KAROLINSKA DEVELOPMENT

Q1

Karolinska Development

Karolinska Development AB (Nasdaq Stockholm: KDEV) is a Nordic life sciences investment company. The company focuses on identifying breakthrough medical innovations in the Nordic. 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 the Karolinska Institutet and other leading universities and research institutes in the Nordic region. The company aims to build companies around innovative products and technologie scientists who are leaders in their fields, supported by entrepreneurs and experienced management teams and co-funded by specialist international life science investors, to provide the greatest chance of success.

Karolinska Development has established a portfolio of nine companies targeting opportunities in innovative treatment for life-threatening or serious debilitating diseases.

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.

Financial Update

- The Total Portfolio Fair Value of Karolinska Development's portfolio at the end of March 2017 was SEK 431.7 million, an increase from the Total Portfolio Fair Value of SEK 405.2 million at the end of December 2016. Net Portfolio Fair Value at the end of March 2017 was SEK 172.6 million, an increase of SEK 23.2 million compared to the end of December 2016.

- The Result of Change in Portfolio Fair Value amounted to SEK -5.7 million. The decrease was mainly due to the reduction in Fair Value of Lipidor following the latest financing round in March 2017, in which Karolinska Development did not participate.

- Revenue amounted to SEK 0.6 million in the first quarter (SEK 0.6 million in the first quarter 2016). Net loss amounted to SEK 25.2 million (loss of SEK 100.1 million in first quarter 2016). Earnings per share amounted to SEK -0.5 (SEK -1.9 in first quarter 2016).

- Karolinska Development's investments in portfolio companies during the first quarter amounted to SEK 28.9 million. Total investments in portfolio companies by other specialized life science investors during first quarter amounted to SEK 53.1 million.

- Cash, cash equivalents and short term liquidity investments decreased by SEK 36.8 million during the first quarter and amounted to SEK 211.3 million as of March 31, 2017.

- Following the set-off issue of B-shares, equity in the Parent Company amounted to SEK 46.5 million at the end of March 2017.

Karolinska Development – Q1 Highlights

- Karolinska Development launched a set-off issue of shares, decided by the board and subsequently approved by an Extraordinary General Meeting held on 8 March 2017, with the aim of a necessary strengthening of the Company's equity position and thereby improving the Company's overall financial risk profile. The offered subscription price for the set-off issue was SEK 6.17 per new B share and the maximum proceeds of the issue were set at SEK 451 million. Convertible holders accepted to offset SEK 67 million of the company's convertible debt, and as a result, 10,871,698 new B shares have been issued (March 2017).
- Karolinska Development's Chief Investment Officer Viktor Drvota was promoted to Deputy Chief Executive Officer (February 2017).
- Dilafor initiated a Phase IIb clinical trial with tafoxiparin in women with protracted labor (January 2017).
- OssDsign received 510(k) clearance by the US FDA to market OSSDSIGN® Cranial PSI in the US and is preparing to launch the product (January 2017). The company entered an agreement for distribution of OSSDSIGN® Cranial PSI in the US with Matador Medical Inc. (February 2017).
- OssDsign entered into new partnerships in Italy, Spain, Switzerland, Austria and the Netherlands for the commercialization of its medical implants for cranial and facial reconstruction, adding to existing partnerships in the UK, Nordic region and certain other non-European markets (January 2017).
- Promimic appointed Magnus Larsson 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 (January 2017).
- KDev Investments (an investment fund jointly owned by Karolinska Development and Rosetta Capital) divested its entire shareholding in Inhalation Sciences Sweden AB (ISS) to the Swedish investment company Råsunda Förvaltning AB together with two other purchasers. Karolinska Development retains an economic interest in ISS through an earn-out agreement (February 2017).
- Oncopeptides made a successful initial public offering ("IPO") on Nasdaq Stockholm. Karolinska Development has a 5% earn-out agreement for Oncopeptides with Industrifonden with a market value of SEK 26.7 million based on Oncopeptide's market capitalization at listing on February 22, 2017. The earn-out will be received when Industrifonden divests its ownership in Oncopeptides.
- Umecrine Cognition announced the first patient had been included in its clinical Phase Ib/IIa study with GR3027 for hepatic encephalopathy (March 2017).
- Aprea Therapeutics announced a research collaboration with Memorial Sloan Kettering Cancer Center (March 2017).

Post Period Events

- Karolinska Development announced the results of the set-off issue (April 2017)
- The Company announced that Chairman Bo Jesper Hansen and CEO Jim Van heusden had decided to Step Down, and the promotion of Viktor Drvota to CEO (April 2017)
- The Company's Nomination Committee proposed that Niclas Adler is elected as new chairman at the General Meeting in May 2017 (April 2017)
- Umecrine Cognition presented result from its Phase I study at the EASL International Liver Congress 2017 (April 2017)
- Modus Therapeutics announces appointment of Ellen K. Donnelly, Ph.D. as CEO (April 2017)

Jim Van heusden, CEO of Karolinska Development, comments:

"I am very proud of what we have achieved at Karolinska Development over the last two years and I am convinced the Company is now in a much stronger position to deliver value as a Nordic life sciences investment company. Given this progress, I believe now is the right time for Viktor Drvota to take over as CEO. With the recent completion of the set-off issue Karolinska Development's equity position and overall financial risk profile has improved. We have also seen our medtech companies make significant commercial progress, particularly in the US, during the first quarter. Combined with the Company's portfolio of exciting therapeutics companies, which are set to deliver a number of value-generating milestones over the next months, Karolinska Development is poised to deliver significant value for its shareholders."

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Chief Executive's Report

Karolinska Development

Karolinska Development has continued to make progress in Q1 2017 in executing its strategy as a Nordic life science investment company focused on building value for patients and shareholders.

During the period, Karolinska Development's portfolio companies continued to:

- Advance pipeline candidates through clinical development (therapeutics companies),
- Execute their commercialization plans (medtech companies); and
- Attract experienced leadership.

Today, the majority of companies in Karolinska Development's portfolio are well-funded and on track to deliver key value-generating milestones during the next 12-18 months. In addition, we expect to generate additional value from divested companies through our earn-out agreements.

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 under-valued 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.

Karolinska Development's Chief Investment Officer Viktor Drvota was promoted to Deputy Chief Executive Officer in March, reflecting his important contribution to the Company since joining in early 2016, and his knowledge of the Nordic Life Sciences investment scene, which will be instrumental in accessing and assessing future investment opportunities.

The value potential of Karolinska Development's interest in those companies it has divested was highlighted with the recent successful IPO of Oncopeptides on Nasdaq Stockholm. Karolinska Development has a 5% earn-out agreement for Oncopeptides, with Industrifonden, which had a market value of SEK 26.7 million based on Oncopeptide's market capitalization at listing on February 22, 2017.

Set-off issue

The Board of Directors' resolution on a set-off share issue directed to holders of convertibles was approved at the Extraordinary General Meeting held on 8 March 2017. The offered subscription price for the set-off issue was determined at SEK 6.17 per new B share and the maximum proceeds of the set-off issue were set at SEK 451 million.

In April, Karolinska Development announced the results of the set-off issue. Convertible holders had accepted to offset SEK 67 million of the Company's convertible debt, and as a result, 10,871,698 new B shares have been issued.

The result of the issue strengthens Karolinska Development's equity position in the near term so that it improves its overall financial risk profile.

Our portfolio has blockbuster potential

At the end of March 2017, Karolinska Development's portfolio comprised nine companies, following the divestment of Inhalation Sciences Sweden (ISS).

In February 2017, KDev Investments divested its entire shareholding in ISS to the Swedish investment company Råsunda Förvaltning AB and two other purchasers. Karolinska Development has retained an economic interest in ISS through an earn-out agreement.

The Company's nine 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.

Important clinical development and/or commercialization milestones are expected for these companies in the next 12-18 months. A key objective for Karolinska Development is to ensure that its companies are financed to achieve these value-inflection points, and new funds have been raised through the syndication of deals with experienced international life sciences investors.

Key Portfolio Developments

Medtech Companies – US Commercialization Providing Significant Value-Creating Opportunity

Karolinska Development's two key medtech portfolio companies, OssDsign and Promimic, have made significant progress commercializing their cutting-edge products and technologies over the last 15 months. This progress, which has largely gone unnoticed, has positioned both companies to generate significant shareholder value, particularly if they can deliver commercial success in the US.

OssDsign received 510(k) clearance by the US FDA in January permitting the company to market OSSDSIGN® Cranial PSI in the US. This was a major milestone for the company given the scale of the US market opportunity. OssDsign is planning for the US launch of this unique cranial implant and is on track to introduce it during the first half of 2017. In February, the company announced it had signed an agreement with Matador Medical to act as its master distributor in this important market. Matador Medical has a successful commercial track record in the US and is well-connected with relevant surgical centers and key opinion leaders, which together will be crucial to support a strong launch of OSSDSIGN Cranial in the US.

Furthermore, as part of its global commercialization strategy, OssDsign announced a series of agreements to expand the European distributor network for its next-generation implants for cranial and facial reconstruction. The new partnerships cover the distribution of its products in Italy, Spain, Switzerland, Austria and the Netherlands. These new agreements build on OssDsign's existing partnerships in Germany, the UK and the Nordic region, as well as selected non-European markets including Singapore and Israel.

OssDsign is also undertaking regulatory and commercial activities in Japan with the objective of introducing its products in this key Asian market in 2018.

Given the strength of its leadership team, which is headed by Simon Cartmell as Chairman, its product line up and financial position, OssDsign is seen as a key medtech portfolio company for Karolinska Development. Simon Cartmell was the CEO of Apatech, which was sold to Baxter in 2010 for $330 million.

The Company's other medtech portfolio company, Promimic, is also making excellent progress. In January, it appointed Magnus Larsson as Chief Executive Officer. This appointment has allowed Ulf Brogren, the previous CEO to become the Head of Sales at Promimic Inc., the company's new sales operation in North America. The launch of its own commercial operations is being financed by the SEK 23.8 million that was raised from new and existing investors in late 2016.

It is anticipated that having a direct presence in North America will greatly enhance Promimic's ability to sign lucrative partnership deals with some of the world's leading medtech companies, many of which are headquartered in the US. A deal with one of the global medtech leaders for its unique HA^{nano} Surface coating would add significant value to Promimic's business. HA^{nano} Surface coating improves the performance of medical implants by increasing their integration into bone and their anchoring strength.

Therapeutics companies

Several of our therapeutics portfolio companies also made good progress during Q1 2017, starting key clinical trials and entering research collaborations.

Dilafor enrolled the first patient in a 360-patient Phase IIb study of tafoxiparin as a potential new treatment designed to decrease the incidence of protracted labor (i.e. labor that lasts more than 12 hours), which is the main cause of emergency surgical deliveries such as caesarian section.

The Phase IIb study is a multi-center, double blind, placebo-controlled dose-finding study in term-pregnant first-time mothers that after spontaneous onset of labor require labor augmentation due to primary slow progress or labor arrest. The pregnant women will be randomized to receive one of three different dosages of tafoxiparin or placebo. The treatment will be provided as an adjunct to standard of care, which is intravenous infusion of oxytocin.

Umecrine Cognition recruited the first patient in a Phase Ib/IIa study with GR3027 for hepatic encephalopathy (HE). The objectives of the study (protocol UCAB-CT-02) are to evaluate the safety and pharmacokinetics of steady-state dosing in healthy adults and patients with cirrhosis, assess the potential efficacy of the GR3027 on cognitive function in patients with cirrhosis and covert HE, and determine the Phase IIb dose.

Liver disease accounts for a growing and substantial disease burden worldwide. Hepatic encephalopathy is impairment of brain functions that frequently occurs in patients with liver cirrhosis. There are no treatments available today that directly target the brain abnormalities in HE.

Aprea Therapeutics announced an important research collaboration with Memorial Sloan Kettering Cancer Center in March. The goal of this collaboration is to evaluate and characterize preclinical efficacy of APR-246 in combination with multiple other anti-cancer agents and across multiple tumor types. The Principal Investigator of the study is Taha Merghoub, Ph.D who will be conducting the research in collaboration with the laboratory of Jedd D. Wolchok, M.D., Ph.D., Chief of Melanoma and Immunotherapeutics Service, Department of Medicine. These studies are designed to provide important insights into the effects of APR-246-induced p53 reactivation but also inform about the rationale for novel combination therapies to be tested in future clinical trials.

Multiple value generating clinical data read-outs are expected from Karolinska Development's portfolio companies in 2018. These are:

- Dilafor – Phase II results with tafoxiparin in obstetric indications.
- Forendo Pharma – Phase I results with its HSD17B1 enzyme inhibitor for the treatment of endometriosis.
- Modus Therapeutics – Phase II results with sevuparin in sickle cell disease.
- Aprea Therapeutics – Phase II results from the PiSARRO study of APR-246 in relapsed high-grade serous ovarian cancer patients.
- BioArctic – Phase II results with BAN2401, a monoclonal antibody for the treatment of Alzheimer's disease.

Outlook

The recent completion of the set-off issue has improved Karolinska Development's equity position and overall financial risk profile. Combined with the significant commercial progress, particularly in the US, made by our medtech companies, and the Company's portfolio of exciting therapeutics companies, which could deliver a number of value-generating milestones over the next 12-18 months, Karolinska Development is poised to deliver significant value for all its shareholders.

Portfolio Companies

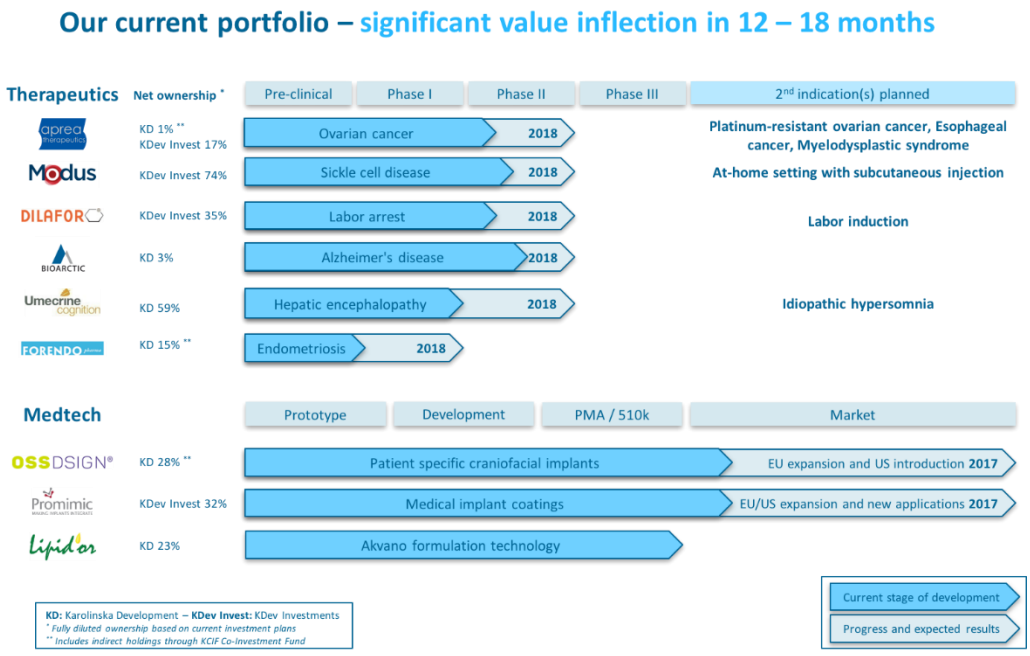
A Focused Portfolio with Exciting Potential

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 12-18 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.



KAROLINSKA DEVELOPMENT

aprea therapeutics

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*

Aprea Therapeutics AB

A unique approach to treating 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 in a Phase IIa trial of a combined Phase Ib/IIa clinical study (the PiSARRO study), investigating the drug candidate's safety and efficacy in combination with chemotherapy in second-line treatment of patients with high-grade serous ovarian cancer. Aprea presented efficacy and safety data from the Phase Ib part of PiSARRO last year 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.

The Phase IIa portion of the PiSARRO study will enrol 250 up to 400 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.

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

- 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.

KAROLINSKA DEVELOPMENT

Modus Therapeutics AB

Project
Sevuparin

Primary indication
Sickle cell disease (SCD)

Development Phase
Phase II

Holding in company*
KDev Investments 74%

Other investors
The Foundation for Baltic and East European Studies, Praktikerinvest

Origin
Karolinska Institutet, Uppsala Univesity

More information
modustx.com

**Fully-diluted ownership based on current investment plans*

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 sevapurin 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).
- Ellen K. Donnelly, Ph.D., appointed as Chief Executive Officer (April 2017).

Expected milestones

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

KAROLINSKA DEVELOPMENT

Umecrine cognition

Project
GR-3027-GABA modulator

Primary indication
Hepatic encephalopathy

Development Phase
Phase Ib/IIa

Holding in company*
Karolinska Development 59%

Other investors
Norrlandsfonden,
Fort knox förvaring AB,
Partnerinvest

Origin
Umeå University

More information
umecrine cognition.com

** Fully-diluted ownership based on current investment plans.*

Umecrine Cognition AB

Unique approach to hepatic encephalopathy treatment

Umecrine 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 Umecrine Cognition, a credible therapeutic class to explore for novel treatments in HE.

Umecrine 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. Last year, the company announced positive data from a Phase Ia trial with the drug candidate, demonstrating safety, tolerability and CNS target engagement. GR3027 is now undergoing a combined Phase Ib/IIa clinical study aiming to evaluate the safety and pharmacokinetics in healthy adults and patients with cirrhosis, assess the potential efficacy of the GR3027 on cognitive function in patients with cirrhosis and HE, and determine the Phase IIb dose.

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

- First patient included in clinical Phase Ib/IIa study with GR3027 for HE (March 2017).
- Promising results from the Phase Ia study presented at the International Liver Congress, the annual meeting of the European Association for the Study of the Liver, in Amsterdam (April 2017)

Expected milestones

- Complete recruitment into the Phase Ib portion of combined study in 2017.
- Results from combined Phase Ib/IIa study expected in 2018.

KAROLINSKA DEVELOPMENT

DILAFOR

Project
Tafoxiparin

Primary indication
Protracted labor

Development Phase
Phase II

Holding in company*
KDev Investments 35%

Other investors
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).

Expected milestones

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

KAROLINSKA DEVELOPMENT

OSSDSIGN®

Project
OSSDSIGN® Cranial and OSSDSIGN® Facial

Primary indication
Cranial implants

Development Phase
Marketed

Holding in company*
Karolinska Development 28%**

Other investors
SEB Venture Capital, Fouriertransform

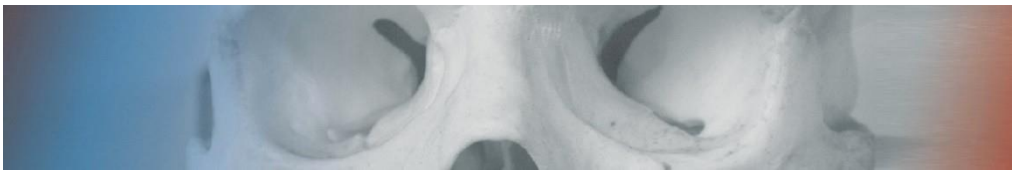
Origin
Karolinska University Hospital, Uppsala University

More information
ossdsign.com
@ossdsign

** Fully-diluted ownership based on current investment plans*

*** Includes indirect holdings through KCIF Co-Investment Fund*

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.

Recent progress

- OSSDSIGN Cranial presented at the American Association of Neurological Surgeons (AANS) scientific yearly meeting in Los Angeles (April 2017).
- 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).

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.

KAROLINSKA DEVELOPMENT

Promimic
MAKING IMPLANTS INTEGRATE

Project
HA^{nano} Surface

Primary indication
Implant surface

Development Phase
Marketed

Holding in company*
KDev Investments 32%

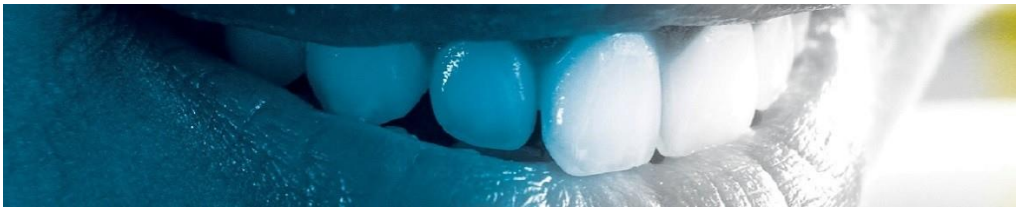
Other investors
ALMI Invest,
K-Svets Venture,
Chalmers Ventures

Origin
Chalmers University of Technology

More information
Promimic.com

**Fully-diluted ownership based on current investment plans*

Promimic AB



Coatings to 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.

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

Magnus Larsson appointed as Chief Executive Officer, replacing Ulf Brogren, who relocated to the US to lead Promimic Inc. as Head of Sales (Jan 2017).

Expected milestones

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

Financial Development – Investment Entity

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 adopted by the EU and the Swedish Annual Accounts Act.

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

Financial development in summary

SEKm	2017 Jan-Mar	2016 Jan-Mar	2016 Full-year
Condensed income statement			
Result of change in fair value in portfolio companies	-5.7	-82.3	-147.0
Net profit/loss	-25.2	-100.1	-216.8
Balance sheet information			
Cash, cash equivalents and short-term investments	211.3	287.6	248.1
Share information			
Earnings per share, weighted average, before and after dilution (SEK)	-0.5	-1.9	-4.1
Net asset value per share (SEK) (Note 1)	1.3	2.9	0.7
Equity per share (SEK) (Note 1)	1.2	2.8	0.6
Share price, last trading day in the reporting period (SEK)	5.6	8.3	6.0
Portfolio information			
Investments in portfolio companies	28.9	7.8	0.0
Of which investments not affecting cash flow	0.7	0.4	27.0
Fair value of portfolio holdings	172.6	193.2	149.4

Financial Development for the Investment Entity in first quarter 2017

Investments

Investments in first quarter 2017 from external investors and Karolinska Development amounted to SEK 82.0 million, whereof 65% came from external investors.

Karolinska Development invested SEK 28.9 million, where SEK 28.2 million was cash investments and SEK 0.7 million was non-cash investments (accrued interest on loans). Investments from external investors amounted to SEK 53.1 million.

Karolinska Development's investments were made in three companies: OssDsign SEK 10.1 million, Umecrine Cognition SEK 11.4 million and Modus Therapeutics SEK 7.1 million. In addition to this Karolinska Development invested SEK 0.3 million to cover operational costs in KCIF KB that manages Karolinska development's co-investments with European Investment Fund.

External investors invested in five portfolio companies: OssDsign SEK 27.5 million, Umecrine Cognition SEK 4.2 million, Modus Therapeutics SEK 2.8 million, Dilafor SEK 13.7 million, Lipidor SEK 4.0 million. In addition to this European Investment Fund invested SEK 0.9 million to cover operational costs in KCIF KB.

SEK million	Karolinska Development	External Investors	Total Invested Q1 2017
Umecrine Cognition	11.4	4.2	15.6
OssDsign	10.1	27.5	37.6
Modus Therapeutics	7.1	2.8	9.9
KCIF	0.3	0.9	1.2
Dilafor	0.0	13.7	13.7
Lipidor	0.0	4.0	4.0
Total	**28.9**	**53.1**	**82.0**

Portfolio Fair Value

Fair Value of the portfolio companies owned directly via Karolinska Development increased by SEK 18.9 million during first quarter 2017. The main reason for the increase was the investments in OssDsign and Umecrine Cognition. This was partly reduced by a SEK 3.6 million reduction in Fair Value in Lipidor as Karolinska Development did not participate in the SEK 4.0 million financing round during the quarter.

Fair Value of the portfolio companies owned via KDev Investments increased by SEK 7.5 million during first quarter 2017. The investments in Modus Therapeutics had a positive impact on the Fair Value. The divestment of Inhalation Science Sweden had a negative impact of SEK 1 million as the Fair Value of the shares was transferred to cash.

Total Fair Value from portfolio companies owned directly by Karolinska Development and via KDev Investments increase by SEK 26.4 million in first quarter 2017.

As a consequence of the increase in Fair Value of the portfolio owned via KDev Investments, the potential distribution to Rosetta Capital was increased by SEK 3.2 million, resulting in Net Portfolio Fair Value increasing by SEK 23.2 million in first quarter 2017.

SEK million	**31 Mar 2017**	**31 Dec 2016**	**Q1 2017 vs Q4 2016**
Karolinska Development Portfolio Fair Value	163	144	19
KDev Investments Portfoilio Fair Value	269	262	8
Total Portfoilio Fair Value	**432**	**405**	**26**
Potential distribution to Rosetta Capital of fair value of KDev Investments	259	256	3
Net Portfolio Fair Value (after potential distribution to Rosetta Capital)	**173**	**149**	**23**

Total Portfolio Fair Value at 31 March 2017 amounted to SEK 431.7 million and the potential distribution to Rosetta Capital amounted to SEK 259.0 million. Net Portfolio Fair Value at 31 March 2017 amounted to SEK 172.6 million.

Results first quarter 2017 *(comparable numbers first quarter 2016)*

During first quarter 2017 Karolinska Development's revenue stayed at the same level as in first quarter 2016 – SEK 0.6 million. The revenue primarily consists of services provided to portfolio companies.

Other expenses decreased with SEK 1.0 million in first quarter 2017 compared to first quarter 2016. A significant part of the reduced costs was lower costs for premises.

Personal Costs amounted to SEK 5.7 million in first quarter 2017. This was an increase of SEK 0.8 million from SEK 4.9 million in first quarter 2016. The increase was a consequence of the new organization being fully implemented.

The Result of Change in Portfolio Fair Value in the profit and loss statement amounted to SEK -5.7 million in first quarter 2017. This was a consequence of investments made by Karolinska Development of SEK 28.9 million only resulted in an increase in Net Portfolio Fair Value of SEK 23.2 million.

The Operational profit/loss for first quarter 2017 amounted to SEK -13.3 million compared to SEK -90.1 million first quarter 2016.

Financial costs increased in first quarter 2017 compared to first quarter 2016. This was a combination of increased interest on the convertible bond due to a higher accumulated debt partly off-set by reduced interest due to convertibles being set-off at the set-off offering in first quarter 2017. In addition to this SEK 1.7 million of the converted debt was booked as financial costs due to IFRS requirements. In total Financial Net amounted to SEK -11.9 million in first quarter 2017 compared to SEK -10.0 million in first quarter 2016.

With Operational profit/loss of SEK -13.3 million (SEK -90.1 million) and Financial net of SEK -11.9 million (SEK -10.0 million), the Investment Entity's Profit/loss before tax amounted to SEK -25.2 million in first quarter 2017 (loss of SEK -100.1 million).

Financial position *(comparable numbers refer to 31 December 2016)*

In first quarter 2017 Karolinska Development offered the holders of its convertible a set-off issue of new B-shares against convertibles (see further details below). The combination of the result in first quarter 2017 and the set-off issue resulted in equity increasing from SEK 29.8 million 31 December 2016 to SEK 62.8 million 31 March 2017.

The Investment Entity's equity to total assets ratio was 15% on 31 March 2017 compared to 7% on 31 December 2016.

As the issue of new B-shares was a set-off issue it had no cash impact and at 31 March 2017, cash and cash equivalents together with short-term investments amounted to SEK 211.3 million.

Financial Development – Parent Company

The Parent Company refers to Karolinska Development AB (comparable numbers first quarter 2016).

During first quarter 2017, the Parent Company's Net profit/ loss amounted to SEK -26.0 million (SEK -93.5 million), a change of SEK 67.5 million compared to first quarter 2016.

In first quarter 2017 Karolinska Development offered the holders of its convertible a set-off issue of new B-shares against convertibles. Convertible holders accepted to offset SEK 67 million of the company's repayable convertible debt of SEK 451 million (31 December 2016). As a result of the Set-off Issue, 10,871,698 new B

shares were issued 11 April 2017, resulting in an increase of the total number of shares from 53,464,998 to 64,336,696. Karolinska Development's share capital increased by SEK 5,435,849, from SEK 26,732,499 to SEK 32,168,348.

The combination of the result in first quarter 2017 and the set-off issue resulted in equity increasing from SEK 14.3 million 31 December 2016 to SEK 46.5 million 31 March 2017.

Information on Risks and Uncertainties

Investment Entity and Parent Company

Financial risks

Karolinska Development had to strengthening its equity position, thereby reducing its overall financial risk profile and ensure the requirements regarding the size of the equity in the Swedish Companies Act (Aktiebolagslagen). Therefore, Karolinska Development launched a set-off issue of B-shares, with approval from shareholders granted at an Extraordinary General Meeting held on 8 March 2017. Convertible holders accepted to offset SEK 67 million of the company's convertible debt, and as a result equity in the Parent Company increased from SEK 14.3 million end of December 2016 to SEK 46.5 million end of March 2017.

Other than the above, no new risk areas have been identified since 31 December 2016. For a detailed description of risks and uncertainties, see the annual report 2016.

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

Solna, 16 maj 2017

Jim Van heusden

CEO

Dates for Publication of Financial Information

Annual General Meeting	24 May 2017
Interim Report January-June 2017	29 August 2017
Interim Report January-September 2017	28 November 2017

Karolinska Development is required by law to publish the information in this interim report. The information was published on 16 May 2017.

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

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

Financial Statements

Condensed income statement for the Investment Entity

SEK 000	Note	2017 Jan-Mar	2016 Jan-Mar	2016 Full-year
Dividend[1]		0	0	3,333
Other revenue		616	608	2,027
Revenue		**616**	**608**	**5,360**
Other expenses		-2,465	-3,430	-15,415
Personnel costs		-5,712	-4,942	-17,344
Depreciation of tangible non-current assets		0	-53	-106
Result of change in fair value of shares in portfolio companies	2	-5,725	-82,252	-146,988
Result from sale of shares in portfolio companies		-	-	444
Operating profit/loss		**-13,286**	**-90,069**	**-174,049**
Financial net		-11,903	-10,030	-42,783
Profit/loss before tax		**-25,189**	**-100,099**	**-216,832**
Taxes		-	-	-
NET PROFIT/LOSS FOR THE PERIOD		**-25,189**	**-100,099**	**-216,832**

Condensed statement of comprehensive income for the Investment Entity

SEK 000	Note	2017 Jan-Mar	2016 Jan-Mar	2016 Full-year
Net/profit loss for the period		-25,189	-100,099	-216,832
Total comprehensive income/loss for the period		**-25,189**	**-100,099**	**-216,832**

Earnings per share for the Investment Entity

SEK	Note	2017 Jan-Mar	2016 Jan-Mar	2016 Full-year
Earnings per share, weighted average, before and after dilution		-0.47	-1.88	-4.08
Number of shares, weighted average		53,220,713	53,151,328	53,151,328

[1] Dividend from BioArctic

Condensed balance sheet for the Investment Entity

SEK 000	Note	31 Mar 2017	31 Mar 2016	31 Dec 2016
ASSETS				
Non-current assets				
Tangible non-current assets		-	53	-
Shares in portfolio companies at fair value through profit or loss	2	172,628	193,152	149,408
Loans receivable from portfolio companies		955	923	957
Other financial assets		38,113	38,113	38,113
Total non-current assets		**211,696**	**232,241**	**188,478**
Current assets				
Receivables from portfolio companies		341	1,157	229
Other current receivables		309	1,615	660
Prepaid expenses and accrued income		757	1,286	806
Short-term investments, at fair value through profit or loss		197,499	277,745	237,545
Cash and cash equivalents		13,819	9,834	10,602
Total current assets		**212,725**	**291,637**	**249,842**
TOTAL ASSETS		**424,421**	**523,878**	**438,320**
EQUITY AND LIABILITIES				
Total equity		**62,803**	**148,268**	**29,815**
Long-term liabilities				
Convertible loan	3	346,676	360,513	394,438
Other financial liabilities		4,807	4,798	4,798
Total long-term liabilities		**351,483**	**365,311**	**399,236**
Current liabilities				
Accounts payable		1,542	1,232	1,460
Liabilities to portfolio companies		-	513	-
Other current liabilities		1,524	498	960
Accrued expenses and prepaid income		7,069	8,056	6,849
Total current liabilities		**10,135**	**10,299**	**9,269**
Total liabilities		**361,618**	**375,610**	**408,505**
TOTAL EQUITY AND LIABILITIES		**424,421**	**523,878**	**438,320**

Condensed statement of changes in the Investment Entity's equity

SEK 000	Not	2017-03-31	2016-03-31	2016-12-31
Share capital		26,732	26,725	26,725
Share premium		1,874,236	1,874,236	1,874,236
Retained earnings		-1,871,153	-1,653,080	-1,653,080
Opening balance, equity		**29,815**	**247,881**	**247,881**
Net profit/ loss for the period		-25,189	-100,099	-216,832
Effect of incentive programs		250	486	-1,241
Set-off issue[1]		57,927	-	-
Share issue		-	-	7
Closing balance, equity		**62,803**	**148,268**	**29,815**

[1] Share capital will increase with SEK 5.4 million to SEK 32.2 million and share premium will increase with SEK 54.9 million. Retained earnings will decrease with SEK 2,4 million, due to the costs for the set-off issue..

Condensed statement of cash flows for the Investment Entity

SEK 000	Note	2017 Jan-Mar	2016 Jan-Mar
Operating activities			
Operating profit/loss		-13,286	-90,069
Adjustments for items not affecting cash flow			
Depreciation		-	53
Change in fair value	2	5,725	82,252
Other items		329	638
Proceeds from short-term investments		-	91
Interest paid/received		-10	-1
Cash flow from operating activities before changes in working capital and operating investments		**-7,242**	**-7,036**
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in operating receivables		-597	6,226
Increase (+)/Decrease (-) in operating liabilities		866	-1,640
Operating investments			
Acquisitions of shares in portfolio companies		-27,047	-7,200
Proceeds from sale of short-term investments[1]		39,647	-
Investments in short-term investments[1]		-	-106
Cash flow from operating activities		**5,627**	**-9,756**
Financing activities			
Share issue		-	-
Convertible debentures issue		-2,410	-
Issue costs		-	-
Cash flow from financing activities		**-2,410**	**0**
Cash flow for the period		**3,217**	**-9,756**
Cash and cash equivalents at the beginning of the year		10,602	19,589
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**13,819**	**9,833**

Supplemental disclosure[1]

CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**13,819**	**9,833**
Short-term investments, market value at closing date	197,499	277,745
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS AT THE END OF THE PERIOD	**211,318**	**287,578**

[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 fund including cash, cash equivalents and short-term investments described here.

Condensed income statement for the Parent Company

SEK 000	Note	2017 Jan-Mar	2016 Jan-Mar	2016 Full-year
Dividend[1]		-	-	3,333
Other revenue		616	608	2,027
Revenue		**616**	**608**	**5,360**
Other expenses		-2,465	-3,430	-15,415
Personnel costs		-5,712	-4,941	-17,344
Depreciation of tangible non-current assets		0	-53	-106
Impairment losses on shares in subsidiaries, joint ventures, associated companies and other long-term securities holdings		-6,521	-75,006	-148,440
Result from sale of shares in portfolio companies		0	-	444
Operating profit/loss		**-14,082**	**-82,822**	**-175,501**
Financial net		-11,894	-10,672	-43,425
NET PROFIT/LOSS FOR THE PERIOD		**-25,976**	**-93,494**	**-218,926**

Condensed statement of comprehensive income for the Parent Company

SEK 000	Note	2017 Jan-Mar	2016 Jan-Mar	2016 Full-year
Net profit/loss for the period		-25,976	-93,494	-218,926
Total comprehensive income/loss for the period		**-25,976**	**-93,494**	**-218,926**

[1] Dividend from BioArctic

Condensed balance sheet for the Parent Company

SEK 000	Note	31 Mar 2017	31 Mar 2016	31 Dec 2016
ASSETS				
Non-current assets				
Tangible non-current assets		-	53	-
Shares in subsidiaries, joint ventures, associated companies and other long term-securities holdings		102,257	161,388	107,610
Loans receivable from portfolio companies		55,764	28,732	28,734
Other financial assets		29,206	33,311	33,010
Total non-current assets		**187,227**	**223,484**	**169,354**
Current assets				
Receivables from portfolio companies		341	1,157	229
Other current receivables		309	1,614	660
Prepaid expenses and accrued income		4,144	2,561	3,448
Short-term investments		197,499	277,745	237,545
Cash and cash equivalents		13,819	9,834	10,602
Total current assets		**216,112**	**292,911**	**252,484**
TOTAL ASSETS		**403,339**	**516,395**	**421,838**
EQUITY AND LIABILITIES				
Total equity		**46,528**	**141,479**	**14,327**
Long-term liabilities				
Convertible loan	3	346,676	360,514	394,438
Pension obligations		0	4,106	3,804
Total long-term liabilities		**346,676**	**364,620**	**398,242**
Current liabilities				
Accounts payable		1,542	1,232	1,461
Liabilities to portfolio companies		-	513	-
Other current liabilities		1,524	497	959
Accrued expenses and prepaid income		7,069	8,054	6,849
Total current liabilities		**10,135**	**10,296**	**9,269**
Total liabilities		**356,811**	**374,916**	**407,511**
TOTAL EQUITY AND LIABILITIES		**403,339**	**516,395**	**421,838**

Condensed statement of changes in equity for the Parent Company

SEK 000	Not	31 Mar 2017	31 Mar 2016	31 Dec 2016
Share capital		26,732	26,725	26,725
Share premium reserve		1,884,310	1,884,310	1,884,310
Reratined earnings		-1,896,715	-1,676,548	-1,676,548
Opening balance, equity		**14,327**	**234,487**	**234,487**
Net profit/ loss for the period		-25,976	-93,494	-218,926
Effect of incentive programs		250	486	-1,241
Set-off issue[1]		57,927	-	-
Share issue		-	-	7
Closing balance, equity		**46,528**	**141,479**	**14,327**

[1] Share capital will increase with SEK 5.4 million to SEK 32.2 million and share premium will increase with SEK 54.9 million. Retained earnings will decrease with SEK 2,4 million, due to the cost for the set-off issue.

Notes to the Financial Statements

NOTE 1 Accounting policies

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

Information on the Parent Company

Karolinska Development AB (publ) ("Karolinska Development," "Investment Entity" or the "Company") is a Nordiclife 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.

Changes in accounting principles and information's 2017

No changes in accounting principles and information as of this reporting period.

New and revised accounting principles 2017

No new or revised IFRS standards or recommendations from IFRS Interpretations Committee has had impact on the Investment Entity.

Definitions

Portfolio companies: Companies where Karolinska Development has made investments (subsidiaries, joint ventures, associated companies and other long-term securities holdings) which are active in pharmaceuticals, medtech, theranostics and formulation technology.

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

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

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.

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.

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 (calculated as Total Portfolio Fair Value minus Potential Distribution to Rosetta Capital).

Net asset value per share: Fair value of the total portfolio (SEK 172 million), loans receivable from portfolio companies (SEK 1 million), short-term investments (SEK 197 million), cash and cash equivalents (SEK 14 million), and financial assets less interest-bearing liabilities (SEK 29 million minus SEK 346 million) in relation to the number of shares outstanding (53 220 713) on the closing date (31 March 2017).

Equity per share: Equity on the closing date in relation to the number of shares outstanding on the closing date.

Equity to total assets ratio: Equity divided by total assets.

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

Reporting period: Current quarter.

NOTE 2 Fair value

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

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

Level 2- Fair value determined based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

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

Fair value as of 31 March 2017

SEK 000	Level 1	Level 2	Level 3	Total
Financial assets				
Shares in portfolio companies, at fair value through profit or loss	-	-	172,628	172,628
Loans receivable from portfolio companies	-	955	-	955
Other financial assets	-	-	38,113	38,113
Receivables from portfolio companies	-	341	-	341
Cash, cash equivalents and short-term investments	211,318	-	-	211,318
Total	**211,318**	**1,296**	**210,741**	**423,355**
Financial liabilities				
Other financial liabilities	-	-	4,807	4,807
Accounts payable	-	1,542	-	1,542
Total	**-**	**1,542**	**4,807**	**6,349**

Fair value as of 31 March 2016

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

Fair value (level 3) as of 31 March 2017

SEK 000	Shares in portfolio companies	Other financial assets	Other financial liabilities
At beginning of the year	149,408	38,113	4,798
Transfers to and from level 3	-	-	-
Acquisitions	28,945	-	-
Disposals	-	-	-
Gains and losses recognized through profit or loss	-5,725	-	9
Closing balance 31 Mar 2017	**172,628**	**38,113**	**4,807**
Realized gains and losses for the period included in profit or loss	-115	-	-
Unrealized gains and losses in profit or loss for the period included in profit or loss	-5,610	-	-9

Fair value (level 3) as of 31 March 2016

SEK 000	Shares in portfolio companies	Other financial assets	Other financial liabilities
At beginning of the year	267,651	38,113	4,798
Transfers to and from level 3	0	-	-
Acquisitions	7,639	-	-
Disposals	-	-	-
Gains and losses recognized through profit or loss	-82,252	-	-
Closing balance 31 Mar 2016	**193,038**	**38,113**	**4,798**
Realized gains and losses for the period included in profit or loss	-664	-	-
Unrealized gains and losses in profit or loss for the period included in profit or loss	-81,588	-	-

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 Portfolio Fair Value

In the table below, "Total Portfolio Fair Value" is as defined in Note 1.

Impact on Portfolio 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 the distribution of dividends from Rosetta Capital's common and preference shares. The distribution to Rosetta Capital will only happen when KDev Investments distribute dividends. KDev Investments will only distribute dividends after all eventual payables and outstanding debt has been repaid.

If Rosetta Capital has not received 2.5 times the amount invested in KDev Investments by Rosetta Capital by 7 March 2018, then Rosetta Capital may require within 60 days that Karolinska Development acquires Rosetta's shares in KDev Investments. The price payable for the KDev Investments shares is the fair market value of the shares, although 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 the market capitalization of Karolinska Development at the end of the fourth quarter 2016 being SEK 312 million the price payable for the KDev Investments shares is capped to SEK 31 million.

"Net Portfolio Fair Value" is as defined in Note 1.

Expanded Portfolio Fair Value calculations taking the portfolio valuation and potential distribution to Rosetta Capital in consideration

MSEK	31 Mar 2017	31 Mar 2016	31 Dec 2016
Karolinska Development Portfolio Fair Value	162,557	133,810	143,657
KDev Investments Portfoilio Fair Value	269,101	343,000	261,586
Total Portfoilio Fair Value	**431,658**	**476,810**	**405,243**
Potential distribution to Rosetta Capital of fair value of KDev Investments	259,030	283,772	255,837
Net Portfolio Fair Value (after potential distribution to Rosetta Capital)	**172,628**	**193,038**	**149,406**

* SEK 33 million repayment of investments in KDev Investments made by Rosetta Capital and SEK 226 million distribution of dividends to 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. 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.

For detailed description, see the annual report 2016.

NOTE 3 Convertible loan

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

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

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

Karolinska Development issued convertible debentures with a nominal amount of SEK 387 million on 2 January 2015 which have a nominal interest rate of 8 percent. The nominal amount was reduced to SEK 329 million after the set-off issue in March 2017. The convertible debentures will fall due for payment on 31 December 2019 at the amount of SEK 484 million (as accrued interest is interest bearing), the convertibles grant a right to convert into shares at a conversion rate of 22 SEK per series B share. The value of the debt and equity part (conversion right) was determined on the date of issuance.

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

SEK 000	31 Mar 2017	31 Mar 2016	31 Dec 2016
Nominal amount of convertible debentures issued on 2 January 2015	386,859	386,859	386,859
Issue costs	-28,171	-28,171	-28,171
Equity portion	-49,528	-49,528	-49,528
Debt at issuance date 2 January 2015	**309,160**	**309,160**	**309,160**
Accrued interest costs	85,278	51,354	85,278
TOTAL	**394,438**	**360,514**	**394,438**
Set-off share issue 2017			
Converted nominal amount	-57,509	-	-
Converted part of issue costs	4,188	-	-
Converted part of equity portion	7,362	-	-
Converted part of accrued interest costs	-12,677	-	-
Debt prior this year's interest	**335,802**	**360,514**	**394,438**
Accrued interest costs 2017	10,874	-	-
Total	**346,676**	**360,514**	**394,438**

NOT 4 Related party transactions

Karolinska Development AB has entered into an agreement with a company related to the Chairman of the Board, OrfaCare Consulting GmbH, regarding consultations by the Chairman of the Board, Bo Jesper Hansen. The consultancy agreement covers other kind of consultancy services than what follows byhis position as Chairman of the company. The agreement is valid from 1 March 2015, after extension, until the date of the Company´s Annual General Meeting 2017. The consultancy fee is market based and amounted during the period January – March 2017 to SEK 0.3 million (SEK 0.3 million same period 2016 and SEK 1.3 million for the full year 2016).