
Karolinska Development

Karolinska Development AB (Nasdaq Stockholm: KDEV) is a Nordic life sciences investment company. The company focuses on identifying medical innovation and investing in the creation and growth of companies developing these assets into differentiated products that will make a difference to patients' lives and provide an attractive return on investment to its shareholders.

Karolinska Development has access to world-class medical innovations at leading universities and research institutes in the Nordic region, including the Karolinska Institutet. The Company aims to build companies around innovative products and technologies, supported by experienced management teams and advisers, and co-funded by specialist international life science investors, to provide the greatest chance of success.

Karolinska Development's portfolio comprises 11 companies focusing on the development of innovative treatment for life-threatening or serious debilitating diseases.

The Company is led by a team of investment professionals with strong investment backgrounds, experienced company builders and entrepreneurs, with access to a strong global network.

Financial Update

- As a consequence of Akinion's decision to stop further development of its lead product candidate AKN-028, the Total Fair Value of the company has been reduced from SEK 119.4 million to SEK 0.0 million in line with Karolinska Development's valuation guidelines. With this reduction, the Total Fair Value of the portfolio end of March was SEK 476.8 million. Net Fair Value of the portfolio at the end of March 2016 was SEK 193.0 million, a decrease of SEK 75.0 million compared to the end of 2015 whereof SEK 78.0 million is related to Akinion, a KDev Investments company.
- Net sales amounted to SEK 0.6 million in the first quarter (SEK 1.0 million in the first quarter 2015). Net loss amounted to SEK -100.0 million (SEK -250.9 million). Earnings per share amounted to SEK -1.9 (SEK -4.7).
- A total of 33,677 shares were sold in Inhalation Sciences Sweden, a KDev Investments portfolio company, to a syndicate of Swedish investors led by Stockholms Affärsänglar for SEK 1.0 million.
- Karolinska Development's investments in portfolio companies during the first quarter amounted to SEK 7.6 million. Total investments in portfolio companies by other specialized life science investors during first quarter amounted to SEK 380.7 million.
- Cash, cash equivalents and short term liquidity investments decreased by SEK 9.8 million during the first quarter and amounted to SEK 287.6 million as of March 31, 2016.
- Operational costs in the first quarter amounted to SEK 8.4 million, a reduction of 41% compared to SEK 14.2 million in first quarter 2015 as a consequence of the organizational restructuring undertaken during 2015.

Karolinska Development – Q1 Highlights

- Karolinska Development has made good progress during 2016 building on the foundation established in 2015 and is now well positioned to create future value through its focused portfolio and through new investments.

KAROLINSKA DEVELOPMENT

- Aprea AB raised SEK 437 million in a Series B financing round from a syndicate of specialist international life science investors. This was the largest ever round completed by a Karolinska Development portfolio company and by any private life science company in Sweden in over a decade (March 2016).
- Dilaforette AB signed an agreement with Arabian Gulf University (AGU) to support the Phase II proof of concept study with sevuparin in sickle cell disease patients. AGU will provide up to USD 1.2 million in non-dilutive funding and is assisting with patient recruitment (February 2016).
- OssDsign received CE mark approval for Cranioplug, an innovative device for cranial fixation (January 2016).
- Promimic announced that its strategic partner Sistema de Implante Nacional had initiated the launch of the first dental implant coated with HA^{nano} Surface (January 2016).
- Promimic and Danco Anodizing signed a license agreement where Danco will invest in a production line for the HA^{nano} Surface process. Danco will be the preferred process partner for Promimic for the USA and China medical implant market (March 2016).
- Umecrine Cognition AB completed a private financing round to support the clinical development of GR3027 for hepatic encephalopathy in liver disease patients (January 2016).
- Akinion Pharmaceutical AB halted development of AKN-028, which was being evaluated in a Phase I/II clinical study for acute myeloid leukemia (AML), due to a number of patients experiencing severe liver toxicity (March 2016).

Post Period Events

- OssDsign AB appointed Simon Cartmell as Chairman to the Board of Directors (April 2016).

Jim Van heusden, CEO of Karolinska Development, comments:

“I am very pleased with the progress that Karolinska Development has made in the first quarter of 2016 based on the foundation established in 2015. As a Nordic investment company, our strategy is to build on this foundation and create value for patients and shareholders through two key areas: our existing portfolio and new investments. We also anticipate that certain of our current earn-out agreements may deliver additional future value to our shareholders.

“Already in 2016 we have seen some exciting progress with our portfolio, a key highlight being Aprea’s SEK 437 million financing, the largest ever completed by a Karolinska Development portfolio company and more broadly by any private life science company in Sweden in more than a decade. This financing involved a syndicate of leading international life sciences investors highlighting the global potential and value of the innovation that exists within our portfolio and originating from Karolinska Institutet.

“In terms of new investments, we are looking more broadly across the Nordic region to identify new opportunities, including more mature opportunities, where value can be generated and returns may be realised much more quickly.

“Karolinska Development has a portfolio of exciting prospects that are funded to deliver key value-generating milestones over the coming years, and an investment strategy designed to deliver further value from the most promising life science opportunities across the Nordic region. I look forward to providing further updates as we execute on our strategy.”

KAROLINSKA DEVELOPMENT

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Chief Executive's Report

Karolinska Development

Karolinska Development has already made significant progress in 2016 based on the foundation established in 2015. As a result, the Nordic investment company is well positioned to execute its strategy focused on building future value for patients and shareholders through two key areas: its existing portfolio and new investments.

A balanced, focused portfolio – financed to next value-inflection points

Karolinska Development's portfolio comprised 11 companies at the end of March 2016. These companies are developing highly differentiated and commercially attractive products that have the potential to deliver both compelling clinical and health economic benefits.

Karolinska Development aims to ensure that its portfolio companies are financed to the next value inflection point by proactively syndicating deals with experienced international life sciences investors. An important recent example is the SEK 437 million financing of Aprea, which involved a syndicate of leading life sciences investors from the US, Canada and Sweden.

Working with investor syndicates enables Karolinska Development to spread and share its investment risks, which is crucial in the life sciences space where development is capital intensive and timelines are long. Furthermore, it provides recognition by other investors both of the capabilities and competence of the Karolinska Development investment team, and of the innovation and potential value of the companies around which they are formed.

These relationships with new investors also benefit our portfolio companies by increasing access to new capital and expertise to support their development.

Syndication therefore provides more opportunities for Karolinska Development to generate greater returns while at the same time allowing the risk profile of the overall portfolio to be better managed.

Karolinska Development also retains an economic interest in several divested companies, including Axelar AB, Athera Biotechnologies AB, Pharmanest AB, XSpray Microparticles AB and Oncopeptides AB and expects that over time some of these companies could deliver additional value to shareholders.

Nordic focus for new investments

Karolinska Development's investment strategy aims to capitalize on the best opportunities based on world-class medical innovation across the entire Nordic region, including more mature investments where returns may be realised more quickly than from early stage companies.

Karolinska Development's ability to identify, access and manage new deals was considerably enhanced during the first quarter with Viktor Drvota, MD PhD starting as Chief Investment Officer, following his appointment in December 2015. Dr Drvota is an experienced life science investor and joined Karolinska Development from SEB Venture Capital, where he was Head of Life Science since 2002. He has established a strong track record in identifying investment opportunities in the life sciences sector (biotech and medtech) in the Nordic region, building companies and fundraising. He led the SEK 93 million OssDsign financing in November 2015.

The addition of Dr Drvota to the team means that Karolinska Development can now call on a strong combination of local and international networks and expertise as it executes its investment strategy. This provides an opportunity to build truly international investor syndicates and intensify focus on the Nordic region as a source of future market-leading companies. In addition, the future success of such companies will serve to attract additional funding into the region; attract experienced leadership teams and board members to portfolio companies; and support entrepreneurs to develop their innovations into commercial propositions.

Portfolio News

In March, Aprea AB announced it raised SEK 437 million in a Series B financing from a syndicate of specialist international life science investors led by Versant Ventures and 5AM Ventures (both US), and including Sectoral Asset Management (Canada), and HealthCap (Sweden) as local lead. The funds raised are to advance the clinical development of APR-246 in ovarian cancer, to explore its use in other cancer indications and to build a presence in the US. The fundraising is the largest ever completed by a Karolinska Development portfolio company and more broadly by any private life science company in Sweden in over a decade.

Umecrine Cognition AB completed a private financing round that will support the first phase of clinical development of its lead drug candidate GR3027 for hepatic encephalopathy in liver disease patients. New investors, Fort Knox Förvaring AB, Partnerinvest Övre Norrland AB and Norrlandsfonden join Karolinska Development in this financing round. The first patients have already been enrolled into the Phase I clinical trial.

In February, Dilaforette AB signed an agreement with Arabian Gulf University (AGU) to support the Phase II proof of concept study with sevuparin in SCD patients. AGU will provide up to USD 1.2 million in non-dilutive funding for the study and assist with patient recruitment. In return AGU will receive royalties on future product revenues which are capped at twice the financial support it provides to the Phase 2 proof of concept study. The study is currently enrolling patients at several clinical sites in Europe and the Middle East.

In January, Promimic announced that its strategic partner Sistema de Implante Nacional had initiated the launch of the first dental implant coated with HA^{nano} Surface.

Further, in March, Promimic and Danco Anodizing entered a strategic partnership whereby Danco will invest in a production line for the HA^{nano} Surface process. Danco will be the preferred process partner for Promimic for the USA and China medical implant market as preparations for commercialisation of its novel technology accelerates.

Significant events after the interim period

OssDsign received CE mark approval for Cranioplug, an innovative device for cranial fixation. Furthermore, in April, OssDsign appointed Simon Cartmell as Chairman of the Board. The appointment strengthens the organization ahead of the US launch of its novel regenerative facial and cranial implants, expected in 2017. Mr Cartmell is an experienced entrepreneur in the life sciences industry and a Non-Executive Director/Chairman of a number European medical device companies. He was previously the CEO and architect behind the commercial success of Apatech, a British medtech firm that developed ACTIFUSE, a novel bone void filler used to treat bone defects resulting from orthopaedic and spine surgery or traumatic injury. Apatech was acquired by Baxter International in March 2010 for USD 330 million.

Divestments

A total of 33,677 shares were sold in Inhalation Sciences Sweden, a KDev Investments portfolio company, to a syndicate of Swedish investors led by Stockholms Affärsänglar for SEK 1.0 million. The divestment was part of an agreement signed in 2015 where a group of investors led by Stockholms Affärsänglar and Almi Invest invested a total of SEK 7.0 million in Inhalation Sciences Sweden in order to further support the sales of the company's services and products. The amount of shares divested amounts to 9.1% of KDev Investment's shareholding and after the divestment KDev Investments' total shareholding is reduced to 55.1%.

Outlook

Karolinska Development has established a strong foundation and is now making good progress on executing its strategy. The firm has a portfolio of exciting prospects that are funded to deliver key value-generating milestones over the coming years, an investment strategy designed to generate further value from the most promising life science opportunities across the Nordic region, and key people in place with the necessary international experience and capabilities to drive its strategy forward.



Project
APR-246

Primary indication
Ovarian cancer

Development Phase
Phase I/II

Holding in company
19%*

Other investors
Versant Ventures (US),
5AM Ventures (US),
HealthCap (Sweden)
Sectoral Asset
Management (Canada),
KCIF Co-Investment Fund KB

Origin
Karolinska Institutet

More information
 aprea.com

** Includes indirect holdings
through KDev Investments
and KCIF Co-Investment Fund*

Aprea AB



A unique approach to treating a broad range of cancers

Aprea 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 leading 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 exciting lead drug candidate APR-246, a first-in-class anti-cancer compound that targets and reactivates the tumor suppressor protein p53, inducing programmed cell death in many human cancer cells.

APR-246 is currently undergoing a Phase Ib/II clinical study investigating its safety and efficacy in combination with chemotherapy in second-line treatment of patients with high grade serous ovarian. Preliminary data presented in October 2015 at the European Society of Gynaecological Oncology congress (ESGO) demonstrated encouraging activity in patients with partially platinum sensitive as well as fully platinum sensitive ovarian cancer.

At cut-off, all patients treated in the study had stable disease or better according to the Response Evaluation Criteria In Solid Tumors (RECIST) criteria. In addition, 13 out of 14 patients had a GCIG CA125 (tumor antigen biomarker) response after three treatment cycles.

The Phase Ib/II trial is a two-part 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. This element of the study is due to start in H1 2016.

The primary endpoint of this Phase II study will be Progression Free Survival (PFS).

The market

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 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 of USD 2.3 billion.

Recent progress

- SEK 437 million raised from syndicate of leading international life science investors (March 2016).

Expected milestones

- Final results from the Phase Ib part of the Phase Ib/II study in ovarian cancer (H1 2016).
- Initiate Phase II proof-of-concept part of the Phase Ib/II study in ovarian cancer (H1 2016).



Project

Sevuparin

Primary indication

Sickle cell disease (SCD)

Development Phase

Phase II

Holding in company

64%*

Other investors

The Foundation for Baltic and East European Studies, Praktikerinvest

Origin

Karolinska Institutet, Uppsala University

More information

 Dilaforette.se

** Includes indirect holdings through KDev Investments*

Dilaforette AB



Targeting relief for sickle cell disease patients

Dilaforette, a Swedish drug development company, is developing sevuparin, an innovative, disease-modifying drug which has the potential to become the best-in-class treatment for sickle cell disease (SCD).

Sevuparin's anti-adhesive mechanism means it has the potential to prevent and resolve the microvascular obstructions experienced by SCD patients. These obstructions cause the severe pain experienced by patients during Vaso-Occlusive Crises (VOCs) and result in 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. In October, Dilaforette announced that the first patient had been enrolled in a multi-center, double-blind, placebo-controlled Phase II study of sevuparin in hospitalized SCD patients experiencing VOC.

The results from this study are expected in H2 2016. The trial is targeting 70 evaluable patients who will have been randomized to receive either an intravenous infusion of sevuparin or placebo on top of standard pain medication. This proof-of-concept study is designed to demonstrate reduced time to resolution of VOC, defined as freedom from parenteral opioid use and readiness for discharge from hospital. Secondary end-points include pharmacokinetics and safety.

The study is taking place in Europe and the Middle East under a co-development deal with Ergomed, which will co-invest a proportion of its revenues from the clinical and regulatory activities of this trial in return for an equity stake in Dilaforette.

Dilaforette's aim is to develop a presentation of sevuparin that could be self-administered by SCD patients in a timely manner to prevent VOCs developing.

The market

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 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

- Clinical collaboration agreement with Arabian Gulf University (Bahrain) for Phase II clinical development of sevuparin for SCD (February 2016).

Expected milestones

- SCD Phase II proof-of-concept results (H2 2016).

OSSDSIGN®

Project

Craniomosaic, Cranioplug

Primary indication

Cranio implants

Development Phase

Marketed

Holding in company

29%*


Other investors

SEB Venture Capital
Fouriertransform

Origin

Karolinska University Hospital,
Uppsala University

More information

 ossdsign.com
@ossdsign

* Includes indirect holdings
through KCIF Co-Investment
Fund

OssDsign AB



Commercializing the best craniofacial implants

OssDsign is a pioneer in Orphan Medtech, an evolving segment within the medtech market. OssDsign commercializes novel cranial and facial implants, based on its proprietary technology platform, which possess a combination of biological, mechanical and aesthetic features that are combined for its clinical uses.

The use of traditional cranio-facial implant materials results in high complication rates and also carry the lifetime risk of skin penetration and infection. OSSDSIGN® Cranial and OSSDSIGN® Facial are implants custom-made for the individual patient. What makes OssDsign's products different are their biological features, which result in better blood flow, improved healing of the soft tissues covering the implants as well as improved bone formation over time. Enhanced healing means a better implant solution for patients and cost savings for hospitals. The OssDsign's technology platform combines a proprietary bioceramic formulation with a reinforcing titanium skeleton based on state-of-the-art computer-aided design, 3D printing and moulding techniques.

In April, OssDsign appointed Simon Cartmell as Chairman of the Board. The appointment strengthens the organization ahead of the US launch of its novel regenerative facial and cranial implants, expected in 2017. Mr Cartmell is an experienced entrepreneur in the life sciences industry and a Non-Executive Director/Chairman of a number European medical device companies. He was previously the CEO and architect behind the commercial success of Apatech, a British medtech firm that developed ACTIFUSE, a novel bone void filler used to treat bone defects resulting from orthopaedic and spine surgery or traumatic injury. Apatech was acquired by Baxter International in March 2010 for USD 330 million.

The market

The market for biomaterials products in orthopaedics was estimated at EUR 1.5 billion in 2013. The market for OssDsign's lead product in cranioplasty alone is expected to amount to approximately EUR 100 million in 2017. OssDsign pursues a focused business strategy on a well-defined patient population. The advantages are that the targeted procedures are carried out in a limited number of easily identifiable hospitals around the world. The indications are relatively price insensitive and on many markets easy to access from a regulatory perspective. OSSDSIGN® Cranial and OSSDSIGN® Facial are now commercially available in Germany, the UK and the Nordic countries and under regulatory preparation and review in key markets outside of Europe, such as the US.

Recent progress

- Simon Cartmell appointed Chairman of the Board (April 2016).
- CE mark received for Cranioplug, an innovative device for cranial fixation (January 2016).

Expected milestones

- Second wave of launch of OSSDSIGN® Cranial and OSSDSIGN® Facial on new EU markets and selected markets outside of Europe.
- Submission of regulatory file for OSSDSIGN® Cranial and Cranioplug in the United States.



Project

HA^{nano} Surface

Primary indication

Implant surface

Development Phase

Marketed

Holding in company

32%*

Other investors


ALMI Invest

K-Svets Venture

Origin

Chalmers University of
Technology

More information

 Promimic.com

* Includes indirect holdings
through KDev Investments

Promimic AB



Coatings that enhance the properties of orthopaedic implants

Promimic is a biomaterials company that develops and markets a unique coating for implants called HA^{nano} Surface, which accelerates bone integration and increases the anchoring strength of implants. HA^{nano} 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 HA^{nano} 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 HA^{nano} 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.

Promimic entered into a strategic development and licensing agreement with Sistema de Implante Nacional (S.I.N), a leading provider of dental implants in Brazil, in 2015. The collaboration includes an extensive development program of both pre-clinical and clinical studies. In January 2016, Promimic announced that S.I.N had launched the first product using Promimic's technology.

Promimic also signed a strategic agreement with Amendia Inc. (US) in 2015 that will allow Amendia to develop HA^{nano} Surface technology for use with its patient-focused spinal implants.

The market

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. The strategies of many of these companies rely on in-licensing new technologies in order to differentiate their products and strengthen their market position. Promimic has a business model designed to meet these needs. It is centered on out-licensing its HA^{nano} Surface technology to leading implant manufacturers so that they can incorporate it into their products.

Recent progress

- Promimic's partner S.I.N. initiated the launch of the first dental implant coated with HA^{nano} Surface at CIOSP, the second largest dental trade show in the world (January 2016).
- Promimic and Danco Anodizing signed a license agreement where Danco will invest in a production line for the HA^{nano} Surface process. Danco will be the preferred process partner for Promimic for the USA and China medical implant market (March 2016).

Expected milestones

- Further 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	2016 Jan-Mar	2015 Jan-Mar (restated)	2015 Full-year
Condensed income statement			
Change in fair value in portfolio companies	-82.3	-228.6	-976.5
Net profit/loss	-100.1	-250.9	-1054.7
Condensed balance sheet			
Cash, cash equivalents and short-term investments	287.6	440.4	297.2
Share information			
Earnings per share, weighted average, before and after dilution (SEK)	-1.9	-4.7	-19.8
Net asset value per share (SEK) (Note 1)	2.9	20.6	4.7
Equity per share (SEK) (Note 1)	2.8	19.8	4.7
Share price, last trading day in the reporting period (SEK)	8.25	11.5	13.0
Portfolio information			
Investments in portfolio companies	7.6	27.5	130.8
Of which investments not affecting cash flow	0.4	-	6.7
Fair value of portfolio holdings	193.2	912.4	267.7

Value development first quarter 2016

During the first quarter 2016 the Investment Entity's operating loss amounted to SEK -90.1m (SEK -241.8m), of which the effect of the change in fair value of portfolio investments amounted to SEK -82.3m (SEK -228.6m). The effect of the change in fair value of portfolio investments is mainly due to Fair Value in Akinion Pharmaceutical AB being reduced to SEK 0.0 as a consequence of Akinion Pharmaceutical AB having halted further development of its lead product candidate AKN-028.

The result of changes in fair value of portfolio companies amounts to SEK -82.3m:

- Akinion Pharmaceutical AB, SEK -119.4m
- Shares in Inhalation Service Sweden sold for an equivalent amount in cash, SEK -1.0m
- Financial assets in KDev Investments and KCIF, SEK -3.4m
- Interest on loan to portfolio companies and other adjustments, SEK 1.3m
- Reduced potential distribution to Rosetta Capital, SEK 40.2m

SEK 7.6m were invested in portfolio companies during the first quarter 2016 making change in Fair Value amount to SEK -74.7m.

Results first quarter 2016

The Investment Entity's loss before tax during the first quarter 2016 amounted to SEK -100.1m (SEK -250.9m).

Investments in portfolio companies first quarter 2016

Investments in portfolio companies by Karolinska Development during January – March 2016 amounted to SEK 7.6m. External specialized life science investors invested SEK 380.7m in the portfolio companies. Karolinska Development's investments amounted to:

- Aprea AB, SEK 6.3m
- Clanotech AB, SEK 0.9m
- Interest on loans etc., SEK 0.4m

Financial position (comparative figures refer to 31 December 2015)

The Investment Entity's equity to total assets ratio was 28% (40%) on 31 March 2016 and equity amounted to SEK 148.3m (SEK 247.9m). Cash, cash equivalents and short-term investments in the Investment Entity amounted to SEK 287.6m (SEK 297.2m), of which SEK 43.0m is provisionally allocated for anticipated follow-on investments in the KDev Investments portfolio. Total assets amounted to SEK 523.9m (SEK 614.5m).

Financial Development – Parent Company

The Parent Company refers to Karolinska Development AB.

During the first quarter 2016, the Parent Company's operating loss amounted to SEK -82.8m (SEK -193.3m), a change of SEK 110.5m compared with the same period in 2015. Impairment losses were recognized on the holdings in KDev Investments AB SEK -74.3m, KCIF Co-Investment Fund KB SEK 0.5m (SEK 0.0m), share of result in KCIF Co-Investment Fund KB SEK -1.2m (SEK 2.7m). The impairment losses in total amounted to SEK -73.8m (SEK -180.1m) and is mainly due to write offs on shares in KDev Investment AB's portfolio company Akinion Pharmaceutical AB.

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 in these assessments and the subjectivity in the inputs, 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. Financing strategy decisions can have an effect on 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 the form of equity and debt 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 favorable terms, or that such capital may be obtained at all.

Karolinska Development maintains a strategy to continuously invest in the portfolio companies in syndicate with other investors. If portfolio companies are not successful in attracting other investors, Karolinska Development may choose to invest alone. If Karolinska Development chooses not to invest in the portfolio companies, investments may be made solely by other investors, which may have a negative 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 cases, investors 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.

Investments in existing portfolio companies during 2016 are expected to decrease compared to the previous year as a consequence of several companies being fully financed until next value inflection point and due to Karolinska Development's strategy of investing in syndication with other investors. 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.

Investments in new portfolio companies are expected to increase during 2016.

Other than the above, no new risk areas have been identified since 31 December 2015. For a detailed description of risks and uncertainties, see the annual report 2015.

This report has not been reviewed by the Company's auditors.

Solna, 10 May 2016

Jim Van Heusden
CEO

Dates for Publication of Financial Information

Annual General Meeting	25 May 2016
Interim report January-June 2016	31 August 2016
Interim report January-September 2016	23 November 2016

Karolinska Development is required by law to publish the information in this interim report. The information was published on 10 May 2016 at 08:00 AM (CET).

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.

Financial Statements

Condensed income statement for the Investment Entity

SEK 000	Note	2016 Jan-Mar	2015 Jan-Mar (restated)	2015 Full-year
Revenue		608	992	2,942
Other external expenses		-3,430	-4,499	-15,363
Personnel costs		-4,942	-9,658	-31,167
Depreciation of tangible non-current assets		-53	-53	-212
Change in fair value of shares in portfolio companies	2	-82,252	-228,579	-976,488
Result from sale of shares in portfolio companies		-	-	-
Operating profit/loss		-90,069	-241,797	-1,020,288
Financial net		-10,030	-9,123	-34,385
Profit/loss before tax		-100,099	-250,920	-1,054,673
Taxes		-	-	-
NET PROFIT/LOSS FOR THE PERIOD		-100,099	-250,920	-1,054,673

Earnings per share for the Investment Entity

SEK	Note	2016 Jan-Mar	2015 Jan-Mar (restated)	2015 Full-year
Earnings per share, weighted average, before and after dilution		-1.88	-4.72	-19.84
Number of shares, weighted average		53,151,328	53,140,273	53,151,328

Condensed statement of comprehensive income for the Investment Entity

SEK 000	Note	2016 Jan- Mar	2015 Jan-Mar (restated)	2015 Full-year
Net/profit loss for the period		-100,099	-250,920	-1,054,673
Total comprehensive income/loss for the period		-100,099	-250,920	-1,054,673

Condensed balance sheet for the Investment Entity

SEK 000	Note	31 Mar 2016	31 Mar 2015 (restated)	31 Dec 2015
ASSETS				
Non-current assets				
Tangible non-current assets		53	265	106
Shares in portfolio companies at fair value through profit or loss	2	193,152	912,399	267,651
Loans receivable from portfolio companies		923	36,097	914
Other financial assets		38,113	38,113	38,113
Total non-current assets		232,241	986,874	306,784
Current assets				
Receivables from portfolio companies		1,157	1,042	3,549
Other current receivables		1,615	1,999	5,995
Prepaid expenses and accrued income		1,286	2,241	897
Short-term investments, at fair value through profit or loss		277,745	308,639	277,646
Cash and cash equivalents		9,834	131,803	19,589
Total current assets		291,637	445,724	307,676
TOTAL ASSETS		523,878	1,432,598	614,460
EQUITY AND LIABILITIES				
Equity				
Share capital		26,725	26,692	26,725
Share premium		1,874,236	1,874,236	1,874,236
Retained earnings		-1,752,693	-849,121	-1,653,080
Total equity		148,268	1,051,807	247,881
Long-term liabilities				
Convertible loan	3	360,513	319,171	349,205
Other financial liabilities		4,798	11,686	5,439
Total long-term liabilities		365,311	330,857	354,644
Current liabilities				
Accounts payable		1,232	24,439	1,444
Liabilities to portfolio companies		513	392	513
Other current liabilities		498	1,116	4,425
Accrued expenses and prepaid income		8,056	23,987	5,553
Total current liabilities		10,299	49,934	11,935
Total liabilities		375,610	380,791	366,579
TOTAL EQUITY AND LIABILITIES		523,878	1,432,598	614,460

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 2016		26,725	1,874,236	-1,653,080	247,881
Net profit/loss for the period				-100,099	-100,099
Total comprehensive income for the period				-100,099	-100,099
Effect of incentive programs				486	486
Closing equity at 31 Dec 2015		26,725	1,874,236	-1,752,693	148,268
Opening equity at 1 Jan 2015 (restated)		26,692	1,828,844	-598,724	1,256,812
Net profit/loss for the period				-250,920	-250,920
Total comprehensive income for the period				-250,920	-250,920
Convertible loan - equity part			49,528		49,528
Issue costs			-4,136		-4,136
Effect of incentive programs				523	523
Closing equity at 31 Mar 2015		26,692	1,874,236	-849,121	1,051,807
Opening equity at 1 Jan 2015 (restated)		26,692	1,828,844	-598,724	1,256,812
Net profit/loss for the year				-1,054,673	-1,054,673
Total comprehensive income for the year				-1,054,673	-1,054,673
Convertible loan - equity part			49,528		49,528
Issue costs			-4,136		-4,136
Effect of incentive programs				317	317
Share issue		33		0	33
Closing equity at 31 Dec 2014		26,725	1,874,236	-1,653,080	247,881

Condensed statement of cash flows for the Investment Entity

SEK 000	Note	2016 Jan-Mar	2015 Jan-Mar (restated)
Operating activities			
Operating profit/loss		-90,069	-241,797
Adjustments for items not affecting cash flow			
Depreciation		53	53
Change in fair value	2	82,252	228,579
Result from sale of shares in portfolio companies		-	-
Other items		638	2,407
Proceeds from short-term investments		91	168
Interest paid/received		-1	4
Cash flow from operating activities before changes in working capital and operating investments		-7,036	-10,586
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in operating receivables		6,226	1,510
Increase (+)/Decrease (-) in operating liabilities		-1,640	29,663
Operating investments			
Proceeds from sale of shares in portfolio companies		-	-
Acquisitions of shares in portfolio companies		-7,200	-27,525
Loans provided to portfolio companies		-	-26,058
Investments in short-term investments ¹		-106	-179,780
Cash flow from operating activities		-9,756	-212,776
Financing activities			
Share issue		-	-
Convertible debentures issue		-	364,001
Issue costs		-	-32,307
Cash flow from financing activities		0	331,694
Cash flow for the period		-9,756	118,918
Cash and cash equivalents at the beginning of the year		19,589	12,885
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		9,833	131,803
Supplemental disclosure¹			
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		9,833	131,803
Short-term investments, market value at closing date		277,745	308,639
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS AT THE END OF THE PERIOD		287,578	440,442

¹Surplus 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 statement of cash flows from operating activities. The supplemental disclosure is presented to provide a total overview of the Investment Entity's available fund including cash, cash equivalents and short-term investments described here.

Condensed income statement for the Parent Company

SEK 000	Note	2016 Jan-Mar	2015 Jan-Mar (restated)	2015 Full-year (restated)
Net sales		608	992	2,942
Revenue		608	992	2,942
Other expenses		-3,430	-4,499	-15,363
Personnel costs		-4,941	-9,658	-31,167
Depreciation of tangible non-current assets		-53	-53	-212
Impairment losses on shares in subsidiaries, joint ventures, associated companies and other long-term securities holdings		-75,006	-180,096	-795,470
Result from sale of shares in portfolio companies		-	-	-
Operating profit/loss		-82,822	-193,314	-839,270
Financial net		-10,672	-9,123	-44,233
NET PROFIT/LOSS FOR THE PERIOD		-93,494	-202,437	-883,503

Condensed statement of comprehensive income for the Parent Company

SEK 000	Note	2016 Jan-Mar	2015 Jan-Mar	2015 Full-year
Net profit/loss for the period		-93,494	-202,437	-883,503
Total comprehensive income/loss for the period		-93,494	-202,437	-883,503

Condensed balance sheet for the Parent Company

SEK 000	Note	31 Mar 2016	31 Mar 2015 (restated)	31 Dec 2015
ASSETS				
Non-current assets				
Tangible non-current assets		53	265	106
Shares in subsidiaries, joint ventures, associated companies and other long term-securities holdings		161,388	773,539	229,513
Loans receivable from portfolio companies		28,732	36,097	27,523
Other financial assets		33,311	33,771	33,386
Total non-current assets		223,484	843,672	290,528
Current assets				
Receivables from portfolio companies		1,157	1,042	3,549
Other current receivables		1,614	1,999	5,995
Prepaid expenses and accrued income		2,561	2,241	2,500
Short-term investments		277,745	308,639	277,646
Cash and cash equivalents		9,834	131,803	19,589
Total current assets		292,911	445,724	309,279
TOTAL ASSETS		516,395	1,289,396	599,807
EQUITY AND LIABILITIES				
Equity				
Restricted equity				
Share capital		26,725	26,692	26,725
Unrestricted equity				
Share premium reserve		1,884,310	1,884,310	1,884,310
Accumulated losses		-1,676,062	-792,839	-793,045
Net profit/loss for the period		-93,494	-202,437	-883,503
Total equity		141,479	915,726	234,487
Long-term liabilities				
Convertible loan	3	360,514	309,160	349,205
Pension obligations		4,106	4,565	4,180
Total long-term liabilities		364,620	313,725	353,385
Current liabilities				
Accounts payable		1,232	24,439	1,444
Liabilities to portfolio companies		513	392	513
Other current liabilities		497	1,116	4,425
Accrued expenses and prepaid income		8,054	33,998	5,553
Total current liabilities		10,296	59,945	11,935
Total liabilities		374,916	373,670	365,320
TOTAL EQUITY AND LIABILITIES		516,395	1,289,396	599,807

Pledged assets and contingent liabilities

SEK 000	Note	31 Mar 2016	31 Mar 2015	31 Dec 2015
Pledged assets		4,105	4,565	4,180
Credit commitment to portfolio company		-	8,000	-
Total		4,105	12,565	4,180

Condensed statement of changes in equity for the Parent Company

SEK 000	Not e	Restrict ed equity	Unrestricted equity			Total equity
			Share premium reserve	Accum- ulated losses	Net profit/loss for the period	
		Share capital				
Opening equity at 1 Jan 2015		26,725	1,884,310	-793,045	-883,503	234,487
Appropriation of loss				-883,503	883,503	
Net profit/loss for the period					-93,494	-93,494
Total		26,725	1,884,310	-1,676,548	-93,494	140,993
Effect of incentive programs				486		486
Closing equity at 31 Mar 2016		26,725	1,884,310	-1,676,062	-93,494	141,479
Opening equity at 1 Jan 2015 (restated)		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					-202,437	-202,437
Total		26,692	1,838,918	-793,362	-202,437	869,811
Convertible loan - equity part			49,528			49,528
Issue costs			-4,136			-4,136
Effect of incentive programs				523		523
Closing equity at 31 Mar 2015 (restated)		26,692	1,884,310	-792,839	-202,437	915,726
Opening equity at 1 Jan 2015 (restated)		26,692	1,838,918	-502,588	-290,774	1,072,248
Appropriation of profit				-290,774	290,774	
Net profit/loss for the year					-883,503	-883,503
Total		26,692	1,838,918	-793,362	-883,503	188,745
Share issue			49,528			49,528
Issue costs			-4,136			-4,136
Effect of incentive programs				317		317
Share issue		33		0		33
Closing equity at 31 Dec 2014		26,725	1,884,310	-793,045	-883,503	234,487

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) ("Karolinska Development," "Investment Entity" or the "Company") obtains funds from several independent investors/shareholders by issuing shares and interest-bearing instruments. The Company invests the proceeds in portfolio companies that develop medical innovations, as described below, and whose sole purpose is to generate a return through capital appreciation and investment income. These temporary investments, which are not investment entities, are designated "portfolio companies" below. The Company, with 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 investing in portfolio companies that develop 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 innovations through the sale of portfolio companies or out-licensing of products. Future deal flow will be sourced via an amended agreement with Karolinska Institutet Innovations AB, through an extended network of contracts at research institutions across the Nordic region, and through relationships with other specialist life sciences investors.

Changes in accounting principles and information's

No changes in accounting principles and information during the first quarter.

New and revised accounting principles 2016

No new or revised IFRS standards or recommendations from IFRS Interpretations Committee has had impact on the Investment Entity or on that part were these recommendations should be practiced on the income statement or balance of the mother company.

Definitions

Portfolio companies: Companies where Karolinska Development has made investments (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.

Karolinska Development applies the accounting principles of fair value 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 implemented new policies for estimating level 3 fair values 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

Fair value as of 31 March 2016

SEK 000	Level 1	Level 2	Level 3	Total
Financial assets				
Shares in portfolio companies, at fair value through profit or loss	-	-	193,152	193,152
Loans receivable from portfolio companies	-	923	-	923
Other financial assets	-	-	38,113	38,113
Receivables from portfolio companies	-	1,157	-	1,157
Cash, cash equivalents and short-term investments	287,579	-	-	287,579
Total	287,579	2,080	231,265	520,924
Financial liabilities				
Other financial liabilities	-	-	4,798	4,798
Accounts payable	-	1,232	-	1,232
Liabilities to portfolio companies	-	513	-	513
Total	-	1,745	4,798	6,543

Fair value as of 31 March 2015, restated

SEK 000	Level 1	Level 2	Level 3	Total
Financial assets				
Shares in portfolio companies, at fair value through profit or loss	-	-	912,399	912,399
Loans receivable from portfolio companies	-	36,097	-	36,097
Other financial assets	-	-	38,113	38,113
Receivables from portfolio companies	-	1,042	-	1,042
Cash, cash equivalents and short-term investments	440,442	-	-	440,442
Total	440,442	37,139	950,512	1,428,093
Financial liabilities				
Other financial liabilities	-	-	11,686	11,686
Accounts payable	-	24,439	-	24,439
Liabilities to portfolio companies	-	392	-	392
Total	-	24,831	11,686	36,517

Fair value (level 3) as of 31 March 2016

SEK 000	Shares in portfolio companies	Other financial assets	Other financial liabilities
At beginning of the year	267,651	38,113	4,798
Acquisitions	7,639	-	-
Disposals	-	-	-
Gains and losses recognized through profit or loss	-82,252	-	0
Closing balance 31 Dec 2015	193,038	38,113	4,798
Total unrealized gains and losses for the period in profit or loss	-82,252	-	0
Gains and losses in profit or loss for the period for assets and liabilities included in the closing balance	-82,252	-	0

Fair value (level 3) as of 31 March 2015, restated

SEK 000	Shares in portfolio companies	Other financial assets	Other financial liabilities
At beginning of the year	1,113,454	38,113	11,686
Acquisitions	27,524	-	-
Disposals	-	-	-
Gains and losses recognized through profit or loss	-228,579	-	-
Closing balance 31 Dec 2014	912,399	38,113	11,686
Total unrealized gains and losses for the period in profit or loss	-228,579	-	-
Gains and losses in profit or loss for the period for assets and liabilities included in the closing balance	-228,579	-	-

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 of Fair Value of portfolio companies

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 Fair Value does not reflect the future potential value of the shares in the portfolio companies when they have unlocked their full value potential by achieving significant milestones e.g. positive clinical proof-of-concept data. 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.

Impact on fair value of the agreement with Rosetta Capital

"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 portfolio valuation and potential distribution to Rosetta Capital in consideration

SEKm	2016-03-31	2015-03-31	2015-12-31
Karolinska Development Fair Value	134	822	134
KDev Investments Fair Value	343	455	458
Total Fair Value	477	1,277	592
Potential distribution to Rosetta Capital of fair value of KDev Investments	284	365	324
Net Fair Value after potential distribution to Rosetta Capital	193	912	268

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 December 31, 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 December 31, 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

Karolinska Development 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.

SEK 000	31 Mar 2016	31 Mar 2015	31 Dec 2015
Nominal amount of convertible debentures issued on 2 January 2015	386,859	386,859	386,859
Issue costs	-28,171	-28,171	-28,171
Equity portion	-49,528	-49,528	-49,528
Debt at issuance date 2 January 2015	309,160	309,160	309,160
Accrued interest costs	51,354	10,011	40,045
Paid interest	-	-	-
TOTAL	360,514	319,171	349,205

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		
		31 Mar 2016	31 Mar 2015	31 Dec 2015
Avaris AB (in liquidation)	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	Solna	-	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, Lipidor AB and Umecrine Cognition AB.

Karolinska Development's ownership interests in these portfolio companies ranges from 38% 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, after extension, until the date of the Company's Annual General Meeting 2017. The consultancy fee is market based and amounted to 264 KSEK (88 KSEK) during the first quarter 2016.

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 7.8% of the common shares as well as xx% preference shares in KDI, which has a portfolio of 7 companies as of December 31, 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 2015 for the Investment Entity

KSEK	2015 Jan-Mar (as previously reported)	Effect of changes in presentation of Net Fair Value	2015 Jan-Mar (restated)
Revenue	992		992
Other 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
Result from sale of subsidiaries	-		0
Operating profit/loss	-265,954	24,157	-241,797
Financial net	-9,123	-	-9,123
Profit/loss before tax	-275,077	24,157	-250,920
Current taxes	-	-	-
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 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 on statement of comprehensive income for comparative figures 2015 for the Investment Entity

KSEK	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 2015 for the Investment Entity

SEK 000	2015-03-31 (as previously reported)	Effect of changes in presentation of Net Fair Value	2015-03-31 (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			
Accounts receivable	-		0
Receivables from portfolio companies	1,042		1,042
Other current 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	319,171		319,171
Other financial liabilities	11,686		11,686
Total long-term liabilities	330,857	0	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 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)
Operating activities			
Operating profit/loss	-265,954	24,157	-241,797
<i>Adjustment for non-cash items</i>			
Adjustment for depreciation of amortization	53		53
Adjustment for changes in fair value Result from sale of shares in portfolio companies	252,736	-24,157	228,579
Other items	-		0
Realized changes in value of short-term investments	2,407		2,407
Interest paid/received	168		168
	4		4
Cash flow from operating activities before changes in working capital and operating investments	-10,586	0	-10,586
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in operating receivables	1,510		1,510
Increase (+)/Decrease (-) in operating liabilities	29,663		29,663
Operating investments			
Investments in shares in portfolio companies	-27,525		-27,525
Divestments of shares in portfolio companies	-26,058		-26,058
Loans provided to portfolio companies	-		0
Change in short-term investments	-179,780		-179,780
Cash flow from operating activities	-212,776	0	-212,776
Financing activities			
Share issue	364,001		364,001
Convertible debentures issue	-32,307		-32,307
Cash flow from financing activities	331,694		331,694
Cash flow for the year			
Cash and cash equivalents at beginning of the year	118,918		118,918
	12,885		12,885
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	131,803	0	131,803

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

SEK 000	2015 Jan-Mar (as previously reported)	Effect of changes of 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 2014 for the parent company

SEK 000	2015 Jan-Mar (as previously reported)	Effect of changes of 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