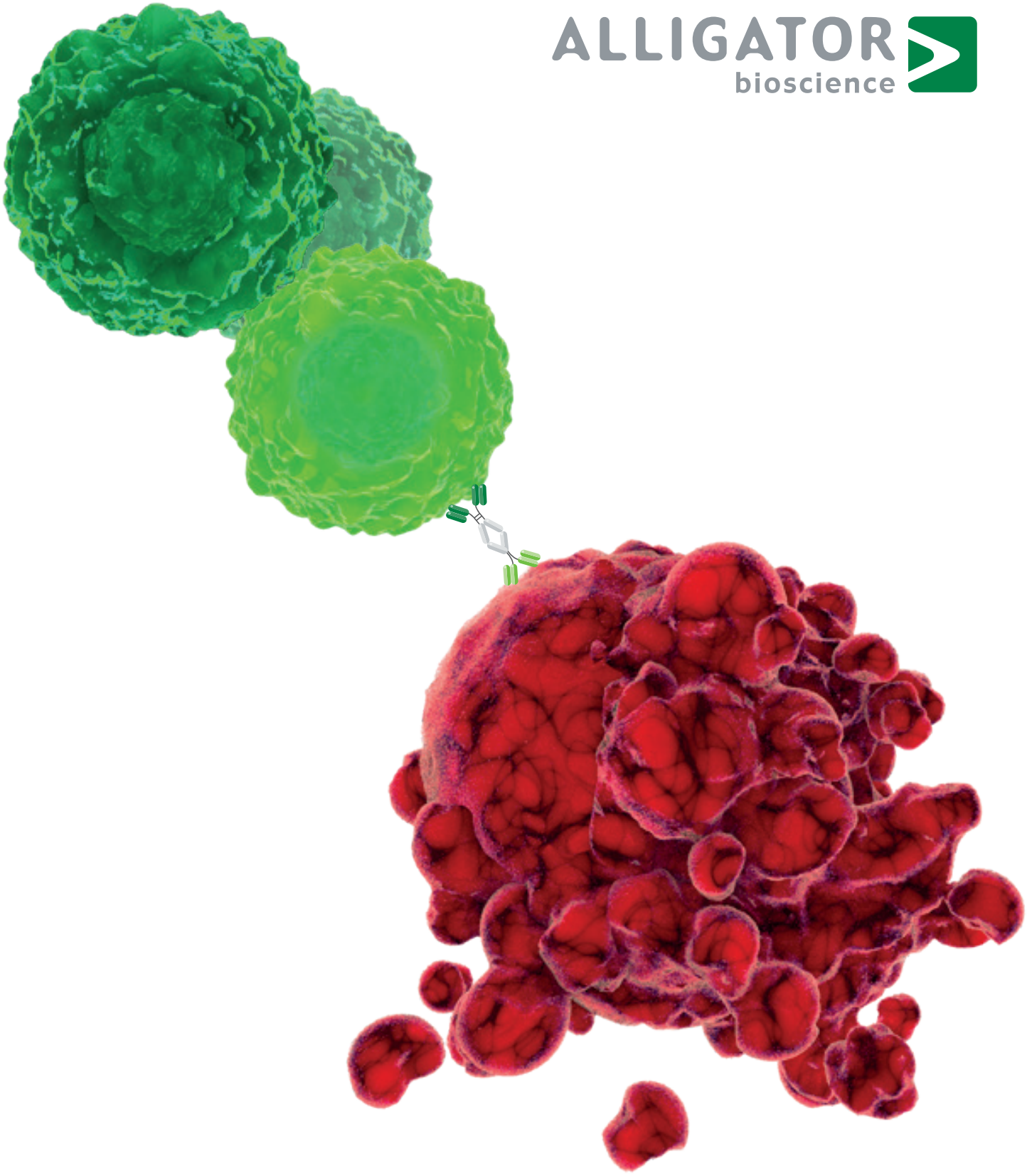
ALLIGATOR bioscience



# ANNUAL REPORT 2017

We fight cancer through
the immune system.
*A revolution for life.*

# Content



**Cover**
The cover depicts T cells (green) that have various functions in the body's immune system and a tumor cell (red). The figure in between the cells is Alligator's bispecific drug candidate ALG.APV-527, specifically seeking and binding to the 5T4 antigen on the tumor cell and there binding to 4-1BB which activates the T cells to kill tumor cells.

**Notes to the reader**
Unless stated otherwise in these annual accounts, the information refers to the Group. Figures in brackets refer to the corresponding period the year before. Unless stated otherwise, all amounts are in TSEK. All amounts quoted have been correctly rounded, so some totals may not add up.

# Annual General Meeting 2018.

The Annual General Meeting (AGM) will be held on Thursday 26 April, 2018 at 4 p.m. at Medicon Village, Scheelevägen 2, Lund, Sweden. The invitation will be published in Post- och Inrikes Tidningar (the Swedish government gazette) and on the company's website.

Shareholders who wish to attend the Annual General Meeting must be entered in the register of shareholders maintained by Euroclear as of Friday 20 April, 2018 and must notify Alligator of their intention to attend no later than Friday 20 April, 2018 by letter to Scheelevägen 2, SE-223 81 Lund, Sweden, att: Lotten Almén, or by telephone to +46 46 286 42 80, or by e-mail to anmalan@alligatorbioscience.com.

Shareholders whose shares are registered with fund managers must request temporary entry in the Euroclear register of shareholders in order to participate in the Annual General Meeting. Re-registration must be completed by Friday 20 April, 2018, and the manager must be informed of this in good time before this date.

### Notification
The notification should include the name, personal or corporate ID number, shareholding, telephone number and the number of any representatives (maximum two). For shareholders to be represented by a proxy, authorization must be sent together with the notification. Anyone representing a legal person must carry a copy of the registration certificate or equivalent authorization documents showing authorized signatories. The company will provide authorization forms to shareholders who require them.

# Other information.

### Financial reports 2018
Alligator intends to give financial statements as follows:

- AGM on 26 April, 2018
- Q1 interim report on 26 April, 2018
- Q2 interim report on 12 July, 2018
- Q3 interim report on 26 October, 2018
- Full Year Report 2018 on 14 February 2019

### Contact
For further information, please contact:
Cecilia Hofvander, Director Investor Relations & Communications
Email: ir@alligatorbioscience.com
Tel: +46-46-286 44 95.

### Prospective information
These annual accounts contain prospective statements which represent subjective estimates and forecasts of the future. These predictions are only valid as of the date on which they are made and are by their nature, like research and development work in the biotech field, fraught with risks and uncertainties. In view of this, the actual outcome may differ significantly from what is described in this annual report.

### Brand names
FIND® and ALLIGATOR-GOLD® are Alligator proprietary brand names which are registered in Sweden and other countries.

# 2017 in brief.

| | |
|---|---|
| Positive results from ADC-1013 clinical Phase I study | Early clinical data showed that ADC-1013 is well-tolerated in cancer patients at clinically relevant doses and also showed evidence supporting activation of CD40 receptors. The results support the continued clinical development of ADC-1013 as mono- or combination therapy. |
| Milestone payment of 6 MUSD from Janssen | 2017 recorded a revenue of USD 6 million from Janssen Biotech, Inc. (Janssen), coupled to a decision to start combination study with ADC-1013 and one of Janssen's proprietary PD-1 inhibitors. The milestone payment was received in January 2018. |
| Strategic partnership for co-development of ALG.APV-527 | In July 2017, Aptevo Therapeutics and Alligator Bioscience signed an agreement regarding the co-development of ALG.APV-527. The companies will equally own and finance the development of the drug candidate through Phase II studies. ALG.APV-527 is currently in pre-clinical development. |
| Pre-clinical development initiated also for ATOR-1017 | ATOR-1017 is an immunostimulating antibody that binds to the costimulatory receptor 4-1BB in tumor-specific T cells. 4-1BB has the capacity to support the immune cells involved in tumor control, making 4-1BB a particularly attractive target for cancer immunotherapy. |
| Collaborations with Stanford and Navarra Universities | Alligator has during the year expanded the collaboration with Professor Dean Felsher at Stanford University in the US and Professor Ignacio Melero at Navarra University in Spain. These collaborations are important and help us achieve our long-term goal to offer patients improved treatment alternatives. |
| Strengthened organization with expanded management | To maintain the highest possible rate of development and quality across the entire drug development chain, the management team was expanded at year-end to strengthen the organization. |

**Financial summary (Group)**

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Net sales, TSEK (SEK thousand) | 56,875 | 58,240 | 289,797 | 0 |
| Operating profit/loss | -62,299 | -56,082 | 203,006 | -77,213 |
| Profit/loss for the period, TSEK | -63,758 | -48,356 | 207,377 | -76,782 |
| Cash flow for the period, TSEK | -183,173 | 287,133 | 326,232 | -31,797 |
| Cash, cash equivalents and bonds, TSEK | 547,041 | 659,136 | 365,605 | 37,428 |
| Equity ratio, % | 96% | 96% | 95% | 70% |
| R&D costs as % of operating costs excluding impairments | 73.3% | 64.3% | 61.5% | 54.0% |
| Earnings per share before dilution, SEK | -0.89 | -0.80 | 3.81 | -1.59 |
| Earnings per share after dilution, SEK | -0.89 | -0.80 | 3.70 | -1.59 |
| Average number of employees | 42 | 31 | 27 | 26 |

*Alligator's goal is to be at the forefront of the global endeavor to cure metastatic cancer.*

# This is Alligator. In the fight against cancer.

Alligator's goal is to be at the forefront of the global endeavor to effectively cure metastatic cancer over the next few years. Alligator develops antibody-based therapeutics that spur the body's own immune system to attack the cancer. This approach to treating cancer falls under the umbrella of immuno-oncology.

Every year, 14 million people are diagnosed with cancer and in 2015, almost 9 million cancer deaths occurred worldwide. The number of new cases is expected to rise to 24 million per year within the next two decades.* In other words, the healthcare industry's need for access to new and effective forms of therapy is huge.

Immuno-oncology is now one the most promising fields of cancer research. In just a short time, researchers have been able to identify the signaling pathways critical to forcing the immune system to attack and destroy cancer cells. Alligator is at the absolute leading edge of this research with a unique technology that makes it possible to selectively target the immune response's attack to the cancerous tumors, which dramatically reduces side effects compared with general immunostimulation. Immuno-oncology is expected to be a fast growing field in future cancer therapy.

Alligator is predominantly a research company. Of 47 employees, more than 40 are engaged in R&D. The company is based in Medicon Village in Lund, with close links to Lund University and Ideon Science Park and therefore at the dynamic intersection of academia and industry, with a multitude of opportunities for collaboration and knowledge exchange. Most of the company's employees have university degrees and over fifty percent hold PhDs.

Alligator's strategy is to take novel, first-in-class/best-in-class drug candidates to Phase I or Phase II clinical trials, and then forward into further development in collaboration with major pharmaceutical companies. The first practical example of this strategy is the agreement signed with Janssen Biotech, Inc. in 2015 for the further development and commercialization of drug candidate ADC-1013. The agreement has generated about SEK 475 million for Alligator to date, bringing the company into a strong phase of organizational development, and creating new levels of optimism among Board members, management and employees.

* WHO World Cancer Report 2014 and WHO Cancer fact sheet, February 2017

**ALLIGATOR IN BRIEF**

- Develops drugs that cure cancer with the help of the body's immune system
- Pioneers in tumor-targeted immunotherapy
- Swedish biotechnology company with head office in Lund and 47 employees
- Listed on Nasdaq Stockholm Mid Cap since November 2016 (ATORX)
- Market capitalization about SEK 1.7 billion (at December 31, 2017)

*Per Norlén*
*Alligator CEO*

*Alligator is in the process of building a solid clinical pipeline and we may have a pipeline with four drug candidates in clinical development in 2019.*

# Comments from the CEO

**2017 ended on a highly positive note. Results from our ADC- 1013 clinical Phase I study provided support for further clinical development, and a 6 MUSD milestone was triggered on the initiation of a combination study with ADC-1013 and one of Janssen's proprietary PD-1 inhibitors.**

We have grown considerably as a team this year and have had the pleasure of welcoming 14 new colleagues to Alligator. With our pooled talents and combined efforts, we are well placed to execute on our strategy and goals. Looking back at 2017, I am proud to say that we have delivered all that we promised in the IPO - and more - and I am confident that 2018 will be another exceptional year.

### Positive results in ADC-1013 first-in-human study

During 2017, we completed the first clinical Phase I study with ADC-1013, our CD40-activating antibody. This was a first-in-human dose escalation study of intratumoral ADC-1013 in patients with late-stage cancer. While the primary objective was to identify a safe and well tolerated dose, also secondary parameters such as biomarker responses and anti-tumor effects were evaluated. The study showed ADC-1013 to be well tolerated at clinically relevant doses after intratumoral administration. Side effects were generally of low grade and transient. One cancer patient showed stable disease for at least 12 months. While this is encouraging, it is early evidence of efficacy and we therefore await the results of larger studies for confirmation on the clinical efficacy of ADC- 1013. A second clinical Phase I study has been ongoing since October 2016, performed by Janssen Biotech.

### Milestone payment from Janssen

Janssen recently took the decision to initiate a combination study with ADC-1013 and one of Janssen's proprietary PD-1 inhibitors which triggered a milestone payment of 6 MUSD to Alligator. This is the first of a number of pre-defined milestones related to the start of combination or Phase II studies, which have an aggregated potential value of 35 MUSD. The total milestone potential under the license agreement is 695 MUSD, plus tiered royalties on worldwide net sales of ADC-1013.

### ATOR-1015 to enter the clinic in 2018

Our innovative drug candidate ATOR-1015 leads the way for next generation of CTLA-4 bispecific antibodies. During 2017, clinical drug material has successfully been manufactured and we have appointed Theradex Oncology, a global company with extensive expertise in oncology clinical development, as contract research organization (CRO). The first clinical study is planned to start during second half of 2018.

### Productive collaboration with Aptevo

In July 2017, a co-development partnership agreement was signed with Aptevo Therapeutics Inc. on the bispecific 4-1BB/5T4 targeted antibody ALG.APV-527. Development is progressing well, including ongoing CMC, pre-clinical development and safety assessment activities. We are very enthusiastic about our productive partnership with Aptevo. It builds on the key strengths of both our companies and has resulted in a highly competitive compound with excellent properties, both in terms of biology and developability. ALG.APV-527 is our second bispecific immuno-oncology antibody in pre-clinical development and positions Alligator extremely well in this emerging field.

### Collaborations with Stanford and Navarra Universities

Other important achievements during 2017 include the expanded immuno-oncology collaboration with Stanford University and Prof Dean Felsher, which strengthens the development of our pipeline projects in general and the biomarker discovery programs in particular. On top of this we have signed a research collaboration agreement with Professor Ignacio Melero at the Center for Applied Medical Research (CIMA), Navarra University, Spain, to further investigate the biology of 4-1BB (CD137) as a target in cancer immunotherapy.

### Strengthened organization

We continued to expand our R&D operations, bringing the total number of employees to 47 at the end of 2017. In the beginning of 2018, Chief Medical Officer Charlotte Russell and Vice President, Discovery, Peter Ellmark, both joined the management team. We have also recruited Anudharan Balendran as Vice President, Business Development. He will join Alligator from AstraZeneca in Q2 2018. This expansion is critical for the realization of our strategy to establish Alligator as a key player in the development of the next generation of immuno-oncology agents. Our goal is that these products will make a real difference to cancer patients.

### Four clinical projects by next year

Finally, I would like to emphasize the fact that we are in the process of building a solid clinical pipeline. Our lead asset ADC-1013 is approaching clinical Phase II, ATOR-1015 is planned to enter clinical Phase I this year, and both ATOR-1017 and ALG.APV-527 are expected to enter clinical development next year. This means that we can have a pipeline with four drug candidates in clinical development already next year, all with first- or best-in-class potential in immuno-oncology.

Finally, I want to thank all our employees for their efforts during the year, the enthusiasm they have shown for both our projects and for the company as a whole, and all the shareholders that have shown confidence in Alligator's ability to develop new, innovative and effective immune-oncology drugs.

**Per Norlén**
CEO Alligator Bioscience AB (publ)
March 2018

*Alligator's commercial strategy is based on out-licensing in Phase II, when the treatment is validated in cancer patients. Collaborations with academic institutions and companies all over the world provides access to additional cutting-edge technologies.*

*Kim Jansson, researcher at Alligator*

# The Alligator strategy.

## Business model that creates value across the development chain.

**The company's business model is based on proprietary drug development – from early-phase discovery research and pre-clinical development to Phase II clinical trials, when the treatment is validated in patients. The plan is to subsequently out-license the drug candidate to a licensee for further development and market launch. This business model provides opportunities for the company to generate revenue even before the drug reaches the market, mainly revenue when agreements are signed and milestone payments received during the development process.**

The business model was validated in 2015 by signing a license agreement with Janssen Biotech, Inc., one of the Janssen Pharmaceutical Companies of Johnson & Johnson. Under the agreement, Alligator is entitled to up to USD 695 million in milestone payments during the development process as well as royalties on future global sales of the drug.

Potential partners for future out-licensing include major pharmaceutical companies like Janssen, with the capacity to bring the drug candidate through final clinical trials all the way to marketing approval for commercialization. Depending on the project, signing collaborative agreements with smaller biotech companies in the earlier stages of drug development could also be an option if they can offer a cutting-edge technology that could create benefits in the company's drug candidate development.

### Pioneers in the field

Alligator was a pioneer in the field of immuno-oncology, and has leveraged this advantage to develop a wide range of highly competitive projects that are attractive to prospective partners as well as investors. The technology platforms have made it possible to develop drug candidates – previously only designed in theory – that could make a huge difference for seriously ill cancer patients.

### Mission

To develop innovative tumor-targeted immunotherapies that improve quality of life for patients

### Strategy

Business strategy includes:

- A focus on potential first-in-class drug candidates, attractive to patients, licensees and partners.
- Proprietary development up to and including Phase II clinical trials, followed by out-licensing or strategic partnerships.
- Create revenue in the form of milestone payments and royalty streams by out-licensing projects.
- Promote an attractive environment for cutting-edge research and increase the number of research collaborations.
- Create financial sustainability by having strong partners, and strong and active owners.

### Active patent strategy

A key element of Alligator's strategy is to protect its innovations with strong patents. Alligator endeavors to maximize protection for its innovations by obtaining patent protection in all key global markets, including the US, Europe and Japan. Alligator's strategy is to seek patent protection for its technology, innovations and improvements related to the drug candidates significant for the company's development.

### Active patents for the two most advanced projects

| Project | Type | Region | Status | Expiry year |
|---|---|---|---|---|
| ADC-1013 | Product patent (WO 2013/034904) | 11 in total incl. Europe, US and Japan | 4 granted (Europe, US, China, Australia) | 2032 |
| | Combination treatment patent (WO 2016/023960) | 38 in total incl. Europe, US and Japan | Pending applications | 2035 |
| ATOR-1015 | Product patent (WO 2014/207063) | Europe, US and Japan | 1 granted (US) | 2034 |
| | Product patent (WO 2016/185016) | 13 in total incl. Europe, US and Japan | Pending applications | 2036 |

# Market and environment.
# Cancer – the second-leading cause of death.

**Cancer is the second-leading cause of death and was responsible for 8.8 million deaths worldwide in 2015. Around 14 million people are diagnosed with cancer every year, and the number of new cases is expected to rise by about 70% over the next two decades. (WHO World Cancer Report 2014 and WHO Cancer Fact Sheet, February 2018).**

In the United States, the American Cancer Society estimates that 1.74 million new cases of cancer will be diagnosed in 2018, with more than 600,000 deaths caused by cancer. Cancer accounts for one in four deaths in the US. Increases in the number of diagnosed cancer cases reflect growing life expectancy as well as improvements in early detection and intervention, which in turn increase the chances of successful treatment.

The pipeline of innovative new cancer treatments has expanded rapidly, growing 63% between 2005 and 2015 according to the Quintiles IMS Institute. Many of these are expected to come to market in the next few years, including a number of important new immunotherapies. Established treatments are also expected to gain traction in additional indications.

### Immuno-oncology – a fast growing area

Immuno-oncology is one of the fastest growing areas of drug research. Since the first immunotherapeutic drug, Yervoy® (Bristol-Myers Squibb), was approved in 2011, the top three best-selling cancer immunotherapies have all generated billion-dollar-plus sales, generating a combined $6.388 in revenues in 2016 compared with $2.634 billion in 2015. (Genetic Engineering and Biology News, April 2017). The total market for immuno-oncology drugs is expected to grow to 34 billion USD in 2024 (see graph).

Antibody-based immunotherapies have the potential to be used in the treatment of virtually all forms of cancer, and are currently used for malignant melanoma, kidney, head and neck, lung and bladder cancer, as well as lymphoma. The number of cancers treated with immunotherapy is expected to continue to increase.

### Immuno-oncology is a revolutionizing therapy

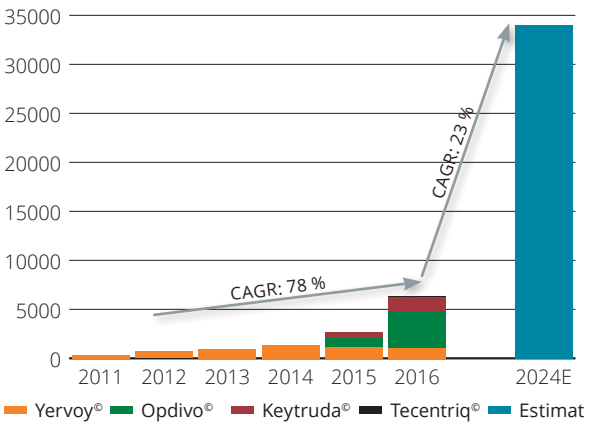
Immunotherapy has revolutionized the treatment of cancer in recent years, showing positive effects in a greater proportion of patients and over a longer period compared with previous therapies. The US Food & Drug Administration's Oncology Center of Excellence predicts that the "development of novel drugs, biologics, and devices will likely lead to more effective therapies tailored to the unique immune biology within each cancer patient to stimulate, and orchestrate the body's natural defenses as a treatment for their cancer while minimizing toxicities". It is now the focus of intense interest among pharmaceutical and biotechnology companies, offering major development and commercial collaboration opportunities for small biotechnology companies including Alligator.

### Alligator has a unique position

In a highly competitive market, Alligator's strategy is to develop antibody-based drugs with clear competitive advantages. In particular, Alligator strives to develop product candidates with a unique profile and clear advantages over their competitors in terms of safety, clinical effect or both. For example, ADC-1013 is expected to have an improved safety profile compared to its competitors, along with a powerful clinical effect. ATOR-1015 has a unique profile as the only current product candidate in development combining effects on the two target proteins OX40 and CTLA-4. This is expected to result in good clinical effects in combination with PD-1/PD-L1 therapies. ALG.APV-527 combines a tumor-binding and an immunomodulatory antibody in one molecule, creating a drug candidate whose effect is localized to the tumor area, activating the tumor-specific immune cells present there.

Most of Alligator's drug candidates are being developed as tumor-directed immunotherapies, meaning the immune activation will act mainly on the tumor-specific immune cells in and around the tumor, while the rest of the immune system is not affected to the same extent. This is expected to produce a good clinical effect while keeping side-effects to a minimum.

*Sales of approved immuno-oncology drugs, MUSD*




**Source: Annual reports Bristol-Myers Squibb, Merck & co and Roche, and Global Data Immuno-Oncology Strategic Insight 2016.**

# Interview with Aptevo CEO Marvin L. White. The collaboration with Alligator creates a platform for new cancer therapies.

**In July 2017, Alligator announced an agreement with the US biotech firm Aptevo Therapeutics Inc. to co-develop a novel immunotherapy bispecific antibody candidate, ALG.APV-527. The collaboration unlock considerable synergies in the both companies' technology platforms to enable game-changing steps within immune-oncology. Aptevo's President & CEO Marvin White talked to us about the collaboration.**

**What does the agreement with Alligator mean to Aptevo?**
Our collaboration with Alligator Bioscience enables us to capitalize on our companies' respective expertise in therapeutic antibody engineering, bringing together our specific areas of expertise to generate a novel therapeutic candidate, ALG.APV-527, with the potential to address a variety of different types of cancers. We're impressed by Alligator's capabilities and the synergy unlocked through this collaboration.

**Why was Aptevo interested in Alligator's drug candidate?**
The addition of a 4-1BB bispecific candidate demonstrates the flexibility of our ADAPTIR technology platform in addressing novel mechanisms of action and also expands and diversifies Aptevo's portfolio. By working together with Alligator, we can pursue an exciting new therapeutic opportunity with broad potential in treating non-hematological cancers.

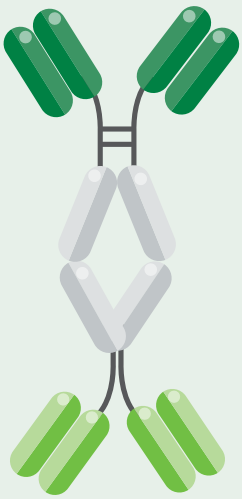
**What makes 4-1BB such an interesting target?**
4-1BB belongs to the so-called TNF receptor superfamily and plays a critical role in immune responses to cancer and in immunological memory. The fact that 4-1BB is upregulated on tumor-specific T cells, together with its capacity to support the functional activity of several immune cells involved in tumor cell killing, makes 4-1BB a very attractive target for immunotherapy.

**And what about 5T4?**
The 5T4 antigen is a protein predominantly expressed on the surface of tumor cells. It is present at very low levels - or not at all - in normal tissue. This enables the immune-activating effect of our joint product candidate ALG.APV-527 to be targeted specifically to the tumor and not against normal tissue. Our goal is to generate effective tumor-directed immune activation with minimal side effects.

**What do you think is the potential for ALG.APV-527?**
If successful, this new approach would represent significant progress in cancer immunotherapy, helping patients that currently have few or no treatment options. The next key development milestone is the initiation of a Phase I clinical trial, which is expected to begin in 2019. We are excited about the prospects for ALG.APV-527 and look forward to commencing clinical development.

**A lead bispecific antibody candidate for the treatment of metastatic cancer**
Alligator and Aptevo have engineered and selected ALG.APV-527 as a lead bispecific antibody candidate. ALG.APV-527 is a bispecific antibody (4-1BB and 5T4) developed for the treatment of metastatic cancer.

The ALG.APV-527 antibody has two functions: to stimulate tumor-specific T cells via the costimulatory receptor 4-1BB, and to bind to the 5T4 protein on the surface of tumor cells and thereby localize the immunostimulation to the tumor environment.




**Om Aptevo Therapeutics**

- A Nasdaq-listed, clinical-stage biotechnology company based in Seattle. Focused on the development of novel oncology and hematology therapeutics
- Aptevo has a commercial product, IXINITY®, which is approved and marketed in the U.S. for the treatment of Hemophilia B
- The company's versatile core technology – the ADAPTIR™ modular protein technology platform – is capable of generating highly-differentiated bispecific antibodies with unique mechanisms of action to treat cancer or autoimmune diseases
- Aptevo has two ADAPTIR antibody candidates in clinical development and a broad pipeline of novel investigational-stage bispecific antibody candidates focused in immuno-oncology and autoimmune disease and inflammation
- More information about the company can be found on their website www.aptevotherapeutics.com.

**About the agreement**

- Alligator and Aptevo will jointly own and share the development costs for ALG.APV-527 through to the end of Phase II.
- They may then opt to out-license ALG.APV-527 or carry on further development separately or together.
- The partners have an option to develop a second bispecific antibody candidate based on this novel mechanism of action, which would also be jointly owned and funded.

# Immunotherapy.
# Alligator opens up for the immune system to attack and destroy cancer cells.

**The immune system is the body's defense against external enemies such as viruses and bacteria, as well as against internal enemies like cancer. The immune system has two important attributes, specificity and memory. The specificity of the immune system means that it has a unique ability to distinguish sick and dangerous cells and organisms from healthy cells in the body.**

Thus, in the case of an infection, or in cancer, only the immune cells that specifically recognize the infected or tumorous cells will be enriched and then destroy these cells, while healthy cells in the body are not affected. Immunological memory means that some of these immune cells survive in the body for a long time, thereby providing long-lasting protection (immunity) against recurring infection. These properties of the immune system are used in vaccination, and in immuno-oncological treatment of cancer

### The immune system and cancer

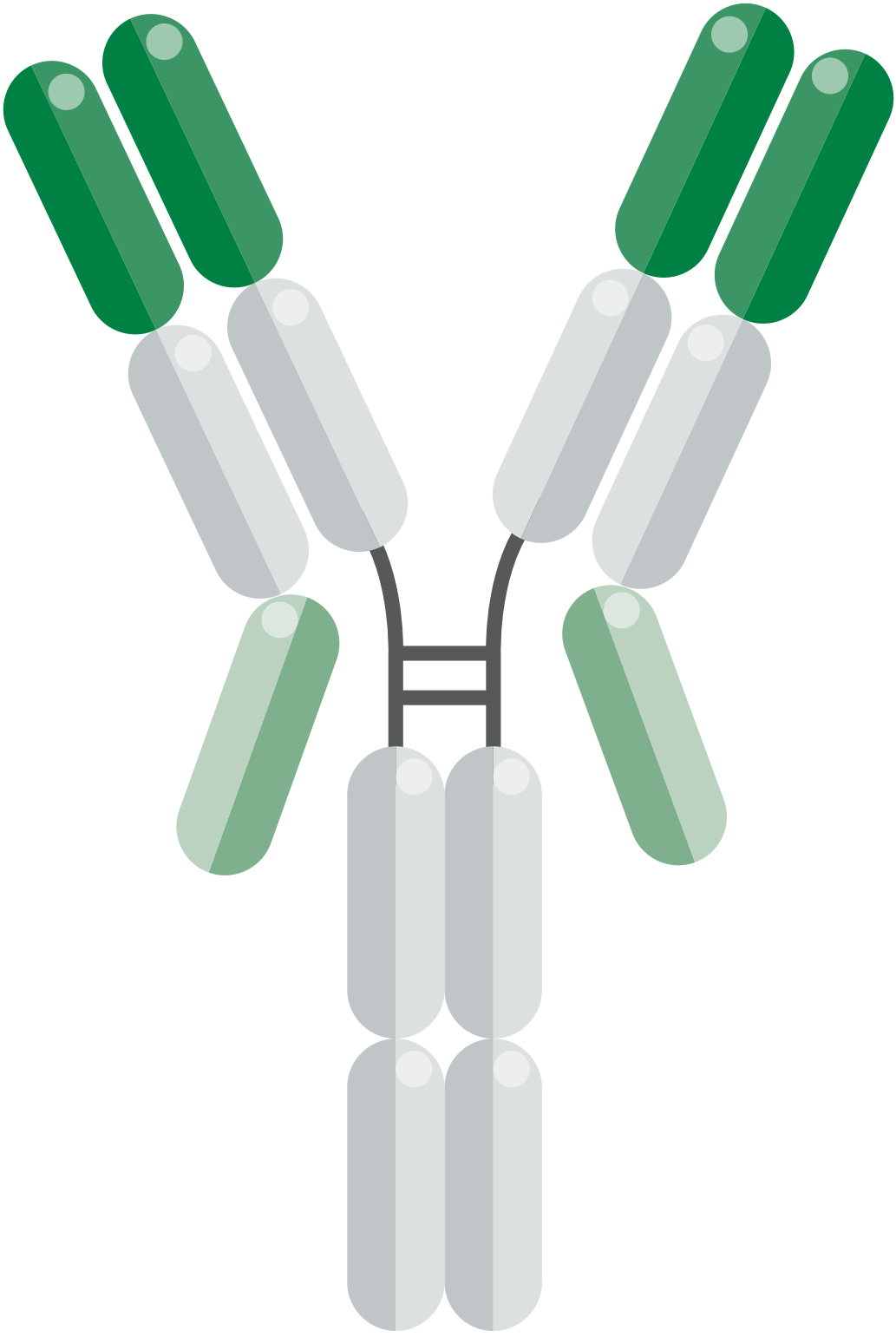
The term immuno-oncology is used for the field of research studying the interaction of the immune system with cancer (oncology). This research is the basis for the immunotherapies being developed to treat cancer. Tumors often contain a large number of immune cells with the ability to attack and destroy the tumor. But cancer cells can escape immune recognition, for instance by producing immuno-suppressive substances, thereby hampering the capability of the immune system to destroy cancer. Immunotherapy enhances the ability of the immune system to fight cancer cells effectively, and weakens the tumor's defenses. The immunological memory also provides long-lasting protection against recurring tumor growth. This 'vaccination effect' is unique to immunotherapy.

### High potential

Cancer immunotherapy has huge potential to treat, and perhaps even cure, cancer and is now seen as the most promising area within cancer treatment. The big breakthrough for immunotherapy has been made in the last five years, and is based on the good effect that antibody-based drugs have displayed in the treatment of, for instance, malignant melanoma and lung cancer. The drug Yervoy® (ipilimumab, BristolMyers Squibb), which blocks the function of the immune-inhibiting target protein CTLA-4, was approved for the treatment of malignant melanoma in 2011. The chance of surviving for more than three years with the treatments that were on the market before that was around 10%. This figure doubled to around 20% with Yervoy®. Long-term survival over the ten years that Yervoy®-treated patients have been followed remains at 20%, which is a huge improvement compared to previous treatment results. In 2014, two additional immunotherapeutic antibodies were approved for the treatment of malignant melanoma: Opdivo® (nivolumab, Bristol-Myers Squibb) and Keytruda® (pembrolizumab, Merck). These antibodies have shown an even better clinical effect than Yervoy®. These drugs have also been shown to have a good effect on several other tumors and, including the recently approved Tecentriq® (atezolizumab, Roche), immunotherapeutic antibodies have now been approved for the treatment of malignant melanoma, renal, head & neck, lung and bladder cancer as well as lymphoma. The effect of these drugs convincingly demonstrates the huge potential of immunotherapy for treating cancer, and has stimulated growing interest in this area among pharmaceutical and biotech companies.

### Alligator – a pioneer

Alligator is one of the pioneers in immunotherapy of cancer, and the projects that eventually resulted in ADC-1013 and ATOR-1015 were initiated back in 2008, before there were any approved immunotherapeutic antibodies on the market and at a time when the industry was skeptical towards immunotherapy of cancer. The company therefore has long experience and an extensive knowledge, and hence a strong position in this field. What differentiates Alligator is the company's unique technologies that enable activation of the immune system to specifically attack the tumor and metastases while the body in general is unaffected. This means that the treatment side-effects are kept to a minimum.



*Alligator´s antibody drug candidates seek the specified target molecules and bind to the immune systems army of cells – the regulatory T cells protect the cancer cells and those shall be depleted in favor of the beneficial effector T cells that help killing the tumor. Also dendritic cells are needed in the fight against cancer and Alligator has drug candidates that directly activates this cell type.*

# Alligator's people.

**Alligator is a science and knowledge-based company, whose success is built on the experience, expertise, commitment and creativity of its employees. The company's core values – Respect, Dedication and Innovation – guide the day-to-day operations as well as the common goal of developing drugs that can cure cancer.**

### Employees

In 2017, the average number of employees in the Group was 42 (31), of whom 31 (24) were women. At year-end, the number of employees was 47 (36), of whom 41 (32) were engaged in R&D. Salaries, benefits and other employee-related expenses amounted to SEK 37.9 million (27.5).

### A strong brand attracts world class talents

Since the company's foundation in 2001, Alligator has been attracting some of the best researchers in the world, who have all worked together to create the company's unique position in immuno-oncology. One of the reasons why Alligator has been so successful in attracting and retaining leading expertise is because the company provides opportunities for individual researchers to become an integral part of the world-class research conducted by Alligator, and offers them the freedom to achieve academic recognition by presenting their research findings in medical journals and at international congresses under their own name.

Alligator is dedicated to creating internal career paths for the company's employees and recently launched a career portal that makes it easy for top external talent to present themselves to the company. The company also takes an active role in the Career Day events arranged by Medicon Village, the Science Park where Alligator is based in Lund. Alligator also works closely with the academic community by offering a number of national and international post-graduate positions.

The combination of wide-ranging growth opportunities, Alligator's unique position and the company's core values has created a strong brand in both the academic community and the international pharmaceutical industry, making the company a highly attractive employer. To continue developing Alligator in line with the company's research objectives and core values, candidates are judged by their personal qualities as well as their expertise when recruiting new employees.

### An inclusive workplace

Alligator's core values are deeply embedded in the organization and leave no room for any form of bullying or harassment. Alligator has concretized the company's core values into well-functioning and documented occupational health and safety (OHS) processes. All managers have undergone social/organizational workplace environment training, and action plans are ready to use.

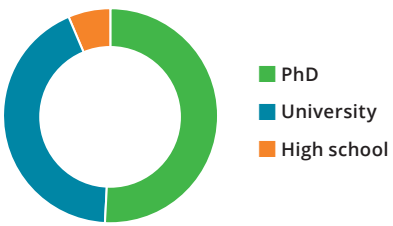
### Good employee satisfaction results

To gain insight into how employees perceive their workplace climate, Alligator conducts an annual employee satisfaction survey. The questions in the survey relate to key areas such as workload, work organization, personal scope, leadership, support and cooperation, knowledge and development, and opportunities for recovery. The survey provides management with an effective platform for Alligator's continued development and improvement. The survey conducted in autumn 2017 gave Alligator exceptionally high results in all areas and also showed how deeply the core values are embedded in the company's day-to-day activities.

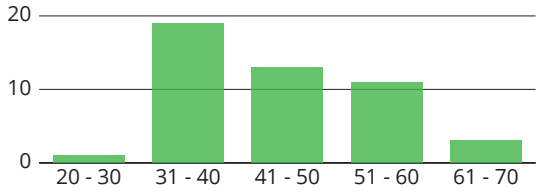
### Dialog with employees and their representatives

Alligator has effective procedures in place to ensure that the company engages in constructive dialog with its employees and their representatives. Every year, all employees have two performance reviews and one salary review. At the performance reviews, set targets are evaluated and new targets are defined. The management team also engages regularly with union representatives.

### Education




### Age structure



*Laura von Schantz and Jessica Petersson, researchers at Alligator*

### Sustainable core-values process

Alligator's core values have been created jointly by all of the company's employees. The project was launched in 2015 and three core values were announced in 2016: Innovation, Dedication and Respect. In November 2017, the company held a workshop to further clarify the importance of the three concepts, and to explain how they can be used to guide day-to-day activities as well as challenging or difficult situations.

**Innovation** is a key driver for everyone at Alligator and means, specifically, that the company shall develop innovative drugs at the very forefront of research and with the potential to be first- or best-in-class in the field. This means that we have to be open for entering unknown territories and the increased risk level that follows.

**Dedication** means that everyone is working together to change cancer care from the ground up. Cancers that are leading to premature morbidity today should be curable within five-ten years because of Alligator's unique contribution to immuno-oncology.

**Respect** is our underlying core value and means that everyone is needed, everyone has something worthwhile to say, and that we achieve our results and success together.

The November workshop should not be seen as the end of Alligator's core-values process, but as one part of the continuing process to keep the company's values alive and meaningful.

### Organizational changes in 2017/2018

With a growing project portfolio and an ever-increasing organization, Alligator reached in January 2018 a point for re-organization of the research organization. The re-organization is aimed at maintaining the highest possible rate of development and quality across the entire drug development chain.

The new research units are Discovery, Pre-clinical and Clinical. The Discovery Unit is responsible for early-stage research projects through to the identification of a drug candidate. This usually involves the preparation and evaluation of treatment concepts, the identification and optimization of potential drug candidates and early-stage efficacy testing. The Pre-clinical Unit then becomes responsible for the final optimization, manufacture of clinical trial materials and compilation of a sufficient data package to submit a clinical trial application. The Clinical Unit assumes responsibility when the drug candidate has advanced to Phase I study and for the subsequent clinical development until out-licensing.

The reorganization also has implications for the composition of the Management Team, which has been expanded to reflect the new units. Dr. Peter Ellmark (VP Discovery) has been appointed Head of the Discovery Unit, Dr. Christina Furebring (SVP Research) Head of the Pre-clinical Unit and Dr. Charlotte Russell (Chief Medical Officer) Head of the Clinical Unit. In addition, Alligator has appointed Dr. Anudharan Balendran as VP Business Development to take Alligator's projects through to out-licensing.

# The Alligator share.

**Since 23 November 2016, Alligator shares have been listed on the Nasdaq Stockholm Mid Cap under ATORX. Alligator's share capital at 31 December 2017 was SEK 28,555,446 and totals 71,113,615 shares at a par value of SEK 0.40. There is only one class of share. Each share entitles the holder to one vote at the Annual General Meeting. At 31 December 2017 was Banque Internationale á Luxembourg the largest shareholder with 13,588,121 shares corresponding to 19.0% of the share capital and the votes. During 2017 the number of shareholders were reduced with 252 to 4,131 (4.383). The proportion of foreign shareholders was 49.3% (43.5%). The 10 largest shareholders owned 56.4% (60.6%) of the shares.**

### Price development and sales

Alligator shares were listed on Nasdaq Stockholm Mid Cap on November 23, 2016. In connection with the listing, a new issue was made at a price of SEK 32.50. At the beginning of 2017 the Alligator shares were quoted at SEK 34.90 and the end of the year SEK 23.30. The highest price in 2017 was SEK 35.30 and the lowest SEK 22.10. Alligator's market value was MSEK 1,663 at the end of 2017. In all, 16 million shares have been traded during 2017, with a total value of MSEK 473. This is equivalent to a turnover of 23 per cent of the company's shares. The average turnover per trading day has been 64,729 shares to the value of MSEK 1.9. On average, 103 deals have been closed per trading day.

### Analysts following Alligator

Carnegie: Erik Hultgård and Kristofer Liljeberg
DNB: Patrik Ling
Redeye: Klas Palin

### Ownership, 31 December 2017

In 2017, the number of shareholders decreased by 252 to 4,131 (4,383). The proportion of foreign shareholders was 49.4% (43.5%). The 10 largest shareholders owned 56.4% (60.6%) of the shares.

### Share capital

Alligator has two option programs, which are described on page 32 (in the administration report). During the year, 1,275,000 subscription options were converted to the same number of new shares. With full dilution of all option programs, a further 2,002,543 shares were subscribed to, giving a dilution of 2.8%. Alligator's share capital, after the conversion of subscription options during the year, totals 71,388,615 shares. There is only one class of share. Each share entitles the holder to one vote at the Annual General Meeting, and all shares have equal rights to Alligator's assets and profits.

### Dividend and dividend policy

Alligator will continue to focus on developing and expanding its product portfolio. Available financial resources and reported profits will therefore be re-invested in the business to finance Alligator's long-term strategy. The Board's intention is therefore not to propose any distribution to shareholders until the company generates sustainable long-term profitability. Any future dividends, and the amount of these, will therefore be decided in the light of Alligator's long-term growth, financial performance and capital needs taking account of the goals and strategies in place at any given time. Where a dividend is proposed, it will be take proper account of the business objectives, scope and risk.

The Board and the CEO propose that no dividend should be paid for the 2017 financial year.

### Distribution of financial reports

The annual report and quarterly reports are available on Alligator's website, www.alligatorbioscience.com.

The annual report is distributed on request and can be ordered from Alligator Bioscience AB, Scheelevägen 2, 223 81 Lund, Sweden, by calling +46 286 42 80 or e-mailing info@alligatorbioscience.com.

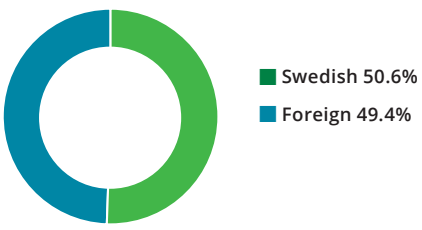
### Future report dates

Interim reports will be published in 2018 on April 26, July 12 and October 26 and the full year report for 2018 will be published on February 14 2019.

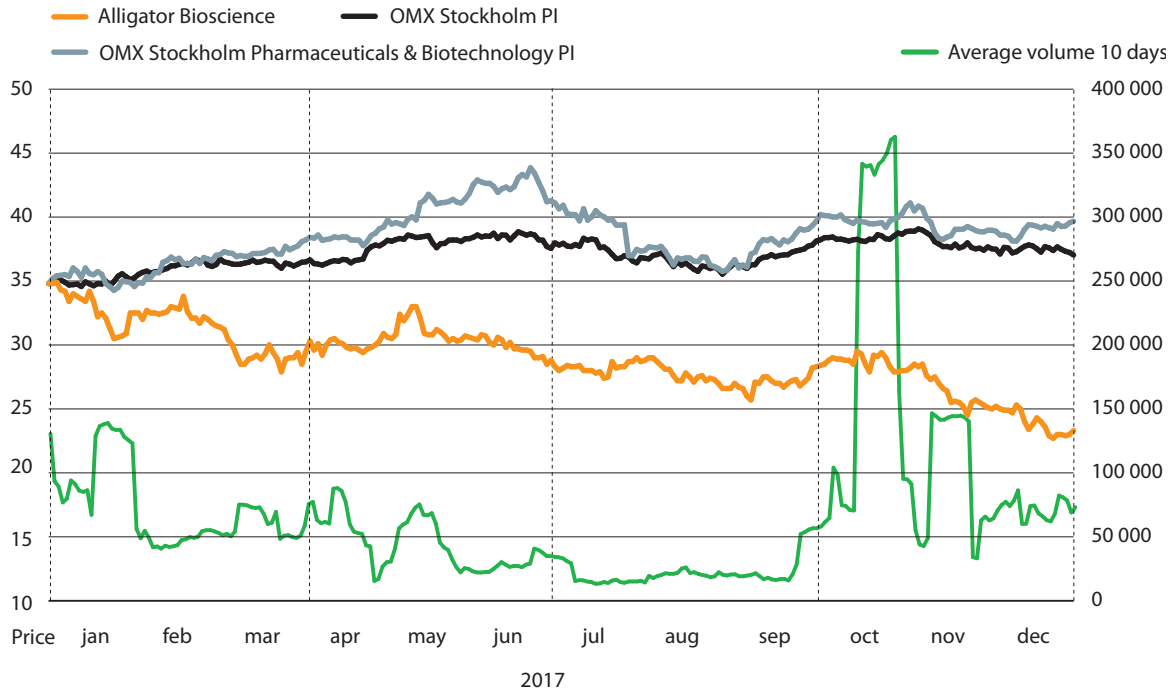
### Brief facts about Alligator shares (31 Dec 2017)

| | |
|---|---|
| Listed on: | Nasdaq Stockholm Mid Cap |
| Number of shares: | 71,388,615 |
| Market value: | MSEK 1,663 |
| Ticker: | ATORX |
| ISIN: | SE0000767188 |

### Swedish and foreign ownership



## Price and volume development 2017




## Largest shareholders, December 31, 2017

| | Shareholding | % |
|---|---|---|
| Banque Internationale a Luxembourg | 13,588,121 | 19.0% |
| Johnson & Johnson Innovation | 5,762,523 | 8.1% |
| Sunstone Life Science Ventures Fund II K/S | 5,758,485 | 8.1% |
| Lars Spånberg | 3,213,858 | 4.5% |
| Goldman Sachs & Co LLC | 2,640,000 | 3.7% |
| Atlas Antibodies AB | 2,620,000 | 3.7% |
| Norron | 1,968,318 | 2.8% |
| Öresund, Investment AB | 1,757,072 | 2.5% |
| Catella funds | 1,524,052 | 2.1% |
| Johan Rockberg | 1,436,662 | 2.0% |
| Other shareholders | 31,119,524 | 43.6% |
| **Total shares** | **71,388,615** | **100.0%** |

## Share statistics, December 31, 2017

| Size of holding | No of share-holders | No of share-holders % | No of shares (%) |
|---|---|---|---|
| 1-500 | 2,682 | 64.9% | 0.7% |
| 501-1,000 | 498 | 12.1% | 0.6% |
| 1,001-5,000 | 643 | 15.6% | 2.2% |
| 5,001-10,000 | 105 | 2.5% | 1.2% |
| 10,001-15,000 | 43 | 1.0% | 0.8% |
| 15,001-20,000 | 22 | 0.5% | 0.6% |
| 20,001- | 138 | 3.3% | 94.0% |
| | **4,131** | **100.0%** | **100.0%** |

*Doreen Werchau and Kristine Smedenfors, researchers at Alligator*

# Administration report

The Board and CEO of Alligator Bioscience AB (publ), based in Lund, Sweden, corporate ID-no 556597-8201, hereby present the annual accounts for the 2017 financial year for the parent company and the Group.

# Well balanced project portfolio.
# Tumor-directed immunotherapies for safe and efficacious treatment of cancer.

**Alligator's project portfolio comprises five programs, including ADC-1013 in clinical phase I, ATOR-1015, ATOR-1017, ALG.APV-527 in pre-clinical phase and one project in research phase. The drug candidates are mono- or bispecific antibodies for tumor-directed immunotherapy, i.e. designed to primarily activate the tumor infiltrating immune cells. Thereby, systemic toxicity is minimized whereas a high efficacy is maintained. All candidates have the potential to be 'first-in-class'.**

## ADC-1013


**Out-licensed to Janssen**

ADC-1013 is an immunostimulating antibody, developed for the treatment of metastatic cancer. The drug candidate has been out-licensed to Janssen Biotech, Inc. (an oncology company within the Johnson & Johnson Group), which is responsible for all continued clinical development.

## ATOR-1015


**Run by Alligator**

ATOR-1015 is a bispecific (CTLA-4 and OX40) antibody developed for tumor-targeted treatment of metastatic cancer. The antibody has been created with Alligator's unique bispecific fusion format.

## ATOR-1017


**Run by Alligator**

ATOR-1017 is an immunostimulating antibody (IgG4) that binds to the costimulatory receptor 4-1BB (CD137) in tumor-specific T cells. 4-1BB has the capacity to support the immune cells involved in tumor control, making 4-1BB a particularly attractive target for cancer immunotherapy.

## ALG.APV-527


**Co-development Aptevo**

ALG.APV-527 is a bispecific antibody (4-1BB and 5T4) developed for the treatment of metastatic cancer. In July, Aptevo Therapeutics and Alligator Bioscience signed an agreement on the co-development of ALG.APV-527. Under the agreement, the companies will equally own and finance the development of the drug candidate through the Phase II clinical study.

## Research project


**Run by Alligator**

Alligator's early-phase research projects include a bispecific immunostimulating antibody that binds to a protein in the TNFR superfamily and another interesting immunostimulating target protein.

**Discovery**

Development of antibodies on the basis of the various Alligator technology platforms.

**Pre-clinical**

Evaluation of safety, efficacy and clinical potential.

**Clinical Phase I**

Studies in humans to show that the compound is safe.

**Clinical Phase II**

Studies in a larger number of patients to determine the drug's efficacy.

# Three unique technologies enable a head start

Antibodies are complex molecules and the production of effective and safe antibody-based drugs requires high-technology platforms. Alligator's technologies are the antibody library ALLIGATOR-GOLD and the protein optimization technology FIND. ALLIGATOR-GOLD is the engine behind Alligator's research and development projects and is used to produce new drug candidates. The FIND technology is used to optimize the properties of the drug candidates, and together these technology platforms are used to develop the company's immunotherapeutic product candidates with unique properties.

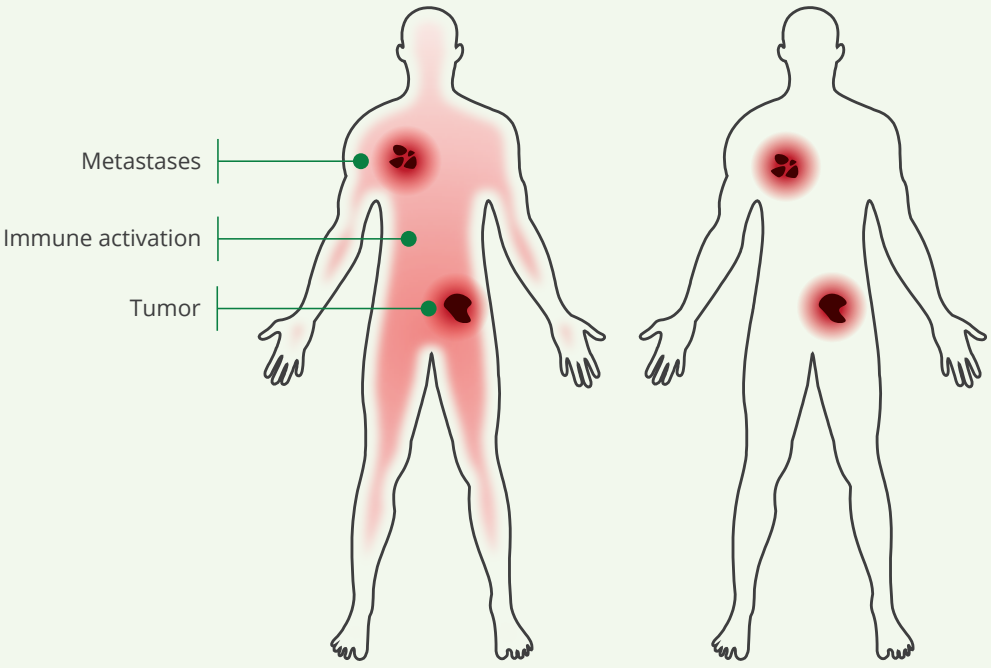
**ALLIGATOR-GOLD**
ALLIGATOR-GOLD is a human antibody library containing more than 60 billion unique antibody fragments, developed by Alligator. This antibody library can be used to produce drug candidates directed towards any target molecule. The library has been developed to be able to create highly functional antibodies and is Alligator's most important technology platform, enabling the generation of new drug candidates for the project portfolio. It has been used, for instance, to develop ATOR-1015 and ALG.APV-527.

The various antibody fragments in ALLIGATOR-GOLD differ from each other in specific sequences in the part of the antibody surface that binds to the target molecules. The remaining parts of the antibody fragments are identical in all antibodies in the library, and have been selected to provide optimal properties with regard to, for instance, stability and production. The variability in ALLIGATOR-GOLD is designed to resemble and exceed the variability in the human immune system.

**FIND**
FIND (Fragment INduced Diversity) is a technology for optimizing antibodies and other proteins, based on molecular evolution. Thus, FIND is used to further optimize antibodies identified from ALLIGATOR-GOLD.

The technologies allow a very large number of functional variants of an antibody to be created in a short time. From these, antibodies with optimized properties can then be selected. The FIND technology can be used to improve virtually any property of an antibody. Such improved properties can provide significant clinical benefits in terms of, for example, clinical effect, dosage or safety. The FIND technology has been used to develop ADC-1013 and ATOR-1015.

**Unique bispecific fusion format**
Besides ALLIGATOR-GOLD and FIND, a bispecific fusion format has been produced for the development of novel dual-action antibodies. Access to these technologies has given Alligator an advantage over potential competitors in the development of specific, tumor-targeted drug candidates.

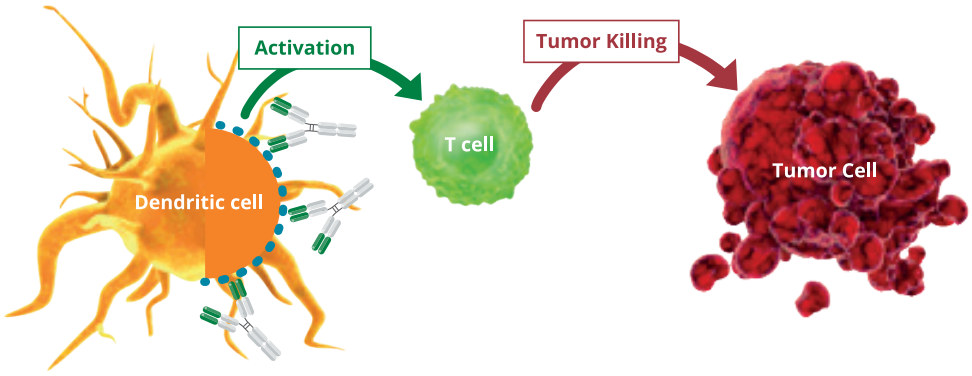



**General immune activation is associated with risk of severe adverse effects**

**Selective activation of tumor-specific immune cells to limit toxicity**

# ADC-1013. Immunostimulatory antibody designed for the treatment of metastatic cancer.

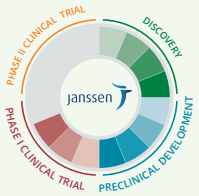
**ADC-1013 is an immunostimulatory antibody designed for the treatment of metastatic cancer. The drug candidate has been out-licensed to Janssen Biotech, Inc. (one of the Janssen Pharmaceutical Companies of Johnson & Johnson), which is responsible for all continued clinical development.**




ADC-1013 CD40

1. The dendritic cell presents the target molecule CD40 on its surface.
2. ADC-1013 binds to CD40 and starts signaling to activate the immune systems´ beneficial T cells.
3. The T-cells are activated to kill the tumor cells.

## ADC-1013. Project facts




ADC-1013 is an agonistic – or stimulating – antibody that targets CD40, which is a receptor in antigen-presenting dendritic cells in the immune system. Dendritic cells are the cells that recognize internal and external enemies, such as bacteria or cancer cells. CD40 stimulation with ADC-1013 enables the dendritic cells to more effectively provoke the immune response, which in this case is T cells. This allows the immune system's attack to selectively target the cancer, and can be used for a wide range of cancers. ADC-1013 has been optimized using Alligator's patented FIND technology, with the aim of improving the binding affinity. This makes it possible to achieve efficacy at very low doses. Cancer cells also express CD40 on the cell surface, which means that ADC-1013 may also destroy cancer cells directly as a secondary mechanism of action.

### Development status

In 2017, the results from a clinical Phase I trial were presented, the first in humans, and showed that ADC-1013 is well-tolerated, supporting the continued clinical development as single or combination therapy. Pre-clinical data has previously shown that ADC-1013 effectively activates T cells by binding with the costimulatory receptor CD40 in dendritic cells.

The second Phase I clinical trial, led by Janssen Biotech, Inc., is ongoing. As of November 2017, over 50 patients were recruited to this trial. Early 2018, Janssen Biotech, Inc. decided to initiate a combination study of ADC-1013 and Alligator received a milestone payment of USD 6 million.

### About the partnership with Janssen

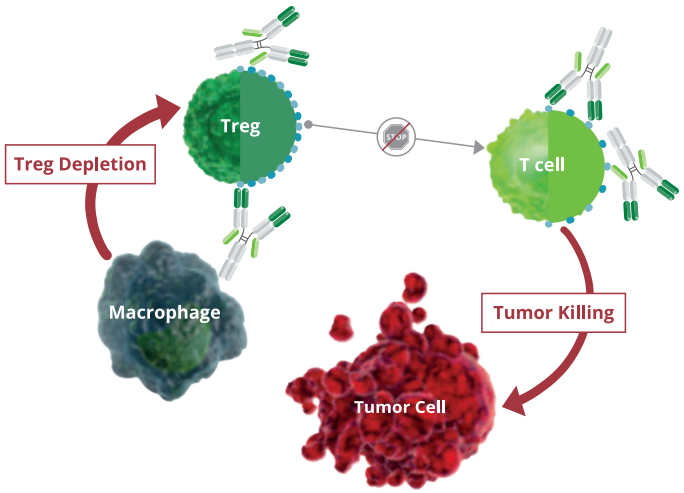
In August 2015, Janssen Biotech, Inc. obtained global development and commercialization rights to ADC-1013 (JNJ-64457107). The potential agreement value totals USD 695 million, including both upfront and milestone payments. In addition, Alligator is entitled to incremental royalty rates on future sales. Janssen Biotech, Inc will finance all continued development.

### 2018 objectives

Continued Phase I clinical trials. Combination study of ADC-1013 and a PD-1 inhibitor is planned to start during the year.

# ATOR-1015. A next-generation CTLA-4 antibody. Innate dual immunostimulatory function.

**ATOR-1015 is a bispecific antibody directed towards CTLA-4 and OX40, developed for tumor-directed treatment of metastatic cancer. One part is blocking CTLA-4 and the other part binds to OX40 and thus activates the immune system. The drug is to be used either a single therapy or in combination with other immunotherapies such as PD-1 inhibitors. The antibody has been created using Alligator's patented bispecific technology format.**

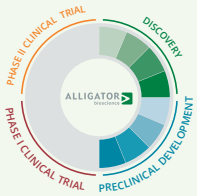




ATOR-1015 CTLA-4 OX40

1. ATOR-1015 binds to CTLA-4 and OX40 on the regulatory T cells, the cells which restrain the immune system.
2. The macrophages are activated to kill Tregs, removing the inhibitory effect of Tregs on the beneficial T cells.
3. The effector T cells (light green) are multiplied in number and are activated to kill the tumor cells.

## ATOR-1015. Project facts




ATOR-1015 is a bispecific antibody that binds to two different immunostimulatory receptors: a checkpoint receptor called CTLA-4, and a costimulatory receptor called OX40. By binding to these receptors, ATOR-1015 can reduce the immunosuppressive effect of the regulatory T cells helping cancer cells escape the body's immune response, while activating the positive effector T cells to fight the tumor.

The potent stimulation of the immune system is mainly expected to be achieved in environments where both target molecules are expressed at elevated levels, such as in tumors. In pre-clinical studies, ATOR-1015 has been shown to increase the immunostimulatory effect, generating a potent anti-tumor effect.

### Development status

New data presented in 2017 demonstrated effects in multiple experimental tumor models, and confirmed that the stimulation is effectively localized to the tumor. Preparations for the production of clinical trial materials are currently taking place at BioInvent International.

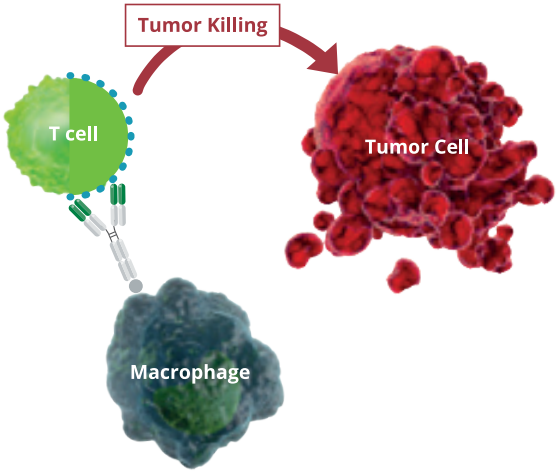
Alligator presented ATOR-1015 at several scientific conferences, including the eight World Bispecific Summit, the third annual ICI Europe Summit and the 32nd Annual Meeting of the Society for Immunotherapy of Cancer (SITC). The combined pre-clinical results show overall data to support the described mechanism of action of ATOR-1015, i.e. that it provokes immunostimulation in the tumor environment but not in the rest of the body, which is the aim of the treatment.

### 2018 objectives

Finalization of pre-clinical documentation for the submission of an application to start clinical studies (Clinical Trial Authorization, CTA). Final approval of clinical trial materials. Start of Phase I clinical study.

# ATOR-1017. Immunostimulatory antibody for tumor-directed immunotherapy.

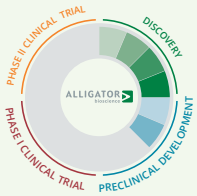
**ATOR-1017 is an immunostimulatory antibody that binds to the costimulatory receptor 4-1BB (CD137) in tumor-specific T cells. 4-1BB has the capacity to support the immune cells involved in tumor control, making 4-1BB a particularly attractive target for cancer immunotherapy.**




ATOR-1017 4-1BB Fc-gamma-receptor

1. ATOR-1017 binds to the target molecule 4-1BB on the surface of T cells.
2. The immune activating function is dependent on binding to Fc gamma receptor on macrophages.
3. The beneficial T cells are activated to kill tumor cells.

## ATOR-1017. Project facts




ATOR-1017 is distinct from other 4-1BB antibodies, partly because of its unique binding profile, but also because its immunostimulatory function is dependent on crosslinking to Fc gamma receptors on immune cells, such as macrophages. This allows ATOR-1017 to target tissues where both 4-1BB and Fc gamma receptors are expressed at elevated levels – such as tumors – which is totally in line with the treatment strategy for Alligator's drug candidates. The aim is to achieve effective tumor-targeted immune stimulation with minimum side effects. The 4-1BB target molecule belongs to the TNF receptor superfamily, which plays a critical role in immune responses and for the body's immunological memory, which can provide long-lasting protection against cancer.

### Development status

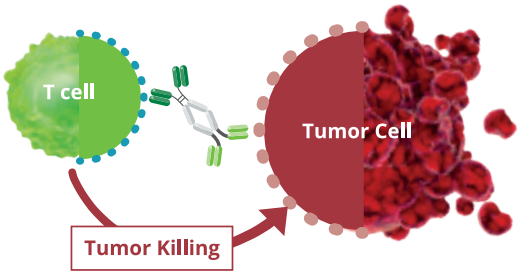
Cell line development is progressing at Sartorius Stedim Cellca GmbH. Sartorius Stedim Cellca is a leading provider of cell line development and upstream process development services for large-scale biopharmaceutical production. The contract with German manufacturer Celonic AG remains valid for the manufacture of subsequent clinical trial materials.

### 2018 objectives

Cell line and process development in place for the manufacture of clinical trial materials prior to the start-up of clinical trials in 2019.

# ALG.APV-527. A tumor-binding and immunomodulatory antibody in the same molecule.

**ALG.APV-527 is a bispecific antibody, where one part generates tumor-specific T cell responses via the costimulatory receptor 4-1BB (CD137), and the other binds to the 5T4 protein expressed on the surface of tumor cells. The 5T4 part guides the drug candidate to the tumor, where 4-1BB binding triggers a tumor control process.**




ALG.APV-527 4-1BB 5T4

1. ALG.APV-527 is seeking the tumor area and binds to the target molecule 5T4 on the surface of tumor cells.
2. In the tumor area, ALG.APV-527 simultaneously binds to 4-1BB on the surface of T cells.
3. The beneficial T cells are activated to kill tumor cells.

## ALG.APV-527. Project facts


ALG.APV-527 is a bispecific antibody that binds to both T cells and tumor cells. The tumor-binding parts of ALG.APV-527 have been developed using Alligator's patented antibody library, ALLIGATOR-GOLD. The bispecific molecule was then assembled using the ADAPTIR™ technology platform developed by Alligator's partner, Aptevo Therapeutics. A drug candidate has been created by combining a tumor-binding antibody with an immunomodulatory antibody in the same molecule, that can localize its effect to the tumor region and stimulate the tumor-specific immune cells that are found there by binding to the costimulatory 4-1BB receptor. The aim is to achieve effective tumor-targeted immune stimulation with minimum side effects.

### Development status

In October 2017, Alligator and its partner Aptevo Therapeutics announced that the 5T4 tumor-associated antigen, which is expressed in a wide range of solid tumors, would be the second target molecule for ALG.APV-527. 5T4 is a protein highly expressed in tumor cells and to a lesser extent, or not at all, in normal tissue. The 5T4 tumor-associated antigen is expressed in a wide range of tumors, including breast, endometrial, non-small cell lung, prostate, kidney, stomach, colorectal and bladder cancer, which means that ALG.APV-527 could be used to treat many types of cancer. ALG.APV-527 is currently in pre-clinical development.

### About the partnership with Aptevo

In July 2017, Aptevo Therapeutics and Alligator Bioscience signed an agreement regarding the codevelopment of ALG.APV-527. Under the agreement, the companies will equally own and finance development of the product candidate through the Phase II clinical trial. In Phase II, the companies can choose whether to out-license the candidate, or to continue the development process jointly or individually. The agreement also includes an option for the companies to jointly develop an additional bispecific antibody, based on the same underlying mechanism of action. Ownership and costs for this program will also be shared equally between Aptevo and Alligator.

### 2018 objectives

Further pre-clinical documentation in place. Start of process development for the production of clinical trial materials prior to clinical trials in 2019.

# Multi-year overview of the Group.

| Performance measures, Group | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| **Profit/loss (TSEK)** | | | | |
| Net Sales | 56,875 | 58,240 | 289,797 | 0 |
| Operating profit/loss | -62,299 | -56,081 | 203,006 | -77,213 |
| Profit/loss for the period | -63,758 | -48,356 | 207,377 | -76,782 |
| R&D Costs | -87,982 | -59,987 | -49,490 | -42,352 |
| R&D Costs as a percentage of operating costs excluding impairments | 73.3% | 64.3% | 61.5% | 54.0% |
| **Capital (TSEK)** | | | | |
| Cash and cash equivalents at end of period | 547,041 | 659,136 | 365,605 | 37,428 |
| Cash flow from operation activities | -99,629 | -37,610 | 204,894 | -62,737 |
| Cash flow for the period | -183,173 | 287,135 | 326,232 | -31,797 |
| Equity | 617,956 | 676,185 | 396,969 | 68,519 |
| Equity ratio, % | 96% | 96% | 95% | 70% |
| **Data per share (SEK)** | | | | |
| Earnings per share before dilution | -0.89 | -0.80 | 3.81 | -1.59 |
| Earnings per share after dilution* | -0.89 | -0.80 | 3.70 | -1.59 |
| Equity per share before dilution | 8.66 | 9.64 | 6.73 | 1.41 |
| Equity per share after dilution | 8.66 | 9.47 | 6.55 | 1.36 |
| Dividend per share | 0.00 | 0.00 | 0.00 | 0.00 |
| Share Price, Dec 31 | 23.30 | 34.80 | N/A | N/A |
| **Staff** | | | | |
| Number of employees at end of year | 47 | 36 | 27 | 27 |
| Average number of employees | 42 | 31 | 27 | 26 |
| Average number of employees in Research and Development | 37 | 28 | 24 | 23 |

* Dilution effect not included in negative result.

| Derivation of performance indicators | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Profit/loss for the year, TSEK | -63,758 | -48,356 | 207,377 | -76,782 |
| Average number of shares before dilution | 71,283,273 | 60,114,511 | 54,393,338 | 48,355,761 |
| **Earnings per share before diluition, SEK** | **-0.89** | **-0.80** | **3.81** | **-1.59** |
| Average number of shares after dilution | 71,283,273 | 60,114,511 | 55,993,338 | 48,355,761 |
| **Earnings per share after diluition, SEK** | **-0.89** | **-0.80** | **3.70** | **-1.59** |
| Operating costs, TSEK | -120,068 | -115,432 | -90,613 | -78,385 |
| Impairment of tangible and intangible assets, TSEK | 0 | 22,120 | 10,080 | 0 |
| Operating costs excl. Impairment, TSEK | -120,068 | -93,312 | -80,533 | -78,385 |
| Administrative expenses, TSEK | -28,883 | 30,770 | 28,456 | 33,848 |
| Depreciation, TSEK | -3,204 | 2,555 | 2,587 | 2,185 |
| **Research and development costs, TSEK** | **-87,982** | **-59,987** | **-49,490** | **-42,352** |
| **R&D costs / Operating Costs % excluding impairments** | **73.3%** | **64.3%** | **61.5%** | **54.0%** |
| Equity, TSEK | 617,956 | 676,185 | 396,969 | 68,519 |
| Number of shares before dilution | 71,388,615 | 70,113,615 | 59,014,384 | 48,612,244 |
| **Equity per share before dilution, SEK** | **8.66** | **9.64** | **6.73** | **1.41** |
| Number of shares after dilution | 71,388,615 | 71,388,615 | 60,619,384 | 50,217,244 |
| Equity per share after dilution, SEK | 8.66 | 9.47 | 6.55 | 1.36 |
| **Equity, TSEK** | **617,956** | **676,185** | **396,969** | **68,519** |
| Total assets, TSEK | 643,033 | 700,780 | 416,256 | 97,794 |
| **Equity ratio, %** | **96%** | **96%** | **95%** | **70%** |

In this annual report, Alligator quotes a number of financial indicators, including some which are not defined under IFRS. The company believes that these indicators are an important addition because they enable a better assessment of the economic trends in the company. These financial indicators should not be viewed in isolation or considered to replace performance indicators calculated in accordance with IFRS. Nor should these indicators, as defined by Alligator, be compared with other indicators with similar names used in other companies. This is because these indicators are not always defined in the same way and other companies may derive them in a different way from Alligator.

The derivation of indicators is shown above, both for earnings per share as required by IFRS and for indicators that are not defined under IFRS or where the calculation is not shown in other tables in this report. The company's business is research and development, so the indicator 'R&D costs as a percentage of operating costs excluding impairments' is a key measure of efficiency and of the proportion of the company's costs used within R&D.

As we have noted, the company does not have a steady flow of income; rather, this comes irregularly as license agreements are signed and milestones reached. The company therefore monitors indicators like the equity ratio and equity per share to assess its financial strength and stability. These are monitored together with its liquidity and the various cash flow measures to be found in the consolidated statement of cash flows.

For definitions, refer to this section on page 79.

# Overview of business

### Alligator's business

Alligator Bioscience is a Swedish public biotech company which develops innovative immune-activating antibody-based drugs for tumor-directed immunotherapy, with the aim of giving cancer patients an effective treatment with fewer side-effects. Its strategy is to develop drug candidates that selectively activate the immune system in the area around the tumor rather than in the whole body. This is a field with a large medical need of new and improved therapies.

Alligator's research and development work is based on the company's technology platforms; the human antibody library ALLIGATOR-GOLD, the protein optimization technology FIND and a unique bispecific fusion format.

### Focus

The company is mainly involved in the early Phases of drug development, from the formation of ideas to clinical Phase IIa trials. Alligator's strategy is to cement its position as a key player in tumor-directed immuno-therapy by developing innovative immune-activating product candidates with the potential to be 'first-in-class' or 'best-in-class'.

### Employees

The average number of employees in the company in 2017 was 42 (31), of whom 31 (24) were women. At the end of the year, the number of employees was 47 (36), of whom 41 (32) were in Research and Development. Salaries, remuneration and other staff-related costs totaled MSEK 37.9 (28.5).

### Organizational changes during 2017/2018

Growing in size, with an expanding project portfolio, Alligator decided in January 2018 to re-organize its Research department. The re-organization aims to maintain the highest possible standards of pace and quality through the whole drug development process.

Three new departments have been formed within the Research organization; Discovery, Pre-clinic and Clinical. The Discovery department is responsible for early research projects before a drug candidate has been identified. This normally consist of the development and evaluation of concepts for treatment, and the optimization of different possible drug candidates and early effect studies. After this, Pre-clinic department continues into the next stages of development. Final optimazations are made and clinical material is manufactured. A data package is then produced for approval to start clinical studies. The Clinical department takes over as the drug candidate is approaching clinical Phase I, and will be responsible for its clinical development until a successful out-licensing.

The re-organization also has implications on the composition of the Management Team, which has been expanded to mirror the new entities. Dr Peter Ellmark, VP Discovery has been appointed head of the Discovery department, Dr Christina Furebring, SVP Research as head of Pre-clinic and Dr Charlotte Russell, Chief Medical Officer to head of Clinic. Alligator has also appointed Dr Anu Balendran to VP Business Development to lead projects to out-licensing.

### Significant events in 2017

- Positive results from clinical Phase I study
  Early clinical data showed that ADC-1013 is well-tolerated in cancer patients at clinically relevant doses, and also showed evidence supporting activation of CD40 receptors. The results support the continued clinical development of ADC-1013 as mono- or combination therapy.
- Milestone payment of 6 MUSD from Janssen
  2017 recorded a revenue of USD 6 million from Janssen Biotech, Inc. (Janssen), coupled to a decision to start combination study with ADC-1013 and one of Janssen's proprietary PD-1 inhibitors. The milestone payment was received in January 2018.
- Strategic partnership for co-development of ALG.APV-527
  In July 2017, Aptevo Therapeutics and Alligator Bioscience signed an agreement regarding the co-development of ALG.APV-527. The companies will equally own and finance the development of the drug candidate through Phase II studies. ALG.APV-527 is currently in pre-clinical development.
- Pre-clinical development initiated also for ATOR-1017
  ATOR-1017 is an immunostimulating antibody (IgG4) that binds to the costimulatory receptor 4-1BB (CD137) in tumor-specific T cells. 4-1BB has the capacity to support the immune cells involved in tumor control, making 4-1BB a particularly attractive target for cancer immunotherapy.
- Collaborations with Stanford and Navarra Universities
  During the year Alligator expanded its collaboration with Professor Dean Felsher at Stanford University in the US and Professor Ignacio Melero at Navarra University in Spain. These collaborations are important in helping us achieve our long-term goal of offering patients improved treatment alternatives.
- Strengthened organization with expanded management
  To maintain the highest possible rate of development and quality across the entire drug development chain, the management team was expanded at year-end.

### Income, expenses and profit/loss

Due to the nature of the business, there can be large fluctuations in income which are not seasonal or regular but

mainly linked to when milestones generating a payment are reached in licensed research projects.

Net sales in the year totaled TSEK 56,875 (58,240). Most of the year's income was generated in the fourth quarter when a milestone for ADC-1013 was attained, while the income for the previous year was mainly generated in the first quarter, also due to when a milestone for ADC-1013.

Other operating income of TSEK 895 (1,110) relates mainly to currency gains in operations and a gift received for research purposes, while in the previous year it was generated by currency gains in operations and government grants for a Vinnova project.

Operating costs amounted to TSEK 120,068 (115,432). This was an increase from previous year due to the growth of the company and several projects having entered more cost-intense Phases. During 2016, the research project 'Biosynergy' was written down by TSEK 22,120. The impairments were prompted by altered assessments of the market conditions for the project.

The costs of the IPO in 2016 are responsible for another material differences between the years.

Net operating profit/loss before financial items amounted to TSEK -62,299 (-56,081).

Total financial items amounted to TSEK -1,460 (7,726), comprised of a return on liquidity and financial assets and currency gains/losses on significant currency holdings in EUR and USD. A capital gain of TSEK 863 was made in 2016 from the sale of securities.

The Group has no tax cost for 2017 (0). At the end of 2017, the Group's cumulative tax loss carry-forward was MSEK 356 (289).

Net profit/loss before and after tax was TSEK -63,758 (-48,356).

Earnings per share before and after dilution were SEK -0,89 (-0.80).

**Financial position**

Equity amounted to SEK 617,956 thousand (676,185), corresponding to equity per outstanding share of SEK 8.66 (9.64) before dilution. The equivalent figure after dilution was SEK 8.66 (9.47).

Consolidated cash and cash equivalents, which consist of bank balances and short-term, highly liquid investments, totaled SEK 472,919 thousand (659,136).

Bank balances amounted to 197,097 (659,136).

A portion of the Group's liquidity during 2017 has been invested in a short-term, fixed-income fund and recognized as cash and cash equivalents. This investment can easily be converted to cash and is subject to an immaterial risk of changes in value. The investment in this fund amounts to SEK 275,000 thousand (0) and the value at the end of the second quarter was SEK 275,822 thousand (0).

During the second quarter, the Group invested SEK 74,520 thousand (0) in corporate bonds, which are deemed to be easily convertible to cash.

The Group had no borrowings as of December 31, 2017 and no loans have been raised since this date. The Group has no loans or loan commitments.

The Group plans to use its liquid funds to finance its operating activities. According to the Group's Financial Policy, the Group is to have sufficient bank balances to cover its expected liquidity requirements for a minimum of 18 months. Excess liquidity may be invested with a low risk and an average fixed period of not more than 18 months. A portion of the Group's liquidity is invested in USD and EUR foreign currency accounts. In accordance with the Group's Financial Policy, inflows of foreign currencies exceeding the expected requirements for the coming 18 months are converted to SEK at the time of payment. Besides this, no further hedging has taken place.

**Investments and cash flow**

Investments during the year totaled SEK 88,720 thousand (3,596) and mainly pertained to an investment in corporate bonds of SEK 74,520 thousand (0). An additional SEK 2,500 thousand (0) was invested in leased premises for a new laboratory, SEK 11,526 thousand (3,379) in laboratory equipment and SEK 174 thousand (217) in the capitalization of patents relating to the company's technology platforms.

Cash flow for the year amounted to a negative SEK 183,173 thousand (287,135).

**Future outlook**

The company's overall goal is to build a portfolio of clinical development projects within immuno-oncology which have a balanced risk profile and can produce substantial income for the company through licensing or sales. As a consequence, the company expects to continue to expand and recruit more personnel, though at a slower pace than in 2017. After the recruitments made that year and with several projects expected to enter more cost-intensive Phases, the costs are expected to increase in 2018.

**Environmental information**
Alligator's business does not require a permit under the Swedish Environmental Code but it is subjected to regular environmental inspections. We comply with official requirements for the management and destruction of hazardous waste and work actively to reduce our use of environmentally harmful substances and our energy consumption.

**Guidelines for remuneration of senior executives**
According to the Swedish Companies Act, the shareholders' meeting should decide on guidelines for payments to the CEO and other senior executives. The Annual General Meeting on May 2, 2017 adopted such guidelines. There have been no deviations from these guidelines. The Board proposes that unchanged principles regarding payments to the CEO and other senior executives should apply after the 2018 Annual General Meeting. These principles are essentially as follows.

The company's assumption is that payments should be made on market-based and competitive terms that enable senior executives to be recruited and retained. Payments to senior executives may consist of basic salary, variable remuneration, other benefits and share-related incentive programs. The CEO and other senior executives are generally entitled to other customary benefits that may be considered reasonable in terms of market practice and the benefit to the company.

Payments to the CEO and other senior executives should be based on factors such as work responsibilities, expertise, experience, position and performance. The breakdown between basic salary and variable remuneration should also be in proportion to the employee's position and responsibilities. Variable remuneration should be tied to predefined and measurable criteria, designed to promote the company's long-term value creation. The remuneration should not discriminate on the basis of gender, ethnic background, national origin, age, disability or other irrelevant circumstances.

The CEO and other senior executives should be offered a fixed salary which is in line with the market and based on the individual's responsibilities, competence and performance. Apart from their salary, the CEO and other senior executives will normally be entitled to an annual bonus of no more than 25 percent or 20 percent of their basic salary respectively.

Over and above what has been defined in collective agreements or other agreements, the CEO and other senior executives may be entitled to arrange pension solutions on an individual basis. Reductions in salary and variable remuneration may be used to increase pension provisions provided that the cost to the company is unchanged over time.

According to the guidelines, the notice period for the CEO is six months on either side, and for other senior executives, the notice period may not exceed six months. Severance payments, apart from salary paid during the notice period, will only arise for the CEO, who will be entitled to a severance payment equal to six months' salary in the case of termination by the company.

The Board may deviate from the guidelines if there are specific grounds for doing so in any given case. The Board will consider each year whether or not to propose a share-based incentive program to the Annual General Meeting. New issues and transfers of securities decided by the shareholders' meeting according to the rules in Chapter 16 of the Companies Act where the shareholder's meeting has taken or is about to take such decisions.

**Share capital and ownership**
Alligator's share capital as of December 31, 2017 totaled SEK 28,555,446, made up of 71,388,615 shares with a par value of SEK 0.40 per share. There is only one class of share. Each share entitles the holder to one vote at the Annual General Meeting. On December 31, 2017, Banque Internationale à Luxembourg was the largest shareholder, with 13,588,121 shares accounting for 19.0% of the capital and of the votes.

**Share option programs**
*Subscription option program 2013/2017*
During 2017, 1,275,000 (230,000) warrants from the 2013/2017 warrant program were exercised for an equivalent number of shares. The program expired in March 2017 and all options were exercised.

*Subscription option program 2016/2020*
At the Annual General Meeting on April 20, 2016, it was decided to establish a subscription option program by issuing no more than 1,000,000 subscription options to a subsidiary for transfer on to employees of the company.

A total of 1,000,000 warrants were issued under the warrant program, of which a total of 857,000 warrants had been transferred to the participants in the program at market value at the end of the quarter. Further transfers will not take place and as a consequence a maximum of 857,000 warrants can be exercised in the program.

The warrants were transferred to the participants at market value, calculated according to the Black-Scholes formula. Each warrant in the program entitles the holder to acquire

one new share at an exercise price of SEK 75. The warrants can be exercised in the periods from 1 June 2019 until 31

*Employee option program 2016/2020*
At the Annual General Meeting on April 20, 2016, it was decided to set up a staff option program whereby 900,000 staff options were allocated free of charge to participants in the program.

The staff options allocated are accrued 1/3 on May 1, 2017, 1/3 on May 1, 2018 and 1/3 on May 1, 2019. Accrual is subject to the participant remaining in the company's employment and not having resigned on a given qualifying date.

Of the allotted options, 294,992 have been vested, 576,674 may still be vested and 28,334 have lapsed since the individuals to whom they were allotted have since left the company.

To secure delivery under the employee stock option program, and to cover ancillary costs, primarily social security contributions, a total of 1,182,780 warrants were issued to a subsidiary of which 900,000 were allotted to employees free of charge and 282,780 were issued to cover ancillary costs.

As a consequence of the warrants having lapsed can a total of maximum 1,145,543 warrants be exercised in the program.

Each accrued staff option entitles the holder to acquire one new share in the company at an exercise price of SEK 75. Accrued staff options can be exercised in the periods from June 1, 2019 to August 31, 2019 and from March 1, 2020 to May 31, 2020 inclusive.

**Possible dilution from option programs**
Upon full exercise of all warrants issued in respect of the share subscription incentive programs, a total of 2,002,435 shares will be issued, thereby increasing the number of shares to a maximum of 73,391,158.

**Proposed appropriation of profits**
The Board proposes that sums available to the shareholders' meeting:

| The Board proposes that sums available to the shareholders' meeting: | |
|---|---|
| Share premium reserve | 662,741,283 |
| Accumulated losses | -8,754,958 |
| Loss for the period | -65,735,791 |
| Total | 588,250,533 |

| Be allocated as follows: | |
|---|---|
| Dividend to shareholders | 0 |
| Carried forward to new account | 588,250,533 |
| Total | 588,250,533 |

# Risks and risk management.

Alligator's results have been, and will be, affected by several factors, some of them outside the company's control. The principal factors which Alligator considers have affected the results and can be expected to do so in the future are set out below.

### Pre-clinical and clinical development of drug candidates

Alligator currently has one drug candidate in clinical phase I and a number of drug candidates that are the subject of pre-clinical trials and research. All of Alligator's drug candidates have to undergo comprehensive pre-clinical and clinical trials to demonstrate their safety and effect on humans before they can be given regulatory approval to be launched onto the market as finished products. Clinical trials are expensive and time-consuming to conduct, and their outcome is uncertain. This could affect the possibility of commercializing the company's drug candidates.

> Alligator tries to minimize the impact of this risk by working with standardized processes, an established project methodology, regular steering group meetings and regular evaluation of the different projects.

Delays in clinical trials are quite usual and may be caused by many different things. Clinical trials may be held up for many different reasons, including delays in e.g.: approval from supervisory authorities to commence a trial; failure of contract suppliers to provide their services; recruitment of patients to take part in clinical trials; and the necessary provision of clinical trial material.

Particularly with regard to patients, there are many factors that influence the chances of successful recruitment, such as the type of patient population, competing clinical trials and the perception among clinics and patients of the potential benefits of participating in the trial.

> To avert these risks, Alligator's clinical team strives constantly to establish close relationships with the clinics that are needed to run planned clinical trials effectively.

### Limited project portfolio in the early development phase

Alligator has five drug candidates in its project portfolio, with ADC-1013 in clinical phase I, ATOR-1015, ATOR-1017 and ALG.APV-527 in the pre-clinical phase and another projects in the research phase. Alligator has invested substantial sums in developing these drug candidates and further significant investment will be needed for their ongoing and continued development. The company has licensed ADC-1013 to Janssen, which is responsible, among other things, for financing and managing the continued clinical development of the drug candidate. This means that the company's remaining project portfolio consists of a few drug candidates that are in the pre-clinical phase at best. In view of the large amount of research and capital still to be invested in these drug candidates, there could be a serious negative impact on the company if one or more of the drug candidates should suffer setbacks.

> Alligator's strategy for reducing these risks is to expand the project portfolio with further drug candidates for tumor-directed immunotherapy, developed in-house, under license or through partnerships.

### Dependence on partners for development commercialization

The company is dependent on current and future licensing, collaboration and other agreements with experienced partners for the development and successful commercialization of existing and future drug candidates. One example of this is that the company has licensed ADC-1013 to Janssen, which means that the financing and management of continued clinical development of ADC-1013 are handled by Janssen. In return, Alligator has the right to an introductory payment, development and sales-related milestone payments and sales-based royalties, which currently make up most of the company's income. The license agreement with Janssen is therefore very important to Alligator's operations, profits and financial position.

Alligator's dependence on collaboration carries a number of risks, such as: the company cannot control the volume of resources or the time when these resources are to be dedicated to the drug candidates; the company may be required to waive significant rights, including intellectual property rights and marketing and distribution rights; and the ability of the company's partners to meet their commitments under the collaboration agreement may be affected by changes in a partner's business strategy.

> Alligator strives to reduce this risk by thoroughly evaluating potential partners, assigning sufficient and appropriate resources and running more projects.

### Market acceptance

So far none of the company's drug candidates has been commercialized. Even if the company's drug candidates are approved for marketing and sale by the competent authorities, doctors might not prescribe them, which could prevent the company from generating income or achieving profitability. Market acceptance of potential future products from the company and its partners will depend on a number of factors, including: the clinical indications for which the product has been approved; acceptance by doctors, patients and buyers; perceived benefits compared to competing treatments; the extent to which the product

has been approved for use in hospitals and 'managed care' organizations; and access to adequate reimbursement systems and price subsidies.

Alligator's ability to influence these risks is limited and mainly involves the company considering these factors carefully when licensing drug candidates.

### Competition

The development and commercialization of new pharmaceutical products is extremely competitive. Alligator is exposed to competition in relation to its current drug candidates, and will be exposed to competition in relation to all drug candidates that it may try to develop or commercialize in the future, from large pharmaceutical companies, specialized drug companies and biotech firms all over the world. There are a small number of approved products on the market and a lot of pharmaceutical and biotech companies engaged in research and development of drugs for immunotherapy of cancer, including several large, well-defined pharmaceutical companies.

Alligator strives to reduce competition by developing clearly differentiated drug candidates and through strategic partnerships that can bring other competitive advantages.

### Key persons and qualified staff

Alligator is dependent on the company's senior executives and on a number of other key persons. Alligator's ability to retain and recruit qualified staff is vital to the company's future success and growth opportunities, and there is a risk of not being able to recruit on satisfactory terms in the face of competition from companies in the industry, universities and other institutions. If the company should lose key persons or be unable to go on recruiting qualified staff in the future, this could have a negative effect on Alligator's business.

The company handles these risks by working actively to make Alligator an attractive and enjoyable place to work, where employees are enabled to develop within their roles. The company also has a wide network from which to recruit the skills that it needs.

### Liquidity risk

Alligator is dependent on liquidity to be able to meet its commitments related to the Group's financial liabilities. The company's activities in research and development work mean that parts of its available liquidity are being consumed all the time. The inflow of cash is very irregular and comes mainly with various events related to licensing agreements.

To reduce this risk, the company has ensured that it has sufficient liquidity to run its ongoing projects through to eventual licensing. This has been achieved through the agreement to out-license ADC-1013 and through a new share issue in November 2016.

### Currency fluctuations

Alligator is based in Sweden and reports its financial position and results in SEK. Alligator's income is currently made up mainly of payments under the licensing agreement with Janssen, which are made in USD. Alligator also regularly purchases services in currencies other than SEK. The currency flows from the purchase and sale of goods in currencies other than SEK produce what is known as transaction exposure. If Alligator's measures to handle the effects of movements in exchange rates do not prove to be effective enough, Alligator's results may be affected positively or negatively. In its financial policy, Alligator has established rules for minimizing the risk of losses arising from currency fluctuations. The company is based in Lund in Sweden, and most of its costs are in SEK.

The company's cash and cash equivalents are therefore held mostly in SEK. A certain amount of USD and EUR is held in currency accounts equating to eighteen months' expected needs. Expected inflows in currencies other than SEK are not hedged as it is hard to determine the date on which the inflow will come.

# Corporate governance report.

**Alligator's corporate governance is governed by the Nasdaq Stockholm rules for issuers, the Swedish Corporate Governance Code (the 'Code'), the Swedish Companies Act, good practice in the stock market and other applicable rules and recommendations, and the company's articles of association and internal governing documents. The internal governing documents mainly cover the rules of procedure for the Board, the mandate to the CEO and the terms of reference for financial reporting. Alligator also has a number of policy documents and manuals containing rules and recommendations, laying down principles and providing guidance for the company's operations and for its employees.**

This corporate governance report has been drawn up in accordance with the rules in the Annual Accounts Act and in the Code. The corporate governance report has been reviewed by the company's auditors in accordance with the provisions of the Annual Accounts Act, and the auditor's opinion is included in the auditor's report on page 73.

### Shareholders

At the end of 2017, Alligator had 4,131 shareholders. The number of shares was 71,388,615. There is only one class of share. Each share entitles the holder to one vote at the Annual General Meeting, and all shares have equal rights to the company's assets and profits.

Further details of Alligator's shareholder structure, shares etc. are presented on pages 18–19 and page 78.

### Shareholders' meeting

The shareholders' right to decide on the company's affairs is exercised through the supreme decision-making body, the shareholders' meeting (Annual General Meeting or extraordinary general meeting). For example, the meeting decides on changes to the articles of association, appoints the Board and the auditors, approves the income statement and balance-sheet, releases the Board and CEO from liability, decides on the appropriation of profit/loss, and adopts principles for appointing the nomination committee and guidelines for remuneration of senior executives.

Shareholders may raise a given issue for discussion at the shareholders' meeting. Shareholders who wish to exercise this right must submit a written request to the Board of the company. Such requests must normally reach the Board no later than seven weeks before the shareholders' meeting.

The shareholders' meeting is held in Lund, Sweden. Invitations to the Annual General Meeting and any extraordinary general meeting which is to discuss changes to the articles of association must be sent out no more than six weeks and no later than four weeks before the meeting. Invitations to other extraordinary general meetings must be sent out no more than six weeks and no less than three weeks before the meeting. Invitations are published in Post- och Inrikes Tidningar (the Swedish government gazette) and on the company's website. The issuing of invitations is also advertised in Dagens Industri.

In order to participate in the shareholders' meeting, shareholders must be entered in the register of shareholders maintained by Euroclear Sweden AB no later than five working days before the meeting, and notify the company no later than the date provided in the meeting invitation. This day may not be a Sunday, other public holiday, Saturday, Midsummer's Eve, Christmas Eve or New Year's Eve and may not be earlier than five working days before the share-holders' meeting.

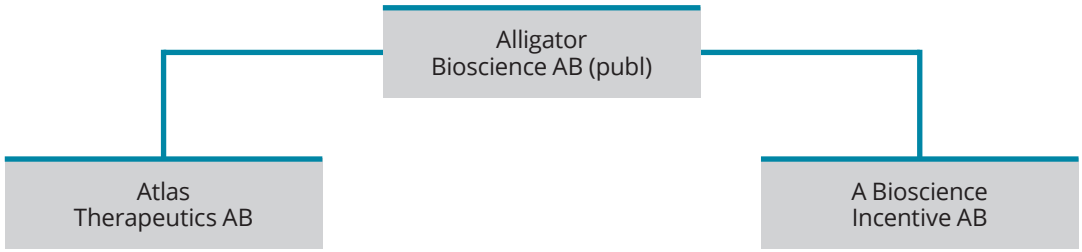
### Annual General Meeting 2017

At the Annual General Meeting held on May 2, 2017, Peter Benson was re-elected as Chairman of the Board and Carl Borrebaeck, Ulrika Danielsson, Kenth Petersson and Jonas Sjögren were re-elected as ordinary members of the Board. Anders Ekblom was elected as ordinary member of the Board while Jakob Lindberg and Mathias Uhlén were not available to re-elect. Furthermore Ernst & Young AB were re-appointed as auditors. The Annual General Meeting decided on the fees to the Board as described under 'Remuneration of the Board' below. Finally, the Annual General Meeting also approved the instructions and rules of procedure for the nomination committee as described under 'Nomination committee' below, and the remuneration policy for senior executives as set out in the administration report.

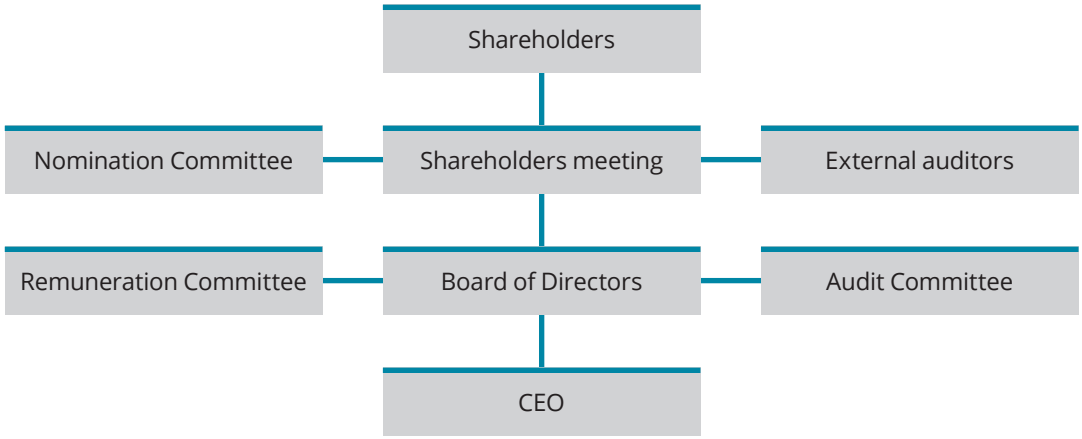
### Nomination Committee

The Code stipulates that the company should have a nomination committee whose duties should include preparing and producing proposals for the election of Board members, the Chairman of the Board, the chair of the shareholders' meeting and the auditors. The nomination committee should also propose the fees payable to Board members and auditors. At the Annual General Meeting on May 2, 2017, it was decided to adopt an instruction and rules of procedure for the nomination committee whereby the nomination committee should be made up of four members representing the three largest shareholders on the last working day in September and the Chairman of the Board. The largest shareholders are owner-registered shareholders or other known shareholders as of the last working day in September. Before accepting the assignment, a member of the nomination committee should consider carefully whether there is any conflict of interest.

## Legal structure




## Overview of corporate governance in the Alligator Group




If any of the three largest shareholders declines to appoint a representative, or their representative leaves or steps down before completing the assignment without the shareholder that appointed the member appointing a new one, the Chairman of the Board must invite the next-biggest shareholders in order of size down to the tenth-largest (i.e. starting with the fourth-largest) to appoint a shareholder representative within a week of the request. If, despite such requests, only three members have been appointed four months before the Annual General Meeting, the nomination committee must be able to be constituted with three ordinary members and it must then be able to decide whether or not this procedure should be pursued to appoint the fourth member.

The members of the nomination committee should be published no later than six months before the Annual General Meeting on the company's website. In the event of significant changes of ownership earlier than six weeks before the Annual General Meeting, a new shareholder representative should be appointed. The Chairman of the Board should then contact which-ever of the three largest shareholders has no share-holder representative and invite them to appoint one. When this shareholder representative is appointed they should join the nomination committee and replace the previous member who no longer represents one of the three largest shareholders.

The nomination committee must meet the requirements for its composition laid down in the Code. If the larger shareholders who are entitled to appoint members of the nomination committee wish to appoint people who cause the requirements for the composition of the committee laid down in the Code not to be satisfied, a larger shareholder will take precedence over a smaller in its choice of member. When a new member is appointed as a result of significant

changes in ownership, the shareholder who is to appoint a new member must consider the composition of the existing nomination committee. The nomination committee should appoint its own chairperson. The Chairman of the Board or other Board representative may not chair the nomination committee. The mandate for the appointed nomination committee will run until a new nomination committee is appointed.

Fees may be paid to the members of the nomination committee as decided by the shareholders' meeting.

In accordance with the instruction adopted, a nomination committee has been constituted ahead of the 2018 Annual General Meeting comprising: Kirsten Drejer (chairman) representing Sunstone Life Science Ventures Fund II K/S, Jonas Sjögren representing Jonas Sjögren, Berit Levy representing Lars Spånberg and the Chairman of the Board Peter Benson.

*Deviation from the code*
Information about the constitution of the Nomination committee were given through a press release on 13 November 2017 which was later than the six months in advance stipulated in the code.

**External audit**
The company's auditor is appointed by the Annual General Meeting for the period up to the end of the next AGM. The auditor reviews the annual report and accounts and the administration by the Board and the CEO. After each financial year, the auditor is required to submit an audit report to the shareholders' meeting.

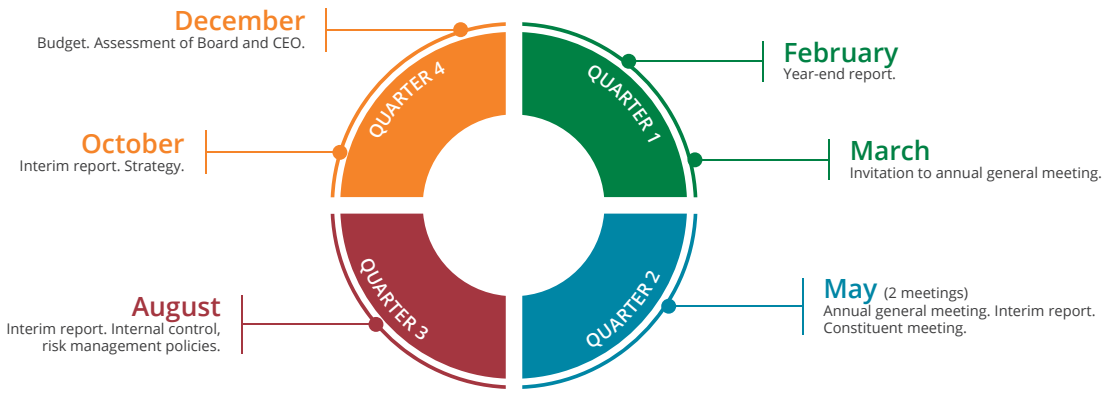
The company's auditor reports his/her observations from the audit to the Board each year, along with an assessment of the company's internal control.

At the Annual General Meeting on May 2, 2017, Ernst & Young Aktiebolag was appointed as the company's auditor, with certified public accountant Johan Thuresson as chief auditor. The Annual General Meeting also decided that fees should be paid to the auditor in accordance with the usual charging rules and approved invoices. The auditor's fee for the 2017 financial year was TSEK 610 in total.

**The Board of Directors**
*Duties of the Board*
Next to the shareholders' meeting, the Board is the company's highest decision-making body. The Board is responsible for the organization of the company and the management of the company's affairs, e.g. by setting its goals and strategy, maintaining procedures and systems to monitor the specified goals, continuously assessing the company's economic situation and evaluating its operational management. The Board is also responsible for ensuring that correct information is given to the company's stakeholders, that the company complies with laws and regulations and that the company produces and implements internal policies and ethical guidelines. The Board also appoints the company's CEO and decides on his/her salary and other remuneration based on the guidelines adopted by the shareholders' meeting.

*Composition of the Board*
The members of the Board appointed by the shareholders' meeting are elected each year at the Annual General Meeting for the period up to the next AGM. According to the company's articles of association, the Board should comprise at least three and at most eight members, without deputies.

## Board meetings 2017



According to the Code, the majority of the Board members elected by the shareholders' meeting should be independent of the company and of its senior management. To decide whether or not a member is independent, an overall assessment should be made of all matters that could cast doubt on the member's independence of the company or its senior management. According to the Code, at least two of the members who are independent of the company and of its senior management should also be independent of major shareholders. Major shareholders are those who directly or indirectly control 10 percent or more of all shares and votes in the company. To determine a member's independence, the extent of that member's direct and indirect relationships with the major shareholder should be taken into consideration. A Board member who is an employee or board member in a company that is a major shareholder is not considered to be independent.

The Board's assessment is that all members are independence to major shareholders. With the exception of Carl Borrebaeck are all members of the Board and independent in relation to the company and its senior management.

*Chairman of the Board*

The role of the Chairman is to lead the work of the Board, and to ensure that its work is carried out effectively and that the Board can meet all its obligations.

The Chairman should meet with the CEO to monitor developments in the company and ensure that the members of the Board are provided through the auspices of the CEO with the information needed to monitor the company's position, financial planning and development.

The Chairman should also consult with the CEO on strategic matters and check that the decisions of the Board are implemented in an effective manner.

The Chairman is responsible for contacts with shareholders on matters of ownership and for conveying the views of shareholders to the Board. The Chairman is not involved in the day-to-day work of the company. Nor is he a member of senior management.

*Work of the Board*

The Board follows written rules of procedure which are reviewed each year and adopted by the constituent Board meeting. Among other things, the rules of procedure govern the Board's working methods, tasks, decision-making within the company, the meeting schedule for the Board, the tasks of the Chairman and the breakdown of responsibilities between the Board and the CEO. The terms of reference for financial reporting and instructions to the CEO are also adopted at the constituent Board meeting.

The work of the Board is also driven by an annual presentation schedule, to meet the Board's need for information. The Chairman and the CEO, along with the members of the Board, maintain an ongoing dialog on the management of the company.

The Board meets according to a predefined annual timetable and should hold at least seven ordinary Board meetings between Annual General Meetings. Extra meetings may also be arranged to deal with matters that cannot be postponed to any of the ordinary meetings. In 2017 the Board met on a total of 8 occasions.

The yearly evaluation of the Board has been performed through individual interviews with the members of the Board. They have given feedback on their view on how the Board works and improvement areas. The feedback has been reported back to the Board consolidated.

## Board and committee meetings in 2017

| | | PRESENCE | | |
|---|---|---|---|---|
| Name | Position | Board | Audit Committee | Remuneration Committee |
| Peter Benson | Chairman, remuneration committee | 8/8 | | 3/3 |
| Carl Borrebaeck | Member | 7/8 | | |
| Ulrika Danielsson | Member, audit committee (chair), remuneration committee | 8/8 | 5/5 | 1/1 |
| Anders Ekblom | Member, remuneration committee (chair) | 4/5 | | 1/1 |
| Jakob Lindberg* | Member, remuneration committee (chair) | 1/3 | | 2/2 |
| Kenth Petersson | Member, audit committee | 8/8 | 5/5 | |
| Mathias Uhlén* | Member, remuneration committee | 2/3 | | 2/2 |
| Jonas Sjögren | Member, audit committee | 8/8 | 5/5 | |
| Laura von Schantz | Union representative | 8/8 | | |

*Not re-elected at AGM 2 May 2017.

*Remuneration of the Board*
Fees for the Board members elected by the shareholders' meeting are decided by the Annual General Meeting. Before the 2018 Annual General Meeting, the nomination committee will submit proposals for the fees to be paid. At the Annual General Meeting on May 2, 2017, it was decided that the fees should be SEK 400,000 to the Chairman and SEK 225,000 to each of the ordinary Board members who are not employees of the company. It was also decided that payment for committee work should be made at SEK 100,000 for the chair of the Audit Committee and SEK 25,000 to each of the ordinary members of the Audit Committee. No extra payment has been made for work on the Remuneration Committee. See also Note 11 Payments to senior executives.

**Audit Committee**
The Audit Committee monitors the company's financial position and the effectiveness of its internal control, internal audit and risk management. It keeps itself informed of the audit of the annual accounts and consolidated accounts, and reviews and monitors the impartiality and independence of the auditor. The Audit Committee should also assist the nomination committee with resolutions on the election of and fees payable to the auditor. Since the Annual General Meeting on May 2, 2017, the Audit Committee has comprised Ulrika Danielsson (chair), Kenth Petersson and Jonas Sjögren.

**Remuneration Committee**
The Remuneration Committee chiefly addresses questions of remuneration and other conditions of employment of the CEO and senior executives. The Remuneration Committee should also follow up and evaluate the current variable remuneration schemes for senior management and those adopted during the year and follow up and assess compliance with the guidelines on remuneration of senior executives decided on by the Annual General Meeting. Since the Annual General Meeting on May 2, 2017, the Remuneration Committee has comprised Anders Ekblom (chair), Ulrika Danielsson and Peter Benson.

**CEO and other senior executives**
The CEO is subordinate to the Board and his main task is to handle the company's day-to-day management and operations. The rules of procedure for the Board and the instruction to the CEO set out the matters to be decided by the Board of the company and those for which the CEO is responsible.

The CEO is also responsible for producing reports and decision documents ahead of the Board meetings, and for presenting this material at Board meetings.

Alligator has during 2017 had a management group comprising of four persons: the CEO plus the company's Chief Financial Officer, Senior Vice President Research & Development and Vice President Investor Relations. Since 2 January 2018 the management team consists of six persons: the CEO, the Chief Financial Officer, Chief Medical Officer, VP Discovery, SVP Research and VP Business Development (CEO acting until 1 May 2018 when appointed VP BD joins the company).

*Remuneration of senior executives*
The remuneration of senior executives may consist of basic salary, variable remuneration, other benefits and severance conditions. The CEO and other senior executives were paid salaries and other remuneration for the 2017 financial year as set out in Note 11.

The notice period for the CEO is six months, whichever party serves notice. The CEO will be entitled to a severance payment equal to six months' salary in the case of termination by the company. The notice period for other senior executives is six months, whichever party serves notice. No severance payments have been agreed for other senior executives.

See also 'Guidelines for remuneration to senior executives' on page 32.

**Internal control**
The Board's responsibility for internal control is laid down in the Companies Act, the Annual Accounts Act, which contains requirements to the effect that details of the major features of Alligator's systems for internal control and risk management in relation to financial reporting must be included in the corporate governance report, and the Code. Among other things, the Board is required to ensure that Alligator has good internal control and formalized procedures to ensure that the established principles for financial reporting and internal control are adhered to and that there are suitable systems for follow-up and control of the company's activities and the risks inherent in the company and its operations.

The overall purpose of internal control is to provide reasonable assurance that the company's operational strategies and goals are followed up and that the shareholders' investments are protected. The internal control should also provide reasonable assurance that external financial reporting is reliable and prepared in accordance with good auditing practice, that applicable laws and regulations are obeyed and that requirements for listed companies are complied with. Internal control essentially covers the following five components.

*Control environment*
The Board bears the overall responsibility for internal control over financial reporting. In order to create and maintain a functioning control environment, the Board has adopted a number of policies governing financial reporting. These

mainly comprise the rules of procedure for the Board, the mandate to the CEO and the terms of reference for financial reporting. The Board has also adopted a special set of signatory rules and a financial policy. The company also has a finance manual containing principles, guidelines and process specifications for accounting and financial reporting. The Board has also set up an Audit Committee whose main task is to ensure that the approved principles for financial reporting and internal control are complied with and that regular contact with the company's auditor is maintained. The responsibility for maintaining an effective control environment and for the day-to-day work on internal control over financial reporting rests with the CEO. The CEO reports to the Board on a regular basis in accordance with the instruction to the CEO and the terms of reference for financial reporting. The Board also receives reports from the company's auditor.

Based on a control environment assessed as good and an external review by auditors, the Board has determined that there are no special circumstances in the business or other matters to justify setting up an internal audit function.

*Risk assessment*
The risk assessment involves identifying risks that could arise if the fundamental requirements for financial reporting in the company were not met. In a separate risk assessment document, Alligator's management group has identified and evaluated the risks arising in the company's operations and assessed how these risks can be handled. Within the Board, the Audit Committee bears the primary responsibility for regularly assessing the company's risk situation, after which the Board carries out an annual review of the risk situation.

*Control activities*
Control activities contain identified risks and ensure correct and reliable financial reporting. The Board is responsible for internal control and monitoring by senior management. This is done via both internal and external control activities and through review and follow-up of the company's governing documents relating to risk management.

*Information and communication*
The company has information and communication paths designed to promote accuracy in financial reporting and to enable reporting and feedback from the business to the Board and management, such as by making governing documents in the form of internal policies, guidelines and instructions available and known to the employees concerned. The Board has also adopted an information policy governing the company's disclosure of information.

*Follow-up*
Compliance with and effectiveness of the internal controls are followed up on a regular basis. The CEO ensures that the Board receives regular reports on the development of the company's operations, including the development of the company's results and financial position and details of significant events such as research findings and major agreements. The CEO also reports on these matters at each Board meeting.

# Board of Directors.

## Peter Benson

Peter Benson – born 1955, Chairman since 2014 and Board member since 2011 – is a Swedish graduate in business administration from Lund University in Sweden and has an MA in Economics from the University of California. Peter Benson is the Managing Partner of Sunstone Capital Life Science Ventures has previously inter alia been Head of Life Science Investments for Vækstfonden (The Danish Growth Fund) and part of Pharmacia AB's group management.

**Other current positions:** Chairman of Ascelia AB. Board member of Arcoma Aktiebolag, Jollingham AB, Montela Aktiebolag, Opsona Therapeutics Ltd. and Sunstone Capital A/S.

**Holdings in Alligator:** None

*Independent in relation to the Company, its senior management and major shareholders.*

## Carl Borrebaeck

Carl Borrebaeck – born 1948, Board member since 2001 - is a Swedish graduate engineer from Lund University, Professor at the Department of Immunotechnology and Programme Director of the CREATE Health Translational Cancer Research Centre at Lund University. Carl is a co-founder of Alligator and a board member of the Royal Swedish Academy of Engineering Sciences (IVA) and former Vice-Chancellor of Lund University. In 2009 Carl was awarded AkzoNobels Science Prize and 2012 he received IVA´s gold medal for his pioneering research on biomarkers. In 2017 his was designated as the Biotech builder of the Year for his entrepreneurship.

**Other current positions:** Chairman of Immunovia AB and SenzaGen AB. Board member of Clinical Laserthermia Systems AB and CB Ocean Capital AB. Partner of Immunova HB.

**Holdings in Alligator:** 1,200,833 shares

*Non-independent in relation to the Company and its senior management, but independent in relation to major shareholders.*

## Ulrika Danielsson

Ulrika Danielsson – born 1972, Board member since 2016 – has an MBA from the Gothenburg School of Business, Economics and Law at the University of Gothenburg, and has been the CFO of Castellum AB (publ) since 2014. She has worked for the Castellum Group in various senior positions since 1998 and has been a member of the corporate management of Castellum since 2006.

**Other current positions:** Ulrika Danielsson is a Board member and deputy Board member respectively for a number of subsidiaries and second-tier subsidiaries within the Castellum Group.

**Holdings in Alligator:** None

*Independent in relation to the Company, its senior management and major shareholders.*

## Anders Ekblom

Anders Ekblom – born 1954, Board member since 2017 – is a physician, board certified in anaesthesia and intensive care, dentist and Associate Professor in physiology at the Karolinska Institute. Anders Ekblom has extensive experience from the biopharmaceutical industry globally, including being EVP Global Medicines Development at AstraZeneca and CEO and president of AstraZeneca AB Sweden.

**Other current positions:** Chairman of TFS International AB. Board member of AnaMar AB, Infant Bacterial Therapuetics AB, Mereo Biopharma Group Ltd and Medivir AB.

**Holdings in Alligator:** 19,658 shares

*Independent in relation to the Company, its senior management and major shareholders*

## Kenth Petersson

Kenth Petersson – born 1956, Board member since 2001 – has a BA from Lund University and has long experience of working in both the finance and biotechnology sectors, including as an analyst. He has been a business angel for more than 15 years and has founded a number of biotechnology companies.

**Other current positions:** Chairman of AlphaBeta Aktiebolag, Biocrine AB, Biocrine Regenative Medicine Aktiebolag and Spiber Technologies AB. Board member of Science Pacific Aktiebolag and Genovis Aktiebolag.

**Holdings in Alligator:** 408,000 shares

*Independent in relation to the Company, its senior management and major shareholders.*

## Jonas Sjögren

Jonas Sjögren – born 1966, Board member since 2015 – is a Swedish graduate engineer in electrical engineering from Chalmers University of Technology, Registered medical doctor from the Sahlgrenska Academy (Faculty of Health Sciences at the University of Gothenburg), and has an MBA from INSEAD.

**Other current positions:** Board member of Storytel AB (publ) and CMC SPV of 3 April 2017 AB. Deputy Board member of Exceca Allocation AB and Delibr AB.

**Holdings in Alligator:** 4,936,388 shares

*Independent in relation to the Company, its senior management and major shareholders*

## Laura von Schantz

Laura von Schantz - born 1982, board member since 2017 - is a Swedish graduate engineer in biotechnical engineering and has a doctorate in immuno-technology from Lund University. Is the board's employee representative.

**Other current positions:** None

**Holdings in Alligator:** 25,000 warrants and 25,000 employee stock options.

Information regarding individuals' own and related parties' shareholdings pertain to the situation on December 31, 2017.

# Management.

## Per Norlén

Per Norlén - born 1970, CEO since 2015 – is a medical doctor with board certification in clinical pharmacology, and a PhD and associate professorship in clinical pharmacology at Lund University. Per Norlén has 25 years of research experience in pharmacology including 15 years of experience in clinical drug development. Member of the Management Team since 2010.

**Other current positions:** Board member of Atlas Therapeutics AB and A Bioscience Incentive AB.

**Holdings in Alligator:** 100,500 shares, 200,000 warrants and 250,000 employee stock options.

## Peter Ellmark

Peter Ellmark – born 1973, VP Discovery since 2018 – holds a PhD and an associate professorship in Immunotechnology at Lund University. Peter has more than 15 years' experience of developing antibodies for immunotherapy of cancer. Member of the management team since 2018.

**Other current positions:** None

**Holdings in Alligator:** 10,000 shares, 50,000 warrants and 50,000 employee stock options

## Christina Furebring

Christina Furebring – born 1964, Senior Vice President Research since 2001 – holds a PhD in immune technology from Lund University. She is also a co-founder of the FIND technology which is a cornerstone of Alligator's technology platform. Christina Furebring has more than 20 years' experience of working on the optimization of proteins and antibodies. Member of the Management Team since 2001.

**Other current positions:** Deputy Board Member in A Bioscience Incentive AB and Atlas Therapeutics AB.

**Holdings in Alligator:** 100,000 shares, 120,000 warrants and 150,000 employee stock options.

## Charlotte A. Russell

Charlotte A. Russell – born 1964, Chief Medical Officer since 2018 – is a medical doctor with board certifications in hematology and internal medicine, and has a PhD in medical science from Copenhagen University. Charlotte has more than 25 years of research and clinical experience, including 10 years with clinical drug development in biotech/pharmaceutical companies. Member of the management team since 2018.

**Other current positions:** None

**Holdings in Alligator:** None

## Per-Olof Schrewelius

Per-Olof Schrewelius – Born 1963, Chief Financial Officer since 2016 – has an MSc in Business Administration and Economics from Lund University and has over 20 years of experience from different CFO and Finance Manager positions in various industries including medical technology and engineering. Member of the Management Team since 2016.

**Other current positions:** None

**Holdings in Alligator:** 10,000 shares and 125,000 warrants.

# Consolidated income statement

| All amounts in TSEK | Note | 2017 | 2016 |
|---|---|---|---|
| Net sales | 6 | 56,875 | 58,240 |
| Other operating income | 6 | 895 | 1,110 |
| **Total operating income** | | **57,770** | **59,350** |
| | | | |
| **Operating costs** | | | |
| Other external costs | 7,8,9 | -78,944 | -63,278 |
| Personnel costs | 10,11 | -37,920 | -27,479 |
| Depreciation and impairment of tangible and intangible assets | 18,19,20,21 | -3,204 | -24,675 |
| **Total operating costs** | | **-120,068** | **-115,432** |
| **Operating profit/loss** | | **-62,299** | **-56,081** |
| | | | |
| **Financial items** | | | |
| Profit/loss from other securities and receivables | 13 | 745 | 863 |
| Financial income | 14 | 3,969 | 8,704 |
| Financial costs | 15 | -6,173 | -1,840 |
| **Net financial items** | | **-1,460** | **7,726** |
| | | | |
| **Profit/loss before tax** | | **-63,758** | **-48,356** |
| | | | |
| **Tax on profit for the period** | 16 | 0 | 0 |
| | | | |
| **Profit/loss for the year attributable to Parent Company shareholders** | | **-63,758** | **-48,356** |
| | | | |
| **Earnings per share, SEK** | 17 | | |
| Before dilution | | -0.89 | -0.80 |
| After dilution | | -0.89 | -0.80 |

# Consolidated statement of comprehensive income

| All amounts in TSEK | Note | 2017 | 2016 |
|---|---|---|---|
| Profit/loss for the year | | -63,758 | -48,355 |
| Other comprehensive income | | 0 | 0 |
| **Comprehensive income attributable to Parent Company shareholders** | | **-63,758** | **-48,355** |

# Consolidated statement of financial position

| All amounts in TSEK | Note | 2017-12-31 | 2016-12-31 |
|---|---|---|---|
| **ASSETS** | | | |
| **Fixed assets** | | | |
| *Intangible assets* | | | |
| Participations in development projects | 18 | 17,949 | 17,949 |
| Patents | 19 | 1,454 | 2,306 |
| *Tangible assets* | | | |
| Improvements in leased premises | 20 | 2,459 | 0 |
| Equipment, machinery and computers | 21 | 13,739 | 4,349 |
| *Financial noncurrent assets* | | | |
| Other investments helds as fixed assets | 13 | 74,122 | 0 |
| **Total fixed assets** | | **109,722** | **24,603** |
| **Current assets** | | | |
| Accounts receivables | 23 | 53,096 | 0 |
| Other receivables | 24 | 3,604 | 12,417 |
| Prepayments and accrued income | 25 | 3,692 | 4,624 |
| Cash and cash equivalents | 26 | 472,919 | 659,136 |
| **Total current assets** | | **533,311** | **676,178** |
| **TOTAL ASSETS** | | **643,033** | **700,780** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 27 | 28,555 | 28,045 |
| Other Capital contributions | 27 | 662,614 | 657,949 |
| Retained earning | | -73,214 | -9,809 |
| **Equity attributable to Parent Company shareholders** | | **617,956** | **676,185** |
| **Current liabilities** | | | |
| Accounts payable | | 13,569 | 13,340 |
| Other liabilities | | 1,193 | 686 |
| Accrued expenses and deferred income | 28 | 10,315 | 10,569 |
| **Total current liabilities** | | **25,078** | **24,595** |
| **TOTAL EQUITY AND LIABILITIES** | | **643,033** | **700,780** |

# Consolidated statement of changes in equity

| | Attributable to Parent Company shareholders | | | |
|---|---|---|---|---|
| All amounts in TSEK | Share capital | Other Capital Constributions | Retained earnings incl. profit/loss for the period | Total equity |
| **Equity, Jan 1, 2016** | **23,606** | **335,051** | **38,312** | **396,969** |
| Profit/loss for the period | | | -48,356 | **-48,356** |
| Other comprehensive income | | | | **0** |
| **Comprehensive income for the period** | **0** | **0** | **-48,356** | **-48,356** |
| **Other changes in equity** | | | | |
| New share issue | 4,439 | 354,831 | | **359,270** |
| Underwriting expenses | | -32,665 | | **-32,665** |
| Option premiums received | | 733 | | **733** |
| Effect of share-based payments | | | 234 | **234** |
| **Equity, Dec 31, 2016** | **28,045** | **657,949** | **-9,809** | **676,185** |
| **Equity, Jan 1, 2017** | **28,045** | **657,949** | **-9,809** | **676,185** |
| Profit/loss for the period | | | -63,758 | **-63,758** |
| Other comprehensive income | | | | **0** |
| **Comprehensive income for the period** | **0** | **0** | **-63,758** | **-63,758** |
| **Other changes in equity** | | | | |
| New share issue | 510 | 4,665 | | **5,175** |
| Underwriting expenses | | | | **0** |
| Option premiums received | | | | **0** |
| Effect of share-based payments | | | 354 | **354** |
| **Equity, Dec 31, 2017** | **28,555** | **662,614** | **-73,213** | **617,956** |

# Consolidated statement of cash flows

| All amounts in TSEK | Note | 2017 | 2016 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Operating profit/loss | | -62,299 | -56,081 |
| *Adjustments for items not generating cash flow* | | | |
| Depreciation and impairments | 18,19,20,21 | 3,204 | 24,675 |
| Effect from warrant program | | 354 | 0 |
| Other items, no impact on cash flow | | 822 | 253 |
| Interest received | | 1,178 | 468 |
| Interest paid | | -19 | -4 |
| Tax paid | | 0 | 0 |
| **Cash flow from operating activities before changes in working capital** | | **-56,760** | **-30,689** |
| | | | |
| *Changes in working capital* | | | |
| Change in operating receivables | | -43,351 | -12,229 |
| Change in operating liabilities | | 482 | 5,308 |
| **Cash flow from operating activities** | | **-99,629** | **-37,610** |
| | | | |
| **Investing activities** | | | |
| Result from participations in other companies | 13 | -74,520 | 0 |
| Acquisition of intangible assets | 13 | 0 | 957 |
| Acquisition of tangible assets | 19 | -174 | -217 |
| Sales of tangible assets | 20,21 | -14,026 | -3,379 |
| Cash flow from investing activities | | 0 | 45 |
| **Investing activities** | | **-88,720** | **-2,593** |
| | | | |
| **Financing activities** | | | |
| New share issue | | 5,175 | 359,270 |
| Underwriting expenses | | 0 | -32,665 |
| Option premiums received | | 0 | 733 |
| **Cash flow from financing activities** | | **5,175** | **327,338** |
| | | | |
| **Cash flow for the period** | | **-183,173** | **287,135** |
| Cash and cash equivalents at beginning of period | | 659,136 | 365,605 |
| Exchange rate differences in cash and cash equivalents | | -3,043 | 6,396 |
| **Cash and cash equivalents at end of period** | 26 | **472,919** | **659,136** |

# Parent Company income statement

| All amounts in TSEK | Note | 2017 | 2016 |
|---|---|---|---|
| Net sales | 6 | 55,715 | 57,338 |
| Other operating income | 6 | 895 | 1,110 |
| **Total operating income** | | **56,609** | **58,448** |
| | | | |
| *Operating costs* | | | |
| Other external costs | 7,8,9 | -78,940 | -63,278 |
| Personnel costs | 10,11 | -37,920 | -27,479 |
| Depreciation and impairment of tangible assets and intangible assets | 19,20,21 | -3,204 | -2,555 |
| **Total operating costs** | | **-120,064** | **-93,310** |
| | | | |
| **Operating profit/loss** | | **-63,454** | **-34,862** |
| | | | |
| *Results from financial items* | | | |
| Impairment of investments in subsidiaries | 12 | 0 | -22,120 |
| Result from other securities and receivables | 13 | 745 | 863 |
| Other interest income and similar income statement items | 14 | 3,147 | 8,704 |
| Interest expense and similar income statement items | 15 | -6,173 | -1,840 |
| **Net financial items** | | **-2,281** | **-14,393** |
| | | | |
| **Profit/loss after financial items** | | **-65,736** | **-49,256** |
| | | | |
| Tax on profit for the year | 16 | 0 | 0 |
| | | | |
| **Profit/loss for the period** | | **-65,736** | **-49,256** |

# Parent Company statement of comprehensive income

| All amounts in TSEK | Note | 2017 | 2016 |
|---|---|---|---|
| | | | |
| Profit/loss for the period | | -65,736 | -49,256 |
| Other comprehensive income | | 0 | 0 |
| **Profit/loss for the year** | | **-65,736** | **-49,256** |

# Parent Company balance sheet

| All amounts in TSEK | Note | 2017-12-31 | 2016-12-31 |
|---|---|---|---|
| **ASSETS** | | | |
| **Fixed assets** | | | |
| *Intangible assets* | | | |
| Patents | 19 | 1,454 | 2,306 |
| | | **1,454** | **2,306** |
| *Tangible assets* | | | |
| Improvements in leased premises | 20 | 2,459 | 0 |
| Equipment, machinery and computers | 21 | 13,739 | 4,349 |
| | | **16,198** | **4,349** |
| *Financial assets* | | | |
| Participations in Group companies | 22 | 20,294 | 20,294 |
| Other investments held as fixed assets | 13 | 74,122 | 0 |
| | | **94,416** | **20,294** |
| **Total fixed assets** | | **112,068** | **26,949** |
| **Current assets** | | | |
| *Current receivables* | | | |
| Accounts receivable | 23 | 53,096 | 0 |
| Other receivables | 24 | 3,604 | 12,417 |
| Prepayments and accrued income | 25 | 3,692 | 4,624 |
| **Total current receivables** | | **60,392** | **17,041** |
| Other short-term investments | 26 | 275,000 | 0 |
| Cash and bank deposits | 26 | 194,424 | 657,619 |
| | | **469,424** | **657,619** |
| **Total current assets** | | **529,816** | **674,659** |
| **TOTAL ASSETS** | | **641,883** | **701,608** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| *Restricted equity* | | | |
| Share capital | 27 | 28,555 | 28,045 |
| Paid in, non-registered new share issue | 27 | 0 | 6,300 |
| | | **28,555** | **34,345** |
| *Non-restricted equity* | | | |
| Share premium reserve | | 662,741 | 651,776 |
| Retained earnings | | -8,755 | 40,147 |
| Profit/loss for the period | | -65,736 | -49,256 |
| | | **588,251** | **642,667** |
| **Total equity** | | **616,806** | **677,013** |
| **Current liabilities** | | | |
| Accounts payable | | 13,569 | 13,340 |
| Other liabilities | | 1,193 | 686 |
| Accrued expenses and deferred income | 28 | 10,315 | 10,569 |
| **Total current liabilities** | | **25,078** | **24,595** |
| **TOTAL EQUITY AND LIABILITIES** | | **641,883** | **701,608** |

# Parent Company statement of changes in equity

| | Restricted equity | | Non-restricted equity | | | |
|---|---|---|---|---|---|---|
| All amounts in TSEK | Share capital | Tecknat ej reg kapital | Share Premium reserve | Retained earnings | Profit/ loss for the period | Total |
| **Equity, Jan 1, 2016** | **23,606** | **0** | **335,050** | **39,913** | **0** | **398,569** |
| Profit/loss for the period | | | | | -49,256 | -49,256 |
| Other comprehensive income | | | | | | 0 |
| **Comprehensive income for the period** | **0** | **0** | **0** | **0** | **-49,256** | **-49,256** |
| **Other changes in equity** | | | | | | |
| New share issue | 4,439 | 6,300 | 348,531 | | | 359,270 |
| Underwriting expenses | | | -32,665 | | | -32,665 |
| Option premiums received | | | 859 | | | 859 |
| Effect of share-based payments | | | | 234 | | 234 |
| **Equity, Dec 31, 2016** | **28,045** | **6,300** | **651,775** | **40,147** | **-49,256** | **677,013** |
| **Equity, Jan 1, 2017** | **28,045** | **6,300** | **651,775** | **-9,109** | **0** | **677,013** |
| Profit/loss for the period | | | | | -65,736 | -65,736 |
| Other comprehensive income | | | | | | |
| **Comprehensive income for the period** | **0** | **0** | **0** | **0** | **-65,736** | **-65,736** |
| **Other changes in equity** | | | | | | |
| New share issue | 510 | | 4,665 | | | 5,175 |
| Underwriting expenses | | -6,300 | 6,300 | | | 0 |
| Option premiums received | | | | | | 0 |
| Effect of share-based payments | | | | 354 | | 354 |
| **Equity, Dec 31, 2017** | **28,555** | **0** | **662,741** | **-8,755** | **-65,736** | **616,806** |

# Parent Company statement of cash flows

| All amounts in TSEK | Note | 2017 | 2016 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Operating profit/loss | | -63,454 | -34,862 |
| *Adjustments for items not generating cash flow* | | 0 | 0 |
| Depreciation and impairments | 19,20,21 | 3,204 | 2,555 |
| Effect from warrant program | | 354 | 234 |
| Other items, no impact on cash flow | | 0 | 19 |
| Interest received | | 1,177 | 468 |
| Interest paid | | -19 | -4 |
| Tax paid | | 0 | 0 |
| **Cash flow from operating activities before changes in working capital** | | **-58,738** | **-31,591** |
| | | | |
| *Changes in working capital* | | | |
| Change in operating receivables | | -43,351 | -12,229 |
| Change in operating liabilities | | 483 | 5,308 |
| | | | |
| **Cash flow from operating activities** | | **-101,606** | **-38,512** |
| | | | |
| **Investing activities** | | | |
| Result from participations in other companies | 13 | -74,520 | 0 |
| Acquisition of intangible assets | | 0 | -294 |
| Acquisition of tangible assets | 13 | 0 | 957 |
| Sales of tangible assets | 19 | -174 | -217 |
| Cash flow from investing activities | 20,21 | -14,026 | -3,380 |
| | | 0 | 45 |
| | | | |
| **Investing activities** | | **-88,720** | **-2,889** |
| | | | |
| **Financing activities** | | | |
| New share issue | | 5,175 | 359,270 |
| Underwriting expenses | | 0 | -32,665 |
| Option premiums received | | 0 | 859 |
| | | | |
| **Cash flow from financing activities** | | **5,175** | **327,464** |
| | | | |
| **Cash flow for the period** | | **-185,151** | **286,064** |
| Cash and cash equivalents at beginning of period | | 657,619 | 365,155 |
| Exchange rate differences in cash and cash equivalents | | -3,043 | 6,400 |
| **Cash and cash equivalents at end of period** | 26 | **469,424** | **657,619** |

# Notes

## Note 1 General information

Alligator Bioscience AB (publ), corporate ID number 556597-8201, is a public limited company based in Lund, Sweden. The address of the head office is Medicon Village, SE-223 81 Lund, Sweden.

Alligator is a biotech company which develops innovative antibody-based medicines for immunotherapy of cancer. These consolidated accounts cover the parent company and its wholly-owned subsidiaries Atlas Therapeutics AB (corporate ID no 556815-2424) and A Bioscience Incentive AB (559056-3663), both based in Lund, Sweden. All operations are run by the parent company.

## Note 2 Accounting policies

The consolidated financial statements for Alligator Bioscience AB (publ.) have been prepared in accordance with International Financial Reporting Standards (IFRS) as approved by the EU, and interpretations from the IFRS Interpretations Committee (IFRIC).

The Group also complies with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 1 'Reporting for legal entities'.

New and amended standards and improvements which entered into force in 2017 had no material impact on the Group's financial statements for the period.

The consolidated accounts are denominated in Swedish kronor (SEK) and relate to the period January 1–December 31 for income statement items of December 31 for balance-sheet items. Assets and liabilities are recognized according to the historical cost method unless stated otherwise. The key accounting principles applied are described below.

**New and amended standards and interpretations that have not yet taken effect**

The International Accounting Standards Board (IASB) has issued a number of new and amended standards that have not yet taken effect. None of these has been applied in advance. The new and amended standards that are considered to affect the Group's financial statements in the period when they are first applied are described below.

*IFRS 9 Financial Instruments*

This standard will enter into force for financial years beginning January 1, 2018 or later, when it will supersede IAS 39 Financial Instruments: Recognition and Measurement. Management has carried out a full evaluation of the potential effect of the new standard on the Group's financial statements and the conclusion is that the new standard will have no impact on the company´s financial reports. Financial assets being reported at accrued historical cost will continue to be so and Investments held to maturity will continue to initially be recognized at fair value and thereafter at amortized cost applying the effective interest method less any provisions for impairment. Credit losses for financial instruments will be considered for the time until maturity. The expectation is the reserve will continue to be zero.

*IFRS 15 Revenue from Contracts with Customers*

This standard enters into force for financial years beginning January 1, 2018 or later. The standard replaces all previously issued standards and interpretations concerning revenue.

Management has carried out a full evaluation of the potential effect of the new standard on the Group's financial statements and the conclusion is that the new standard will not impact the Group's financial statements. The Group's revenue can derive from agreements and out-licensing of potential drug candidates. The most significant revenue is normally an initial payment when signing an out-licensing agreement or milestone payments when a milestone in the project is reached and these will continue to be reported first when an agreement is signed or when a milestone is reached. The transition to the new standard will be done according to the retroactive method, comparison values for 2017 will be presented in accordance with IFRS 15.

*IFRS 16 Leases*

This standard enters into force for financial years beginning January 1, 2019 or after, and supersedes IAS 17 Leases. The Management has analyzed the impact from the new standard on the Groups financial reports and concludes that there currently only is one agreement, the lease agreement regarding the premises that expires at the end of 2022, which will have a material impact from the new standard. This will however not have a material impact on the Groups key performance indicators.

Management believes that other new and amended standards which have not yet taken effect will not have any material impact on the Group's financial statements in the period when they are first applied.

**Consolidated reporting**

The consolidated accounts cover the parent company Alligator Bioscience AB (publ) and the companies over which the parent company directly or indirectly exercises a controlling influence (subsidiaries). A controlling influence means a right to directly or indirectly define the strategy for a company in order to make economic gains. In determining whether there is a controlling influence, account should be taken of shareholder agreements and potential vote bearing shares that can be used or converted without delay. There will normally be a controlling influence where the parent company directly or indirectly holds shares representing more than 50% of the votes.

Subsidiaries are included in the consolidated accounts from the acquisition date onwards, and excluded from the date on which the controlling influence ceases.

The Group's results and components of comprehensive income are attributable in their entirety to the shareholders in the parent company.

All intra-Group transactions, balances and unrealized gains and losses attributable to intra-Group transactions have been eliminated in the preparation of the consolidated accounts.

**Business acquisitions**

Business acquisitions are reported by the acquisition method.

The purchase price for the acquisition is assessed at fair value on the date of acquisition, calculated as the sum of assets paid, liabilities incurred or assumed and shareholders' equity issued in exchange for control over the acquired operation. Acquisition-related costs are reported in the income statement when they arise.

The identifiable assets acquired and liabilities assumed are reported at fair value on the acquisition date – apart from the exceptions specified in IFRS 3.

**Segment reporting**

The Group currently has only one business activity, and hence only one operating profit for the chief executive to take regular decisions on and allocate resources to. In light of this, there is only one operating segment which represents the Group as a whole, so there is no other segment reporting. Within the Group, the CEO of the company has been identified as the senior executive.

**Income**
The Group's operating income is made up of revenues from licensing its own pharmaceutical projects. Income is reported at the fair value of whatever has been or is to be received, minus value-added tax, discounts and similar deductions. Income is reported where it is likely that the economic benefits will accrue to the company and the income can be calculated in a reliable manner.

Income from licensing the company's own pharmaceutical projects is made up of initial license fees, milestone payments, payment for development work and future royalties on sales of the medicine. Initial license fees (upfront payments) are received when collaboration agreements are entered into. These payments are posted to income in their entirety when the collaboration agreement is entered into, provided that the company meets all its commitments under the agreement.

Milestone payments are received when the licensed pharmaceutical project passes significant steps in the development process, such as the start and end of clinical phases. Milestone payments are posted to income when all conditions of the agreement have been met. Payment for development work is posted to income as the work is completed. Future royalty income will be posted to income in accordance with the financial substance of the agreement, to be analyzed on a case-by-case basis. Income from licensing is reported under net sales.

*Government grants*
Government grants are reported as other income when the performance required in order to receive the contribution is carried out. If the contribution is received before performance is effected, the contribution is reported as a liability in the balance-sheet. Government grants are recognized at the fair value of whatever has been or is to be received.

*Dividends and interest income*
Dividend income is reported when the right of shareholders to receive payment has been established.

Interest income is spread across the term, by the effective interest method. Effective interest is the interest that causes the present value of all future payments and receipts to be equal to the reported value of the receivable.

**Leases with the Group as lessor**
A financial lease is an agreement whereby the economic risks and benefits associated with ownership of an object are essentially transferred from the lessor to the lessee. Other leasing agreements are classified as operational leases. The Group current has only operational leases.

Leasing charges for operational leases are posted to expenses in a linear manner over the leasing period and reported as other external costs.

**Foreign currency**
The consolidated accounts are drawn up in Swedish kronor (SEK), which is the parent company's functional and reporting currency. Transactions in foreign currency are converted to SEK at the rate in effect on the transaction date. Receivables and liabilities in foreign currency are converted at the rate in effect on the reporting date. Exchange rate gains and losses on operating receivables and liabilities are reported under operating profit as other operating income or other operating costs. Gains and losses on financial receivables and liabilities are reported as financial items.

Exchange rate differences are reported in the income statement in the period in which they arise.

**Borrowing costs**
Borrowing costs are reported in the income statement in the period in which they arise.

**Payments to employees**
*Short-term payments to employees*
Payments to employees in the form of salary, bonuses, paid vacation, paid sick leave etc. and pensions are reported as and when they are accrued (usually monthly).

*Severance payments*
The Group reports severance payments when there is an existing legal or informal obligation and when it is likely that an outflow of resources will be required to meet the commitment and the amount can be calculated in a reliable manner.

*Pensions*
Pensions and other payments after cessation of employment are classified as defined-contribution or defined-benefit pension plans.

The Group's defined-benefit pension plans cover commitments for old-age and family pensions for salaried employees in Sweden covered by insurance with Alecta. According to an opinion from the Financial Reporting Board, UFR 10, this a defined-benefit plan covering multiple employers. The Group has not had access to the information that would allow it to report this as a defined-benefit plan. The ITP (white-collar) pension plan covered by insurance with Alecta is therefore reported as a defined-contribution plan.

Other pension plans in the Group are defined-contribution. A defined-contribution plan is a pension plan under which the Group makes fixed payments to a separate legal entity. The Group has no legal or informal obligations to make further payments if this legal entity does not have sufficient assets to make all payments to employees associated with the employees' service in the current or earlier periods. The Group's payments into defined-contribution pension plans are charged to profit/loss for the period in the year to which they are attributable.

*Share-related payments*
In 2016, Alligator issued staff options which were granted free of charge. The fair value of the staff options is determined on the date of assignment of the right to payment. This value is reported as a personnel cost in the income statement, distributed over the qualifying period, with a corresponding increase in equity. The cost reported is equal to the fair value of the number of options expected to be accrued. In subsequent periods, this cost is adjusted to reflect the fair value of options accrued.

Associated social security charges are reported as a cost and a liability and regularly revalued based on changes in the fair value of the options according to Financial Reporting Board opinion UFR 7.

**Taxes**
Income taxes are the sum of current and deferred tax.

*Current tax*
Current tax is calculated on the taxable profit/loss for the period, adjusted for current tax for previous periods. Taxable profits differ from the reported profit in the income statement because they have been adjusted for non-taxable income and non-deductible expenses and for income and expenses that are taxable or deductible in other periods. The Group's current tax debt is calculated at the tax rates decided on or announced as of the reporting date.

*Deferred tax*
Deferred tax is reported on temporary differences between the reported value of assets and liabilities in the financial statements and the taxable value used to calculated the taxable profit. Deferred tax is reported by the balance-sheet method. Deferred tax liabilities are reported for essentially all taxable temporary differences, and deferred tax assets are reported for essentially all deductible temporary differences where it is likely that the amount can be offset against a future taxable surplus. Deferred tax liabilities and assets are not reported if the temporary difference is attributable to goodwill or arises out of a transaction which triggers the initial recognition of an asset or liability (which is not a business acquisition) and which affects neither the reported nor the taxable profit at the date of the transaction.

Deferred tax is calculated at the tax rates that are expected to apply for the period when the asset is recovered or the debt paid, based on the tax rates (and laws) decided on or published at the reporting date.

Deferred tax assets and liabilities are netted off when they are related to income tax charged by the same authority and the Group intends to settle the tax as a net amount.

*Current and deferred tax for the period*
Current and deferred tax are reported as expenses or as income in the income statement, except where the tax is attributable to transactions reported under other operating profit or directly against equity. In these cases, the tax should also be reported under other operating profit or directly under equity. For current and deferred tax arising from the recognition of business acquisitions, the tax effect should be shown in the acquisition calculation.

**Investments in leased premises**
Investments in leased premises refer to adjustments made to the leased premises for a new laboratory. This lab was opened and used in the fourth quarter of 2017. This asset is recognized in accordance with the accounting policy for tangible assets and depreciation is expensed on a straight-line basis over the duration of the five year lease.

**Tangible assets**
Tangible assets consist of computers, equipment and machinery. These are reported at historical cost minus cumulative depreciation and any impairments. The historical cost includes the purchase price and any expenses directly attributable to the asset for putting it in place and making it fit for its intended purpose.

Depreciation of tangible assets is posted to expenses in such a way that the value of the asset minus its estimated residual value at the end of its service life is written down on a linear basis over its expected service life, estimated at:

Computers 3 years
Equipment and machinery 5 years

Estimated service lives, residual values and depreciation methods are reviewed at least at the end of each accounting period, and the effects of any changes in estimates are reported in advance.

The reported value of a tangible asset is removed from the statement of financial position when it is scrapped or sold, or when no future economic benefits are expected from using or scrapping/disposing of the asset. The gain or loss made from scrapping or disposing of the asset is the difference between any net income from the disposal and its reported value, posted to the income statement in the period in which the asset is removed from the statement of financial position.

**Intangible assets**
*Separately acquired intangible assets – Participations in development projects*
Intangible assets with definable periods of use which have been acquired separately are reported at historical cost minus cumulative depreciation and any cumulative impairments. Depreciation is linear over the estimated period of use of the asset. Estimated periods of use and depreciation methods are reviewed at least at the end of each accounting period, and the effects of any changes in estimates are reported in advance.

Depreciation starts when the projects are ready for sale or licensing or otherwise ready for commercialization. Depreciation has not yet been initiated for acquired participations in development projects.

**Acquisition through internal processing**
Work to produce an internally processed intangible asset is broken down into a research phase and a development phase. All costs deriving from the Group's research phase are reported as expenses in the period in which they arise. The costs of developing an asset may be reported as an asset if all of the following conditions are met:

- it is technically possible to finish the intangible asset so it can be used or sold;
- the company intends to finish the intangible asset and to use or sell it;
- the conditions exist to use or sell the intangible asset;
- it is likely that the intangible asset will generate future economic benefits;
- necessary and adequate technical, economic and other resources are in place to complete the development and to use or sell the intangible asset; and
- the costs attributable to the intangible asset during its development can be calculated in a reliable manner.

If all of the above criteria are not satisfied, the development costs are reported as an operating cost as and when they arise.

The above rules will normally mean that capitalization starts when the end-product has been approved for sale on the market. This means that in-house projects will not reach the capitalization phase because the company has no rights to sell the final pharmaceutical products in the market. With Alligator's present business model, the capitalization phase of development costs is unlikely to be an issue.

*Patents*
Patents relating to Alligator's technology platforms are reported at historical cost minus any depreciation and impairments. These patents are depreciated over a period of five years. Annual service costs and internal costs associated with these patents are posted to operating costs when they arise. Patent costs attributable to development projects where the capitalization phase (see above) has not been reached are posted to operating costs as they arise.

*Disposals*
An intangible asset is removed from the statement of financial position when it is scrapped or sold, or when no future economic benefits are expected from using or scrapping/disposing of the asset. The gain or loss made when an intangible asset is removed from the statement of financial position is the difference between any net income from the disposal and the reported value of the asset, posted to the income statement when the asset is removed from the statement of financial position.

**Impairment of tangible and intangible assets**
Assets which have an undefinable period of use, such as the Group's intangible assets for which depreciation has not yet started, are impair-

ment-tested at least once a year and when there is any indication of impairment. Assets being depreciated should be assessed for a possible decrease in value whenever events or changed circumstances indicate that the reported value is not recoverable.

An impairment is raised in the amount by which the reported value of the asset exceeds its recoverable value. The recoverable value is the greater of the fair value of the asset minus sales costs and its value in use. An impairment should be posted to the income statement immediately as an expense.

To test the value of intangible assets, Alligator uses a probability-adjusted cash flow model. The value of ongoing development projects is calculated by estimating the present value of future cash flows probability-adjusted to allow for the development risk.

Previously reported impairments are reversed if the recoverable value is considered to exceed the reported value. However, the reversal value cannot be greater than the reported value would have been if no impairments had been reported in previous periods.

**Financial instruments**
A financial asset or liability is reported in the balance-sheet when the company becomes a party to the contractual terms for the instrument. A financial asset or part of a financial asset is removed from the balance-sheet when the rights under the contract are exercised or mature or when the company loses control over it. A financial liability or part of a financial liability is removed from the balance-sheet when the obligation under the contract is discharged or otherwise extinguished.

On each reporting date, the company assesses whether there are objective indications that a financial asset or group of financial assets is in need of impairment because of events that have occurred. Examples of such events are a significantly worsened financial position for the counterparty or failure to pay amounts due.

Financial assets and liabilities that are not to be assessed at fair value via the income statement in the next report will be reported at their fair value on initial recognition minus any transaction costs. Financial assets and liabilities that are to be assessed at fair value via the income statement in the next report will be reported at their fair value on initial recognition. In the subsequent report, financial instruments will be reported at accrued historical cost or at fair value, depending on the original categorization under IAS 39

On initial recognition, a financial asset or liability is placed in one of the following categories:

*Financial assets*
- Fair value via the income statement
- Loans and accounts receivable
- Investments held to maturity
- Financial assets available for sale

*Financial liabilities*
- Fair value via the income statement
- Other financial liabilities reported at accrued historical cost

*Fair value of financial instruments*
For all financial assets and liabilities, the reported value is considered to be a good approximation to their fair value, unless specifically stated in later notes.

*Amortized cost*
Amortized cost is the amount at which the asset or liability is initially presented with deductions for mortgage payments, additions or reductions for accumulated accrual according to the effective interest rate method of the difference between initial amount received/paid and amount to pay/receive on the due date and net of impairment losses.

Effective interest rate is the interest rate on a discounting of all future expected cash flows over the expected term will result in the initial carrying amount of the financial asset or financial liability

*Netting of financial assets and liabilities*
Financial assets and liabilities are netted off and reported as a net value in the balance-sheet where there is a legal right to net off and the intention is to settle the items with a net amount or to realize the asset and settle the liability at the same time.

*Cash and cash equivalents*
Cash and cash equivalents include cash in hand and bank balances and other short-term liquid deposits that can easily be converted to cash and are subject to an insignificant risk of value changes. For them to be classified as cash and cash equivalents, the term to maturity must not exceed three months from the date of acquisition. Cash in hand and bank balances are classified as 'Loans and accounts receivable', which means they are reported at accrued historical cost. Because bank deposits are payable on demand, the accrued historical cost is the nominal amount. Short-term deposits are categorized as 'Fair value via the income statement' and reported at fair value with any value changes shown in the income statement.

*Accounts receivable and other receivables*
Accounts receivable and other receivables are classified as 'Loans and accounts receivable', which means they are reported at accrued historical cost. However, the expected term to maturity of these receivables is short, so they are reported at their undiscounted nominal value. Deductions are made for receivables that are considered doubtful. Impairments of accounts receivable are reported under operating costs.

*Other investments held as fixed assets*
Other long-term securities holdings are categorized as 'Investments held to maturity'. The holding includes listed company bonds and these are initially recognized at fair value and thereafter at amortized cost applying the effective interest method less any provisions for impairment. Amortized cost corresponds to the amount recognized on the acquisition date after a deduction for the repayment of the nominal amount plus or minus any adjustments for the effective interest rate.

*Accounts payable and other current liabilities*
Accounts payable and other current liabilities are classified as 'Other financial liabilities', which means they are reported at accrued historical cost. However, the expected term to maturity of accounts payable and other current liabilities is short, so they are reported at their undiscounted nominal value.

**Derivate instruments**
The Company holds no derivate instruments.

**Provisions**
Provisions are raised when the Group has an existing obligation (legal or informal) as a result of an event that has occurred, it is likely that an outflow of resources will be needed to discharge the obligation, and a reliable estimate of the amount can be made.

**Joint operation**
Joint operations are activities where the Group through agreements with one or more parties have a common decision power and the parties report assets, liabilities, revenue and cost and their share of common assets, liabilities, revenue and cost. Currently the only joint operation is with Aptevo Therapeutics regarding ALG.APV-527. The companies will under this agreement jointly own and finance the development of the drug candidate through phase II. During phase II can the companies chose to out-license the candidate or continue the development jointly or individually. Furthermore the agreement contains an option for the companies to jointly develop another bi-specific antibody. Also for this project will financing and revenues be shared equally. The operations in the project will be conducted in both Lund at Alligator and in Seattle at Aptevo.

**Statement of cash flows**
Cash and cash equivalents consist of available cash, cash equivalents and, where appropriate, other short-term highly liquid investments with a maturity of 3 months or less that are exposed to insignificant fluctuation in value. The statement of cash flows is prepared according to the indirect method. The reported cash flow includes only transactions that led to payments and receipts.

**Accounting policies for the Parent Company**
The parent company complies with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 'Reporting for legal entities'. The application of RFR 2 means that, as far as possible, the parent company applies all IFRS standards approved by the EU within the Annual Accounts Act and the Pension Obligations Vesting Act, and observes the relationship between reporting and taxation. Amendments to RFR 2 which entered into force in 2016 had no material impact on the Group's financial statements for the period. The differences between the accounting principles applied by the parent company and the Group are described below:

*Classification and presentation*
The parent company's income statement and balance-sheet are prepared in accordance with the schema in the Annual Accounts Act. The main difference from IAS 1 Presentation of Financial Statements applied in preparing the Group's financial statements is in the reporting of financial income and expenses, fixed assets and equity, and in the inclusion of provisions as a separate heading.

*Subsidiaries*
Participations in subsidiaries are reported at historical cost in the parent company's financial statements. Acquisition-related costs to subsidiaries which are posted to expenses in the consolidated report are included as part of the historical cost of participations in subsidiaries. An impairment is raised in the amount by which the reported value of a subsidiary exceeds its recoverable value. The recoverable value is the greater of the fair value of the subsidiary minus sales costs and its value in use. An impairment should be posted to the income statement immediately as an expense. To test the value of a subsidiary intangible assets, Alligator uses a probability-adjusted cash flow model. The value of ongoing development projects is calculated by estimating the present value of future cash flows probabilityadjusted to allow for the development risk.

*Financial instruments*
The parent company does not apply IAS 39 Financial Instruments: Recognition and Measurement. The parent company uses a method based on historical costs pursuant to the Swedish Annual Accounts Act.

*Approved changes to RFR 2 which have not yet taken effect*
Management judges that changes to RFR 2 which have not yet taken effect are not expected to have any material impact on the parent company's financial statements when they are applied for the first time.

*Proposed changes to RFR 2 which have not yet taken effect*
Management judges that proposed changes to RFR 2 which have not yet taken effect are not expected to have any material impact on the parent company's financial statements when they are applied for the first time.

## Note 3 Important estimates and judgments
When the Board and management prepare financial statements in accordance with the accounting principles applied, some estimates have to be made which may affect the reported values of assets, liabilities, income and expenses.

The estimates and assumptions are reviewed on a regular basis. Changes to estimates are reported in the period in which the change is made if it only affects that period, or in the period in which it is made and in future periods if it affects both the current and future periods.

Uncertainties in estimates carry a substantial risk of the value of assets or liabilities needing to be significantly adjusted during the coming financial year. Regular impairment tests are therefore performed on intangible assets with indeterminate periods of use, at least once a year.

For impairment testing of intangible assets with an indeterminate period of use, a number of key assumptions and estimates have to be taken into account in order to calculate a recoverable value. Among other things, the assumptions and estimates relate to the expected sale price for the company's products, expected market penetration, expected development, sales and marketing costs and the probability of the product passing through the remaining development stages. The assumptions are based on industry and market-specific data and are produced by management and reviewed by the Board. For more information on impairment testing of intangible assets with an indeterminate period of use, see Note 18 – Intangible assets.

## Note 4 Financial risk management and financial instruments

The Group is exposed through its activities to various types of financial risk such as market, liquidity and credit risks. The market risks are made up mainly of interest rate risk, currency risk and other price risk. The Board of the company bears the ultimate responsibility for exposure and handling and following up the Group's financial risks. The limits that apply to exposure, handling and following up the financial risks are set by the Board in a financial policy which is revised each year. In the finance policy, the Board has delegated the responsibility for day-to-day risk management to the company's CFO. The Board can decide on temporary deviations from the approved financial policy.

The Group's overall risk management focuses on the unpredictability in the financial markets and strives to minimize potential adverse effects on the Group's financial results. The Group's overarching objective for financial risks is to minimize the risk by investing surplus liquidity.

**Market risks**

*Currency risks*

Currency risk is the risk of fair value of future cash flows fluctuating as a result of changed exchange rates. The exposure to currency risk derives mainly from payment flows in foreign currency, known as transaction exposure.

The Group has transaction exposure from contracted payment flows in foreign currency. See table at the top of the next page for exposures in each currency.

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Operating income | Operating costs | Operating income | Operating costs |
| *Foreign exchange exposure* | | | | |
| USD | 100% | 5% | 99% | 2% |
| EUR | 0% | 17% | 0% | 12% |
| GBP | 0% | 9% | 0% | 0% |
| SEK | 0% | 68% | 1% | 86% |
| Other | 0% | 0% | 0% | 0% |
| | **100%** | **100%** | **100%** | **100%** |

As can be seen from the table above, most of the Group's transaction exposure is in USD, GBP and EUR. A 5% stronger SEK against the USD would have a negative effect on post-tax profits and equity of approx. TSEK -2,630 (-2,850). A 5% stronger SEK against the EUR would have a positive effect on post-tax profits and equity of approx. TSEK 827 (500). A 5% stronger SEK against the GBP would have a positive effect on post-tax profits and equity of approx. TSEK 457 (0).

**Interest rate risks**

Interest rate risk is the risk of fair value or future cash flows fluctuating as a result of changed market interest rates. The Group is exposed to interest rate risk mainly through its investment of surplus liquidity, as it has no borrowing. A 0.5% fall in interest rates would have a negative effect of approx. TSEK -990 (-1,970) on post-tax profits.

**Liquidity and financing risk**

Liquidity risk refers to the risk that the Group will encounter difficulties in meeting its commitments related to the Group's financial liabilities. Liquidity risks are limited by liquidity planning and placement of excess liquidity in short term financial instruments with maturities up to 3 months. Excess of liquidity is only invested in bank accounts.

Financing risk is the risk that cash and cash equivalents might not be available and that financing could be only partly obtainable, if at all, or only at increased cost. The Group now has substantial funds, mainly from licensing ADC-1013 and the new share issue in 2016. Alligator has used and will continue to need to use substantial sums to carry out research and development. The company's financial position has been strengthened but it may still need to seek external financing in the future.

The Group's contractual and undiscounted interest payments and repayments of financial liabilities can be seen in the table below. Amounts in foreign currency have been converted to SEK at the rate on the reporting date. Financial liabilities with variable interest rates have been calculated at the rate in place on the reporting date. Liabilities have been included in the earliest period in which repayment can be requested.

The maturity periods for the Group's financial liabilities are shown below.

| | 31.12.2017 | | | 31.12.2016 | | |
|---|---|---|---|---|---|---|
| | Within 3 mths | 3-12 mths | Total | Within 3 mths | 3-12 mths | Total |
| Accounts payable | 13,569 | 0 | 13,569 | 13,340 | 0 | 13,340 |
| Other accrued expenses and deferred income | 7,525 | 0 | 7,525 | 7,651 | 0 | 7,651 |
| **Total** | **21,094** | **0** | **21,094** | **20,991** | **0** | **20,991** |

## Note 4 Financial risk management and financial instruments, cont'd

**Credit and counterparty risk**

Credit risk is the risk that the counterparty to a transaction will not meeting its contractual obligations and therefore cause a loss to the Group. The Group's exposure to credit risk is mainly attributable to cash and cash equivalents and accounts receivable. The Group has established guidelines to ensure that sales of products and services are made to customers with a suitable credit record. The payment terms may be between 30-60 days depending on the counterparty. There were no credit losses in 2017 or 2016.

Credit risk also arises when the company's surplus liquidity is invested in various types of financial instrument. According to the financial policy, surplus liquidity can be deposited in interest-bearing bank accounts or invested in interest-bearing securities. According to the financial policy, the credit risk from investing surplus liquidity should be reduced by only dealing with counterparties with a very good rating. The financial policy also states that investments should be spread across multiple counterparties or issuers.

The Group has no significant concentration of credit risks.

The Group's maximum exposure to credit risk is considered to be matched by the reported value of all financial assets, as shown in the table below

| | Group | |
|---|---|---|
| **Financial assets** | **31.12.2017** | **31.12.2016** |
| Other investments held as fixed assets | 74,122 | 0 |
| Accounts receivables | 53,096 | 0 |
| Other current receivables | 0 | 6,043 |
| Short-term deposits | 0 | 0 |
| Cash and cash equivalents | 472,919 | 659,136 |
| **Maximum exposure to credit risk** | **600,137** | **665,179** |

**Categorization of financial instruments**

The carrying value of financial assets and liabilities broken down by valuation category in accordance with IAS 39 is shown in the table below.

| | Group | |
|---|---|---|
| **FINANCIAL ASSETS** | **31.12.2017** | **31.12.2016** |
| **Financial assets recorded at fair value through profit and loss** | | |
| Liquid assets - Liquidity fund | 275,822 | 0 |
| **Financial investments available-for-sale** | | |
| Other long term investments | 74,122 | 0 |
| **Accounts receivable and other loan receivables** | | |
| Accounts receivable | 53,096 | 0 |
| Other receivables | 0 | 6,043 |
| Liquid assets - bank accounts | 197,097 | 659,136 |
| Total of accounts receivable and other loan receivables | 250,193 | 665,179 |
| **TOTAL OF FINANCIAL ASSETS** | **600,137** | **665,179** |

| | Group | |
|---|---|---|
| **FINANCIAL LIABILITIES** | **31.12.2017** | **31.12.2016** |
| **Financial liabilities recorded at accrued acquisition value** | | |
| Accounts payable | 13,569 | 13,340 |
| Accrued expenses and prepaid income | 7,525 | 7,651 |
| **TOTAL FINANCIAL LIABILITIES** | **21,094** | **20,991** |

There were no reclassifications between the valuation categories above during the period.

Investments available for sale refers to publicly traded corporate bonds which initialy are recorded at fair value and then recorded to accrued acquisition value with use of the effective interest method, reduced with eventual provision for impairments. The accrued acquisition value is equal to the amount recognized at the date of acquisition after deduction of repayment of nominal amounts plus or minus any adjustments for effective interest. The Company has invested in corporate bonds in Aker, Castellum, Stena, Storebrand, Telia and Vattenfall. The acquisition value for these corporate bonds is TSEK 74,520, nominal amount is TSEK 72,500 and carrying amount as per 31 Dec 2017, after adjustment of the effective interest method, is TSEK 74,122. Financial assets recorded at fair value through profit or loss refers to a Liquidity Fund position which is valued at fair value. For other financial assets and liabilities, the reported value as stated above is considered to be a reasonable approximation to their fair value.

Net gains/losses from financial assets and liabilities broken down by valuation category in accordance with IAS 39 are shown in the table below.

## Note 4 Financial risk management and financial instruments, cont'd

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| Loans and accounts receivable | 856 | 0 |
| Investments being held to maturity | 745 | 0 |
| Financial assets available for sale | 0 | 863 |
| Other financial liabilities | 0 | 0 |
| **Net gain/loss** | **1,601** | **863** |

## Note 5 Capital management

The Group's objective for capital management is to maintain its ability to remain in operation to generate a reasonable return to shareholders and benefit to other stakeholders.

The Group monitors its capital structure on the basis of cash and cash equivalents (net). Cash and cash equivalents (net) should amount to at least the expected capital needs for the next eighteen months. Cash and cash equivalents (net) are calculated as cash and cash equivalents minus borrowing.

At the end of the financial year, cash and cash equivalents (net) totaled:

| | Group | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Cash and cash equivalents | 472,919 | 659,136 |
| Borrowing | 0 | 0 |
| Cash and cash equivalents (net) | 472,919 | 659,136 |
| | | |
| Covering expected capital needs for the next eighteen months | YES | YES |
| Täcker förväntat kapitalbehov kommande arton månader | JA | JA |

The reduced liquidity during the financial year is mainly due to operation costs, no received milestone payments and investments in corporate bonds.

## Note 6 Income

**Net sales**

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Income from licensing | 56,875 | 58,240 | 55,715 | 57,338 |
| **Total** | **56,875** | **58,240** | **55,715** | **57,338** |

Alligator's income is essentially made up of income from licensing ADC-1013 to Janssen Biotech, Inc. Alligator receives license income in USD when certain milestones in the development project are reached.

**Other operating income**

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Swedish Government grants received | 0 | 484 | 0 | 484 |
| Exchange rate gains from operations | 730 | 626 | 730 | 626 |
| Other items | 165 | 0 | 165 | 0 |
| **Total** | **895** | **1 110** | **895** | **1 110** |

**Geographical distribution of Net Sales**

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| USA | 55 715 | 57 338 | 55 715 | 57 338 |
| Sweden | 0 | 0 | 0 | 0 |
| Rest of the world | 1 160 | 902 | 0 | 0 |
| **Total** | **56 875** | **58 240** | **55 715** | **57 338** |

For 2016 and 2017 net sales came mainly from the USA where Janssen Biotech, Inc. is located.

The Group's intangible assets in the form of participations in development projects relate to collaboration with the South Korean company AbClon Inc. and are therefore attributed to the Rest of the World.

## 6. Income, cont'd

**Details of intra-Group purchases and sales**

There were no purchases or sales within the Group in 2016 or 2017.

## Note 7 Other external expenses

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Underwriting costs | 0 | -7,409 | 0 | -7,409 |
| Costs of R&D projects | -60,335 | -39,805 | -60,335 | -39,805 |
| Other costs | -18,610 | -16,064 | -18,605 | -16,064 |
| **Total** | **-78,944** | **-63,278** | **-78,940** | **-63,278** |

## Note 8 Details of the auditor's fee and reimbursement of costs

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| EY | | | | |
| Audit assignment | 535 | 330 | 535 | 330 |
| Audit activities other than the audit assignment | 75 | 635 | 75 | 635 |
| Tax advice | 0 | 15 | 0 | 15 |
| Other services | 0 | 786 | 0 | 786 |
| **Total** | **610** | **1,766** | **610** | **1,766** |

## Note 9 Leasing

**Operational leasing – lessees**

The cost for the year of operational leases totals TSEK 5,828 (5,286) for the Group and TSEK 5,828 (5,286) for the parent company.

On the reporting date, the parent company and the Group had outstanding commitments in the form of minimum leasing charges under non-terminable operational leases with maturity dates as below:

| | Group | | Parent Company | |
|---|---|---|---|---|
| (TSEK) | 31.12.2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 |
| Within 1 year | 6,448 | 4,194 | 6,448 | 4,194 |
| Between 1 and 5 years | 22,298 | 803 | 22,298 | 803 |
| Later than 5 years | 0 | 0 | 0 | 0 |
| **Total** | **28,746** | **4,997** | **28,746** | **4,997** |

The total amount on the reporting date of future minimum leasing charges for non-terminable agreements related to sublet objects was TSEK 28,476 (4,997) for the parent company and TSEK 28,476 (4,997) for the Group.

The operational leases relate mainly to the hiring of premises in Medicon Village, a rental agreement with Office IT Partner for computers and a rental agreement with Ikano Bank for photocopiers.

The leasing period for the Group's and the parent company's rented premises is five years. The lease may be extended at the end of the leasing period for what the Group considers to be a normal market price. The rental payments are made annually according to the agreement and include no variable components. The leasing period for other premises is 3 years.

The leasing period for photocopiers and computers varies between 3 and 5 years.

## Note 10 Number of employees, salaries, other remuneration and social security costs

| Average number of employees | 2017 No. of employees | 2017 Of which men | 2016 No. of employees | 2016 Of which men |
|---|---|---|---|---|
| **Parent company** | | | | |
| Sweden | 42 | 11 | 31 | 7 |
| **Total in parent company** | **42** | **11** | **31** | **7** |
| | | | | |
| **Subsidiaries** | | | | |
| Sweden | 0 | 0 | 0 | 0 |
| **Total in subsidiaries** | **0** | **0** | **0** | **0** |
| | | | | |
| **Total in the group** | **42** | **11** | **31** | **7** |

| Breakdown of senior executives on the reporting date | Group 31.12.2017 | Group 31.12.2016 | Parent Company 31.12.2017 | Parent Company 31.12.2016 |
|---|---|---|---|---|
| Women | | | | |
| Board members | 2 | 1 | 2 | 1 |
| Other members of management incl. CEO | 1 | 1 | 1 | 1 |
| Men: | | | | |
| Board members | 5 | 6 | 5 | 6 |
| Other members of management incl. CEO | 2 | 2 | 2 | 2 |
| **Total** | **10** | **10** | **10** | **10** |

| Salaries, remuneration etc. | 2017 Salaries and other remunieration | 2017 Soc.sec.costs (of which pension costs) | 2016 Salaries and other remunieration | 2016 Soc.sec.costs (of which pension costs) |
|---|---|---|---|---|
| **Parent Company** | 26,098 | 10,786 | 18,960 | 8,020 |
| | | (3,826) | | (2,875) |
| **Subsidiaries** | 0 | 0 | 0 | 0 |
| | | (0) | | (0) |
| **Total Group** | **26,098** | **10,786** | **18,960** | **8,020** |
| | | (3,826) | | (2,875) |

## Note 11 Payments to senior executives

| Salaries and remuneration broken down between board members etc. and employees | 2017 Board and CEO (of which bonus etc.) | 2017 Other employees | 2016 Board and CEO (of which bonus etc.) | 2016 Other employees |
|---|---|---|---|---|
| **Parent Company** | 3,845 | 22,253 | 2,947 | 16,013 |
| | (288) | (295) | (202) | (296) |
| | | | | |
| **Subsidiaries** | 0 | 0 | 0 | 0 |
| | (0) | (0) | (0) | (0) |
| | | | | |
| **Total Group** | **3,845** | **22,253** | **2,947** | **16,013** |
| | (288) | (295) | (202) | (296) |

## Note 11 Payments to senior executives, cont'd

**Pensions**

For salaried staff in Sweden, the defined-contribution pension commitments under the ITP plan for old-age and family pensions are covered by insurance with Alecta. According to an opinion from the Financial Reporting Board, UFR 10 'Classification of ITP plans financed through insurance with Alecta', this a defined-benefit plan covering multiple employers. For the 2016 financial year, the company has not had access to information to allow it to report its proportional share of the obligations under the plan, assets under management and total costs, so it was not possible to report it as a defined-benefit plan. The ITP (white-collar) pension plan covered by insurance with Alecta is therefore reported as a defined-contribution plan. Premiums for the defined-benefit old-age and family pension are calculated individually and depend among other things on salary, previously accrued pension and expected remaining period of employment.

The collective consolidation level represents the market value of Alecta's assets as a percentage of the insurance commitments calculated by Alecta's actuarial methods and assumptions, which do not conform to IAS 19. The collective consolidation level should normally be allowed to vary between 125 and 155 percent. If Alecta's collective consolidation level drops below 125 percent or exceeds 155 percent, measures should be taken to create the conditions for the consolidation level to return to the normal range. For low consolidation, a possible action might be to increase the agreed price for new cover and increasing existing benefits. For high consolidation, a measure might be to introduce premium reductions. Alectas collectively consolidation level for defined-contribution plan have preliminary been calculated to 154 procent as per 31.12.2017.

**Payments to senior executives**

*Guidelines*

According to the Swedish Companies Act, the shareholders' meeting should decide on guidelines for payments to the CEO and other senior executives. The annual general meeting on May 2, 2017 adopted guidelines with essentially the following content.

The company's assumption is that payments should be made on market-based and competitive terms that enable senior executives to be recruited and retained. Payments to senior executives may consist of basic salary, variable remuneration, other benefits and sharerelated incentive programs. The CEO and other senior executives are generally entitled to other customary benefits according to what may be considered reasonable in terms of market practice and the benefit to the company.

Payments to the CEO and other senior executives should be based on factors such as work responsibilities, expertise, experience, position and performance. The breakdown between basic salary and variable remuneration should also be in proportion to the employee's position and responsibilities. Variable remuneration should be tied to predefined and measurable criteria, designed to promote the company's long-term value creation. The remuneration should not discriminate on the basis of gender, ethnic background, national origin, age, disability or other irrelevant circumstances.

The CEO and other senior executives should be offered a fixed salary which is in line with the market and based on the individual's responsibilities, competence and performance. Apart from their salary, the CEO and other senior executives will normally be entitled to an annual bonus of no more than 25 percent of their basic salary.

Over and above what has been defined in collective agreements or other agreements, the CEO and other senior executives may be entitled to arrange pension solutions on an individual basis. Reductions in salary and variable remuneration may be used to increase pension provisions provided that the cost to the company is unchanged over time.

According to the guidelines, the notice period for the CEO is six months on either side, and for other senior executives, the notice period may not exceed six months. Severance payments, apart from salary paid during the notice period, will only arise for the CEO who will be entitled to a severance payment equal to six months' salary in the case of termination by the company.

The Board may deviate from the guidelines if there are specific grounds for doing so in a given case. The Board will consider each year whether or not to propose a share-based incentive program to the annual general meeting. New issues and transfers of securities decided by the shareholders' meeting according to the rules in Chapter 16 of the Companies Act where the shareholders' meeting has taken or is about to take such decisions.

## Note 11 Payments to senior executives, cont'd

| 2017 | Basic salary/fee | Variable remuneration | Other benefits | Pension costs | Actuarial remuneration | Total |
|---|---|---|---|---|---|---|
| Peter Benson (Chairmen) | 367 | 0 | 0 | 0 | 0 | **367** |
| Carl Borrebaeck* | 200 | 0 | 0 | 0 | 0 | **200** |
| Kenth Peterson | 225 | 0 | 0 | 0 | 0 | **225** |
| Mathias Uhlén | 50 | 0 | 0 | 0 | 0 | **50** |
| Jakob Lindberg | 50 | 0 | 0 | 0 | 0 | **50** |
| Jonas Sjögren | 225 | 0 | 0 | 0 | 0 | **225** |
| Ulrika Danielsson | 283 | 0 | 0 | 0 | 0 | **283** |
| Anders Ekblom | 150 | 0 | 0 | 0 | 0 | **150** |
| Per Norlen (CEO) | 1,750 | 357 | 0 | 492 | 0 | **2,599** |
| Other senior executives (2 persons) | 2,185 | 215 | 0 | 636 | 0 | **3,035** |
| **Total** | **5,485** | **572** | **0** | **1,128** | **0** | **7,184** |

| 2016 | Basic salary/fee | Variable remuneration | Other benefits | Pension costs | Actuarial remuneration | Total |
|---|---|---|---|---|---|---|
| Peter Benson (Chairmen) | 257 | 0 | 0 | 0 | 0 | **257** |
| Carl Borrebaeck* | 128 | 0 | 0 | 0 | 0 | **128** |
| Kenth Peterson | 145 | 0 | 0 | 0 | 0 | **145** |
| Mathias Uhlén | 128 | 0 | 0 | 0 | 0 | **128** |
| Jakob Lindberg | 128 | 0 | 0 | 0 | 0 | **128** |
| Jonas Sjögren | 145 | 0 | 0 | 0 | 0 | **145** |
| Ulrika Danielsson | 133 | 0 | 0 | 0 | 0 | **133** |
| Per Norlén (CEO) | 1,680 | 202 | 0 | 419 | 215 | **2,516** |
| Other senior executives (3 persons) | 1,782 | 296 | 0 | 678 | 129 | **2,885** |
| **Total** | **4,527** | **498** | **0** | **1,097** | **344** | **6,466** |

* In 2017 & 2016, Carl Borrebaeck received payment for consulting services of TSEK 720 (720)according to the specification in note 30 - Transactions with related parties.

**Pensions**

The retirement age for the CEO is 65. Pension premiums are determined in accordance with the current ITP plan. Pensionable salary is the basic salary plus the average of the last three years' variable remuneration.

For other senior executives, the retirement age is 65. Pension premiums are determined in accordance with the current ITP plan

**Severance payments**

Between the company and the CEO, the notice period is six months on either side. In the case of termination by the company, a severance payment of six months' salary will be payable. The severance payment is not set off against other income. In the case of termination by the CEO, no severance payment will be made.

Between the company and other senior executives, the notice period is six months on either side. No severance payment will be made

**Shared-based compensation**

Warrent program compensation refers to employee stock options assigned to employees in 2016. For more information about the warrant program see note 26.

## Note 12 Profit/loss from shares in Group companies

| | Parent Company | |
|---|---|---|
| | 2017 | 2016 |
| Impairment of participations in Group companies | 0 | 22,120 |
| **Total** | **0** | **22,120** |

Impairment of participation in Group companies is derived from the value of participation in development project as described in Note 18.

## Note 13 Profit/loss from other securities and receivables

During 2017, Alligator has invested 74.5 MSEK in Corporate Bonds. The company received a return from corporate bonds amounting to TSEK 745, which is reported as 'Profit/loss from Other securities and receivables'.

Gains from sales of shares during 2016of TSEK 863 in 2016 are reported under 'Profit/loss from other securities'.

## Note 14 Financial income

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Interest income | 36 | 468 | 0 | 0 |
| Other financial income | | | | |
| Exchange rate gains | 3,111 | 8,236 | 0 | 0 |
| **Total financial income** | **3,147** | **8,704** | **0** | **0** |

All interest income is attributable to financial assets valued at historical cost.

## Note 15 Financial costs

| | Group | | Parental Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Exchange rate losses | -6,154 | -1,836 | -6,154 | -1,836 |
| Other interest costs | -19 | -4 | -19 | -4 |
| **Total financial costs** | **-6,173** | **-1,840** | **-6,173** | **-1,840** |

All interest costs are attributable to financial liabilities valued at historical cost.

## Note 16 Tax

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Current tax on profit/loss for the period | 0 | 0 | 0 | 0 |
| Deferred tax attributable to temporary differences | 0 | 0 | 0 | 0 |
| **Total reported tax** | **0** | **0** | **0** | **0** |

Income Tax in Sweden is calculted with 22% (22%) on the years taxable result. In the table below a reconciliation between the accounted result and the accounted tax for the year:

**Reconciliation of reported tax for the year**

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Profit before tax | -63,758 | -48,356 | -65,736 | -49,256 |
| | | | | |
| **Reported tax for the year** | | | | |
| Tax reported at Swedish tax rate (22%) | 14,027 | 10,638 | 14,462 | 10,836 |
| Tax effect of non-deductible costs | -96 | -4,951 | -96 | -4,951 |
| Tax effect of non-taxable income | 0 | 0 | 0 | 0 |
| | | | | |
| Tax effect of deductible costs reported directly against equity | 0 | 7,186 | 0 | 7,186 |
| Loss carry-forwards during the year whose taxable values is not reported as an asset | -13,931 | -12,874 | -14,366 | -13,072 |
| Other | 0 | 0 | 0 | 0 |
| **Reported tax for the year** | **0** | **0** | **0** | **0** |

No tax is recorded in the Consolidated of Comprehensive Income Statement or directly against the equity.

The Group's cumulative loss carry-forwards as of December 31, 2017 amounted to MSEK 356, of which MSEK 231 are Group contribution-locked. There is no maturity date which limits the use of the loss carry-forwards. However, it is uncertain when it will be possible to use these loss carry-forwards to set off against taxable gains. Deferred tax assets attributable to the loss carry-forward are therefore not reported with any value.

## Note 17 Earnings per share

**Earnings per share before dilution**

The following results and weighted average numbers of ordinary shares have been used to calculate earnings per share before dilution:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| Profit/loss for the year attributable to parent company shareholders | -63,758 | -48,356 |
| Weighted average number of ordinary shares before dilution, number of shares | 71,283,273 | 60,114,511 |
| **Earnings per share before dilution, SEK** | -0.89 | -0.80 |

**Earnings per share after dilution**

The following results and weighted average numbers of ordinary shares have been used to calculate earnings per share after dilution:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| Profit/loss for the year attributable to parent company shareholders | -63,758 | -48,356 |
| | | |
| Weighted average number of ordinary shares before dilution, number of shares | 71,283,273 | 60,114,511 |
| Effect of potential ordinary shares from options | N/A | N/A |
| Weighted average number of ordinary shares after dilution, number of shares | 71,283,273 | 60,114,511 |
| **Earnings per share after dilution, SEK** | -0.89 | -0.80 |

To calculate earnings per share after dilution, the weighted average number of outstanding ordinary shares is adjusted for the dilution effect or all potential ordinary shares. These potential ordinary shares relate to the options acquired at market value by management and employees in the company in 2014. If the profit/loss for the year is negative, the options are not regarded as diluting. Nor are the options diluting if the exercise price including mark-up for the value of outstanding future services to be reported during the qualifying period exceeds the average quotation for the period. There is no dilution effect for the 2017 or 2016 option program because the profit/loss for the year was negative.

For details of changes in the number of ordinary shares, see Note 27 Equity.

## Note 18 Participations in development projects

| | Group | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Historical cost brought-forward | 50,149 | 50,149 |
| Acquisitions in the period | 0 | 0 |
| **Cum. historical cost carried-forward** | **50,149** | **50,149** |
| | | |
| Imparments brought-forward | -32,200 | -10,080 |
| Impairments for the period | 0 | -22,120 |
| **Cum. impairments carried-forward** | **-32,200** | **-32,200** |
| | | |
| **Reported value carried-forward** | **17,949** | **17,949** |

When Atlas Therapeutics AB was acquired, a premium of TSEK 50,149 was paid; this was classified under 'Participations in development projects'. The acquisition of the subsidiary Atlas Therapeutics AB brought the Group 50% of a project together with the Korean company AbClon Inc. (80% of the total value) and exclusive rights to all therapeutic targets from the Human Protein Atlas (HPA) project (20% of the total value). These assets have been developed in the Biosynergy and 'Identification of new target molecules' projects.

The rights to the targets from the HPA project were written down to zero in 2015. This was because the HPA project was nearing completion and because it was unlikely that any more targets would be identified. The targets already identified are in such an early phase that it is uncertain when any economic benefit may be realized. Work to identify new target molecules continues, however.

With regard to the participation in the Biosynergy project, an impairment test was performed in 2017, as described below. The Board considers that the reported value of this project as of the December 31, 2017 cut-off is likely to exceed the previously reported value, and should certainly not be less.

**Impairment test**

To test the value of ongoing development projects, Alligator uses a probability-adjusted cash flow model. The fair value of the projects after deducting sales costs is calculated by estimating the present value of future cash flows probability-adjusted to allow for the development risk. The valuation is classed at level 3 in the valuation hierarchy and is based on the following key assumptions:

- Future income and expenditure forecasts for the development project. Income is calculated from estimates based on available data for various types of possible indicator, such as forecasts of total market size, expected market share for the product, projected price level and market-conformant level of one-off, milestone and royalty payments. The size of the market, royalty levels and milestone payments are estimated with the aid of information from secondary sources, assumptions accepted within the industry and assumptions made by Alligator. Revenues during 15 years after a market introduction has been included for impairments done in 2016 and 2017..

- Costs cover development expenses and direct and indirect costs based on usual production and marketing costs within the pharmaceutical industry, and the experience Alligator has from previous development projects.

- The cash flows are calculated at present value and adjusted for the probability of the project succeeding. The probability is based on the assumptions as to the likelihood of a similar product reaching the market..

- A discount rate before tax of 12.7% (12,7%).

The most critical assumptions are those concerning market size, market share and the likelihood of the projects reaching a point where they can be licensed. As in many projects in the pharmaceutical industry, there are risks of delays, of failure to achieve the expected clinical effects, or of the market and competitive situation changing. A 5 percentage point change in the discount rate or in the estimated probability would not result in a write-down either.

The impairment test for the year showed that, with the assumptions made for various milestones, the project would generate cash flows well in excess of the present book value.

Write-offs will be initiated when the asset can be used, i.e. when it is in place and in the state required for it to be used in the manner intended by management.

## Note 19 Patents

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31.12.2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 |
| Historical cost brought-forward | 13,678 | 13,461 | 13,678 | 13,461 |
| Acquisitions in the period | 174 | 217 | 174 | 217 |
| Disposal/scrapping | 0 | 0 | 0 | 0 |
| **Cum. historical cost carried-forward** | **13,852** | **13,678** | **13,852** | **13,678** |
| | | | | |
| Depreciation brought-forward | -11,372 | -10,107 | -11,372 | -10,107 |
| Disposal/scrapping | 0 | 0 | 0 | 0 |
| Depreciation in the period | -1,026 | -1,265 | -1,026 | -1,265 |
| **Cum. depreciation carried-forward** | **-12,398** | **-11,372** | **-12,398** | **-11,372** |
| | | | | |
| **Reported value carried-forward** | **1,454** | **2,306** | **1,454** | **2,306** |

## Note 20 Improvements in leased premises

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31.12.2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 |
| Historical cost brought-forward | 0 | 0 | 0 | 0 |
| Acquisitions in the period | 2,500 | 0 | 2,500 | 0 |
| Disposal/scrapping | 0 | 0 | 0 | 0 |
| **Cum. historical cost carried-forward** | **2,500** | **0** | **2,500** | **0** |
| | | | | |
| Depreciation brought-forward | 0 | 0 | 0 | 0 |
| Disposal/scrapping | 0 | 0 | 0 | 0 |
| Depreciation in the period | -41 | 0 | -41 | 0 |
| **Cum. depreciation carried-forward** | **-41** | **0** | **-41** | **0** |
| | | | | |
| **Reported value carried-forward** | **2,459** | **0** | **2,459** | **0** |

## Note 21 Equipment, machinery and computers

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31.12.2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 |
| Historical cost brought-forward | 13,320 | 10,051 | 13,320 | 10,051 |
| Acquisitions in the period | 11,526 | 3,379 | 11,526 | 3,379 |
| Disposal/scrapping | 0 | -110 | 0 | -110 |
| **Cum. historical cost carried-forward** | **24,846** | **13,320** | **24,846** | **13,320** |
| | | | | |
| Depreciation brought-forward | -8,971 | -7,728 | -8,971 | -7,728 |
| Disposal/scrapping | 0 | 45 | 0 | 45 |
| Depreciation in the period | -2,136 | -1,288 | -2,136 | -1,288 |
| **Cum. depreciation carried-forward** | **-11,107** | **-8,971** | **-11,107** | **-8,971** |
| | | | | |
| **Reported value carried-forward** | **13,739** | **4,349** | **13,739** | **4,349** |

## Note 22 Participations in Group companies

| | Parent Company | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Historical cost brought-forward | 52,494 | 52,200 |
| Shareholder contributions | 0 | 294 |
| **Historical cost carried-forward** | **52,494** | **52,494** |
| | | |
| Impairments brought-forward | -32,200 | -10,080 |
| Impairments for the period | 0 | -22,120 |
| **Cum.impairments carried-forward** | **-32,200** | **-32,200** |
| | | |
| **Reported value carried-forward** | **20,294** | **20,294** |

| Subsidiaries | Registered Office | 31.12.2017 Share of capital, % | 31.12.2016 Share of capital, % | 31.12.2017 Reported value | 31.12.2016 Reported value |
|---|---|---|---|---|---|
| Atlas Therapeutics AB (556815-2424) | Lund | 100% | 100% | 20,000 | 20,000 |
| A Bioscience Incentive AB (559056-3663) | Lund | 100% | 100% | 294 | 294 |
| * Also the voting rights | | | | **20,294** | **20,294** |

Atlas Therapeutics is engaged in research, development and production of antibodies and other types of binder molecules for commercialization within the field of antibody-based therapy. The impairments posted in 2016 were prompted by the valuation of participations in development projects as described in Note 18. The business of A Bioscience Incentive AB is to administer the company's option programs. Like the Group's parent company, both subsidiaries are based in Lund, Sweden

## Note 23 Accounts receivable

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31.12.2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 |
| Accounts receivable, gross | 53,096 | 0 | 53,096 | 0 |
| Provision for doubtful receivables | 0 | 0 | 0 | 0 |
| **Total accounts receivable, net of provisions for doubtful receivables** | **53,096** | **0** | **53,096** | **0** |

Management considers that the reported value of total accounts receivable, net of provisions for doubtful receivables, matches the fair value.

## Note 24 Other receivables

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31.12.2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 |
| Value-added tax | 2,726 | 3,740 | 2,726 | 3,740 |
| Receivables from business partners | 0 | 4,746 | 0 | 4,746 |
| Other items | 878 | 3,931 | 878 | 3,931 |
| **Total** | **3,604** | **12,417** | **3,604** | **12,417** |

## Note 25 Prepayments and accrued income

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31.12.2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 |
| Prepaid rents | 1,463 | 1,165 | 1,463 | 1,165 |
| Prepaid insurance premiums | 132 | 141 | 132 | 141 |
| Accrued income interest rates | 207 | 0 | 207 | 0 |
| Other items | 1,889 | 3,318 | 1,889 | 3,318 |
| **Total** | **3,692** | **4,624** | **3,692** | **4,624** |

## Note 26 Cash and cash equivalents

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31.12.2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 |
| Cash in hand | 0 | 0 | 0 | 0 |
| *Disposable bank deposits* | | | | |
| SEK | 169,768 | 601,323 | 167,095 | 599,805 |
| USD | 8,566 | 40,901 | 8,566 | 40,901 |
| EUR | 18,763 | 16,912 | 18,763 | 16,912 |
| Other short-term investments | 275,822 | 0 | 275,000 | 0 |
| **Total** | **472,919** | **659,136** | **469,424** | **657,618** |

## Note 27 Equity

**Share capital and Other capital contributions**

| | No of ordinary shares | Share Capital (TSEK) | Other Contributions (TSEK) |
|---|---|---|---|
| As at 31 December 2015 | 59,014,384 | 23,606 | 335,051 |
| New share issue | 10,769,231 | 4,307 | 346,425 |
| Underwriting costs | | | -32,665 |
| Conversations of options paid, not registered | | | 6,300 |
| Conversion of subscription options | 330,000 | 132 | 2,838 |
| A at 31 December 2016 | 70,113,615 | 28,045 | 657,949 |
| Conversion of subscription options | 1,275,000 | 510 | 4,665 |
| As at 31 December 2016 | 71,388,615 | 28,555 | 662,614 |

As of December 31, 2017, the registered share capital totaled 71,388,615 ordinary shares with a par value of SEK 0.40. All shares are of the same type, fully paid-up and entitling the holder to one vote. No shares are reserved for transfer under option contracts or other agreements. No shares are held by the company itself or its subsidiaries.

**Other capital contributions**

Other capital contributions are made up of capital contributed by the company's shareholders, e.g. share premiums.

**Option programs**

At the annual general meeting on April 20, 2016, it was decided to establish a subscription option program by issuing no more than 1,000,000 subscription options to a subsidiary for transfer on to employees of the company. In all, 1,000,000 subscription options were acquired by the subsidiary, of which 857,000 have so far been transferred to participants in the program while the remaining 143,000 have been reserved for transfer to future employees. The transfer to participants was made at market value calculated by the BlackScholes formula. When calculating, the value of the share was assumed to be 35 SEK, the subscription price 75 SEK, the redemption date 4.1 years, the risk-free interest rate -0,41% and the volatility rate 26.27%.The subscription options can be exercised in the periods from June 1, 2019 to August 31, 2019 and from March 1, 2020 to May 31, 2020 inclusive.

At the annual general meeting on April 20, 2016, it was decided to set up a staff option program whereby 900,000 staff options were allocated free of charge to participants in the program. The staff options allocated are accrued 1/3 on May 1, 2017, 1/3 on May 1, 2018 and 1/3 on May 1, 2019. Accrual is subject to the participant remaining in the company's employment and not having resigned on a given qualifying date. If a participant ceases to be employed or resigns from the company before a qualifying date, any staff options already accrued may be exercised in the normal exercise period, but no more rights will be accrued. Each accrued staff option entitles the holder t o acquire one new share in the company at an exercise price of SEK 75. Accrued staff options can be exercised in the periods from June 1, 2019 to August 31, 2019 and from March 1, 2020 to May 31, 2020 inclusive. To enable delivery of shares under the staff option program and to cover the associated costs (mainly social security charges), the annual general meeting also decided to issue further subscription options to a wholly-owned subsidiary. In all, the subsidiary acquired 1,182,780 subscription options under this program. At the end of the financial year, 294 992 option rights has been earned by the staff, 576 674 option rights are still possible to earn, and 28 334 option rights have become due when employees have left the company.

Upon full signing of all options issued in connection with the incentive programs for subscription of shares, a total of 2,002,435 shares will be issued and thereby maximally increase the number of shares to 73,391,158.

## Note 27 Equity, cont'd

**Proposed appropriation of profits (SEK)**

The Board propose that sums available to the shareholders' meeting:

| | |
|---|---|
| Share premium reserve | 662,741,283 |
| Retained earnings | -8,754,958 |
| Profit/loss for the period | -65,735,791 |
| **Total** | **588,250,533** |

Be allocated as follows

| | |
|---|---|
| Dividend to shareholders (SEK 0 per share) | 0 |
| Carried forward to new account | 588,250,533 |
| Total | 0 |
| **Totalt** | **588,250,533** |

## Note 28 Accrued expenses and deferred income

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31.12.2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 |
| Accrued salaries | 573 | 549 | 573 | 549 |
| Accrued vacation pay | 2,507 | 2,079 | 2,507 | 2,079 |
| Accruad social security changes | 968 | 826 | 968 | 826 |
| Accrued development costs | 3,032 | 628 | 3,032 | 628 |
| Prepaid income | 0 | 0 | 0 | 0 |
| Other items | 3,236 | 6,487 | 3,236 | 6,487 |
| **Total** | **10,315** | **10,569** | **10,315** | **10,569** |

## Note 29 Securities and contingent liabilities

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31.12.2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 |
| Securities lodged | None | None | None | None |
| Contingent liabilities | None | None | None | None |

One chattel mortgage for SEK 1,000,000 issued in 2009 was remaining in the company as per 31.12.2016. The chattel mortgage document was issued when the company took out a bridging loan from the then Chairman of the Board Per-Olof Mårtensson. The bridging loan was repaid and the chattel mortgage surrendered to the company, whereupon it lapsed. The company has initiated a release procedure with the Land Registration Authority for chattel mortgages which has been completed during 2017 and the chattel mortgage declared none existing.

## Note 30 Transactions with related parties

Transactions between the company and its subsidiaries, which are related to the company, have been eliminated by consolidation, so no details of these transactions are given in this Note. Details of transactions between the Group and other related parties are presented below.

**Sales of goods and services**

No sales of goods and services have been made to related parties.

**Purchase of goods and services**

| | Group | | | Parent Company | |
|---|---|---|---|---|---|
| | 2017 | 2016 | | 2017 | 2016 |
| Consulting services from Board member Carl Borrebaeck through Ocean Capital | 720 | 720 | 0 | 720 | 720 |
| **Total** | **720** | **720** | | **720** | **720** |

**Assets and liabilities at end of period resulting from sales and purchases of goods and services**

*Assets resulting from sales of goods and services*

There are no claims from related parties.

*Liabilities from sales of goods and services*

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31.12.2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 |
| Consulting services from Board member Carl Borrebaeck through Ocean Capital | 0 | 225 | 0 | 225 |
| | **0** | **225** | **0** | **225** |

Sales and purchases of goods and services are made under normal market conditions.

**Loans to related parties**

No loans have been granted to related parties.

**Payments to senior executives**

Details of payments to senior executives are presented in Note 11.

## Note 31 Participation in joint arrangements

The costs stated below are included in the Group's Consolidated Financial Statements which compose the Group's part in the project ALG.APV-527 which is driven in collaboration with Aptevo Therapeutics. The project has not had any revenues and no assets or liabilities can be allocated directly to the project.

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| Costs in the project ALG.APV-527 | 3,108 | 0 |

## Note 32 Events after reporting date

No material events have occured after reporting date.

## Note 33 Dividends

No dividends were paid in 2016 or 2017.

No dividend will be proposed to the annual general meeting on 26 april, 2018.

## Note 34 Approval of financial reports

The annual accounts and consolidated accounts were adopted by the Board and approved for publication on March 22, 2018.

The annual accounts and consolidated accounts will be presented to the annual general meeting for adoption on April 26, 2018. The annual general meeting will be held in Lund, Sweden.

The Board and the CEO hereby declare that the annual accounts have been drawn up in accordance with the Annual Accounts Act and RFR 2 'Reporting for legal entities' and give a true picture of the company's position and results, and that the administration report provides an accurate summary of the development of the company's business, position and results and describes the risks and uncertainty factors that the company faces. The Board and the CEO hereby declare that the consolidated accounts have been drawn up in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and give a true picture of the Group's position and results, and that the administration report provides an accurate summary of the development of the Group's business, position and results and describes the risks and uncertainty factors that the Group faces.

Lund 21 March 2018

Peter Benson
Chairman of the Board

Carl Borrebaeck
Board member

Ulrika Danielsson
Board member

Anders Ekblom
Board member

Kent Petersson
Board member

Jonas Sjögren
Board member

Laura von Schantz
Employee representative

Per Norlén
CEO

Our audit report was submitted on 21 March 2018

Ernst & Young AB

Johan Thuresson
Authorized Public Accountant

# Auditor's report

To the general meeting of the shareholders of Alligator Bioscience AB, corporate identity number 556597-8201

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

### Opinions

We have audited the annual accounts and consolidated accounts of Alligator Bioscience AB (publ) except for the corporate governance statement on pages 36-43 for the year 2017. The annual accounts and consolidated accounts of the company are included on pages 21-72 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 36-43. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the income statement and the statement of financial position for the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

### Revenue recognition in accordance with license agreement

*Description*
In June 2015, the Company signed a license agreement with Janssen Biotech Inc. for further development and commercialization of the product ADC-1013. The Company receives license revenue when certain milestones in the development project are reached. The initial license fee (so-called upfront payment) was received in 2015 and the first milestone payment was received in 2016. In 2017 a milestone of 49.4 MSEK (6 MUSD) has been recorded. Milestone payments are made when all conditions of the agreement are met.

The agreement is significant to the Company and contains parameters relating to the milestones, i.e. the contractual conditions that must be met in order to receive agreed revenue. The Company posts the milestone payment to revenue when the counterparty has confirmed that these conditions have been met. As this is the Company's only revenue stream, we considered that revenue recognition in accordance with the license agreement is a key audit matter of the audit.

*How our audit addressed this key audit matter*
In our audit, we evaluated the Group's accounting principles for revenue, which are described in Note 2 to the financial statements. We assessed and reviewed the process for revenue recognition. We examined the license agreement with Janssen Biotech Inc. and verified that the customer has confirmed that the milestone has been reached by reconciling the revenue received against the agreement, invoice and the amount paid. We assessed whether the information disclosed in the financial statements is appropriate.

### Valuation of participations in development projects and valuation of participations in group companies

*Description*
The carrying value of participations in development projects as of December 31 amounts to 17.9 MSEK in the consolidated statement of financial position and valuation of participations in group companies (Atlas Therapeutics AB) amounts to 20.0 MSEK in the parent company's balance sheet. The Company tests annually and when there is any indication of impairment, that the carrying values do not exceed the calculated recoverable amount. To test the value, the Company uses a probability-adjusted cash flow model in which the present value of future cash flows is estimated and probability-adjusted to allow for the development risk. The most critical assumptions are those concerning market size, market share, and the likelihood of the project reaching a point where it can be licensed.

Changes in assumptions have a major impact on the calculation of the recoverable amount and if other assumptions had been used, this would have resulted in a different amount of impairment. We therefore considered that the valuation of participations in development projects and participations in group companies is a key audit matter of the audit.

A description of the impairment test is disclosed in Note 18 "Participations in development projects" and in Note 3 "Important estimates and judgments".

*How our audit addressed this key audit matter*
In our audit we evaluated and tested the process used by management to set up the impairment test. Together with our valuation specialists, we also made comparisons against other companies to assess the reasonableness of future cash flows and probability assumptions and tested the chosen discount rate. We also reviewed the Company's model and method for preparing the impairment test and evaluated the Company's sensitivity analysis. We assessed whether the disclosures in the financial statements are appropriate.

### Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-20, 78-82. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and

assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the Board of Directors and the Managing Director**

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

**Auditor's responsibility**

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Alligator Bioscience AB (publ) for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated (loss be dealt with) in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

**The auditor's examination of the corporate governance statement**

The Board of Directors is responsible for that the corporate governance statement on pages 36-43 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR´s auditing standard RevU 16 The auditor´s examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Ernst & Young AB, Box 7850, 103 99 Stockholm, was appointed auditor of Alligator Bioscience AB (publ) by the general meeting of the shareholders on the 2nd May 2017 and has been the company's auditor since the 4th January 2001. Alligator Bioscience AB (publ) has been a public interest entity since 23rd November 2016.

Malmö 21st March 2018
Ernst & Young AB

Johan Thuresson
Authorized Public Accountant

# Change in share capital.

| Year | Transaction | Increase in share capital | Increase in no. of shares | Share capital total | Number of shares | Par value, SEK |
|---|---|---|---|---|---|---|
| 2000 | Formation of company | | | 100,000.00 | 1,000 | 100 |
| 2000 | Split 250:1 | | 249,000 | 100,000.00 | 250,000 | 0.40 |
| 2001 | New share issues | 1,230,869.60 | 3,077,174 | 1,330,869.60 | 3,327,174 | 0.40 |
| 2002 | Non-cash issue | 8,000.00 | 20,000 | 1,338,869.60 | 3,347,174 | 0.40 |
| 2002 | New share issue | 269,130.40 | 672,826 | 1,608,000.00 | 4,020,000 | 0.40 |
| 2003 | New share issue | 176,291.60 | 440,729 | 1,784,291.60 | 4,460,729 | 0.40 |
| 2004 | New share issues | 380,858.00 | 952,145 | 2,165,149.60 | 5,412,874 | 0.40 |
| 2004 | Subscription options exercised | 64,000.00 | 160,000 | 2,229,149.60 | 5,572,874 | 0.40 |
| 2005 | New share issues | 650,502.00 | 1,626,255 | 2,879,651.60 | 7,199,129 | 0.40 |
| 2005 | Options exercised | 33,600.00 | 84,000 | 2,913,251.60 | 7,283,129 | 0.40 |
| 2006 | New share issues | 973,901.20 | 2,434,753 | 3,887,152.80 | 9,717,882 | 0.40 |
| 2007 | New share issues | 987,432.00 | 2,468,580 | 4,874,584.80 | 12,186,462 | 0.40 |
| 2009 | New share issues | 1,105,743.20 | 2,768,358 | 5,980,328.00 | 14,950,820 | 0.40 |
| 2010 | New share issue | 134,000.00 | 335,000 | 6,114,328.00 | 15,285,820 | 0.40 |
| 2011 | New share issues | 2,240,874.40 | 5,602,186 | 8,355,202.40 | 20,888,006 | 0.40 |
| 2012 | New share issue | 849,405.20 | 2,123,513 | 9,204,607.60 | 23,011,519 | 0.40 |
| 2013 | Convertible bonds | 400,000.00 | 1,000,000 | 9,604,607.60 | 24,011,519 | 0.40 |
| 2013 | Subscription options exercised | 1,188,596 | 2,971,490 | 10,793,203.60 | 26,983,009 | 0.40 |
| 2013 | New share issues | 4,666,316.00 | 11,665,790 | 15,459,519.60 | 38,648,799 | 0.40 |
| 2013 | Non-cash issue | 2,880,000.00 | 7,200,000 | 18,339,519.60 | 45,848,799 | 0.40 |
| 2014 | New share issue | 1,056,749.20 | 2,641,873 | 19,396,268.80 | 48,490,672 | 0.40 |
| 2014 | Subscription options exercised | 48,628.80 | 121,572 | 19,444,897.60 | 48,612,244 | 0.40 |
| 2015 | New share issues | 4,160,856.00 | 10,402,140 | 23,605,753.60 | 59,014,384 | 0.40 |
| 2016 | Subscription options exercised | 132,000 | 330,000 | 23,737,753.60 | 59,344,384 | 0.40 |
| 2016 | New share issue | 4,307,692.40 | 10,769,231 | 28,045,446.00 | 70,113,615 | 0.40 |
| 2017 | Subscription options exercised | 510,000 | 1,275,000 | 28,555,446.00 | 71,388,615 | 0.40 |
| **Total** | | | | **28,555,446.00** | **71,388,615** | **0.40** |

The table above shows the change in share capital since the company was formed in 2000.

# Financial definitions.

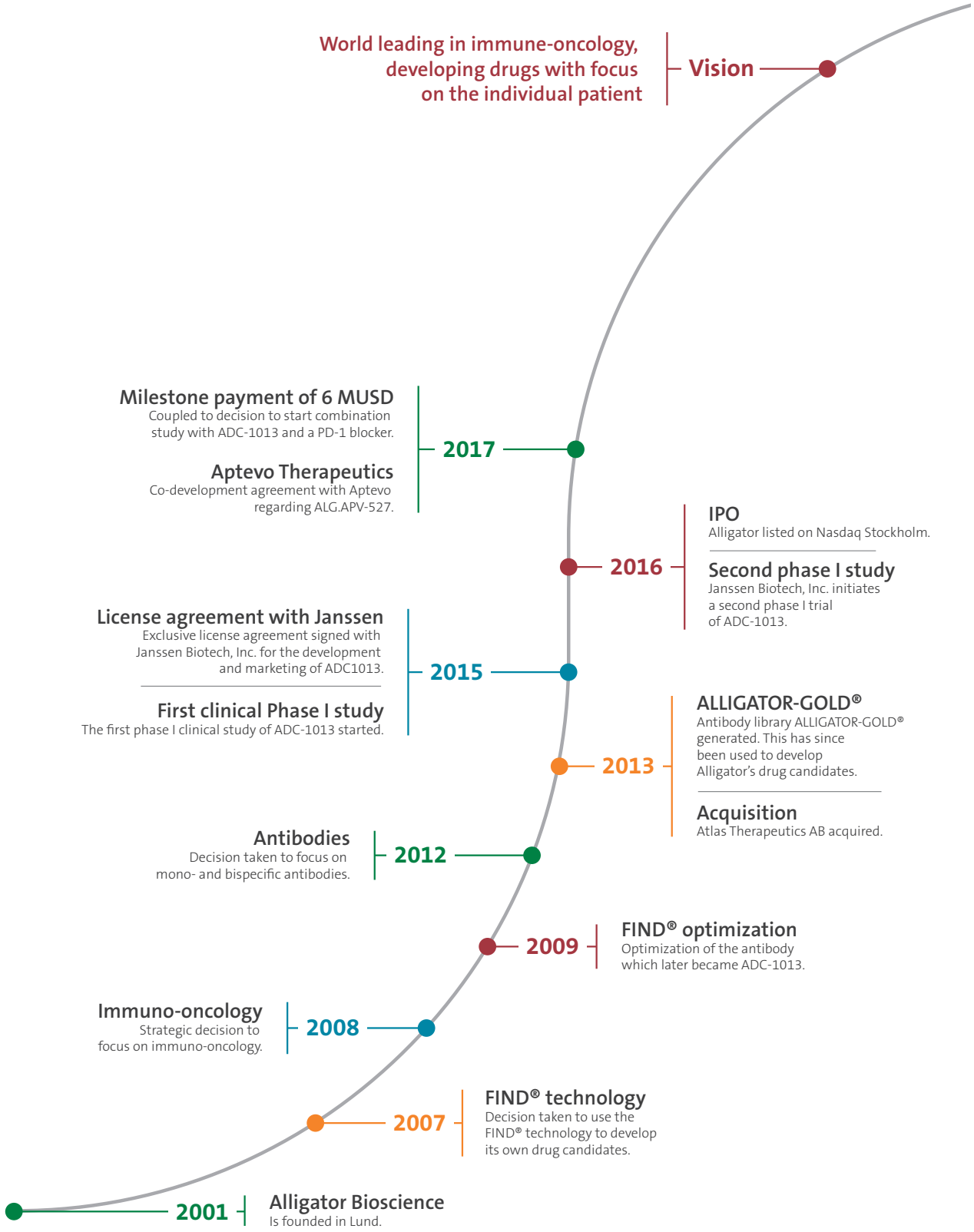
| | |
|---|---|
| **Average number of employees** | Average number of employees at the beginning and end of the period. |
| **Average number of employees within R&D** | Average number of employees within the Company's R&D departments at the beginning and end of the period. |
| **Average number of shares before and after dilution** | Average number of outstanding shares during the period. The number of shares after dilution also takes account of outstanding options where the company's share price on the reporting date is at least equal to the conversion price of the option. |
| **Cash flow for the period** | Net change in cash and cash equivalents excluding the impact of unrealized foreign exchange gains and losses. |
| **Cash flow from operating activities** | Cash flow before investing and financing activities. |
| **Equity per share after dilution** | Equity divided by the total number of shares at the end of the period and any outstanding options where the company's share price on the reporting date is at least equal to the conversion price of the option. |
| **Earnings per share before and after dilution** | Earnings divided by the weighted average number of shares during the period before and after dilution respectively. If the result is negative, the number of shares before dilution is also used for the calculation after dilution. |
| **Equity ratio** | Equity as a percentage of Total assets. |
| **Operating costs excluding impairments** | Other external costs, personnel costs and depreciation (excluding impairments of tangible and intangible assets). |
| **Operating profit/loss** | Profit/loss before financial items and taxes. |
| **R&D costs** | The Company's direct costs for research and development. Refers to costs for personnel, materials and external services. |
| **R&D costs as a percentage of operating costs excluding impairments** | R&D costs as a percentage of operating costs excluding impairments. |
| **Total assets** | Total of the Company's assets. |

# Glossary.

| | |
|---|---|
| **Agonist** | A compound which binds to a receptor and stimulates its activity. |
| **Antigen** | Substance which triggers a reaction in the immune system, such as a bacteria or virus. |
| **Antibody** | Proteins used by the body's immune defenses to detect and identify xenobiotic material. |
| **Bispecific antibodies** | Antibody-based products which bind to two different targets and thus have dual functions. |
| **Cancer** | A disease in which cells divide in an uncontrolled manner and invade neighboring tissue. Cancer can also spread (metastasize) to other parts of the body through the blood and the lymphatic system. |
| **Checkpoint inhibitor** | An antibody with the ability to break the immune system's tolerance to something dangerous, for example a cancer tumor. Immune-inhibiting signals can be blocked through binding to a specific receptor such as CTLA-4 or PD-1. |
| **Clinical trial** | The examination of healthy volunteers or patients to study the safety and efficacy of a potential drug or treatment method. |
| **CRO (Clinical Research Organization)** | A company specialized in performing clinical trials. |
| **CTA (Clinical Trial Authorization)** | An application to start clinical trials in humans which is submitted to a regulatory authority. |
| **CTLA-4 (Cytotoxic T-lymphocyte-Associated protein-4)** | An immune-inhibiting molecule expressed in and on the surface of T cells, primarily regulatory T cells. |
| **Dendritic cell** | A type of cell which detects xenobiotic substances. A key role of dendritic cells is their ability to stimulate T cells in the immune system. |
| **Discovery** | This research phase usually encompasses the development and evaluation of treatment concepts, the evaluation of potential drug candidates, and early efficacy studies. |
| **Drug candidate** | A specific compound usually designated before or during the pre-clinical phase. The drug candidate is the compound that is then studied in humans in clinical trials. |
| **EMA** | The European Medicines Agency. |
| **Experimental model** | A model of a disease or other injury to resemble a similar condition in humans. |
| **FDA** | The US Food and Drug Administration. |
| **Good Manufacturing Practice (GMP)** | Quality assurance methodology designed to ensure that products are manufactured in a standardized manner, such that quality requirements are satisfied. |
| **Immuno-oncology** | Field of oncology in which cancer is treated by activating the immune system. |
| **Lead** | A potential drug candidate which binds to the actual target molecule/s. |
| **Milestone payment** | Financial consideration received in the course of a project/program when a specified objective is reached. |
| **Monospecific antibodies** | Antibody-based product which bind only to one target, such as a receptor. |

| | |
|---|---|
| **Oncology** | Term for the field of medicine concerned with the diagnosis, prevention and treatment of tumor diseases. |
| **Patent** | Exclusive rights to a discovery or invention. |
| **PD-1 (Programmed Death-1)** | Immune-inhibiting receptor on the surface of certain cells, for example tumor cells. |
| **PD-L1 (Programmed Death-Ligand-1)** | The ligand that binds to PD-1, helping the cancer evade the body's immune defense. |
| **Phase I, II and III** | The various stages of trials on the efficacy of a pharmaceutical in humans. See also "clinical trial." Phase I examines the safety on healthy human subjects, phase II examines efficacy in patients with the relevant disease and phase III is a large-scale trial that verifies previously achieved results. In the development of new pharmaceuticals, different doses are trialed and safety is evaluated in patients with relevant disease. Phase II is often divided into phase IIa and phase IIb. In phase IIa, which is open, different doses of the pharmaceutical are tested without comparison against placebo and focusing on safety and the pharmaceutical's metabolism in the body. Phase IIb is 'blind', and tests the efficacy of selected dose(es) against placebo. |
| **Pharmacokinetics** | The study of the turnover of substances in the body, for example how the amount of the substance is changed by absorption, distribution, metabolism and excretion. |
| **Pharmacology** | The study of how substances interact with living organisms to bring about a functional change. |
| **Pre-clinical** | The stage of drug development before the drug candidate is tested in humans. It includes the final optimization of the drug candidate, the production of materials for future clinical studies and the compilation of a data package for an application to start clinical trials. |
| **Proof of concept studies** | Studies carried out to provide support for dosages and administration paths in subsequent clinical trials. |
| **R&D** | Research & Development |
| **Receptor** | A receptor on a cell which picks up chemical signals. |
| **Sponsor** | The person, company, institution or organization responsible for initiating, organizing or financing a clinical trial. |
| **T-cell** | A type of white blood cell which is important to the specific immune defense. |
| **Tumor-associated antigen (TAA)** | A protein expressed to a much higher degree on the surface of tumor cells than healthy cells. |
| **Tumor necrotic factor receptor superfamily (TNFR-SF)** | A group of immune-modulating target proteins related to the tumor necrosis factor protein. The name 'tumor necrosis factor' was derived from the fact that the first function detected for the protein was its ability to kill some types of tumor cells, though it was later discovered to have an immune-regulatory function. |

# Important milestones in Alligator's history.

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