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About Karolinska Development



About Karolinska Development

Karolinska Development AB (Nasdaq Stockholm: KDEV) is a Nordic life sciences investment company focused on identifying breakthrough medical innovations in the Nordic region. The Company invests in the creation and growth of companies that advance these assets into commercial products that are designed to make a difference to patients' lives while providing an attractive return on investment to shareholders.

Karolinska Development has access to world-class medical innovations at leading universities and research institutions in the Nordic region, including Karolinska Institutet. The Company aims to build companies around innovative products and technologies, supported by entrepreneurs and experienced leadership teams. The Company invests in syndicates with specialist international life science investors, to manage risks and maximize the chance of success.

Karolinska Development's portfolio comprised of nine companies, 10 at the end of 2016, focusing on the development of innovative treatments for life-threatening or serious debilitating diseases and other medical conditions.

The Company is led by an entrepreneurial team of investment professionals with a proven track record as company builders and with access to a strong global network.

 karolinskadevelopment.com

 [@Karolinska_Dev](https://twitter.com/Karolinska_Dev)

Advancing Strategy as Nordic Life Sciences Investment Company

A Strong Year

Karolinska Development made excellent progress in 2016, completing the strategic re-organization that began in 2015 and executing its strategy as a Nordic life science investment company.

The Company's portfolio has been focused towards a smaller number of companies with exciting potential and supported to achieve multiple milestones during 2016. Clinical programs have been optimized to reach meaningful value inflection points in 2018. New funds have been raised in syndication with other experienced life science investors. Pipeline candidates have been further advanced through clinical development. Commercialization plans have been expanded to new regions, and experienced leadership has been attracted to strengthen the management teams and boards of directors.

As a result, the majority of companies in the portfolio are well-positioned to deliver key value-generating milestones during the next 18-24 months, while additional value potential is retained in divested companies through earn-out agreements.

Strengthened and Streamlined Organization

Over the past two years, Karolinska Development has reorganized its business as an investment company and streamlined its operations to ensure it has the expertise and capability to manage its existing portfolio as well as to identify, access and manage new deals.

The Company's capabilities were enhanced during 2016 with experienced life science investor Viktor Drvota, MD PhD, joining from SEB Venture Capital as Chief Investment Officer (CIO). Dr. Drvota was promoted to Deputy CEO of Karolinska Development in February 2017, which he will fulfil in addition to his role as CIO.

In August 2016, Felicia Rittemar joined the investment team as an analyst. Ms. Rittemar holds a Master's Degree in medical science with a major in Bioentrepreneurship from Karolinska Institutet.

Investment Strategy Focused on the Nordic Region

The Company's strategy is focused on identifying and investing in breakthrough medical innovations in the Nordic region, the origin of some of the most innovative biomedical research in Europe and a substantial pool of hidden value. Karolinska Development aims to identify new investment opportunities across the region, to expand and diversify its portfolio into broader areas

of life sciences with near-term value-inflection points, such as medical technologies, diagnostics or digital health. The Company will also seek to make investments in under-valued companies on the public markets in the region and in more mature investments, where returns may be realized more quickly.

An Exciting Portfolio with Blockbuster Potential

Karolinska Development's portfolio comprises nine companies (10 at the end of 2016), compared with 12 at the end of 2015 and 21 at the end of 2014. These portfolio companies are developing highly differentiated and commercially attractive products with the potential to deliver compelling clinical and health economic benefits, as well as attractive returns on investment. Important clinical development and/or commercialization milestones are expected for these companies in the next 18-24 months.

Creating New Investor Syndicates to Finance Portfolio Companies

A key objective has been to ensure portfolio companies are financed to achieve significant value-inflection points. The Company has achieved this goal with new funds raised through the syndication of deals with experienced international life sciences investors. During 2016, SEK 610 million was raised to finance portfolio company development plans, 91% of which was from new investors. Further non-dilutive funds were raised by certain portfolio companies through grant awards and collaboration agreements providing accelerated access to new markets.

A Strong Emphasis on Leadership

The quality and experience of leadership teams and boards is crucial to ensuring the success of the portfolio companies. During 2016, Karolinska Development was instrumental in attracting experienced and entrepreneurial leaders with strong track records to several of its portfolio companies, including Aprea Therapeutics, Umeocrine Cognition, OssDesign and Promimic.

Further Value Retained in Divested Companies

Karolinska Development has retained the potential to capture additional value through earn-out agreements in the companies it has divested. These companies include Inhalation Sciences Sweden (divested in 2017), Clanotech (2016) and Athera, Axelar, Pharmanest, Xspray (2015) and Oncopeptides (2012). Oncopeptides completed an initial public offering on Nasdaq Stockholm in February 2017 raising SEK 650 million and valuing the company at SEK 1.8 billion at listing.

Vision

to become a leading
**Nordic investment
company** focused
on life sciences.



Focused portfolio of

9
companies.

New leadership team

with significant
investment experience.

New investment strategy

to build broad,
balanced portfolio.



Mature portfolio

5 Therapeutic companies in Phase II.
2 Medtech companies on the market.



SEK 368m

invested in portfolio companies

92% funds raised from
new investors.

Significant Portfolio Progress During 2016 and the Start of 2017

Karolinska Development has a focused portfolio built around nine companies, 10 at the end of 2016. These companies are developing highly differentiated and commercially attractive products, based on Nordic medical innovation, with the potential to deliver compelling benefits to patients as well as attractive returns on investment.

Therapeutics Companies



Aprea Therapeutics

In October, Aprea Therapeutics initiated the Phase II part of its PISARRO clinical study, which aims to enrol 250 relapsed high-grade serous ovarian cancer patients in Europe and the US. The company also presented efficacy and safety data from a Phase Ib part of the same trial at the 2016 European Society for Medical Oncology Annual Meeting. The results showed that APR-246 combined with the standard chemotherapy is generally well tolerated and showed robust signals of efficacy, supporting earlier findings presented at the American Society of Clinical Oncology (ASCO) annual meeting in June. In March Aprea also successfully raised SEK 437 million (USD 51 million) in a Series B financing round - the largest private financing to date by one of its portfolio companies, and by any private life science company in Sweden in the last decade.



BioArctic

In September, BioArctic announced a new strategic collaboration with Abbvie, a global pharmaceutical company, to develop and commercialize BioArctic's portfolio of antibodies directed against alpha-synuclein for the treatment of Parkinson's disease and other potential indications.



Dilafor

In September, Dilafor raised SEK 51 million (USD 5.9 million) from new and existing investors. New investors include Lee's Healthcare Industry Fund, Rosetta Capital IV and Pila AB. In January 2017, Dilafor initiated a Phase IIb clinical trial with tafoxiparin in women with protracted labor.



Modus Therapeutics

In October the Company announced its change of name to Modus Therapeutics. In November, the Company expanded its ongoing Phase II clinical study with sevuparin to include patients aged 12-18. Modus also decided to increase the sample size of the study from 45 to around 150 patients so that this study can play a more important role in the overall clinical program needed to register sevuparin. A poster highlighting the mechanism of action of sevuparin in treating sickle cell disease was presented at the European Hematology Association congress in June.

The company raised SEK 32 million (USD 3.6 million) from existing investors.

February 2017



Umecrine Cognition

In November, Umecrine Cognition announced encouraging Phase I results from a clinical study with GR3027, which is being developed to treat hepatic encephalopathy in liver disease patients. The first patients have already been enrolled into the next clinical trials designed to support proof of concept of GR3027 in this indication. The Company also raised SEK 60 million (USD 6.6 million) in a Series B round from a syndicate of Swedish investors, including Fort Knox Förvaring AB, Partnerinvest Övre Norrland AB, Norrlandsfonden and Karolinska Development (March & November 2016).

Medtech Companies

OSSDSIGN®

OssDsign

In September, OssDsign presented preliminary data at the European Congress of Neurosurgery from a retrospective study of patients undergoing cranioplasty using its OSSDSIGN® Cranial implants, the results of which indicate that this novel implant may provide a better, more permanent solution for cranioplasty, even in a complex patient population. In 2017, OssDsign signed agreements to expand its distributor network in Europe and the US, and received 510(k) marketing approval in the US.

Promimic

MAKING IMPLANTS INTEGRATE

Promimic

Promimic announced the results of an *in vivo* proof-of-concept study on medical implants coated with HA^{nano} Surface in the International Journal of Nanomedicine in April. The results of this study show significant improvement of bone-to-implant contact and bone healing for the HA^{nano} coated implants compared to uncoated controls.

Promimic appointed Magnus Larsson as Chief Executive Officer.

January 2017

Divestments

Akinion Pharmaceuticals

Akinion Pharmaceuticals

In April, Karolinska Development's entire shareholding of Akinion Pharmaceuticals (via KDev Investments) was divested to Advanced Innovation Europe following halt of clinical development of AKN-028 in acute myeloid lymphoma due to unexpected toxicity.

Clanotech

Clanotech

KDev Investments divested its entire shareholding in Clanotech to Rosetta Capital. Karolinska Development retains an economic interest in Clanotech through an earn-out agreement (Jul 2016).

Inhalation Sciences

Inhalation Sciences Sweden

In February 2017, KDev Investments divested its entire shareholding in Inhalation Sciences Sweden to the Råsunda Förvaltning together with two other purchasers. Karolinska Development retains an economic interest in ISS through an earn-out agreement.

oncopeptides

Oncopeptides

Oncopeptides made a successful initial public offering on Nasdaq Stockholm in February 2017 raising SEK 650 million. Karolinska Development has a 5% earn-out agreement for Oncopeptides with Industrifonden that has a current market value of SEK 26.7 million based on Oncopeptide's market capitalisation at listing on February 22, 2017.

Message from the Chairman

“ Karolinska Development made solid progress on its journey to become a leading Nordic life science investment company. ”



I'm very pleased to report on the solid progress that Karolinska Development made during 2016 and into 2017 on its journey to become a leading Nordic life science investment company.

The Company has completed the strategic re-organization process it began in 2015. The leadership team has been strengthened and it has successfully supported its portfolio companies to achieve multiple milestones during the year.

The set-off issue was a further important step in the Company's execution of its strategy as a Nordic life sciences investment company. This strategy is designed to build sustainable value for shareholders, and ultimately develop new treatments for patients.

A clear mission

Karolinska Development's mission is clear: we aim to identify and invest in the best medical innovations in the Nordic region, and to support the development of innovative treatments for patients suffering from life-threatening or serious conditions where there exist clear unmet medical needs.

Our approach is to engage actively in our existing and future portfolio companies by working with entrepreneurs and leadership teams to shape the strategic direction of these companies towards well-defined value-inflection points. We have been successful in ensuring our companies are financed sufficiently to reach these goals, through syndication with specialist international life sciences investors. These new investors bring access to broader experience and to global networks, which also contribute to the progress we have seen in the portfolio and will be valuable in future years.

We truly believe that the Nordic region harbours some of the most innovative biomedical research in Europe, and that this currently represents a substantial pool of hidden value. It also represents a significant opportunity for Karolinska Development to become a focal point for international investment into the region to unlock this world-class potential.

A year of important progress

Looking back over the past year, it is clear that Karolinska Development has undergone a transformation. I wrote in last year's annual report that the Company had laid a solid foundation for its future development, this is also true of the work it has done with its portfolio companies.

While the value potential of this progress is not yet recognised by the markets, the benefits are that Karolinska Development can now focus on identifying and making new investments, extending its relationships in the Nordic region and internationally, and supporting its existing portfolio.

Meanwhile, our portfolio is diversified, better balanced and our exposure to risk is reduced through the involvement of new investors. The portfolio now comprises nine companies, 10 at year end 2016, that we consider to have the best chances of success and thereby of creating high-value exit opportunities.

The progress these companies have made during the year has been very encouraging and more detail on this can be found elsewhere in this annual report. Very briefly, the portfolio has been successful in raising new funds in syndication with other life science investors; advancing pipeline candidates through clinical development with programs optimized to reach clinical meaningful value inflection points in 2018; expanding commercialization to new regions; and attracting experienced leadership to strengthen the management teams and boards of directors.

An important metric for the year is that of SEK 610 million raised by our portfolio companies, 91% came from new investors. Furthermore, five of our six therapeutics companies are expected to deliver Phase II clinical proof-of-concept by the end of 2018, while our medtech companies are rapidly gaining commercial traction with their innovative products and expanding their business globally.

These companies are all now well positioned to reach important milestones within the next 18-24 months that we anticipate will generate significant further value for Karolinska Development.

A bright future ahead

We believe that Karolinska Development is entering a new phase of growth. With the strategic turnaround now complete and SEK 58 millions convertible set-off, the Company can now turn its attention to new investment opportunities.

Already much work has been done in this area, with a strategy to further diversify the portfolio into broader areas of life sciences with near-term value-inflection points, such as medical technologies, diagnostics or digital health. The Company will also seek to make investments in under-valued companies on the public markets in the Nordic region and in more mature investments, where returns may be realized more quickly than from early-stage companies.

On behalf of the Board, I would like to thank the leadership team for their efforts, commitment and achievements. We look forward to the first new investments and continuing progress throughout the portfolio.

Bo Jesper Hansen, MD PhD

Chairman of the Board

Message from the Chief Executive Officer

“ We are convinced that the companies in our portfolio are well-positioned to deliver further value-generating milestones during the next 18-24 months. ”



I am delighted with the progress that Karolinska Development has made during the past two years, and particularly in the last year, towards our goal of becoming a leading Nordic life sciences investment company. We now have established a solid base from which to build future value.

Karolinska Development is now more focused and better structured to operate as an investment company. We have a portfolio of exciting companies that are financed and equipped to deliver key value-generating milestones in the next 18-24 months. And we have an investment strategy designed to deliver further value from the most promising opportunities across the Nordic region.

Having recently handled what we view as the final challenge in our strategic turnaround we can look forward to making new investments that offer the potential to add value to our portfolio.

Key achievements during 2016

Key to the progress we have made has been having a team with the right capabilities and expertise to manage our existing portfolio as well as to identify, access and manage new deals. Our capabilities in this area were considerably enhanced with Viktor Drvota joining as Chief Investment Officer during the first quarter 2016. Viktor Drvota was formerly Head of Life Science at SEB Venture Capital since 2002, where he established a strong track record in identifying investment opportunities in the Nordic region, building companies and fundraising. In addition, Felicia Rittemar joined the investment team as an analyst.

This capability and expertise within the team is crucial as we continue to build close links with entrepreneurs and leading institutes in the Nordic region that played a central role to the innovation within our existing portfolio, and that will provide the foundations for future investments.

Positive developments across the portfolio

A priority for Karolinska Development over the past two years has been to refocus our portfolio on companies we consider have the best chances of success and thereby creating high-value exit opportunities through, e.g. trade sales, IPOs or licensing deals with potential buyers. As a result, our portfolio includes nine companies today, compared with 10 at the end of 2016, 12 at the end of 2015 and 21 at the end of 2014.

The portfolio companies are developing highly differentiated and commercially attractive, therapeutic and medtech, products that have the potential to deliver compelling clinical and health economic benefits, as well as attractive returns on investment for our shareholders.

Our therapeutics companies have advanced their lead candidates through clinical development in diverse diseases (including cancer, sickle cell disease, liver disease, and obstetric indications) and most are now optimized and expected to deliver Phase II proof-of-concept data during the course of 2018. These results, if positive, will provide strong indications of their therapeutic effects in patients, and as such represent major value-inflection points. It is often at this stage when programmes are out-licensed to pharmaceutical companies to conduct the larger registration trials.

Meanwhile, our commercial-stage medical technology companies OssDsign and Promimic have made progress executing their commercial strategies and expanding their distribution networks across Europe and the US.

Increasingly, the potential value within the portfolio is being recognised and this has enabled us to raise SEK 610 million during 2016, of which 91% came from external investors including leading international life sciences investors. Included here is the SEK 437 million raised by Aprea in March – the largest private financings by any private life science company in Sweden in more than a decade.

We have also continued to strengthen the leadership teams and boards of our companies, the quality of which is fundamental to their future successes. We were therefore pleased to have played a role in attracting experienced leaders to Aprea Therapeutics, Umeocrine Cognition, OssDsign and Promimic during the last year.

Having made such progress, we are convinced that the companies in our portfolio are well-positioned to deliver further value-generating milestones during the next 18-24 months.

The next phase

We have made clear and important progress in the past two years and we now believe that, following the set-off of SEK 58 million, the major components are in place to enable us to advance Karolinska Development to the next phase. We have the strategic focus, experience and resources to deliver value to stakeholders, while making a difference to patients' lives. We anticipate that this value will come from our existing portfolio and from new investments we intend to make in the coming years aimed at capturing the value of the world-class medical innovation in the Nordic region.

Our journey to become a leading Nordic life sciences investor is not complete but we have made great strides towards achieving this ambition.

Jim Van heusden, PhD
Chief Executive Officer

Investments and loans in portfolio companies January-December 2016:

SEK 28.8m
(2015 SEK 130.8m)

The Investment Entity's equity to total assets ratio was:



Investments and loans in portfolio companies January – December 2016:

Karolinska Development's investments in portfolio companies during the period January – December 2016 amounted to SEK 28.8 million (SEK 130.8 million in 2015). Investments were made in Modus Therapeutics SEK 9.1 million, Umecrine Cognition SEK 8.9 million, Aprea SEK 6.3 million, Promimic SEK 3.6 million and Clanotech SEK 0.8 million. SEK 27.0 million was cash investments.

Portfolio valuation

The portfolio Net Fair Value amounted to SEK 149.4 million at the end of 2016, a decrease of SEK 118.2 million compared to the corresponding period last year when the portfolio Net Fair Value amounted to SEK 267.7 million. The reduction in portfolio Net Fair Value was mainly due to divestment of companies where Fair Value was reduced to zero. This was partly offset by investments in the portfolio companies and reduction in potential distribution to Rosetta Capital:

- Divestments of portfolio companies where fair value was reduced to zero:
 - Akinion Pharmaceuticals, to the amount of SEK -119.4 million
- Divestments of portfolio companies where fair value has been reduced to zero but with potential value retained via an earn-out agreement:
 - Clanotech, to the amount of SEK -83.6 million
 - Inhalation Sciences Sweden (2017), to the amount of SEK -10.0 million
- Investments in portfolio companies and other adjustment in the fair value amounts to SEK 26.6 million
- Reduced amount potentially to be paid to Rosetta Capital from realized proceeds in KDev Investments amounts to SEK 68.1 million

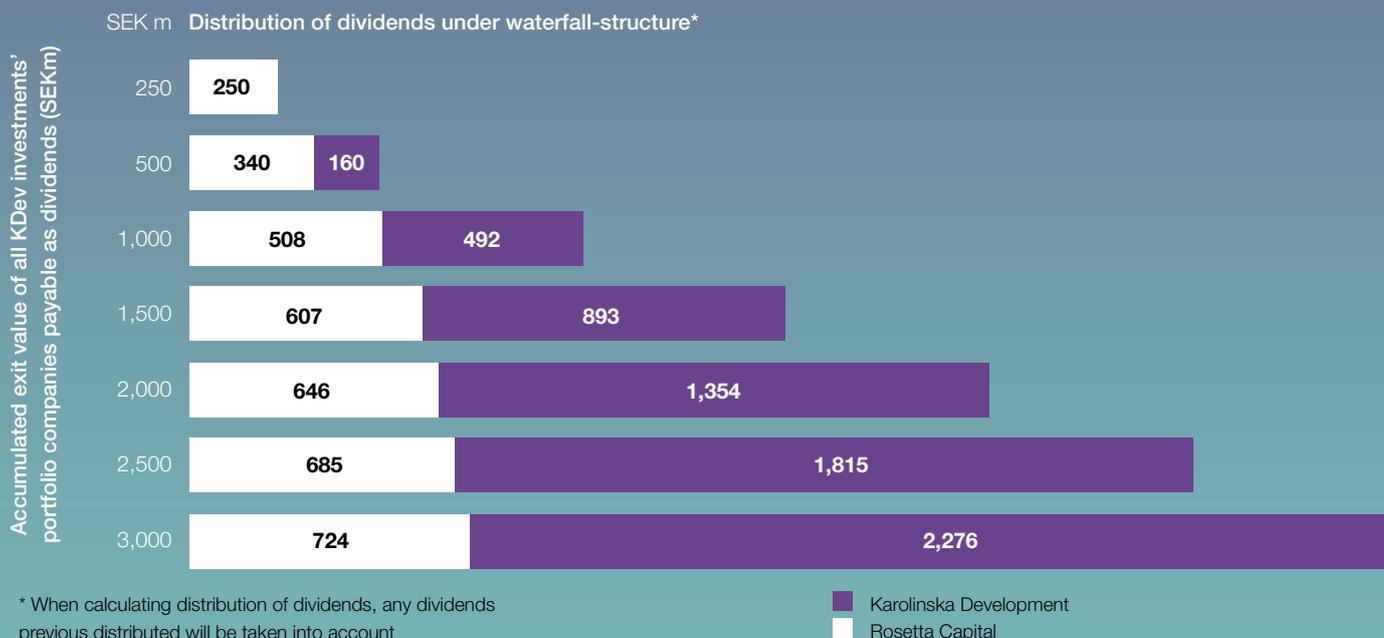
Portfolio value development January – December 2016:

As SEK 28.8 million has been invested in portfolio companies during 2016 and portfolio Net Fair Value has been reduced by SEK 118.2 million during 2016, the Result of Changes in Portfolio Fair Value amounts to SEK -147.0 million.

Rosetta Capital deal

Proceeds to KDev Investments from its portfolio companies will be based on KDev Investments' fully diluted ownership in the portfolio companies at the time for the exits.

Net exit proceeds from KDev Investments to Karolinska Development will then be distributed as dividends from KDev Investments based on a "waterfall" structure agreed between Karolinska Development and Rosetta Capital. With its current shareholding, Karolinska Development's proportion of dividends will be 0% for accumulated dividends up to SEK 220 million, 65% for accumulated dividends between SEK 220 million and SEK 880 million, 75% for accumulated dividends between SEK 880 million and SEK 1,320 million and 92% for accumulated dividends above SEK 1,320 million.



Investment entity profit/loss

Revenues amounted to SEK 5.4 million during the year. Compared to SEK 2.9 million in 2015 SEK 2.1 Revenue is generated from services provided to portfolio companies and SEK 3.3 million is a dividend received from BioArctic.

The Investment Entity's Operating profit/loss amounted to SEK -174.0 million, which correspond to a decrease in loss of SEK 846.3 million compared to the previous year. The main reason for the decrease in operating loss was personal cost decreasing to SEK 17.3 million compared to SEK 31.2 million in 2015 and Result of Changes in Portfolio Fair Value decreasing to SEK -147.0 million compared to SEK -976.5 million in 2015.

Net profit/loss for the period amounted to SEK -216.8 million compared to SEK -1,054.7m in 2015 or SEK -4.1 per share for 2016 compared to SEK -19.8 for 2015.

Financial Position

The investment entity's equity to total assets ratio was 7% (2015 40%) on 31 December 2016 and equity amounted to SEK 29.8 million (SEK 247.9 million in 2015).

Cash, cash equivalents and short-term investments in the investment entity amounted to SEK 248.1 million compared to SEK 297.2 million at year-end 2015, of which SEK 30.4 million was provisionally allocated for potential follow-on investments in KDev Investments' portfolio. Total assets amounted to SEK 438.3 million (SEK 614.5 million in 2015).

With the majority of the portfolio companies financed to next value inflection point at the end of 2016 Karolinska Development considers the current cash and cash equivalent sufficient to cover follow-on investments in its existing portfolio companies, operational costs and new investments.

Equity ratio and net asset value

The investment entity's equity ratio decreased during the fiscal year by 33 percentage points to 7%. The net asset value amounted to SEK 0.7 per share at the end of 2016 compared to SEK 4.7 per share the previous year.

Accounting principles

Karolinska Development is an Investment Entity according to IFRS 10 Consolidated Financial Statements, which affects financial years beginning 1 January 2014 or later.

Portfolio Companies

A Focused Portfolio with Exciting Potential

Karolinska Development has a focused portfolio of nine therapeutic and medtech companies with exciting potential. The portfolio companies are developing highly differentiated and commercially attractive products that have the potential to deliver compelling clinical and health economic benefits, as well as attractive returns on investment.

During the past year, Karolinska Development has optimized the clinical programs of the portfolio companies to reach clinical meaningful value inflection points in 2018. Experienced leadership was attracted to the management and board of the portfolio companies. Furthermore, Karolinska Development supported the financing of the portfolio companies through syndication with experienced international and domestic professional life science investors. As a result, the majority

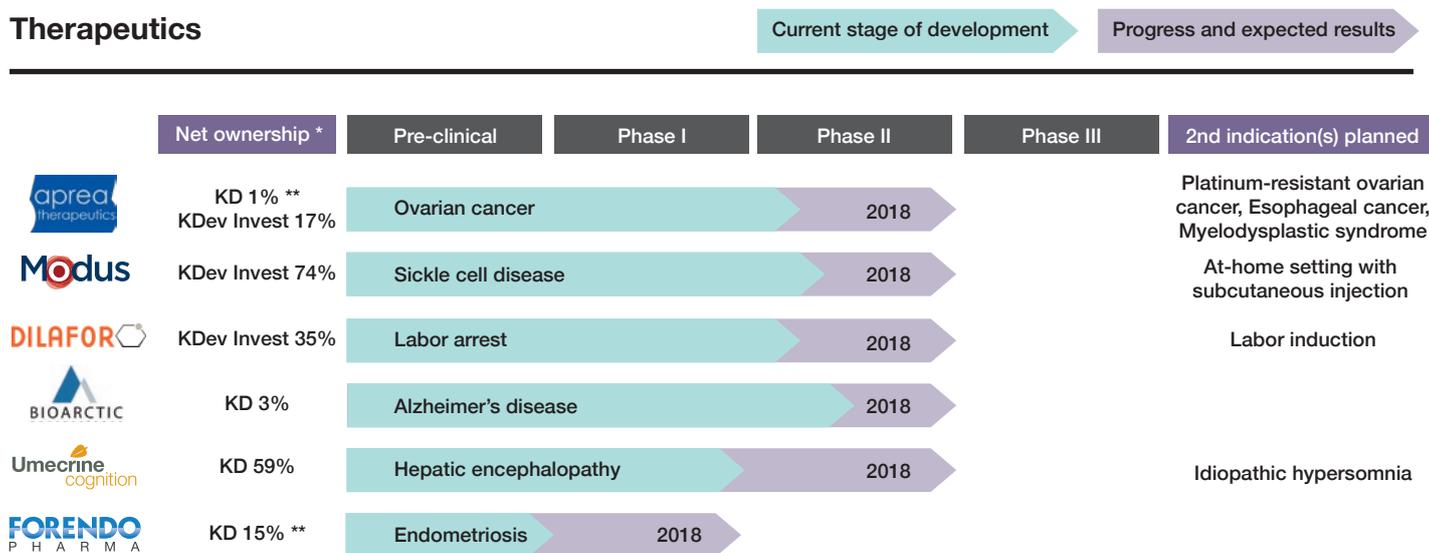
of the companies in the portfolio are now well-financed and in a good position to deliver key value-generating clinical or commercial milestones over the next 18-24 months.

The illustration below gives an overview of the portfolio. The therapeutics companies' next key value-generating milestones are expected in 2018, when the majority of the companies are expected to obtain Phase II proof-of-concept data. The medtech companies OssDsign and Promimic are revenue generating and have significant milestones mapped out in 2017/2018 regarding execution of their commercial strategies.

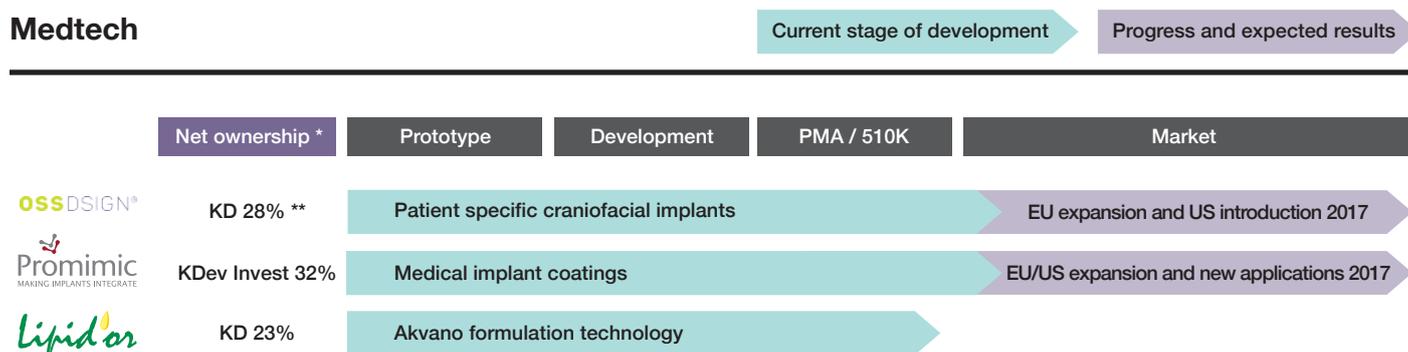
Karolinska Development's investment model for its therapeutic companies is to invest in syndicates with other professional life science investors until proof-of-concept is demonstrated in Phase II trials, at which point the investor syndicate will look at options such as trade sales, IPOs or licensing deals with potential buyers to monetize the investments. For medtech companies, the aim is to finance the companies until break-even and then look at options such as trade sales, IPOs or licensing deals with potential buyers to monetize the investments.

Our current portfolio – significant value inflection in 18 – 24 months

Therapeutics



Medtech



KD: Karolinska Development – KDev Invest: KDev Investments * Fully diluted ownership based on current investment plans ** Includes indirect holdings through KCIF Co-Investment Fund



Aprea Therapeutics AB

A unique approach to treating a broad range of cancers

Aprea Therapeutics (Stockholm, Sweden and Boston, US) is a biotech company focusing on discovery and development of novel anti-cancer compounds targeting the tumor suppressor protein p53. De-activation of p53 results in uncontrolled growth of the cell leading to cancer. Mutations of the p53 gene occur in around 50% of tumors and restoring its normal function represents a very attractive approach for treating a broad range of cancers including those resistant to cancer chemotherapeutics.

Aprea's exciting lead anti-cancer drug candidate APR-246 is a first-in-class compound that reactivates the p53 protein, inducing programmed cell death in many human cancer cells.

APR-246 is currently undergoing a Phase Ib/Ia clinical study (the PiSARRO study) investigating its safety and efficacy in combination with chemotherapy in second-line treatment of patients with high-grade serous ovarian cancer. Aprea has presented efficacy and safety data from the Phase Ib part of PiSARRO at key clinical congresses including the European Society for Medical Oncology (ESMO) annual meeting in October, and the American Society of Clinical Oncology (ASCO) meeting in June. The results showed that APR-246 combined with standard chemotherapy is generally well tolerated and showed robust signals of efficacy.

Aprea has now advanced APR-246 into the Phase IIa portion of the PiSARRO study, which aims to enrol 250 relapsed high-grade serous ovarian cancer patients in Europe and the US. Patients will be randomized between carboplatin and pegylated liposomal doxorubicin with or without APR-246; the primary endpoint for the study is progression-free survival.

Project
APR-246

Primary indication
Ovarian cancer

Development Phase
Phase IIa

Holding in company
Karolinska Development 1%**
KDev Investments 17%

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

Origin
Karolinska Institutet

More information
 aprea.com

* Fully-diluted ownership based on current investment plans

** Includes indirect holdings through KCIF Co-Investment Fund

The market

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

Recent progress

- Promising efficacy and safety data from Phase Ib part of PiSARRO presented at ESMO (Oct 2016) confirming earlier results presented at ASCO (Jun 2016).
- First patients enrolled into Phase IIa part of the PiSARRO study (Oct 2016).
- Christian S. Schade appointed as President and Chief Executive Officer (Jun 2016).
- SEK 437 million (USD 51 million) raised from leading international life science investors (Mar 2016).
- Research collaboration initiated with Memorial Sloan Kettering Cancer Center in US to further evaluate APR-246 with multiple other cancer agents across multiple tumor types (March 2017).

Expected milestones

- Complete recruitment into the Phase IIa part of the PiSARRO study in 2018.
- Results of Phase IIa part of PiSARRO study expected in 2018.

Project

Tafoxiparin

Primary indication

Labor arrest
Labor induction

Development Phase

Phase IIb

Holding in company*

KDev Investments 35%

Other major owners

The Foundation for Baltic and East European Studies, Praktikerinvest Rosetta, Capital Lee's Pharma

Origin

Karolinska Institutet

More information

 dilafor.com

* Fully-diluted ownership based on current investment plans



Dilafor AB

Reducing complications with childbirth

Dilafor (Stockholm, Sweden) is a drug development company focusing on developing tafoxiparin for obstetric indications. The company's primary goal with tafoxiparin is to decrease the incidence of slow progress of labor both after induction of labor and after spontaneous onset of labor. Tafoxiparin has shown in a Phase II clinical trial encouraging evidence that it can decrease the proportion of women with labor more than 12 hours. A Phase IIb dose-finding study is underway.

Protracted labor (i.e. labor that lasts more than 12 hours) is the main cause of emergency surgical deliveries, such as caesarian section. The condition is often associated with complications for both mother and child. These complications lead to short and long-term consequences for the mother and the newborn in addition to substantial health care costs.

The Phase IIb study aims to test tafoxiparin/placebo in addition to standard care (oxytocin infusion) in term-pregnant first-time mothers that, after spontaneous onset of labor, require labor augmentation due to primary slow progress or labor arrest. The target is to enroll 360 pregnant women into the study in Europe.

Dilafor has a license and partnership agreement with Lee's Pharmaceutical, which will conduct and finance clinical Phase II and Phase III programs of tafoxiparin in China.

The market

It has been estimated that up to 40% of pregnant women run into complications during childbirth in the form of protracted labor, where pharmaceutical therapy is relevant. This number represents the primary target population for tafoxiparin, which indicate a substantial market potential. Existing pharmacological therapies that improve uterine contractions are usually insufficient, as they are not working well enough in up to 50% of cases. Consequently, there is strong interest in better treatments such as tafoxiparin, which has "first-in-class" potential.

Recent progress

- Initiated 360-patient Phase IIb dose-finding study with tafoxiparin in Europe (Jan 2017).
- Raised SEK 51 million (USD 5.9 million) from new and existing investors. New investors include Lee's Healthcare Industry Fund, Rosetta Capital IV and Pila AB (Sep 2016).
- US patent granted for tafoxiparin providing key IP protection in the US until at least Apr 2033, with the possibility of up to five years' additional patent term extension (Dec 2016).

Expected milestones

- Complete recruitment into Phase IIb dose-finding trial in 2017.
- Results from Phase IIb trial expected 2018.

Project
Sevuparin

Primary indication
Sickle cell disease (SCD)

Development Phase
Phase II

Holding in company
KDev Investments 74%

Other major owners
The Foundation for Baltic and East European Studies, Praktikerinvest

Origin
Karolinska Institutet, Uppsala University

More information
 modustx.com

*Fully-diluted ownership based on current investment plans



Modus Therapeutics AB

Targeting relief for sickle cell disease patients

Modus Therapeutics (Stockholm, Sweden) is developing sevuparin, an innovative, disease-modifying drug which has potential to become the best-in-class treatment for sickle cell disease (SCD).

Sevuparin's anti-adhesive mechanism means it has the potential to prevent and resolve the microvascular obstructions experienced by SCD patients. These obstructions cause the severe pain experienced by patients during Vaso-Occlusive Crises (VOCs) and result in high morbidity through organ damage as well the risk of premature death.

Modus is conducting a Phase II study of sevuparin in hospitalized SCD patients experiencing VOC, the results of which are expected in 2018. The trial is targeting 150 evaluable patients who will have been randomized to receive either an intravenous infusion of sevuparin or placebo on top of standard pain medication. This proof-of-concept study is designed to demonstrate reduced time to resolution of VOC, defined as freedom from parenteral opioid use and readiness for discharge from hospital. Secondary end-points include pharmacokinetics and safety. The study is taking place in Europe and the Middle East under a co-development deal with Ergomed, which co-invests into the trial in return for an equity stake in Modus.

Modus is also aiming to develop a presentation of sevuparin that could be self-administered by SCD patients in a timely manner to prevent VOCs developing.

The market

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

Recent progress

- SEK 32 million (USD 3.6 million) raised from existing investors (Feb 2017).
- Dilaforette announced name change to Modus Therapeutics (Oct 2016).
- Phase II study extended to include SCD patients aged 12-18, and to increase sample size (Nov 2016).
- Posters confirming the mechanism of action of sevuparin in treating SCD were presented at the European Hematology Association congress (Jun 2016) and at the 58th American Society of Hematology annual meeting (Dec 2016).
- Clinical collaboration agreement with Arabian Gulf University (Bahrain) for Phase II clinical development of sevuparin for SCD (Feb 2016).

Expected milestones

- Complete recruitment into Phase II proof-of-concept trial in 2017.
- Results from Phase II trial expected in 2018.



Umechrine Cognition AB

Unique approach to hepatic encephalopathy treatment

Umechrine Cognition (Solna, Sweden) is developing a drug against hepatic encephalopathy (HE), which is a serious neuropsychiatric and neurocognitive complication in acute and chronic liver disease (including cirrhosis). The disorder has detrimental effects on health related quality of life as a consequence of diverse and debilitating symptoms. An increase in the inhibitory GABA (a neurotransmitter) system in the CNS is believed to be a main driver for the clinical signs and symptoms.

Neuroactive steroids are key drivers of this increased GABA signalling, causing cognitive impairment. This makes neurosteroid-antagonists, as developed by Umechrine Cognition, a credible therapeutic class to explore for novel treatments in HE.

Umechrine Cognition's exciting drug candidate GR-3027 is a first-in-class drug to treat acute life-threatening HE and long-term maintenance in minimal HE caused by endogenous GABA-steroids. GR3027 is currently in a combined Phase Ib/Ila clinical study that will investigate the safety and efficacy of the compound in treating HE.

Project

GR-3027-GABA modulator

Primary indication

Hepatic encephalopathy

Development Phase

Phase Ib/Ila

Holding in company

Karolinska Development 59%

Other major owners

Norrlandsfonden,
Fort Knox förvaring AB,
Partnerinvest

Origin

Umeå University

More information

 umecrinecognition.com

* Fully-diluted ownership based on current investment plans

The market

HE is a severe disorder with a large unmet need. In total, liver cirrhosis affects up to 1% of US and EU populations. Between 125,000 and 200,000 patients with cirrhosis in the US are hospitalized due to complications of HE. Once HE develops, mortality reaches 22-35% after five years. HE is also associated with large societal and individual costs. The total cost for hospitalizations with HE in the US is estimated to around USD 2 billion.

Recent progress

- SEK 60 million (USD 6.6 million) raised from syndicate of Swedish investors (Mar & Nov 2016).
- Start of Phase Ia clinical study (H1 2016).
- Bruce Scharschmidt, a key opinion leader in the field of HE, joins the Board of Directors (Jul 2016).
- Positive Phase Ia top line data with GR3027 demonstrate safety, tolerability, and CNS target engagement (Nov 2016).
- First patient included in Phase Ib/Ila proof-of-concept study (Jan 2017).

Expected milestones

- Complete recruitment into Phase Ib clinical trial in 2017.
- Results from combined Phase Ib/Ila study expected in 2018.

OSSDSIGN®

OssDsign AB

Commercializing the best craniofacial implants

OssDsign (Uppsala, Sweden) is an innovator, designer and manufacturer of implants and material technology for bone regeneration. Its lead products – OSSDSIGN® Cranial and OSSDSIGN® Facial – are already being sold in Germany, the UK and the Nordic region, as well as selected non-European markets including Singapore and Israel. The Company is preparing for its first product launch in the US, which is anticipated during the second quarter of 2017, and is also undertaking regulatory and commercial activities in Japan.

OssDsign's commercial strategy is focused on building sales of its innovative products through a combination of its internal sales organization and distribution partnerships, and the Company is well-funded to support this strategy.

OssDsign's personalized bone regeneration technology provides improved healing properties that are clinically proven to enhance patient outcomes. By combining a regenerative ceramic material reinforced with titanium, with tailored patient-specific designs enabled by state-of-the-art computer-aided design, 3D printing and moulding techniques, the technology platform aims to contribute to the permanent healing of a range of bone defects. Enhanced healing means a better implant solution for patients and cost savings for hospitals.

The market

The market for material products in orthopedics was estimated at EUR 1.5 billion in 2013. The market for OssDsign's lead product in cranioplasty alone is expected to amount to approximately EUR 100 million in 2017. OssDsign pursues a focused business strategy on a well-defined patient population. The advantages are that the targeted procedures are carried out in a limited number of easily identifiable hospitals around the world. The indications are relatively price insensitive and easy to access on many markets from a regulatory perspective.

Project

OSSDSIGN® Cranial and
OSSDSIGN® Facial

Primary indication

Cranial implants

Development Phase

Marketed

Holding in company

Karolinska Development 28%**

Other major owners

SEB Venture Capital,
Fouriertransform

Origin

Karolinska University
Hospital, Uppsala
University

More information

 ossdsign.com

* Fully-diluted ownership based
on current investment plans

** Includes indirect holdings
through KCIF Co-Investment Fund

Recent progress

- Agreement with Matador Medical for US distribution of OSSDSIGN® Cranial (Feb 2017).
- 510(k) clearance granted by US FDA to market OSSDSIGN® Cranial in the US (Jan 2017).
- European distributor network expanded with partnerships signed in five countries (Jan 2017).
- Preliminary data presented at the European Congress of Neurosurgery highlighted benefits of OSSDSIGN® Cranial implants for cranioplasty (Sep 2016).
- Simon Cartmell appointed Chairman of the Board (Apr 2016).
- CE mark received for Cranioplug, an innovative device for cranial fixation (Jan 2016).

Expected milestones

- Launch of OSSDSIGN® Cranial and OSSDSIGN® Facial on new EU markets and selected markets outside of Europe during 2017.
- Launch of OSSDSIGN® Cranial in the US in 2017.



Promimic AB

Coatings that enhance the properties of medical implants

Promimic (Gothenburg, Sweden) is a biomaterials company that develops and markets a unique coating for medical implants called HA^{nano} Surface, which increases their integration into bone and anchoring strength.

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

Promimic has established a sales operation in the US and a series of development and commercial partnerships, including with Sistema de Implante Nacional (S.I.N), a leading provider of dental implants in Brazil, which launched the first product using Promimic's technology in that market in January 2016. Promimic has also signed an agreement with Amendia Inc. (US) focused on the development of HA^{nano} Surface technology for use with its spinal implants.

A manufacturing facility for HA^{nano} coated implants to supply the US and Chinese markets has been established by the Company's partner, Danco Anodizing.

Project

HA^{nano} Surface

Primary indication

Implant surface

Development Phase

Marketed

Holding in company

KDev Investments 32%

Other major owners

ALMI Invest,
K-Svets Venture,
Chalmers Ventures

Origin

Chalmers University
of Technology

More information

 promimic.com

*Fully-diluted ownership based on current investment plans

The market

The implant industry is a large, high-growth market which delivers high profit margins. The competition amongst implant manufacturers is fierce and each market segment is dominated by four-to-eight global companies. The strategies of many of these companies rely on in-licensing new technologies in order to differentiate their products and strengthen their market position. Promimic has a business model designed to meet these needs. It is centered on out-licensing its HA^{nano} Surface technology to leading implant manufacturers so that they can incorporate it into their products.

Recent progress

- Raised SEK 23.8 million (USD 2.6 million) from new and existing investors to finance the establishment of Promimic Inc., its commercial operations in the US (Sep 2016).
- Magnus Larsson appointed CEO replacing Ulf Brogren, who relocated to the US to lead Promimic Inc. as Head of Sales (Jan 2017).
- S.I.N. launched HA^{nano} coated implants in Brazil in Jan 2016 and sales development during 2016 has exceeded expectations.
- Promimic and Danco Anodizing entered partnership where Danco will invest in a US production line (Mar 2016), which was completed in Oct 2016.
- Promimic elected Tord Lendau as Chairman of the Board of Directors, and Håkan Krook and Patrik Sjöstrand as Non-Executive Directors (Oct 2016).

Expected milestones

- Further product launches and license agreements with major manufacturers during 2017.

Therapeutics Companies

FORENDO
P H A R M A

Forendo Pharma Oy

Forendo (Turku, Finland) is developing a new treatment for eliminating endometriosis while at the same time maintaining normal hormonal cycles. Forendo is developing a HSD17B1 inhibitor, which has been shown to effectively block formation of estrogen in human endometriosis cells *ex vivo* and, in a primate disease model, to cause regression of endometriosis and relief of the associated inflammatory pain while maintaining the normal hormonal cycle.

Project

Inhibition of HSD17B1 enzyme

Primary indication

Endometriosis

Development Phase

Preclinical

Holding in company

Karolinska Development 15%**

Other major owners

Novo A/S,
Novartis Bioventures

Origin

University of Turku, Finland

More information

 forendo.com

* Fully-diluted ownership based on current investment plans

** Includes indirect holdings through KCIF Co-Investment Fund


BIOARCTIC

BioArctic AB

BioArctic (Stockholm, Sweden) develops pharmaceuticals, devices and diagnostic methods for diseases affecting the central nervous system. The company's most advanced program is BAN2401, a monoclonal antibody for the treatment of Alzheimer's disease, which has been developed together with Eisai. Phase II clinical trials of BAN2401 are currently ongoing.

BioArctic entered into a strategic collaboration with Abbvie, a global pharmaceutical company, to develop and commercialize BioArctic's portfolio of antibodies directed against alpha-synuclein for the treatment of Parkinson's disease and other potential indications (Sep 2016).

Project

BAN2401

Primary indication

Alzheimer's disease

Development Phase

Phase II

Holding in company*

Karolinska Development 3%

Other major owners

Pär Gellerfors AB,
Demban AB

Origin

Karolinska Institutet

More information

 bioarctic.se

* Fully-diluted ownership based on current investment plan

** Includes indirect holdings through KCIF Co-Investment Fund



Lipidor AB

The use of topical pharmaceuticals is common in treatment of dermatological indications, such as psoriasis and eczema. In many cases, the formulations are inconvenient and results in reduced patient use. Lipidor (Stockholm, Sweden) has developed AKVANO, a water-free lipid formulation that is sprayed on the skin. The formulation is safe, free from irritants, dries quickly and feels pleasant on the skin. AKVANO allows for fast and simple application and has excellent cosmetic qualities. Hence AKVANO addresses key issues behind the low usage rate seen with topical formulations.

Results from a clinical Phase I/II study with calcipotriol (a generic vitamin D analog) formulated with AKVANO showed effect in patients

with psoriasis compared to the marketed formulation of calcipotriol. Lipidor and Cadila Pharmaceuticals, one of the largest pharmaceutical manufacturing groups in India, entered into a collaboration to commercialize the sprayable product consisting of calcipotriol formulated with AKVANO technology for mild to moderate psoriasis. Cadila is conducting a Phase III program in India (June 2016).

Lipidor has signed a license agreement for cosmetic products with CCS Healthcare AB, one of the largest Nordic manufacturers of skin care products.

Project

AKVANO

Application

Topical drug delivery

Development Phase

Product

Ownership

Karolinska Development 23%

Other major owners

Cerbios, Medigelium, Aurena Laboratories

Origin

Start-up

More information

 lipidor.se

* Fully-diluted ownership based on current investment plans

Karolinska Development's Share and Shareholders

Ownership structure

On December 31, 2016 Karolinska development had 1,135 shareholders. International investors owned approximately 25% of the share capital and approximately 20% of the votes. On the same date, institutional investors held approximately 60% of the share capital and 70% of the votes. All series A shares (each of which carries 10 votes, compared to 1 vote for each B share) are held by Karolinska Institutet Holding AB.

Share performance

The closing price on the first trading day in 2016 was SEK 9.25, and at year-end 2016 the share traded at SEK 6.00, a decrease of 35%. No dividends have been paid in 2016.

Share capital

At year-end 2016, the share capital amounted to SEK 26.7 million distributed among 53,464,998 shares. The quota value is SEK 0.50 per share. The net asset value per share amounted to SEK 0.7 per share.

Ticker symbol and listing

Karolinska Development's share trades under the ticker symbol KDEV. The share is listed on NASDAQ Stockholm in the Small Cap Index. The ISIN code is SE0002190926.

The convertible

Karolinska Development's convertible outstanding debt December 31, 2016 amounts to SEK 394 million. Repayable amount December 31, 2016 amounts to SEK 451 million. The convertible is traded under the ticker symbol KDEV KV1 and listed on NASDAQ Stockholm with ISIN code SE0006510103. In April 2017 SEK 58 million convertible was set-off by shares reducing the outstanding nominal amount of convertible from SEK 387 million to SEK 329 million.

Shareholders

	Equity			
	A-shares	B-shares	Cap %	Vote %
Thai Charoen Pokphand Group	0	4,853,141	9.08%	7.24%
Tredje AP-Fonden	0	4,678,500	8.75%	6.98%
Karolinska Institutet Holding AB	1,503,098	2,126,902	6.79%	25.61%
Coastal Investment Management LLC	0	3,470,408	6.49%	5.18%
Östersjöstiftelsen	0	3,170,304	5.93%	4.73%
OTK Holding A/S	0	1,900,000	3.55%	2.84%
Stift För Främjande & Utveckling AV	0	1,397,354	2.61%	2.09%
Foundation Asset Management AB	0	1,392,035	2.60%	2.08%
Ramsbury Invest AB	0	1,261,278	2.36%	1.88%
Friheden Invest	0	1,000,000	1.87%	1.49%
Ribbskottet AB	0	1,000,000	1.87%	1.49%
Sum top 11 shareholders	1,503,098	26,249,922	51.91%	61.62%
Sum other shareholders	0	25,711,978	48.09%	38.38%
Sum all shareholders	1,503,098	51,961,900	100.00%	100.00%

Board of Directors



Bo Jesper Hansen

Chairman and Board member since 2013. Born 1958. MD PhD. Other appointments include Chairman of Laborie Inc. Board member of GenSpera Inc., Newron SA, Ablynx NV, Orphazyme A/S and CMC Kontrast AB. Previous appointments include various positions in Swedish Orphan International AB since 1993, including CEO 1998–2010 and executive Chairman 2010–2016. Medical advisor for Synthelabo, Pfizer, Pharmacia and Yamanouchi. Founder of Scandinavian Medical Research.

Holdings in Karolinska Development 75,617 shares of series B.



Tse Ping

Vice Chairman and Board member since 2015. Born 1952. Honorary Doctorate, Fil Dr hc. Other appointments include Founder and Chief Executive Officer of Sino Biopharmaceutical Limited, Senior Vice Chairman of Thai Charoen Pokphand Group, where he has extensive experience of major merger and acquisition activity including Ping An Insurance, CITIC Group, China Mobile, ITOCHU Corporation, and Marko Group. Previous appointments include Member of the Ninth, Tenth, and Eleventh National Committee of the Chinese People's Political Consultative Conference.

Holdings in Karolinska Development 4,853,141 shares of series B and SEK 272,858,294 in convertible bonds (by related legal person).



Niclas Adler

Board member since 2015. Born 1971. PhD, MSc. Other appointments include Managing Partner Accelerated Innovation Ltd, Chairman Akinion Pharmaceuticals AB, ITH Immune Therapy Holdings AB, ADD Accelerated Drug Development AB and NGT Partners, member of the Board of Directors of AO Holding AB and SCI Innovation AB.

No holdings in Karolinska Development.



Vlad Artamonov

Board member since 2012. Born 1978. MBA, BSc. Other appointments include Board member and Partner of Coastal Capital International Ltd. Previous appointments include Board Member of Redbank Energy Ltd., Investment Analyst at Greenlight Capital Inc., position in the Global Merger & Acquisition Group at Merrill Lynch in New York.

Holdings in Karolinska Development 3,470,541 shares of series B (via related legal person).



Khalid Islam

Board member since 2015. Born 1955. PhD. Other appointments include Chairman of Fennec Pharma Inc. and Minoryx Therapeutics SL.; Board member of Oxthera AB.; Advisor to Kurma Biofund, member of the Editorial Board of Current Drug Discovery & Technologies. Previous appointments include President and CEO of Gentium SpA and Arpida AG and various leadership positions in research and development in Hoechst Marion Roussel (HMR) and Marion Merrell Dow (MMD).

No holdings in Karolinska Development.



Carl Johan Sundberg

Board member since 2014. Born 1958. Professor of Physiology. Other appointments include Board Director of Cobra Biologics AB, Board Director of Saniona AB, member of Karolinska Institutet Innovation Council, research director of the Unit of Bioentrepreneurship, Fellow of the Royal Swedish Academy of Engineering Sciences, member of the Medical Commission of the International Olympic Committee, Inspector General of the Medical Association and Chairman of Research!Sweden. Previous assignments include Investment Director at Karolinska Investment Fund, Board Director of Global Genomics AB, AngioGenetics AB, NsGene AS, Cellectricon AB, Alfa Rehab Center Holding AB, Karolinska Education AB and Feelgood Swedish AB, Vice President of Euroscience and Chairman of the Swedish Professional Associations for Physical Activity and Sports Medicine.

No holdings in Karolinska Development.



Henriette Richter

Board member since 2014. Born 1971. PhD, MSc. Other appointments include Partner at Sofinnova Partners, Paris and board member of Asceneuron SA, Delinia Inc. and Chairwoman of iOmx Therapeutics. Previous positions include Investment Director at Novo Seeds, Novo A/S (2007-2014) where she served on the boards of Cytoguide ApS, Avilex Pharma ApS, Affinicon ApS, Orphazyme A/S and EpiTherapeutics A/S.

No holdings in Karolinska Development.



Hans Wigzell

Board member since 2006. Born 1938. Professor Emeritus of Immunology and MD. Other appointments include Chairman of Rhenman & Partner Asset Management AB and Cadila Pharmaceuticals Sweden Aktiebolag, Board member of Sarepta Therapeutics Inc. and RaySearch Laboratories AB. Member of The Royal Swedish Academy of Engineering Sciences and of the Royal Swedish Academy of Sciences. Previous assignments include, among others, the President of Karolinska Institutet's Nobel Committee, and President of Karolinska Institutet and Director General of Smittskyddsinstitutet.

Holdings in Karolinska Development 8,491 shares of series B and SEK 39,992 convertible loan.

Management Team

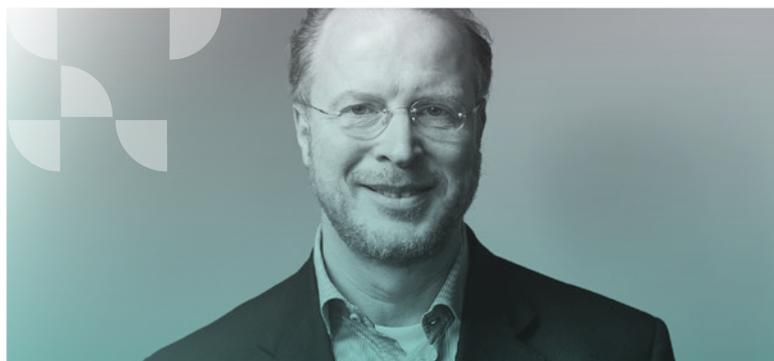


Jim Van heusden

Chief Executive Officer

Appointed in 2015. Born 1971. PhD. Jim Van heusden has more than 20 years of experience within life science investments; and research and development within the pharmaceutical industry. He is the Founder and Managing Director of Bioskills (2013) and was a Partner at European investment company Gimv (2001-2013). During his appointment at Gimv he also served as a Board member for several biotech companies including Multiplicom NV (as Chairman), Ablynx NV, ActoGeniX NV, Pronota NV and Prosensa. From 1993-2001 he worked as Senior Scientist at Janssen Pharmaceuticals (Johnson & Johnson).

Holdings in Karolinska Development 93,668 shares of series B.



Viktor Drvota

Deputy Chief Executive Officer and Chief Investment Officer

Appointed in 2016. Born 1965. MD, PhD. Associate Professor in Cardiology. Viktor Drvota has more than 13 years of Venture Capital experience with several investments, significant fundraisings, IPOs and exits. He is currently a member of the Board of Directors of Promimic, AB, OssDsign AB, Dilafor AB, Umecrine Cognition AB, Modus, Therapeutics AB and Modus Therapeutics Holding AB (publ). Previously responsible for Life Sciences at SEB Venture Capital 2002-2016, he also served as a Board Member of several biotech and medtech companies such as Arexis AB, SBL Vaccin AB, Nuevolution AS, Index Pharma AB, Scibase AB and Airsonett AB among others. Before joining SEB Dr. Drvota worked as Senior Consultant and Associate Professor in Cardiology at the Karolinska Institutet/Hospital, Stockholm. Dr. Drvota has experience in preclinical and clinical research in drug development and medical devices, and has 29 published research articles.

No holdings in Karolinska Development.



Christian Tange

Chief Financial Officer

Appointed 2014. Born 1966. MSc in Economics and Business Administration, MBA. Christian Tange has more than 15 years' experience in international growth companies including 12 years within the life sciences sector as global CFO. He has also acted as an industrial advisor and consultant for Private Equity Funds and Corporate Finance Advisors in M&A deals within life science. He is also Chief Executive Officer and a member of the Board of Directors of KCIF Fund Management AB.

Holdings in Karolinska Development: 70,278 shares of series B.



Ulf Richenberg

General Counsel

Appointed 2008. Born 1955. LL.M. Ulf Richenberg has 25 years' experience in business law, including positions as legal counsel of KIHAB, Esselte AB and Vattenfall, General Counsel of AB Stokab and Scribona AB and business law consultant at FOI. Ulf Richenberg is also chairman of KCIF Fund Management AB and KD Incentive AB.

Holdings in Karolinska Development: 38,205 shares of series B.

Employees



Elisabet Gimbringer

Controller

Employed since 2015. Born 1965. Economics and Business education from Stockholm University. Elisabet has worked as an approved public accountant for 10 years, and as a financial manager, business controller and financial controller for a number of different companies and fields for the last 15 years. Other appointments include Board Member of KD Incentive AB.

No holdings in Karolinska Development.



Eva Montgomerie

Head of Accounting

Employed since 2013, employed within the group since 2007. Born 1958. MSc in Business and Economics. Eva has worked within the banking and finance sector for 12 years, 10 years within the food and clothing sector and 8 years within life sciences. Other appointments include Finance manager in Dilafor AB and Pharmanest AB.

Holdings in Karolinska Development 1,667 shares.



Felicia Rittemar

Analyst

Employed since 2016. Born 1990. Felicia holds an MSc in Medical Science with a major in Bioentrepreneurship from Karolinska Institutet, Stockholm.

No holdings in Karolinska Development.

Directors' Report



The Board of Directors and the CEO of Karolinska Development AB (publ), corporate identity number 556707-5048, hereby present their annual report for the parent company and the financial report for the Investment Entity regarding the financial year 2016.

Karolinska Development AB (Nasdaq Stockholm: KDEV) is a Nordic life sciences investment company. The Company focuses on identifying breakthrough medical innovations in the Nordic region. The Company invests in the creation and growth of companies that advance these assets into commercial products that are designed to make a difference to patients' lives while providing an attractive return on investment to shareholders.

Karolinska Development has access to world-class medical innovations at leading universities and research institutions in the Nordic region, including Karolinska Institutet. The Company aims to build companies around innovative products and technologies, supported by entrepreneurs and experienced leadership teams. The company invests in syndicates with specialist international life science investors, to manage risks and maximize the chance of success.

Karolinska Development's portfolio comprised of nine companies, 10 companies at the end of 2016, focusing on the development of innovative treatments for life-threatening or serious debilitating diseases and other medical conditions.

The Company is led by an entrepreneurial team of investment professionals with a proven track record as company builders and with access to a strong global network.

Significant Events During the Financial Year

Karolinska Development

Karolinska Development made excellent progress in 2016 and has now finalized the strategic reorganization that began in 2015. The leadership team has been strengthened with the appointment of Dr. Viktor Drvota as Chief Investment Officer. The portfolio has been focused towards a smaller number of companies with exciting potential. The Company is now executing its strategy as a Nordic life science investment company to build value for both patients and shareholders.

The Company also supported its portfolio companies achieve multiple milestones during 2016. New funds have been raised in syndication with other experienced life science investors. Pipeline candidates have been further advanced through clinical development. Commercialization plans have been expanded to new regions, and experienced leadership has been attracted to strengthen the management teams and Boards of Directors. As a result, the majority of companies in Karolinska Development's portfolio are now well-positioned to deliver key value-generating milestones during the next 18-24 months, while additional value potential is retained in divested companies through earn-out agreements.

Strengthened and streamlined organization

Karolinska Development has, during the two past years, been reorganizing its business as an investment company and streamlining its operations to ensure it has the right capabilities and expertise to manage its existing portfolio as well as to identify, access and manage new deals.

The Company's capabilities in this area were considerably enhanced during the first quarter 2016 with Viktor Drvota, MD PhD, joining the organization as Chief Investment Officer, following his appointment in December 2015. Dr. Drvota was promoted to Deputy CEO of Karolinska Development in February 2017, which he will fulfil in addition to his role as Chief Investment Officer.

Dr. Drvota is an experienced life science investor and joined Karolinska Development from SEB Venture Capital, where he was Head of Life Science since 2002. He has established a strong track record in identifying investment opportunities in the life sciences sector (biotech and medtech) in the Nordic region, building companies and fundraising.

Investment strategy focused on the Nordic region

The Company's strategy is focused on identifying breakthrough medical innovations in the Nordic region. Karolinska Development invests in the creation and growth of companies that advance these assets into commercial products that are designed to make a difference to patients' lives while providing an attractive return on investment to shareholders.

The Board believes that some of the most innovative biomedical research and ideas in Europe originate at institutions and with entrepreneurs in the Nordic region, and there is a substantial pool of hidden value. At the same time, the Nordic region represents an under-ventured area for life science investments. The situation is rapidly improving with increasing international investment in the region from specialist life sciences investors highlighting its potential to become the next major life science cluster. Karolinska Development aims to be a focal point for this activity.

The Company's strategy is focused on identifying new investment opportunities across the Nordic region, to expand and diversify its portfolio into broader areas of life sciences with near-term value-inflection points, such as medical technologies, diagnostics or digital health. The Company will also seek to make investments in undervalued companies on the public markets in the region and in more mature investments, where returns may be realized more quickly than from early stage companies. Karolinska Development will look to syndicate deals with experienced life science investors.

An exciting portfolio with blockbuster potential – well-financed to deliver key milestones

A priority for Karolinska Development has been to focus its portfolio on a smaller number of companies that it considers have the best chances of success and thereby creating high-value exit opportunities (e.g. through trade sales, IPOs or licensing agreements with potential buyers or partners within the life science sector). At the end of December 2016, Karolinska Development's portfolio comprised 10 companies, compared with 12 at the end of 2015 and 21 at the end of 2014.

The portfolio companies are developing highly differentiated and commercially attractive products that have the potential to deliver compelling clinical and health economic benefits, as well as attractive returns on investment.

Significant clinical development and/or commercialization milestones are expected for these companies in the next 18-24 months.

Creating new investor syndicates to finance portfolio companies

A key objective for Karolinska Development has been to ensure that its companies are financed to achieve these value-inflection points. The Company has achieved this goal by raising new funds through the syndication of deals with experienced international life sciences investors. During 2016, SEK 610 million was raised to finance the further progress of Karolinska Development's portfolio companies, 91% of which was from new investors. Further non-dilutive funds were raised by certain portfolio companies, through grant awards and collaboration agreements providing accelerated access to new markets.

The current level of funding provides sufficient runway to unlock the potential value of these companies during the next 18-24 months.

In addition to providing syndication opportunities, Karolinska Development anticipates that its relationships with specialist international investors will provide access to a broader deal flow. This therefore provides more opportunities to generate attractive returns while at the same time allowing the risk profile of the overall portfolio to be better managed. The Company also believes that these relationships will further benefit portfolio companies through increased access and exposure to extended international networks and expertise.

A strong emphasis on leadership

The quality and experience of leadership teams and Boards is crucial to ensuring the success of the portfolio companies. During 2016, Karolinska Development was instrumental in attracting experienced and entrepreneurial leaders, with strong and successful track records, to several of its portfolio companies, including Aprea Therapeutics, Umecrine Cognition, OssDesign and Promimic.

Future value retained in divested companies

Karolinska Development has also retained the potential to capture additional value through earn-out agreements in the companies it has divested to other investors, which are financing their operations. The divested companies include Inhalation Sciences Sweden (divested in 2017), Clanotech (2016) and Athera, Axelar, Pharmanest, Xspray (2015) and Oncopeptides (2012).

Portfolio Company Highlights

Therapeutics companies

Aprea Therapeutics

- SEK 437 million (USD 51 million) raised in a series B round from leading international life science investors (Mar 2016) - the largest private financing to date by one of Karolinska Development's portfolio companies and more broadly by any private life science company in Sweden in the past decade. New investors included Versant Ventures and 5AM Ventures (US), with participation by Sectoral Asset Management (Canada), and HealthCap (Sweden).
- Christian S. Schade appointed as President and Chief Executive Officer (Jun 2016).
- Promising efficacy and safety data from Phase Ib part of PISARRO clinical trial with APR-246 in patients with relapsed high-grade serous ovarian cancer presented at international cancer conferences (ESMO, Oct 2016; and ASCO, Jun 2016).
- First patients enrolled into Phase II part of the PISARRO study (Oct 2016).

BioArctic

- New strategic collaboration signed with Abbvie, a global pharmaceutical company, to develop and commercialize BioArctic's portfolio of antibodies directed against alpha-synuclein for the treatment of Parkinson's disease and other potential indications (Sep 2016).

Dilafor

- Raised SEK 51 million (USD 5.9 million) from new and existing investors. New investors include Lee's Healthcare Industry Fund, Rosetta Capital IV and Pila AB (Sep 2016).
- US patent granted for tafoxiparin, a potential therapy for obstetric indications in Phase II development, providing key IP protection in the US until at least 2033, with the possibility of up to five years' additional patent term extension (Dec 2016).

Lipidor

- Lipidor and Cadila Pharmaceuticals, one of the largest pharmaceutical manufacturing groups in India, entered into a collaboration to commercialize a sprayable product consisting of calcipotriol formulated with AKVANO technology for mild to moderate psoriasis. Cadila is conducting a Phase III program in India (June 2016).

Modus Therapeutics

- Clinical collaboration agreement with Arabian Gulf University (Bahrain) for Phase II clinical development of sevuparin for sickle cell disease (SCD) (Feb 2016).
- Dilaforette changed its name to Modus Therapeutics (Oct 2016).
- Phase II study with sevuparin expanded to include adolescent SCD patients (aged 12-18), sample size increased from 45 to around 150 patients (Nov 2016).
- Posters highlighting the hypothesis for the mechanism of action of sevuparin in treating SCD were presented at EHA (Jun 2016) and ASH (Dec 2016).

Umecrine Cognition

- SEK 60 million (USD 6.6 million) raised in series B round from syndicate of Swedish investors, including Fort Knox Förvaring AB, Partnerinvest Övre Norrland AB, Norrlandsfonden and Karolinska Development (Mar & Nov 2016).
- Phase I study initiated with GR3027 for treating hepatic encephalopathy (HE) in liver disease patients (Mar 2016).
- Positive top line data from Phase I study demonstrated safety, tolerability, and CNS target engagement (Nov 2016).
- Bruce Scharschmidt, a key opinion leader in the field of HE, joined the Board of Directors (Jul 2016).

Medical technology companies

OssDsign

- CE mark received for Cranioplug, an innovative device for cranial fixation (Jan 2016).
- Simon Cartmell, former CEO of Apatech (acquired by Baxter in Mar 2010 for USD 330 million), appointed Chairman of the Board (Apr 2016).
- Preliminary data presented at ECN highlighted benefits of OSSDSIGN® Cranial implants for cranioplasty (Sep 2016).

Promimic

- Promimic's partner S.I.N., a leading provider of dental implants in Brazil, launched HA^{nano} Surface-coated implants in Brazil (Jan 2016) and sales development during 2016 exceeded expectations.
- Promimic and Danco Anodizing entered a partnership where Danco invested in a US production line for HA^{nano} Surface coating for orthopedic and dental implants (Mar 2016). The production line was completed in Oct 2016.
- SEK 23.8 million (USD 2.6 million) raised from new investors (Chalmers Ventures) and existing investors (KDev investments and ALMI Invest) to finance the establishment of Promimic Inc., its commercial operations in the US (Sep 2016).
- Promimic elected Tord Lendau as Chairman of the Board of Directors, and Håkan Krook and Patrik Sjöstrand as Non-Executive Directors (Oct 2016).

Divestments

- Entire shareholding of Akinion Pharmaceutical (via KDev Investments) was divested to Accelerated Innovation Europe (Apr 2016) following halt of clinical development of AKN-028 in acute myeloid leukaemia due to severe liver toxicity (Mar 2016).
- KDev Investments divested its entire shareholding in Clanotech to Rosetta Capital. Karolinska Development retains an economic interest in Clanotech through an earn-out agreement (Jul 2016).

The Investment Entity and the Parent Company

The Parent Company is the legal entity Karolinska Development AB. The Parent Company is reporting according to Swedish Annual Accounting Act and Swedish Financial Accounting Standards Council, RFR 2. In the Parent Company investments in subsidiaries, joint ventures, associated companies and other long-term securities holdings are recognized at the lower of cost of acquisition and fair value.

The Investment Entity is not a separate legal entity but subsidiaries, joint ventures, associated companies and other long-term securities holdings are all consolidated at fair value. As a listed company The Investment Entity is reporting in accordance with IFRS.

Financial Development for the Investment Entity in 2016 (SEKm)

Investments

As previously mentioned, Karolinska Development's investment strategy is to finance its portfolio companies to their next significant value inflection point. Karolinska Development is also focused on attracting external specialized life science investors to secure a broad investor syndicate to support the further development of its portfolio companies, and to manage risks and maximize the chance of success.

During 2015 and 2016, Karolinska Development was very successful in attracting external specialized life science investors. In 2016 total investments from external investors amounted to SEK 338.7 million.

Karolinska Development's investment in its portfolio companies amounted to SEK 28.8 million, where SEK 27.0 million was cash investments and SEK 1.8 million was non-cash investments (accrued interest on loans).

Investments from external investors and Karolinska Development totalled SEK 367.5 million in 2016.

Karolinska Development's investments were made in five companies: Modus Therapeutics SEK 9.1 million, Asarina Pharma (previously Umecrine Mood) SEK 8.9 million, Aprea Therapeutics SEK 6.3 million, Promimic SEK 3.6 million and Clanotech SEK 0.8 million.

2016 investments in Karolinska Development's portfolio companies

SEK million	Karolinska Development	External Investors	Total Invested 2016
Modus Therapeutics	9.1	4.1	13.2
Umecrine Cognition	8.9	17.8	26.8
Aprea Therapeutics	6.3	197.5	203.8
Promimic	3.6	19.9	23.5
Clanotech	0.8	0.0	0.8
Asarina Pharma	0.0	48.1	48.1
Dilafor	0.0	36.2	36.2
Inhalation Sciences	0.0	10.1	10.1
Lipidor	0.0	4.9	4.9
TOTAL Investments	28.8	338.7	367.5

Dilafor, Inhalation Sciences, Lipidor and Asarina Pharma (previously Umecrine Mood) were 100% financed by external investors.

Portfolio Fair Value

Fair Value of the portfolio companies owned directly via Karolinska Development increased by SEK 9.6 million during 2016. The main reason for the increase was an investment and increased ownership in Umecrine Cognition.

Fair Value of the portfolio companies owned via KDev Investments decreased by SEK 195.9 million during 2016. The investments in Aprea Therapeutics and Modus Therapeutics had a positive impact on the Fair Value, while the development of the Fair Value of Akinion, Clanotech and Inhalation Sciences had a negative impact on the Fair Value.

Fair Value of Akinion and Clanotech was reduced to zero because Akinion stopped further development of its lead product candidate AKN-028 due to severe liver toxicity issues and Clanotech was divested. The Fair Value of Inhalation Sciences was also reduced because of the planned divestment in early 2017 via an earn-out agreement.

As a consequence of the reduction in Fair Value of the portfolio owned via KDev Investments, the potential distribution to Rosetta Capital was reduced by SEK 68.1 million, resulting in a Net Portfolio Fair Value decrease of SEK -118.2 million in 2016.

SEK 000	31 Dec 2016	31 Dec 2015	2016 vs 2015
Karolinska Development Portfolio Fair Value	143,657	134,081	9,576
KDev Investments Portfolio Fair Value	261,586	457,518	-195,932
Total Portfolio Fair Value	405,243	591,599	-186,356
Potential distribution to Rosetta Capital of Fair Value of KDev Investments	255,837	323,948	-68,111
Net Portfolio Fair Value (after potential distribution to Rosetta Capital)	149,406	267,651	-118,245

Total Portfolio Fair Value at 31 December 2016 amounted to SEK 405.2 million and the potential distribution to Rosetta Capital amounted to SEK 255.8 million. Net Portfolio Fair Value at 31 December 2016 amounted to SEK 149.4 million.

Results 2016 (comparable numbers 2015)

Karolinska Development's revenues consist primarily of services provided to portfolio companies. Already during 2015, Karolinska Development changed its strategy towards operating as an investment company. As a consequence, there was a reduction in services provided to the portfolio companies, while putting more emphasis on managing the portfolio companies at the Board level. Because of these changes, revenues decreased further during 2016. Revenues from providing services to portfolio companies amounted to SEK 2.0 million in 2016 (SEK 2.9 million).

In 2016, Karolinska Development received a dividend of SEK 3.3 million from its holdings in BioArctic and total revenues amounted to SEK 5.4 million (SEK 2.9 million).

During 2015, Karolinska Development initiated a restructuring of its cost base. This was completed during 2016 by moving to less expensive premises. Other external expenses remained at SEK 15.4 million (SEK 15.4 million), as expenses increased for communication to ensure a more transparent, clearer communication and increase the market's understanding of Karolinska Development's business model and the achievements of its portfolio companies.

During 2015, Karolinska Development streamlined its organization with a positive impact on personnel costs. In 2016, the slimmer organization was fully implemented and personnel costs were further reduced by SEK 13.9 million (45%) compared to 2015. Personnel costs in 2016 amounted to SEK 17.3 million (SEK 31.2 million).

With a decrease of SEK 118.2 million (decrease of SEK 845.7 million) in Karolinska Development's Net Portfolio Fair Value and investments by Karolinska Development of SEK 28.8 million in 2016 (SEK 130.8 million), the Result of Change in Portfolio Fair Value in the profit and loss statement amounted to SEK -147.0 million in 2016 (SEK -976.5 million).

In 2016, depreciation decreased to SEK 0.1 million (SEK 0.2 million). The decrease was a consequence of all tangible assets in rented premises being fully depreciated during 2016.

The Operational profit/loss for 2016 was SEK -174.0 million (SEK -1,020.3 million).

During 2016, a number of portfolio companies were financed via loans and interest income amounted to SEK 2.6 million (SEK 2.5 million). As the interest on the convertible is rolled over, financial expenses increased from SEK 40.1 million in 2015 to SEK 45.3 million in 2016, making Financial Net amounting to SEK -42.8 million (SEK -34.4 million).

With an Operational profit/loss of SEK -174.0 million (SEK -1,020.3 million) and Financial net of SEK -42.8 million (SEK -34.4 million), the Investment Entity's Profit/loss before tax amounted to SEK -216.8 million in 2016 (loss of SEK -1,054.7 million). As described above, the main reason for the loss was the negative Result of Change in Portfolio Fair Value of SEK -147.0 million (SEK -976.5 million) mainly due to the reduction in the Fair Value of Akinion and Clanotech to SEK 0 million.

Financial position

Retained earnings decreased by SEK 218.0 million in 2016 (SEK 1,009 million) and equity at 31 December 2016 amounted to SEK 29.8 million (SEK 247.9 million). Total assets amounted to SEK 438.3 million at 31 December 2016 (SEK 614.5 million) and the equity to total assets ratio in the Investment Entity was 7% (40%).

At 31 December 2016, cash and cash equivalents and short-term investments amounted to SEK 248.1 million (SEK 297.2 million), of which SEK 30.4 million was provisionally allocated for additional investments in the KDev Investments AB portfolio.

Cash flow

In 2016, cash from operating activities before investments and changes in working capital amounted to SEK -28.5 million (SEK -42.6 million), a reduction of SEK 14.1 million compared to 2015. The main reason for the reduced cash spent on operating activities was the general reduction in organizational costs.

During 2016, Karolinska Development invested SEK 27.0 million (SEK 119.2 million) in cash in its portfolio companies and together with changes in working capital, cash from operating activities adjusted for SEK -41.3 million (SEK 147.4 million) amounted to SEK -50.3 million (SEK -177.6 million). SEK 41.3 million (SEK -147.4 million) was financed from cash Karolinska Development has invested in interest-bearing funds, and net changes in cash in 2016 decreased by SEK 9.0 million (SEK 6.7 million). Net changes in cash in 2015 was affected by the issue of SEK 331.7 million convertible in 2015.

Information on risks and uncertainties

Investment Entity and Parent Company

Risk of losing invested capital

Karolinska Development invests, for instance, in companies with projects at early stages, before beneficial effects have been proven, in animal testing or human testing, so-called proof of principle and proof of concept, respectively. Accordingly, the business is associated with a great amount of risk. Karolinska Development invests primarily in non-listed companies, which means that Karolinska Development may not be able to find suitable exit alternatives for its investments within the time frame expected by Karolinska Development, or at all. If Karolinska Development is unsuccessful in finding suitable exit opportunities for its investments, the Company's business, results, financial condition and growth could be adversely affected.

Future financing requirements

In order to secure financing for investments in current and new portfolio companies, Karolinska Development may seek additional financing in the future. Such additional financing may not be available to Karolinska Development on acceptable terms, or at all. If Karolinska Development is unable to obtain funding on time, the Company may be required to significantly curtail its investments, implying that the Company's business, results, financial condition and growth could be adversely affected. In addition, loan financing, if available, may be expensive and may involve restrictive covenants or may otherwise constrain the Company's financial flexibility, which could adversely affect the Company's business, results, financial condition and growth.

Future capital needs

Future investments in new and existing portfolio companies will require capital. There is no guarantee that capital can be obtained on favourable terms or in sufficient amounts to finance the operations in accordance with the business plan, or that such capital can be obtained at all. The convertible loan can be converted to shares at a conversion rate of SEK 22 per series B share; there is no guarantee the share price will rise to SEK 22 before December 2019. In April 2017 SEK 58 million convertible was set-off by shares reducing the outstanding nominal amount of convertible from SEK 387 million to SEK 329 million.

Key employees at Karolinska Development and in the portfolio companies

It is vital that Karolinska Development succeeds in retaining its key employees and is able to recruit new employees when needed. Therefore, high demands will be placed on the Company's professional leadership, that Karolinska Development's distinctive profile is preserved and that the forecasted development is met. Karolinska Development faces competition for personnel from other companies, investment funds, universities, public and private research centres as well as government entities and other organizations. If Karolinska Development would be unsuccessful in its efforts to retain and recruit relevant personnel, the Company's business, results, financial condition and growth could be adversely affected.

Furthermore, a key factor for the portfolio companies is to succeed in retaining and recruiting individuals with experience in fundraising, company development and exits and/or expertise in research and technology on which these companies are built. Equally important is a skilful leadership and that the staff considers the workplace as stimulating. To achieve this, high demands will be placed on the portfolio companies' leadership. In addition to an interesting work environment, attractive employment conditions are important. The portfolio companies may fail in its efforts to retain and recruit staff with the appropriate skills, which may adversely affect the portfolio companies and the Company's business, results, financial position and growth.

Cooperation with the portfolio companies and co-investors

Karolinska Development usually has a representative on the Board of Directors in its portfolio companies. The aim of this is on a strategic level to be able to assist these portfolio companies in matters concerning the portfolio companies' development. The Boards of Directors of the portfolio companies are also composed of representatives from other investors and independent directors. Any cooperation in the Board is dependent on effective communication and good relationships between the directors concerned, and with the management of the portfolio companies. Karolinska Development's Board representatives are in a minority position on the Board of Directors in the portfolio companies and their influence on Board meeting may be limited. Moreover, it is required that Karolinska Development and its executive management are successful in reaching agreements with other investors which could contribute to the portfolio companies' further development. Karolinska Development also often holds a minority position in the portfolio companies. Karolinska Development and its Board representatives may not be able to meet these requirements, which could adversely affect the portfolio companies' further development and the Company's business, results, financial condition and growth.

Access to new investment opportunities

Karolinska Development has a non-exclusive deal flow agreement with Karolinska Institutet Holding AB ("KIHAB") wholly owned by Karolinska Institutet ("KI") and Karolinska Institutet Innovations AB ("KIAB"). As part of the agreement, it is planned to establish a new incubator fund focused on identifying potentially valuable new medical innovations at KI at an early pre-seed stage. Karolinska Development may not be able to secure access to the dealflow coming from such an incubator fund or the fund may not be established. Apart from its agreement with KIHAB and KIAB, Karolinska Development is also dependent on its relationships with universities, tech transfer offices, entrepreneurs, investors to get access to additional deal flow. Karolinska Development may not be able to identify suitable deals to invest in.

Complicated ownership structures in the portfolio companies

Karolinska Development's holdings in the portfolio companies are in some cases direct, in others indirect via, for example KDev Investments AB and/or KCIF Co-Investment Fund KB, and sometimes the Company has a combination of direct and indirect holdings. The Company makes investments in the portfolio companies on a regular basis, normally through new issues of shares in the portfolio companies but also through loans or other financing instruments. This means that the ownership structures of the portfolio companies are changing regularly. Furthermore, from time to time transfers of ownership are made in connection with exits, partial exits or due to restructurings. There is a risk that necessary waivers from pre-emption or preferential rights according to portfolio companies' articles of association or according to shareholders' agreements regarding the portfolio companies are not obtained, or not documented in the correct order. If anyone would dispute the Company's holdings in the portfolio companies and succeed with such claim in a legal proceeding, it could

result in an unexpected decreased value of the Company's holdings in portfolio companies, which could adversely affect the Company's operations, results, financial position and growth.

The development work of the portfolio companies

The majority of the portfolio companies' projects are in Phase II stages of development and further research and development work is required before the innovations and technologies of the companies can be commercialized. Examples of such work are testing of drugs on patients to assess the candidate drugs' effect and safety. Problems or delays may occur and the development work may not be able to be conducted successfully, or at all. Future product development of the portfolio companies are subject to the risks of failure, inherent in the development of pharmaceutical, other biotechnological products or techniques and medical devices. This includes the possibility that any or all of the portfolio companies' product candidates will show a lack of effect, be toxic or otherwise fail to either meet applicable regulatory standards or fail to receive necessary regulatory approvals or clearances, or turn out to be difficult to develop into commercially viable products.

Cash flow from exit or licensing of projects is subject to the objectives of the projects in the portfolio companies being achieved. Each outcome has a direct impact on the potential value of a portfolio company. Other factors that may have an impact on the cash flow from the portfolio companies are competitors' successes and demand from potential buyers at a given point in time.

Most of the portfolio companies' projects may not be commercialized to the extent necessary in order for Karolinska Development's investment in the project to be profitable, or even for Karolinska Development to recover the capital invested from the portfolio company in question. Karolinska Development has after the strategic reorganization a relatively narrow portfolio, limiting the potential that one or more projects that can be commercialized successfully enough to cause significant dividends or exit proceeds to Karolinska Development. If none of the portfolio companies are able to achieve such commercial success, this could adversely affect the portfolio companies' and the Company's business, results, financial condition and growth.

The challenge of innovation

The markets for pharmaceutical, biotechnology, diagnostics and medical devices are characterized, *inter alia*, by long periods of research and development, rapid technological development, regulatory challenges, and a large number of competing product launches. The existing and potential customers of the portfolio companies often work within established reference models and set standard practices. The portfolio companies conduct business with highly advanced research and pioneering technologies. If the portfolio companies cannot successfully, and within set time frames, break into these markets and establish their products and technologies, the portfolio companies' and the Company's business, results, financial condition and growth could be adversely affected.

Long time before marketing of products

The time it takes before a product candidate has completed the entire research and development process, established a strong patent protection, satisfied all regulatory requirements and found strong marketing and distribution partners, is often underestimated. Moreover, the market introduction of new products and technologies often face a slow start. Introducing new products and technologies, which are not previously known and accepted, or have predetermined reimbursement models, takes time. This could lead to delay in milestone payments and royalty income, or that they lapse entirely, which could adversely affect the portfolio companies' and the Company's business, results, financial condition and growth.

Competition for the portfolio companies

The markets for the product candidates and new technologies of the portfolio companies are exposed to fierce competition. The portfolio companies' direct and indirect competitors are in many cases major international companies. Such actors are already established in the markets of the portfolio companies and may hold competitive advantages. Furthermore, they can normally react rapidly to face new research and development or new market requirements. They may also, compared to the portfolio companies, have greater financial resources and expertise in research and development, clinical trials, better opportunities in obtaining regulatory approvals and superior marketing.

Competitors may develop more effective, more affordable and more suitable products or may achieve patent protection earlier or be able to commercialize their products earlier than Karolinska Development's portfolio companies. These competing products may render the portfolio companies' product candidates obsolete or otherwise limit the ability of the portfolio companies to generate revenues from their product candidates, which could adversely affect the portfolio companies' and the Company's business, results, financial condition and growth.

Market and technology development

The portfolio companies frequently operate in markets characterized by rapid development. New and competing products and technologies may pose a threat to the products developed by the portfolio companies. Moreover, new products and actors result in increased competition, which may negatively impact both price and market penetration. The future prospects of the portfolio companies will to a large extent depend on their ability to develop their business and to produce high-quality products and technologies. The portfolio companies' development work may not proceed without problems. Problems in the development work may lead to delays in set timetables and that products and techniques, once they are fully developed, will not satisfy the market requirements and demands and/or will not achieve broad market acceptance. Changes in pricing principles may impair the value of the products, technologies and services developed by the portfolio companies, which in turn could adversely affect the portfolio companies' and Karolinska Development's business, results, financial condition and growth.

Product liability for the portfolio companies

The portfolio companies are in many cases exposed to the risk of product liability claims that may be inherent due to flaws in manufacturing, studies, or marketing of certain pharmaceuticals or diagnostics, biotechnology and medical devices. The portfolio companies may not be able to obtain or maintain insurance protection for such claims on acceptable terms, or at all. Moreover, insurances that the portfolio companies do obtain may not provide adequate protection against a potential claim. This could adversely affect the portfolio companies' and the Company's business, results, financial condition and growth.

Need for strategic partners

Most of the portfolio companies have a great need to enter into partnerships or ally themselves with major international companies to market their products. The portfolio companies may not be successful in attracting third parties to enter into such partnerships, and, if such partnerships are entered into, they may not develop as planned.

If a strategic partner would not fulfil its contractual obligations or commitments or fail to keep expected time limits, or if a partner has to be replaced or if the clinical information that the partner receives for some reason appears to be of poor quality or incorrect, planned clinical trials may be extended, delayed or terminated which could have a negative impact on the business of the portfolio company and its ability to license or commercialize its products, which in turn could adversely affect the portfolio companies' and the Company's business, results, financial condition and growth.

Intellectual property rights of the portfolio companies

The success of the portfolio companies is to a large extent dependent on the portfolio companies' ability to protect methods and technologies that they develop under patent protection and other intellectual property rights in order to prevent competitors from using their innovations and other protected information. Since patent applications in general are confidential for 18 months from the date of the application, third parties may have filed patent applications for methods and technologies covered by a portfolio company's pending patent applications without the portfolio company being aware of such applications. That may cause the portfolio company's patent application not having priority, which in turn could result in the patent protection being considerably less extensive than applied for. The fact that a patent has been granted does not provide an absolute protection during the term of the patent. Patents may later be declared invalid by court or an authority which leads to insufficient patent protection towards other innovations. In addition, granted patents must be properly transferred from the inventor/inventors to the portfolio company in question. Moreover, the extent of the patent protection is dependent on patent category and the wording of the patent application. The different patent categories and the wording of the patent application are of importance for the strength of a patent and may vary from case to case.

As a result of the formation of the patent legislation, the exercise of an innovation in accordance with a portfolio company's patent may be governed by the technology of another patent, on which the

portfolio company's patent is dependent. In such situation, the portfolio company may not be able to ensure the right to use such technology at reasonable conditions to the portfolio company, or at all.

A third party may sue a portfolio company for infringing its patent rights. Likewise, a portfolio company may need to resort to litigation against a third party to enforce a patent granted to the portfolio company or to determine the scope and invalidity of third-party proprietary rights. Patent litigations often take several years and the issue may, depending on the rules of the country in question, be tried in several court instances. The cost of pursuing intellectual property litigations, even if resolved to the portfolio company's favour, could be substantial. Litigations could also divert the portfolio company's focus from the portfolio company's ordinary business. Uncertainty resulting from pursuing litigations could limit a portfolio company's ability to continue its operations. If any party should claim that a portfolio company's creation or use of methods or technologies infringes upon such party's intellectual property rights, the portfolio company may be forced to pay damages and cease the infringing activity.

In many countries, prohibitory injunctions may be announced at an early stage of legal proceedings. As prohibitory injunctions often require that security is provided, the portfolio companies may not have sufficient financial resources to pursue prohibitory injunctions. It is not certain that the patents of the portfolio companies entail sufficient legal or commercial protection towards financially strong competitors that, despite the patent, may use the portfolio company's methods and technologies.

Furthermore, the patents of the portfolio companies may not entail sufficient legal or commercial protection towards similar products which the market assesses to be replaceable with the portfolio company's product. Only a few of the portfolio companies may have registered trademarks. Without accurate registration, it might be difficult, or at least time and resource consuming, to prevent a third party from using respective portfolio company's trade name or brands, as applicable. If any of the risks related to the intellectual property of the portfolio companies were to materialize, it could adversely affect the portfolio companies' and the Company's business, results, financial condition and growth.

Trade secrets of the portfolio companies

Each portfolio company may be dependent on trade secrets, not protected by patents or other intellectual property, being safeguarded. Such trade secrets could include, but are not limited to, information in relation to inventions for which patent protection has not been sought yet or to information in relation to manufacturing processes or methods for which patent protection cannot be sought. Employees and collaboration partners of respective portfolio company do generally have an obligation of confidentiality towards respective portfolio company. However, it can happen that someone, having access to information of great value for the portfolio company in question, discloses or uses the information in a manner that impair the portfolio company's position on the market, which could adversely affect the relevant portfolio company's and the Company's business, results, financial condition and growth.

Future financing requirements of the portfolio companies

Research and development activities and marketing efforts in the life science industry are capital-intensive. The portfolio companies may not be able to obtain further capital on advantageous terms, and the capital which may be obtained may not be sufficient to finance the activities in accordance with the portfolio companies' respective business plans. It should be noted that any inability of Karolinska Development to participate in future investment rounds in a portfolio company could lead to the portfolio company having to curtail its business and/ or to Karolinska Development's holding in the company being diluted by other investors. Even in situations where Karolinska Development would be able and willing to participate, co-investors may not be willing to participate on the same terms and conditions. If any of these risks were to materialize, it could adversely affect the portfolio companies' and the Company's business, results, financial condition and growth.

Dependency on obtaining regulatory approvals

In order to obtain regulatory approvals for commercial sale of the portfolio companies' products, the portfolio companies and their collaborating partners will be required to complete clinical trials to demonstrate the safety and efficacy of the products. The portfolio companies and their collaborating partners may fail in obtaining approvals from regulatory authorities to commence or complete such clinical trials. If approval is obtained, such clinical trials may prove that the products are not safe or effective to the extent necessary to obtain marketing authorizations from regulatory authorities. Positive results demonstrated in development studies and clinical trials that the portfolio companies and their collaborating partners finalize, may not be confirmed in results obtained in future clinical trials.

The portfolio companies and their collaborating partners will not be able to market any of their products without first obtaining the requisite authorizations from the appropriate regulatory authorities. The regulatory process to obtain marketing authorization for a new pharmaceutical product may take many years and usually requires significant financial and other resources.

If the portfolio companies and their collaborating partners do not receive required marketing authorizations from authorities to market their product candidates, the portfolio companies' and the Company's business, results, financial condition and growth could be adversely affected.

Environmental regulations

Because of the chemical ingredients in pharmaceutical products and the nature of their manufacturing process, the pharmaceutical industry is subject to extensive environmental regulation and the portfolio companies are subject to the risk of incurring liability for damages or costs of remediation, renovation or control of environmental problems. The portfolio companies may not be able to obtain the operating licenses necessary to conduct their business. In addition, if the portfolio companies fail to comply with environmental regulations relating to the proper use or disposal of hazardous materials or otherwise fail to comply with conditions attached to operating licenses, such licenses could be revoked. The portfolio companies can also be subject to legal sanctions and substantial liability and costs, or could be required to suspend or modify their operations, which could adversely affect the portfolio companies' and the Company's business, results, financial condition and growth.

Financial risks

Financial risks are described in Note 17.

Financial Development for the Parent Company in 2016

(Amounts in SEK million and comparable numbers are for 2015)

During 2016, the Parent Company's Operating profit/ loss amounted to SEK -175.5 million (SEK -839.3 million), a change of SEK 663.8 million compared to 2015.

During 2016, impairment losses were recognized in the holdings in KDev Investments AB, SEK -147.6 million, and KCIF Co-Investment Fund KB, SEK -0.8 million. Impairment losses totalled SEK -148.4 million (SEK -795.5 million).

The Parent Company's Net profit/ loss for the year amounted to SEK -218.9 million (SEK 883.5 million).

Corporate governance report

The Corporate Governance Report is in a separate document at the end of the Annual Report.

Remuneration guidelines for the CEO and other senior executives as well as other conditions

Remuneration guidelines for senior executives are prepared and approved by the Board of Directors. The guidelines are adopted by the Annual General Meeting 2016; see Note 5.

Board of Directors' proposal for remuneration guidelines for senior executives to the Annual General Meeting 2017

Karolinska Development shall maintain remuneration levels and terms required to recruit and retain senior executives with the competence and experience needed to achieve the Company's operational goals. Total remuneration to senior executives must be competitive, reasonable and appropriate. Fixed base salary is determined based on the individual's area of responsibility and experience. Variable salary (i) is formulated with the aim of encouraging Karolinska Development's long-term value creation; (ii) is based upon criteria that are predetermined, clear, measurable and can be influenced; (iii) has established limits for the maximum outcome; and (iv) is not pensionable income. If terminated by the Company, the term of notice is six months.

Share capital and owner

Karolinska Development's share capital at the end of the financial year amounted to SEK 26.7m, distributed among 53,464,998 shares with a par value of SEK 0.5, of which 1,503,098 were A shares (with 10 votes each) and 51,961,900 were B shares (with one vote each). The largest shareholders were Thai Charoen Pokphand Group, with a total of 4,853,141 B shares representing 9.1% of the capital and 7.24% of the votes; Tredje AP-Fonden, with 4,678,500 B shares representing 8.75% of the capital and 6.98% of the votes; and Karolinska Institutet Holding AB, with 1,503,098 A shares and 2,126,902 B shares representing 6.79% of the capital and 25.61% of the votes.

Holding of treasury shares

At year-end, the company held 244,285 treasury shares, corresponding to SEK 122,143 of the share capital, and the consideration paid totalled SEK 4.7 million. The purpose of share repurchases is to cover social security costs related to the PSP incentive programs.

Future development

Karolinska Development is making excellent progress in executing its strategy. The Company has a portfolio of exciting companies that are funded to deliver key value-generating milestones over the next 18-24 months, an investment strategy designed to generate further value from the most promising life science opportunities across the Nordic region, and key people in place with the necessary international experience and capabilities to drive its strategy forward. Furthermore, the Board believes that the completion of the set-off issue will enable Karolinska Development to leverage the progress it has made executing its investment strategy with the aim of creating additional value for all share/bond holders.

Karolinska Development does not provide any forecasts with regard to the divestments of portfolio companies.

Environment and responsibilities

Karolinska Development's operations do not involve any special environmental risks and do not require any special environmentally related permits or authorizations from authorities. Karolinska Development undertakes its operations according to applicable health and safety regulations and offers its employees a safe and sound working environment.

Multi-year summary

SEKm	Investment Entity						
	2016	2015	2014 (restated)	2013 (restated)	2012 (restated)	2011 (restated)	2010 (restated)
Income statement							
Net sales	5	3	5	5	4	2	11
Operating expenses	-33	-47	-69	-64	-60	-64	-57
Result from change in portfolio fair value	-147	-976	-306	-533	121	-176	-233
Result from sale of shares in portfolio companies	0	-	2	-	-	-	-
Operating profit/loss	-174	-1,020	-368	-592	65	-238	-279
Financial net	-43	-34	-4	41	-22	-6	6
Profit/loss after financial items	-217	-1,054	-372	-551	43	-244	-273
Balance sheet							
Tangible non-current assets	-	-	1	1	-	-	-
Shares in portfolio companies	149	268	1,113	1,336	1,827	1,547	1,455
Loans receivable from portfolio companies	1	-	12	6	13	4	-
Other financial assets	38	38	38	38	9	-	-
Total non-current assets	188	306	1,164	1,381	1,849	1,551	1,455
Other current assets	2	11	17	5	6	7	101
Short-term investments	238	278	128	165	174	457	137
Cash and cash equivalents	11	20	13	35	109	68	73
Total current assets	250	309	158	205	288	532	311
Total assets	438	614	1,322	1,586	2,137	2,083	1,765
Equity	30	248	1,257	1,565	2,116	2,075	1,755
Long-term liabilities	399	355	35	9	11	-	-
Current liabilities	9	12	30	12	11	8	9
Total liabilities and equity	438	614	1,322	1,586	2,137	2,083	1,765
Cash flow							
Cash flow from operating activities	-9	-325	-109	-71	43	-568	-304
Cash flow from financing activities	0	332	86	-2	-2	563	-7
Cash flow for the year	-9	7	-22	-73	40	-5	-311
Key ratios¹							
Capital employed	429	603	1,292	1,574	2,116	2,075	1,755
Return on equity	-729%	-425%	-30%	-35%	2%	-12%	-16%
Return on capital employed	-51%	-175%	-29%	-35%	2%	-12%	-16%
Equity to total assets ratio	7%	40%	95%	99%	99%	100%	99%
Average number of employees	6	12	13	14	16	16	15
Data per share							
Profit/loss after tax, SEK	-4.08	-19.84	-7.64	-11.38	0.89	-5.56	-8.22
Equity, SEK	0.6	4.6	23.6	32.4	43.6	42.7	52.7
Net asset value, SEK	0.7	4.7	23.7	32.5	43.7	42.8	49.9
Share price at year-end, SEK	6.0	9.6	13.3	30.90	15.30	25.80	-
Dividend, SEK	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share price/Equity per share	1,076%	207%	56%	95%	35%	60%	-
Share price/Net asset value per share	854%	205%	56%	95%	35%	60%	-
Number of shares at year-end	53,464,998	53,449,640	53,384,558	48,531,417	48,531,417	48,531,417	33,331,417
Weighted average number of shares before and after dilution	53,210,223	53,151,328	48,606,243	48,350,016	48,529,767	43,908,951	33,263,938

¹Definitions of Key ratios, see page 90

Proposed appropriation of loss (SEK)

The following earnings are available for appropriation by the Annual General Meeting:

Retained loss	-1,677,789,969
Share premium reserve	1,884,309,378
Net profit/loss for the year	-218,926,177
Total	-12,406,768

The Board of Directors proposes that loss brought forward be appropriated as follows:

Share premium reserve	1,884,309,378
To be carried forward	-1,896,716,146
Total	-12,406,768

For information regarding the operating results and financial position of the Investment Entity and the Parent Company, refer to the following income statements, balance sheets, statements of cash flow and accompanying notes. Unless otherwise stated, all amounts are reported in thousands of Swedish kronor (SEK 000).

Financial Statements



Financial Statements

Income statement for the Investment Entity

SEK 000	Note	2016	2015
Revenue	2	5,360	2,942
Other expenses	3,4	-15,415	-15,363
Personnel costs	5	-17,344	-31,167
Depreciation of tangible non-current assets		-106	-212
Result of change in fair value of shares in portfolio companies	17	-146,988	-976,488
Result from sale of shares in portfolio companies		444	-
Operating profit/loss		-174,049	-1,020,288
Interest income		1,954	2,460
Interest expenses	6	-45,237	-40,058
Other financial gains and losses	6	500	3,213
Financial net		-42,783	-34,385
Profit/loss before tax		-216,832	-1,054,673
Taxes	7	-	-
NET PROFIT/LOSS FOR THE YEAR		-216,832	-1,054,673

Statement of comprehensive income for the Investment Entity

SEK 000	Note	2016	2015
Net profit/loss for the year		-216,832	-1,054,673
Total comprehensive income/loss for the year		-216,832	-1,054,673

Earnings per share

SEK 000	Note	2016	2015
Earnings per share, weighted average, before and after dilution		-4.08	-19.84
Number of shares, weighted average	13	53,210,223	53,151,328

Statement of financial position for the Investment Entity

SEK 000	Note	31 Dec 2016	31 Dec 2015
Assets			
Tangible assets			
Tangible non-current assets	8	-	106
Financial assets			
Shares in portfolio companies, at fair value, through profit and loss	9	149,408	267,651
Loans receivable from portfolio companies	10	957	914
Other financial assets	17	38,113	38,113
Total non-current assets		188,478	306,784
Current assets			
Receivables from portfolio companies		229	3,549
Other current receivables	11	660	5,995
Prepaid expenses and accrued income	12	806	897
Short-term investments	17	237,545	277,646
Cash and cash equivalents	17	10,602	19,589
Total current assets		249,842	307,676
TOTAL ASSETS		438,320	614,460
Equity and liabilities			
Equity			
Share capital	13	26,732	26,725
Share premium		1,874,236	1,874,236
Retained earnings including net profit/loss for the year		-1,871,153	-1,653,080
Total equity		29,815	247,881
Long-term liabilities			
Convertible loan	14	394,438	349,205
Other financial liabilities	17	4,798	5,439
Total long-term liabilities		399,236	354,644
Current liabilities			
Accounts payable		1,460	1,444
Liabilities to portfolio companies		-	513
Other current liabilities	15	960	4,425
Accrued expenses and prepaid income	16	6,849	5,553
Total current liabilities		9,269	11,935
Total liabilities		408,505	366,579
TOTAL EQUITY AND LIABILITIES		438,320	614,460

Statement of changes in the Investment Entity's equity

SEK 000	Equity attributable to Investment Entity's shareholders				Total
	Note	Share capital	Share premium	Retained earnings	
Opening equity at 1 Jan 2016	13	26,725	1,874,236	-1,653,080	247,881
Net profit/loss for the year				-216,832	-216,832
Total comprehensive income/loss for the year				-216,832	-216,832
Effect of incentive programs				-1,241	-1,241
Share issue		7			7
Closing equity at 31 Dec 2016		26,732	1,874,236	-1,871,153	29,815
Opening equity at 1 Jan 2015 (restated)	13	26,692	1,828,844	-598,724	1,256,812
Net profit/loss for the year				-1,054,673	-1,054,673
Total comprehensive income/loss for the year				-1,054,673	-1,054,673
Convertible loan - equity part			49,528		49,528
Issue costs			-4,136		-4,136
Effect of incentive programs				317	317
Share issue		33			33
Closing equity at 31 Dec 2015		26,725	1,874,236	-1,653,080	247,881

Statement of cash flows for the Investment Entity

SEK 000	Note	2016	2015
Operating activities			
Operating profit/loss		-174,049	-1,020,288
Adjustments for items not affecting cash			
Depreciation	8	106	212
Result of change in Portfolio Fair Value	17	146,988	976,488
Result from sale of portfolio companies		-	-
Other items		-1,371	176
Proceeds from short-term investments		-193	736
Interest received/paid		-	122
Cash flow from operating activities before changes in working capital and operating investments		-28,519	-42,554
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in operating receivables		7,851	2,551
Increase (+)/Decrease (-) in operating liabilities		-2,665	-18,346
Operating investments			
Sale of shares in portfolio companies		-	-
Acquisitions of shares and investments in portfolio companies	33,34,35	-26,987	-119,292
Proceeds from sale of short-term investments ¹		41,326	-
Short-term investments ¹		-	-147,382
Cash flow from operating activities		-8 994	-325,023
Financing activities			
Share issue		7	33
Convertible debenture issue		-	364,001
Issue costs		-	-32,307
Cash flow from financing activities		7	331,727
Cash flow for the year		-8,987	6,704
Cash and cash equivalents at the beginning of the year		19,589	12,885
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		10,602	19,589

Supplemental disclosure¹

Supplemental disclosure¹

CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10,602	19,589
Short-term investments, market value at closing date	237,545	277,646
CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS AT THE END OF THE YEAR	248,147	297,235

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

Income statement for the Parent Company

SEK 000	Note	2016	2015
Net sales	23	5,360	2,942
Revenue		5,360	2,942
Other expenses	24,25	-15,415	-15,363
Personnel costs	26	-17,344	-31,167
Depreciation of tangible non-current assets		-106	-212
Impairment losses on shares in subsidiaries, joint ventures, associated companies and other long-term securities holdings	27	-148,440	-795,470
Result from sale of shares in subsidiaries	28	444	-
Operating profit/loss		-175,501	-839,270
Interest income and similar income items	29	1,954	2,806
Interest expenses and similar expense items	30	-45,379	-47,039
Financial net		-43,425	-44,233
Taxes	31	0	0
NET PROFIT/LOSS FOR THE YEAR		-218,926	-883,503

Statement of comprehensive income for the Parent Company

SEK 000	Note	2016	2015
Net profit/loss for the year		-218,926	-883,503
Total comprehensive income/loss for the year		-218,926	-883,503

Balance sheet for the Parent Company

SEK 000	Note	31 Dec 2016	31 Dec 2015
Assets			
Tangible assets			
Machinery and equipment	32	-	106
Financial assets			
Shares in subsidiaries	33	-	150
Shares in joint ventures	34	42,449	190,515
Shares in associated companies	34	64,561	38,249
Other long-term securities holdings	35	600	599
Loans receivable from joint ventures and associated companies	37	28,734	27,523
Other financial assets	38	33,010	33,386
Total non-current assets		169,354	290,528
Current assets			
Receivables from related parties		229	3,549
Other current receivables	39	660	5,995
Prepaid expenses and accrued income	40	3,448	2,500
Short-term investments		237,545	277,646
Cash and cash equivalents		10,602	19,589
Total current assets		252,484	309,279
TOTAL ASSETS		421,838	599,807
Equity and liabilities			
Equity			
Restricted equity			
Share capital	13	26,732	26,725
Unrestricted equity			
Share premium reserve	41	1,884,310	1,884,310
Accumulated losses		-1,677,789	-793,045
Net profit/loss for the year		-218,926	-883,503
Total equity		14,327	234,487
Long-term liabilities			
Convertible loan	14	394,438	349,205
Pension obligations	42	3,804	4,180
Total long-term liabilities		398,242	353,385
Current liabilities			
Accounts payable		1,461	1,444
Liabilities to related parties		-	513
Other current liabilities	43	959	4,425
Accrued expenses and prepaid income	44	6,849	5,553
Total current liabilities		9,269	11,935
Total liabilities		407,511	365,320
TOTAL EQUITY AND LIABILITIES		421,838	599,807

Statement of changes in equity for the Parent Company

SEK 000	Restricted equity		Unrestricted equity			Total equity
	Note	Share capital	Share premium reserve	Accumulated losses	Net profit/loss for the period	
Opening equity at 1 Jan 2016	13	26,725	1,884,310	-793,045	-883,503	234,487
Appropriation of loss				-883,503	883,503	0
Net profit/loss for the year					-218,926	-218,926
Total		26,725	1,884,310	-1,676,548	-218,926	15,561
Effect of incentive programs				-1,241		-1,241
Share issue		7				7
Closing equity at 31 Dec 2016		26,732	1,884,310	-1,677,789	-218,926	14,327
Opening equity at 1 Jan 2015	13	26,692	1,838,918	-502,588	-290,774	1,072,248
Appropriation of loss				-290,774	290,774	0
Net profit/loss for the year					-883,503	-883,503
Total		26,692	1,838,918	-793,362	-883,503	188,745
Convertible loan - equity part			49,528			49,528
Issue costs			-4,136			-4,136
Effect of incentive programs				317		317
Share issue		33				33
Closing equity at 31 Dec 2015		26,725	1,884,310	-793,045	-883,503	234,487

Statement of cash flows for the Parent Company

SEK 000	Note	2016	2015
Operating activities			
Operating profit/loss		-175,501	-839,270
Adjustments for non-cash items			
Depreciation and impairment losses	27,32	148,546	795,682
Other items		-1,371	176
Realized change in value of short-term investments		-193	736
Interest received/paid		-	122
Cash flow from operating activities before changes in working capital and operating investments		-28,519	-42,554
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in operating receivables		7,851	1,951
Increase (+)/Decrease (-) in operating liabilities		-2,665	-18,346
Operating investments			
Acquisitions of subsidiaries	33	-	-
Acquisitions of shares in joint ventures and associated companies	34	-19,819	-83,521
Sale of short-term investments ¹		41,326	-
Short-term investments ¹		-	-147,382
Repaid loans to associated companies	37	-	4,038
Loans provided to associated companies	37	-7,168	-39,209
Cash flow from operating activities		-8,994	-325,023
Financing activities			
Share issue		7	33
Convertible debenture issue		-	364,001
Issue costs		-	-32,307
Cash flow from financing activities		7	331,727
Cash flow for the year		-8,987	6,704
Cash and cash equivalents at the beginning of the year		19,589	12,885
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		10,602	19,589

Supplemental disclosure¹

CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10,602	19,589
Short-term investments, market value at closing date	237,545	277,646
CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS AT THE END OF THE YEAR	248,147	297,235

¹Surplus liquidity in the Parent Company is invested in fixed income funds and is recognized as short-term investments with a maturity exceeding three months. These investments consequently are not reported as cash and cash equivalents and therefore are included in cash flow from operating activities. The supplemental disclosure is presented to provide a comprehensive overview of the Parent Company's available funds, including cash, cash equivalents and short-term investments.

Note 1

Accounting policies

Operations in general

Karolinska Development AB (publ) ("Karolinska Development," "Investment Entity" or the "Company") is a Nordic life sciences investment company. The Company focuses on identifying medical innovations and investing in the creation and growth of companies developing these assets into differentiated products that will make a difference to patients' lives and provide an attractive return on investment to its shareholders. Investments are made in companies whose sole purpose is to generate a return through capital appreciation and investment income. These temporary investments, which are not investment entities, are designated "portfolio companies" below. The Company, with Corporate Identity Number 556707-5048, is a limited liability company with its registered office in Solna, Sweden. Future investments will be sourced via the deal flow agreement with Karolinska Institutet Innovations AB, through an extended network of contracts at research institutions across the Nordic region, and through relationships with other specialist life sciences investors.

Compliance with generally accepted accounting policies and law

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations of the IFRS Interpretations Committee, as adopted by the EU. Furthermore, recommendation RFR 1 Supplementary Accounting Regulations for Groups and statements UFR 7 and 9 from the Swedish Financial Reporting Board have been applied.

Conditions when preparing the financial statements

This is an English translation of the Swedish annual report. In the event of any discrepancy between the content of the two versions, the Swedish version shall prevail.

The Company's functional currency is Swedish kronor, which is also the reporting currency of the Investment Entity. This means that the financial statements are presented in Swedish kronor. All figures, unless otherwise indicated, are rounded to the nearest thousand. Assets and liabilities are recognized at historical cost, except for certain financial assets and liabilities measured at fair value. Financial assets and liabilities measured at fair value consist of holdings in subsidiaries, joint ventures and associated companies, other securities holdings, other financial assets and liabilities, and short-term investments classified as financial assets held for sale.

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and carrying amounts of assets, liabilities, revenue and expenses. The estimates and assumptions are based on historical experience and various other factors which are considered appropriate under prevailing conditions. The results of these estimates and assumptions are then used to assess the carrying amounts of assets and liabilities that are not otherwise evident from

other sources. The actual result may differ from these estimates and assessments.

Estimates and assumptions are reviewed periodically. Changes in estimates are recognized in the period the change is made if the change only affects that period or in the period the change is made and future periods if the change affects both the current period and future periods.

The following accounting policies for the Investment Entity have been applied consequently to all periods presented in the financial statements, unless otherwise stated below.

New and amended standards applied by the Investment Entity

New or amended IFRS standards and interpretations from the IFRS Interpretations Committee have not had an impact on the Investment Entity.

New and amended IFRS and interpretations that have not yet entered into force

The Investment Entity has chosen not to adopt the following new and amended IFRS and interpretations that have issued but not yet been adopted:

IFRS 9 Financial Instruments covers the classification, measurement and recognition of financial liabilities and assets. IFRS 9 requires financial assets to be classified in two categories: at fair value or accrued cost. The classification is determined upon initial measurement based on the Company's business model and the characteristics of contractual cash flows. The portfolio companies will continue to be measured at fair value. For financial liabilities, there are no major changes compared with IAS 39. The largest change relates to liabilities at fair value, where part of the change in fair value attributable to the liability's credit risk will be recognized in other comprehensive income rather than profit or loss, provided this does not cause inconsistency in the accounts.

IFRS 15 Revenue from Contracts with Customers specifies how and when revenue is recognized, but also contains rules on providing more informative, relevant disclosures in the financial statements.

The Investment Entity intends to adopt the new standards no later than the financial year beginning 1 January 2018 but does not expect any impact from these changes.

None of the other IFRS or interpretations that have not yet been adopted are expected to have a material impact on the Investment Entity.

Significant accounting policies

Classification

The Investment Entity's non-current assets and long-term liabilities are essentially limited to amounts that are expected to be recovered or settled more than 12 months after the closing date. Current assets and current liabilities of the Investment Entity essentially comprise amounts that are expected to be recovered or settled within 12 months of the closing date.

Operating segments

An operating segment is a component of a company engaged in a business activity from which it may earn revenue and incur expenses, whose operating income is regularly reviewed by the Company's chief operating decision maker, and for which there is separate financial information. The Investment Entity's reporting of operating segments complies with the internal reporting to the chief operating decision maker. The chief operating decision maker has the function of assessing the profit/loss of the operating segments and determining the allocation of resources. In the Investment Entity's assessment, the management constitutes the chief operating decision maker. In internal reporting, the management evaluates the Investment Entity's result, but does not analyze the results for various parts of the Investment Entity. Consequently, the Investment Entity is considered a single reportable operating segment.

Consolidating policies

Karolinska Development has determined that it meets the definition of an investment entity. An investment entity does not consolidate its subsidiaries, IFRS 10 *Consolidated Financial Statements*, or apply IFRS 3 *Business Combinations* when it obtains control over another company, with the exception of subsidiaries that provide services associated with the investment entity's investing operations. An investment entity instead measures its holdings in portfolio companies at fair value through profit or loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

Karolinska Development does not have any holdings in other investment entities that will be consolidated in any reporting period.

Subsidiaries

Subsidiaries are companies under the control of the Investment Entity. Consequently, an investor controls an investee only if the investor has:

-
- a) power over the investee;
 - b) exposure, or rights, to variable returns from its involvement with the investee; and
 - c) the ability to use its power over the investee to affect the amount of the investor's returns.
-

Karolinska Development considers all the facts and circumstances in assessing whether it controls an investee. The Company reassesses whether control exists if the facts and circumstances suggest that one or more of the controlling factors have changed.

Associated companies

An associated company is an entity over which the Investment Entity exercises significant influence through the ability to participate in decisions related to the financial and operational strategies of the business. This situation normally occurs when the Investment Entity, directly or indirectly, owns shares representing 20–50% of the votes, or receives significant influence through agreements.

Karolinska Development is an investment entity in accordance with IAS 28 *Investments in Associates and Joint Ventures* and has chosen to recognize its holdings in associated companies at fair value with changes in value through profit or loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. The accounting policy for financial assets at fair value through profit or loss is described in the section on financial instruments below.

Joint ventures

A joint venture is a joint arrangement whereby two or more parties that share joint control of the arrangement have the rights to its net assets. Joint control means contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Karolinska Development has chosen to recognize its holdings in joint ventures at fair value with changes in value through profit or loss, which is permitted in accordance with IAS 28.

Significant assessments in the application of the accounting policies

The following section describes the most significant assessments, besides those containing estimates (see below), which management has made in the application of the Investment Entity's accounting policies and which have the most significant impact on the amounts recognized in the financial statements.

Qualification as an investment entity

In Karolinska Development's assessment, the Company meets the criteria for an investment entity. An investment entity is a company that meets the following criteria:

-
- a) it obtains funds from one or more investors for the purpose of providing the investor(s) with investment management services;
 - b) it commits to its investor(s) that its business purpose is investing funds solely for returns from capital appreciation, investment income, or both; and
 - c) it measures and evaluates the performance of substantially all its investments on a fair value basis.

In Karolinska Development's assessment, the Company also has the following typical characteristics to qualify as an investment entity:

-
- a) it has more than one investment;
 - b) it has more than one investor;
 - c) it has investors that are not related parties of the entity; and/or
 - d) it has ownership interests in the form of equity or similar interests.
-

Karolinska Development has investments in several portfolio companies, has several investors that are not related parties to the Company and the investments are in equities.

The following significant assessments have been made in determining whether the Company qualifies as an investment entity:

-
- Karolinska Development invests in portfolio companies for the purpose of generating a return in the form of capital appreciation and investment income. Karolinska Development does not receive, nor does it have as its aim to receive, benefits from the Company's investments that are not available to other parties not related to the investee. The commercial purpose is not to develop medical products as such, but rather to invest to create and maximize the return. An important factor in the assessment is Karolinska Development's involvement in the investments' operations, since the Company provides certain services to support the development projects in the portfolio investments. Because of its influence as a shareholder, Karolinska Development normally appoints one or more Board members of the portfolio companies. Despite that it provides certain services to the portfolio companies, Karolinska Development has reached the conclusion that it meets the criteria for an investment entity.
 - Moreover, the primary criterion of evaluating the portfolio companies is based on fair value. Although Karolinska Development also monitors the portfolio companies through studies and clinical trials, for instance, the primary purpose of monitoring these key terms is to better understand changes in fair value and assess the need for additional future investments.
 - The Company has a documented exit strategy for all its portfolio companies. Karolinska Development's investment strategy is to retain investments for a limited period. In every decision whether to invest in a company, the company and/or development project in question must have clear potential for a final exit, e.g., through a sale to an outside party, that the asset can be transferred or that there is a potential that the project (portfolio company) will be licensed to an outside party with a high return to global partners. The exit strategies are taken into consideration in the valuations.
-

Influence over the portfolio companies

Karolinska Development's ownership interests in its portfolio companies range from a few percent up to 88%. A relatively large proportion of Karolinska Development's share of the portfolio companies lies within the range of 30-88% and in some cases fluctuates over time through investments that increase or dilute Karolinska Development's holdings.

Karolinska Development normally enters into shareholder agreements with other shareholders in the portfolio companies. Where shareholder agreements assure other investors or founders of influence, Karolinska Development is not considered to have control, even if its ownership interest formally exceeds 50%. Karolinska Development has therefore chosen to recognize its holdings at fair value through profit or loss as holdings in associated companies or joint ventures depending on the degree of control.

Valuation of portfolio companies

The calculation of the Portfolio Fair Value is based on IFRS 13 standards of deciding and reporting fair value and the International Private Equity and Venture Capital Valuation Guidelines (IPEV Valuation Guidelines) established by the IPEV, which represent the current best practice, on the valuation of private equity investments.

The Portfolio Fair Value is divided into Total Portfolio Fair Value and Net Portfolio Fair Value.

Total Portfolio Fair Value is the aggregated proceeds that would be received by Karolinska Development and KDev Investments if the shares in their portfolio companies were sold in an orderly transaction between market participants at the measurement date.

Net Portfolio Fair Value (after potential distribution to Rosetta Capital) is the net aggregated proceeds that Karolinska Development will receive after KDev Investments' distribution of proceeds to Rosetta Capital, named Shares in portfolio companies in the Investment Entities' balance sheet.

A detailed description of the impact of the portfolio valuation of the agreement with Rosetta Capital is provided in Note 17.

Important sources of uncertainty in estimates

Following are the most important future assumptions and other important sources of uncertainty at the end of the reporting period that entail a significant risk of material adjustments in the carrying amounts of assets and liabilities during the next financial year.

Valuation method for portfolio companies

The valuation of the company's portfolio is based on the International Private Equity and Venture Capital Valuation Guidelines (IPEV) and IFRS 13 Fair Value Measurement. Based on the valuation criteria provided by these rules, an assessment is made of each company to determine a valuation method. This takes into account whether the companies have recently been financed or involved with a transaction that includes an independent third party. If there is no valuation available based on a similar transaction, discounted cash flow models (DCF) may be used.

DCF's of the underlying business consider all of the cash flows of a portfolio company, which are then discounted with an appropriate rate and also risk adjusted to take the development risks in pharmaceutical development into consideration. Revenue streams are approximated from epidemiological data on the intended therapeutic indication and a number of assumptions such as pricing per patient and year, market share and market exclusivity (from IPR and regulatory market protection). As described in the IPEV Valuation Guidelines, the inputs in the DCF models are constructed with a high level of subjectivity. Hence, this method is only suitable for late stage assets, either pharmaceutical companies with lead projects in late stage (Phase III) development or technology projects with an established market presence and where revenues can be projected with a higher degree of confidence than in products in earlier stages of development. As of 31 December 2016, there are no portfolio companies valued by DCF.

Companies with an established revenue stream may be valued by sales multiples. The multiples should be derived from current market-based multiples for comparable companies. As with DCF valuations, this method requires that the company has a mature market presence and its sales forecasts can be made with sufficient certainty. Furthermore, as this method only considers revenue streams, the IPEV Valuation Guidelines stipulate that non-operating assets or liabilities need to be taken into account when applying this method. As of 31 December 2016, no companies were valued according to sales multiples.

Early stage companies, defined as pharmaceutical assets prior to Phase III development and technology assets prior to establishing targeted and sustainable sales revenues, which have not recently been financed by a transaction involving a third party investor are valued at the price of the most recent investment, corresponding to the last post-money valuation of the portfolio company. Companies in such early stages of development typically show a relatively flat value appreciation through the financing rounds as they complete preclinical and early clinical milestones. Significant value appreciation is unlikely during this period and the post-money valuation, despite not being validated by an external investor, is considered a good approximation of fair value.

Such situations arise when Karolinska Development, alone or with other investors that have participated in previous investment rounds, reinvests in portfolio companies. Should a new investor join an investment round, the valuation method will fall under a higher valuation priority, although the actual metric – post-money valuation – is the same as if only existing owners participate.

Should Karolinska Development opt out of an investment round with no intention to participate in later rounds, the price in the most recent investment may still be a valid valuation method, provided that these circumstances lead to a disproportionate post-money valuation because of the loss of negotiating power over pricing (and Karolinska Development's ownership may be drastically diluted). However, as Karolinska Development' unwillingness to invest likely reflects a lower perceived value compared to previous post-money valuations, a lowering of value is often a good indication of fair value in such cases.

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

The cautious approach is particularly applied if an investment round is followed by a round that included a then third party investor. An increase in fair value may be merited if, e.g., milestones have been reached during the time between investments, although in certain cases a large increase may not be considered. In these cases the amount invested since the investment round with third party investors should be added to correspond to the appreciation in value, while additional increases in value are not to be included until the valuation is validated by new third party investors.

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

Revenue

Revenue consists of dividends on shares in portfolio companies and invoiced services rendered to portfolio companies for management, communication, finance and administration, including legal and analytical operations. Revenue for services rendered is recognized in the period in which the service is rendered and recognized as the fair value of the consideration that has been or will be received, less value-added tax.

Operating expenses and financial income and expenses

Financial income and expenses

Financial income and expenses consist of interest income on bank deposits, receivables and interest-bearing securities, interest on loans, dividend income, foreign exchange differences, and unrealized and realized gains on financial deposits.

Interest income on receivables and interest on debt are recognized over their term to maturity using the effective interest method. The effective interest rate is the rate that makes the present value of all estimated future cash payments and disbursements over the expected interest rate duration equal to the carrying amount of the receivable or liability.

Interest income includes accrued transaction costs and any discounts, premiums and other differences between the original value of the claim and the amount received at maturity.

Issue costs and similar direct transaction costs for raising loans are distributed over the term of the loan. Dividend income is recognized when the shareholder's right to receive payment is established.

Earnings per share

Earnings per share before dilution are calculated by dividing the net profit/loss for the year attributable to Karolinska Development's shareholders by a weighted average number of shares outstanding during the period.

The weighted average number of outstanding shares is calculated by adjusting the number of shares outstanding at the beginning of the period for share issues and repurchases made during the period, multiplied by the number of days that the shares were outstanding in relation to the total number of days in the period. For diluted earnings per share, the number of shares is adjusted for all dilutive potential shares, which include warrants. The warrants are dilutive if the exercise price is less than the estimated fair value of the Investment Entity's shares and this reduces earnings per share after dilution.

Financial instruments

Financial instruments recognized in the balance sheet include, on the asset side, shares and participations, other financial assets, loans, accounts receivable, short-term investments, cash and cash equivalents. The liability side consists of borrowings, other financial liabilities and accounts payable.

Financial instruments that are not derivatives are initially recognized at acquisition cost, corresponding to the instrument's fair value plus transaction costs for all financial instruments except those belonging to the category financial assets at fair value through profit or loss, which are measured at fair value, net of transaction costs. Subsequent measurement depends on how they are classified as below.

A financial asset or financial liability is recognized in the balance sheet when the Investment Entity becomes a party according to the instrument's contractual terms. Accounts receivable are recognized in the balance sheet once the invoice has been sent. Liabilities are recognized when the counterparty has performed and a contractual obligation to pay exists, even if the invoice has not yet been received. Accounts payable are recognized when the invoice is received.

A financial asset is derecognized from the balance sheet when the contractual rights are realized, expire or the Investment Entity loses control over them. The same applies to part of a financial asset. A financial liability is derecognized from the balance sheet when the contractual obligation is fulfilled or otherwise extinguished. The same applies to part of a financial liability.

The acquisition and disposal of financial assets are recognized on the trade date, i.e., the date when the Investment Entity pledges to acquire or dispose of the asset, except in the cases where the Investment Entity acquires or disposes of listed securities, in which case settlement date accounting applies.

The fair value of listed financial assets corresponds to the asset's quoted purchase price on the closing date.

IAS 39 classifies financial instruments in categories. The classification depends on the purpose of the acquisition of the financial instrument. Management determines the classification at the original purchase date. The classification determines how the financial instrument is valued after initial accounting.

Karolinska Development has financial instruments in the following categories:

Financial assets at fair value through profit or loss (FVTPL)

This category has two subgroups: held for trading and financial assets designated at FVTPL. Financial assets in this category are measured continuously at fair value with changes in value recognized through profit or loss.

This category includes shares in portfolio companies, other financial assets and short-term investments.

Financial assets held for trading

A financial asset is classified as held for trading if it:

- has been acquired principally for the purpose of selling it or buying back in the near term;
- on initial recognition is part of a portfolio of identified financial instruments that are managed together and has a recent actual pattern of short-term profit-taking; or
- is a derivative that is not designated as an effective hedging instrument.

Fixed income funds and corporate bonds have been assessed as belonging to this category.

Loans receivable and accounts receivable

Loans receivable and accounts receivable are financial assets that are not derivatives, have fixed or determinable payments and are not quoted on an active market. Assets in this category are measured at amortized cost. Amortized cost is determined from the effective interest rate calculated on the acquisition date. Accounts receivable are recognized at the amount that is expected to be received after an allowance for impaired receivables. As the expected maturity time is short, the nominal value is recognized without discounting. Cash and cash equivalents, including short-term investments with a maximum three-month term, as well as other short-term receivables, have been assessed as belonging to this category.

Cash and cash equivalents

Cash and cash equivalents include cash and bank balances and other short-term liquid investments that are readily convertible to cash and are subject to an insignificant risk of changes in value. To be classified as cash and cash equivalents, the duration may not exceed three months from the date of acquisition. Cash and bank balances are categorized as "Loans receivable and accounts receivable," which are measured at amortized cost. Because the bank balances are payable upon demand, amortized cost corresponds to the nominal amount.

Financial liabilities at fair value through profit or loss

This category comprises financial liabilities held for trading and derivatives that are not used for hedge accounting. Liabilities in this category are measured at fair value with changes in value recognized through profit or loss. Other financial liabilities have been assessed as belonging to this category. For the presence, no liabilities in this category.

Other financial liabilities

This category includes loans and other financial liabilities, e.g., convertible loan and accounts payable. Loans are measured at amortized cost. Amortized cost is based on the effective interest rate calculated when the liability was incurred. For accounts payable, if the expected duration is short, the nominal value is recognized without discounting.

Impairment testing of financial assets

Financial assets, with the exception of those measured at fair value through profit or loss, are tested for impairment when there is an indication of impairment at the end of each reporting period. Financial assets are considered impaired when there is objective proof, as a result of one or more events that have occurred after the initial date of recognition of the financial asset, that the estimated future cash flows for the investment have been impacted.

For financial assets at amortized cost, the impairment represents the difference between the asset's carrying amount and the present value of estimated future cash flows discounted to the original effective interest rate.

Share capital

Dividends

Dividends are recognized as a liability after the AGM has approved the dividend.

Employee benefits

Defined contribution pension plans

Obligations stemming from defined contribution pension plans are expensed through profit or loss as incurred. Certain individual pension undertakings have been guaranteed in the form of Company-owned endowment insurance policies. The Investment Entity has no further obligation to cover possible shortfalls in the endowment insurance or to pay any amount in excess of deposited premiums, which is why these pension plans are accounted for as defined contribution pension plans. Accordingly, the payment of premiums corresponds to a final settlement of the undertaking vis-à-vis the employee. In accordance with IAS 19 and the regulations for defined contribution pension plans, the Investment Entity therefore reports no assets or liabilities, with the exception of specific payroll taxes related to these endowment insurance policies.

Share-based payment

The Performance and Matching Share Rights allotted to senior executives are measured at fair value on the allotment date. The fair value of Performance and Matching Share Rights on the allotment date has been established by the Black-Scholes pricing model. For more information on the valuation, see Note 5.

The fair value set on the allotment date is expensed with a corresponding adjustment in equity distributed over the vesting period, based on the Investment Entity's estimate of the number of Performance and Matching Share Rights it expects to be vested. On each closing date, the Investment Entity reevaluates its estimate of the number of Performance and Matching Share Rights it expects to be vested. If a previous estimate is revised, the effect is recognized in income with a corresponding adjustment in equity.

Social security costs attributable to share-based payment are expensed over the vesting period.

Taxation

Income tax comprises current and deferred taxes. Income taxes are recognized through profit or loss except when the underlying transaction is recognized through other comprehensive income against equity or directly against equity, whereby the associated tax effect is recognized through other comprehensive income or directly against equity.

Current tax is tax to be paid or received for the current year, applying the tax rates enacted or substantively enacted by the closing date. This includes adjustments to current tax attributable to prior periods.

Deferred tax is calculated on the difference between recognized tax and tax values of the Investment Entity's assets and liabilities. Deferred tax is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, while deferred tax assets are recognized to the extent it is probable that the amounts can be offset against future taxable profits.

Deferred tax assets for deductible temporary differences and tax losses carried forward are recognized only to the extent it is probable that they will be utilized. The value of deferred tax assets is reduced when it is no longer considered probable that they can be utilized. The carrying amount of deferred tax assets is tested at each closing date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same authority and the Investment Entity intends to settle the tax on a net basis.

Contingent liabilities

A contingent liability is recognized when there is a possible obligation as a result of past events and whose existence is confirmed only by one or more uncertain future events, or when there is a commitment that is not recognized as a liability or provision because it is not probable that an outflow of resources will be required.

Note 2

Revenue distribution

Dividend refers to the share dividend received from the portfolio company BioArctic AB.

Services rendered are comprised of invoiced services provided to portfolio companies in Sweden. These services consist of management, communication, finance and administration, including legal and analytical operations.

Revenue per significant revenue source

SEK 000	2016	2015
Dividend	3,333	-
Other revenue	2,027	2,942
Total revenue	5,360	2,942

Note 3

Other external expenses

Fees and remuneration to the Investment Entity's auditors

SEK 000	2016	2015
EY		
Audit services	1,231	640
Audit related services	162	785
Tax consulting	365	-
Other services	-	-
Total	1,758	1,425
Deloitte		
Audit services	-	-
Audit related services	201	854
Tax consulting	10	41
Other services	-	110
Total	211	1,005

The audit fee refers to the auditor's reimbursement for execution of the statutory audit. This work includes the audit of the annual report and annual accounts, the administration of the Board of Directors and the CEO, and fees for advice offered in connection with the audit assignment. Audit related services primarily involve quality assurance services other than the statutory audit.

Note 4

Operating leases

The Investment Entity has chosen to finance premises and equipment through leases. Only operational lease agreements exist. Expensed leasing payments and future contractual leasing payments are indicated below.

SEK 000	2016	2015
Expensed leasing payments during the period	1,656	2,080
Future leasing payments		
Within one year	912	1,060
Between one year and five years	456	0
Total future leasing payments	1,368	1,060

Note 5

Employees and personnel costs

Average number of employees

Full-time equivalent	2016	Of whom women	Of whom men	2015	Of whom women	Of whom men
Investment Entity	6	34%	66%	12	33%	67%
Total	6	34%	66%	12	33%	67%

Remuneration expenses for employees

Salaries, other remuneration and social security expenses

SEK 000	2016		2015	
	Salaries and remuneration	Social security expenses	Salaries and remuneration	Social security expenses
Investment Entity	16,089	3,811	23,536	6,527
(of which pension expenses)	1,962	476	3,145	763

Defined contribution pension plans

The Investment Entity has defined contribution pension plans. Payments to these plans are made on an ongoing basis according to the regulations of each plan.

Remuneration to senior executives

The remuneration guidelines for senior executives are prepared by the Board and resolved by the Annual General Meeting. According to the 2016 remuneration guidelines for senior executives, the main features are as follows. Karolinska Development will maintain the remuneration levels and terms required to recruit and retain senior executives with the competence and experience needed to achieve the Company's operational goals. Total remuneration to senior executives must be competitive, reasonable and appropriate. Fixed base salary is determined based on the individual's area of responsibility and experience. Variable salary (i) is formulated with the aim of encouraging Karolinska Development's long-term value creation; (ii) is governed by criteria that are predetermined, clear, measurable and can be influenced; (iii) has established limits for the maximum outcome; and (iv) is not pensionable income. If terminated by the Company, the CEO term of notice is six months.

The group of senior executives includes the Chief Executive Officer, Chief Financial Officer, Chief Investment officer and General Counsel.

The table below shows the remuneration to the CEO, other senior executives and the Board of Directors during the financial year.

2016

SEK 000	Base salary/ Board fee	Variable remuneration	Other benefits and remuneration	Pension costs	PSP program ⁵	Total remuneration
Jim Van heusden, CEO	2,484	413	347	502	709	4,455
Other senior executives (3 persons)	4,610	778	247	1,179	187	7,001
Total, senior executives	7,094	1,191	594	1,681	896	11,456
Bo Jesper Hansen, fee as consultant ¹	1,294					1,294
Bo Jesper Hansen, Chairman	400					400
Hans Wigzell, Board member	200					200
Carl-Johan Sundberg, Board member	200					200
Henriette Richter, Board member	200					200
Vlad Artamonov, Board member	200					200
Tse Ping, Board member	200					200
Khalid Islam, Board member	200					200
Niclas Adler, Board member	200					200
Total, Board of Directors	3,094	-	-	-	-	3,094
Total	10,188	1,191	594	1,681	896	14,549

2015

Amount in KSEK	Base salary/ Board fee	Variable reumeration	Other benefiths and remuneration	Pension costs	PSP program ⁶	Total remuneration
Jim Van heusden, VD ²	1,853	360	150	249	327	2,939
Bruno Lucidi, fd VD ³	3,546					3,546
Terje Kalland, vice VD ⁴	3,305	433	5	865	610	5,217
Other members of management (five persons)	6,467	545	145	1,869	425	9,450
Total Management	15,170	1,338	300	2,982	1,362	21,152
Bo Jesper Hansen, arvode som konsult ¹	880					880
Bo Jesper Hansen, styrelseordförande	400					400
Hans Wigzell, styrelseledamot	200					200
Carl-Johan Sundberg, styrelseledamot	200					200
Henriette Richter, styrelseledamot	200					200
Robert Holland, styrelseledamot	100					100
Charlotte Edenius, styrelseledamot	100					100
Vlad Artamonov, styrelseledamot	200					200
Tse Ping, styrelseledamot	100					100
Khalid Islam, styrelseledamot	100					100
Niclas Adler, styrelseledamot	100					100
Total Board of Directors	2,580	-	-	-	-	2,580
Total	17,750	1,338	300	2,982	1,362	23,732

¹Refers to assignment as consultant over and above his role as Chairman of the Board; see below

²Salary for nine months

³Includes salary, severance and pension compensation expensed and paid in 2015. Bonus paid in 2015 but expensed in 2014 amounted to SEK 1,497 thousand and is not included in this table

⁴Including salary payment in December for three months in 2016. Bonus paid in 2015 but expensed in 2014 amounted to SEK 1,576 thousand and is not included in this table

⁵Costs for PSP programs, social cost excluded, for PSP 2014 and PSP 2015 taken during 2016. See below for further information regarding the PSP programs

⁶Costs for PSP programs, social cost excluded, for PSP 2013, PSP 2014 and PSP 2015 taken during 2015. See below for further information regarding the PSP programs

Gender distribution of senior executives and Board of Directors

Information as of closing date

	2016	2015
Board of Directors		
Men	7	7
Women	1	1
	8	8
CEO and senior executives		
Men	4	6
Women	-	2
	4	8

Compensation to the CEO

Pension terms

A contractual pension equivalent to 23% of gross salary, consisting of premium-based compensation.

Variable remuneration to the CEO

The CEO is entitled to a bonus based on exits in the portfolio. The remuneration amounts to 1/3 of 4% of the net proceeds paid to the company upon the exit. The remuneration includes all of the company's costs in relation to the payment. The maximum payment, together with the payment to other senior executives reported in the section "Variable remuneration to other senior executives," is limited to SEK 50 million per exit and calendar year. In the event that the exit bonus and a STI program cover the same event that triggers payment, there is no double payment. The CEO is also eligible for STI 2016 and PSP 2015, which are reported in the section "Annual incentive programs" opposite.

Severance, other senior executives

No senior executives are entitled to severance.

Remuneration to company associated with the Chairman of the Board

Karolinska Development AB has entered into an agreement with OrfaCare Consulting GmbH, a company associated with the Chairman of the Board, for consulting services performed by Chairman Bo Jesper Hansen. The consulting agreement covers services unrelated to his position as Chairman. The agreement took effect on 1 March 2015 and, after an extension, expires on the date of the Annual General Meeting 2017. Remuneration for the services performed is market based and amounted to SEK 1,056 thousand with non-deductible value-added tax of SEK 238 thousand for 2016 (SEK 880 thousand).

Variable remuneration

Variable remuneration to other senior executives

Other senior executives are entitled to a bonus based on exits in the portfolio. The remuneration to other senior executives totals 2/3 of 4% of the net proceeds paid to the company upon the exit. The remuneration includes all of the company's costs in relation to the payment. The maximum payment, together with the payment to the CEO reported in the section "Variable remuneration to the CEO," is limited to SEK 50 million per exit and calendar year. In the event that the exit bonus and a STI program cover the same event that triggers payment, there is no double payment. Other senior executives are also eligible for PSP 2013, PSP 2014, PSP 2015 and STI 2016 in the section "Incentive programs" below.

Annual incentive programs

Karolinska Development's six annual long-term incentive programs (LTI) for the years 2008-2010 and 2013-2015 and the Company's two annual short-term incentive programs (STI) for the years 2015 and 2016 are described below.

Incentive programs 2008 – 2010

The program was designed as a combined warrant and profit-sharing program consisting of three annual stages which have been implemented for the years 2008-2010. Each profit-sharing plan is related to appreciation in the value of the portfolio companies. The warrants have expired. Each profit-sharing program has a duration of 15 years. None of the managers currently employed by the company are covered by these three stages.

The 2008 profit-sharing program is related to the Company's investment portfolio as of 31 December 2007, while the 2009 and 2010 programs refer to the investments that the Company made in the calendar year before the sub-plan.

Each sub-plan provides entitlement to a cash payment equivalent to a total of 5% of the portion of the return on the investments encompassed by the sub-plan, in excess of a threshold rate. The threshold rate consists of the initial value of the investments encompassed by a specific sub-plan, to the extent they have been exited, adjusted by an annual rate of 6% for the years 2008 - 2012 and 8% thereafter. On the "plus side" are the proceeds received from exits.

To the extent that returns exceed an annual return of 35%, the portion that exceeds the returns is halved to 2.5%. To the extent that returns exceed 50%, the amount in excess of 50% will be further halved to 1.25%. Excess returns above 60% are not eligible for profit-sharing.

In addition to the portion of excess returns as stated above, the sub-plan 2010 also provides entitlement to a total of 37.5% of KDAB Carried Interest, according to the limited partnership agreement the Company has entered into with the European Investment Fund ("EIF") related to KCIF Co-Investment Fund KB ("KCIF"). KDAB Carried Interest can be summarized as 20% of any return exceeding an annual threshold rate of 6% of – and after repayment of – the amounts that the Company and EIF have committed to KCIF. According to the agreement with EIF, Karolinska Development is entitled to the current portion of the KDAB Carried Interest only if it is included in the Company's profit-sharing plan. As a result, this portion of the profit-sharing plan essentially means that the Company, despite accounting costs that arise, is not foregoing any amount it otherwise would have had available, with the exception of the additional social security contributions that this profit-sharing entails for the Company.

Outcome: No payments have been made as part of the program. With the current investment level payments can range between 0.0–2.8% of Karolinska Development's net proceeds. The payment is capped.

Performance Share Program 2013 (PSP 2013)

The Annual General Meeting 2013 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 the Matching Share Rights are proportioned according to the period the participant remains an employee during the vesting period - a period in which the participant 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 ten trading days beginning on 2 May 2016. For an allotment to be made, the share price must rise by 6% annually. For a maximum allotment (five Performance Shares per Savings Share), the share price must rise by 30%. Within this span, allotments are made proportionately. Allotments are capped at 20 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 0% 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 0% 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 has covered social security contributions related to the program by acquiring 93,685 of its own shares.

The cost reduction recognized for PSP 2013 amounted to SEK 2.5 million (recognized expense for 2015 of SEK 0.9 million).

The program was concluded in 2016, at which point a total of 15,358 Matching Shares had been allocated. No Performance Shares were awarded. Among management, other senior executives were allotted 600 Matching Shares valued at SEK 4 thousand, the former senior executive Terje Kalland was allotted 14,123 Matching Shares valued at SEK 100 thousand and other former management was allotted 635 Matching Shares valued at SEK 4 thousand. The total value of allotted Matching Shares was SEK 106 thousand.

Performance based share incentive program 2014 (PSP 2014)

The Annual General Meeting 2014 adopted a new performance based share incentive program for employees where participants acquire shares ("Savings Shares") on the open market. Under certain conditions participants may receive, free of charge, a maximum of five Performance Shares and one Matching Share Right from the company for each Savings Share they purchase. Matching Share Rights and Performance Shares are allotted after three years. The maximum number of Performance Shares and Matching Share Rights is 761,350. The program comprises a maximum of fourteen participants.

There are no performance conditions for the Matching Share Rights, but the Matching Share Rights are proportioned according to the period the participant remains an employee during the vesting period - throughout which the participant may not have sold their Saving Shares. The Performance Shares have a target related to Karolinska Development's share price performance and a comparison between the so-called Start Price and End Price. The Start Price, measured as an average over ten trading days from 18 May 2014 through 28 May 2014, is SEK 24.45. The End Price is measured as the average over ten trading days beginning on 2 May 2017. For an allotment, the share price must rise by a total of 30% above the Start Price. For a maximum allotment (five Performance Shares per Savings Share), the share price must rise by 75% above the Start Price. Within this span, allotments are made proportionately. Allotments are capped at 35 times the Start Price, after which the number of allotted Performance Shares is reduced. Participants will be compensated in cash for dividends paid during the period.

The company intends to cover social security contributions related to the program by acquiring and transferring a maximum of 182,000 of its own shares. As of 31 December 2014, 41,200 Savings Shares had been acquired. The company's own shares are not repurchased.

An expense of SEK 0.3 million (SEK 0.5 million) was recognized for PSP 2014 in 2016. Of the total expenses estimated for 2016, SEK 0.1 million (SEK 0.1 million) relates to the former senior executive Terje Kalland and SEK 0.2 million (SEK 0.4 million) to other senior executives.

Performance based share incentive program 2014 II (PSP 2014 II)

The performance based share incentive program PSP 2014 II for the former CEO, which was adopted by the Extraordinary General Meeting on 4 December 2014, has never been implemented.

Performance based share incentive program 2015 (PSP 2015)

The 2015 Annual General Meeting adopted a new performance based share incentive program for employees where participants acquire shares ("Savings Shares") on the open market. Under certain conditions participants may receive, free of charge, a maximum of five Performance Shares and one Matching Share Right from the company for each Savings Share they purchase. Matching Share Rights and Performance Shares are allotted after three years. The maximum number of Performance Shares and Matching Share Rights was 1,078,410. The program comprises a maximum of 10 participants.

Participants receive Matching Share Rights proportionately according to the period the participant remains employed during the vesting period - throughout which the participant may not have sold their Saving Shares. The Performance Shares have a target related to Karolinska Development's share price performance and a comparison between the so-called Star Price and End Price. The Start Price, measured as an average over 10 trading days from 21 May 2015 through 3 June 2015, is SEK 11.39. The End Price is measured as the average over ten trading days beginning on 2 May 2018. For an allotment, the share price must rise by a total of 15% above the Start Price. For a maximum allotment (five Performance Shares per Savings Share), the share price must rise by 100% above the Start Price. Within this span, allotments are made proportionately. Allotments are capped at 35 times the Start Price, after which the number of allotted Performance Shares is reduced. Participants will be compensated in cash for dividends paid during the period.

The company intends to cover social security contributions related to the program by acquiring and transferring a maximum of 338,840 of its own shares. As of 30 September 2015, 74,850 Savings Shares had been acquired, which are related to previous share based programs, however. The company's own shares are not repurchased.

An expense of SEK 0.9 million (SEK 0.4 million) was recognized for 2016. The expense is for CEO Jim Van heusden.

Short Term Incentive Program 2015 (STI 2015)

In 2015, the Board of Directors decided on a Short Term Incentive Program, STI 2015, for senior executives based on a number of corporate goals established for 2015. The goals are designed to promote Karolinska Development's long-term value appreciation. The remuneration is dependent on whether one or more goals are met and has a fixed cap corresponding to three months' base salary for each participant. Goals were partly met, which rendered an accrual of SEK 1.5 million. The expense is included as variable remuneration in the above table in 2015.

Short Term Incentive Program 2016 (STI 2016)

In 2016, the Board of Directors decided on a Short Term Incentive Program, STI 2016, for senior executives based on a number of specific corporate goals established for 2016. The goals are designed to promote Karolinska Development's long-term value appreciation. The remuneration is dependent on whether one or more goals are met and has a fixed cap corresponding to 4.5 months' base salary for each participant. Goals were partly met, which rendered an accrual of SEK 1.6 million. The expense is included as variable remuneration in the above table in 2016.

Note 6

Interest expenses and other financial gains and losses

Interest expenses

SEK 000	2016	2015
Accrued interest convertible loan	-45,233	-40,045
Interest expenses	-4	-13
Total	-45,237	-40,058

Other financial gains and losses

SEK 000	2016	2015
Change in value of short-term investments	-115	-796
Exchange rate gains and losses	-27	-111
Revaluation of financial liability	-	6,248
Reversal of impairment of receivables from portfolio companies	-	-
Impairment of receivables from portfolio companies	-	-2,462
Other financial income	642	334
Total	500	3,213

Note 7

Taxes

Reconciliation of effective tax rate

SEK 000	%	2016	%	2015
Profit/loss before tax		-216,832		-1,054,673
Income tax expense calculated at applicable rate in the Parent Company	22.0%	47,703	22.0%	232,028
<i>Tax effect of</i>				
Non-deductible expenses		-297		-2,346
Tax-exempt revenue		1,537		2,610
Issue costs		-		4,875
Changes in fair value, non-deductible		-32,337		-214,827
Increase in tax losses carried forward without corresponding capitalization of deferred taxes		-16,605		-22,340
Recognized current tax	0.0%	0	0.0%	0
Change in deferred tax	0.0%	-	0.0%	-
Recognized deferred tax	0.0%	-	0.0%	-
Total recognized tax	0.0%	-	0.0%	-

Unrecognized deferred tax assets

Deductible temporary differences and tax losses carried forward for which deferred tax assets have not been recognized through profit or loss and the balance sheet primarily relate to losses generated by the Parent Company. Deferred tax assets have not been recognized for these losses, since it is unlikely that Karolinska Development AB will be able to utilize the tax losses carried forward to offset future taxable profits, despite that there is no time limit on these tax losses carried forward. Unrecognized deferred tax assets for Karolinska Development amounted to SEK 125,720 thousand (SEK 109,520 thousand) at year-end 2016, of which SEK 64,337 thousand (SEK 64,337 thousand) relates to deficits that are restricted by Group contributions and mergers.

Note 8

Tangible non-current assets

SEK 000	31 Dec 2016	31 Dec 2015
Accumulated acquisition cost		
At the beginning of the year	659	659
Sales and disposals	-659	0
Closing balance	0	659
Accumulated depreciation and impairments		
At the beginning of the year	-553	-342
Depreciation for the year	-106	-212
Sales and disposals	659	1
Closing balance	0	-553
Carrying amount	0	106

Finance leases

The Investment Entity did not report any finance leases in 2016, 2015 or any prior period.

Note 9

Shares in portfolio companies, at fair value, through profit and loss

SEK 000	31 Dec 2016	31 Dec 2015
Accumulated fair value		
At the beginning of the year	267,651	1,113,454
Investments during the year	19,669	102,624
Reclassification from receivables from portfolio companies, Note 10	9,076	28,211
Repayment of shareholder contributions	-	-150
Changes in fair value in profit/loss for the year	-146,988	-976,488
Closing balance	149,408	267,651

Note 10

Loans receivable from portfolio companies

SEK 000	31 Dec 2016	31 Dec 2015
Loans receivable from portfolio companies		
At the beginning of the year	914	12,062
Loans provided	26,987	39,209
Interest	1,908	1,602
Conversions	-19,819	-13,920
Repaid loans	-	-4,038
Reclassification to fair value portfolio companies, Note 9	-9,076	-28,211
Impairment losses	-	-5,790
Foreign exchange difference	43	-
Total	957	914

The Investment Entity's investments in portfolio companies are in the form of new issued shares or through loans that are interest bearing and expire or are converted to shares within 12 months.

Note 11

Other current receivables

SEK 000	31 Dec 2016	31 Dec 2015
Tax receivables	496	5,522
VAT receivables	-	378
Other	164	95
Total	660	5,995

Note 12

Prepaid expenses and accrued income

SEK 000	31 Dec 2016	31 Dec 2015
Prepaid rental expenses	297	533
Accrued interest income	78	91
Insurance premiums	229	200
Other	202	73
Total	806	897

Note 13

Equity

Changes in share capital

Year	Transaction	Number of shares	Share capital	Number of A shares	Number of B shares	Subscription price	Par value
Total per	Share issue	33,331,417	16,665,709	1,503,098	31,828,319		0.5
April 2011	Share issue	15,200,000	7,600,000	0	15,200,000	40	0.5
Total per 31 Dec 2011		48,531,417	24,265,709	1,503,098	47,028,319		0.5
Total per 31 Dec 2012		48,531,417	24,265,709	1,503,098	47,028,319		0.5
Total per 31 Dec 2013		48,531,417	24,265,709	1,503,098	47,028,319		0.5
December 2014	Share issue	4,853,141	2,426,570		4,853,141	13	0.5
Total per 31 Dec 2014		53,384,558	26,692,279	1,503,098	51,881,460		0.5
December 2015	Share issue	65,082	32,541		65,082		0.5
Total per 31 Dec 2015		53,449,640	26,724,820	1,503,098	51,946,542		0.5
September 2016	Share issue	15,358	7,679		15,358		0.5
Total per 31 Dec 2016		53,464,998	26,732,499	1,503,098	51,961,900		0.5

Net asset value per share

SEK 000	Investment Entity	
	31 Dec 2016	31 Dec 2015
Net assets		
Cash and cash equivalents	10,602	19,589
Short-term investments	237,545	277,646
Loans receivable from portfolio companies	957	914
Net financial assets and liabilities	33,315	32,674
Convertible loan	-394,438	-349,205
Total net assets	-112,019	-18,382
Estimated fair value of portfolio companies	149,408	267,651
Total net asset value	37,389	249,269
Number of shares	53,220,713	53,205,355
Net asset value per share	0.70	4.69

Investment Entity

The number of shares amounts to 53,464,998, of which 1,503,098 are series A shares and 51,961,900 are series B shares. Series A shares carry ten votes per share and series B shares carry one vote per share. All shares have an equal right to the Company's assets in the case of liquidation and profit distributions. All series B shares have been listed for trading on the main list of Nasdaq OMX since 15 April 2011.

In 2012 and 2013, the Parent Company and the Investment Entity repurchased a total of 244,285 shares with a par value of SEK 0.5, corresponding to SEK 122,143 in share capital, for consideration amounting to SEK 4,726,904. The shares were repurchased to cover the social security expenses in the PSP incentive programs.

Other contributed capital

Relates to capital contributed by the owners.

Retained earnings incl. net profit/loss for the year

Retained earnings including current year results include retained earnings of the Parent Company. Previous allocations to the statutory reserve are included in this equity item.

Earnings per share basic and diluted

SEK 000	2016	2015
Net profit/loss for the year	-216,832	-1,054,673
Weighted average number of shares	53,210,223	53,151,328
Earnings per share, SEK	-4.08	-19.84

Note 14

Convertible loan

Karolinska Development has issued convertibles, so-called compound financial instruments, in which the holder has right to convert to shares and where the number of shares that are issued is not affected by changes in the fair value of the shares.

The liability component of a compound financial instrument is initially recognized at fair value for a similar liability without a conversion right to shares. The equity component is initially recognized as the difference between the total fair value of the compound financial instrument and the fair value of the liability component. Directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

After acquisition, the liability component of the compound financial instrument is valued at amortized cost using the effective interest method. The equity component of a compound financial instrument is not revalued after acquisition, except upon conversion or redemption.

The Investment Entity issued convertibles with a nominal amount of SEK 386,859 thousand as of 2 January 2015 which carry a nominal interest rate of 8%. The convertible falls due for payment on 31 December 2019 at the nominal amount of SEK 568,423 thousand (provided that the accrued interest becomes interest-bearing) or can be converted to shares on the request of the holder at a price of SEK 22 per series B share. The value of the liability and equity components (conversion right) was determined on the date of issuance.

The convertibles are presented in the balance sheet according to the following table.

SEK 000	31 Dec 2016	31 Dec 2015
Nominal value of convertible debentures issued on 2 January 2015	386,859	386,859
Less issue costs	-28,171	-28,171
Equity component	-49,528	-49,528
Liability upon issuance 2 January 2015	309,160	309,160
Accrued interest expenses	85,278	40,045
Interest paid	-	-
Total	394,438	349,205

In April 2017, a set-off issue was completed reducing the convertible loan to SEK 335,802 million from SEK 394,438 million (interest in 2017 not included).

Note 15

Other current liabilities

SEK 000	31 Dec 2016	31 Dec 2015
Other taxes and fees	960	4,424
Other	-	1
Total	960	4,425

Note 16

Accrued expenses and prepaid income

SEK 000	31 Dec 2016	31 Dec 2015
Salaries and remuneration to employees	1,823	1,380
Accrued remuneration to Board of Directors	149	-
Accrued auditor and consultant fees	582	90
Payroll tax and accrued pension costs	1,585	2,025
Accrued employer's contributions	861	1,682
Other	1,849	376
Total	6,849	5,553

Note 17

Financial assets and liabilities

Financial assets and liabilities by category

2016						
SEK 000	Financial assets at fair value through profit or loss				Total carrying amount	Fair value
	Financial assets designated at FVTPL	Held for trading	Loans and receivables	Other financial liabilities		
Shares in portfolio companies at fair value through profit or loss	149,408				149,408	149,408
Loans receivable from portfolio companies			957		957	957
Other financial assets	38,113				38,113	38,113
Receivables from portfolio companies			229		229	229
Short-term investments at fair value through profit or loss		237,545			237,545	237,545
Cash and cash equivalents			10,602		10,602	10,602
Total	187,521	237,545	11,788	0	436,854	436,854
Convertible loan				394,438	394,438	394,438
Other financial liabilities				4,798	4,798	4,798
Accounts payable				1,460	1,460	1,460
Liabilities to portfolio companies				-	0	0
Total				400,696	400,696	400,696

2015						
SEK 000	Financial assets at fair value through profit or loss				Total carrying amount	Fair value
	Financial assets designated at FVTPL	Held for trading	Loans and receivables	Other financial liabilities		
Shares in portfolio companies at fair value through profit or loss	267,651				267,651	267,651
Loans receivable from portfolio companies			914		914	914
Other financial assets	38,113				38,113	38,113
Receivables from portfolio companies			3,549		3,549	3,549
Short-term investments at fair value through profit or loss		277,646			277,646	277,646
Cash and cash equivalents			19,589		19,589	19,589
Total	305,764	277,646	24,052	0	607,462	607,462
Convertible loan				349,205	349,205	349,205
Other financial liabilities				5,439	5,439	5,439
Accounts payable				1,444	1,444	1,444
Liabilities to portfolio companies				513	513	513
Total				356,601	356,601	356,601

Short-term investments

Surplus liquidity that may temporarily arise in Karolinska Development is placed in fixed income funds or interest-bearing instruments and is recognized as short-term investments with a remaining duration exceeding three months.

Fair value measurement

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

-
- Level 1** Fair value determined on the basis of observed (unadjusted) quoted prices in an active market for identical assets and liabilities
- Level 2** Fair value determined based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, directly or indirectly
- Level 3** Fair value determined based on valuation models where significant inputs are based on non-observable data
-

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

Investment Entity's assets and liabilities at fair value as of 31 December 2016

SEK 000	Level 1	Level 2	Level 3	Total
Financial assets				
Shares and participations at fair value through profit or loss			149,408	149,408
Loans receivable from portfolio companies		957		957
Other financial receivables			38,113	38,113
Receivables from portfolio companies		229		229
Cash and cash equivalents and short-term investments	248,147			248,147
Total	248,147	1,186	187,521	436,854
Financial liabilities				
Other financial liabilities			4,798	4,798
Accounts payable		1,460		1,460
Liabilities to portfolio companies	-			0
Total		1,460	4,798	6,258

Investment Entity's assets and liabilities at fair value as of 31 December 2015

SEK 000	Level 1	Level 2	Level 3	Total
Financial assets				
Shares and participations at fair value through profit or loss			267,651	267,651
Loans receivable from portfolio companies		914		914
Other financial receivables			38,113	38,113
Receivables from portfolio companies		3,549		3,549
Cash and cash equivalents and short-term investments	297,235			297,235
Total	297,235	4,463	305,764	607,462
Financial liabilities				
Other financial liabilities			5,439	5,439
Accounts payable		1,444		1,444
Liabilities to portfolio companies		513		513
Total		1,957	5,439	7,396

The following describes the main methods and assumptions used to determine the fair value of financial assets and liabilities in the tables above.

Shares in associated companies and other long-term holdings (unlisted holdings)

The valuation of unlisted holdings is based on the International Private Equity and Venture Capital Valuation Guidelines. For a further description, see Note 1 Accounting policies, "Valuation of portfolio companies."

Financial assets and liabilities at fair value

A fair value estimate based on discounted future cash flows, where the most significant input is a discount rate that reflects the counterparty's credit risk does not produce a significant difference compared with the carrying amounts of recognized financial assets and liabilities in Level 2. The carrying amounts of all financial assets and liabilities are therefore considered a good approximation of fair value.

Changes in financial assets and liabilities on Level 3 in 2016

SEK 000	Shares in portfolio companies	Other financial assets	Other financial liabilities
At the beginning of the year	267,651	38,113	5,439
Acquisitions	28,797	-	-
Disposals	-	-	-
Gains and losses realized in profit or loss	-146,988	-	-641
Carrying amount at year-end	149,460	38,113	4,798
Realized losses for the period included in profit or loss	-957	-	-
Unrealized gains and losses for the period included in profit or loss	-146,031	-	641

There were no transfers between Level 1 and 2 in 2016.

Changes in financial assets and liabilities on Level 3 in 2015

SEK 000	Shares in portfolio companies	Other financial assets	Other financial liabilities
At the beginning of the year	1,113,454	38,113	11,686
Acquisitions	130,835	-	-
Disposals	-150	-	-
Gains and losses realized in profit or loss	-976,488	-	-6,247
Carrying amount at year-end	267,651	38,113	5,439
Realized gains and losses for the period included in profit or loss	-243,368	-	-
Unrealized gains and losses for the period included in profit or loss	-733,120	-	6,247

Loans receivable from portfolio companies were transferred to level 3 in 2015 in accordance with the new accounting policies.

There were no transfers between Level 1 and 2 in 2015.

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

Impact of fair value of portfolio companies

Total Portfolio Fair Value is defined in Note 1.

Impact on the portfolio's fair value of the agreement with Rosetta Capital

"Potential distribution to Rosetta Capital" is the amount that KDev Investments, according to the investment agreement between Karolinska Development and Rosetta Capital, is obligated to distribute to Rosetta Capital from the proceeds received by KDev Investments (KDev Investments' fair value). The amount includes repayment of SEK 33 million that Rosetta Capital currently has invested in KDev Investments' portfolio companies and dividends on Rosetta Capital's preference and common shares. The distribution to Rosetta Capital will take place only when KDev Investments distributes a dividend. KDev Investments will only distribute dividends after all accounts payable and outstanding liabilities have been repaid.

If Rosetta Capital has not received 2.5 times the amount invested in KDev Investments by Rosetta Capital by 7 March 2018, Rosetta Capital may require Karolinska Development to acquire Rosetta's shares in KDev Investments. The price payable for the KDev Investment shares is the fair value of the shares, capped at 10% of the market capitalization of Karolinska Development at the time of the purchase. Karolinska Development can decide whether to pay the purchase price in cash or in the form of Karolinska Development shares. With Karolinska Development's market capitalization of SEK 312 million at the end of 2016, the price payable for KDev Investments shares would be capped at SEK 31 million per end 2016.

Net Portfolio Fair Value (after potential distribution to Rosetta Capital) is defined in Note 1.

Expanded fair value calculations taking into consideration the portfolio valuation and potential distribution to Rosetta Capital

SEK 000	31 Dec 2016	31 Dec 2015
Fair value of Karolinska Development's portfolio	143,657	134,081
Fair value of KDev Investment's portfolio	261,586	457,518
Total Portfolio Fair Value	405,243	591,599
Potential distribution to Rosetta Capital of fair value of KDev Investments*	255,837	323,948
Net Portfolio Fair Value (after potential distribution to Rosetta Capital)	149,406	267,651

*SEK 33 million repayment of Rosetta Capital's investments in KDev Investments and SEK 223 million distribution of dividends on preference shares and common shares.

Information on fair value measurement in level 3

The valuation of the company's portfolio is based on the International Private Equity and Venture Capital Valuation Guidelines (IPEV) and IFRS 13 Fair Value Measurement. See Note 1 Accounting policies, Valuation methods.

Financial risks

Through its activities, the Investment Entity is exposed to various financial risks. Financial risks refer to fluctuations in operating results and cash flow as a result of changes in exchange rates, interest rates, refinancing and credit risks. Responsibility for the Investment Entity's financial transactions and risks rests with both the Parent Company's finance department and the local subsidiaries. The overarching objective of the finance function is to provide cost-effective financing and to minimize adverse effects on the Investment Entity's earnings from market fluctuations.

Currency risk

Currency risk is the risk that changes in exchange rates will negatively impact the Investment Entity. The Investment Entity's foreign exchange exposure consists of transaction exposure resulting in exposure in foreign currency linked to the contractual cash flows and balance sheet items where changes in exchange rates affect the results and cash flows. The Investment Entity's exposure to currency risk is not significant.

Credit risk

Credit risk is the risk that the counterparty to a transaction fails to fulfil its obligations under the contract and that any guarantee does not cover the Investment Entity's claim. Maximum credit risk exposure is equivalent to the book value of financial assets.

The credit risk in cash, cash equivalents and short-term investments is limited as the Investment Entity's counterparties are banks with high credit ratings.

Assets exposed to credit risk

SEK 000	31 Dec 2016	31 Dec 2015
Loans receivable from portfolio companies	957	914
Other financial assets	38,113	38,113
Receivables from portfolio companies	229	3,549
Other short-term receivables	660	5,995
Short-term investments	237,545	277,646
Cash and cash equivalents	10,602	19,589
Maximum exposure to credit risk	288,106	345,806

Price risk

The Investment Entity is exposed to share price risk on the Investment Entity's holdings in portfolio companies measured at fair value (shares in associated companies, joint ventures and other long-term securities holdings). The Investment Entity otherwise is not exposed to valuation risk.

Interest risk

Interest risk is the risk that changes in market interest rates affect cash flow or the fair value of financial assets or liabilities. In accordance with the Investment Entity's investment guidelines stipulate investments in fixed income funds or interest-bearing instruments with low risk therefore any risk of change in the interest will be limited.

Liquidity risk

Liquidity risk is the risk that the Investment Entity cannot meet its short-term payment obligations. The Investment Entity's guidelines state that the liquidity reserve must remain at such a level that it meets the Investment Entity's ongoing liquidity requirements and requirements for investments in portfolio companies for the following six-month period. The Company's liquid funds on the closing date provide the Investment Entity with the scope to maintain an active strategy with regard to investments in the portfolio companies for 12 months.

2016

SEK 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Convertible loan ¹	-	-	394,438	-	394,438
Accrued interest convertible loan	-	-	-	-	0
Accounts payable	1,460	-	-	-	1,460
Liabilities to portfolio companies	-	-	-	-	0
Other current liabilities	960	-	-	-	960
Total	2,420	-	394,438	-	396,858

¹See Note 14 Convertible loan

2015

SEK 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Convertible loan	-	-	349,205	-	349,205
Accounts payable	1,444	-	-	-	1,444
Liabilities to portfolio companies	513	-	-	-	513
Other current liabilities	4,425	-	-	-	4,425
Total	6,382	-	349,205	-	355,587

Management of capital risks

The Investment Entity's capital management objective is to ensure the Investment Entity's capacity to continue operations, generate reasonable returns for shareholders and provide benefits to other stakeholders. The Investment Entity's policy is to minimize the risks in capital management. In accordance with the Investment Entity's investment guidelines, surplus liquidity is managed by an external manager. The portfolio will maintain an average term of no longer than 1.5 years and invest in fixed income funds or interest-bearing instruments.

In accordance with IAS 19 and the regulations for defined contribution pension plans, the Investment Entity therefore reports no assets or liabilities, with the exception of special payroll contributions, related to these endowment insurance policies. The Parent Company recognizes an asset and corresponding liability.

Other contingent liabilities

Rosetta put option

On 7 March 2013, Rosetta Capital IV LP acquired 13.66% of KDev Investments AB for a total purchase price of SEK 220 million. 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 redemption if Rosetta has not received a return equivalent to 2.5 times the capital invested to acquire the shares in KDev Investments AB. The value of the put option corresponds to the fair value of the shares in KDev Investments that Rosetta owns at the time of redemption. The obligation is limited to a value corresponding to 10% of the outstanding shares in Karolinska Development and can be fulfilled through the issuance of shares or payment in cash. Karolinska Development has the right to choose the form of payment. Karolinska Development considers the fair value of the put option in issue to be zero as of the closing date.

Note 18

Pledged assets and contingent liabilities

SEK 000	31 Dec 2016	2014-12-31
Pledged assets		
Endowment insurance	3,804	4,180
Total pledged assets	3,804	4,180

Endowment insurance

Individual pension undertakings have been guaranteed in the form of Company-owned endowment insurance policies. The Investment Entity has no further obligation to cover possible shortfalls in the endowment insurance or to pay any amount in excess of the premiums paid, due to which the Investment Entity considers these pension plans to be defined contribution pension plans. Accordingly, payment of premiums corresponds to final settlement of the undertaking vis-à-vis the employee.

Note 19

Related parties

Affiliates

The Investment Entity has a related party relationship with its subsidiaries, joint ventures, associated companies and the companies in the Karolinska Institutet Holding AB Group.

Karolinska Development has a non-exclusive deal flow agreement with Karolinska Institutet Holding AB ("KIHAB") and Karolinska Institutet Innovations AB ("KIAB"), a wholly owned subsidiary of KIHAB. As part of the agreement, a new incubator fund will be established with a focus on identifying potentially valuable new medical innovations at Karolinska Institutet at an early stage.

Furthermore, the Investment Entity has rendered services to the portfolio companies for management, communication, finance and administration, including legal and analytical operations. Prices of services rendered have been market based.

Karolinska Development and the European Investment Fund ("EIF") have entered into an agreement whereby EIF invests in parallel with Karolinska Development in portfolio companies. The investments are made through KCIF Co-Investment KB ("KCIF"). In November 2009, KCIF entered into an agreement with Karolinska Development according to which KCIF will invest in parallel with Karolinska Development at a ratio of 27:73 (KCIF: Karolinska Development) on the condition that certain stated investment criteria are fulfilled. The investors and limited partners in KCIF are EIF, which has committed EUR 12.9 million, and Karolinska Development, which has committed EUR 4.5 million. The amounts are paid to KCIF as needed to make investments, to cover KCIF's expenses, and to pay an annual management fee to KCIF Fund Management AB ("FMAB"), a limited partner responsible for the operation of KCIF. The management fee for the financial year 2016 amounted to SEK 489 thousand (885).

FMAB is 37.5% owned by Karolinska Development, 25% by KIAB and 37.5% by investment managers employed by Karolinska Development. The investment managers hold high-vote shares and together control a majority of the votes in FMAB. For the time being most of the shares are held by Karolinska Development due to decrease of the number of key executives. Karolinska Development, KIAB and the investment managers have entered into a shareholder agreement regarding FMAB. The shareholder agreement includes a number of rules to protect the minority shareholders, Karolinska Development and KIAB.

Compensation and profit distribution

FMAB is entitled to an annual management fee corresponding to 2.5% of the capital committed to KCIF during the investment period and 1% of invested capital thereafter. In practice, FMAB fulfills its obligations to manage the operations of KCIF by purchasing services from Karolinska Development according to a service agreement. The service agreement entitles Karolinska Development to annual compensation equivalent to what remains of the management fee after deducting FMAB's other expenses and a certain buffer for future expenses in FMAB. Any dividends from KCIF will essentially be distributed as follows. First, EIF and Karolinska Development will receive an amount corresponding to the portion of the committed capital paid to KCIF at the time of the dividend payment and annual interest of 6% on this amount. Secondly, 80% of the remaining funds will be distributed to EIF and Karolinska Development in proportion to their capital investment. The remaining 20% will be distributed to Karolinska Development on the condition that 25% of the amount is redistributed to KIAB and at least 37.5% is redistributed to the investment managers through Karolinska Development's profit-sharing program.

Through its ownership and managerial role, Karolinska Development has concluded that it controls FMAB and therefore considers FMAB to be a subsidiary. The indirect ownership in the portfolio companies through KCIF holding has been included in Karolinska Development's share of the portfolio companies, Note 34.

SEK 000	2016			2015		
	Sale of services	Interest income	Purchase of services	Sale of services	Interest income	Purchase of services
Associate relationship						
Owner: Karolinska Institutet Holding Group (of which rental cost)			1,752 (1,618)	-	-	2,242 (2,039)
Portfolio companies	1,830	1,903	-	3,344	2,363	-
Total	1,830	1,903	1,752	3,344	2,363	2,242

SEK 000	31 Dec 2016		31 Dec 2015	
	Liability to associates	Receivable from associates	Liability to associates	Receivable from associates
Associate relationship				
Karolinska Institutet Holding Group	458	-	26	-
Portfolio companies	-	30,522	-	29,302
Total	458	30,522	26	29,302

Note 20

Significant events after the closing date

Karolinska Development

Viktor Drvota was promoted to Deputy CEO in addition to his current role as Chief Investment Officer (Feb 2017).

Set-off issue completed (Apr 2017). The issue was directed to convertible holders, to provide them with an option to subscribe for new B shares and "set-off" their convertibles as payment for new series B shares. SEK 58 million convertible was set-off by shares reducing the outstanding nominal amount of convertible from SEK 387 million to SEK 329 million. The result of the issue strengthens Karolinska Development's equity position in the near term so that it continues to comply with the Swedish Companies Act and improves its overall financial risk profile.

Dilafor

First subject enrolled into Phase IIb study with tafoxiparin in pregnant women who experience slow progress of labor or labor arrest after spontaneous onset (Jan 2017).

Modus Therapeutics

SEK 32 million (USD 3.6 million) raised from existing investors KDev Investments, Östersjöstiftelsen and Praktikerinvest to support clinical development of sevuparin for sickle cell disease (Feb 2017).

OssDsign

OssDsign announced a series of agreements designed to expand the European distributor network for its next generation implants for cranial and facial reconstruction (Jan 2017). Furthermore, OssDsign received 510(k) clearance by the US FDA to market OSSDSIGN® Cranial PSI in the US (Jan 2107) and is on track to launch the product in the US during the first half 2017. The company is also undertaking regulatory and commercial activities in Japan and an agreement is signed with Matador Medical, Inc. for distribution of OSSDSIGN® Cranial PSI in the US (Feb 2017).

Promimic

Magnus Larsson appointed as Chief Executive Officer, replacing Ulf Brogren, who relocated to the US to lead Promimic Inc., the company's new sales operation in North America as Head of Sales. (Jan 2017).

Divested companies

Inhalation Sciences Sweden

KDev Investments divested its entire shareholding in Inhalation Sciences Sweden (ISS) to Råsunda Förvaltning AB, Per Gerde and its CEO Fredrik Sjövall. Karolinska Development retains an economic interest in ISS through an earn-out agreement (Feb 2017).

Oncopeptides

Oncopeptides completed a successful initial public offering on Nasdaq Stockholm (Feb 2017). Karolinska Development has a 5% earn-out agreement for Oncopeptides with Industrifonden that had a market value of SEK 26.7 million based on Oncopeptide's market capitalization at listing on February 22.

Note 21

Parent Company's accounting policies

The Parent Company's annual report has been prepared in accordance with the Swedish Annual Accounts Act (1995:1554) and recommendation RFR 2 Accounting for Legal Entities from the Swedish Financial Reporting Board. Statements UFR 3-9 from the Swedish Financial Reporting Board have been applied as well. Application of RFR 2 means that the Parent Company will apply all EU-approved IFRS as far as possible within the framework of the Annual Accounts Act and the Pension Obligations Vesting Act and take into consideration the relationship between reporting and taxation. The policies described in Note 1 regarding the Investment Entity also apply to the Parent Company unless otherwise indicated below.

The following accounting policies for the Parent Company have been applied consistently to all periods presented in the Parent Company's financial statements.

Subsidiaries

Shares in subsidiaries are recognized at acquisition cost in the Parent Company's financial statements. Acquisition-related costs for subsidiaries, which are expensed in the consolidated financial statements, comprise a portion of the acquisition cost of shares in subsidiaries.

Associated companies and joint ventures

Shares in associated companies and joint ventures are recognized at acquisition cost in the Parent Company's financial statements. Dividends are recognized as revenue when they are adopted by the Annual General Meeting.

Other long-term securities holdings

Shares in other long-term securities holdings are recognized at acquisition cost in the Parent Company's financial statements.

Impairments

The Company reports holdings in subsidiaries, joint ventures, associated companies and other long-term securities holdings according to the cost method. If holdings in subsidiaries, joint ventures, associated companies or other long-term securities holdings are valued at below cost on the closing date, the holding is written down to the lower value.

Shareholder contributions

Shareholder contributions are recognized directly against the recipient's shareholders' equity and against the shares and participations of the contributor to the extent that impairment is not required.

Pensions

In the Parent Company, company-owned endowment insurance is recognized as a financial asset in the balance sheet at acquisition cost. The pension obligation is recognized as a provision for an equal amount.

Note 22

Information on the Parent Company

Karolinska Development AB (publ), Corporate Identity Number 556707-5048, is a Swedish limited liability company with its registered office in Solna.

Note 23

Revenue distribution

SEK 000	2016	2015
Dividend	3,333	-
Other revenue	2,027	2,942
Total revenue	5,360	2,942

Note 24

Other external expenses

Auditor and consultant fees

SEK 000	2016	2015
EY		
Audit services	1,231	640
Audit related services	162	785
Tax consulting	365	-
Other services	-	-
Total	1,758	1,425
Deloitte		
Audit services	-	-
Audit related services	201	854
Tax consulting	10	41
Other services	-	110
Total	211	1,005

Auditor fees refer to the auditor's remuneration for the statutory audit. The work includes the examination of the annual report and accounting records, the administration by the Board and the CEO, and fees for auditing advice in connection with the audit assignment. Audit-related services primarily relate to quality assurance services other than the statutory audit.

Note 25

Operating leases

The Parent Company has chosen to finance premises and equipment through leases. Only operational lease agreements exist. Expensed leasing payments and future contractual leasing payments are indicated below

SEK 000	2016	2015
Expensed leasing payments during the period	1,656	2,080
Future leasing payments		
Within one year	912	1,060
Between one year and five years	456	0
Total future leasing payments	1,368	1,060

Note 26

Employees and personnel costs

For further information, see Note 5.

Average number of employees

Full-time equivalent	2016	Of whom women	Of whom men	2015	Of whom women	Of whom men
Parent Company	6	34%	66%	12	33%	67%
Total	6	34%	66%	12	33%	67%

Employee benefits

SEK 000	2016	2015
Salaries and remuneration	14,127	20,391
Social security costs	3,811	6,527
Pension costs	1,962	3,145
Total	19,900	30,063

Salaries and other remuneration distributed between Board members and other employees

SEK 000	2016		2015	
	Board and CEO	Other employees	Board and CEO	Other employees
Salaries and remuneration	12,868	1,259	12,231	8,160
Pension costs	1,681	281	1,114	2,031
Total	14,549	1,540	13,345	10,191

Note 27

Impairment

SEK 000	2016	2015
Impairment of shares in subsidiaries	0	-40,213
Impairment of shares in joint ventures and associated companies	-148,441	-748,741
Impairment of other long-term securities holdings	1	-6,516
Total	-148,440	-795,470

Note 28

Result from sale of shares in subsidiaries

SEK 000	2016	2015
Capital gains		
Avaris AB	29	-
KDev Oncology AB	415	-
Gain on sale of shares in subsidiaries	444	0

Note 29

Interest income and similar income

SEK 000	2016	2015
Interest income	1,911	2,460
Exchange rate gains	43	12
Other financial income	-	334
Total	1,954	2,806

Note 30

Interest expenses and similar expenses

SEK 000	2016	2015
Interest expenses	-4	-13
Accrued interest convertibles	-45,233	-40,045
Change in value of short-term investments	-115	-796
Exchange rate losses	-27	-124
Impairment of receivables from portfolio companies	-	-6,061
Total	-45,379	-47,039

Note 31

Taxes

SEK 000	%	2016	%	2015
Profit/loss before tax		-218,926		-883,503
Income tax expense calculated at applicable rate in the Parent Company	22.0%	48,164	22.0%	194,371
<i>Tax effect of</i>				
Non-deductible expenses		-32,954		-177,350
Tax-exempt income		1,396		444
Issue costs		-		4,875
Increase in tax losses carried forward without corresponding capitalization of deferred tax		-16,605		-22,340
Recognized tax	0.0%	0	0.0%	0

Unrecognized deferred tax assets

Deductible temporary differences and tax losses carried forward for which deferred tax assets have not been recognized through profit or loss or the balance sheet mainly refer to the deficits incurred in the Parent Company. Deferred tax assets have not been recognized for these deficits as it is unlikely that Karolinska Development AB will be able to offset the amounts against future taxable profits, despite that there is no time limit on the tax losses carried forward. Unrecognized deferred tax assets for Karolinska Development as of 31 December 2016 amounted to SEK 125,720 thousand (SEK 109,520 thousand), of which SEK 64,337 thousand (SEK 64,337 thousand) refers to deficits that are restricted by Group contributions and mergers.

Note 32

Tangible non-current assets

SEK 000	31 Dec 2016	31 Dec 2015
Accumulated acquisition cost		
At the beginning of the year	659	659
Investments during the year	-	-
Closing balance	659	659
Accumulated depreciation and impairments		
At the beginning of the year	-553	-342
Depreciation for the year	-106	-212
Sales and disposals		1
Closing balance	-659	-553
Carrying amount	0	106

Note 33

Shares in subsidiaries

SEK 000	2016	2015
Accumulated book value		
At the beginning of the year	150	40,212
Investments during the year	-	300
Sales during the year	-150	
Repayment of shareholder contributions	-	-149
Impairment	0	-40,213
Closing balance, book value	0	150

Specification of holdings in subsidiaries

Name	Total holding ¹		Book value in Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
SEK 000				
Avaris AB	-	94.87%	-	150
KCIF Fund Management AB	37.50%	37.50%	-	-
KD Incentive AB	100.00%	100.00%	-	-
KDev Oncology AB	-	100.00%	-	-
Total book value			0	150

¹Including indirect ownership interest through portfolio company. Ownership interest corresponds to formal voting rights according to the participating interest. In addition, a shareholder agreement has been entered into in some cases giving Karolinska Development controlling interest.

Investments in subsidiaries

SEK 000	2016	2015
KDev Oncology AB	-	300
Total investments in subsidiaries	0	300

Non-cash investments in subsidiaries

SEK 000	2016	2015
Other non-cash investments		
KDev Oncology AB	-	300
Total non-cash investments	-	300

Note 34

Shares in joint ventures and associated companies

SEK 000	2016	2015
Accumulated book value		
At the beginning of the year	228,764	878,783
Investments during the year	26,687	98,722
Impairment	-148,441	-748,741
Closing balance, book value	107,010	228,764

Specification of holdings in joint ventures

SEK 000	Total holding		Total holding	Book value in Parent Company	
	31 Dec 2016	Fully diluted ¹		31 Dec 2015	31 Dec 2016
Karolinska Development portfolio					
Forendo Pharma Oy ²	-	-	18.42%	-	13,074
Lipidor AB ²	-	-	37.94%	-	7 171
Umecrine Cognition AB	59.18%	67.00%	68.52%	36,700	36,700
KDev Investments AB	87.54% ³		87.39% ³	5,749	133,570
Akinion Pharmaceuticals AB	-	-	93.89%	-	-
Aprea Therapeutics AB	30.98%	17.00%	68.65%	-	-
Asarina Pharma AB	2.75%	2.75%	3.90%	-	-
Biosergen AS	6.56%	6.56%	6.56%	-	-
Clanotech AB	-	-	91.49%	-	-
Dilafor AB	39.39%	35.00%	53.61%	-	-
Modus Therapeutics Holding AB	73.67%	74.00%	73.38%	-	-
Modus Therapeutics AB	73.67%	74.00%	73.38%	-	-
Inhalation Sciences Sweden AB	20.62%	-	68.49%	-	-
NeoDynamics AB (in bankruptcy)	-	-	20.72%	-	-
NovaSAID AB (in liquidation)	88.91%	-	88.91%	-	-
Promimic AB	32.00%	32.00%	36.66%	-	-
Total book value				42,449	190,515

¹ Ownership with full dilution according to current investment plans

² Reclassification to associated company in 2016

³ Karolinska Development owns 87.54% (87.39%) in KDev Investments which is the owner of the shares in their portfolio companies. In the Annual Report 2015 Karolinska Development's ownership in KDev Investments portfolio companies were displayed netto. Ownership for 2015 are replaced with KDev Investments ownership.

Specification of holdings in associated companies

Name	Total holding		Fully diluted ¹		Book value in Parent Company	
	31 Dec 2016		31 Dec 2015		31 Dec 2016	31 Dec 2015
SEK 000						
Aprea Therapeutics AB	2.13%	1.00%	-	-	6,868	-
Forendo Pharma Oy	18.42%	15.00%	18.42%	-	13,074	-
Lipidor AB	30.11%	23.00%	37.94%	-	7,176	-
OssDsign AB	28.28%	28.00%	29.17%	-	31,796	31 796
KCIF Co-Investment Fund KB	26.00%	-	26.00%	-	5,647	6,456
Aprea Therapeutics AB	2.36%	1.00%	7.53%	-	-	-
Asarina Pharma AB ²	0.21%	0.21%	0.67%	-	-	-
Forendo Pharma Oy	6.21%	6.21%	6.21%	-	-	-
OssDsign AB	5.77%	5.50%	5.77%	-	-	-
Total book value					64,561	38,252

¹ Ownership with full dilution according to current investment plans

Investments in joint ventures and associated companies

SEK 000	2016	2015
Aprea Therapeutics AB	6,868	-
KDev Investments AB	19,819	76,782
OssDsign AB	-	21,940
Total investments in joint ventures and associated companies	26,687	98,722

Non-cash investments in joint ventures and associated companies

SEK 000	2016	2015
Conversions of previously provided loans		
Aprea Therapeutics AB	6,868	-
OssDsign AB	-	13,920
Total non-cash investments	6,868	13,920

Note 35

Other long-term securities holdings

SEK 000	2016	2015
Accumulated book value		
At the beginning of the year	599	7,115
Impairment	1	-6,516
Closing balance, book value	600	599

Specification of holdings in other long-term securities

Name	Total holding		Book value in Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
SEK 000				
BioArctic AB	3.17%	3.17%	600	599
Umecrine AB	-	10.41%	-	-
Total book value			600	599

Note 36

Parent Company's holdings in subsidiaries, joint ventures and associated companies

Company	Registered office	Corporate Identity Number	Number of shares	Equity, SEK 000	Profit/loss, SEK 000
Karolinska Development					
Aprea Therapeutics AB	Stockholm	556631-2285	75,500	109,789	-83,441
Forendo Pharma Oy	Åbo	FI 2520329-3	1,028	9,086	-60,318
KD Incentive AB	Solna	556745-7675	100,000	149	-8
KCIF Fund Management AB	Solna	556777-9219	37,500	221	3
Lipidor AB	Stockholm	556779-7500	897	809	-4,901
NovaSAID AB (in liquidation)	Solna	556669-2181	530,505	27	-291
OssDsign AB	Uppsala	556841-7546	69,617	19,759	-36,529
Umecrine Cognition AB	Umeå	556698-3655	2,654,914	1,027	-15,321
KCIF Co-Investment Fund KB					
	Solna	969744-8810	26	20,363	-5,119
Aprea Therapeutics AB	Stockholm	556631-2285	83,661	109,789	-83,441
Aprea Personal AB	Stockholm	556771-4034	1,000	95	-1
Asarina Pharma AB	Umeå	556698-0750	340,571	26,685	-7,704
Forendo Pharma Oy	Åbo	FI 2520329-3	380	-9,286	-60,318
OssDsign AB	Uppsala	556841-7546	15,004	19,759	-36,529
KDev Investments AB					
	Solna	556880-1608	1,304,406	238,912	-198,314
Aprea Therapeutics AB	Stockholm	556631-2285	1,096,292	109,789	-83,441
Asarina Pharma AB	Umeå	556698-0750	4,410,578	26,685	-7,704
Biosergen AS	Trondheim	987622075	4,506,669	4,169	2,778
Dilafor AB	Stockholm	556642-1045	269,381	22,284	-16,275
Inhalation Sciences Sweden AB	Solna	556665-6038	337,328	4,385	-5,107
Modus Therapeutics Holding AB (Dilaforette Holding AB)	Stockholm	556851-9523	997,311	99,857	-1,304
Modus Therapeutics AB (Dilaforette AB)	Stockholm	556669-199	100,000	17,544	-23,117
Promimic AB	Göteborg	556657-7754	220,389	26,963	-3,033

Note 37

Loans receivable from joint ventures and associated companies

SEK 000	31 Dec 2016	31 Dec 2015
Loans receivable from joint ventures and associated companies		
At the beginning of the year	27,523	12,062
Loans provided	7,168	39,209
Conversions	-6,000	-13,920
Repaid loans	-	-4,038
Impairment	-	-5,790
Foreign exchange difference	43	-
Total	28,734	27 523

Note 38

Other financial assets

SEK 000	31 Dec 2016	31 Dec 2015
Other financial assets		
Receivable Rosetta Capital	29,206	29,206
Value of capital insurance	3,804	4,180
Total	33,010	33,386

Note 39

Other current receivables

SEK 000	31 Dec 2016	31 Dec 2015
Tax receivables	496	5,522
VAT receivables	-	378
Other	164	95
Total	660	5,995

Note 40

Prepaid expenses and accrued income

SEK 000	31 Dec 2016	31 Dec 2015
Prepaid rental expenses	297	533
Accrued interest income	2,719	1,693
Insurance premiums	229	200
Other	203	74
Total	3,448	2,500

Note 41

Proposed appropriation of loss

SEK	31 Dec 2016
Retained loss	-1,677,789,969
Share premium reserve	1,884,309,378
Net profit/loss for the year	-218,926,177
Total	-12,406,768

The Board of Directors proposes that loss brought forward be appropriated as follows:

Share premium reserve	1,884,309,378
To be carried forward	-1,896,716,146
Total	-12,406,768

Note 42

Pension obligations

SEK 000	2016-12-31	2015-12-31
At the beginning of the year	4 180	4 286
Payed premiums	75	300
Change in value	174	126
Disbursed funds	-625	-532
Closing balance	3 804	4 180

The pension obligations refers to two former senior executives, premium payment ended 2016. See also Note 18.

Note 43

Other current liabilities

SEK 000	31 Dec 2016	31 Dec 2015
Other taxes and fees	959	4,424
Other	-	1
Total	959	4,425

Note 44

Accrued expenses and prepaid income

SEK 000	31 Dec 2016	31 Dec 2015
Salaries and remuneration to personnel	1,823	1,380
Remuneration to Board of Directors	149	-
Auditor and consulting fees	582	90
Payroll tax and accrued pension costs	1,585	2,025
Social security contributions	861	1,682
Other	1,849	376
Total	6,849	5,553

Note 45

Related parties

Affiliates

The Parent Company has a related party relationship with its subsidiaries, joint ventures, associated companies and the companies in the Karolinska Institutet Holding AB Group.

Karolinska Development has signed a deal flow agreement with KIAB and its parent company, KIHAB, one of Karolinska Development's largest shareholders, to ensure Karolinska Development's access to research projects through KIAB's flow of innovations from cutting-edge research at Karolinska Institutet and other academic institutions across the Nordic region. Furthermore, Karolinska Development has rendered services to portfolio companies on technical studies and administration. The prices of these services rendered are market based.

SEK 000	2016			2015		
	Sale of services	Interest income	Purchase of services	Sale of services	Interest income	Purchase of services
Associate relationship						
Karolinska Institutet Holding Group		-	1,752	-	-	2,242
(of which rental cost)			(1,618)			(2,039)
Subsidiaries	452	-	-	935	-	-
Joint ventures and associated companies	1,378	1,903	-	2,409	2,363	-
Total	1,830	1,903	1,752	3,344	2,363	2,242

SEK 000	31 Dec 2016		31 Dec 2015	
	Liability to associate	Receivable from associate	Liability to associate	Receivable from associate
Associate relationship				
Owner: Karolinska Institutet Holding Group	458	-	26	-
Subsidiaries	-	104	-	382
Joint ventures and associated companies	-	30,418	-	28,920
Total	458	30,522	26	29,302

Signing of the annual financial statements

The Board of Directors and CEO hereby certify that the annual report has been prepared according to the Annual Accounts Act and RFR 2 and provides a true and fair view of the Company's financial position and results and that the administration report provides a true and fair overview of the Company's operations, financial position and results, and that it describes significant risks and uncertainties facing the Company. The Board of Directors and CEO hereby certify that the Investment Entity report has been prepared according to the

International Financial Reporting Standards (IFRS), as adopted by the EU, and provides a true and fair overview of the Investment Entity's financial position and results, and that the administration report for the Investment Entity provides a true and fair overview of the Investment Entity's operations, financial position and results, and that it describes significant risks and uncertainties facing the Investment Entity.

The annual report and the Investment Entity report have been approved for presentation by the Board on 19 April 2017. The Investment Entity's and parent company's income statements and balance sheets will be presented for adoption by the Annual General Meeting of shareholders on 24 May 2016.

Solna, 19 April 2017

Bo Jesper Hansen
Chairman

Tse Ping
Board member

Niclas Adler
Board member

Vlad Artamonov
Board member

Khalid Islam
Board member

Henrijette Richter
Board member

Carl Johan Sundberg
Board member

Hans Wigzell
Board member

Jim Van heusden
CEO

Our Auditor's Report was presented on 19 April 2017

Ernst & Young AB

Björn Ohlsson
Authorized Public Accountant

Auditor's report

To the general meeting of the shareholders of Karolinska Development AB,
corporate identity number 556707-5048

Report on the annual accounts for the parent company and the financial statements for the investment entity

Opinions

We have audited the annual accounts for the parent company and the financial statements for the investment entity of Karolinska Development AB (publ) for the year 2016. The annual accounts for the parent company and the financial statements for the investment entity are included on pages 26-80 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 31st December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The financial statement for the investment entity have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the investment entity as of 31st December 2016 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. The statutory administration report is consistent with the other parts of the annual accounts and the financial statement.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the investment entity.

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 investment entity 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.

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 for the parent company and the financial statements 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 financial statement as a whole, but we do not provide a separate opinion on these matters.

Valuation of Portfolio Companies

As described within the Notes to the financial statements (Note 1, *Valuation of portfolio companies* and Note 9, *Shares in portfolio companies, at fair value, through profit and loss*) the shares in portfolio companies are valued at fair value. Per 2016-12-31 the fair value of the portfolio companies amounts to 149 MSEK which represents 34 % of total assets. Due to the size of the portfolio, the importance of the portfolio to the investment entity as well as the valuation method used we have assessed the specific balance sheet account as a significant account (focus account) for our audit.

The valuation of shares in portfolio companies is based on the *International Private Equity, Venture Capital Valuation Guidelines (IPEV)* and *IFRS 13 Fair Value Measurement*. Based on the valuation criteria provided by these rules, an assessment is made of each portfolio company to determine a valuation method. This takes into account whether the portfolio company has been valued recently due to refinancing or a similar transaction that includes an independent third party. If there is no valuation available based on a similar transaction, discounted cash flow models or selling multiples may be used. The investment entity has classified its shares in portfolio companies to fair value level 3 as defined by *IFRS 13*, which means that fair value is based on models where significant input data is based on non-observable data.

We have reviewed the investment entity's application of internal guidelines, principles and methods of the fair value calculation of the portfolio companies and whether they are in accordance with *IFRS 13* and *årsredovisningslagen* ("Swedish Annual Accounts Act"). We have assessed whether the used method is reasonable based on the circumstances and the current development stage of the applicable portfolio company. We have used a substantive audit approach and performed our procedures continuously throughout the financial year and at year end. During the audit we have also reviewed internal routines and controls including reporting and monitoring of the development of the portfolio companies.

Furthermore, we have reviewed shareholders certificates, signed protocols from general meetings, agreements and other supporting documents to obtain reliable audit evidence regarding completeness, accuracy and presentation.

Finally we have reviewed the disclosures and the appropriateness of the same. Refer to Note 1 and 17 (*Financial assets and liabilities*) for description and specification of accounting principles regarding valuation of portfolio including actual valuation method.

Other Information than the annual accounts for the parent company and the financial statement for the investment entity

This document also contains other information than the annual accounts and the financial statement and is found on pages 1-25. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts for the parent company and the financial statement for the investment entity 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 for the parent company and the financial statement for the investment entity, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts for the parent company and the financial statement for the investment entity. 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 for the parent company and the financial statement for the investment entity and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the financial statements, 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 for the parent company and the financial statement for the investment entity and that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts for the parent company and financial statement for the investment entity, The Board of Directors and the Managing Director are responsible for the assessment of the parent company's and the investment entity'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 Directors' responsibilities and tasks in general, among other things oversee the company's financial statementing process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts for the parent company and the financial statement for the investment entity 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 for the parent company and the financial statement for the investment entity.

A further description of our responsibilities for the audit of the annual accounts for the parent company and the financial statement for the investment entity is located at Revisorsnämnden's (the Supervisory Board of Public Accountants) website at: http://www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts for the parent company and the financial statement for the investment entity, we have also audited the administration of the Board of Directors and the Managing Director of Karolinska Development AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the loss will 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 investment entity 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.

A further description of our responsibilities for the audit of the administration is located at Revisorsnämnden's (the Supervisory Board of Public Accountants) website at:

http://www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description forms part of our auditor's report.

Stockholm April 19th 2017
Ernst & Young AB

Björn Ohlsson
Authorized Public Accountant

Corporate Governance Report for 2016

Introduction

This Corporate Governance Report has been prepared in accordance with the *Swedish Code of Corporate Governance* and the Swedish Annual Accounts Act.

Corporate Governance at Karolinska Development

Application of the Swedish Code of Corporate Governance

Karolinska Development complies with the Swedish Code of Corporate Governance (the Code) with one deviation. The Nomination Committee has decided to appoint Niclas Adler who is native Swedish and is familiar with Swedish Corporate Governance, in addition fully understands the company's needs, as chairman of the Committee. Niclas Adler is also a director of the Company. The Nomination Committee believes it is essential that the work of the Committee shall be chaired by the person nominated by the largest shareholder, Thai Charoen Pokphand Group.

Information on the Company's website

On its website, the Company has a special section for corporate governance issues under the section Corporate Governance (<http://www.karolinskadevelopment.com/en/ir/corporate-governance/>).

General meetings

Under the Swedish Companies Act, the general meeting is the Company's highest decision-making body. The general meeting may resolve upon every issue for the Company, which is not specifically reserved for another company body's exclusive competence. At the annual general meeting, which shall be held within six months from the end of the financial year, shareholders exercise their voting rights on issues such as the adoption of income statements and balance sheets, appropriation of the Company's profits or losses, resolutions to release the members of the Board of Directors and the Chief Executive Officer from liability for the preceding financial year, the appointment of members of the Board of Directors and auditor and remuneration for the Board of Directors and the auditor.

Besides the annual general meeting, extraordinary general meetings may be convened. In accordance with the articles of association, all general meetings shall be convened through announcements in the Swedish Official Gazette (Sw. Post- och Inrikes Tidningar) and by posting the notice to the meeting on the Company's website. An announcement shall simultaneously be placed in Svenska Dagbladet with information that the meeting has been convened. Minutes from the general meetings are published on Karolinska Development's web page.

All shareholders who are directly registered in the share register kept by Euroclear five weekdays prior to the general meeting and who notify the Company of their intention to attend the general meeting at the latest by the date specified in the notice convening the meeting, shall be entitled to attend the general meeting and vote according to the number of shares they hold. Shareholders may attend general meetings in person or through a proxy, and may also be accompanied by up to two assistants.

Composition of the Board and functions, etc.

The Board of Directors is the highest decision-making body after the general meeting. The Board of Directors' responsibility is regulated in the Swedish Companies Act, the Swedish Annual Accounts Act, the Company's articles of association, directions given by the general meeting and the procedure for the Board of Directors of the Company adopted by the Board of Directors. In addition thereto, the Board of Directors shall comply with the Swedish Corporate Governance Code and Nasdaq Stockholm's Rule Book for Issuers, as well as other Swedish and foreign laws and regulations, as applicable.

Pursuant to the Swedish Companies Act, the Board of Directors is responsible for the Company's organization and the administration of the Company's affairs. Furthermore, the Board of Directors shall continuously assess the Company's and the group's financial situation, as well as see to that the Company's organization is formed in a way that the accounting, management of funds and the Company's financial conditions are controlled in a secure manner.

The assignments of the Board of Directors include, inter alia, to set objectives and strategies, see to that there are effective systems for follow-up and control of the Company's operations, and see to that there is a satisfactory control of the Company's compliance with laws and other regulations applicable to the Company's operations. The assignments of the board of directors also include to see to that required ethical guidelines are set for the Company's behavior and to see to that the Company's disclosure of information is characterized by transparency and is correct, relevant and reliable. In addition, the assignments of the Board of Directors include appointing, evaluating and if necessary removing the Chief Executive Officer.

Members of the Board of Directors (except for employee representatives) are appointed annually by the annual general meeting for the period until the end of the next annual general meeting.

According to the Articles of Association, the Board shall consist of not less than three and not more than nine directors. Deputies shall not be appointed. At the Annual General Meeting 2016, eight directors and no deputies were elected.

Regulations regarding the appointment and dismissal of directors and amendments to the Articles of Association

The Articles of Association contain no special regulations regarding the appointment and dismissal of directors and no special regulations regarding amendments to the Articles of Association.

Authorization to the Board to issue new shares or acquire its own shares

The Annual General Meeting on May 25, 2016 authorized the Board, for the period up until the next annual general meeting to adopt decisions, whether on one or several occasions without pre-emption rights for the shareholders to issue new shares of series B up to a maximum of ten percent of the share capital.

Holdings of 10% or more of the votes

There is one holding that represents more than one tenth of the voting rights for all shares in Karolinska Development, Karolinska Institutet Holding AB (the only holder of non-listed series A shares) with 25.61 percent of the votes (6.79 percent of the shares).

The Annual General Meeting also authorized the Board to decide on acquisition of a maximum of 45,164 shares of series B and transfer these and earlier acquired shares of series B amounting to 244,285, i.e. in total a maximum of 289,449 shares of series B to cover charges in the form of social security fees in PSP 2013, PSP 2014 and PSP 2015.

The Chief Executive Officer

The Chief Executive Officer reports to the Board of Directors. The chief executive officer's responsibility is governed by the Swedish Companies Act, the Swedish Annual Accounts Act, the Company's articles of association, directions given by the general meeting, the instruction for the Chief Executive Officer and other internal directions and guiding principles adopted by the Board of Directors. In addition thereto, the Chief Executive Officer shall comply with the Swedish Corporate Governance Code and Nasdaq Stockholm's Rule Book for Issuers, as well as other Swedish and foreign laws and regulations, as applicable.

According to the Swedish Companies Act, the Chief Executive Officer shall handle the day-to-day management pursuant to the Board of Directors' guidelines and instructions. In addition, the Chief Executive Officer shall take any measures necessary in order for the Company's accounts to be maintained pursuant to law and that the management of funds is conducted in an appropriate manner. The division of work between the Board of Directors and the Chief Executive Officer is described in the instruction for the Chief Executive Officer.

The Chief Executive Officer shall administrate the operative management and execute the resolutions passed by the Board of Directors. The Chief Executive Officer shall control and supervise that the matters to be dealt with by the Board of Directors according to applicable legislation, the articles of association and internal instructions are presented to the Board of Directors, and shall continuously keep the chairman of the Board of Directors informed about the performance of the Company's operations, its earnings and financial position, as well as any other event, circumstances or condition that cannot be assumed to be irrelevant to the Board of Directors or the shareholders.

Nomination Committee

The nomination committee shall carry out its duties in accordance with the Swedish Corporate Governance Code. The nomination committee's main duties are to propose candidates for the positions as chairman of the Board of Directors and other members of the Board of Directors, as well as propose fees and other remuneration to each members of the Board of Directors. The nomination committee is also to make proposals on the election of and remuneration to the auditor.

The five largest owners (as set forth in the share register kept by Euroclear Sweden AB as of August 31, 2016) have a right each to appoint one member of the Nomination Committee for the Annual General Meeting 2017. The members of the Nomination Committee have elected a chairman among themselves. The Nomination Committee consists of Niclas Adler (Chairman) representing Sino Biopharmaceutical, Magnus Persson representing KIHAB,

Peter Lundkvist representing Tredje AP-fonden, Todd Plutsky representing Coastal Capital and Torgny Wännström representing Insamlingsstiftelsen för främjande och utveckling av medicinsk forskning vid Karolinska Institutet.

If a member of the Nomination Committee resigns or is prevented from pursuing his/her assignment, the shareholder that has appointed such member shall appoint a new member. In the event that the shareholding in the Company is materially changed, before the Nomination Committee has completed its assignment, the Nomination Committee may decide to change the composition of the Nomination Committee, as determined by the Nomination Committee (considering the principles applicable for the appointment of the Nomination Committee). No fees shall be paid to the members of the Nomination Committee. Out of pocket expenses shall be reimbursed by the Company.

Board of Directors

Composition of the Board

The Company's Board consists of eight directors, Bo Jesper Hansen (Chairman), Tse Ping (vice Chairman), Hans Wigzell, Henriette Richter, Carl Johan Sundberg, Niclas Adler, Khalid Islam and Vlad Artamonov.

Information on remuneration to Board as determined by the Annual General Meeting, can be found in the annual report under the Note 5 "Employees and costs for employees".

Elected directors

Bo Jesper Hansen Chairman and Board member since 2013. Born 1958. MD. PhD. Other appointments Chairman of Laborie Inc. Board member of GenSpera Inc., Newron SA, Ablynx NV, Orphazyme A/S and CMC Kontrast AB. Previous appointments include various positions in Swedish Orphan International AB since 1993, including CEO 1998–2010 and executive Chairman 2010–2016. Medical advisor for Synthelabo, Pfizer, Pharmacia and Yamanouchi. Founder of Scandinavian Medical Research. Holdings in Karolinska Development 75,617 shares of series B.

Tse Ping Vice Chairman and Board member since 2015. Born 1952. Honorary Doctorate, Fil Dr hc. Other appointments Founder and Chief Executive Officer of Sino Biopharmaceutical Limited, Senior Vice Chairman of Thai Charoen Pokphand Group, where he has extensive experience of major merger and acquisition activity including Ping An Insurance, CITIC Group, China Mobile, ITOCHU Corporation, and Marko Group. Previous appointments include Member of the Ninth, Tenth, and Eleventh National Committee of the Chinese People's Political Consultative Conference. Holdings in Karolinska Development 4,853,141 shares of series B and SEK 272,858,294 in convertibles (by related legal person).

Hans Wigzell Board member since 2006. Born 1938. Professor Emeritus of Immunology and MD. Other appointments Chairman of Rhenman & Partner Asset Management AB and Cadila Pharmaceuticals Sweden Aktiebolag, Board member of Sarepta Therapeutics Inc. and RaySearch Laboratories AB. Member of The Royal Swedish Academy of Engineering Sciences and of the Royal Swedish Academy of Sciences. Previous assignments

include, among others, the President of Karolinska Institutet's Nobel Committee, and President of Karolinska Institutet and Director General of Smittskyddsinstitutet. Holdings in Karolinska Development 8,491 shares of series B and SEK 39,992 convertibles.

Henrijette Richter Board member since 2014. Born 1971. PhD MSc. Other appointments Partner at Sofinnova Partners, Paris and board member of Asceneuron SA, Delinia Inc. and Chairwoman of iOmx Therapeutics. Previous positions include Investment Director at Novo Seeds, Novo A/S (2007-2014) where she served on the boards of Cytoguide ApS, Avilex Pharma ApS, Affinicon ApS, Orphazyme A/S and EpiTherapeutics A/S. No holdings in Karolinska Development.

Niclas Adler Board member since 2015. Born 1971. PhD, MSc. Other appointments Managing Partner Accelerated Innovation Ltd, Chairman Akinion Pharmaceuticals AB, ITH Immune Therapy Holdings AB, ADD Accelerated Drug Development AB, NGT Partners, member of the Board of Directors of AO Holding AB and SCI Innovation AB. No holdings in Karolinska Development.

Carl Johan Sundberg Board member since 2014. Born 1958. Professor of Physiology. Other appointments Board Director of Cobra Biologics AB, Board Director of Saniona AB, member of Karolinska Institutet Innovation Council, research director of the Unit of Bioentrepreneurship, Fellow of the Royal Swedish Academy of Engineering Sciences, member of the Medical Commission of the International Olympic Committee, Inspector General of the Medical Association and Chairman of Research!Sweden. Previous assignments include Investment Director at Karolinska Investment Fund, Board Director of Global Genomics AB, AngioGenetics AB, NsGene AS, Celectricon AB, Alfa Rehab Center Holding AB, Karolinska Education AB and Feelgood Swedish AB, Vice President of Euroscience and Chairman of the Swedish Professional Associations for Physical Activity and Sports Medicine. No holdings in Karolinska Development.

Khalid Islam Board member since 2015. Born 1955. PhD. Other appointments Chairman of Fennec Pharma Inc. and Minoryx Therapeutics SL.; Board member of Oxthera AB.; Advisor to Kurma Biofund, member of the Editorial Board of Current Drug Discovery & Technologies. Previous appointments include President and CEO of Gentium SpA and Arpida AG and various leadership positions in research and development in Hoechst Marion Roussel (HMR) and Marion Merrell Dow (MMD). No holdings in Karolinska Development.

Vlad Artamonov Board member since 2012. Born 1978. MBA, B.Sc. Other appointments Board member and Partner of Coastal Capital International Ltd. Previous appointments include Board Member of Redbank Energy Ltd., Investment Analyst at Greenlight Capital Inc., position in the Global Merger & Acquisition Group at Merrill Lynch in New York. Holdings in Karolinska Development 3,470,541 shares of series B (via related legal person).

Independence requirements

The table below indicates which elected directors are considered independent in relation to the Company and its management as well as in relation to the Company's major shareholders, according to the definitions stipulated in the Code.

Name	Function	Elected	Independent of: company /mgmt.	major holders
Bo Jesper Hansen	Chairman	2013	no	yes
Tse Ping	director	2015	yes	yes
Hans Wigzell	director	2006	yes	yes
Henrijette Richter	director	2014	yes	yes
Carl Johan Sundberg	director	2014	yes	no
Niclas Adler	director	2015	yes	yes
Khalid Islam	director	2015	yes	yes
Vlad Artamonov	director	2012	yes	yes

A major holder means a holder controlling, directly or indirectly, at least 10% of the shares or votes.

The Company meets the Code requirement that a majority of the elected directors must be independent in relation to the Company and its management, and that a minimum of two of these must be independent in relation to major shareholders.

The Board's work etc.

According to the *Rules of procedure*, the Board shall normally meet six times per year. During 2016, the Board held 19 meetings, of which 5 were per capsulam decision. On the remaining 14 board meetings Bo Jesper Hansen attended 14, Tse Ping 1, Hans Wigzell 13, Henrijette Richter 11, Carl Johan Sundberg 13, Niclas Adler 11, Khalid Islam 13 and Vlad Artamonov 13.

The General Counsel of the company, Ulf Richenberg is the secretary at the board meetings.

The Board annually adopts rules of procedure, an instruction on the delegation of work between the Board and the CEO, and an instruction on financial reporting to the Board. The Board also adopts policies, which constitute a foundation for the Company's internal control systems. These are the Information and Insider Policy, IT Security Policy, Gender Equality Policy, Environmental Policy, HR Policy, Ethics Policy, Investment Policy and Dividend Policy.

The board evaluation of the board work has been conducted through a questionnaire distributed to all directors. The aggregated result of the questionnaire has been distributed to the directors and been subject to internal discussion. The full result of the evaluation has been submitted to the Nomination Committee.

The board has four committees, an Audit Committee, a Remuneration, an Asian Committee and an Investment Committee.

Audit Committee

Karolinska Development's Audit Committee consists of four members: Bo Jesper Hansen (Chairman), Hans Wigzell, Niclas Adler and Henriette Richter, each being independent in relation to the Company's major shareholders and three being independent in relation to the Company and its management as well as in relation to.

The audit committee shall, without any other impact on the tasks and responsibilities of the Board of Directors:

- monitor the Company's financial reporting;
- in respect of the financial reporting, monitor the effectiveness of the Company's internal control, internal audit, and risk management;
- remain informed regarding the auditing of the group reporting and financial statements;
- inform the board about the result of the audit and about how the audit contributed to the accuracy of the financial reporting and about the function of the Audit Committee;
- review and monitor the impartiality and independence of the auditor, and in that respect, pay particular attention to non-audit services provided by the auditor; and
- assist in the preparation of proposals to the annual general meeting's resolution regarding election of auditor.

The Audit Committee has met five times during 2016. Bo Jesper Hansen and Henriette Richter have been present at all meetings, Hans Wigzell at four meetings and Niclas Adler at one meeting.

Remuneration Committee

Karolinska Development's Remuneration Committee consists of four members: Bo Jesper Hansen (Chairman), Hans Wigzell, Carl Johan Sundberg and Vlad Artamonov, each being independent in relation to the Company and its management as well as in relation to the Company's major shareholders.

The remuneration committee's main tasks are to:

- prepare the Board of Directors' decisions on issues concerning principles for salary, remuneration and other terms of employment for the executive management;
- monitor and evaluate programs for variable remuneration for the executive management, both ongoing and those terminated during the year; and
- monitor and evaluate the application of the guidelines for remuneration to the management that the annual general meeting is legally obliged to decide on, as well as the current remuneration structures and levels in the Company.

The Remuneration Committee had one meeting during 2016, at which all members were present.

Asian Committee

Karolinska Development's Asian Committee consists of four members: Tse Ping (Chairman), Bo Jesper Hansen, Niclas Adler and Henriette Richter.

The main tasks of the Asian Committee are to develop and support implementation of an Asian strategy.

The Asian Committee did not meet during 2016.

Investment Committee

Karolinska Development's Investment Committee consists of three members: Bo Jesper Hansen (chairman), Henriette Richter and Khalid Islam.

The main tasks of the Investment Committee are to prepare and analyze investment proposals and submit recommendations to the Board of Directors.

The Investment Committee met once during 2016, during which Bo Jesper Hansen and Khalid Islam were present.

Chief Executive Officer

Jim Van heusden Appointed in 2015. Born 1971. PhD. Jim Van heusden has more than 20 years of experience within life science investments; and research and development within the pharmaceutical industry. He is the Founder and Managing Director of Bioskills (2013) and was a Partner at European investment company Gimv (2001-2013). During his appointment at Gimv he also served as a Board member for several biotech companies including Multiplicom NV (as Chairman), Ablynx NV, ActoGenix NV, Pronota NV and Prosensa. From 1993-2001 he worked as Senior Scientist at Janssen Pharmaceuticals (Johnson & Johnson). Holdings in Karolinska Development 93,668 shares of series B.

Deputy Chief Executive Officer

Viktor Drvota (Born 1965) is also Chief Investment Officer. Employed 2016 and appointed as Deputy CEO in March 2017. M.D., Ph.D. Associate Prof. In Cardiology. Viktor Drvota has over 13 years of Venture Capital experience with several investments, significant fundraisings, IPOs and exits. He is currently a member of the Board of Directors of Promimic AB, OssDesign AB, Dilafor AB, Umecrine Cognition AB, Therapeutics AB and Modus Therapeutics Holding AB (publ). Previously responsible for Life Science at SEB Venture Capital 2002 -2016. During his appointment at SEB VC he also served as a Board member in several biotech and Medtech companies such as Arexis AB, SBL Vaccin AB, Nuevolution AS, Index Pharma AB, Scibase AB, Airsonett AB among others. Before joining SEB in, Dr. Drvota worked as Senior Consultant and Associate Professor in Cardiology at the Karolinska Institutet/hospital, Stockholm. Dr. Drvota has experience from preclinical as well as clinical research in drug development and medical devices. Dr. Drvota has 29 published research articles. No holdings in Karolinska Development.

The main components of the Company's system for internal control and risk management in relation to financial reporting

Internal control and risk management at Karolinska Development

Internal control is designed to provide reasonable assurance as to the reliability of external financial reporting and compliance with the law, generally accepted accounting principles and rules for listed companies.

The key elements of the Company's system for internal control and risk management related to financial reporting are presented below. The Company's internal control comprises mainly the areas of Control Environment, Risk Assessment, Control Activities, Communications and Monitoring.

Control environment. The control environment constitutes the basis for the internal control. Karolinska Development has a flat organizational structure with a clear division of responsibilities and rights. There is an established system of governing documents in the form of *Policies* adopted by the board and *Instructions* adopted by the CEO. Within the framework of overarching policies, they govern decisions, authorization and processes involving purchases, payments and investments. Among these documents, the *Valuation Guidelines*, governing methods and processes for valuation of the portfolio, should be mentioned. The documentation is centrally accessible to all employees through the Company's internal IT network. The Company has employed personnel responsible for controlling and legal functions, who jointly work towards a well-functioning control environment as one of their specifically stated goals. These governing documents form the basis for how transactions should be handled, recorded and reported.

Risk assessment. The Company works continuously with a structured risk assessment with regard to issues which have an impact on the Company's financial position and result. Special attention is paid to the risk of irregularities and favoritism at the Company's expense. Risk assessment includes inter alia: (i) the existence, at a given date, of an asset or liability, (ii) that a business transaction or an event has occurred during the period and relates to the Company, (iii) that there are no assets, liabilities or business transactions which are not recorded or items for which the necessary information is missing, (iv) that each asset and liability is recorded and valued in accordance with law, generally accepted accounting principles and internal valuation rules; (v) that the business transactions are recorded at the correct amount and that profit and expenses are attributable to the correct period, (vi) that an asset or liability relates to the Company on a specified date and, (vii) that an item is classified and described in accordance with law, generally accepted accounting principles and listing rules.

Control Activities. The financial reporting is subject to control activities aimed at preventing, detecting and correcting errors and discrepancies. These consist of a specified allocation of work, documented and clearly described rules for how business transactions are to be approved as well as their traceability, the application of accounting and valuation principles, analytical monitoring, account reconciliation, monitoring of agreements, board resolutions, policies and certification procedures.

As relates to the portfolio, regular follow-ups are made of planned and implemented investments in terms of whether the companies have met the stipulated targets for further investments. Furthermore, evaluations are made and priorities set among the companies' projects. Scientific results and business opportunities are both monitored. This is done continuously both in regularly meetings in the R&D Team and in regularly management meetings.

There is also a monthly analysis of how different activities in portfolio companies affect the valuation of these in the parent company and the consolidated financial statements. Valuation effects are reported to and finally approved by the CFO and the CEO.

Communications. The internal financial reporting complies with stipulated reporting plans. The Company's rules of procedure and the instruction on reporting to the Board include detailed descriptions as to when and what should be reported to and handled by the Board. The Company's CFO, with the support of controllers, is responsible for the financial reporting to the Board, which includes information on the Company's results and financial position. Reporting plans are aimed at ensuring complete, accurate and timely information to the Company's management and the Board.

The Company has quite few employees, all active at the same workplace. Aside from the above-mentioned Management Meetings, regular information meetings are held, which enables quick and accurate internal communication and information.

Monitoring. Internal rules on internal control and risk management are updated at least annually and when necessary. Assessment of compliance is performed on a detailed level. The Audit Committee meets prior to Board meetings where interim reports are to be discussed. The auditors are present at the meetings of the Audit Committee and meet annually with the directors without anyone from management present.

Specific assessment of the need for internal audit

Karolinska Development has no internal audit function. The Board is of the opinion that there is no need for an internal audit function at present. The reasons are that the Company has relatively few employees, its business is established in only one location, the majority of significant transactions are similar in character and relatively straightforward, and there is a clear internal accountability within the Company.

Solna, April 2017

Board of Directors of Karolinska Development AB

Auditor's Report on the Corporate Governance Statement

To the general meeting of the shareholders of Karolinska Development AB
(publ), org nr 556707-5048

Engagement and responsibility

It is the Board of Directors who is responsible for the corporate governance statement for the year 2016 on pages 84-88 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been 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.

Opinions

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

Stockholm April 19 2017

Ernst & Young AB

Björn Ohlsson

Authorized Public Accountant

Definitions of Key Terms

Capital employed	Total equity and interest-bearing liabilities
Return on equity	Profit/loss after financial items divided by equity
Return on capital employed	Profit/loss after financial items divided by capital employed
Equity to total assets ratio	Equity divided by total assets
After-tax earnings per share	Profit/loss after tax attributable to the Parent Company's shareholders divided by the weighted average number of shares before and after dilution
Equity per share	Equity divided by the number of shares outstanding at year-end
Net asset value per share	Estimated fair value of total portfolio holdings, cash and cash equivalents, financial assets less interest-bearing liabilities in relation to the number of shares outstanding at year-end

Definitions

CP Group	Thai Charoen Pokphand Group CP Group is a transnational conglomerate that consists of three core businesses that operate in the agribusiness and food, retail and distribution, and the telecommunications industries. Sino Biopharmaceutical Limited, part of the CP Group and included when referring to CP Group, is a pharmaceutical R&D and distribution company whose shares are listed on the Hong Kong Stock Exchange's main board.
Deal flow agreement	Agreement between Karolinska Development and KIAB giving Karolinska Development access to research projects within Karolinska Institutet that are evaluated by KIAB.

Fair value

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

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

The part of the Fair Value that is related to the value of Karolinska Development's portfolio companies is named Portfolio Fair Value or Fair Value of the portfolio. The calculation of the Portfolio Fair Value is based on IFRS 13 standards of deciding and reporting fair value and the International Private Equity and Venture Capital Valuation Guidelines (IPEV Valuation Guidelines) decided by the IPEV board that represent the current best practice, on the valuation of private equity investments.

The Portfolio Fair Value is divided into Total Portfolio Fair Value and Net Portfolio Fair Value (after potential distribution to Rosetta Capital).

Karolinska Development

Karolinska Development AB (publ.),
Corporate Identity Number 556707-5048

Karolinska Institutet

Karolinska Institutet, Corporate Identity Number 202100-2973

Karolinska Institutet is one of the world's leading medical universities and awards the Nobel Prize in Physiology or Medicine.

KIAB	<i>Karolinska Institutet Innovations AB, Corporate Identity Number 556528-3909</i>
	KIAB, which is owned (indirectly) by Karolinska Institutet, identifies projects with high commercial potential at an early stage by actively seeking new ideas from Karolinska Institutet and other Nordic universities. KIAB leads and also finances the project development in early phases, where the objective is to establish a licensing agreement or a start-up company.
KIHAB	<i>Karolinska Institutet Holding AB, Corporate Identity Number 556525-6053</i>
	KIHAB is owned by Karolinska Institutet. KIHAB is the Parent Company of a group of five wholly owned subsidiaries, including Karolinska Institutet Innovations AB (KIAB) and Karolinska Institutet Science Park AB.
Net Portfolio Fair Value	Is the net aggregated proceeds (after potential distribution to Rosetta Capital) that Karolinska Development will receive after KDev Investments' distribution of proceeds to Rosetta Capital (calculated as Total Portfolio Fair Value minus Potential Distribution to Rosetta Capital).
Portfolio companies	Companies operating in life science and are wholly or partially owned by Karolinska Development.
Total Portfolio Fair Value	The aggregated proceeds that would be received by Karolinska Development and KDev Investments if the shares in their portfolio companies were sold in an orderly transaction between market participants at the measurement date.

Glossary

Amino acids	Amino acids are the chemical building blocks that can be combined in chains, or sequences, to form proteins and peptides.
Antibodies	Proteins that are a part of the immune response system. Antibodies bind foreign agents (e.g. pathogens), which allows them to be identified and attacked by the body's immune system.
Chemotherapy	See Cytotoxics.

Cytotoxics	Pharmaceuticals that target fast growing cells, for example cancer cells. These compounds usually work by halting the cell division process. The treatment with cytotoxics is referred to as chemotherapy.
Endogenous	Cells or substances that originates from the own body or the own species.
Endometriosis	Endometriosis means that there is endometrium in places other than inside the uterus. Endometrium in places other than the uterus often causes inflammation. Inflammation can result in pain and sometimes lead to the formation of scar tissue and adhesions.
In vivo	From Latin, literally 'inside of the living'. Refers to studies conducted on living organisms.
Pathogen	Infectious agent that causes disease.
Programmed cell death	A suicide mechanism a cell may go through if it is somehow damaged.
Protein	Large molecules built from sequences of amino acids. Proteins are used in many different ways in an organism; they provide structure for cells and tissues, they catalyze chemical reactions in the form of enzymes and they are involved in the signalling in and between cells.
Randomized (study)	A study in which the trial participants are randomly allocated into two or more treatment groups that are prescribed a specific treatment or placebo.
Receptor	A large molecule, usually a protein, which is attached to cell membranes and binds to a target molecule. The target molecule can be a hormone that has a certain effect on the cell to which it binds to.
Steroids	Type of organic molecules that among other things include natural hormones.

Dates for publication of financial information

Interim report	January – March 2017	16 May 2017
Interim report	January – June 2017	29 August 2017
Interim report	January – September 2017	28 November 2017
Year-end report	January – December 2017	February 2018
Annual report	2017	April 2018



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