

Karolinska Development AB (publ)

Corporate Identity Number 556707-5048

Interim report January – September 2013

CEO's comment

Positive new clinical data continued to be reported from our portfolio companies during the third quarter and after the reporting period Umecrine Cognition signed a partnering agreement. As a result, four potentially groundbreaking therapies for diverse patient groups have taken an important leap forward in their development.

Every year, millions of women around the world experience pain and discomfort during intrauterine device (IUD) insertion and other gynaecological procedures. There are few treatment options with proven safety and efficacy currently available to them. Pharmanest's product, called SHACT, aims to treat this pain and discomfort and is based on an innovative formulation of the well-known anesthetic lidocaine and a proprietary application device developed to simplify topical application in the cervix and uterus. A recently concluded Phase II study shows that women who received SHACT during IUD insertion experienced a significant reduction in pain and less discomfort in general compared with patients who received placebo. The study results provide a clinical foundation for possible future market approvals.

The recruitment of patients to Akinion's Phase I/II-study with AKN-028 in acute myeloid leukemia (AML) has been slower than planned. The company has discovered that the biological uptake of AKN-028 in the blood can be reduced when administered to patients who are also taking a certain class of over-the-counter medication. While the matter is now resolved, a delay has accumulated and data from the first part of the trial is now expected around mid-year 2014. Furthermore, the processes of finding partners for Dilafor and Axelar have been slower than anticipated. The delays have affected the valuation of the three portfolio companies negatively which also affects the net result for the third quarter.

In a clinical study of patients with chronic leg ulcers, Pergamum's therapeutic peptide LL-37 increased the average healing rate up to six-fold compared with placebo and the drug was well tolerated. The 15 million patients who suffer from hard-to-heal wounds have for decades been administered dated therapies that in many cases have lacked efficacy, creating a great need for innovative new medications. Lipidor showed that one of the cornerstones of psoriasis treatment – the substance calcipotriol – can be administered with the help of the AKVANO® technology (see p. 3) with as good results as the market leading product. The benefit with Lipidor's AKVANO® technology is the efficient delivery of the pharmaceutical ingredient, and that it leaves a pleasant feeling on the skin and a cosmetically appealing result. In October, the portfolio company Umecrine Cognition signed a partnering agreement with CleveXel Pharma. According to the agreement, CleveXel will co-fund the preclinical and clinical development of Umecrine Cognition's lead program in hepatic encephalopathy through to clinical proof-of-concept.

Karolinska Development evaluates more than 200 investment opportunities each year, of which we select a few of the most promising and then support the projects until they are ready to be licensed out or sold to major pharmaceutical companies. With 16 projects in clinical trials and the progress within the portfolio we are convinced that we are on the right track.

Torbjörn Bjerke

Chief Executive Officer

Summary of significant events during and after the third quarter 2013

- Pergamum announced positive data from Phase I/II study of LL-37 in patients with chronic leg ulcers
- All endpoints met in Pharmanest's Phase II study of SHACT
- Lipidor reported positive clinical Phase I/II data in treatment of psoriasis
- Oss-Q completed financing, initiated clinical study and changed name to OssDsign
- Karolinska Development repurchased shares to cover social security fees related to the PSP 2013, long term incentive program

Financial summary

Group	2013	2012	2013	2012
Amounts in SEKm	Jul-Sep	Jul-Sep	Jan-Sep	Jan-Sep
<i>Income statement</i>				
Revenue	2.8	1.8	7.3	7.4
Profit/loss after tax	-90.7	-126.7	301.2	-315.9
<i>Balance sheet</i>				
Cash and cash equivalents			77.5	202.7
Short-term investments			167.2	213.2
Total cash, cash equivalents and short-term investments (Note 3)			244.7	415.9
<i>Share information</i>				
Earnings per share before and after dilution (SEK)	-1.85	-2.47	6.38	-5.99
Net asset value per share (SEK) (Note 1)			42.89	40.43
Share price, last trading day in the reporting period (SEK)			31.0	16.3
<i>Portfolio information</i>				
Investments in portfolio companies	2.7	91.3	176.9	207.0
Of which investments not affecting cash flow	0.0	72.8	3.8	72.8
Valuation of total portfolio holdings (Note 2)			1,767.8	1,535.6

Significant events during the third quarter 2013

Pergamum reported positive preliminary efficacy results from Phase I/II study of LL-37 in patients with chronic leg ulcers

In July, Pergamum AB reported positive preliminary data from a randomized Phase I/II study of LL-37 for treatment of venous leg ulcers (see the final study results under significant events after the third quarter 2013).

Pharmanest met all endpoints in its Phase II study of SHACT in IUD insertion

In August, Pharmanest AB published positive results from a Phase II study investigating the efficacy and tolerability of SHACT. The data show that SHACT is effective in reducing pain in connection with intrauterine device (IUD) insertion. Karolinska Development owns 63% of Pharmanest (including indirect ownership through KCIF Co-Investment Fund KB).

Every year, millions of women around the world experience pain and discomfort during IUD insertion (a common contraception method) as well as during other gynaecological procedures. There are few treatment options with proven efficacy and safety available to these women. SHACT is a product based on an innovative formulation of lidocaine, a well-known anesthetic, and a proprietary application device developed to simplify topical application in the cervix and uterus.

The Phase II study with SHACT was a randomized, double-blind trial involving 218 women between 18 and 45 years of age. Those who received SHACT during IUD insertion experienced a more than 30% reduction in pain, measured on a visual analogue scale (VAS), compared with patients who received placebo. This effect was statistically significant ($p < 0.0001$). Patients who received SHACT also experienced less discomfort ($p < 0.05$) than women who received placebo. Women who received SHACT reported similar adverse events, in terms of type and frequency, as those who received placebo treatment. The most common adverse event was nausea in both treatment groups. No serious adverse events were reported. The study, conducted at Karolinska University Hospital in Solna, Sweden and two other sites, met all primary and secondary objectives and provides a clinical foundation for the regulatory submission of SHACT in the European Union (EU) and other countries around the world.

Pharmanest also reported data from a Phase I study investigating the pharmacokinetic properties of SHACT. The study showed that the majority of women had measurable levels of lidocaine after 5 minutes, suggesting a rapid onset of action. No toxicity concerns were observed during the study.

About Pharmanest AB

Pharmanest is a Stockholm-based pharmaceutical company specializing in the development of new products for local pain relief in the gynecology and obstetrics field. The company was founded in 2009 and is based on research on pain nerves in the cervix and uterus conducted at the Karolinska Hospital by founders Dr. Berith Karlsson Tingåker, Professor Gunvor Ekman-Ordeberg, Associate Professor Lars Irestedt, and Associate Professor Arne Brodin, pharmaceutical formulation and topical anesthetics expert.

Lipidor reported positive clinical Phase I/II data in treatment of psoriasis

In August, Lipidor announced positive results from a Phase I/IIa study investigating the efficacy and tolerability of its AKVANO®/calcipotriol spray formulation for treatment of psoriasis vulgaris, the most common form of psoriasis.

Various kinds of ointments, creams and lotions are commonly prescribed for psoriasis, but also show low compliance rates. This is largely due to their greasiness and inability to absorb into the skin, leaving them present on the skin long after application. This causes personal discomfort and stains clothing.

Lipidor is developing AKVANO®/calcipotriol, a water-free spray formulation containing calcipotriol, a vitamin D derivative that is one of the cornerstones in the treatment of mild to moderate psoriasis vulgaris. The AKVANO® technology enables efficient delivery of the pharmaceutical ingredient. After application, the carrier compounds evaporate quickly, leaving a pleasant feeling on the skin and a cosmetically appealing result.

Data from the recently concluded Phase I/IIa clinical study in 24 psoriasis vulgaris patients revealed that the AKVANO®/calcipotriol spray formulation had clear and significant antipsoriatic effects compared with placebo, comparable to a marketed formulation of calcipotriol. This means that the primary objective of the trial was met. In the study, the patients received 10 topical treatments over 12 days. No safety issues were noted.

Approximately 125 million patients suffer from psoriasis worldwide. While the disease varies in its manifestation, psoriasis vulgaris that affects 80-90% of the patients typically causes plaques of rapid skin accumulation at certain areas of the skin. One of the measures of disease severity is the body surface area covered by affected skin plaques or lesions, from distinctly localized to widespread. Psoriasis can cause itching and pain, scaling of skin and bleeding lesions. Quality of life aspects, including self-consciousness and social withdrawal, are important factors in the management of the disease, including treatment compliance.

About Lipidor AB

Lipidor was established in Stockholm 2009 in order to develop, patent and commercialize formulation concepts and technologies based on lipids. The proprietary AKVANO® technology is the outcome of decades of experience in research, pharmaceutical development and commercialization by the founders Bengt Herslöf (Professor, Department of Analytical Chemistry at Stockholm University), Anders Carlsson (PhD Physical Chemistry), Jan Holmbäck (PhD Organic Chemistry), Olle Holmertz (MBA) and Gerhard Miksche (PhD Chemistry).

Oss-Q completed a financing round, initiated a clinical study and changed its name to OssDsign

Oss-Q AB, an Uppsala, Sweden-based medtech company focusing on implants for bone replacement, announced in July that after closing a SEK 13.7m financing round it had initiated a multi-center study with its first product, OssDsign Cranio PSI. In addition to clinical outcome, the study is evaluating quality of life and health economics. In connection with these important advances, the company changed its name to OssDsign AB. Karolinska Development invested SEK 6.8m, increasing its ownership in OssDsign AB from 16% to 26% (including indirect investment and ownership through KCIF Co-Investment Fund KB).

Serious accidents and open brain surgery can result in large and complicated damage to the skull. In many cases, today's implant materials result in poor clinical outcomes. OssDsign has developed a new implant where biomaterials, mechanical properties and implant design are optimized precisely for these injuries. OssDsign is developing a new bioceramic material with a chemical composition similar to bone. The company's strategy is to transform this technology into distinctively differentiated products for bone replacement and to build a niche company in orthopedics, starting with OssDsign Cranio PSI in skull surgery as first marketed product.

The clinical study with OssDsign Cranio PSI is being conducted on patients for whom previous treatments have failed. The positive results so far suggest that OssDsign Cranio PSI could be an important new option for this patient category, especially if the skull injuries are severe. The launch of OssDsign Cranio PSI will provide a valuable platform for further development of applications in skull surgery and other orthopedic areas such as fracture healing. The market for bone replacement products was worth around EUR 1bn in 2012, according to company estimates.

About OssDsign AB

OssDsign and the lead product Cranio PSI is the result of collaborative research efforts from surgeons at Karolinska University Hospital, headed by Dr Thomas Engstrand, and research in bioceramic materials at the Department of Engineering Sciences at Uppsala University conceived by Professor Håkan Engqvist and Dr Jonas Åberg. The company was established 2011 in Uppsala based on transfer of intellectual property related to an implant technology platform.

Share repurchase to cover social security fees related to incentive program

In August, Karolinska Development announced that its Board of Directors had decided, with the authorization of the Annual General Meeting on 14 May 2013, to repurchase a maximum of 93,685 Series B shares. On 3 September 2013, 93,685 shares were repurchased on NASDAQ OMX Stockholm at a price of SEK 26.50 per share, within the approved share price interval, i.e., between the highest buying price and lowest selling price. The purpose of the repurchase is to cover social security fees under the PSP 2013 incentive program resolved by the Annual General Meeting on 14 May 2013. Including previous repurchases, Karolinska Development currently holds 244,285 of its own shares.

Significant events after the interim period

Pergamum announced final data from its Phase I/II study of LL-37 in patients with chronic leg ulcers

In October, Pergamum AB announced it had finalized the Clinical Study Report of a randomized Phase I/II trial of the multifunctional therapeutic peptide LL-37 for treatment of venous leg ulcers. Chronic leg ulcers are usually defined as those that fail to heal despite six weeks or more of treatment over three months. Venous leg ulcers are the most common type of hard-to-heal leg wounds, accounting for more than 70% of all cases in the developed world. LL-37 is a human peptide involved in acute wound healing. Data from independent research groups suggest that chronic wounds have a relative deficit of LL-37 and should benefit from therapeutic, exogenous application of the peptide.

In this double blind multicenter study, 34 patients with venous leg ulcers received either placebo or one of three different doses (0.5, 1.6, and 3.2 mg/ml) of Pergamum's therapeutic peptide LL-37 in a gel formulation. The primary objective of the trial was to assess safety and tolerability, and the data demonstrate that there are no safety concerns with LL-37. The investigational drug was well tolerated when applied to venous leg ulcers at the two lower doses (0.5 mg/mL and 1.6 mg/mL). However, an increased incidence of local reactions at the treated wounds was observed in the highest dose group (3.2 mg/ml).

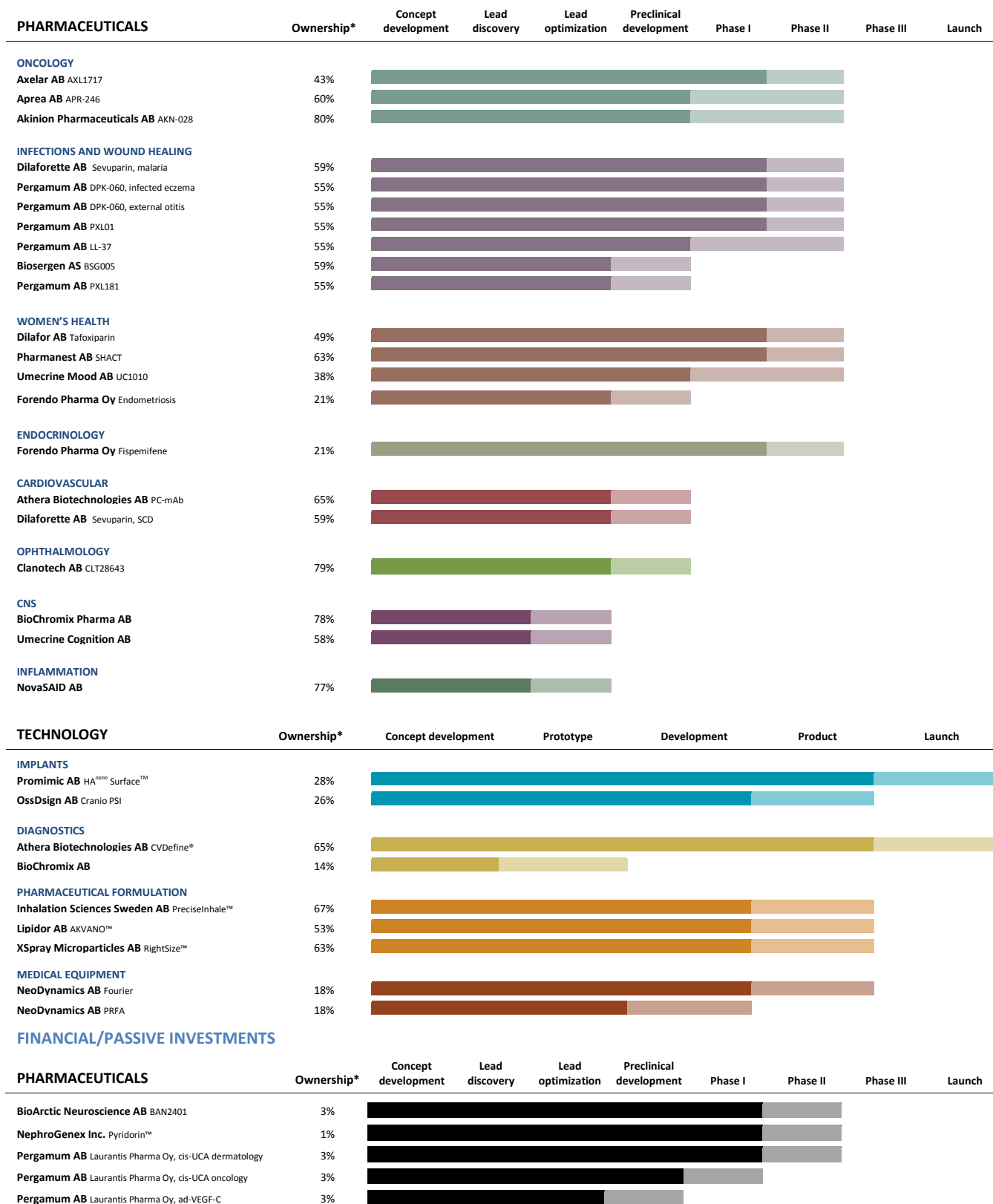
The results also show that the healing rate for patients who received the lowest dose (0.5 mg/ml) and middle dose (1.6 mg/ml) of LL-37 were approximately 6- and 3-fold higher, respectively, than patients who received placebo ($p=0.003$ for 0.5 mg/mL and $p=0.088$ for 1.6 mg/ml). There was no improvement in healing rate in the highest dose group. The clinical trial report confirms the positive top-line data reported earlier this year.

About Pergamum AB and LL-37

Pergamum was incorporated in 2009 and one year later, the company was merged with three innovative biotech startups through full ownership into one operational company. One of these startups was based on findings concerning the role of the endogenous active peptide LL-37 made by Professor Mona Ståhle and Dr Johan Heilborn at Karolinska Institutet. The technology and related product concepts in wound healing were incorporated in Lipopeptide AB in early 2003. The company is now part of the Pergamum Group.

Portfolio development

During the third quarter, three of Karolinska Development's portfolio companies announced positive clinical data in their projects and one company entered into a cooperation agreement. The portfolio currently consists of 35 projects (see below), of which 16 pharmaceutical projects are in clinical trials (20 November 2013).



*Includes indirect ownership

Solid colored area = completed phase
Shaded colored area = ongoing phase

Financial overview - Group

Revenue

Consolidated revenue during the interim period amounted to SEK 7.3m, compared with SEK 7.4m in the same period in 2012. Consolidated revenue is comprised of services provided to portfolio companies, amounting to SEK 6.3m (2.9m) and grants received by portfolio companies, amounting to SEK 1.0m (4.5m).

During the third quarter, consolidated revenue amounted to SEK 2.8m, compared with SEK 1.8m in the same period in 2012. Consolidated revenue is comprised of services provided to portfolio companies, amounting to SEK 2.6m (0.5m) and grants received by portfolio companies, amounting to SEK 0.2m (1.3m).

Results

During the interim period, the Group's operating profit amounted to SEK 296.8m (-303.7m), a change of SEK 600.5m year-on-year. The positive change is mainly due to the transaction with Rosetta Capital IV LP, which was finalized on 7 March 2013. The impact on results of the transaction amounted to SEK 404.6m, of which SEK 68.2m relates to a capital gain and the remaining SEK 336.4m to the revaluation to the effective fair value of the remaining holding, 86.34%, in the KDev Investments Group as represented by the deal consideration. Following the transaction, the KDev Investments Group is classified as a joint venture with changes in fair value recognized through profit or loss (Note 3). The portion of the change in fair value of other holdings affecting results amounted to SEK -23.9m (-188.9m) during the period.

The Group's profit before tax during the interim period amounted to SEK 298.3m (-326.7m), mainly consisting of the result from the transaction with Rosetta Capital IV LP of SEK 404.6m (0), Parent Company costs of SEK -43.5m (-41.0m), subsidiary costs of SEK -40.4m (-73.8m), fair value changes of SEK -23.9m (-188.9m), and net financial items of SEK 1.5m (-23.0m).

During the third quarter, the Group's operating loss amounted to SEK -91.9m, against a year-earlier loss of SEK -101.2m. The portion of the change in fair value affecting results during the third quarter amounted to SEK -71.9m (-65.5m). The total negative change in fair value during the quarter is primarily an effect of delays in three portfolio companies and hence the estimated free cash flows in the risk-adjusted net present value (rNPV) calculations to later quarters. For these portfolio companies, the Group moved from a valuation based on the deal consideration for KDev Investments Group to a valuation based on rNPV calculations.

The Group's loss before tax during the third quarter amounted to SEK -90.7m (-129.9m).

Investments in portfolio companies

Investments during the interim period amounted to SEK 176.9m (207.0m), of which SEK 173.1m (134.2m) affected cash flow.

The largest investments during the interim period were in KDev Investments Group at SEK 103.4m (reflecting Karolinska Development's 90% share of KDev Investments Group's investments in Axelar AB (SEK 24.1m), Akinion Pharmaceuticals AB (SEK 23.5m), Biosergen AS (SEK 10.1m), Dilaforette Holding (SEK 9.0m), Umeocrine Mood AB (SEK 8.2m), Pergamum AB (SEK 7.0m), Aprea AB (SEK 6.5m) Dilafor AB (SEK 4.5m), Inhalation Sciences Sweden AB (SEK 3.6m), Clanotech AB (SEK 3.1m), Promimic (SEK 2.7m) and KDev Investments AB (SEK 1.1m)) XSpray Microparticles AB at SEK 12.4m and KDev Exploratory AB at SEK 11.0m.

The Group's investments in portfolio companies during the third quarter amounted to SEK 2.7m (91.3, of which 18.6 affected cash flow).

The largest investment during the third quarter was in Lipidor AB at SEK 2.5m.

Financial position*

The Group's equity to total assets ratio was 99% (91%) on 30 September 2013 and equity amounted to SEK 1,982.7m (2,024.2m).

The increase in the value of shares in joint ventures and associated companies is mainly due to the classification of the sub-group KDev Investments as a joint venture following the transaction with Rosetta Capital IV LP (Note 3). As a consequence, portfolio companies included in the transaction which were previously consolidated as subsidiaries are now accounted for at fair value.

Cash, cash equivalents and short-term investments in the Group amounted to SEK 244.7m (291.2m), of which SEK 198.0m is provisionally allocated for expected follow-on investments in the KDev Investments Group (Note 3).

Total assets amounted to SEK 2,008.9m (2,215.0m).

* Comparable figures refer to 31 December 2012

Financial overview – Parent Company

Revenue

The Parent Company's revenue during the interim period amounted to SEK 4.0m (2.7m).

The Parent Company's revenue during the third quarter amounted to SEK 1.6m (1.0m).

Results

During the interim period, the Parent Company's operating profit amounted to SEK 61.1m (-132.7m), a change of SEK 193.8m year-on-year. Operating profit includes a capital gain on the sale of shares in KDev Investments AB of SEK 123.7m as well as impairment losses on the holdings in KDev Exploratory AB (SEK -15.1m), CytoGuide ApS (SEK -3.3m), Limone AB (SEK -0.2m), KD Incentive AB (SEK -0.2m), KCIF Fund Management AB (SEK -0.1m), and KDev Oncology AB (SEK -0.1m). Impairment losses during the interim period totaled SEK -19.1m (-135.0m).

The Parent Company's profit after tax during the interim period amounted to SEK 62.0m (-154.6m).

During the third quarter, the Parent Company's operating loss amounted to SEK -17.4m (6.3m), a change of SEK -23.7m year-on-year. The third-quarter operating result includes impairment losses on the holding in KDev Exploratory AB (SEK -5.1m).

The Parent Company's net loss during the third quarter amounted to SEK -16.2m (-21.7m).

Information on risks and uncertainties

Parent Company and Group

Valuation risks

Companies active in pharmaceutical development and medical technology at an early phase are, by their very nature, difficult to value, as lead times are very long and development risks are high. Due to the uncertainty in these assessments, the estimated value of the portfolio may deviate substantially from the future generated value. This is largely due to sensitivities in the valuation calculations to movement of expected milestone or exit dates, costs of trials and similar assumptions, which are not necessarily accounted for in arriving at an actual deal value in negotiations with partners.

Project development risks

Risks and uncertainties are primarily associated with investments in portfolio companies and the development of projects in these companies. The operations of the portfolio companies consist of the development of early stage pharmaceutical projects. By their very nature such operations are distinguished by very high risk and great uncertainty in terms of both timing and nature of the development results.

Financial risks

Financial risks consist of investments in portfolio companies as well as risks in the management of liquid assets.

Future financing needs

Future investments in new and current portfolio companies will require capital. There is no guarantee that such capital can be obtained on favorable terms or that such capital can be obtained at all.

For a description of other risks and uncertainties, please refer to the annual report 2012.

The CEO hereby certifies that this interim report gives a true and fair view of the operations, financial position and results of operations of the Parent Company and the Group and describes the material risks and uncertainties faced by the Parent Company and the companies included in the Group.

Solna, 21 November 2013

Torbjörn Bjerke
CEO

Dates for publication of financial information

Year-end report 2013	February 19, 2014
Annual report 2013	April 10, 2014
Interim report January-March 2014	May 8, 2014
Annual General Meeting	May 14, 2014
Interim report January-June 2014	August 21, 2014
Interim report January-September 2014	November 20, 2014

Karolinska Development is required to make public the information in this interim report in accordance with the Securities Market Act. The information was released for publication on 21 November 2013.

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

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

Auditors' review report

Introduction

We have reviewed the condensed financial information (interim report) for Karolinska Development AB (publ) as per 30 September 2013 and the nine-month period ended on this date. The Board of Directors and the CEO are responsible for the preparation and presentation of this financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this financial information based on our review.

Scope of review

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

Conclusion

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

Stockholm, 21 November 2013
Deloitte AB

Thomas Strömberg
Authorized Public Accountant

Financial reports

Condensed consolidated income statement

<i>Amounts in SEK 000</i>	<i>Note</i>	2013 <i>Jul-Sep</i>	2012 <i>Jul-Sep</i>	2013 <i>Jan-Sep</i>	2012 <i>Jan-Sep</i>	2012 <i>Full-year</i>
Revenue		2,759	1,822	7,336	7,371	9,943
Other external expenses		-8,432	-21,083	-43,447	-74,014	-108,980
Personnel costs		-13,530	-14,461	-45,507	-44,221	-62,818
Depreciation of tangible and intangible non-current assets		-716	-1,970	-2,328	-3,918	-5,163
Change in fair value of shares in joint ventures and associated companies	2	-71,004	-66,968	-25,027	-189,477	-87,694
Change in fair value of other long-term securities holdings	2	-927	1,508	1,098	583	902
Result from transaction with Rosetta Capital IV LP	3	0	0	404,646	0	0
Operating profit/loss		-91,850	-101,152	296,771	-303,676	-253,810
Net financial items		1,180	-28,718	1,496	-22,996	-22,161
Profit/loss before tax	2	-90,670	-129,870	298,267	-326,672	-275,971
Deferred taxes		0	3,159	2,926	10,756	45,807
Current taxes		0	0	0	0	0
NET PROFIT/LOSS FOR THE PERIOD		-90,670	-126,711	301,193	-315,916	-230,164
Attributable to:						
Parent Company's shareholders		-89,665	-119,879	308,682	-290,692	-212,852
Non-controlling interests		-1,005	-6,832	-7,489	-25,224	-17,312
TOTAL		-90,670	-126,711	301,193	-315,916	-230,164

Earnings per share

<i>Amounts in SEK 000</i>	<i>Note</i>	2013 <i>Jul-Sep</i>	2012 <i>Jul-Sep</i>	2013 <i>Jan-Sep</i>	2012 <i>Jan-Sep</i>	2012 <i>Full-year</i>
Earnings per share attributable to Parent Company's shareholders, weighted average, before and after dilution		-1.85	-2.47	6.38	-5.99	-4.39
Number of shares, weighted average		48,352,304	48,531,417	48,371,208	48,531,417	48,529,767

Condensed consolidated statement of comprehensive income

<i>Amounts in SEK 000</i>	<i>Note</i>	2013 <i>Jul-Sep</i>	2012 <i>Jul-Sep</i>	2013 <i>Jan-Sep</i>	2012 <i>Jan-Sep</i>	2012 <i>Full-year</i>
Net profit/loss for the period		-90,670	-126,711	301,193	-315,916	-230,164
Total comprehensive income for the period		-90,670	-126,711	301,193	-315,916	-230,164
Attributable to:						
Parent Company's shareholders		-89,665	-119,879	308,682	-290,692	-212,852
Non-controlling interests		-1,005	-6,832	-7,489	-25,224	-17,312
TOTAL		-90,670	-126,711	301,193	-315,916	-230,164

Condensed consolidated statement of financial position

<i>Amounts in SEK 000</i>	<i>Note</i>	<i>30 Sep 2013</i>	<i>30 Sep 2012</i>	<i>31 Dec 2012</i>
Assets				
Non-current assets				
Intangible non-current assets		8,533	1,009,081	9,864
Tangible non-current assets		1	5,254	4,985
Shares in joint ventures and associated companies	2	1,644,964	669,561	219,173
Other long-term securities holdings	2	28,047	26,630	26,949
Loans receivable joint ventures and associated companies		30,152	12,103	12,856
Other financial assets	3	38,113	8,907	8,907
Total non-current assets		1,749,810	1,731,536	282,734
Current assets				
Accounts receivable		5,679	890	513
Other short-term receivables		4,644	7,546	3,955
Prepaid expenses and accrued income		4,126	5,608	4,578
Short-term investments	3	167,174	213,136	174,160
Cash and cash equivalents	3	77,469	202,720	117,033
Total current assets		259,092	429,900	300,239
Assets which have been transferred to KDev Investments Group		-	-	1,632,025
TOTAL ASSETS		2,008,902	2,161,436	2,214,998
Equity and liabilities				
Equity				
Share capital		24,266	24,266	24,266
Share premium		1,768,179	1,768,179	1,768,179
Retained earnings including current period result		184,541	-198,043	-122,547
Equity attributable to Parent Company's shareholders		1,976,986	1,594,402	1,669,898
Non-controlling interests		5,746	346,262	354,294
Total equity		1,982,732	1,940,664	2,024,192
Long-term liabilities				
Deferred taxes		0	186,329	0
Other financial liabilities		9,878	8,907	10,889
Total long-term liabilities		9,878	195,236	10,889
Current liabilities				
Interest-bearing liabilities		0	1,675	0
Accounts payable		3,135	6,995	4,215
Other short-term liabilities		3,601	3,989	2,775
Accrued expenses and prepaid income		9,556	12,877	8,166
Total current liabilities		16,292	25,536	15,156
Liabilities attributable to assets which have been transferred to KDev Investments Group		-	-	164,761
Total liabilities		26,170	220,772	190,806
TOTAL EQUITY AND LIABILITIES		2,008,902	2,161,436	2,214,998

Condensed consolidated statement of changes in equity

Equity attributable to Parent Company's shareholders							
<i>Amounts in SEK 000</i>	Note	Share capital	Share premium	Retained earnings incl. current year result	Share capital	Share premium	Retained earnings incl. current year result
Opening equity at 1 Jan 2013		24,266	1,768,179	-122,547	1,669,898	354,294	2,024,192
<i>Net profit/loss for the period</i>				308,682	308,682	-7,489	301,193
Total comprehensive income for the period		0	0	308,682	308,682	-7,489	301,193
Change in non-controlling interests				-248	-248	5,028	4,780
Share repurchase				-2,483	-2,483		-2,483
Share rights incentive programs PSP 2012, PSP 2013				1,137	1,137		1,137
Non-controlling interests transferred to KDev Investments Group					0	-346,087	-346,087
Closing equity at 30 Sep 2013		24,266	1,768,179	184,541	1,976,986	5,746	1,982,732
Opening equity at 1 Jan 2012		24,266	1,768,179	86,442	1,878,887	295,041	2,173,928
<i>Net loss for the period</i>				-290,692	-290,692	-25,224	-315,916
Total comprehensive income for the period		0	0	-290,692	-290,692	-25,224	-315,916
Acquisition of subsidiary					0	78,435	78,435
Change in non-controlling interests				6,207	6,207	-1,990	4,217
Closing equity at 30 Sep 2012		24,266	1,768,179	-198,043	1,594,402	346,262	1,940,664
Opening equity at 1 Jan 2012		24,266	1,768,179	86,442	1,878,887	295,041	2,173,928
<i>Net loss for the year</i>				-212,852	-212,852	-17,312	-230,164
Total comprehensive income for the year		0	0	-212,852	-212,852	-17,312	-230,164
Acquisition of subsidiary					0	78,435	78,435
Change in non-controlling interests				6,106	6,106	-1,870	4,236
Share repurchase				-2,243	-2,243		-2,243
Closing equity at 31 Dec 2012		24,266	1,768,179	-122,547	1,669,898	354,294	2,024,192

Condensed consolidated statement of cash flows

		2013	2012
<i>Amounts in SEK 000</i>	<i>Note</i>	<i>Jan-Sep</i>	<i>Jan-Sep</i>
Operating activities			
Operating profit/loss		296,771	-303,676
Adjustments for depreciation, amortization and impairment losses		2,328	3,918
Adjustments for changes in fair value	2	23,929	188,894
Result from transaction with Rosetta Capital IV LP	3	-404,646	0
Realized changes in value of short-term investments		1,072	8,684
Interest paid		-70	-26
Interest received		1,757	3,053
Other items not affecting cash flow		2,245	0
Cash flow from operating activities before changes in working capital		-76,614	-99,153
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in operating receivables		4,681	-3,310
Increase (+)/Decrease (-) in operating liabilities		3,134	-5,651
Cash flow from operating activities		-68,799	-108,114
Investing activities			
Investments in intangible non-current assets		-722	-1,772
Investments in tangible non-current assets		-398	-4,611
Acquired cash and cash equivalents in subsidiaries		0	5,363
Investments in shares in joint ventures and associated companies		-151,344	-56,951
Investments in other long-term securities		0	-1,460
Cash and cash equivalents transferred to KDev Investments Group		-51,723	0
Change in short-term investments		7,350	238,431
Sale of shares in portfolio companies	3	190,793	3,217
Loans provided to associated companies		-25,581	-38,542
Cash flow from investing activities		-31,625	143,675
Financing activities			
Share of subsidiary issue for non-controlling shareholders		3,757	4,137
Amortization of interest-bearing liabilities		0	-325
Share repurchase		-2,483	0
Cash flow from financing activities		1,274	3,812
Cash flow for the period		-99,150	39,373
Cash and cash equivalents at beginning of period		176,619	163,347
CASH AND CASH EQUIVALENTS AT END OF PERIOD	3	77,469	202,720

Supplemental disclosure

CASH AND CASH EQUIVALENTS AT END OF PERIOD		77,469	202,720
Short-term investments, market value on closing date		167,174	213,136
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS AT END OF PERIOD	3	244,643	415,856

Condensed income statement for the Parent Company

		2013	2012	2013	2012	2012
<i>Amounts in SEK 000</i>	<i>Note</i>	<i>Jul-Sep</i>	<i>Jul-Sep</i>	<i>Jan-Sep</i>	<i>Jan-Sep</i>	<i>Full-year</i>
Net sales		1,567	976	4,003	2,701	3,986
Revenue		1,567	976	4,003	2,701	3,986
Other external expenses		-5,570	-5,939	-19,816	-21,449	-28,156
Personnel costs		-8,230	-7,887	-27,637	-22,268	-31,650
Depreciation of tangible non-current assets		-2	-1	-7	-4	-6
Impairment losses on shares in subsidiaries, joint ventures, associated companies and other long-term securities holdings		-5,131	-24,031	-19,162	-134,966	-120,078
Result from sale of shares in portfolio companies	5	0	43,222	123,678	43,269	43,269
Operating profit/loss		-17,366	6,340	61,059	-132,717	-132,635
Financial net		1,179	-28,030	941	-21,838	-20,076
NET PROFIT/LOSS FOR THE PERIOD		-16,187	-21,690	62,000	-154,555	-152,711

Condensed statement of comprehensive income for the Parent Company

		2013	2012	2013	2012	2012
<i>Amounts in SEK 000</i>	<i>Note</i>	<i>Jul-Sep</i>	<i>Jul-Sep</i>	<i>Jan-Sep</i>	<i>Jan-Sep</i>	<i>Full-year</i>
Net profit/loss for the period		-16,187	-21,690	62,000	-154,555	-152,711
Total comprehensive income for the period		-16,187	-21,690	62,000	-154,555	-152,711
Attributable to:						
Parent Company's shareholders		-16,187	-21,690	62,000	-154,555	-152,711
TOTAL		-16,187	-21,690	62,000	-154,555	-152,711

Condensed statement of financial position for the Parent Company

<i>Amounts in SEK 000</i>	<i>Note</i>	30 Sep 2013	30 Sep 2012	31 Dec 2012
Assets				
Non-current assets				
Tangible non-current assets		1	11	9
Shares in subsidiaries, joint ventures, associated companies and other long-term securities holdings		1,023,959	922,753	962,243
Loans receivable joint ventures and associated companies		30,152	12,103	12,856
Other financial assets	3	32,038	2,301	2,623
Total non-current assets		1,086,150	937,168	977,731
Current assets				
Accounts receivable		562	413	409
Group receivables		148	247	260
Other receivables		3,795	2,425	2,476
Prepaid expenses and accrued income		2,995	2,732	2,463
Short-term investments	3	167,174	213,136	174,160
Cash and cash equivalents	3	64,908	108,445	108,680
Total current assets		239,582	327,398	288,448
TOTAL ASSETS		1,325,732	1,264,566	1,266,179
Equity and liabilities				
Equity				
Restricted equity				
Share capital		24,266	24,266	24,266
Unrestricted equity				
Share premium reserve		1,778,253	1,778,253	1,778,253
Retained earnings		-551,326	-395,026	-397,269
Net profit/loss for the period		62,000	-154,555	-152,711
Total equity		1,313,193	1,252,938	1,252,539
Long-term liabilities				
Pension obligations		2,831	2,301	2,623
Total long-term liabilities		2,831	2,301	2,623
Current liabilities				
Accounts payable		1,391	1,906	2,510
Group liabilities		453	70	474
Other current liabilities		1,566	1,676	1,512
Accrued expenses and deferred income		6,298	5,675	6,521
Total current liabilities		9,708	9,327	11,017
Total liabilities		12,539	11,628	13,640
TOTAL EQUITY AND LIABILITIES		1,325,732	1,264,566	1,266,179

Pledged assets and contingent liabilities

<i>Amounts in SEK 000</i>	<i>Note</i>	30 Sep 2013	30 Sep 2012	31 Dec 2012
Pledged assets		2,831	2,301	2,623
Contingent liabilities		0	1,200	1,200
Total		2,831	3,501	3,823

Condensed statement of changes in equity for the Parent Company

	Restricted equity		Unrestricted equity			
	Note	Share capital	Share premium reserve	Note	Share capital	Share premium reserve
<i>Amounts in SEK 000</i>						
Opening equity at 1 Jan 2013		24,266	1,778,253	-397,269	-152,711	1,252,539
Appropriation of loss				-152,711	152,711	0
Net profit/loss for the period					62,000	62,000
Total		24,266	1,778,253	-549,980	62,000	1,314,539
Share rights incentive programs PSP 2012-2013				1,137		1,137
Share repurchase				-2,483		-2,483
Closing equity at 30 Sep 2013		24,266	1,778,253	-551,326	62,000	1,313,193
Opening equity at 1 Jan 2012		24,266	1,778,253	-207,281	-187,745	1,407,493
Appropriation of loss				-187,745	187,745	0
Net loss for the period					-154,555	-154,555
Closing equity at 30 Sep 2012		24,266	1,778,253	-395,026	-154,555	1,252,938
Opening equity at 1 Jan 2012		24,266	1,778,253	-207,281	-187,745	1,407,493
Appropriation of loss				-187,745	187,745	0
Net loss for the year					-152,711	-152,711
Total		24,266	1,778,253	-395,026	-152,711	1,254,782
Share repurchase				-2,243		-2,243
Closing equity at 31 Dec 2012		24,266	1,778,253	-397,269	-152,711	1,252,539

Notes to the financial reports

Note 1 Accounting principles

This report has been prepared in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting and the Annual Accounts Act. The accounting principles applied to the Group and the Parent Company correspond, unless otherwise stated below, to the accounting principles and valuation methods applied in the preparation of the most recent annual report.

New and revised accounting principles 2013

The Group applies IFRS 13 Fair Value Measurement as of 1 January 2013. The purpose of the standard is to make fair value measurements more consistent and less complex by providing an exact definition and common source in IFRS for fair value measurements and related disclosures. The standard provides guidance on fair value measurements for all types of assets and liabilities, financial and non-financial. The requirements do not expand the area of application for fair value, but provide guidance on how it is applied when other IFRS already require or allow fair value measurements. The new standard has not had a significant impact on the measurement of assets and liabilities at fair value but affects disclosures, since it contains more extensive requirements on disclosures of fair value measurements, particularly for fair values on level 3 in the fair value hierarchy.

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

Definitions

First In Class: The first approved medicine with a defined mechanism for a specific target or a specific disease.

Portfolio companies: Companies owned fully or in part by Karolinska Development (subsidiaries, joint ventures, associated companies and other long-term securities holdings) which are active in pharmaceuticals, medtech, theranostics and formulation technology.

Fair value: The NASDAQ OMX regulations for issuers require companies listed on NASDAQ OMX to apply the International Financial Reporting Standards, IFRS, in their consolidated financial statements. The application of the standards allows groups of an investment company nature to apply so-called fair value in the calculation of the carrying amount of certain assets. These calculations are made on the basis of established principles and are not included in the opening accounts of the Group's legal entity, nor do they affect cash flows.

In addition to IFRS 13, fair value is estimated according to the International Private Equity and Venture Capital Valuation Guidelines. Based on the valuation criteria provided by these rules, an assessment is made of each company to determine a valuation method. This takes into account whether the companies have recently been financed or involved with a transaction that includes an independent third party. If there is no valuation available based on a similar transaction, risk adjusted net present value (rNPV) calculations are made of the portfolio companies whose projects are suitable for this type of calculation. In other cases, Karolinska Development's total investment is used as the best estimation of fair value. In one other case, the valuation at the time of the last capital contribution is used.

Net asset value per share: Estimated fair value of the total portfolio, cash and cash equivalents, and financial assets less interest-bearing liabilities in relation to the number of shares outstanding on the closing date.

Interim period: The period from the beginning of the financial year through the closing date.

Reporting period: Current quarter.

Note 2 Operating segments

Profit/loss per segment and reconciliation between aggregate result from change in fair value of portfolio companies and consolidated profit/loss before tax

	Profit/loss from change in fair value of portfolio companies				
	2013 Jul-Sep	2012 Jul-Sep	2013 Jan-Sep	2012 Jan-Sep	2012 Full-year
<i>Amounts in SEK 000</i>					
Subsidiaries					
Change in fair value	-8,640	17,982	-7,407	43,327	208,201
Joint ventures and associated companies					
Change in fair value	-71,004	-46,431	-25,027	-63,661	18,847
Impairment losses ¹	0	-20,537	0	-125,816	-106,541
Other long-term securities holdings					
Change in fair value	-927	1,508	4,398	583	902
Impairment losses ¹	0	0	-3,300	0	0
Change in fair value of total portfolio holdings	-80 571	-47,478	-31,336	-145,567	121,409
Group eliminations					
Less change in fair value of subsidiaries	8,640	-17,982	7,407	-43,327	-208,201
Recognized gain/loss on changes in fair value	-71,931	-65,460	-23,929	-188,894	-86,792
Capital gain from Rosetta transaction (Note 3)	-	-	68,232	-	-
Revaluation increase from Rosetta transaction (Note 3)	-	-	336,414	-	-
Consolidated revenue and other expenses (including financial net)	-18,739	-64,410	-82,450	-137,778	-189,179
Consolidated profit/loss before tax	-90,670	-129,870	298,267	-326,672	-275,971

¹In the Group's internal follow-up the change in the value of discontinued projects is recognized as impairments.

The aggregate gain on changes in the fair value of the portfolio companies amounted to SEK -31.3m (-145.6m) during the interim period, which includes a negative change in the fair value of subsidiaries of SEK 7.4m (43.3m). The change in the fair value of subsidiaries is not recognized in the consolidated income statement or statement of financial position, since the subsidiaries are consolidated and not measured at fair value. The Group's recognized loss on changes in the fair value of joint ventures, associated companies and other long-term securities holdings amounted to SEK -23.9m, against a year-earlier loss of SEK 188.9m.

The aggregate loss on changes in the fair value of the portfolio companies amounted to SEK 80.6m during the third quarter, against a year-earlier loss of SEK 47.5m. This includes a negative change in the fair value of subsidiaries of SEK 8.6m (18.0m). The Group's recognized loss on changes in the fair value of joint ventures, associated companies and other long-term securities holdings amounted to SEK 71.9m, against a year-earlier loss of SEK 65.5m.

Assets per segment

	Fair value portfolio companies		
	30 Sep 2013	30 Sep 2012	31 Dec 2012
<i>Amounts in SEK 000</i>			
Fair value of total portfolio holdings			
Subsidiaries	94,761	839,417	1,010,663
Joint ventures and associated companies	1,644,964	669,561	789,578
Other long-term securities holdings	28,047	26,630	26,949
Fair value of total portfolio holdings	1,767,772	1,535,608	1,827,190
Less fair value of subsidiaries	-94,761	-839,417	-1,010,663
Less fair value of joint ventures and associated companies transferred to KDev Investments Group	-	-	-570,405
Group	1,673,011	696,191	246,122

Shares in portfolio companies at fair value

Amounts in SEK 000	Subsidiaries	Joint ventures & associated companies	Other long-term securities	Total portfolio holdings
Opening balance at 1 Jan 2012	542,001	980,276	24,587	1,546,864
Investments	75,949	129,587	1,460	206,996
Reclassifications	178,140	-178,140	0	0
Sale of shares	0	-72,685	0	-72,685
Changes in fair value and impairment losses	43,327	-189,477	583	-145,567
Closing balance at 30 Sep 2012	839,417	669,561	26,630	1,535,608
Opening balance at 1 Jan 2012	542,001	980,276	24,587	1,546,864
Investments	81,949	148,189	1,460	231,598
Reclassifications	178,512	-178,512	0	0
Sale of shares	0	-72,681	0	-72,681
Changes in fair value and impairment losses	208,201	-87,694	902	121,409
Closing balance at 31 Dec 2012	1,010,663	789,578	26,949	1,827,190
Opening balance at 1 Jan 2013	1,010,663	789,578	26,949	1,827,190
Investments	21,782	155,129	0	176,911
Reclassifications ¹	-930,277	930,277	0	0
Sale of shares	0	-204,993	0	-204,993
Changes in fair value and impairment losses	-7,407	-25,027	1,098	-31,336
Closing balance at 30 Sep 2013	94,761	1,644,964	28,047	1,767,772

¹The reclassification relates to KDev Investments Group, which after the transaction with Rosetta IV LP is recognized as a joint venture with changes in fair value recognized through profit or loss.

Reconciliation between aggregate fair value of portfolio companies for segments and consolidated total assets and liabilities

Amounts in SEK 000	30 Sep 2013	30 Sep 2012	31 Dec 2012
Aggregate fair value of total portfolio holdings	1,767,772	1,535,608	1,827,190
Less fair value of subsidiaries	-94,761	-839,417	-1,010,663
Other consolidated assets	335,891	1,465,245	1,398,471
Consolidated total assets	2,008,902	2,161,436	2,214,998
Equity	1,982,732	1,940,664	2,024,192
Consolidated liabilities	26,170	220,772	190,806
Consolidated equity and liabilities	2,008,902	2,161,436	2,214,998

Note 3 Capital gain on sale of shares in KDev Investments AB

About the transaction

During the period, Karolinska Development transferred 13 of its portfolio company holdings to the subsidiary KDev Investments AB. On 7 March 2013, Rosetta Capital IV LP acquired a 13.66% share in KDev Investments Group for a total purchase price of SEK 220m. Of a total of 1,073,300 shares outstanding in KDev Investments AB, 1,000,000 are common shares and 73,300 are preference shares. Rosetta Capital IV LP acquired 73,300 common shares and 73,300 preference shares in KDev Investments AB.

Portfolio companies in the transaction

KDev Investments Group comprises 13 companies representing development projects in various phases and various areas. Seven of the companies develop drugs and have projects in clinical trials: Akinion Pharmaceuticals AB, Aprea AB and Axelar AB, which are

active in oncology; Dilafor AB and Umecrine Mood, which develop treatments in the area of women's health; Dilaforette Holding AB Group, which develops sevuparin for use against malaria and sickle cell anemia; and Pergamum AB, which develops Karolinska Development's wound healing and dermatology portfolio. Three companies have development projects in or entering preclinical development: Biosergen AS (systemic fungal infections), Clanotech AB (eye diseases) and NovaSAID AB (inflammatory diseases). Three companies are involved in the development of technology products: Inhalation Sciences Sweden AB, NeoDynamics AB and Promimic AB.

Consequences for financial reporting

Following the transaction, the sub-group KDev Investments is classified as a joint venture, as Karolinska Development and Rosetta Capital IV LP have joint control of KDev Investments, and is recognized at fair value with changes in value recognized through profit or loss.

Earnings impact

The earnings impact during the period attributable to the transaction amounted to SEK 404.6m, of which SEK 68.2m relates to a capital gain and the remaining SEK 336.4m to the revaluation to fair value of Karolinska Development's remaining holding (86.34%) in KDev Investments Group.

Recognized gain in connection with structural transaction involving KDev Investments AB

	Group
	2013
<i>Amounts in SEK 000</i>	Jan-Sep
Purchase price 13.66% of KDev Investments AB	220,000 ¹
Fair value of remaining holding	1,295,689
Total	1,515,689
Less assets recognized prospectively in the joint venture KDev Investments Group	-1,111,043
Recognized gain	404,646

¹Of which the first tranche of SEK 190.8m was received at closing and the remaining SEK 29.2m is recognized in other financial assets

Distribution of recognized gain between capital gain on sale and revaluation of remaining holding at fair value

	Group
	2013
<i>Amounts in SEK 000</i>	Jan-Sep
Purchase price 13.66% of KDev Investments AB	220,000
Less 13.66% of net assets	-151,768
Capital gain on sale	68,232
Fair value of remaining holding	1,295,689
Less 86.34% of net assets	-959,275
Revaluation of remaining holding at fair value	336,414

Management of KDev Investments AB

Karolinska Development owns 86.34% of the shares in KDev Investments AB. Management of the company is governed by a shareholders' agreement. The parties have joint control of KDev Investments AB. Karolinska Development and Rosetta intend to invest in the portfolio companies in accordance with Karolinska Development's plans prior to the transaction.

Terms for the preference shares

Rosetta's preference shares will have preference to profit distributions as explained below, after which allocations will be made between holders of common shares.

(i) 100% of total future returns up to SEK 220m after Karolinska Development has received the remainder of the purchase price amounting to SEK 29.2m

(ii) 30% of total future returns between SEK 220m and SEK 880m

(iii) 18.33% of total future returns between SEK 880m and SEK 1,320m

(iv) 0% of total future returns over SEK 1,320m

Put option

According to the transfer agreement, Karolinska Development is obligated, under certain conditions, to redeem Rosetta's shares in KDev Investments AB on or after 7 March 2018. According to the terms, Rosetta has the right to request a redemption if Rosetta has not received a return equivalent to 2.5 times the capital it invested to acquire the shares in KDev Investments AB. The value of the put option is based on the fair value of the shares in KDev Investments which Rosetta owns at the time of redemption. The obligation is limited to a value corresponding to ten percent of the shares outstanding in Karolinska Development and can be fulfilled through the issuance of shares or is payable in cash. Karolinska Development has the right to choose the form of payment. Karolinska Development estimates the fair value of the put option in issue at the end of the reporting period to nil.

Cash and cash equivalents provisionally allocated for expected follow-on investments

According to the transfer agreement, Karolinska Development has provisionally allocated cash and cash equivalents for expected follow-on investments, according to investment plans as at the end of the reporting period, in KDev Investment's portfolio companies amounting to SEK 198m.

Note 4 Fair value

The table below shows financial instruments measured at fair value based on the classification in the fair value hierarchy. The various levels are defined as follows:

Level 1- Fair value determined on the basis of observed (unadjusted) quoted prices in an active market for identical assets and liabilities

Level 2- Fair value determined based on valuation models based on observable data for the asset or liability other than quoted prices included in Level 1

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

The carrying amount of financial instruments measured at accrued cost coincides with fair value as of 30 September 2013.

Fair value as of 30 September 2013

<i>Amounts in SEK 000</i>	Level 1	Level 2	Level 3	Total
Financial assets				
Shares in joint ventures and associated companies	0	0	1,644,964	1,644,964
Other long-term securities holdings	0	0	28,047	28,047
Other financial receivables	0	0	38,113	38,113
Short-term investments	167,174	0	0	167,174
Cash and cash equivalents	77,469	0	0	77,469
Total	244,643	0	1,711,124	1,955,767
Financial liabilities				
Other financial liabilities	0	0	-9,878	-9,878
Total	0	0	-9,878	-9,878

Fair value (level 3)

<i>Amounts in SEK 000</i>	Shares in joint ventures/ associated companies	Other long-term securities holdings	Other financial assets	Other financial liabilities
At beginning of the year	789,578	26,949	8,907	-10,889
Transfers to and from level 3	-	-	-	-
Acquisitions	155,129	0	29,206	0
Reclassifications from subsidiaries	930,277	0	0	0
Disposals	-204,993	0	0	0
Gains and losses recognized through profit or loss	-25,027	1,098	0	1,011
Closing balance at 30 Sep 2013	1,644,964	28,047	38,113	-9,878
Total unrealized gains and losses for the period included in profit/loss	-25,027	1,098	0	1,011
Gains and losses in profit/loss for the year for assets and liabilities included in the closing balance	-25,027	1,098	0	1,011

During the first two quarters, the Group valued the KDev Investments Group based on the deal consideration. During the third quarter, the Group moved from a valuation based on the deal consideration for the KDev Investments Group to a valuation based on risk-adjusted present value calculations.

The Group recognizes transfers between levels in the fair value hierarchy on the date of an event or changes that require the transfer.

Information on fair value measurement in level 3

The valuation of the company's portfolio is based on the International Private Equity and Venture Capital Valuation Guidelines (IPEV) and IFRS 13. Based on the valuation criteria provided by these rules, an assessment is made of each company to determine a valuation method. This takes into account whether the companies have recently been financed or involved with a transaction that includes an independent third party. If there is no valuation available based on a similar transaction, risk adjusted net present value (rNPV) calculations are made of the portfolio companies whose projects are suitable for this type of calculation. Present value calculations are made with discounted cash flows which comprise:

- Estimated revenues, which generally consist of one-time milestone payments and royalty payments on sales. The estimated contract value (including royalties) is based on an estimate of sales potential and the buyer's development, manufacturing and marketing costs for the particular project. Contract value is based on a value allocation principle in which the seller's portion of the total value increases with the maturation of the project. In the model, the portfolio company receives approximately 40% of the total rNPV after Phase II.
- Sales forecasts are made by estimating the total patient population, target patient population, prevalence and treatable patients, market penetration and treatment costs in the US, the EU and the Japanese market. These markets represent approximately 80% of global pharmaceutical sales in 2010 (IMS).
- Estimates are made regarding product launch year and time of exit based on development plans. Drug licensing is usually assumed to be carried out after Phase II. For medical technology companies, an exit is usually assumed after launch of the product. Sales are then based on these estimated times together with the product's expected patent expiry, after which sales are assumed to decrease sharply.
- Estimates are made of the cost of each phase of development based either on the companies' forecasts or according to industry standards.
- Revenue and expenses are probability adjusted for each phase of development according to accepted statistics.
- Two different discount rates (WACC) are calculated to discount net cash flow from each project: a "Biotechnology WACC" for the in-house development period and a lower discount rate from the time the project is expected to be licensed to global pharmaceutical companies, a "Pharma WACC." The components of the discount rates are (i) the risk-free interest, represented by the Swedish Riksbank's 10-year government bond, (ii) the market risk premium, defined as the difference between the expected annuity quote and risk-free interest on the NASDAQ OMX stock exchange, and (iii) the premium supplement for private/small cap companies, which is a supplement to the market risk premium which represents the risk supplement for project companies with illiquid shares. The premium is collected from companies with a market capitalization under SEK 100m on the NASDAQ OMX stock exchange. The premium supplement for private/small cap companies constitutes the difference between the Biotechnology WACC and Pharma WACC.

On 30 September 2013, the Biotechnology WACC was 11.90% (11.68%) and the Pharma WACC was 8.20% (7.78%).

To estimate the effect of changes in the discount rate on the portfolio valuation, WACC has been adjusted by –1 percent and +1 percent.

Sensitivity analysis WACC	WACC adjustment –1%		30 September 2013 Biotech WACC: 11.90% Pharma WACC: 8.20%	WACC adjustment +1%	
	Fair value	Change	Fair value	Fair value	Change
Amounts in SEKm					
Fair value difference for shares in portfolio companies	1,943.2	175.5	1,767.8	1,614.7	-153.0

- Current tax rates are used and exchange rates calculated according to historical averages.

A change in any of these assumptions affects the valuation and may if significant have a material effect on the Group's results.

The Group has a team responsible for the fair value measurements of the valuation of portfolio company holdings required for the financial reporting according to IPEV, including fair values according to Level 3. All valuations in Level 3 are based on assumptions and judgments that management considers reasonable under current circumstances. This team reports directly to the CFO. Significant events that have occurred since the above-mentioned time of measurement have been taken into account in the measurement to the extent they would have affected the value on the closing date. Companies that have not been valued after transactions that have included third parties or present value calculations have been valued either at net asset value or, for early-stage development projects, the amount invested by Karolinska Development.

Note 5 Result on sale of shares in portfolio companies

	Parent Company				
	2013	2012	2013	2012	2012
<i>Amounts in SEK 000</i>	Jul-Sep	Jul-Sep	Jan-Sep	Jan-Sep	Full-year
Capital gain/loss					
KDev Investments AB	0	0	123,678	0	0
Oncopeptides AB	0	49,722	0	49,722	49,722
ProNoxis AB	0	-6,500	0	-6,500	-6,500
Independent Pharmaceutica AB	0	0	0	47	47
Gain/loss on sale of portfolio companies	0	43,222	123,678	43,269	43,269

The capital gain related to KDev Investments AB resulted from the sale of 13.66% to Rosetta Capital IV LP.

Note 6 Performance Share Program 2013 (PSP 2013)

On 14 May 2013, the Annual General Meeting decided on a new Performance Share Program for employees where participants acquire shares ("Saving Shares") on the open market. For each Savings Share participants receive, free of charge, a maximum of one Matching Share Right and five Performance Shares. The maximum number of Performance Shares and Matching Share Rights is 480,000. The program comprises a maximum of seventeen participants.

Each Performance and Matching Share Right is entitled to the allotment of one subscription option. Each subscription option entitles its holder to acquire one series B share at a subscription price corresponding to the share's par value and assuming that the option is exercised as soon as possible after receiving the subscription option. Subscription options will be allotted after publication of the company's interim report for the first quarter 2016, though no earlier than three years after the agreement on PSP 2013 was signed (the vesting period).

There are no performance conditions for the Matching Share Rights, but each participant must remain an employee during the vesting period and may not have sold their Saving Shares. The Performance Shares have the same terms as the Matching Share Rights. In addition, there is a target related to Karolinska Development's share price performance and a comparison between the so-called Start Price and End Price. The Start Price is measured as an average over ten trading days. The Board of Directors determines the measurement period. However, the measurement must be made not later than 14 November 2013. The established measurement period was 27 June 2013 through 10 July 2013. The Start Price was set at SEK 26.44. The End Price is measured as the average over 10 trading days beginning on 2 May 2016. For an allotment to be made, the share price must rise by six percent annually. For a maximum allotment (five Performance Shares per Savings Share), the share price must rise by 30 percent. Within this span, allotments are made proportionately. Allotments are capped at twenty times the Start Price, after which the number of allotted Performance Shares is reduced. Participants will be compensated in cash for dividends paid during the period.

In September 2013, participants acquired 49,700 Saving Shares. The fair value of a Matching Share Right on the allotment date in September 2013 was set at SEK 26.12 based on the Black-Scholes option-pricing model. The inputs in the model were a share price of SEK 26.60, an exercise price of SEK 0.5, an anticipated maturity of 3.1 years, an anticipated volatility of 42.5%, an anticipated dividend of zero percent and a risk-free rate of interest of 1.47%. The fair value of a Performance Share on the allotment date in September 2013 was set at SEK 14.98 based on a Monte Carlo simulation. The inputs in the model were a share price of SEK 26.60, an exercise price of SEK 0.5, an anticipated maturity of 3.1 years, an anticipated dividend of zero percent and a risk-free rate of interest of 1.47%. The condition related to share price performance has been taken into account in the valuation of the Performance Share Rights.

Anticipated volatility is based on historical volatility and comparisons with similar companies.

The company covers social security contributions related to the program by acquiring and transferring not more than 150,800 of its own shares. As of 30 September 2013, the company has repurchased 93,685 shares. The Performance Share Program has not had any material impact on the company's results and financial position as of 30 September 2013.