,346	-598,724
Total equity		396,930	1,360,099	1,256,812
Long-term liabilities				
Convertible loan	3	309,160	-	22,858
Accrued interest convertible loan	3	20,023	-	-
Other financial liabilities		5,439	11,032	11,686
Total long-term liabilities		334,622	11,032	34,544
Current liabilities				
Accounts payable		1,441	1,185	4,668
Liabilities to portfolio companies		691	442	442
Other current assets		1,094	1,597	1,023
Accrued expenses and prepaid income		13,307	6,963	24,147
Total current liabilities		16,533	10,187	30,280
Total liabilities		351,155	21,219	64,824
TOTAL EQUITY AND LIABILITIES		748,085	1,381,318	1,321,636

Condensed statement of changes in the Investment Entity's equity

SEK 000	Note	Equity attributable to Investment Entity's shareholders			Total
		Share capital	Share premium	Retained earnings	
Opening equity at 1 Jan 2015		26,692	1,828,844	-598,724	1,256,812
Net profit/loss for the period				-905,559	-905,559
Total comprehensive income for the period				-905,559	-905,559
Convertible loan - equity part			49,528		49,528
Issue costs			-4,136		-4,136
Effect of incentive programs				285	285
Closing equity at 30 Jun 2015		26,692	1,874,236	-1,503,998	396,930
Opening equity at 1 Jan 2014		24,266	1,768,179	165,159	1,957,604
Effect of changes in presentation of Net Fair Value	6			-393,059	-393,059
Opening equity at 1 Jan 2014				-227,900	1,564,545
Net profit/loss for the period				-205,461	-205,461
Total comprehensive income for the period				-205,461	-205,461
Effect of incentive programs				1,015	1,015
Closing equity at 30 Jun 2014		24,266	1,768,179	-432,346	1,360,099
Opening equity at 1 Jan 2014		24,266	1,768,179	165,159	1,957,604
Effect of changes in presentation of Net Fair Value	6			-393,059	-393,059
Opening equity at 1 Jan 2014				-227,900	1,564,545
Net profit/loss for the year				-371,488	-371,488
Total comprehensive income for the year				-371,488	-371,488
Share issue		2,426	60,665		63,091
Effect of incentive programs				664	664
Closing equity at 31 Dec 2014		26,692	1,828,844	-598,724	1,256,812

Condensed statement of cash flows for the Investment Entity

SEK 000	Note	2015 Jan-Jun	2014 Jan-Jun (restated)
Operating activities			
Operating profit/loss		-887,999	-205,048
Adjustments for items not affecting cash flow			
Depreciation		106	106
Change in fair value	2	863,675	180,932
Result from sale of shares in portfolio companies		-	-1,531
Other items		714	-
Proceeds from short-term investments		411	836
Interest paid/received		134	147
Cash flow from operating activities before changes in working capital and operating investments		-22,959	-24,558
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in operating receivables		10,792	897
Increase (+)/Decrease (-) in operating liabilities		-13,748	-2,388
Operating investments			
Proceeds from sale of shares in portfolio companies		-	1,240
Acquisitions of shares in portfolio companies		-64,575	-42,677
Loans provided to portfolio companies		-	-5,190
Proceeds from sale of short-term investments ¹		-	67,131
Investments in tangible non-current-assets		-148,954	-
Cash flow from operating activities		-239,444	-5,545
Financing activities			
Convertible debentures issue		364,001	-
Issue costs		-32,307	-
Cash flow from financing activities		331,694	-
Cash flow for the period			
Cash and cash equivalents at the beginning of the year		12,885	35,323
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		105,135	29,778

Supplemental disclosure¹

CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	105,135	29,778
Short-term investments, market value at closing date	278,233	99,114
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS AT THE END OF THE PERIOD	383,368	128,892

¹⁾ 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	2015 Apr-Jun	2014 Apr-Jun (restated)	2015 Jan-Jun	2014 Jan-Jun (restated)	2014 Full-year (restated)
Net sales		1,118	1,107	2,110	2,356	5,030
Revenue		1,118	1,107	2,110	2,356	5,030
Other expenses		-5,750	-4,837	-10,249	-8,505	-16,447
Personnel costs		-6,421	-8,982	-16,079	-19,392	-51,933
Depreciation of tangible non-current assets		-53	-53	-106	-106	-212
Impairment losses on shares in subsidiaries, joint ventures, associated companies and other long-term securities holdings		-503,054	-108,525	-683,150	-108,594	-227,555
Result from sale of shares in portfolio companies		-	1,184	-	1,531	1,693
Operating profit/loss		-514,160	-120,106	-707,474	-132,710	-289,424
Financial net		-14,685	471	-23,808	1,182	-1,350
NET PROFIT/LOSS FOR THE PERIOD		-528,845	-119,635	-731,282	-131,528	-290,774

* Interest on convertible loans at 8 percent nominal interest rate.

Condensed statement of comprehensive income for the Parent Company

SEK 000	Note	2015 Apr-Jun	2014 Apr-Jun (restated)	2015 Jan-Jun	2014 Jan-Jun (restated)	2014 Full-year (restated)
Net profit/loss for the period		-528,845	-119,635	-731,282	-131,528	-290,774
Total comprehensive income for the period		-528,845	-119,635	-731,282	-131,528	-290,774

Condensed balance sheet for the Parent Company

SEK 000	Note	30 Jun 2015	30 Jun 2014 (restated)	31 Dec 2014 (restated)
ASSETS				
Non-current assets				
Tangible non-current assets		212	423	317
Shares in subsidiaries, joint ventures, associated companies and other long term-securities holdings		279,785	1,011,330	926,110
Loans receivable from portfolio companies		33,299	5,190	12,062
Other financial assets		33,644	32,672	33,493
Total non-current assets		346,940	1,049,615	971,982
Current assets				
Accounts receivables		-	350	-
Receivables from subsidiaries		1,339	16	895
Other receivables		2,688	1,938	3,103
Prepaid expenses and accrued income		2,463	1,595	12,364
Short-term investments		278,233	99,114	128,443
Cash and cash equivalents		105,135	29,778	12,885
Total current assets		389,858	132,4791	157,690
TOTAL ASSETS		736,798	1,182,406	1,129,672
EQUITY AND LIABILITIES				
Equity				
<i>Restricted equity</i>				
Share capital		26,692	24,266	26,692
<i>Unrestricted equity</i>				
Share premium reserve		1,884,310	1,778,253	1,838,918
Accumulated losses		-793,077	-502,237	-502,588
Net profit/loss for the period		-731,282	-131,528	-290,774
Total equity		386,643	1,168,754	1,072,248
Long-term liabilities				
Convertible loan	3	309,160	-	22,858
Accrued interest convertible loan	3	20,023	-	-
Pension obligations		4,439	3,465	4,286
Total long-term liabilities		333,622	3,465	27,144
Current liabilities				
Accounts payable		1,441	1,185	4,668
Liabilities to subsidiaries		691	442	442
Other current liabilities		1,094	1,597	1,023
Accrued expenses and prepaid income		13,307	6,963	24,147
Total current liabilities		16,533	10,187	30,280
Total liabilities		350,155	13,652	57,424
TOTAL EQUITY AND LIABILITIES		736,798	1,182,406	1,129,672

Pledged assets and contingent liabilities

SEK 000	Note	30 Jun 2015	30 Jun 2014	31 Dec 2014
Pledged assets		4,439	3,465	4,286
Credit commitment to portfolio company ¹		5,000	-	-
Total		9,439	3,465	4,286

¹Non-executed loan agreement with portfolio company, off-set in the balance sheet

Condensed statement of changes in equity for the Parent Company

SEK 000	Note	Unrestricted equity				
		Restricted equity Share capital	Share premium reserve	Accumulated losses	Net profit/loss for the period	Total equity
Opening equity at Jan 1 2015		26,692	1,838,918	-502,588	-290,774	1,072,248
Appropriation of loss				-290,774	290,774	
Net profit/loss for the period					-731,282	-731,282
Total		26,692	1,838,918	-793,362	-731,282	340,966
Convertible loan - equity part			49,528			49,528
Issue costs			-4,136			-4,136
Effect of incentive programs				285		285
Closing equity at 30 Jun 2015		26,692	1,884,310	-793,077	-731,282	386,643
Opening equity at Jan 1 2014		24,266	1,778,253	-550,566	47,314	1,299,267
Appropriation of loss				47,314	-47,314	
Effect of changes in presentation of Net Fair Value	6				-108,225	-108,225
Net profit/loss for the period					-23,303	-23,303
Total		24,266	1,778,253	-503,252	-131,528	1,167,739
Effect of incentive programs				1,015		1,015
Closing equity at 30 Jun 2014		24,266	1,778,253	-502,237	-131,528	1,168,754
Opening equity at 1 Jan 2014		24,266	1,778,253	-550,566	47,314	1,299,267
Appropriation of profit				47,314	-47,314	
Effect of changes in presentation of Net Fair Value	6				-212,644	-212,644
Net profit/loss for the year					-78,130	-78,130
Total		24,266	1,778,253	-503,252	-290,774	1,008,493
Share issue		2,426	60,665			63,091
Effect of incentive programs				664		664
Closing equity at 31 Dec 2014		26,692	1,838,918	-502,588	-290,774	1,072,248

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.

New and revised accounting principles 2015

Loans receivable from portfolio companies are included at fair value in fair value of the holdings in portfolio companies implemented during the second quarter 2015.

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

Following a review of the Company's approach to estimating fair values of its portfolio investments the company has implemented new policies for estimating level 3 fair values. It is the Board's view that the new policies, which are disclosed below, will result in more consistent and representative fair value estimates for companies in its portfolio and that the change brings Karolinska Development into line with the way other venture capital firms worldwide estimate fair value.

The effect of new approach to estimating fair value is a reduction of SEK 368.2m in the fair value of the Karolinska Development portfolio per June 30, 2015.

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 June 2015

SEK 000	Level 1	Level 2	Level 3	Total
Financial assets				
Shares in portfolio companies, at fair value through profit or loss	-	-	319,903	319,903
Other financial assets	-	-	38,113	38,113
Receivables from portfolio companies	-	1,339	-	1,339
Cash, cash equivalents and short-term investments	383,368	-	-	383,368
Total	383,368	1,339	358,016	742,723
Financial liabilities				
Convertible loan	-	309,160	-	309,160
Accrued interest convertible loan	-	20,023	-	20,023
Other financial liabilities	-	-	5,439	5,439
Accounts payable	-	1,441	-	1,441
Liabilities to portfolio companies	-	691	-	691
Total	-	331,315	5,439	336,754

Fair value as of 30 June 2014

SEK 000	Level 1	Level 2	Level 3	Total
Financial assets				
Shares in portfolio companies, at fair value through profit or loss	-	-	1,204,801	1,204,801
Loans receivable from portfolio companies	-	5,190	-	5,190
Other financial assets	-	-	38,113	38,113
Receivables from portfolio companies	-	366	-	366
Cash, cash equivalents and short-term investments	128,892	-	-	128,892
Total	128,892	5,556	1,242,914	1,377,362
Financial liabilities				
Other financial liabilities	-	-	11,032	11,032
Accounts payable	-	1,185	-	1,185
Liabilities to portfolio companies	-	442	-	442
Total	-	1,627	11,032	12,659

Fair value (level 3) as of 30 June 2015

SEK 000	Shares in portfolio companies	Other financial assets	Other financial liabilities
At beginning of the year	1,113,454	38,113	11,686
Transfers to and from level 3 (loans receivable from portfolio companies)	33,299	-	-
Acquisitions	36,825	-	-
Disposals	-	-	-
Gains and losses recognized through profit or loss	-863,675	-	-6,247
Closing balance 30 June 2015	319,903	38,113	5,439
Total unrealized gains and losses for the period in profit or loss	-863,675	-	6,247
Gains and losses in profit or loss for the period for assets and liabilities included in the closing balance	-863,675	-	6,247

During the period January-June 2015 loans receivable from portfolio companies have been transferred to level 3 in accordance with the new accounting principle.

Fair value (level 3) as of 30 June 2014

SEK 000	Shares in portfolio companies	Other financial assets	Other financial liabilities
At beginning of the year	1,336,406	38,113	9,438
Transfers to and from level 3	-	-	-
Acquisitions	49,335	-	-
Disposals	-8	-	-
Gains and losses recognized through profit or loss	-180,932	-	1,594
Closing balance 30 June 2014	1,204,801	38,113	11,032
Total unrealized gains and losses for the period in profit or loss	-180,932	-	-1,594
Gains and losses in profit or loss for the period for assets and liabilities included in the closing balance	-180,932	-	-1,594

There were no transfers between level 1 and 2 during the period January-June 2015.

The Investment Entity recognizes transfers between levels in the fair value hierarchy on the date when an event or changes occur that give rise to the transfer.

Impact on fair value of the agreement with Rosetta Capital

In the table below, "Total Fair Value" is the aggregated proceeds that would be received by Karolinska Development and KDev Investments if the shares in their portfolio companies were sold in an orderly transaction between market participants at the measurement date. The calculation of the Fair Value is based on IFRS13 standards of deciding and reporting fair value and the International Private Equity and Venture Capital Valuation Guidelines (IPEV Valuation Guidelines) decided by the IPEV board that represent the current best practice, on the valuation of private equity investments.

"Potential distribution to Rosetta Capital" is the amount that KDev Investments according to the investment agreement between Karolinska Development and Rosetta Capital is obligated to distribute to Rosetta Capital from the proceeds received by KDev Investments (KDev Investments Fair Value). The distribution to Rosetta Capital will only happen when KDev Investments distribute dividends. If Rosetta Capital has not received 2.5 times the amount invested in KDev Investments by Rosetta Capital by 7 March 2018, then Rosetta Capital may require within 60 days that Karolinska Development acquires Rosetta's shares in KDev Investments. The price payable for the KDev Investment shares is the fair market value of the shares, although capped at 10 % of the market capitalization of the Karolinska Development at the time of the purchase. Karolinska Development can decide whether to pay the purchase price in cash or in the form of Karolinska Development shares.

"Net Fair Value after potential distribution to Rosetta Capital" is the net aggregated proceeds that Karolinska Development will receive after KDev Investments' distribution of proceeds to Rosetta Capital.

Expanded fair value calculations taking the potential distribution to Rosetta Capital in consideration

SEK 000	30 Jun 2015
Karolinska Development Fair Value	113,0
KDev Investments Fair Value	565,9
Total Fair Value	678,8
Potential distribution to Rosetta Capital	358,9
Reported Net Fair Value after potential distribution to Rosetta Capital	319,9

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, discounted cash flow models (DCF) may be used. DCFs of the Underlying Business considers all of the cash flows of a portfolio company that are then discounted with an appropriate rate and also risk adjusted to take the developments risks in pharmaceutical development into consideration. The revenue streams are approximated from epidemiological data on the intended therapeutic indication, and a number of assumptions such as for example pricing per patient and year, market share and market exclusivity (from IPR and regulatory market protection). As described in the IPEV Valuation Guidelines the inputs into the DCF models are constructed with a high level of subjectivity. Hence, this method is only suitable for late stage assets, either pharmaceutical companies with lead projects in late stage (Phase III) development or technology projects with an established market presence where the revenues can be projected with a higher degree of confidence than in products in earlier stages of development. As of June 30, 2015 there are currently no portfolio companies valued by DCF.

Companies with an established sales revenue stream may be valued by sales multiples. The multiples should be derived from current market-based multiples with comparable companies. As with valuation with DCF, this method require that the portfolio company is mature in its market presence and that the sales forecasts can be made with sufficient certainty. Furthermore, as this method only considers revenue streams, the IPEV Valuation Guidelines stipulates that non-operating assets or liabilities need to be taken into account when applying this method. As of June 30, 2015 there are currently no portfolio companies valued by multiples.

Early stage companies, defined as pharmaceutical assets prior to Phase III development and technology assets prior to establishing targeted and sustainable sales revenues, that have recently not been financed by a transaction involving a third party investor (as defined in 2.2) are valued by the price of recent investment corresponding to the last post-money valuation completed for that company. Companies in such early stages of development typically show a relatively flat value increase through the financing rounds as the company completed its preclinical and early clinical milestones. It is therefore not expected to see any significant value uplift during this period and the post-money valuation, despite not being validated by an external investor, is considered a good approximation of the fair value.

Such situations occur when Karolinska Development alone or with another investors that have previously also participating in preceding investment rounds reinvest in portfolio companies. Should a new investor join an investment round, the valuation method will fall under a higher valuation priority (described in 2.2), although the actual metric – post-money valuation is the same as if only existing owners would participate.

Should Karolinska Development opt out of an investment round with no intention to participate at later rounds the price

of recent investment (without Karolinska Development) may still be a valid valuation method, granting that these circumstances lead to disproportionate post-money valuation because of the loss of negotiation power over the pricing (and Karolinska Development's ownership may be drastically diluted). However, as the unwillingness to invest from Karolinska Development also likely mirror a lower perceived value compared to previous post-money valuations, a lowering of value is often a good indication of fair value in such cases.

As the share price of the internal financing rounds are decided by the existing investor's caution is taken to ensure that the share price is not artificially inflated. At each quarterly fair value assessment the post-money valuation by internal investment rounds are benchmarked against portfolio company progress (met or failed milestones for example), comparable values for peer companies, bids from external investors (eg. term sheets, LOIs) and other applicable valuation methods to ensure that the post-money valuation is at an appropriate level to be considered fair value.

The cautious approach is particularly true if an investment round with existing owners succeeds an investment rounds that included a then third party investor. An uplift in fair value may be merited if e.g. milestones have been met during the time between investments but high increases may not be considered in the fair value. To mitigate, the amount invested into the portfolio company since the post-money valuation from the transaction involving third party investors should be added, while additional uplifts in post-money valuation may not be included in fair value until the value is validated by third party investor yet again.

Net asset value, defined as a portfolio company's assets minus its liabilities, is used for portfolio companies without current operations. This typically occurs in companies considered financial assets as a consequence of discontinued development projects or withdrawn products. In essence, these companies are valued by its liquidation value.

NOTE 3 Convertible loan

The Investment Entity has issued convertible debentures, so called compound financial instruments, in which the holder has right to convert into shares, the number of shares to be issued are not affected by changes in fair value of the shares.

The debt portion of the compound financial instrument is initially recognized at fair value for a similar debt without a conversion right into shares. The equity portion is initially recognized as the difference between the total fair value of compound financial instrument and the fair value of the debt portion. Directly attributable transaction costs are allocated to the debt respectively equity portion based on their initial recognized values.

Post-acquisition the debt portion of the compound financial instrument is valued to amortized costs based on the effective interest method. The equity portion of the compound financial instrument is not revalued post-acquisition, except at conversion or redemption.

The Investment Entity issued convertible debentures with a nominal amount of 386 859 KSEK on 2 January 2015 which

have a nominal interest rate of 8 percent. The convertible debentures will fall due for payment on 31 December 2019 at the nominal amount of 586 423 KSEK (provided that accrued interest is interest bearing), the convertibles grant a right to convert into shares at a conversion rate of 22 SEK per series B share. The value of the debt and equity part (conversion right) was determined on the date of issuance.

The convertible debentures is presented in the balance sheet as shown in the below table.

Due to the short time span since the issue the market interest rate is substantially unchanged and therefore the fair value can be approximated as the book value.

SEK 000	30 Jun 2015	30 Jun 2014
Nominal amount of convertible debentures issued on 2 January 2015	386,859	-
Issue costs	-28,171	-
Equity portion	-49,528	-
Debt at issuance date 2 January 2015	309,160	-
Accrued interest costs	20,023	-
Paid interest	-	-
TOTAL	329,183	-

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 Jun 2015	30 Jun 2014	31 Dec 2014
Avaris AB (dormant)	Huddinge	94.87%	94.87%	94.87%
KCIF Fund Management AB	Solna	37.50%	37.50%	37.50%
KD Incentive AB	Solna	100.00%	100.00%	100.00%
KDev Oncology AB	Solna	100.00%	100.00%	100.00%
Pharmanest AB (divested July 2015)	Solna	64.68%	63.09%	62.66%

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, Umechrine 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 Related party transactions

Karolinska Development AB has entered into an agreement with a company related to the Chairman of the Board, OrfaCare Consulting GmbH, regarding consultations by the Chairman of the Board, Bo Jesper Hansen. The consultancy agreement is unrelated to his position as Chairman of the company. The agreement is valid from 1 March 2015 until the date of the Company's Annual General Meeting 2016. The consultancy fee is market based and amounted to 352 KSEK during the period January-June 2015, of which 264 KSEK during the second quarter.

NOTE 6 Changes in presentation of Net Fair Value

Karolinska Development's management and Board, in consultation with the auditors, have decided on a revision how Rosetta Capital's preference shares in KDev Investments (KDI) is taken into consideration when estimating the fair value of Karolinska Development's investments in KDI.

Rosetta Capital owns 7.53% of the common shares as well as preference shares in KDI, which has a portfolio of 10 companies as of June 30, 2015.

The preference shares give Rosetta Capital preferential rights to dividends which in prior periods has been described in the Notes (Note 20 in the 2014 annual report).

The error has been corrected during the second quarter 2015 and reduces the fair value of Karolinska Development's share in KDI.

Effect of changes in presentation of Net Fair Value on income statement for comparative figures 2014 for the Investment Entity

SEK 000	2014 Apr-Jun (as previously reported)	Effect of changes in presentation of Net Fair Value	2014 Apr-Jun (restated)	2014 Jan-Jun (as previously reported)	Effect of changes in presentation of Net Fair Value	2014 Jan-Jun (restated)	2014 Full-year (as previously reported)	Effect of changes in presentation of Net Fair Value	2014 Full-year (restated)
Revenue	1,107		1,107	2,356		2,356	5,030		5,030
Other external expenses	-4,837		-4,837	-8,505		-8,505	-16,447		-16,447
Personnel costs	-8,982		-8,982	-19,392		-19,392	-51,933		-51,933
Depreciation of tangible non-current assets	-53		-53	-106		-106	-212		-212
Change in fair value of shares in portfolio companies	-177,271	-1,582	-178,853	-183,359	2,427	-180,932	-310,399	4,327	-306,072
Result from sale of subsidiaries	1,184			1,531		1,531	1,745		1,745
Operating profit/loss	-188,852	-1,582	-190,434	-207,475	2,427	-205,048	-372,216	4,327	-367,889
Financial net	-666		-666	-413		-413	-3,599		-3,599
NET PROFIT/LOSS FOR THE PERIOD	-189,518	-1,582	-191,100	-207,888	2,427	-205,461	-375,815	4,327	-371,488

Effect of changes in presentation of Net Fair Value on earnings per share for comparative figures 2014 for the Investment Entity

SEK	2014 Apr-Jun (as previously reported)	Effect of changes in presentation of Net Fair Value	2014 Apr-Jun (restated)	2014 Jan-Jun (as previously reported)	Effect of changes in presentation of Net Fair Value	2014 Jan-Jun (restated)	2014 Full-year (as previously reported)	Effect of changes in presentation of Net Fair Value	2014 Full-year (restated)
Earnings per share attributable to Parent Company's shareholders, weighted average, before and after dilution	-3.92	-0.03	-3.96	-4.31	0.05	-4.25	-7.73	0.09	-7.64
Number of shares, weighted average	48,287,132			48,287,132		48,287,132	48,606,243		48,606,243

Effects of changes in presentation of Net Fair Value on statement of comprehensive income for comparative figures 2014 for the Investment Entity

SEK 000	2014 Apr-Jun (as previously reported)	Effect of changes in presentation of Net Fair Value	2014 Apr-Jun (restated)	2014 Jan-Jun (as previously reported)	Effect of changes in presentation of Net Fair Value	2014 Jan-Jun (restated)	2014 Full-year (as previously reported)	Effect of changes in presentation of Net Fair Value	2014 Full-year (restated)
Net profit/loss for the period	-189,518	-1,582	-191,100	-207,888	2,427	-205,461	-375,815	4,327	-371,488
Total comprehensive income for the period	-189,518	-1,582	-191,100	-207,888	2,427	-205,461	-375,815	4,327	-371,488

Effect of changes in presentation of Net Fair Value on income statement for comparative figures Q1 2015 for the Investment Entity

SEK 000	2015 Jan-Mar (as previously reported)	Effect of changes in presentation of Net Fair Value	2015 Jan-Mar (restated)
Revenue	992		992
Other external expenses	-4,499		-4,499
Personnel costs	-9,658		-9,658
Depreciation of tangible non-current assets	-53		-53
Change in fair value of shares in portfolio companies	-252,736	24,157	-228,579
Operating profit/loss	-265,954	24,157	-241,797
Financial net	-9,123		-9,123
NET PROFIT/LOSS FOR THE PERIOD	-275,077	24,157	-250,920

Effect of changes in presentation of Net Fair Value on earnings per share for comparative figures Q1 2015 for the Investment Entity

SEK	2015 Jan-Mar (as previously reported)	Effect of changes in presentation of Net Fair Value	2015 Jan-Mar (restated)
Earnings per share attributable to Parent Company's shareholders, weighted average, before and after dilution	-5.18	0.45	-4.72
Number of shares, weighted average	53,140,273		53,140,273

Effects of changes in presentation of Net Fair Value of comprehensive income for comparative figures Q1 2015 for the Investment Entity

SEK 000	2015 Jan-Mar (as previously reported)	Effect of changes in presentation of Net Fair Value	2015 Jan-Mar (restated)
Net profit/loss for the period	-275,077	24,157	-250,920
Total comprehensive income for the period	-275,077	24,157	-250,920

Effect of changes in presentation of Net Fair Value on the balance sheet for comparative figures 2014 for the Investment Entity

SEK 000	30 June 2014 (as previously reported)	Effect of changes in presentation of Net Fair Value	30 June 2014 (restated)	31 Dec 2014 (as previously reported)	Effect of changes in presentation of Net Fair Value	31 Dec 2014 (restated)
ASSETS						
Non-current assets						
Tangible non-current assets	423		423	317		317
Shares in portfolio companies, at fair value through profit or loss	1,595,433	-390,632	1,204,801	1,502,186	-388,732	1,113,454
Loans receivable from portfolio companies	5,190		5,190	12,062		12,062
Other financial assets	38,113		38,113	38,113		38,113
Total non-current assets	1,639,159	-390,632	1,248,527	1,552,678	-388,732	1,163,946
Current assets						
Receivables from portfolio companies	366		366	895		895
Other short-term receivables	1,938		1,938	3,103		3,103
Prepaid expenses and accrued income	1,595		1,595	12,364		12,364
Short-term investments, at fair value through profit or loss	99,114		99,114	128,443		128,443
Cash and cash equivalents	29,778		29,778	12,885		12,885
Total current assets	132,791	0	132,791	157,690	0	157,690
TOTAL ASSETS	1,771,950	-390,632	1,381,318	1,710,368	-388,732	1,321,636
EQUITY AND LIABILITIES						
Equity						
Share capital	24,266		24,266	26,692		26,692
Share premium	1,768,179		1,768,179	1,828,844		1,828,844
Retained earnings	-41,714	-390,632	-432,346	-209,992	-388,732	-598,724
Total equity	1,750,731	-390,632	1,360,099	1,645,544	-388,732	1,256,812
Long-term liabilities						
Convertible debentures	-		-	22,858		22,858
Other financial liabilities	11,032		11,032	11,686		11,686
Total long-term liabilities	11,032	-	11,032	34,544	-	34,544
Current liabilities						
Accounts payable	1,185		1,185	4,668		4,668
Liabilities to portfolio companies	442		442	442		442
Other current liabilities	1,597		1,597	1,023		1,023
Accrued expenses and prepaid income	6,963		6,963	24,147		24,147
Total current liabilities	10,187	0	10,187	30,280	0	30,280
Total liabilities	21,219	0	21,219	64,824	0	64,824
TOTAL EQUITY AND LIABILITIES	1,771,950	-390,632	1,381,318	1,710,368	-388,732	1,321,636

Effect of changes in presentation of Net Fair Value on the balance sheet for comparative figures Q1 2015 for the Investment Entity

SEK 000	31 March 2015 (as previously reported)	Effect of changes in presentation of Net Fair Value	31 March 2015 (restated)
ASSETS			
Non-current assets			
Tangible non-current assets	265		265
Shares in portfolio companies, at fair value through profit or loss	1,276,974	-364,575	912,399
Loans receivable from portfolio companies	36,097		36,097
Other financial assets	38,113		38,113
Total non-current assets	1,351,449	-364,575	986,874
Current assets			
Receivables from portfolio companies	1,042		1,042
Other short-term receivables	1,999		1,999
Prepaid expenses and accrued income	2,241		2,241
Short-term investments, at fair value through profit or loss	308,639		308,639
Cash and cash equivalents	131,803		131,803
Total current assets	445,724	0	445,724
TOTAL ASSETS	1,797,173	-364,575	1,432,598
EQUITY AND LIABILITIES			
Equity			
Share capital	26,692		26,692
Share premium	1,874,236		1,874,236
Retained earnings	-484,546	-364,575	-849,121
Total equity	1,416,382	-364,575	1,051,807
Long-term liabilities			
Convertible debentures	309,160		309,160
Accrued interest convertible debentures	10,011		10,011
Other financial liabilities	11,686		11,686
Total long-term liabilities	330,857	-	330,857
Current liabilities			
Accounts payable	24,439		24,439
Liabilities to portfolio companies	392		392
Other current liabilities	1,116		1,116
Accrued expenses and prepaid income	23,987		23,987
Total current liabilities	49,934	0	49,934
Total liabilities	380,791	0	380,791
TOTAL EQUITY AND LIABILITIES	1,797,173	-364,575	1,432,598

Effect of changes in presentation of Net Fair Value on statement of cash flows for comparative figures 2014 for the Investment Entity

SEK 000	2014 Jan-Jun (as previously reported)	Effect of changes in presentation of Net Fair Value	2014 Jan-Jun (restated)
Operating activities			
Operating profit/loss	-207,475	2,427	-205,048
<i>Adjustment for non-cash items</i>			
Adjustment for depreciation of amortization	106		106
Adjustment for changes in fair value	183,359	-2,427	180,932
Result from sale of shares in portfolio companies	-1,531		-1,531
Realized changes in value of short-term investments	836		836
Interest paid	-4		-4
Interest received	151		151
Cash flow from operating activities before changes in working capital and operating investments	-24 558	0	-24,558
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in operating receivables	897		897
Increase (+)/Decrease (-) in operating liabilities	-2,388		-2,388
Operating investments			
Investments in shares in portfolio companies	-42,677		-42,677
Sale of shares in portfolio companies	1,240		1,240
Loans provided to portfolio companies	-5,190		-5,190
Change in short-term investments	67,131		67,131
Cash flow from operating activities	-5,545	0	-5,545
Cash flow for the year	-5,545		-5,545
Cash and cash equivalents at beginning of the year	35,323		35,323
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	29 778	0	29 778

Effect of changes in presentation of Net Fair Value on parent company's income statement for comparative figures 2014

SEK 000	2014 Apr-Jun (as previously reported)	Effect of changes in presentation of Net Fair Value	2014 Apr-Jun (restated)	2014 Jan-Jun (as previously reported)	Effect of changes in presentation of Net Fair Value	2014 Jan-Jun (restated)	2014 Full-year (as previously reported)	Effect of changes in presentation of Net Fair Value	2014 Full-year (restated)
Net sales	1,107		1,107	2,356		2,356	5,030		5,030
Revenue	1,107	0	1,107	2,356	0	2,356	5,030	0	5,030
Other expenses	-4,837		-4,837	-8,505		-8,505	-16,447		-16,447
Personnel costs	-8,982		-8,982	-19,392		-19,392	-51,933		-51,933
Depreciation of tangible non-current assets	-53		-53	-106		-106	-212		-212
Impairment losses on shares in subsidiaries, joint ventures, associated companies and other long-term securities holdings	-300	-108,225	-108,525	-369	-108,225	-108,594	-14,911	-212,644	-227,555
Result from sale of shares in portfolio companies	1,184		1,184	1,531		1,531	1,693		1,693
Operating profit/loss	-11,881	-108,225	-120,106	-24,485	-108,225	-132,710	-76,780	-212,644	-289,424
Financial net	471		471	1,182		1,182	-1,350		-1,350
NET PROFIT/LOSS FOR THE PERIOD	-11,410	-108,225	-119,635	-23,303	-108,225	-131,528	-78,130	-212,644	-290,774

Effect of changes in presentation of Net Fair Value of comprehensive income for comparative figures 2014 for the parent company

SEK 000	2014 Apr-Jun (as previously reported)	Effect of changes in presentation of Net Fair Value	2014 Apr-Jun (restated)	2014 Jan-Jun (as previously reported)	Effect of changes in presentation of Net Fair Value	2014 Jan-Jun (restated)	2014 Full-year (as previously reported)	Effect of changes in presentation of Net Fair Value	2014 Full-year (restated)
Net profit/loss for the period	-11,410	-108,225	-119,635	-23,303	-108,225	-131,528	-78,130	-212,644	-290,774
Total comprehensive income for the period	-11,410	-108,225	-119,635	-23,303	-108,225	-131,528	-78,130	-212,644	-290,774

Effect of changes in presentation of Net Fair Value on parent income statement for comparative figures Q1 2015

SEK 000	2015 Jan-Mar (as previously reported)	Effect of changes in presentation of Net Fair Value	2015 Jan-Mar (restated)
Net sales	992		992
Revenue	992	0	992
Other expenses	-4,499		-4,499
Personnel costs	-9,658		-9,658
Depreciation of tangible non-current assets	-53		-53
Impairment losses on shares in subsidiaries, joint ventures, associated companies and other long-term securities holdings	-24,684	-155,412	-180,096
Operating profit/loss	-37,902	-155,412	-193,314
Financial net	-9,123		-9,123
NET PROFIT/LOSS FOR THE PERIOD	-47,025	-155,412	-202,437

Effect of changes in presentation of Net Fair Value of comprehensive income for comparative figures Q1 2015 for the parent company

SEK 000	2015 Jan-Mar (as previously reported)	Effect of changes in presentation of Net Fair Value	2015 Jan-Mar (restated)
Net profit/loss for the period	-47,025	-155,412	-202,437
Total comprehensive income for the period	-47,025	-155,412	-202,437

Effect of changes in presentation of Net Fair Value on parent company's balance sheet for comparative figures 2014

SEK 000	30 June 2014 (as previously reported)	Effect of changes in presentation of Net Fair Value	30 June 2014 (restated)	31 Dec 2014 (as previously reported)	Effect of changes in presentation of Net Fair Value	31 Dec 2014 (restated)
ASSETS						
Non-current assets						
Tangible non-current assets	423		423	317		317
Shares in subsidiaries, joint ventures, associated companies and other long term-securities holdings	1,119,555	-108,225	1,011,330	1,138,754	-212,644	926,110
Loans receivable from portfolio companies	5,190		5,190	12,062		12,062
Other financial assets	32,672		32,672	33,493		33,493
Total non-current assets	1,157,840	-108,225	1,049,615	1,184,626	-212,644	971,982
Current assets						
Accounts receivable	350		350	-		0
Receivables from subsidiaries	16		16	895		895
Other receivables	1,938		1,938	3,103		3,103
Prepaid expenses and accrued income	1,595		1,595	12,364		12,364
Short-term investments	99,114		99,114	128,443		128,443
Cash and cash equivalents	29,778		29,778	12,885		12,885
Total current assets	132,791	0	132,791	157,690	0	157,690
TOTAL ASSETS	1,290,631	-108,225	1,182,406	1,342,316	-212,644	1,129,672
EQUITY AND LIABILITIES						
Equity						
<i>Restricted equity</i>						
Share capital	24,266		24,266	26,692		26,692
<i>Unrestricted equity</i>						
Share premium reserve	1,778,253		1,778,253	1,838,918		1,838,918
Accumulated losses	-502,237		-502,237	-502,588		-502,588
Net profit/loss for the period	-23,303	-108,225	-131,528	-78,130	-212,644	-290,774
Total equity	1,276,979	-108,225	1,168,754	1,284,892	-212,644	1,072,248
Long-term liabilities						
Convertible loan				22,858		22,858
Pension obligations	3,465		3,465	4,286		4,286
Total long-term liabilities	3,465	0	3,465	27,144	0	27,144
Current liabilities						
Accounts payable	1,185		1,185	4,668		4,668
Liabilities to subsidiaries	442		442	442		442
Other current liabilities	1,597		1,597	1,023		1,023
Accrued expenses and prepaid income	6,963		6,963	24,147		24,147
Total current liabilities	10,187	0	10,187	30,280	0	30,280
Total liabilities	13,652	0	13,652	57,424	0	57,424
TOTAL EQUITY AND LIABILITIES	1,290,631	-108,225	1,182,406	1,342,316	-212,644	1,129,672