



ANNUAL REPORT

2019

KAROLINSKA  
DEVELOPMENT





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## About Karolinska Development

Karolinska Development AB (Nasdaq Stockholm: KDEV) is an investment company which offers a unique opportunity to share in the growth in value of a number of Nordic life science companies with high commercial potential. Eight of the nine portfolio companies have candidate drugs in the clinical development or early launch phase. Three portfolio companies are expected to present clinical phase II and III study results in 2020, offering the potential for substantially increased opportunities for attractive divestments or licensing deals. Comparable candidate drugs have, in recent years, been out-licensed or sold for contract values of billions of kronor for the individual projects.

[www.karolinskadevelopment.com](http://www.karolinskadevelopment.com)

Twitter: @Karolinska\_Dev

The best ever  
full-year result

**303** MSEK

**+893%**

The total fair  
value of the portfolio  
developed favorably

**1 553** MSEK

**+63%**

Net debt decreased  
sharply when the  
company's convertible loan  
was set off against shares

**37,8** MSEK

**-90%**

**3**  
portfolio companies  
were listed on  
the stock exchange:

Aprea, OssDsign  
och Lipidor

## OUR STARTING POINT FOR 2020

- Over the past year, Karolinska Development has got to grips with its high level of debt, secured its short-term financing needs, and posted the company's best ever results.
- The results of Umecrine Cognition's phase II study of the golexanolone (GR3027) candidate drug in patients with hepatic encephalopathy are expected in the spring.
- Dilafor is planning to present the results of its new phase II study this summer, evaluating the tafoxiparin candidate drug as a treatment for reducing protracted labour in conjunction with induced deliveries.
- Aprea Therapeutics is expected to present the results of its ongoing pivotal phase III study of patients with myelodysplastic syndrome in the autumn, and provided that the results are favourable, to submit an application for marketing approval of its candidate drug in the USA shortly thereafter.
- Karolinska Development is preparing a strategic investment with high value creation potential – helping Nordic life science companies to develop and commercialise their innovations in Asia.

## FINANCIAL SUMMARY

SEKm	2019	2018
Net profit/loss	303,0	30,5
Cash, cash equivalents and short-term investments	52,1	85,8
Earnings per share (SEK)	4,1	0,5
Net asset value per share (SEK)	5,9	3,8
Equity per share (SEK)	5,7	4,6
Share price at year end (SEK)	3,5	6,2
Investments in portfolio companies	48,9	124,6
<b>Total portfolio fair value</b>	<b>1 553,4</b>	<b>952,3</b>
<b>Net portfolio fair value</b>	<b>1 047,6</b>	<b>618,9</b>




**2019 WAS, IN MANY RESPECTS, AN HISTORIC YEAR** for Karolinska Development. We started the year in a very strained financial position, with a weak cash position and a net debt of SEK 392 million – figures that should be viewed in the light of a market value at that time of SEK 391 million. By the time we put 2019 to bed, we had reduced the company's net debt to SEK 38 million and were able to report a record profit of SEK 303 million (SEK 30.5 m in 2018). A combination of intensive negotiations with the holders of the company's convertible loan, successes by the portfolio companies, and a review of our business model resulted in Karolinska Development being in a stronger position than has been the case for a very long time.

#### **Intensive work resulted in solving the convertible loan**

In January 2015, Karolinska Development issued a convertible loan for a nominal SEK 387 million which matured on 31 December 2019. If the loan had not been converted to shares before this date, the company would be required to repay the loan on the maturity date – a total of SEK 484 million including accrued interest. The majority of the year was consequently spent addressing this – to put it mildly – challenging situation and identifying an optimally satisfactory solution for both the holders of the convertible loan and our shareholders. In late May 2019, the Board of Directors resolved, conditional upon the approval of the Annual General Meeting, to carry out a directed issue of series B shares in order to set off the loan against shares. By this point, the major convertible owner, Sino Biopharmaceutical, had undertaken, together with other convertible owners, to set off SEK 390 million against shares. The Annual General Meeting approved the set off issue in June, and in the autumn, the company signed an agreement with some of the major convertible owners. When the subscription period came to an end, after eight extensions, SEK 19.7 million of the loan remained and was repaid in early January 2020, and the whole convertible loan has thereby been solved.

Our investment portfolio performed very positively while we were working on a solution for the convertible loan. The change in the fair value of our holdings in the portfolio companies totalled SEK 415.1 million at the end of the year (SEK 58.5 for 2018). The majority of our assets are now held in listed companies, and our ability to realise them has consequently increased, generating the potential for further strengthening our financial situation. The company also needed to secure its short-term capital requirements at this point, so in December, Sino Biopharma granted a SEK 70 million loan which matures in one year's time and which can be repaid in cash and/or through set-off in conjunction with a new share issue.





"none of our portfolio companies have signed a licence agreement on this scale before"

### Historic milestones in our portfolio companies

The strong result posted for the year is largely due to positive developments for several of our portfolio companies. Aprea Therapeutics' successful IPO in the USA in October was an historic event, both for Swedish research and for Karolinska Development. Several other portfolio companies also reported significant progress. Forendo Pharma's license and collaboration agreement with Novartis – the biggest agreement signed by a portfolio company since Karolinska Development was founded – is a prime example of this progress.

#### Aprea Therapeutics

Aprea's development in 2019 demonstrates the value that can be generated through early investments in Nordic life science innovations. Aprea's candidate drug, APR 246, is based on research by Professor Klas Wiman and his colleagues from the Karolinska Institute. Karolinska Development was one of the early investors in the company. Aprea carried out a new share issue ahead of its flotation on the USA's NASDAQ Global Select Market in October, and raised USD 97.75 million (ca. SEK 945 m), and the share subsequently performed very positively during the autumn. Our holding in Aprea consequently made a substantial contribution to our record profit in 2019. Aprea's APR 246 candidate drug has the potential for use in treating many different types of cancer in that it reactivates a mutated protein – p53 – which is present in 50% of all cancers diagnosed. APR 246 is currently being evaluated, amongst other things, in a pivotal phase III study with p53-mutated myelodysplastic syndrome (MDS) and in 2019, the FDA granted Fast Track Designation and Orphan Drug Designation for the treatment. The company plans, provided that the phase III study produces positive data, to submit a registration application in the USA by late 2020/early 2021.

#### OssDsign

OssDsign completed a successful listing on the NASDAQ First North Growth Market in Stockholm during the year. The issue ahead of the listing was oversubscribed, and the company reported a number of positive news items during the year, including the FDA approval of the company's 3D-printed, patient-specific surgical accessories. The products have been developed to support and expand usage of the company's cranioplasty

implant, which has already been approved in the USA. OssDsign also filed for regulatory approval of its OssDsign Cranial product in Japan and has begun preparations for a commercial launch there.

#### Forendo Pharma

Forendo Pharma, in addition to its development of the FOR-6212 candidate drug for the elimination of endometriosis, signed a license and collaboration agreement with Novartis to develop new drugs for the treatment of chronic liver disease. Under the terms of the agreement, Forendo received an initial upfront payment, and is entitled to milestone payments and royalties on any future sales. The value of the agreement has not been announced, but it is generally true to say that license agreements of this kind have the potential to generate enormous value, and that none of our portfolio companies have signed a licence agreement on this scale before.

#### Modus

The results presented in May showed that the company's phase IIb study of sevuparin in patients with sickle cell had failed to achieve its primary goals. This was naturally disappointing, but further analyses during the year led to the development of sevuparin being shifted to target a completely different indication. Financing activities are in progress with regard to further development work, but the company has not announced any additional details on the intended new indication for patent strategic and competitive reasons. There is every reason to be hopeful that the project will develop well, but until such time as the results of the financing activities currently in progress are known, Karolinska Development has elected to adjust the value of its holding in the company.

#### Promimic

Promimic's unique implant coating, HA<sup>nano</sup> Surface, increases the implant's integration into bone. The first orthopaedic implant to use HA<sup>nano</sup> Surface was approved in the USA in August, and Promimic entered into partnership with the American firm, Onkos Surgical, during the year. Additional product launches and license agreements with major manufacturers are expected during the year.

**Dilafor**

Dilafor's primary goal with the candidate drug, tafoxiparin, is to minimise the risk of protracted labour and thereby reduce complications that are harmful for mother and child alike. In April 2019, Dilafor secured financing for a phase IIb study with the company's candidate drug, tafoxiparin, in women undergoing labour induction. The capital (SEK 23.3 million) was raised from existing owners, with the existing shareholder, Opocrin S.p.A, as the primary investor. The first patient was enrolled in the study in June 2019.

**Umecrine**

Umecrine presented the results of a phase IIa study of its candidate drug, golexanolone, in 10 patients with idiopathic hypersomnia (IH) at the beginning of the year. The study showed a favourable safety profile and good pharmacokinetics, along with clinical efficacy in a subset of patients. After careful analyses of the results, however, Umecrine decided to prioritise the further development of golexanolone in the treatment of hepatic encephalopathy. In December, the company announced that enrolment for a phase IIa study of golexanolone for liver cirrhosis and hepatic encephalopathy had been completed. The company also obtained an important patent for the candidate drug in the USA during the year.

**Consequences of the Corona pandemic**

The ongoing corona pandemic is affecting every part of society and the life science industry is no exception. We have already seen the value of listed companies decline, we must be prepared for delays in clinical trial programs and that the opportunities for refinancing can be hampered. Karolinska Development monitors the evolvement of the crisis closely and will do its utmost both to minimize the impact on the value of our investments and to seize opportunities that may arise in these types of situations.

**Overview of our business model as we look towards Asia**

During the year, we have also identified the potential for developing our existing business model. We will continue to work actively with our portfolio companies and to evaluate opportunities to invest in other innovative Nordic life science companies, but at the same time, we are keen to exploit the value creation potential of the rapidly growing Asian market. We are drawing up a plan for taking Nordic innovations to Asia. In this work, it is a strength to have Sino Biopharmaceutical as a major shareholder. With almost 22,000 employees, Sino Biopharmaceutical is one of the biggest Chinese investors in the healthcare sector. This makes them an incredibly strong partner in this part of the world.

Asia is, in many ways, an undeveloped market for Nordic life science and we believe that once this collaboration has taken shape, the potential for many Nordic life science innovations will be increased. 2019 required an absolute focus on turning the challenging financial situation faced by Karolinska Development around. With a significantly improved starting point, we are now looking forward to put all our focus on our portfolio companies in 2020 and on the new opportunities offered by the developed business model.

Solna, March 26 2020

**Viktor Drvota**

Chief Executive Officer

## Long-term investments in potentially groundbreaking innovations

**KAROLINSKA DEVELOPMENT** is a listed investment company that handpicks its investments from the flood of medical innovations in various stages of their development from the Karolinska Institute and other highly respected universities in the Nordic region. The company invests both in pharmaceutical projects and medtech products, but with focus on those with the potential to revolutionise the treatment of diseases and where there is a substantial need for new therapies. Investments are made in partnership with other, usually international, specialist investors in order to increase the portfolio companies' long-term financing opportunities and their access to commercial and scientific expertise.

**DEVELOPING A NEW PHARMACEUTICAL** or medtech product takes a long time and requires substantial investments. There is a substantial risk of an individual project failing to make it to market, but the enormous potential for growth in value in those companies that achieve success means that there is, nonetheless, considerable interest in investing in small to medium-sized life science companies. Karolinska Development has a well-developed methodology for optimising the commercial potential of the portfolio companies' life science projects and for, wherever possible, reducing the inherent biological project risk – all research and development is, after all, conducted specifically because the results are not known in advance.

**ONE WAY OF REDUCING THE RISKS** is to implement broad development programmes with multiple potential spheres of use for a candidate drug or medtech product. A candidate drug that proves to be ineffective for one particular medical indication may very well be successful in another. Karolinska Development has long-established routines for minimising the risk of the results of clinical trials not turning out as expected. The portfolio companies receive professional support during the process of optimising the design of clinical studies, and the potential for spreading the risks by expanding the indication areas is evaluated continuously. The development strategy for the individual projects is formulated in close cooperation with world-leading scientific and clinical experts.

**ANOTHER WAY OF OPTIMISING THE VALUE** of an investment is to prepare an exit strategy when the investment is first made. Karolinska Development works purposefully on optimising the portfolio companies' preconditions for commercialising their projects. In recent years, the portfolio companies have been strengthened through the addition of people with a documented ability to conduct international business transactions in the life science sector.

**ANOTHER KEY FACTOR** in value creation is the continuous adjustment of the composition of Karolinska Development's portfolio in order to maintain an acceptable total risk level.

**THE MOST IMPORTANT ASSET** of a successful investment company is the people who are responsible for selecting and developing the investments. Karolinska Development's company management comprises individuals with in-depth experience of investment activities, research and development, and enterprise. The management also has an extensive international network in both the scientific world and the global life science sector. Sino Biopharma enhances the potential for providing exposure for existing and future portfolio companies in the fast-growing Asian market.

**KAROLINSKA DEVELOPMENT'S INVOLVEMENT** in its portfolio companies is a long-term one. Companies operating in the pharmaceutical development sector are followed until proof of concept is demonstrated in phase II studies, but also, the potential for entering into cash flow-generating license agreements, trade sales, or IPOs, is continuously evaluated. The reasoning here is that this is an attractive time to do business. Only then is it possible to demonstrate that a candidate drug has the anticipated biological effect, thereby substantially reducing the ongoing development risk and significantly increasing the value of the project. The holdings in portfolio companies operating in the medtech sector are divested at an even later stage, when the companies have launched their first product and become cash flow positive.

## Five reasons to invest in Karolinska Development

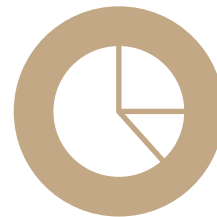
**EVALUATING THE QUALITY** and level of innovation of a research project is difficult and time-consuming for investors without in-depth knowledge of the life science sector. An investment in Karolinska Development

offers a unique and straightforward opportunity to share in the growth in value of a number of carefully selected, highly innovative Nordic life science companies with substantial commercial potential.



### Access to both public and unlisted companies

As a private individual, one's opportunities to invest in companies that are not traded on an exchange are often limited, and in those instances where one could manage to invest in one, divesting the holding at short notice is much, much more difficult. Karolinska Development's extensive network in the Nordic life science sector offers ongoing opportunities to invest, even in unlisted companies.



### Good risk spread

Investments in small and medium-sized life science companies entail significant risks, in that the outcome of project development is often binary. A good risk spread requires a broad and well-composed portfolio, but building up and then continuously monitoring this kind of portfolio can be difficult and time-consuming. A holding in Karolinska Development gives you the opportunity to share in the growth in value of a well put together portfolio of innovative, Nordic life science companies.



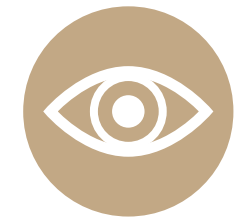
### Professional assessment of biological risk

The ability to assess the likelihood of the biological concept behind a life science project leading to a finished product requires extensive expertise and experience. Karolinska Development's investments are always based on professional assessments of the level of innovation and viability of the scientific hypothesis upon which each individual project rests.



### Professional assessment of commercial risk

Even if a life science project develops well from a purely medical perspective, it doesn't necessarily mean that it will be possible to capitalise on the scientific advances. Karolinska Development conducts a detailed analysis of a potential new portfolio company's commercial potential, i.e. the probability that its projects can be out-licensed, sold, or launched in-house, before every investment.



### Continuous and detailed monitoring of the holdings

Karolinska Development's investment managers continuously monitor the portfolio companies' development, make any additional investments that look attractive, and divest holdings at the times that they calculate will result in the best return for shareholders.



## Nordic innovations to Asia – a new component of Karolinska Development’s developed business model

### The health care market in China

China is the world’s second largest health care market, with total health care costs in 2015 of USD 576 billion, and estimated costs of USD 1,376 billion by 2025<sup>1</sup>). The average annual growth in the market over the past five years is 9.4%<sup>1</sup>), in comparison with 5.5% in the USA<sup>2</sup>). Expenditure on pharmaceuticals’ share of the country’s total health care costs is expected to rise from USD 63.6 billion in 2020 to USD 138 billion by 2025<sup>1</sup>). The growth potential in China continues to be good, with health expenditure per capita only totalling USD 426 in comparison with, on average, in excess of USD 5,200 for the world’s eight biggest health care markets<sup>3</sup>). The anticipated ongoing high growth rate is primarily due to China’s aging population, rising incomes, and increasing urbanisation.

### The world’s 10 biggest health care markets

2001	2013	2017
1. USA	1. USA	1. USA
2. Japan	2. Japan	2. China
3. France	3. China	3. Japan
4. Germany	4. Germany	4. Brazil
5. Italy	5. France	5. Germany
6. Great Britain	6. Brazil	6. France
7. Spain	7. Italy	7. Italy
8. Canada	8. Spain	8. India
9. China	9. Canada	9. Russia
10. Brazil	10. Great Britain	10. Canada

#### Current situation

- The Asian market is large and growing quickly
- Dominated by regional corporate groups
- Significant cultural differences
- Nordic companies have limited experience of market introductions in the region

#### Opportunities

- Karolinska Development is able to offer small and medium-sized Nordic companies access to an extensive distribution network
- Focus on products close to market launch

#### Goal

- The goal is to generate a positive cashflow for Karolinska Development in order to finance further investments

1) China's Health Expenditure Projections To 2035: Future Trajectory And The Estimated Impact Of Reforms. Tiemin Zhai, John Goss, Tania Dmytraczenko, Yuhui Zhang, Jinjing Li, and Peipei Chai. Health Affairs 2019 38:5, 835-843

2) Centers for Medicare & Medicaid Services, Department of Health and Human Services (HHS). <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/ForecastSummary.pdf> (hämtad 14/02/2020)

3) WTO Data Portal per 12/31/2015



### **Karolinska Development is keen to boost the potential for exploiting Nordic innovations in Asia**

Nordic life science companies face substantial challenges in the Asian market in general, and the Chinese market in particular, not least due to cultural differences. These challenges are particularly significant for small and medium-sized companies.

Karolinska Development has started the work of bridging this gap and to open up the Asian market to Nordic innovations. Small and medium-sized life science companies will be offered access to Sino Biopharma's extensive network for commercialisation and expansion in China. The focus in the initial phase will be on companies who are close to market launches, with the aim of generating a positive cash-flow for Karolinska Development in a relatively short timeframe. The goal is to generate cash flow to make a significant contribution to the financing of Karolinska Development's follow-up investments in portfolio companies and new investments in Nordic life science companies.

Karolinska Development is also evaluating the potential to offer other leading Asian players the opportunity to invest in innovative Nordic life science projects in the early phase of development. This could provide access to financial resources and infrastructure in China, for example, for ongoing project development and could also, in the longer term, open the door to attractive exit options, such as through IPO in Hong Kong.

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#### **ABOUT SINO BIOPHARMACEUTICAL**

- Sino Biopharmaceutical is one of China's leading pharmaceutical corporations, with substantial capacity to invest in research and development.
- The corporation has almost 22,000 employees.
- Over 12,000 people work in Sino Biopharma's sales network, making it the biggest in the Chinese health care market.
- The company's production facilities are certified by CFDA (China Food and Drug Administration).
- In 2018, Sino Biopharma posted a turnover of RMB 20.9 billion (ca. SEK 29.0 billion) and a profit after tax of RMB 10.7 billion (ca. SEK 14.8 billion).
- The company is listed on the Hong Kong Stock Exchange's main board (SEHK:1177) and is included in the Hang Seng Index.

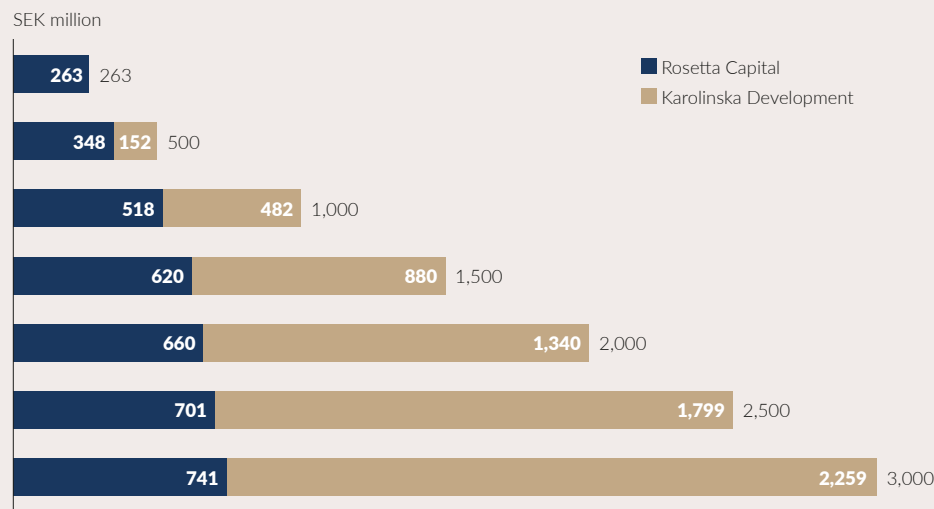


## KDev Investments and the agreement with Rosetta Capital

In December 2012, Karolinska Development entered into partnership with the international specialist investor, **Rosetta Capital**, which invested SEK 220 million in a number of portfolio companies in return for a share of the future profits from these companies. The shareholdings in the portfolio companies comprised by the agreement with Rosetta are invested in the jointly owned company, **KDev Investments AB**, which today comprises five companies: Aprea, Modus, Dilafor, Promimic, and Biosergen. The return, including Rosetta

Capitals investment of SEK 43 million, from KDev Investments' holding will be distributed in accordance with a "waterfall structure", as illustrated in the graph below. 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.

Distribution of dividends under waterfall-structure\*



Accumulated exit value of all KDev investments portfolio companies payable as dividends (SEKm)

\*When calculating distribution of dividends, any dividends previous distributed will be taken into account.

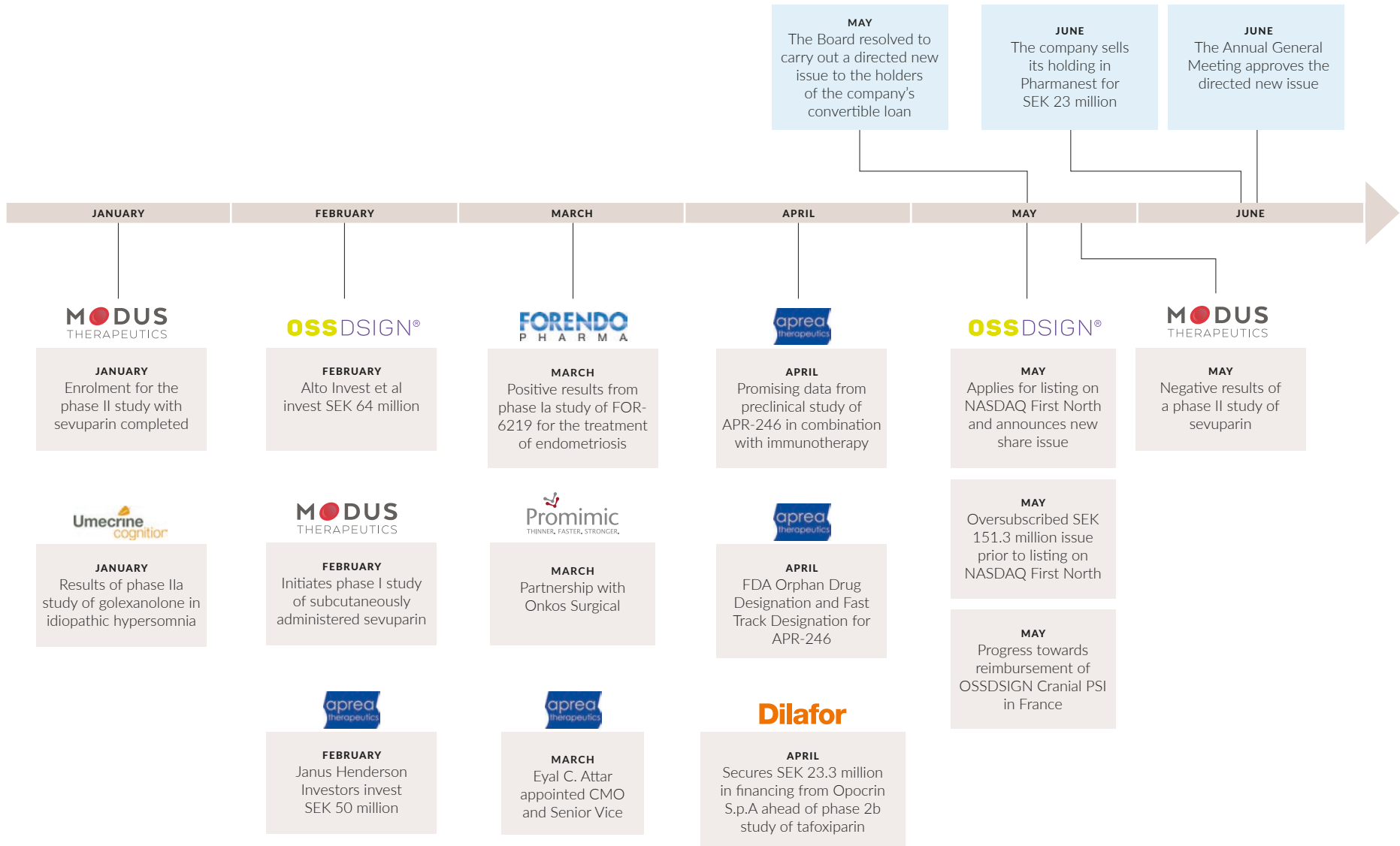
## What is fair value?

- **Fair value** quantifies the combined value of the company's investments at a given time. The calculation of the portfolio's fair value is based on the provisions of the international accounting standard, IFRS 13, and the International Private Equity and Venture Capital Valuation Guidelines (IPEV Valuation Guidelines). The fair value of the portfolio is divided into "Total portfolio fair value" and "Net portfolio fair value".
- **The total portfolio fair value** is the aggregate return that would be obtained by Karolinska Development and KDev Investment if the shares in the portfolio companies were to be divested in an orderly transaction between market operators at the year-end.
- **The net portfolio fair value** is the aggregate dividend that Karolinska Development will receive after KDev Investment's dividend payment to Rosetta Capital.

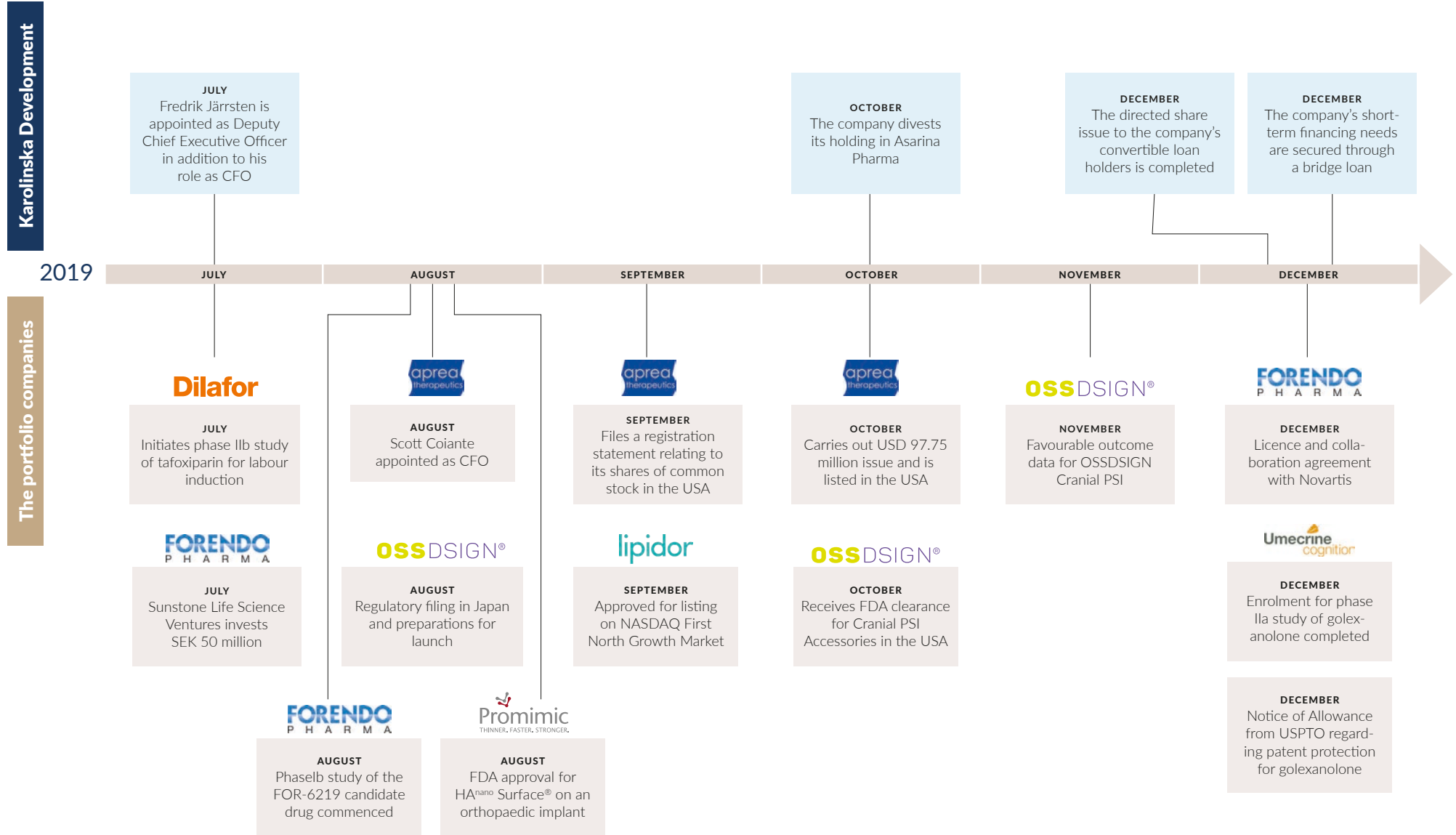
Karolinska Development

The portfolio companies

2019







### Investments: January – December 2019:

Karolinska Development's investments in the portfolio companies during the period January–December 2019 totalled SEK 48.9 million (SEK 124.6 million in 2018), of which SEK 47.0 million comprised cash investments and SEK 1.9 million comprised non-cash investments (interest on outstanding loans). Investments from external stakeholders totalled SEK 396.8 million (SEK 666.0 million 2018).

### The portfolio fair value

The total fair value of portfolio companies owned both directly by Karolinska Development and indirectly via KDev Investments increased by SEK 601.0 million in 2019 to SEK 1,553.4 million. The main reason for the increase in fair value was the rise in the share price of the listed holding Aprea Therapeutics and adjustment of the value of the holding in Modus Therapeutics to what was discussed at the end of 2019 with potential investors for development of a new indication.

The increase in the fair value of the part of the portfolio owned via KDev Investments resulted in an increase in the potential dividend to Rosetta Capital by SEK 172.4 million to SEK 505.8 million. This, in turn, resulted in a net increase in the fair value of the portfolio by SEK 428.7 million in 2019 to SEK 1,047.6 million.

### Effect on the profit of the increase in portfolio value, January – December 2019

The total result of the Changes in portfolio fair value, via the Income Statement, was SEK 415.1 (58.5) million and the change in fair value of other financial assets and liabilities was SEK -28.2 (41.5) million.

### Revenues and profit

Revenues totalled SEK 3.4 million during the year, compared to SEK 3.1 million in 2018 and primarily comprised income from services provided to portfolio companies.

The Investment Entity's operating profit totalled SEK 347.9 million compared to SEK 74.0 million in 2018.

The Investment Entity's profit for the full year of 2019 totalled SEK 303.0 million compared to SEK 30.5 million in 2018, or SEK 4.1 per share in 2019 compared to SEK 0.5 per share in 2018.

### Financial position

The set-off issue directed towards the holders of the convertible loan was completed during the fourth quarter. This in combination with the net profit contributed to the Investment Entity's equity increased to SEK 1,007.7 million on 31 December 2019 compared to SEK 296.0 million on 31 December 2018.

Interest-bearing liabilities after the completed set-off issue, consisted of the remaining part of the convertible loan and a bridge loan amounting to SEK 70 million, in total amounting to SEK 90 million on 31 December 2019, compared to SEK 478.3 million on 31 December 2019. The remaining part of the convertible loan was repaid in January 2020.

On 31 December 2019, cash and bank balances totalled SEK 52.1 million compared to SEK 85.8 million at the end of 2018. The net debt thus amounted to SEK 37.8 million on 31 December 2019 compared to SEK 392.5 million on 31 December 2018.

### Equity/assets ratio and net asset value

The equity/assets ratio of the Investment Entity amounted to 86% by 31 December 2019 compared to 34% on 31 December 2018. The net asset value amounted to SEK 5.9 per share at the end of 2019, compared to SEK 3.8 per share at the end of 2018.

### Accounting principles

Karolinska Development is an Investment Entity as defined in IFRS 10, Consolidated Financial Statements, which affects financial years commencing 1 January 2014 or later.



## Our current portfolio – significant value-inflection during 2020

**KAROLINSKA DEVELOPMENT'S** investments in therapeutic companies are conducted in syndicates with other professional life science investors until proof-of-concept is demonstrated in Phase II trials, at which point different exit options are evaluated. For medtech companies, the business model is to finance the companies beyond break-even before realizing the investments.

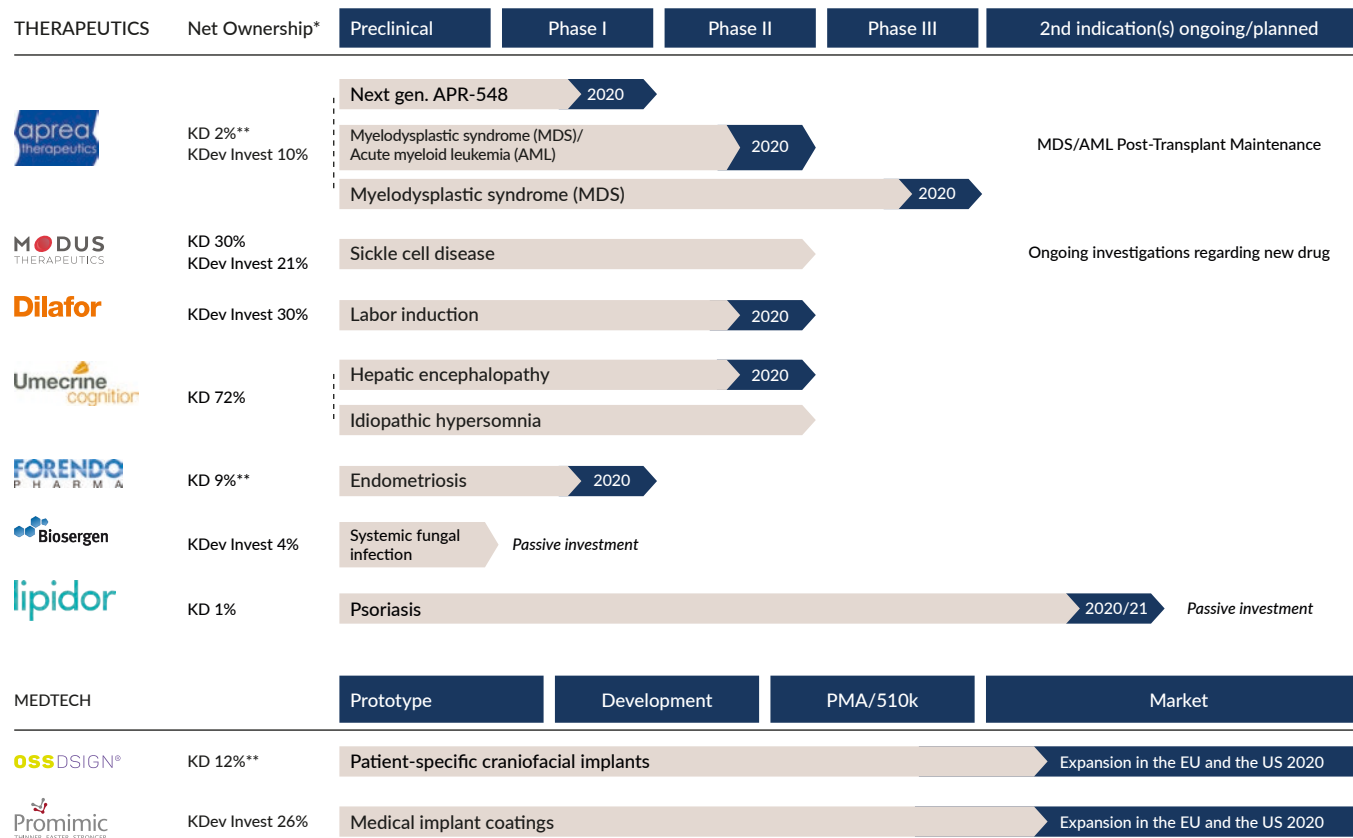
Karolinska Development has a focused portfolio of therapeutic and medtech companies with significant value-generating potential. The portfolio companies are developing highly differentiated and commercially attractive products that have the potential to deliver compelling clinical and health economic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

During the past years, Karolinska Development has optimized the clinical programs of the portfolio companies to reach clinically meaningful value-inflection points in 2019 and 2020. Experienced leadership has been recruited to the management and boards of the portfolio companies. Furthermore, Karolinska Development has supported the financing of the portfolio companies through syndication with experienced international and domestic professional life science investors. As a result, several of Karolinska Development's portfolio companies now are financed and well positioned to deliver key value-generating clinical or commercial milestones within the next two years.

The therapeutics companies' next key value-generating milestones are expected in 2020, when several of the companies are supposed to present Phase II proof-of-concept data and Phase III data. The medtech companies OssDsign and Promimic are revenue generating and have significant milestones mapped out in 2020 regarding execution of their commercial strategies.

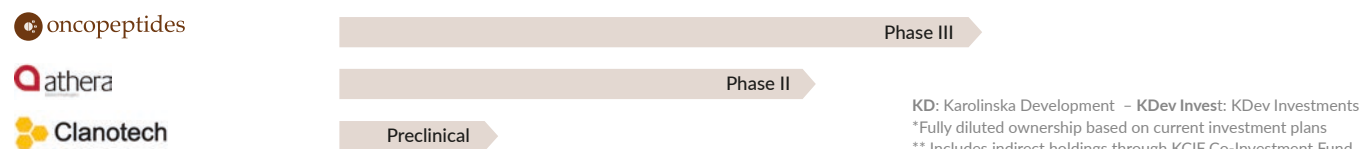
In addition to its active value creation in seven portfolio companies, Karolinska Development has passive investments in two portfolio companies and retained economic interests in the form of earn out-agreements in additionally three life science companies.

## Portfolio



## Earn-out agreements

Karolinska Development has interests in additionally three life science companies in the form of earn-out agreements, which provide opportunities for future revenues.



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





**Project (First-in-class)**  
APR-246

**Primary indication**  
MDS

**Development phase**  
Phase 3

**Holding in company\***  
Karolinska Development 2%\*\*  
KDev Investments 10%

**Other investors**  
Redmile Group  
Rock Springs Capital  
Versant Ventures  
5AM Ventures  
HealthCap  
Sectoral Asset  
Management  
KCIF Co-Investment Fund KB

**Origin**  
The 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 a broad range of cancers

Aprea Therapeutics (Boston, USA and Stockholm, Sweden) is a bio-tech company developing novel pharmaceutical substances that target the tumour suppressor protein, p53. Mutations of the p53 gene are found in 50% of all human tumours and are often associated with drug resistance and generally poor outcomes. There is a substantial need for new therapies that combat drug resistance in the treatment of cancer, and Aprea's lead drug candidate APR-246 is a first-in-class compound that reactivates mutant p53 protein, inducing programmed cell death in cancer cells.

APR-246 is currently in a pivotal phase III study of patients with p53-mutated myelodysplastic syndrome (MDS), the results of which are expected in the third quarter of 2020. A phase Ib/II study to document the safety and efficacy of the candidate drug in combination with cytostatic agents (azacitidine) in the treatment of p53-mutated MDS and AML is being conducted at the same time. In 2019, Aprea presented positive interim data from the phase Ib/II study.

The company also aims to start a study in non-Hodgkin's lymphoma as well as a study in solid tumours in combination with anti-PD1 therapy. In addition, the company intends to initiate Phase I studies with the next generation oral P53 reactivator.

Aprea has been listed on the NASDAQ Global Select Market in the USA since October 2019.



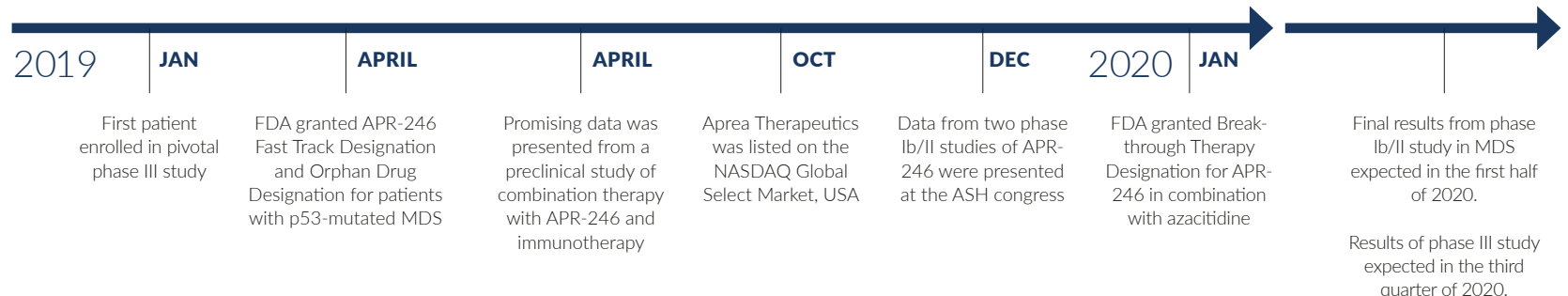
#### THE MARKET

APR-246 has the potential to be used in many cancers as mutations in p53 are found in around 50% of all diagnosed cancers. The lead target indications thus far include blood tumours as MDS and AML. MDS is an orphan disease and represents a spectrum of hematopoietic stem cell malignancies. Approximately 30-40% of MDS patients progress to AML and mutations in p53 are found in up to 20% of MDS and AML patients, which is associated with poor overall prognosis.

#### DEAL VALUES FOR SIMILAR PROJECTS

- USD 469 million – MEI Pharma (licensor) & Helsinn Group (licensee) 2016
- USD 483 million – Calithera Biosciences (licensor) & Incyte (licensee) 2017

#### DEVELOPMENT IN 2019



# Dilafor

**Project (First-in-class)**  
Tafoxiparin

**Primary indication**  
Labour induction

**Development phase**  
Phase IIb

**Holding in company\***  
KDev Investments 30%

**Other investors**  
Östersjöstiftelsen  
Opocrin  
Praktikerinvest  
Rosetta Capital  
Lee's Pharmaceutical

**Origin**  
Karolinska Institutet

**More information**  
dilafor.com

\* Fully-diluted ownership based on current investment plans

## Dilafor AB

### Reducing complications in childbirth

Dilafor (Solna, Sweden) is developing tafoxiparin for obstetric indications, with particular reference to protracted labour and associated complications.

About one quarter of all pregnant women undergo induction in labour. In just over half of all cases, the induction fails, leading to protracted labour that entails an increased risk for both mother and child due to medical complications. Between 25 and 40% of women who experience protracted labour eventually require an emergency caesarean section. Surgical intervention always entails not only a risk to the patient, but substantial health care costs. Tafoxiparin could eliminate patient suffering and save valuable health care resources.

Subcutaneous administration of tafoxiparin in an earlier phase IIa study showed a significantly positive effect with a shortened time to delivery and an enhanced ripening of the cervix in patients delivered after induction. A soft and ripe cervix is a prerequisite of successful labour induction. Tafoxiparin is now being evaluated in a phase IIb study with a larger patient base in order to document the effects of treatment with subcutaneously administered tafoxiparin.



#### THE MARKET

Approximately one quarter of all pregnant women require labour induction. The current standard treatment includes administration of prostaglandins and oxytocin, but in over 50% of cases, the induction fails, leading to protracted labour, emergency caesarean sections, or other maternal and foetal complications.

#### DEAL VALUES FOR SIMILAR PROJECTS

- USD 397 million – Velo Bio (seller) & AMAG Pharmaceuticals (buyer) 2018
- USD 465 million – Palatin Technologies (licensor) & AMAG Pharmaceuticals (licensee) 2017

#### DEVELOPMENT IN 2019

2019

APRIL

JULI

SEK 23.3 million was raised from existing investors, with the existing shareholder, Opocrin S.p.A, the primary investor, in order to finance a phase IIb study of tafoxiparin in women undergoing induced labour

First patient enrolled in the study

#### EXPECTED MILESTONES

Results of the phase IIb study expected in the second quarter of 2020

**MODUS**  
THERAPEUTICS

**Project (First-in-class)**  
Sevuparin

**Primary indication**  
Sickle cell disease (SCD)

**Development phase**  
Phase II

**Holding in company\***  
Karolinska Development 30%  
KDev Investments 21%

**Other investors**  
HealthCap  
Östersjöstiftelsen  
Praktikerinvest

**Origin**  
Karolinska Institutet  
Uppsala University

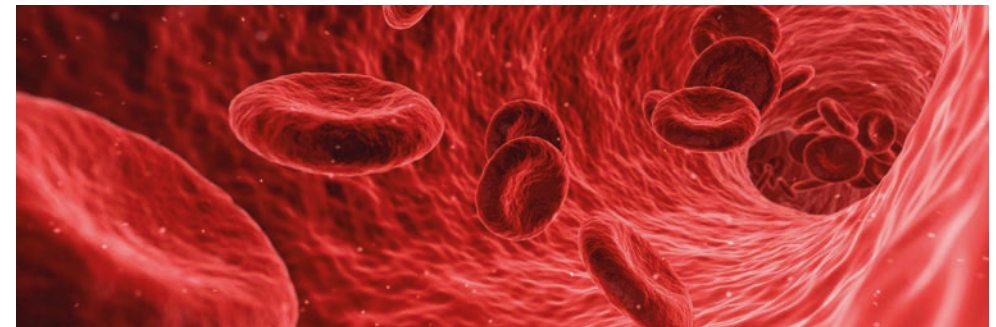
**More information**  
modustx.com

\* Fully-diluted ownership based on current investment plans

**Modus Therapeutics AB**  
Endeavouring to restore healthy blood flow in debilitating diseases

Modus Therapeutics (Stockholm, Sweden) is developing new treatments to prevent microvascular obstructions and enable the restoration of blood flow in conjunction with a number of serious diseases. The company's patented candidate drug, sevuparin, has a multimodal mechanism of action that triggers anti-adhesive, anti-aggregate, and anti-inflammatory effects in the circulatory system.

Modus has completed a phase II study of sevuparin in patients hospitalised with sickle cell disease (SCD). The randomised, double-blinded study was conducted at study centres in Europe, the Middle East, and Caribbean, and included 144 SCD patients. The study compared intravenously (IV) administered sevuparin with a placebo in patients admitted to the hospital with an acute vaso-occlusive crisis (VOC) in conjunction with sickle cell disease. The study also assessed several pain-related secondary endpoints. Data from the study did not show a meaningful clinical effect of sevuparin in the management of acute VOC in the total study population, however, the data suggests that sevuparin, at the administered doses, is safe and well tolerated. Modus is now considering a new indication for further development of sevuparin.



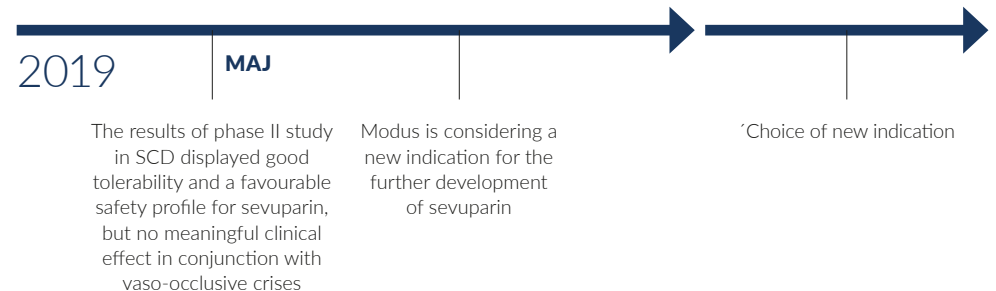
**THE MARKET**

SCD, an orphan disease, leads to progressive organ damage that limits the life expectancy of patients. Lifetime medical care costs can exceed USD 1 million per patient with an estimated USD 1 billion spent annually on the disease in the US alone, where sickle cell

disease is believed to affect approximately 100,000 individuals. The population grows significantly outside of the US and EU with over 1 million patients in the Middle East and over 5 million patients in Africa.

**DEVELOPMENT IN 2019**

**EXPECTED MILESTONES**





## Umechrine Cognition AB

### A new approach to the treatment of hepatic encephalopathy

**Project (First-in-class)**  
Golexanolone (GR3027)

**Primary indication**  
Hepatic encephalopathy

**Development phase**  
Phase IIa

**Holding in company\***  
Karolinska Development 72%

**Other investors**  
Norrlandsfonden  
Fort Knox Förföring AB  
PartnerInvest

**Origin**  
Umeå University

**More information**  
umecrinecognition.com

\* Fully-diluted ownership based on current investment plans

Umechrine Cognition (Solna, Sweden) is developing golexanolone (GR3207) – a candidate drug in a new class of pharmaceuticals that affect the GABA system. An over-activation of the inhibitory GABA system in the CNS is suspected in conjunction with liver failure, causing very serious clinical symptoms. The over-activation is also thought to lay behind certain cognitive and sleep disorders. GABA-receptor modulating steroid antagonists, such as golexanolone, counter the increased activation of the GABA system and hence constitute a promising group of candidate drugs.

Golexanolone GR3027 has been shown to restore different types of neurological impairments in experimental models. The candidate drug enters the brain and works by reversing the inhibitory effects of the neurosteroid allopregnanolone on brain function in humans.

The candidate drug is currently undergoing clinical trials in patients with hepatic encephalopathy (HE), a serious neuropsychiatric and neurocognitive condition that occurs in conjunction with acute and chronic liver damage with underlying cirrhosis. Positive phase Ib data from the ongoing combined phase Ib/IIa study with HE has shown that golexanolone is well-tolerated, does not cause any dosage-limiting side effects, and has a favourable pharmacokinetic profile. Golexanolone has advanced to the phase IIa part of the study and the results are expected in the second quarter of 2020.

A phase IIa study in 10 patients with idiopathic hypersomnia (IH) has been completed. The study results showed a favourable safety profile and good pharmacokinetics. The study also showed evidence of clinical efficacy in a subset of patients. After further analysis of the results, however, Umechrine Cognition has decided to prioritise the further development of golexanolone in the treatment of hepatic encephalopathy over that of idiopathic hypersomnia or other sleep conditions.



#### 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 180,000 and 290,000 patients 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 costs.

#### DEAL VALUES FOR SIMILAR PROJECTS

- USD 397 million – Aerial Biopharma (licensor) & Jazz Pharmaceuticals (licensee) 2014
- USD 201 million – Vernalis (licensor) & Corvus Pharmaceuticals (licensee) 2015

#### DEVELOPMENT IN 2019

2019

Umechrine Cognition has decided to prioritise the further development of golexanolone in the treatment of hepatic encephalopathy over that of idiopathic hypersomnia or other sleep conditions.

#### EXPECTED MILESTONES

Results from the phase IIa part of a combined phase Ib/IIa clinical study in HE are expected in the second quarter of 2020.





## Forendo Pharma Ltd

### Novel therapies for women's health

**Project (First-in-class)**  
FOR-6219

**Primary indication**  
Endometriosis

**Development phase**  
Phase Ia

**Holding in company\***  
Karolinska Development 9%\*\*

**Other investors**  
Novo Seeds  
Novartis Venture Fund  
Merck Ventures  
Vesalius Biocapital  
Innovestor  
Novartis

**Origin**  
Turku University, Finland

**More information**  
forendo.com

\* Fully-diluted ownership based on current investment plans  
\*\* Includes indirect holdings through KCIF Co-Investment Fund

Forendo (Turku and Oulu, Finland) is developing a new treatment for eliminating endometriosis while at the same time maintaining normal hormonal cycles. The company is also active in the field of hepatic disease.

Endometriosis is an oestrogen dependent disease that affects women in reproductive age and is caused by cells normally lining the uterus being present outside of the uterine cavity, which induces chronic inflammation in the surrounding tissue. The disease is manifested in many diverse ways and it often causes particularly painful menstruations or chronic pelvic pain. The existing drug therapies ameliorate the symptoms by suppressing oestrogen synthesis, but these therapies disturb the systemic oestrogen balance and are, consequently, associated with harmful side effects that limit their long-term usage. The risk of osteoporosis is, for example, well known in conjunction with oestrogen elimination therapies.

Forendo's candidate drug, FOR-6219, inhibits the HSD17B1 enzyme – a new drug target for tissue-specific regulation of hormone activity. Proof of mechanism has been demonstrated in preclinical models in which the candidate drug has been shown to block the local formation of oestrogen in the endometrium (the uterus' surface tissue). This may enable a regression of the endometriosis and relief in the associated inflammatory pain without impacting systemic oestrogen levels. A Phase Ia trial found FOR-6219 to be safe and well tolerated, with a good pharmacokinetic profile. These results support the initiation of a Phase Ib study in healthy post-menopausal women with the aim to demonstrate proof of concept, which was initiated in 2019. The results of this study are expected during the first half of 2020.

Forendo also has another development programme, a dual HSD inhibitor for the treatment of gynaecological conditions, and which is currently in preclinical discovery phase. The company has also, since late 2019, been developing new pharmaceuticals for the treatment of chronic hepatic disease in partnership with Novartis.



#### THE MARKET

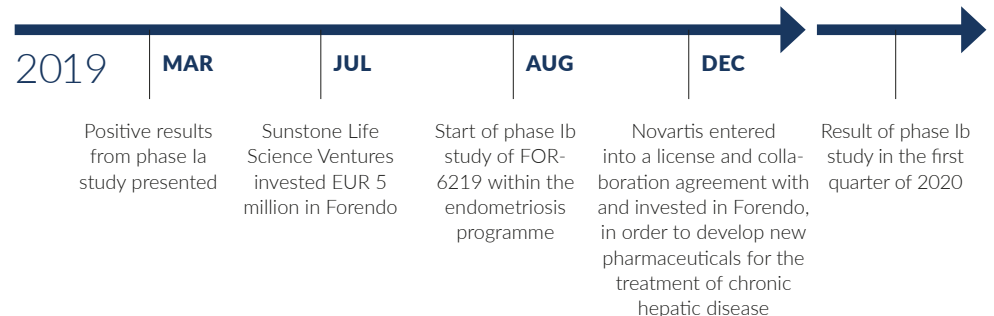
An estimated 10% of all fertile women worldwide are affected by endometriosis, corresponding to a total of 176 million women. Endometriosis has a detrimental effect on the wellbeing of those affected and the socio-economic burden of the disease from sick leave etc., is profound due to the lack of safe and effective treatment.

#### DEAL VALUES FOR SIMILAR PROJECTS

- USD 853 million – Astellas (buyer) & Ogeda (seller) 2017
- USD 595 million – Neurocrine Biosciences (licensor) & AbbVie (licensee) 2010

#### DEVELOPMENT IN 2019

#### EXPECTED MILESTONES



**OSSDSIGN®**

**OssDsign AB**

Commercialising the best  
craniofacial implants

**Project**  
OSSDSIGN® Cranial and  
OSSDSIGN® Facial

**Primary indication**  
Cranial implants

**Development phase**  
Marketed

**Holding in company\***  
Karolinska Development 12%\*\*

**Other investors**  
SEB Venture Capital  
Fouriertransform

**Origin**  
Karolinska University Hospital,  
Uppsala University

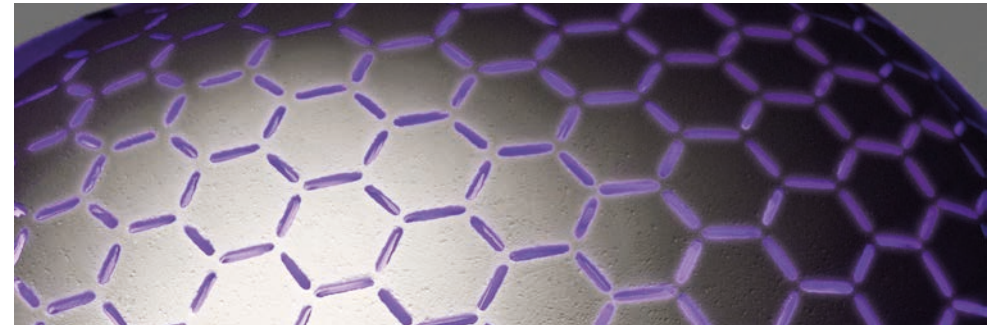
**More information**  
ossdsign.com

\* Fully-diluted ownership based on current investment plans  
\*\* Includes indirect holdings through KCIF Co-Investment Fund

OssDsign (Uppsala, Sweden) is an innovative company that designs and manufactures implants and material technology for bone regeneration. Its lead products, OSSDSIGN® Cranial and OSSDSIGN® Facial, are already being sold in several European markets, including Germany, the UK, and the Nordic region. The company is commercialising its cranial implant in the USA and is also undertaking regulatory and commercial activities in Japan.

OssDsign is working to build sales of the company's products through a combination of an internal sales organisation and close collaborations with distribution partners. A US subsidiary has been established to strengthen the company's presence in the market there and to enable additional, long-term, sound customer relationships.

OssDsign's clinically proven bone regeneration technology has better healing properties than similar products. The company uses cutting edge 3D printing, moulding, and regenerative medicine technology to customise solutions for individual patients. The result is a patient-specific, titanium-reinforced implant made from a ceramic material with regenerative properties that accelerates the natural tissue formation and enables permanent healing of a bone defects. The regenerative effect of the ceramic material helps ensure a shorter healing process and entails both reduced suffering for the patient and cost savings for hospitals.



**THE MARKET**

OssDsign focuses on the market for cranio-maxillofacial (CMF) implants. The total market size was estimated to USD 1.8 billion in 2016 and is expected to grow at an CAGR of 5-9% worldwide over the next five years. The market for OssDsign's lead product in cranioplasty alone is estimated to approximately USD 200 million. OssDsign's products target a well-defined patient population – the relevant type of operation is performed at a limited – and easily identifiable – number of hospitals worldwide. The price sensitivity is low, and

the products are relatively easy to register in multiple markets.

**DEAL VALUES FOR SIMILAR PROJECTS**

- USD 330 million – Baxter International (buyer) & ApaTech (seller) 2010
- USD 360 million – Royal DSM (buyer) & Kensey Nash (seller) 2012

**DEVELOPMENT IN 2019**

**EXPECTED MILESTONES**





**Project**  
HA<sup>nano</sup> Surface

**Primary indication**  
Implant surface coatings

**Development phase**  
Marketed

**Holding in company\***  
KDev Investments 26%

**Other investors**  
ALMI Invest  
K-Svets Ventures  
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<sup>nano</sup> Surface, which increases their integration into bone and anchoring strength.

HA<sup>nano</sup> Surface is a sustainable, nanometre-thin coating that helps preserve the surface structure of the implant by reducing the risks of cracking. The coating is unique because it can be applied to any implant geometry and material, including porous materials and 3D structures. The technology on which HA<sup>nano</sup> is based is FDA-approved, which means that a new implant coated with HA<sup>nano</sup> Surface can receive marketing approval through the 510(k) route and reach a new market quickly. The coating process is easy to implement in the industrial scale production of implants.

Promimic has an established sales operation in the US and a series of development and commercial partnerships, including one with Sistema de Implante Nacional (S.I.N), a leading provider of dental implants in Brazil, which is commercialising dental implants coated with HA<sup>nano</sup> Surface. Another of Promimic's partners is Danco Anodizing, which has established a manufacturing facility for implants with HA<sup>nano</sup> Surface, targeting the US and Chinese markets. Promimic strengthened its position in the orthopaedic market in 2019 through its partnership with the US company Onkos Surgical. The partners will develop and commercialise the HA<sup>nano</sup> Surface technology in combination with Onkos Surgical's products for limb salvage surgery.



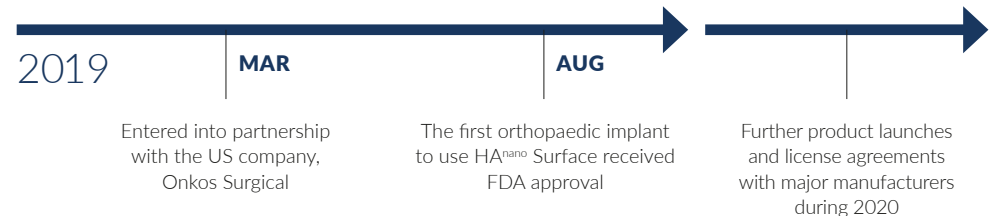
#### THE MARKET

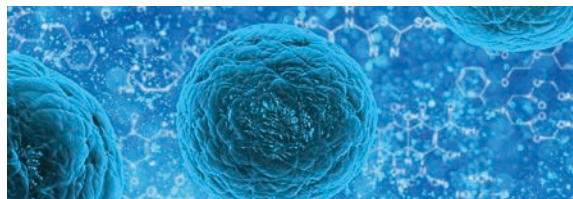
Promimic is focusing on the markets for dental and orthopaedic implants, which collectively represent a worldwide market opportunity of USD 600 - 800 million. The competition amongst implant manufacturers is fierce and each market segment is dominated by four to eight global companies. Promimic's business model is centred on out-licensing the HA<sup>nano</sup> Surface technology to leading implant manufacturers.

#### DEAL VALUES FOR SIMILAR PROJECTS

- USD 95 million – Nobel Biocare (buyer) & AlphaBioTec (seller) 2008
- USD 120 million – MAKO surgical (buyer) & Pipeline Biomedical (seller) 2013

#### DEVELOPMENT IN 2019





## Biosergen AS

**Project**  
BSG005

**Primary indication**  
Systemic fungal infections

**Development phase**  
Preclinical

**Holding in company\***  
KDev Investments 4%

**Other investors**  
The Foundation for Baltic and East European Studies, Sintef Venture IAS, Rosetta Capital

**Origin**  
SINTEF and Norwegian University of Science and Technology

**More information**  
bopsergen.com

Based on the expertise in biosynthetic engineering Biosergen (Trondheim, Norway) is currently running a development program for systemic fungal infections where a candidate drug has been selected, BSG005. The candidate drug BSG005 is in pre-clinical development and has demonstrated a broad spectrum of antifungal activity.

Patients most susceptible to systemic fungal infections are those whose immune systems are compromised by diseases such as cancer and those who are receiving immunosuppressive therapy. While effective treatments are available, their use is usually limited by serious side-effects or an increasing incidence of drug resistance.

Biosergen's BSG005 has in preclinical models and experiments demonstrated a wide antifungal efficacy spectrum. BSG005 has so far shown superior properties compared to conventional treatment in terms of efficacy, toxicity and pharmacokinetics.

\* Fully-diluted ownership based on current investment plans



## Lipidor AB

**Project**  
AKVANO

**Primary indication**  
Topical drug delivery

**Development phase**  
Product

**Holding in company\***  
Karolinska Development 1%

**Origin**  
Start-up

**More information**  
lipidor.se

\* Fully-diluted ownership based on current investment plans

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.

During the first part of 2020, the company informed that results from the clinical phase III study with the drug candidate AKP01 in patients with psoriasis demonstrates positive effect compared with similar products on the market. The progress is one of the major milestones in the history of the company. The result validates AKVANO as a formulation platform and strengthens the company's other projects. The Swedish MPA has indicated the possibility to take AKP02 directly to phase III studies based on the positive results from the recently finalized AKP01 study. Simultaneously the subsidiary Emollivet AB is conducting development of veterinary products.

During the end of 2019, Lipidor signed an evaluation and license option agreement with the company Cannassure. The agreement covers evaluation of new active substances with potential to contribute with value generating products within growing fields of therapies.

Lipidor was listed on Nasdaq First North Growth Market North on September 27, 2019 with a successful new share issue

### Ownership structure

On 31 December 2019, Karolinska Development had 3,925 shareholders. International investors controlled approximately 80% of the share capital and approximately 74% of the votes. All class A shares (each of which carries 10 votes, compared to 1 vote for each class B share) are held by Karolinska Institutet Holding AB.

### Share performance

The closing price on the first day of trading in 2019 was SEK 6.24, and at the year end, the share traded at SEK 3.53, a decrease of 57%. No dividends have been paid in 2019.

### Share capital

At year-end 2019, the share capital amounted to SEK 1.8 million distributed among 175,665,409 shares. The nominal value is SEK 0.01 per share.

### Ticker symbol and listing

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

Shareholders	A-Shares	B-Shares	Cap %	Vote %
Sino Biopharmaceutical Limited	0	75,727,285	43.11%	40.03%
Worldwide International Investments Ltd	0	32,276,620	18.37%	17.06%
Karolinska Institutet Holding AB	1,503,098	2,126,902	2.07%	9.07%
Tredje AP-Fonden	0	6,256,600	3.56%	3.31%
Östersjöstiftelsen	0	3,889,166	2.21%	2.06%
OTK Holding A/S	0	2,900,000	1.65%	1.53%
Stift För Främjande & Utveckling	0	2,641,389	1.50%	1.40%
Coastal Investment Management LLC	0	2,470,541	1.41%	1.31%
Ribbskottet AB	0	2,000,000	1.14%	1.06%
Försäkringsaktiebolaget Avanza Pension	0	1,228,771	0.70%	0.65%
<b>Sum Top 10 Shareholders</b>	<b>1,503,098</b>	<b>131,517,274</b>	<b>75.72%</b>	<b>77.46%</b>
<b>Sum Other Shareholders</b>	<b>0</b>	<b>42,645,037</b>	<b>24.28%</b>	<b>22.54%</b>
<b>SUM ALL SHAREHOLDERS</b>	<b>1,503,098</b>	<b>174,162,311</b>	<b>100.00%</b>	<b>100.00%</b>





### Hans Wigzell

Chairman since 2017.  
Board member since 2006.  
Born 1938. Professor Emeritus of Immunology and MD.

**Other appointments:** Chairman of Rhenman & Partner Asset Management AB. 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:** 51,609 shares.



### Tse Ping

Vice Chairman and Board member since 2015. Born 1952. Honorary Doctorate, Fil Dr hc.

**Other appointments:** Founder and CEO of Sino Biopharmaceutical Limited, Chairman and executive director of Hong Kong listed Lamtex Holdings Ltd, Vice Chairman of Charoen Pokphand Group (CP 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.

**Holdings in Karolinska Development:** 75,727,285 shares (by related legal person).



### Vlad Artamonov

Board member since 2012.  
Born 1978. MBA, B.Sc.

**Other appointments:** Board Member Coastal Capital International Ltd., Managing Partner at Coastal Capital International Ltd.

**Previous assignments** include Investment Analyst at Greenlight Capital Inc., position in the Global Merger & Acquisition Group at Merrill Lynch in New York.

**Holdings in Karolinska Development:** 2,470,540 shares (by related legal person).



### Viktor Drvota

Board member since 2019.  
CEO since 2017. Born 1965.  
M.D, Ph.D. Associate Prof. In Cardiology.

**Previous assignments** include Chief Investment Officer of Karolinska Development, responsible for Life Science investments at SEB Venture Capital, Board Member of Arexis AB, SBL Vaccin AB, Nuevolution AS, InDex Pharmaceuticals AB, Scibase AB and Airsonett AB.

**Holdings in Karolinska Development:** 68,548 shares and 1,608,418 warrants.



### Magnus Persson

Board member since 2017.  
Born 1960. MD PhD Assoc Prof.  
Educated at Karolinska Institutet.

**Other appointments:** Current board assignments include Chairman of Galecto Biotech AB, Addi Medical AB, Cantargia AB and Initiator Pharma and Board member of Immunicum AB, NeuroVive AB and Oncology Venture AS.

**Previous assignments** CEO Karolinska Institutet Holding AB, Managing Partner The Column Group, Partner HealthCap, Clinical Research Physician Sanofi.

**Holdings in Karolinska Development:** No holdings in Karolinska Development.



### Theresa Tse

Board Member since 2017.  
Born 1992. Bachelor Degree of Science in Economics from the Wharton School of University of Pennsylvania.

**Other appointments:** Executive Director, the Chairlady of the Board and the Chairlady of the Executive Board Committee and the Nomination Committee, respectively, of Sino Biopharmaceutical Ltd (listed in Hong Kong).

**Holdings in Karolinska Development:** 75,727,285 shares (by related legal person).



### Viktor Drvota

#### CEO

Appointed as CEO on June 1, 2017, and previously CIO since 2016. Born 1965 M.D., Ph.D. Associate Prof. In Cardiology.

Viktor Drvota has over 17 years of Venture Capital experience with several investments, significant fundraisings, IPOs and exits.

He was 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.

Before joining SEB, 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.

**Holdings in Karolinska Development:** 68,548 shares, 1,608,418 warrants.



### Fredrik Järsten

#### Chief Financial Officer and deputy CEO

Appointed 2017. Born 1967. MSc in Business and Economics.

Fredrik Järsten has more than 20 years of experience within investments and business development, including 14 years in the Life Science sector.

Between 2014–2017, Fredrik was CFO and Business Development Director at Bactiguard, a Swedish Medtech company, where he among other things led the company's IPO on Nasdaq Stockholm.

Prior to that he was Director Business Development, including M&A, at Aleris, one of Scandinavia's leading private healthcare companies. While there, he led the work for eight years to generate growth through concluding some thirty acquisitions as well as through coordinating tender-driven organic growth.

Fredrik has also worked as Investment Manager at the private equity company, Litorina Kapital as well as the investment banks SEB Enskilda and Lazard advising clients in M&A, fund raisings and IPO's.

**Holdings in Karolinska Development:** 70,000 shares, 402,105 warrants.



### Ulf Richenberg

#### General Counsel

Appointed in 2008. Born 1955. Master of Laws.

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.

**Other appointments:** Chairman of KCIF Fund Management AB and KD Incentive AB.

**Holdings in Karolinska Development:** 39,872 shares, 402,105 warrants.



### Elisabet Gimbringer

#### Financial Manager

Employed since November 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 20 years.

**Other appointments:** Board member of KD Incentive AB.

**Holdings in Karolinska Development:** 13,000 shares, 107,228 warrants.



### Eva Montgomerie

#### Head of Accounting

Employed since October 2013. Employed within the group since 2007. Born 1958. MSc in Business and economics.

Eva Montgomerie has worked within the bank and finance sector for 12 years, 10 years within the food and clothing sector.

**Other appointments:** Finance manager in Dilafor AB and Pharmanest AB.

**Holdings in Karolinska Development:** 7,834 shares, 107,228 warrants.





**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 2019 financial year.**

Karolinska Development AB (Nasdaq Stockholm: KDEV) is an investment company which offers a unique opportunity to share in the growth in value of a number of Nordic life science companies with high commercial potential. Eight of the nine portfolio companies have candidate drugs in the clinical development or early launch phase. The investments in pharmaceutical companies are made through syndication with other professional life science investors.

Karolinska Development's objective is for the portfolio companies operating in the pharmaceutical development sector to continue until proof-of-concept is demonstrated in phase II studies, at which point the potential for entering into cash-flow generating licensing deals, trade sales, or IPOs is increased. The reasoning is that this is an attractive point in time for doing business. It is only then that it is possible to demonstrate that a candidate drug has the anticipated biological effect, thereby substantially reducing the ongoing development risk and significantly increasing the value of the project. Karolinska Development's objective for the holdings in portfolio companies within medtech is to divest at the point when the companies have launched their first product and become cash flow-positive.

Karolinska Development has access to world-class medical innovations at leading

universities and research institutions in the Nordic region, including Karolinska Institutet. The company's management comprises individuals with extensive experience of investment operations, research and development, and entrepreneurship, all of whom have access to extensive global networks in the pharmaceutical industry and/or the scientific sector.

### Important events during the financial year

#### Important events for Karolinska Development

- In May, the Board approved a directed new issue of series B shares to the holders of Karolinska Development's convertible loan. The main holder of the convertible loan, Sino Biopharmaceutical, undertook, together with a number of other owners, to offset SEK 390 million against shares. The Annual General Meeting approved the directed new issue in June. The subscription period was extended eight times and the new issue was completed in December. SEK 19.7 million of the loan remained when the subscription period ended, and was repaid in early January 2020. The entire convertible loan was thereby repaid (May-December 2019).
- Karolinska Development sold its entire holding in the Pharmanest AB portfolio company. KCIF Co-investment Fund KB – a holding company jointly owned by the European Investment Fund and Karolinska Development – also sold its entire holding. The divestments yielded a total of approximately SEK 23 million for Karolinska Development (June 2019).

- Fredrik Järsten was appointed as Deputy Chief Executive Officer in addition to his role as Chief Financial Officer. Fredrik Järsten has held the role of CFO for Karolinska Development since 2017 (July 2019).
- Karolinska Development divested its entire holding, through KDev Investments and KCIF Co-Investment Fund, in the portfolio company, Asarina Pharma. The transaction had only a marginal impact on Karolinska Development's net earnings (October 2019).
- Karolinska Development's short-term financing needs were secured through a loan from Sino Biopharmaceutical Ltd amounting to SEK 70 million. The loan has a maturity of one year and an annual interest rate of 8.0%. Repayment can be made through cash payment and/or through set-off in connection with a directed share issue of series B shares (December 2019).
- Aprea Therapeutics filed for listing of the company's common stock on the NASDAQ Global Select Market in the USA. A successful issue for USD 97.75 million was completed in conjunction with the listing (September, October 2019).
- Aprea Therapeutics presented positive data from two clinical phase Ib/II studies at the American Society of Hematology Meeting (ASH) in Orlando, USA. Both trials evaluated the safety and efficacy of APR-246 in combination with azacitidine for the treatment of TP53 mutated myelodysplastic syndrome (MDS) and acute myeloid leukaemia (AML) (December 2019).

#### Dilafor

- Dilafor secured financing totalling SEK 23.3 million from Opocrin S.p.A for a phase IIb study of tafoxiparin for labour induction (April 2019).
- A phase IIb clinical trial with tafoxiparin for labour induction was initiated (July 2019).

#### Forendo Pharma

- Forendo Pharma presented positive data from a phase Ia study of FOR-6219 for the treatment of endometriosis (March 2019).
- Sunstone Life Science Ventures invested SEK 50 million in Forendo Pharma (July 2019).
- A phase Ib study of the FOR-6219 candidate drug commenced (August 2019).
- Forendo announced, at the end of the year, that it had entered into a license and collaboration agreement with Novartis to develop new drugs for the treatment of chronic liver diseases (December 2019).

#### Important events for the portfolio companies

##### Aprea Therapeutics

- Janus Henderson Investors invested SEK 50 million in Aprea Therapeutics (February 2019).
- Aprea Therapeutics' management was strengthened during the year through the appointments of Eyal C. Attar as CMO and Vice President, and Scott Coiante as CFO (March, August 2019).
- Aprea Therapeutics presented promising data from a preclinical study of the APR-246 candidate drug in combination with immune checkpoint blockade for melanoma and colorectal cancer (April 2019).
- The APR-246 candidate drug received FDA Orphan Drug Designation and Fast Track Designation (April 2019).

**Umecrine Cognition**

- Umecrine presented the results of a phase IIa study of golexanolone (GR3207) in idiopathic hypersomnia. The study showed a favourable safety profile and good pharmacokinetics, along with clinical efficacy in a subset of patients. After careful analyses of the results, however, Umecrine decided to prioritise the further development of golexanolone in the treatment of hepatic encephalopathy (January 2019).
- Enrolment for a phase IIa study of golexanolone for hepatic encephalopathy was completed at the end of the year (December 2019).
- Umecrine Cognition announced that the United States Patent and Trademark Office (USPTO) had issued a Notice of Allowance for a patent protecting golexanolone (December 2019).

**Modus Therapeutics**

- Modus Therapeutics commenced a phase I study with subcutaneously administered sevuparin (January 2019).
- The results of a phase II study of intravenously administered sevuparin showed no meaningful benefit in the treatment of sickle cell disease (May 2019).
- The company abandoned sickle cell disease as the primary indication, but further analyses during the year led to the development of sevuparin being shifted to target a completely different indication.

**OssDsign**

- The French investment company, Alto Invest, invested SEK 64 million in OssDsign (February 2019).
- OssDsign filed for listing on NASDAQ First North and announced a new share issue. The issue was oversubscribed, yielding a gross profit of SEK 151.3 million before the listing on NASDAQ (May 2019).
- OssDsign continued to enjoy commercial success when Cranial PSI Accessories received FDA clearance in the USA and OssDsign Cranial PSI continued its progress towards coverage by the French national reimbursement system (May, October 2019).
- OssDsign filed for regulatory approval of OssDsign Cranial in the Japanese market and initiated planning for a commercial launch in Japan, the world's second largest market for cranioplasty implants (August 2019).
- Favourable outcome data for the OSSD-SIGN Cranial PSI cranioplasty implant revealing that the rate of infections leading to the removal of the implant is very low in comparison with traditional implants (November 2019).

**Promimic**

- Promimic AB announced a partnership with Onkos Surgical® Inc. for the development of hydroxyapatite surface modification (HANano Surface®) in connection with cancer-related hip surgery (March 2019).
- The company received FDA approval for HANano Surface® on an orthopaedic implant (August 2019).

**Passive investments (not active ownership through Board representation)****Lipidor**

- Lipidor approved for listing on NASDAQ First North Growth Market (September 2019)

**Earn-out agreement****Oncopeptides**

- The Oncopeptides share is listed on Nasdaq Stockholm. Karolinska Development is entitled to a 5% earn-out payment according to an agreement with Industrifonden. The earn-out payment is received when Industrifonden divests its holding in Oncopeptides. Part of the earn-out was realized during the third quarter, providing SEK 11.5 million to Karolinska Development.

**Divestments**

- Karolinska Development and KCIF Co-Investment Fund KB divested their holdings in Pharmanest AB in the second quarter of 2019, which brought in a total of SEK 23.4 million (June 2019).
- Karolinska Development, through KDev Investments, and KCIF Co-Investment Fund KB divested their holdings in Asarina Pharma AB in the fourth quarter of 2019, which brought in SEK 3.8 million to KDev Investments and SEK 0.1 million to Karolinska Development (via KCIF).

**The Investment Entity and the Parent Company**

The financial reporting is divided into financial reporting for the Parent Company and for the Investment Entity. The Parent Company and the Investment Entity are the same legal entity, but the reporting is divided up in order to meet legal reporting requirements.

The Parent Company reports in accordance with the Swedish Annual Accounts Act and Swedish Financial Accounting Standards Council's recommendation RFR 2. The Investment Entity is required to meet the requirements for a listed company and reports in accordance with IFRS, as adopted by the EU, and the Swedish Annual Accounts Act.



## Financial Development for the Investment Entity in 2019 (SEK million)

### Investments

As indicated above, Karolinska Development's investment strategy is to finance its portfolio companies to their next significant value inflection point, when the companies can be exited. Karolinska Development also focuses on attracting external specialized life science investors to secure a broad investor base to support the development of the portfolio companies and manage risks as well as maximize the chances of success.

During 2019, investments from external investors and Karolinska Development totaled SEK 445.7 million. In 2016, 2017 and 2018, total investments in portfolio companies

amounted to SEK 368 million, SEK 397 million and SEK 791 million respectively, giving a total investment amount of SEK 2,002 million in the four-year period 2016-2019.

Karolinska Development's investments in portfolio companies amounted to SEK 48.9 million, of which SEK 47.0 million was cash investments and SEK 1.9 million was non-cash investments (accrued interest on loans).

Karolinska Development invested in five companies: Umecrine Cognition SEK 34.4 million, Forendo Pharma SEK 6.6 million, OssDsign SEK 5.5 million, Modus Therapeutics SEK 2.0 million and Dilafor SEK 0.4 million.

### Investments in Karolinska Development's portfolio companies in 2019

SEK million	Karolinska Development	External investors	Total invested 2019
Umecrine Cognition	34.4	2.5	36.9
Forendo Pharma	6.6	133.1	139.7
OssDsign	5.5	145.8	151.3
Modus Therapeutics	2.0	0.5	2.5
Dilafor	0.4	11.5	11.8
Apra Therapeutics	0.0	51.4	51.4
Lipidor	0.0	25.2	25.2
Promimic	0.0	20.0	20.0
Asarina Pharma	0.0	6.8	6.8
<b>Total</b>	<b>48.9</b>	<b>396.8</b>	<b>445.7</b>

### Portfolio Fair Value

Fair Value of the portfolio companies owned directly by Karolinska Development increased by SEK 116.8 million in 2019. Fair value increased mainly as a result of the rise in the share price of the listed holding Apra, but also by the rise in the share price of the listed holding Lipidor, the increased fair value of Forendo Pharma (in connection with another investment round from third parties) and loans (including accrued interest) to the portfolio company Umecrine Cognition. Fair value of the listed holding OssDsign decreased as a result of a partial divestment of the holding, but also through a decline in the share price. Fair value also decreased due to the divestment of the holding in Pharmanest.

Fair Value of the portfolio companies owned indirectly via KDev Investments increased by SEK 484.2 million in 2019. The main reason for the increase in fair value was the rise in the share price of the listed holding Apra Thera-

peutics, but also the valuation of Dilafor in connection with the financing of a Phase 2b study of tafoxiparin in labor induction. Fair value decreased mainly as a result of an adjustment of the value of the holding in Modus Therapeutics to a valuation level that corresponds to what was discussed at the end of 2019 with potential investors for development of a new indication. Fair value also decreased as a result of the divestment of the listed holding Asarina Pharma.

Total Fair Value of portfolio companies owned directly by Karolinska Development as well as indirectly via KDev Investments increased by SEK 601.0 million in 2019.

As a consequence of the increase in Fair Value of the portfolio owned via KDev Investments, the potential distribution to Rosetta Capital was raised by SEK 172.4 million, resulting in a net increase in Net Portfolio Fair Value of SEK 428.7 million in 2019.

SEK million	2019-12-31	2018-12-31	2019 jmf 2018
Fair value in Karolinska Development portfolio (unlisted companies)	446.7	492.6	-45.9
Fair value in Karolinska Development portfolio (listed companies)	162.8	0.0	162.8
Fair value in KDev Investments portfolio	943.9	459.7	484.2
<b>Total Portfolio Fair Value</b>	<b>1,553.4</b>	<b>952.3</b>	<b>601.0</b>
Potential distribution to Rosetta Capital of fair value in KDev Investments	505.8	333.4	172.4
<b>Net Portfolio Fair Value (after potential distribution to Rosetta Capital)</b>	<b>1,047.6</b>	<b>618.9</b>	<b>428.7</b>

Total Portfolio Fair Value at 31 December 2019 amounted to SEK 1,553.4 million. After the potential distribution to Rosetta Capital of SEK 505.8 million, Net Portfolio Fair Value amounted to SEK 1,047.6 million at 31 December 2019.

### Results 2019 (comparable figures refer to 2018)

Karolinska Development's revenues primarily consist of services provided to portfolio companies, which amounted to SEK 3.4 million (SEK 3.1 million).

The result of Changes in Portfolio Fair Value through profit or loss amounted to SEK 415.1 million (SEK 58.5 million) in 2019. Other financial assets, an earn-out agreement, decreased in fair value by SEK -28.2 million (SEK 41.5 million) in 2019.

Other external expenses increased to SEK 18.2 million (SEK 14.0 million), mainly caused by costs in relation to the completed set-off issue of a convertible loan.

Personnel costs increased to SEK 23.5 million (SEK 15.0 million) in 2019, mainly because reversed accrued costs at the end of the performance-related share program PSP 2015 reduced comparable costs in 2018, but also because of the outcome of bonus schemes for employees, which increased comparable costs in 2019.

Operating profit was SEK 347.9 million (SEK 74.0 million) in 2019.

In 2019, debt financing was arranged for a number of portfolio companies, and interest income amounted to SEK 1.9 million (SEK 7.3 million). Because the large part of the convertible loan was converted at the set-off issue during the year, the interest expense decreased to SEK 32.4 million (SEK 49.5 million) in 2019. Net financial costs amounted to SEK -45.0 million (SEK -43.5 million).

The Investment Entity's profit before tax amounted to SEK 303.0 million (SEK 30.5 million) in 2019. The main reason for the positive result was the increase in the value of several portfolio companies, primarily Aprea Therapeutics.

### Financial position

The set-off issue for holders of the convertible loan was completed in the fourth quarter of 2019. This in combination with net profit of SEK 303.0 million led to an increase in retained earnings of SEK 710.6 million (increase of SEK 30.5 million), while share capital increased by SEK 1.1 million (no increase in 2018) and equity amounted to SEK 1,007.7 million (SEK 296.0 million) at 31 December 2019. Total assets amounted to SEK 1,166.7 million (SEK 794.4 million) at 31 December 2019 and the Investment Entity's equity to total assets ratio was 86% (37%).

The set-off issue to holders of the convertible loan was completed in 2019 and resulted in a remaining debt of SEK 20 million. The Company also repaid the one-year credit facility from Den Norske Bank totaling SEK 50 million but signed a bridge loan of SEK 70 million from Sino Biopharmaceutical Ltd. Interest-bearing liabilities thereby amounted to SEK 90.0 million (SEK 478.3 million) on 31 December 2019.

Cash and cash equivalents and short-term investments amounted to SEK 52.1 million (SEK 85.5 million) on 31 December 2019.

See section "Financial risks" for the Board's view of the Company's financial situation.

### Cash flow

Cash flow from operating activities before changes in working capital and operating investments amounted to SEK -40.0 million (SEK -29.0 million) in 2019, an increase in the deficit of SEK 11.0 million compared to 2018.

During 2019, Karolinska Development invested SEK 47.0 million (SEK 117.2 million) in cash in its portfolio companies and, together with chang-

es in working capital, cash flow from operating activities amounted to SEK 49.8 million (SEK -3.4 million). Net cash increased by SEK 36.3 million (decrease of SEK 3.4 million) in 2019.

### Information on risks and uncertainties

#### Investment Entity and Parent Company

#### Financial risk

On December 18, 2019, the final outcome was announced in the directed new share issue to the Company's convertible bond holders. In total, convertible holders had subscribed for shares in the directed share issue corresponding to SEK 294 million in nominal value of the convertible loan. The remaining SEK 13.6 million in nominal value of the convertible loan was then repaid in January 2020. At the end of 2019, it was also announced that the short-term capital requirement had been secured by a bridge loan of SEK 70 million, which expires on December 31, 2020, where repayment can be made by cash and/or through set-off in connection with a new issue of B shares.

The Board stated that the successful directed share issue to the convertible holders, which enabled a reduction of the entire convertible loan, a favorable performance by listed assets in the portfolio and the secured loan, meant a significantly improved financial position and that the conditions for a going concern exist.

The management is also working on a number of financing options to refinance the bridge loan and increase the degree of strategic and operational headroom for the future.

For more information on other financial risks, see Note 17.

### 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 unlisted 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 favorable terms or in sufficient amounts to finance the operations in accordance with the business plan, or that such capital can be obtained at all.

**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 centers 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 skillful leadership and that the staff considers the workplace 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 their 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 of its portfolio companies. The aim on a strategic level is to be able to assist these portfolio companies in matters concerning their development. The boards of directors of the portfolio companies are also composed of representatives of other investors as well as independent directors. Cooperation on these boards is dependent on effective communication and good relationships between the directors and the management of the portfolio companies. Karolinska Development's board representatives are in a minority position on the boards of the portfolio companies and their influence on board meetings may be limited. Moreover, it is necessary for Karolinska Development and its Executive Management to succeed 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 is negotiating with

Karolinska Institutet Holding AB ("KIHAB"), wholly owned by Karolinska Institutet ("KI"), and Karolinska Institutet Innovations AB ("KIAB"), on a new deal flow agreement to identify potentially valuable new medical innovations at KI and other Swedish universities. Karolinska Development may not be able to secure access to the deal flow 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, and 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 were to dispute the Company's holdings in the portfolio companies and succeed with such a claim in a legal proceeding, it could result in an unexpected decrease in the 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 is subject to the risk 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, fail to receive necessary regulatory approvals or clearances, or turn out to be difficult to develop into commercially viable products.

Cash flow from the exit or licensing of projects is subject to the objectives of the portfolio companies' projects 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, it could adversely affect the portfolio companies' and the Company's business, results, financial condition, and growth.

#### **The challenge of innovation**

The markets for pharmaceuticals, diagnostics, biotechnology, 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 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 starts slowly. Introducing new products and technologies, which are not previously known and accepted, or have predetermined reimbursement models, takes time. This could lead to delays 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 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, insurance 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 does not fulfill its contractual obligations or commitments or fails to keep to 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 with 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. Consequently, the portfolio company's patent application may not have 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 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 vis-à-vis 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 to the strength of a patent and may vary from case to case.

Because of the formulation of the patent legislation, the application of an innovation in accordance with a portfolio company's patent may be governed by the technology in another patent on which the portfolio company's patent is dependent. In such a 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 courts. The cost of pursuing intellectual property litigation, even if resolved in the portfolio company's favor, could be substantial. Litigation could also divert the portfolio company's focus from the portfolio company's ordinary business. Uncertainty resulting from pursuing litigation 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 against 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 against 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 the 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, which are 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 the respective portfolio company do generally have an obligation of confidentiality towards the 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 impairs 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. 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 obtain the requisite authorizations to market their product candidates, it could adversely affect the portfolio companies' and the Company's business, results, financial condition, and growth.

### **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 2019**

(Amounts in SEK million, comparable figures refer to 2018)

During 2019, the Parent Company's operating profit amounted to SEK 347.9 million (SEK 74.0 million), an increase of SEK 273.9 million compared to 2018. The Parent Company's net profit for the year amounted to SEK 303.0 million (SEK 30.5 million).

The positive result for 2019, together with the completed set-off issue, led to an increase in equity from SEK 296.0 million at 31 December 2018 to SEK 1,007.8 million at 31 December 2019.

### **Corporate governance report**

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

### **Guidelines for Remuneration to the CEO and other Executive Management as well as other conditions**

The Guidelines for Remuneration to Executive Management are prepared by the Board of Directors for adoption by the Annual General Meeting. For the 2019 guidelines, see Note 5.

### **The Board of Directors' proposed Guidelines for Remuneration to Executive Management to Annual General Meeting 2020:**

#### **1 Applicability**

The Guidelines shall be in force until the Annual General Meeting 2024.

The Guidelines applies on salary and other forms of remuneration to the CEO and other management personnel (executive management) decided after the 2020 AGM. They apply to all categories of remunerations and benefits, whether paid in cash, or paid now or in the future, or if certain or uncertain. The Guidelines do not apply to remuneration decided by the General Meeting.

The Guidelines are handled by the Remuneration Committee, which provide a proposal to the Board of Directors. The decision to submit the Guidelines for approval by the AGM is made by the Board of Directors.

### **2 Guidelines for remuneration**

#### **2.1 General**

Remuneration to executive management comprises fixed salary, variable remuneration, pension fees and other customary benefits.

Karolinska Development shall maintain compensation levels and terms required to recruit and keep executive management with the competence and experience necessary to fulfil

the company's business strategy, long-term interests and sustainability. The total remuneration to executive management shall be on market terms, competitive, reasonable and appropriate.

For more information about the company's business strategy, see the company's website (<https://www.karolinskadevelopment.com/en/our-strategy>).

Market term consultancy fees may be paid to board directors that perform services to the company outside the scope of the directorship.

#### **2.2 Fixed salary**

Fixed salaries shall be based on each individual's experience, competence and field of responsibility. Fixed salary shall be revised annually for each calendar year.

#### **2.3 Variable remuneration**

Variable remunerations shall be formed to promote Karolinska Development's long term value creation; be based upon criteria that are predetermined, clear, measurable and that can be influenced; if in form of variable salary, have a fixed cap; not be included when calculating pension insurance premiums.

The CEO and other executive management are entitled to bonus based on exits in the portfolio. The remuneration totals of 4% of the net proceeds paid to the company upon the exit, limited to a maximum exit related bonus of MSEK 50 per exit and financial year. The bonus create incentive to contribute to the realization of the company's business strategy, long-term interests and sustainability.

Annual short-term incentive programs (STI) based on corporate objectives, set yearly by

the Board of Directors, are proposed by the Remuneration Committee and resolved by the Board of Directors for each calendar year. The remuneration is conditional upon criteria set up to realize Karolinska Development's long-term value creation and creates incentive to contribute to the realization of the company's business strategy, long-term interests and sustainability. The set objectives are divided into sub-objectives, each being clear, measurable and influenceable, which are weighed relatively depending on priority. The program is evaluated after the end of the year by the Remuneration Committee and the outcome is decided by the Board of Directors. The payment to an employee under a STI program shall be limited to an amount corresponding to six months' salaries. The cost for the company at maximum outcome of STI 2020 amounts to 4.1 MSEK.

Information about the exit bonus and the STI and LTI programs will be found in the Annual report for 2019, note 5. Information is also available on the Company's website in the Corporate Governance section. As described above, the STI part of the total annual fixed cash salary cannot exceed 50%, which also means that the fixed salary will always be at least 66% per cent of the total remuneration. Potential exit bonus is not included in this calculation.

Karolinska Development has two long-term incentive programs (LTI), one earlier for the year 2008-2010 and one for 2017-2020, each resolved by the respective AGM and therefore not covered by the Guidelines. The new LTI option program that the Board of Directors are proposing to the AGM 2020 is also not covered by the Guidelines. Both the 2017-2020

and the intended new program are three-year programs with an outcome related to the share price development.

#### **2.4 Pension**

The company's costs for pension for an employee shall be paid during the period when the employee is active in the company. Pension insurance premiums shall not be paid when an employee has retired. In addition to what is required under Swedish law, premiums shall be paid in accordance with an adopted pension premium plan, with pension fees paid within intervals depending on age and salary. The pension premiums for defined-contribution may amount to maximum 35 % of the annual fixed cash salary

#### **2.5 Other customary benefits**

Executive management are entitled to such other customary benefits that are applied for all employees at Karolinska Development, such as sick pay, health care and wellness program etc. The number of paid holidays amounts to thirty.

Executive management are not allowed to receive fees for serving on the Board of Directors, when related to the employment at Karolinska Development. The company does not provide company cars.

The termination period at termination by the company shall not exceed twelve months for the CEO and six months for other executive management. If notice of termination is given by the CEO, the notice period shall be at least six months and by other executive management, at least six months. Severance pay may be paid only to the CEO. Fixed salary during a period of notice and severance pay aggregated are not to exceed

an amount equivalent to the individual's fixed salary for two years.

#### **2.6 Salaries and terms of employment for employees**

When preparing the Board's proposal for these remuneration guidelines, salaries and terms of employment for the company's employees were considered in that information about employees' total remuneration, the remuneration components, the increase in the remuneration and the rate of the increase over time formed a part of the Board's decision basis for the evaluation of the reasonableness of the Guidelines and the limitations resulting from them.

#### **2.7 Preparations and decisions**

The company's Remuneration Committee is to prepare decisions related to salaries and other employment terms to executive management. The Board of Directors is to decide regarding salary to the CEO and principles for remuneration to other executive management. The Board must prepare a proposal for new guidelines at least every four years and present the proposal to the AGM for resolution. The Guidelines should apply until new guidelines are adopted by the General Meeting. The Board of Directors should also monitor and evaluate the program for variable remuneration to the executive management, the application of guidelines for remuneration to executive management and the applicable remuneration structures and levels in the company. The members of the Remuneration Committee are independent in relation to the Company and executive management. When

the Board of Directors prepare and decides on remuneration-related matters, the CEO and other members of executive management do not attend the meetings to the extent they are affected by the matters.

#### **3 Exceptions**

The Board of Directors may temporarily deviate from the Guidelines in full or in part if there on a case by case basis and in accordance with The Swedish Companies Act (sw. aktiebolagslagen) are grounds for such a decision and a deviation is necessary to ensure the Company's long-term interests, including its sustainability, or to ensure the Company's economic viability. Circumstances known to the Board of Directors when the Guidelines were decided are normally not reason enough for an exception. Exceptions (if any) shall be commented on at the following AGM.

#### **4 Deviations**

See note 5, page 56.

#### **5 Previously decided remuneration not yet due for payment**

At the time of the 2020 AGM, there are no decided remunerations due for payment to executive management.

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**Share capital and ownership**

Karolinska Development's share capital at the end of the financial year amounted to SEK 1.8 million, distributed among 175,665,409 shares with a par value of SEK 0.01, of which 1,503,098 were A shares (with 10 votes each) and 174,162,311 were B shares (with one vote each). The largest shareholders were Sino Biopharmaceutical Ltd with a total of 75,727,285 B shares representing 43.11% of the capital and 40.03% of the votes, World-wide International Investments Ltd with a total of 32,276,620 B shares representing 18.37% of the capital and 17.06% of the votes, Karolinska Institutet Holding AB with 1,503,098 A shares and 2,126,902 B shares representing 2.07% of the capital and 9.07% of the votes, and Tredje AP-Fonden with a total of 6,256,600 B shares representing 3.56% of the capital and 3.31% of the votes.

**Holding of treasury shares**

At year-end, the Company held 244,285 treasury shares, corresponding to SEK 2,443 of the share capital, and the consideration paid totaled SEK 4.7 million. Share repurchases were made in the previous financial year for the purpose of covering social security costs related to the PSP incentive programs. No repurchases or transfers occurred during the year.

**The Annual General Meeting's authorization to the Board**

The Annual General Meeting 2019 authorized the Board, for the period up until the next Annual General Meeting, to decide, whether on one or several occasions without pre-emption rights for the shareholders, to issue new series B shares up to a maximum of twenty percent of the share capital.

The Annual General Meeting also authorized the Board to decide on the transfer of 244,285 previously acquired series B shares to cover social security costs in PSP 2015.

**Future development**

The Company has a portfolio of exciting companies that are funded to deliver key value-generating milestones. Three portfolio companies are expected to present clinical Phase II and Phase III results in 2020. Based on available data, the probability of positive Phase II data for the current projects is estimated at between 27 and 50%, depending on the indication. Comparable drug candidates have been out-licensed or sold in recent years for contract values in the billions of Swedish kronor. Karolinska Development does not provide any forecasts with regard to the divestment 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	2019	2018	2017	2016	2015	2014 (restated)	2013 (restated)
<b>Income statement</b>							
Revenue	3	3	2	5	3	5	5
Result from change in fair value	387	100	255	-147	-976	-304	-533
Operating expenses	-42	-29	-37	-33	-47	-69	-64
<b>Operating profit/loss</b>	<b>348</b>	<b>74</b>	<b>221</b>	<b>-174</b>	<b>-1,020</b>	<b>-368</b>	<b>-592</b>
Financial net	-45	-44	-41	-43	-34	-4	41
<b>Profit/loss after financial items</b>	<b>303</b>	<b>31</b>	<b>180</b>	<b>-217</b>	<b>-1,055</b>	<b>-372</b>	<b>-550</b>
<b>Balance sheet</b>							
Tangible non-current assets	1	-	-	-	-	1	1
Shares in portfolio companies	1,048	619	448	149	268	1,113	1,336
Loans receivable from portfolio companies	2	5	3	1	-	12	6
Other financial assets	0	27	41	38	38	38	38
<b>Total non-current assets</b>	<b>1,050</b>	<b>651</b>	<b>492</b>	<b>188</b>	<b>306</b>	<b>1,164</b>	<b>1,381</b>
Other current assets	64	58	2	2	10	16	5
Short-term investments	0	70	150	238	278	128	165
Cash and cash equivalents	52	16	19	11	20	13	35
<b>Total current assets</b>	<b>117</b>	<b>143</b>	<b>171</b>	<b>250</b>	<b>308</b>	<b>157</b>	<b>205</b>
<b>Total assets</b>	<b>1,167</b>	<b>794</b>	<b>663</b>	<b>438</b>	<b>614</b>	<b>1,321</b>	<b>1,587</b>
Equity	1,008	296	267	30	248	1,257	1,565
Long-term liabilities	0	11	384	399	355	35	9
Current liabilities	159	487	12	9	12	30	12
<b>Total liabilities and equity</b>	<b>1,167</b>	<b>794</b>	<b>663</b>	<b>438</b>	<b>614</b>	<b>1,322</b>	<b>1,586</b>
<b>Cash flow</b>							
Cash flow from operating activities	50	-3	11	-9	-325	-109	-71
Cash flow from financing activities	-14	0	-3	0	332	86	-2
<b>Cash flow for the year</b>	<b>36</b>	<b>-3</b>	<b>9</b>	<b>-9</b>	<b>7</b>	<b>-22</b>	<b>-73</b>

## Multi-year summary cont.

SEKm	2019	2018	2017	2016	2015	2014 (restated)	2013 (restated)
<b>Key ratios<sup>1</sup></b>							
Net asset value	1,027	247	277	33	244	1,257	1,562
Net debt	38	393	210	150	57	106	191
Capital employed	1,008	307	651	429	603	1,292	1,574
Return on equity	30%	10%	66%	-729%	-425%	-30%	-35%
Return on capital employed	30%	10%	27%	-51%	-175%	-29%	-35%
Equity to total assets ratio	86%	37%	40%	7%	40%	95%	99%
Average number of employees	7	7	7	6	12	13	14
<b>Data per share</b>							
Profit/loss after tax, SEK, after dilution	4.10	0.48	2.93	-4.08	-19.84	-7.64	-11.38
Profit/loss after tax, SEK, before dilution	4.10	0.48	2.93	-4.08	-19.84	-7.64	-11.38
Equity, SEK	15.7	4.6	4.2	0.6	4.6	23.6	32.4
Net asset value, SEK	5.9	3.8	4.3	0.7	4.7	23.7	32.5
Share price at year-end, SEK	3.5	6.2	5.8	6.0	9.6	13.30	30.90
Dividend, SEK	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share price/Equity per share	23%	135%	139%	1,076%	207%	56%	95%
Share price/Net asset value per share	60%	162%	133%	854%	205%	56%	95%
Number of shares at year-end	175,665,409	64,361,206	64,361,206	53,464,998	53,449,640	53,384,558	48,531,417
Weighted average number of shares before dilution	73,874,552	64,136,941	61,243,234	53,210,223	53,151,328	48,606,243	48,350,016
Weighted average number of shares after dilution	73,874,552	64,136,941	61,300,516	53,210,223	53,151,328	48,606,243	48,350,016

1) Definitions of key ratios, see page 85

### Proposed appropriation of the profit of the Parent Company (SEK)

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

SEK	31 Dec 2019
Retained loss	-1,675,388,981
Share premium reserve	2,378,373,033
Net profit for the year	303,012,928
<b>Total</b>	<b>1,005,996,980</b>

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

SEK	31 Dec 2019
Share premium	2,378,373,033
Retained loss	-1,372,376,053
<b>To be carried forward</b>	<b>1,005,996,980</b>

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).



**Income statement for the Investment Entity**

<b>SEK 000</b>	<b>Note</b>	<b>2019</b>	<b>2018</b>
Revenue	2	3,384	3,073
Change in fair value of shares in portfolio companies	17	415,136	58,499
Change in fair value of other financial assets and liabilities	17	-28,215	41,481
Other expenses	3,4	-18,186	-14,017
Personnel costs	5	-23,474	-14,993
Depreciation of right-of-use assets	4	-704	0
<b>Operating profit</b>		<b>347,941</b>	<b>74,043</b>
Interest income		1,949	7,318
Interest expenses	6	-32,387	-49,464
Other financial gains and losses	6	-14,526	-1,387
<b>Financial net</b>		<b>-44,964</b>	<b>-43,533</b>
<b>Profit before tax</b>		<b>302,977</b>	<b>30,510</b>
Taxes	7	-	-
<b>NET PROFIT FOR THE YEAR</b>		<b>302,977</b>	<b>30,510</b>

**Statement of comprehensive income for the Investment Entity**

<b>SEK 000</b>	<b>Note</b>	<b>2019</b>	<b>2018</b>
Net profit for the year		302,977	30,510
<b>Total comprehensive income for the year</b>		<b>302,977</b>	<b>30,510</b>

**Resultat per aktie**

<b>SEK 000</b>	<b>Note</b>	<b>2019</b>	<b>2018</b>
Earnings per share, weighted average, before dilution		4.10	0.48
Number of shares, weighted average before dilution	13	73,874,552	64,136,941
Earnings per share, weighted average, after dilution		4.10	0.48
Number of shares, weighted average after dilution	13	73,874,552	64,136,941

## Statement of financial position for the Investment Entity

SEK 000	Note	31 Dec 2019	31 Dec 2018
<b>Assets</b>			
<b>Tangible non-current assets</b>			
Right-of-use assets	4	704	-
<b>Financial non-current assets</b>			
Shares in portfolio companies at fair value through profit or loss	8	1,047,600	618,927
Loans receivable from portfolio companies	9	1,768	5,098
Other financial assets	17	0	26,970
<b>Total non-current assets</b>		<b>1,050,072</b>	<b>650,995</b>
<b>Current assets</b>			
Accounts receivable		39	-
Receivables from portfolio companies		322	473
Other financial assets	10, 17	62,620	53,060
Other current receivables	11	787	3,432
Prepaid expenses and accrued income	11	732	632
Short-term investments at fair value through profit or loss	17	-	69,949
Cash and cash equivalents	17	52,132	15,843
<b>Total current assets</b>		<b>116,632</b>	<b>143,389</b>
<b>TOTAL ASSETS</b>		<b>1,166,704</b>	<b>794,384</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	12	1,757	644
Share premium		2,378,373	1,970,752
Accumulated losses including net profit for the year		-1,372,398	-1,675,389
<b>Total equity</b>		<b>1,007,732</b>	<b>296,007</b>
<b>Long-term liabilities</b>			
Other financial liabilities	14, 17	-	11,423
<b>Total long-term liabilities</b>		<b>0</b>	<b>11,423</b>

## Statement of financial position for the Investment, cont.

SEK 000	Note	31 Dec 2019	31 Dec 2018
<b>Current liabilities</b>			
Convertible loan	13	19,964	428,303
Current interest-bearing liabilities	15	-	50,000
Current interest-bearing liability to related party	15	70,000	-
Other financial liabilities	14, 17	46,851	-
Accounts payable		11,484	1,373
Lease liabilities	4	726	-
Other current liabilities		2,991	831
Accrued expenses and prepaid income	16	6,956	6,447
<b>Total current liabilities</b>		<b>158,972</b>	<b>486,954</b>
<b>Total liabilities</b>		<b>158,972</b>	<b>498,377</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,166,704</b>	<b>794,384</b>

## Statement of changes in the Investment Entity's equity

SEK 000	Note	Equity attributable to Investment Entity's shareholders			Total
		Share capital	Share premium	Accumulated losses	
<b>Opening equity at 1 Jan 2019</b>	12	644	1,970,752	-1,675,389	296,007
Net profit for the year				302,977	302,977
<b>Total comprehensive income for the year</b>				302,977	302,977
Effect of IFRS 16				14	14
Set-off issue		1,113	407,621		408,734
<b>Closing equity at 31 Dec 2019</b>		<b>1,757</b>	<b>2,378,373</b>	<b>-1,372,398</b>	<b>1,007,732</b>
<b>Opening equity at 1 Jan 2018</b>	12	644	1,970,752	-1,704,275	267,121
Net profit for the year				30,510	30,510
<b>Total comprehensive income for the year</b>				30,510	30,510
Effect of incentive programs				-1,624	-1,624
<b>Closing equity at 31 Dec 2018</b>		<b>644</b>	<b>1,970,752</b>	<b>-1,675,389</b>	<b>296,007</b>

## Statement of cash flows for the Investment Entity

SEK 000	Note	2019	2018
<b>Operating activities</b>			
Operating profit		347,941	74,043
<b>Adjustments for non-cash items</b>			
Depreciation	4	704	-
Change in fair value	17	-386,921	-99,980
Other items		-716	-2,134
Proceeds from short-term investments		783	-570
Interest paid		-1,765	-343
<b>Cash flow from operating activities before changes in working capital and operating investments</b>		<b>-39,974</b>	<b>-28,984</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/Decrease (+) in operating receivables		-215	-4,368
Increase (+)/Decrease (-) in operating liabilities		32,780	46,506
<b>Cash flow from operating activities</b>		<b>-7,409</b>	<b>13,154</b>
<b>Investing activities</b>			
Partial payment from earn-out deal		11,617	8,663
Sale of shares in portfolio companies		23,444	11,911
Acquisitions of shares in portfolio companies, loans to portfolio companies	33	-46,958	-117,237
Proceeds from sale of short-term investments <sup>1</sup>	17	69,140	80,047
<b>Cash flow from investing activities</b>		<b>57,243</b>	<b>-16,616</b>
<b>Financing activities</b>			
Issue costs		-13,545	-
<b>Cash flow from financing activities</b>		<b>-13,545</b>	<b>0</b>
<b>Cash flow for the year</b>		<b>36,289</b>	<b>-3,462</b>
Cash and cash equivalents at the beginning of the year	17	15,843	19,305
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	17	<b>52,132</b>	<b>15,843</b>

Supplemental disclosure<sup>1</sup>

CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		52,132	15,843
Short-term investments, market value at closing date		0	69,949
<b>CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS AT THE END OF THE YEAR</b>		<b>52,132</b>	<b>85,792</b>

1) Surplus liquidity in the Investment Entity was invested in fixed income funds and was recognized as short-term investments with a maturity exceeding three months. These investments were consequently not reported as cash and cash equivalents and were therefore included in the statement of cash flows from operating activities. The supplemental disclosure was 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	2019	2018
Net sales	23	3,384	3,073
<b>Revenue</b>		<b>3,384</b>	<b>3,073</b>
Change in fair value of shares in portfolio companies	24	415,136	58,499
Change in fair value of other financial assets and liabilities	25	-28,215	41,481
Other external costs	26, 27	-18,901	-14,017
Personnel costs	28	-23,474	-14,993
<b>Operating profit</b>		<b>347,930</b>	<b>74,043</b>
Interest income and similar income	29	1,949	7,318
Interest expenses and similar expenses	30	-46,866	-50,851
<b>Financial net</b>		<b>-44,917</b>	<b>-43,533</b>
Taxes	31	0	0
<b>NET PROFIT FOR THE YEAR</b>		<b>303,013</b>	<b>30,510</b>

**Statement of comprehensive income for the Parent Company**

SEK 000	Note	2019	2018
Net profit for the year		303,013	30,510
<b>Total comprehensive income for the year</b>		<b>303,013</b>	<b>30,510</b>



## Balance sheet for the Parent Company

SEK 000	Note	31 Dec 2019	31 Dec 2018
<b>Assets</b>			
<b>Financial non-current assets</b>			
Shares in subsidiaries	32	0	0
Shares in joint ventures	33	818,430	470,172
Shares in associated companies	33	224,726	138,665
Other long-term securities holdings	34	4,444	10,090
Loans receivable from portfolio companies	36	1,768	5,098
Other financial assets	37	-	26,970
<b>Total non-current assets</b>		<b>1,049,368</b>	<b>650,995</b>
<b>Current assets</b>			
Accounts receivable		39	-
Receivables from subsidiaries		322	473
Other financial assets	38	62,620	53,060
Other receivables	39	787	3,432
Prepaid expenses and accrued income	40	732	632
Short-term investments		-	69,949
Cash and cash equivalents		52,132	15,843
<b>Total current assets</b>		<b>116,632</b>	<b>143,389</b>
<b>TOTAL ASSETS</b>		<b>1,166,000</b>	<b>794,384</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
<i>Restricted equity</i>			
Share capital	12	1,757	644
<i>Unrestricted equity</i>			
Share premium	41	2,378,373	1,970,752
Accumulated losses		-1,675,389	-1,705,899
Net profit for the year		303,013	30,510
<i>Total unrestricted equity</i>		<i>1,005,997</i>	<i>295,363</i>
<b>Total equity</b>		<b>1,007,754</b>	<b>296,007</b>
<b>Long-term liabilities</b>			
Other financial liabilities	42	-	11,423
<b>Total long-term liabilities</b>		<b>0</b>	<b>11,423</b>
<b>Current liabilities</b>			
Convertible loan	13	19,964	428,303
Short-term interest-bearing liabilities	43	-	50,000
Liabilities to subsidiaries	43	70,000	-
Other financial liabilities	42	46,851	-
Accounts payable		11,484	1,373
Other current liabilities		2,991	831
Accrued expenses and prepaid income	44	6,956	6,447
<b>Total current liabilities</b>		<b>158,246</b>	<b>486,954</b>
<b>Total liabilities</b>		<b>158,246</b>	<b>498,377</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,166,000</b>	<b>794,384</b>

## Statement of changes in equity for the Parent Company

SEK 000	Restricted equity			Unrestricted equity		Total equity
	Note	Share premium reserve	Accumulated losses	Share capital	Share premium reserve	
<b>Opening equity at 1 Jan 2019</b>	12	644	1,970,752	-1,705,899	30,510	296,007
Appropriation of profit				30,510	-30,510	0
Net profit for the year					303,013	303,013
<b>Total</b>		644	1,970,752	-1,675,389	303,013	599,020
Set-off issue		1,113	407,621			408,734
<b>Closing equity at 31 Dec 2019</b>		1,757	2,378 373	-1,675,389	303,013	1,007,754
<b>Opening equity at 1 Jan 2018</b>	12	644	1,970,752	-1,883,870	179,595	267,121
Appropriation of loss				179,595	-179,595	0
Net profit for the year					30,510	30,510
<b>Total</b>		644	1,970,752	-1,704,275	30,510	297,631
Effect of incentive programs				-1,624		-1,624
<b>Closing equity at 31 Dec 2018</b>		644	1,970,752	-1,705,899	30,510	296,007

## Statement of cash flows for the Parent Company

SEK 000	Note	2019	2018
<b>Operating activities</b>			
Operating profit		347,930	74,043
<b>Adjustments for non-cash items</b>			
Change in fair value	24, 25	-386,921	-99,980
Other items		-	-2,134
Proceeds from short-term investments		782	-570
Interest paid		-1,765	-343
<b>Cash flow from operating activities before changes in working capital and operating investments</b>		<b>-39,974</b>	<b>-28,984</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/Decrease (+) in operating receivables		-215	-4,368
Increase (+)/Decrease (-) in operating liabilities		32,780	46,506
<b>Cash flow from operating activities</b>		<b>-7,409</b>	<b>13,154</b>
<b>Investing activities</b>			
Partial payment from earn-out deal		11,617	8,663
Sale of shares in portfolio companies	34	23,444	11,911
Acquisitions of shares in portfolio companies, loans to portfolio companies	33	-46,958	-117,237
Proceeds from sale of short-term investments		69,140	80,047
<b>Cash flow from investing activities</b>		<b>57,243</b>	<b>-16,616</b>
<b>Financing activities</b>			
Issue costs		-13,545	-
<b>Cash flow from financing activities</b>		<b>-13,545</b>	<b>0</b>
<b>Cash flow for the year</b>		<b>36,289</b>	<b>-3,462</b>
Cash and cash equivalents at the beginning of the year		15,843	19,305
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>52,132</b>	<b>15,843</b>
<b>Supplemental disclosure<sup>1</sup></b>			
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>52,132</b>	<b>15,843</b>
Short-term investments, market value at closing date		-	69,949
<b>CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS AT THE END OF THE YEAR</b>		<b>52,132</b>	<b>85,792</b>

1) Surplus liquidity in the Investment Entity was invested in fixed income funds and was recognized as short-term investments with a maturity exceeding three months. These investments were consequently not reported as cash and cash equivalents and were therefore included in the statement of cash flows from operating activities. The supplemental disclosure was presented to provide a total overview of the Investment Entity'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, with Corporate Identity Number 556707-5048, is a limited liability company with its registered office in Solna, Sweden. The Company focuses on identifying medical innovations and investing in the creation and growth of companies ("portfolio companies") that develop these assets into differentiated products that will make a difference to patients' lives and provide an attractive return on investment to its shareholders. The Company's series B shares are traded on Nasdaq Stockholm.

### 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. One new standard applies as of 1 Jan 2019: IFRS 16 Leases.

The standard has changed, and all lease agreements must be included in the balance sheet. The company has operational lease agreements for office premises, however with minor impact (less than 1 % of the balance sheet total) on the financial performance and key figures at the implementation of the new standard. The company applies the transitional regulation that is applicable for the simplified method, with the accumulated impact by an initial implementation from January 1, 2019. Comparable information is not recalculated. As of January

2019, leasing costs for previous operational leasing agreement has been replaced by depreciation of lease assets and financial interest on the lease debts. See note 4.

None of the other IFRS or interpretations that have not yet entered into force 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 twelve months after the closing date. Current assets and current liabilities of the Investment Entity comprise amounts that are expected to be recovered or settled within twelve 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.

Note 1 continued

### 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 9 Financial Instruments.

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

### 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 repre-

senting 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 IFRS 9 Financial Instruments. 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 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 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 Investments in Associates and Joint Ventures.

### 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.



*Note 1 continued*

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 metric to evaluate 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 indicators 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 74%. A relatively large proportion of Karolinska Development's share of the portfolio companies lies within the range of 9-74% 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:** 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 and is designated in the Invest-

ment Entity's balance sheet as Shares in portfolio companies at fair value through profit or loss.

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 or a valuation from an external independent valuation and if the companies recently have met significant milestones. If there is no valuation available based on a recently refinancing or other third-party valuation and there is no valuation available based on a similar transaction or an external independent valuation, discounted cash flow models (DCF) are used for portfolio companies whose projects are suitable for this type of calculation.

DCFs 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

*Note 1 continued*

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 2019, 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. 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 2019, 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 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's 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 deflated or 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 total amount invested since the investment round with third-party investors corresponds to the appreciation in value, while additional increases in value are not 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**

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. Karolinska Development does not have any contracts with customers that are changed by the introduction of IFRS 15, because of which the introduction has not changed the impact compared to previous reporting.

Revenue consists of 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.

Direct transaction costs for raising loans are distributed over the term of the loan and are included in effective interest rate as described above.

Dividend income is recognized when the shareholder's right to receive payment is established.

Note 1 continued

### Earnings per share

Earnings per share before dilution are calculated by dividing the net profit 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.

### Recognition and measurement of financial instruments

IFRS 9 Financial Instruments covers the recognition of financial assets and liabilities and replaced IAS 39 Financial Instruments: Recognition and Measurement on 1 January 2018. IFRS 9 requires financial assets to be classified in different categories and that the measurement is made at fair value or amortized cost. The classification is determined upon initial recognition 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 through profit or loss, which also applies to financial assets and short-term investments. Karolinska Development has no predicted credit losses. For financial liabilities, there were no changes compared to IAS 39. The introduction of IFRS 9 has been made with full retrospective calculation but has not changed the impact compared to previous reporting, as Karolinska Development's valuation guidelines already were in line with IFRS 9 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 amortized 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.

### Classification of financial instruments

IFRS 9 classifies and measures financial instruments. 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 measured after initial recognition.

See table below, "Classification of financial assets and liabilities according to IFRS 9," for Karolinska Development.

### Financial assets

The following three measurement categories apply to financial assets:

- Amortized cost
- Fair value through other comprehensive income (FVTOCI)
- Fair value through profit or loss (FVTPL)

#### A financial asset is measured at amortized cost if:

- The financial asset is held within a business model whose objective is to realize the financial asset's cash flows by collecting contractual cash flows, and
- The contractual cash flows consist solely of repayments of principal and interest on the principal amount outstanding

Karolinska Development has assessed the following assets as belonging to this category:

#### 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.

Short-term investments, fixed income funds, have been assessed as belonging to this category.

#### Loans receivable and receivables from subsidiaries

Loans receivable and receivables from subsidiaries 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. Receivables from subsidiaries are recognized

*Note 1 continued*

at the amount that is expected to be received after an allowance for impaired receivables. As the expected duration is short, the nominal value is recognized without discounting. Loans receivable from portfolio companies and receivables from subsidiaries 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 assets at fair value through other comprehensive income (FVTOCI)**

- The financial asset is held within a business model whose objective is to realize the financial asset's cash flows by both collecting contractual cash flows and selling the asset, and
- The contractual cash flows consist solely of repayments of principal and interest on the principal amount outstanding

Karolinska Development has no financial assets in this category.

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

All other financial assets are measured at fair value with the changes recognized in profit or loss. This category consists of two subgroups: held for trading and financial assets designated at FVTPL.

This category includes shares in portfolio companies and other financial assets.

**Financial liabilities**

Financial liabilities are measured at either amortized cost or at fair value through profit or loss.

**Financial liabilities at amortized cost**

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

**Financial liabilities at fair value through profit or loss (FVTPL)**

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.

**Impairment testing of financial assets**

Impairment is calculated and recognized for financial assets at amortized cost and for financial assets at fair value with changes in value recognized in other comprehensive income. An allowance for impaired receivables is recognized and calculated as needed. Karolinska Development has no allowance for impaired receivables.

**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.

*Note 1 continued*

**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

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 source

SEK 000	2019	2018
Other revenue	3,384	3,073
<b>Total revenue</b>	<b>3,384</b>	<b>3,073</b>

## Note 3 Other external expenses

### Fees and remuneration to the Investment Entity's auditors

SEK 000	2019	2018
EY		
Audit services	1,199	1,196
Audit related services	286	467
Tax consulting	288	211
<b>Total</b>	<b>1,773</b>	<b>1,874</b>

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 Leases

The Investment Entity has chosen to finance premises and equipment through leases. Future contractual leasing payments are indicated below.

SEK 000	2019-12-31	2019-01-01
<b>Future leasing payments</b>		
Short-term - Within one year	745	729
Long-term - Between one year and five years	-	745
<b>Total future leasing payments</b>	<b>745</b>	<b>1,474</b>

### Right-of-use assets

SEK 000	31 Dec 2019	31 Dec 2018
<b>Accumulated acquisition cost</b>		
At the beginning of the year	1,408	-
Depreciation	-704	-
<b>Closing balance</b>	<b>704</b>	<b>0</b>

### Lease liabilities

SEK 000	31 Dec 2019	31 Dec 2018
<b>Accumulated acquisition cost</b>		
At the beginning of the year	1,410	-
Amortization of lease liabilities during the year	-684	-
<b>Closing balance</b>	<b>726</b>	<b>0</b>

The table below shows the Investment Entity's impact on the balance sheet in connection with the introduction of IFRS 16 Leases on 1 January 2019. As of January 1, 2019 the changes in the reporting of lease agreement impacted the balance sheet total with 1.4 MSEK (less than 1 per cent of the balance sheet total), without any material impact on the equity. The weighted average margin interest rate amounted to 4 per cent. The effect is also marginal on the cash flow statement. The Company, which has only two leases (property lease and a lease of low value), uses the simplified transition method. Which meant that leases of minor value were not taken into account. The property lease is for one year with a one-year extension.

SEK 000	1 Jan 2019
Obligations for operating leases 31 December 2018	1,474
Weighted average margin rate	-64
<b>Lease liability 1 January 2019</b>	<b>1,410</b>

## Note 5 Employees and personnel costs

### Average number of employees

Full-time equivalent	Of whom			Of whom		
	2019	women	men	2018	women	men
Investment Entity	7	57%	43%	7	57%	43%
<b>Total</b>	<b>7</b>	<b>57%</b>	<b>43%</b>	<b>7</b>	<b>57%</b>	<b>43%</b>

### Remuneration expenses for employees

#### Salaries, other remuneration and social security costs

SEK 000	2019		2018	
	Salaries and remuneration	Social security costs	Salaries and remuneration	Social security costs
Investment Entity	17,990	5,516	16,277	5,049
(of which pension expenses)	1,915	465	2 438	591

### 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 rules of each plan.

Note 5 continued

## Remuneration to Executive Management and the Board of Directors

### Guidelines 2019 for Remuneration to Executive Management

#### 1 APPLICABILITY

The Guidelines shall be in force until the Annual General Meeting 2020. The guidelines apply to salary and other forms of remuneration to the CEO and other management personnel (Executive Management) for contracts signed after the 2019 Annual General Meeting. The guidelines apply to all categories of remuneration and benefits, whether paid in cash, paid now or in the future, or if certain or uncertain. Not included, however, are expense compensation or the issuance of equities, warrants or convertibles covered by Chapter 16 of the Swedish Companies Act.

#### 2 GUIDELINES FOR REMUNERATION

##### 2.1 General

Remuneration to Executive Management comprises fixed salary, variable remuneration, pension and other customary benefits.

Karolinska Development shall maintain compensation levels and terms required to recruit and retain an Executive Management with the competence and experience necessary to meet the Company's operational goals. The total remuneration to Executive Management shall be competitive, reasonable, and appropriate.

Market term consultancy fees may be paid to directors who perform services for the Company outside the scope of the board work.

##### 2.2 Fixed salary

Fixed salaries shall be based on each individual's field of responsibility and experience. Fixed salary shall be revised annually for each calendar year.

##### 2.3 Variable remuneration

Variable remuneration shall be formed to designed Karolinska Development's long-term value creation; be based on criteria that are predetermined, clear, measurable, and can be influenced; if in form of variable salary, have a fixed cap; and not be included when calculating pension insurance premiums.

The CEO and other Executive Management are entitled to bonus based on exits in the portfolio. The total maximum payment for the exit related bonus shall be limited to SEK 50 million per exit and calendar year.

Annual short-term incentive programs (STI) based on set objectives are proposed by the Remuneration Committee and resolved by the Board of Directors for each calendar year. Payment to employees under a STI program shall be limited to the equivalent of six months' salary. The cost for the Company at a maximum payout for STI 2019 amounts to SEK 3.7 million.

Karolinska Development has five annual long-term incentive programs (LTI) for the years 2018-2010 and 2017, each resolved by the respective Annual General Meeting.

Information on the exit bonus and about the STI and LTI programs can be found in the Annual report for 2018, note 5. Information is also available on the Company's website under Corporate Governance.

##### 2.4 Pension

The Company's pension costs shall be paid during the employee's active time with the Company. Pension insurance premiums shall not be paid after an employee has retired. In addition to what is required under Swedish law, premiums are paid in accordance with the Company's adopted pension premium plan.

##### 2.5 Other customary benefits

Executive Management is entitled to other customary benefits that apply to all employees at Karolinska Development, such as wellness subsidies, sick pay, occupational health services, etc. Thirty vacation days are paid.

Executive Management does not receive fees for serving as directors on the Board when also employed by or otherwise

contributing to Karolinska Development. The Company does not provide company cars.

The termination period if terminated by the Company is not more than twelve months for the CEO and six months for other Executive Management. Severance pay may be paid only to the CEO. Fixed salary during the period of notice and severance pay aggregated are not to exceed an amount equivalent to fixed salary for two years.

##### 2.6 Preparations and decision-making

The Company's Remuneration Committee shall prepare decisions related to salaries and other remuneration to Executive Management. The Board of Directors decides on the CEO's salary and remuneration principles for other Executive Management.

#### 3 EXCEPTIONS

The Board of Directors may on a case-by-case basis decide on exceptions for special reasons. Circumstances that have been known or could be predicted when the guidelines were decided on normally cannot be accepted as reason for deviation. Exceptions shall be reported and explained at the following Annual General Meeting.

#### 4 DEVIATIONS

There were no deviations during the year. See comment below <sup>1</sup>.

#### 5 PREVIOUSLY DECIDED REMUNERATION NOT YET DUE FOR PAYMENT

At the time of the 2019 AGM, the Company did not have any approved remuneration to Executive Management that has fallen due for payment.

<sup>1</sup> Comment to 4 DEVIATIONS: Due to the financial stress that the company was exposed to during 2019, the board of directors resolved on a deviation from the guidelines, and introduced, at the start of the year, a temporary salary increase in order to secure the personnel (including key executives), until a solution of the financial situation was in place. 1,5 extra month salary was paid for each full calendar quarter the employment remained. This expired December 31, 2019 when the convertible loan was solved and the financing secured. The deviation was made in line with the guidelines adopted by the 2018 annual general meeting.

Note 5 continued

### Remuneration to the Chief Executive Officer, other senior executives and the Board of Directors

The Executive Management includes the Chief Executive Officer, Chief Financial 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.

#### 2019

SEK 000	Base salary/Board fee <sup>1</sup>	Variable Remuneration	Other benefits and remuneration <sup>2</sup>	Pension costs	PSP program	Total remuneration
Viktor Drvota, CEO	2,650	1,324	1,334	694		6,002
Other senior executives (2 persons)	3,034	1,572	1,524	787		6,916
<b>Total management</b>	<b>5,684</b>	<b>2,896</b>	<b>2,858</b>	<b>1,481</b>	<b>0</b>	<b>12,918</b>
Hans Wigsell, Chairman	400					400
Vlad Artamonov, Board member	189					189
Magnus Modée Persson, Board member	200					200
Anders Härfstrand, Board member	200					200
Tse Ping, Board member	21					21
Theresa Tse, Board member	21					21
<b>Total, Board of Directors</b>	<b>1,031</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>1,031</b>
<b>Total</b>	<b>6,715</b>	<b>2,896</b>	<b>2,858</b>	<b>1,481</b>	<b>0</b>	<b>13,949</b>

1 Since AGM 2018, the entire Board fee is paid out after the AGM and is based on meeting attendance.

2 Refers to stay-on bonuses and the benefit value of health insurance.

#### 2018

SEK 000	Base salary/Board fee <sup>1</sup>	Variable Remuneration	Other benefits and remuneration <sup>2</sup>	Pension costs	PSP program <sup>2</sup>	Total remuneration
Viktor Drvota, CEO	2,563	1,568	1	668		4,800
Jim Van heusden, former CEO		335			450	785
Other senior executives (2 persons)	2 877	1,779	2	792		5,450
Other senior executives, former CFO	381	295	34	67		777
<b>Total management</b>	<b>5,821</b>	<b>3,977</b>	<b>37</b>	<b>1,527</b>	<b>450</b>	<b>11,812</b>
Hans Wigsell, Chairman	383					383
Vlad Artamonov, Board member	200					200
Tse Ping, Board member	200					200
Anders Härfstrand, Board member	200					200
Magnus Modée Persson, Board member	200					200
Theresa Tse, Board member	200					200
Niclas Adler, former Board member	17					17
<b>Total, Board of Directors</b>	<b>1,400</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>1,400</b>
<b>Total</b>	<b>7,221</b>	<b>3,977</b>	<b>37</b>	<b>1,527</b>	<b>450</b>	<b>13,212</b>

1 Since AGM 2018, the entire Board fee is paid out after the AGM and is based on meeting attendance.

2 PSP programs refer to the benefit in the form of shares received from PSP 2015, excluding social security costs, for PSP 2015 in 2018. For a description of the program, see the Annual report 2018.

Note 5 continued

### Gender distribution of senior executives and Board of Directors

Information as of closing date

	2019	2018
<b>Board of Directors</b>		
Men	5	6
Women	1	1
<b>Total</b>	<b>6</b>	<b>7</b>
<b>CEO and senior executives</b>		
Men	3	4
Women	0	0
<b>Total</b>	<b>3</b>	<b>4</b>

### Compensation to the CEO

#### Pension terms

The contractual pension amounts to 26% of gross salary and consists 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 first paragraph of the section "Variable remuneration to other senior executives", is limited to SEK 50 million per exit and calendar year. The CEO is also eligible for STI 2019 and LTI 2017, which are reported in the section "Annual incentive programs" below.

#### Severance, other senior executives

No senior executives are entitled to severance. According to the Guidelines for Remuneration to Executive Management, severance may only be paid to the CEO.

### 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 first paragraph of the section "Variable remuneration to the CEO," is limited to SEK 50 million per exit and calendar year. Other senior executives are eligible for STI 2019 in the section "Incentive programs" below.

#### Annual incentive programs

Karolinska Development's annual long-term incentive programs (LTI) for the years 2008-2010 and 2017-2020 and the Company's annual short-term incentive programs (STI) for the years 2018 and 2019 are described below.

#### Incentive programs 2008-2010

No current employees of the Company are covered by the program.

The program was designed as a combined warrant and profit-sharing program consisting of three annual stages for the years 2008-2010. The warrants have expired.

Each profit-sharing plan is related to appreciation in the value of the portfolio companies and extends 15 years. 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 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 costs that this profit-sharing entails for the Company.

Outcome: No payments have been made as part of the program.

#### LTI 2017-2020

The Annual General Meeting 2017 resolved on a Long Term Incentive program, "Warrant Program 2017/2020," for all Company employees, according to the following terms. A maximum of 3,216,836 warrants will be issued. Each warrant entitles the holder to subscribe for one (1) series B share in the Company. Subscription of shares by virtue of the warrants may be effected during the period 30 June 2020 - 31 August 2020. The subscription price per share will correspond to 250% of the volume weighted mean value according to Nasdaq Stockholm's official price list for shares of series B in the Company during the ten (10) trading days immediately following the Annual General Meeting 2017.

## Note 5 continued

The warrants were allocated as follows: to the CEO, 1,608,418; to other senior executives, 402,105 each; and to other employees, 107,228 each. In total, 3,136,416 warrants were subscribed; 80,420 were reserved for new recruitments but never subscribed. With 107,228 warrants repurchased, outstanding warrants amounts to 3,029,188.

**Short Term Incentive Program 2018 (STI 2018)**

In 2018, the Board of Directors decided on a Short Term Incentive Program, STI 2018, for senior executives based on a number of specific corporate goals established by the Board for 2018. 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 six months' base salary for each participant. Goals were partly met, which rendered an accrual of SEK 2.3 million (SEK 3.0 million including social security costs). The expense is included as variable remuneration in the above table in 2018.

**Short Term Incentive Program 2019 (STI 2019)**

In 2019, the Board of Directors decided on a Short Term Incentive Program, STI 2019, for senior executives based on a number of specific corporate goals established by the Board for 2019. 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 six months' base salary for each participant. Goals were partly met, which rendered an accrual of SEK 2.0 million (SEK 2.7 million including social security costs). The expense is included as variable remuneration in the above table in 2019.

**Note 6 Interest expenses and other financial gains and losses****Interest expenses**

SEK 000	2019	2018
Interest expenses convertible loan	-29,975	-49,119
Interest expenses credit facility	-2,241	-345
Interest expenses loan from related party	-171	-
<b>Total</b>	<b>-32,387</b>	<b>-49,464</b>

**Other financial gains and losses**

SEK 000	2019	2018
Change in value of short-term investments	198	-400
Exchange rate gains and losses	-38	-237
Other financial expenses	-14,686	-750
<b>Total</b>	<b>-14,526</b>	<b>-1,387</b>

**Note 7 Taxes****Reconciliation of effective tax rate**

SEK 000	%	2019	%	2018
Profit before tax		302,977		30,510
Income tax expense at applicable rate in the Parent Company	21,4%	-64,837	22,0%	-6,712
<b>Tax effect of</b>				
Non-deductible expenses		-14,096		-29
Tax-exempt revenue		4,244		787
Issue costs		2,899		-
Changes in fair value, non-taxable		82,801		21 996
Increase in tax losses carried forward without corresponding capitalization of deferred taxes		-11,011		-16,041
<b>Recognized current tax</b>	<b>0,0%</b>	<b>0</b>	<b>0,0%</b>	<b>0</b>
Change in deferred tax	0,0%	-	0,0%	-
Recognized deferred tax	0,0%	-	0,0%	-
<b>Total recognized tax</b>	<b>0,0%</b>	<b>-</b>	<b>0,0%</b>	<b>-</b>

**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. Any future gains on the sale of business-related shares and participations in the portfolio companies are tax-exempt profits. Deferred tax assets have therefore 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 167,920 thousand (SEK 154,352 thousand) at 31 December 2019, and SEK 0 thousand (SEK 0 thousand) relates to deficits that are restricted by Group contributions and mergers.

**Note 8 Shares in portfolio companies at fair value through profit or loss**

SEK 000	31 Dec 2019	31 Dec 2018
<b>Accumulated acquisition cost</b>		
At the beginning of the year	618,927	447,783
Investments during the year	48,907	124,556
Conversions	5,865	-
Sales during the year	-41,235	-11,911
Changes in fair value in net profit for the year	415,136	58,499
<b>Closing balance</b>	<b>1,047,600</b>	<b>618,927</b>

**Note 9 Loans receivable portfolio companies**

SEK 000	31 Dec 2019	31 Dec 2018
<b>Loans receivable portfolio companies</b>		
At the beginning of the year	5,098	3,436
Loans provided	2,520	1,620
Conversions	-5,865	-
Foreign exchange difference	15	42
<b>Total</b>	<b>1,768</b>	<b>5,098</b>

**Note 10 Other financial assets, current**

SEK 000	31 Dec 2019			31 Dec 2018		
	Earn-out agreement Oncopeptides <sup>1</sup>	Receivable Rosetta Capital	Total	Earn-out agreement Oncopeptides	Receivable Rosetta Capital <sup>2</sup>	Total
At the beginning of the year	53,060	26,970	80,030	15,478	25,117	40,595
Disposals/ compensation	-24,623	-	-24,623	-8,662	-	-8,662
Changes in fair value in net profit for the year	5,935	1,278	7,213	46,244	1,853	48,097
<b>Closing balance</b>	<b>34,372</b>	<b>28,248</b>	<b>62,620</b>	<b>53,060</b>	<b>26,970</b>	<b>80,030</b>

1) Karolinska Development is entitled to a 5% earn-out payment according to an agreement with Industrifonden. The earn-out payment is received when Industrifonden divests its holding in Oncopeptides. Nominal amount at the end of the reporting period is SEK 40,459.

2) The Rosetta Capital receivable was classified as a non-current receivable 31 December 2018.

**Note 11 Other current receivables and prepaid expenses and accrued income****Other current receivables**

SEK 000	31 Dec 2019	31 Dec 2018
Receivable European Investment Fund, EIF	-	2,795
Tax assets	673	630
Other	114	7
<b>Total</b>	<b>787</b>	<b>3,432</b>

**Prepaid expenses and accrued income**

SEK 000	31 Dec 2019	2018-12-31
Prepaid rental expenses	179	-
Accrued interest income	2	23
Insurance premiums	205	184
Other	346	425
<b>Total</b>	<b>732</b>	<b>632</b>



## Note 12 Equity

## Changes in share capital

Year	Transaction	Number of shares	Share capital	Number of A shares	Number of B shares	Subscription price	Par value
<b>Total per 1 Jan 2011</b>		<b>33,331,417</b>	<b>16,665,709</b>	<b>1,503,098</b>	<b>31,828,319</b>		<b>0,5</b>
April 2011	Share issue	15,200,000	7,600,000	0	15,200,000	40	0,5
<b>Total per 31 Dec 2011</b>		<b>48,531,417</b>	<b>24,265,709</b>	<b>1,503,098</b>	<b>47,028,319</b>		<b>0,5</b>
<b>Total per 31 Dec 2012</b>		<b>48,531,417</b>	<b>24,265,709</b>	<b>1,503,098</b>	<b>47,028,319</b>		<b>0,5</b>
<b>Total per 31 Dec 2013</b>		<b>48,531,417</b>	<b>24,265,709</b>	<b>1,503,098</b>	<b>47,028,319</b>		<b>0,5</b>
December 2014	Share issue	4,853,141	2,426,570		4,853,141	13	0,5
<b>Total per 31 Dec 2014</b>		<b>53,384,558</b>	<b>26,692,279</b>	<b>1,503,098</b>	<b>51,881,460</b>		<b>0,5</b>
December 2015	Share issue	65,082	32,541		65,082		0,5
<b>Total per 31 Dec 2015</b>		<b>53,449,640</b>	<b>26,724,820</b>	<b>1,503,098</b>	<b>51,946,542</b>		<b>0,5</b>
September 2016	Share issue	15,358	7,679		15,358		0,5
<b>Total per 31 Dec 2016</b>		<b>53,464,998</b>	<b>26,732,499</b>	<b>1,503,098</b>	<b>51,961,900</b>		<b>0,5</b>
April 2017	Share issue	10,871,698	5,435,849		10,871,698		0,5
June 2017	Reduction in share capital	0	-31,524,981		-		0,01
July 2017	Share issue	564	6		564		0,01
August 2017	Share issue	23,840	238		23,840		0,01
October 2017	Share issue	106	1		106		0,01
<b>Total per 31 Dec 2017</b>		<b>64,361,206</b>	<b>643,612</b>	<b>1,503,098</b>	<b>62,858,108</b>		<b>0,01</b>
June 2018	Share issue	57,531	575		57,531		0,01
<b>Total per 31 Dec 2018</b>		<b>64,418,737</b>	<b>644,187</b>	<b>1,503,098</b>	<b>62,915,639</b>		<b>0,01</b>
November 2019	Share issue	78,770,586	787,706		78,770,586		0,01
December 2019	Share issue	32,476,086	324,761		32,476,086		0,01
<b>Total per 31 Dec 2019</b>		<b>175,665,409</b>	<b>1,756,654</b>	<b>1,503,098</b>	<b>174,162,311</b>		<b>0,01</b>

Note 12 continued

**Net asset value per share**

SEK 000	Investment Entity	
	31 Dec 2019	31 Dec 2018
<b>Net assets</b>		
Cash and cash equivalents	52,132	15,843
Short-term investments	0	69,949
Loans receivable portfolio companies	1,768	5,098
Net financial assets and liabilities	15,769	15,547
Convertible loan and current interest liabilities	-89,964	-478,303
<b>Total net assets</b>	<b>-20,295</b>	<b>-371,866</b>
Estimated fair value of portfolio companies	1 047 600	618 927
<b>Total net asset value</b>	<b>1,027,305</b>	<b>247,061</b>
<b>Number of shares</b>	<b>175,421,124</b>	<b>64,174,452</b>
<b>Net asset value per share</b>	<b>5.86</b>	<b>3.85</b>

**Share structure**

The number of shares amounts to 175,665,409, of which 1,503,098 are series A shares and 174,162,311 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, a total of 244,285 shares with a par value of SEK 0.01, corresponding to SEK 2,443 in share capital, were repurchased for SEK 4,726,904 in consideration. The shares were repurchased to cover the social security costs in the PSP incentive programs.

**Other contributed capital**

Relates to capital contributed by the owners.

**Retained earnings incl. net profit 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	2019	2018
<b>Net profit for the year</b>	302,977	30,510
Weighted average number of shares before dilution	73,874,552	64,136,941
<b>Earnings per share, SEK, before dilution</b>	<b>4.10</b>	<b>0.48</b>
Weighted average number of shares after dilution	73,874,552	64,136,941
<b>Earnings per share, SEK, after dilution</b>	<b>4.10</b>	<b>0.48</b>

**Note 13 Convertible loan**

In 2015 Karolinska Development issued convertibles, so-called compound financial instruments, in which the holder had the right to convert to shares and where the number of shares that were issued was 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.

Karolinska Development issued convertibles with a nominal amount of SEK 386,859 thousand on 2 January 2015 which carried a nominal interest rate of 8%. The nominal amount decreased to SEK 329,258 thousand after the convertible issue in March 2017. The convertible fell due for payment on 31 December 2019. Through a set-off issue in 2019, a total of SEK 294.3 million in nominal value was converted and SEK 21.4 million in nominal value was reduced through repurchases. At year-end, SEK 13.6 million in nominal value remained, corresponding to SEK 20.0 million including accrued interest through 31 December 2019.

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

Note 13 continued

SEK 000	31 Dec 2019		31 Dec 2018	
	Current liabilities	Of which affect cash flow	Long-term liabilities	Of which affect cash flow
Nominal value of convertible debenture issued on 2 January 2015	329,257		329,337	
Less issue costs	-23,982		-23,982	
Share of equity	-42,164		-42,164	
<b>Remaining liability after issuance 2 January 2015</b>	<b>263,111</b>	<b>0</b>	<b>263,191</b>	<b>0</b>
Accrued interest expenses	166,671		165,112	
Converted nominal liability	-315,670		-	
Converted share of issue costs	23,982		-	
Converted share of equity	42,164		-	
Converted accrued interest	-138,898		-	
Redemption of convertible	-21,396	-	-	-
<b>Total</b>	<b>19,964</b>	<b>0</b>	<b>428,303</b>	<b>0</b>

## Note 14 Other financial liabilities

SEK 000	31 Dec 2019		31 Dec 2018	
		Of which affect cash flow		Of which affect cash flow
Earn-out regarding Aprea Therapeutics <sup>1</sup>				
<b>Accumulated acquisition cost</b>				
At the beginning of the year	11,423		4,807	
Fair value change in net profit for the year	35,428	-	6,616	-
<b>Closing balance</b>	<b>46,851</b>	<b>0</b>	<b>11,423</b>	<b>0</b>

1) At a divestment of Karolinska Developments holding in Aprea Therapeutics, Industrifonden, according to the share swap agreement, is entitled to 5% of Karolinska Developments revenue, with a cap of SEK 80 million.

## Note 15 Short-term interest-bearing liabilities/ short-term interest-bearing liabilities to related party

### Short-term interest-bearing liabilities

SEK 000	31 Dec 2019	31 Dec 2018
Short-term loan debt DNB	-	50,000
<b>Total</b>	<b>0</b>	<b>50,000</b>

### Short-term interest-bearing liabilities to related party

SEK 000	31 Dec 2019	31 Dec 2018
Short-term loan debt Sino Biopharmaceutical Ltd	70,000	-
<b>Total</b>	<b>70,000</b>	<b>0</b>

## Note 16 Accrued expenses and prepaid income

SEK 000	31 Dec 2019	31 Dec 2018
Salaries and remuneration to personnel	2,770	3,031
Remuneration to Board of Directors	839	1,011
Auditor and consulting fees	586	402
Payroll tax and accrued pension costs	1,231	1,243
Social security costs	640	723
Other	890	37
<b>Total</b>	<b>6,956</b>	<b>6,447</b>

## Note 17 Financial assets and liabilities

## Financial assets and liabilities by category

## 2019

SEK 000	Financial assets measured at:		Financial liabilities measured at:		Total carrying amount	Fair value
	Fair value through profit or loss	Amortized cost	Fair value through profit or loss	Amortized cost		
Shares in portfolio companies at fair value through profit or loss	1,047,600				1,047,600	1,047,600
Loans receivable from portfolio companies		1,768			1,768	1,768
Other financial assets	62,620				62,620	62,620
Accounts receivable		39			39	39
Receivables from portfolio companies		322			322	322
Cash and cash equivalents		52,132			52,132	52,132
<b>Total</b>	<b>1,110,220</b>	<b>54,261</b>			<b>1,164,481</b>	<b>1,164,481</b>
Convertible loan				19,964	19,964	19,964
Short-term interest-bearing liability to related party				70,000	70,000	70,000
Other financial liabilities			46,851		46,851	46,851
Accounts payable				11,484	11,484	11,484
<b>Total</b>			<b>46,851</b>	<b>101,448</b>	<b>148,299</b>	<b>148,299</b>

## 2018

SEK 000	Financial assets measured at:		Financial liabilities measured at:		Total carrying amount	Fair value
	Fair value through profit or loss	Amortized cost	Fair value through profit or loss	Amortized cost		
Shares in portfolio companies at fair value through profit or loss	618,927				618,927	618,927
Loans receivable from portfolio companies		5,098			5,098	5,098
Other financial assets	80,030				80,030	80,030
Receivables from portfolio companies		473			473	473
Short-term investments at fair value through profit or loss	69,949				69,949	69,949
Cash and cash equivalents		15,843			15,843	15,843
<b>Total</b>	<b>768,906</b>	<b>21,414</b>			<b>790,320</b>	<b>790,320</b>
Convertible loan				428,303	428,303	428,303
Short-term interest-bearing liabilities				50,000	50,000	50,000
Other financial liabilities			11,423		11,423	11,423
Accounts payable				1,373	1,373	1,373
<b>Total</b>			<b>11,423</b>	<b>479,676</b>	<b>491,099</b>	<b>491,099</b>

Note 17 continued

### 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 3 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 2019

SEK 000	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Shares in portfolio companies at fair value through profit or loss	162,771		884,829	1,047,600
Loans receivable from portfolio companies		1,768		1,768
Other financial receivables			62,620	62,620
Accounts receivable		39		39
Receivables from portfolio companies		322		322
Cash and cash equivalents and short-term investments	52,132			52,132
<b>Total</b>	<b>214,903</b>	<b>2,129</b>	<b>947,449</b>	<b>1,164,481</b>
<b>Financial liabilities</b>				
Other financial liabilities			46,851	46,851
Current interest liabilities			70,000	70,000
Accounts payable		11,484		11,484
<b>Total</b>		<b>11,484</b>	<b>116,851</b>	<b>128,335</b>

### Investment Entity's assets and liabilities at fair value as of 31 December 2018

SEK 000	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Shares in portfolio companies at fair value through profit or loss			618,927	618,927
Loans receivable from portfolio companies		5,098		5,098
Other financial receivables			80,030	80,030
Receivables from portfolio companies		473		473
Cash and cash equivalents and short-term investments	85,792			85,792
<b>Total</b>	<b>85,792</b>	<b>5,571</b>	<b>698,957</b>	<b>790,320</b>
<b>Financial liabilities</b>				
Other financial liabilities			11,423	11,423
Current interest liabilities			50,000	50,000
Accounts payable		1,373		1,373
<b>Total</b>		<b>1,373</b>	<b>61,423</b>	<b>62,796</b>

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 is made based on discounted future cash flows, where a discount rate reflecting the counterparty's credit risk is the most significant input. For financial assets in Level 2, a discount rate of 7% has been used. For financial liabilities, there is no significant difference compared to the carrying amounts included in Level 2, so the carrying amounts are considered a good approximation of fair value.

Note 17 continued

**Changes in financial assets and liabilities on Level 3 in 2019**

SEK 000	Shares in portfolio companies	Other financial assets	Other financial liabilities
At the beginning of the year	618,927	80,030	11,423
Transfers to and from Level 3	-97,355	-	-
Acquisitions	48,909	-	-
Disposals/compensation	-21,725	-24,623	-
Gains and losses realized in profit or loss <sup>1</sup>	336,073	7,213	35,428
<b>Carrying amount at year-end</b>	<b>884,829</b>	<b>62,620</b>	<b>46,851</b>
Realized gains and losses for the period included in profit or loss	12,747	-3,440	0
Unrealized gains and losses for the period included in profit or loss	323,326	10,653	-35,428

There were no transfers between Level 1 and 2 in 2019.

1) Gains and losses realized in profit or loss 2019	Shares in portfolio companies	Other financial assets and liabilities
In level 1:	79,063	
In level 3:	336,073	
Refer to Other financial assets:		7,213
Refer to Other financial liabilities:		-35,428
<b>Gains and losses realized in profit or loss 2019</b>	<b>415,136</b>	<b>-28,215</b>

**Changes in financial assets and liabilities on Level 3 in 2018**

SEK 000	Shares in portfolio companies	Other financial assets	Other financial liabilities
At the beginning of the year	433,700	40,596	4,807
Acquisitions	124,557	-	-
Disposals/compensation	-	-8,663	-
Gains and losses realized in profit or loss	60,670	48,097	6,616
<b>Carrying amount at year-end</b>	<b>618,927</b>	<b>80,030</b>	<b>11,423</b>
Realized gains and losses for the period included in profit or loss	1,789	0	0
Unrealized gains and losses for the period included in profit or loss	58,881	48,097	-6,616

There were no transfers between Level 1 and 2 in 2018.

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

"Potential distribution to Rosetta Capital" is the amount of SEK 505.8 million 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 43.3 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.

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

SEK 000	31 Dec 2019	31 Dec 2018
Fair value of Karolinska Development portfolio (unlisted companies)	446,658	492,600
Fair value of Karolinska Development portfolio (listed companies)	162,771	0
Fair value of KDev Investments portfolio (unlisted companies)	943,946	459,740
<b>Total Portfolio Fair Value<sup>1</sup></b>	<b>1,553,375</b>	<b>952,340</b>
Potential distribution to Rosetta Capital of fair value in KDev Investments <sup>2</sup>	505,775	333,413
<b>Net Portfolio Fair Value (after potential distribution to Rosetta Capital)<sup>3</sup></b>	<b>1,047,600</b>	<b>618,927</b>

1) "Total Portfolio Fair Value" is indicated in Note 1.

2) SEK 43.3 million repayment of Rosetta Capital's investments in KDev Investments and SEK 462.5 million distribution of dividends on common and preference shares.

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



Note 17 continued

### 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.

### 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. The Investment Entity's investment guideline regarding cash

and cash equivalents are to invest in fixed income funds or interest-bearing instruments with low risk, because of which the risk associated with interest rate changes is low. The interest risks are due to short-term and long-term borrowing. Borrowing with floating interest rate exposes the Investment company to interest risk regarding cash flow. As of the end of the accounting period there are no loans with floating interest rate.

### Effect on earnings of change in price, currency and interest rate

Change in:	+/-5%		+/-15%		+/-30%	
	Earnings/equity		Earnings/equity		Earnings/equity	
	SEKm	SEK/share	SEKm	SEK/share	SEKm	SEK/share
Interest rate	62.9	0.4	184.3	1.1	366.4	2.1
Currency	41.1	0.2	123.4	0.7	246.9	1.4
Interest	0.0	0.0	0.0	0.0	0.0	0.0

### Credit risk

Credit risk is the risk that the counterparty to a transaction fails to fulfill 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.

### 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 12 months.

### Assets exposed to credit risk

SEK 000	31 Dec 2019	31 Dec 2018
Loans receivable portfolio companies	1,768	5,098
Other financial assets	62,620	80,030
Accounts receivable	39	-
Receivables from portfolio companies	322	473
Other current receivables	787	3,432
Short-term investments	0	69,949
Cash and cash equivalents	52,132	15,843
<b>Maximum exposure to credit risk</b>	<b>117,668</b>	<b>174,825</b>

Note 17 continued

**2019**

SEK 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Convertible loan <sup>1</sup>	19,964	-	-	-	19,964
Current interest liabilities	-	70,000	-	-	70,000
Accounts payable	11,484	-	-	-	11,484
Other current liabilities	2,991	-	-	-	2,991
<b>Total</b>	<b>35,165</b>	<b>70,000</b>	<b>0</b>	<b>0</b>	<b>105,165</b>

1) See Note 13 Convertible loan

**2018**

SEK 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Convertible loan	-	483,788	-	-	483,788
Current interest liabilities	-	50,000	-	-	50,000
Accounts payable	1,373	-	-	-	1,373
Other current liabilities	831	-	-	-	831
<b>Total</b>	<b>2,204</b>	<b>533,788</b>	<b>0</b>	<b>0</b>	<b>535,992</b>

**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 asset 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.

**Note 18 Pledged assets and contingent liabilities**

SEK 000	31 Dec 2019	31 Dec 2018
<b>Pledged assets</b>		
Right to earn-out payments for transferred Oncopeptides shares <sup>1</sup>	-	53,060
<b>Contingent liabilities</b>		
Investment commitment in portfolio companies	2,000	10,265
<b>Total pledged assets</b>	<b>2,000</b>	<b>63,325</b>

1) Also included the right to earn-out payments for transferred Athera and Lipidor shares.

**Endowment insurance**

Individual pension undertakings have been guaranteed in the form of Company-owned endowment insurance policies. The Investment Entity (which includes the Parent Company) 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.

In accordance with IAS 19 and the regulations for defined contribution pension plans, the Investment Entity and the Parent Company therefore report neither assets nor liabilities, with the exception of special payroll contributions, related to these endowment insurance policies.

**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, Karolinska Development has rendered services to the portfolio companies in the areas of 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,

Note 19 continued

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 2019 amounted to SEK 579 thousand (SEK 541 thousand).

FMAB is currently 75% owned by Karolinska Development and 25% by KIAB. The parties have entered into a shareholder agreement regarding FMAB.

### 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 (which comprises only former employees).

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 33.

SEK 000	2019				2018		
	Sale of services	Interest income	Purchase of services	Interest expenses	Sale of services	Interest income	Purchase of services
<b>Associate relationship</b>							
Owner: Karolinska Institutet Holding Group	-	-	957	-	-	-	957
(of which rental cost)	-	-	(714)	-	-	-	(935)
Owner: Sino Biopharmaceutical Ltd	-	-	-	171	-	-	-
Portfolio companies	3,142	1,949	-	-	3,072	7,318	14
<b>Total</b>	<b>3,142</b>	<b>1,949</b>	<b>957</b>	<b>171</b>	<b>3,072</b>	<b>7,318</b>	<b>971</b>

SEK 000	31 Dec 2019		31 Dec 2018	
	Liability to associates	Receivable from associates	Liability to associates	Receivable from associates
<b>Associate relationship</b>				
Karolinska Institutet Holding Group	-	-	7	-
Sino Biopharmaceutical Ltd	70,000	-	-	-
Portfolio companies	-	36,736	-	473
<b>Total</b>	<b>70,000</b>	<b>36,736</b>	<b>7</b>	<b>473</b>

### Note 20 Significant events after the closing date

#### Karolinska Development

- Karolinska Development announced that the Company has repaid SEK 20.0 million of the convertible loan that was outstanding, including accrued interest until December 31, 2019. With that the whole convertible loan which was issued by Karolinska Development in January 2015 and was due for payment on December 31, 2019, was resolved (January 2020).

#### Portfolio companies

- Aprea Therapeutics was granted Breakthrough Therapy Designation for APR-246 in combination with azacitidine for the treatment of myelodysplastic syndrome (MDS) with a TP53 mutation (January 2020).

### Note 21 Parent Company's accounting policies

#### 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 7 and 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.

Note 21 continued

### Subsidiaries

Shares in subsidiaries are recognized at fair value through profit or loss in the Parent Company's financial statements.

### Associated companies and joint ventures

Shares in associated companies and joint ventures are recognized at fair value through profit or loss 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 fair value through profit or loss in the Parent Company's financial statements.

### Change in fair value of shares in portfolio companies

The Company recognizes its holdings in subsidiaries, joint ventures, associated companies and other long-term securities holdings at fair value through profit or loss. If the value of a holding in subsidiaries, joint ventures, associated companies or other long-term securities holdings is lower or higher than its acquisition cost on the closing date, the holding is valued at fair value.

### 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.

Subsequent notes relate to the Parent Company.

### Note 23 Revenue distribution

SEK 000	2019	2018
Other revenue	3,384	3,073
<b>Total revenue</b>	<b>3,384</b>	<b>3,073</b>

### Note 24 Change in fair value of shares in portfolio companies

SEK 000	2019	2018
Change in fair value of shares in subsidiaries	0	0
Change in fair value of shares in joint ventures and associated companies	399,059	60,671
Change in value of other long-term securities holdings	16,077	-2,172
<b>Total</b>	<b>415,136</b>	<b>58,499</b>

### Note 25 Change in fair value of other financial assets

SEK 000	2019	2018
Change in fair value av other financial assets and liabilities	-28,215	41,481
<b>Total</b>	<b>-28,215</b>	<b>41,481</b>

### Note 26 Other external expenses

#### Auditor fees

SEK 000	2019	2018
EY		
Audit services	1,199	1,196
Audit related services	286	467
Tax consulting	288	211
<b>Total</b>	<b>1,773</b>	<b>1,874</b>

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 27 Operating leases

The Parent Company has chosen to finance premises and equipment through leases. Only operating leases have been signed. Expensed leasing payments and future contractual leasing payments are indicated below.

SEK 000	2019	2018
Expensed leasing payments during the period	716	714
<b>Future leasing payments</b>		
Within one year	745	729
Between one year and five years	-	745
<b>Total future leasing payments</b>	<b>745</b>	<b>2,188</b>

### Note 28 Employees and personnel costs

See Note 5 for further information.

#### Average number of employees

Full-time equivalent	2019			2018		
	Antal	Of whom women	Of whom men	Antal	Of whom women	Of whom men
Investment Entity	7	57%	43%	7	57%	43%
<b>Total</b>	<b>7</b>	<b>57%</b>	<b>43%</b>	<b>7</b>	<b>57%</b>	<b>43%</b>

#### Employee benefits

SEK 000	2019	2018
Salaries and remuneration	16,074	13,839
Social security costs/payroll tax	5,516	5,049
Pension costs	1,915	2,438
<b>Total</b>	<b>23,506</b>	<b>21,326</b>

Note 28 continued

**Salaries and other remuneration distributed between Board members, etc. and other employees**

SEK 000	2019		2018	
	Board and CEO	Other employees	Board and CEO	Other employees
Salaries and remuneration	11,429	3,596	11,972	1,867
Pension costs	1,481	435	1,527	911
<b>Total</b>	<b>13,499</b>	<b>4,030</b>	<b>13,499</b>	<b>2,778</b>

**Note 29 Interest income and similar income**

SEK 000	2019	2018
Interest income from loan to portfolio companies	1,949	7,318
<b>Total</b>	<b>1,949</b>	<b>7,318</b>

**Note 30 Interest expenses and similar expenses**

SEK 000	2019	2018
Interest expenses convertible loan	-29,975	-49,119
Interest expenses short-term credit facilities	-2,194	-345
Interest expense loans from related parties	-171	-
Change in value of short-term investments	198	-399
Exchange rate losses	-38	-238
Other financial expenses	-14 686	-750
<b>Total</b>	<b>-46,866</b>	<b>-50,851</b>

**Note 31 Taxes**

SEK 000	%	2019	%	2018
Profit before tax		303,013		30,510
Income tax expense at applicable rate in the Parent Company	21,4%	-64,845	22,0%	-6,712
<i>Tax effect of</i>				
Non-deductible expenses		-14,096		-29
Tax-exempt income		4,244		787
Issue costs		2,901		0
Fair value change, non-taxable		82,801		21,996
Increase in tax losses carried forward without corresponding capitalization of deferred tax		-11,006		-16,041
<b>Recognized tax</b>	<b>0,0%</b>	<b>0</b>	<b>0,0%</b>	<b>0</b>

**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. Any future gains on the sale of business-related shares and participations in the portfolio companies are tax-exempt profit. 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 2019 amounted to SEK 167,920 thousand (154,352), and SEK 0 thousand (SEK 0 thousand) refers to the tax effect of deficits that are restricted by Group contributions and mergers.

**Note 32 Shares in subsidiaries**

SEK 000	2019	2018
<b>Accumulated book value</b>		
At the beginning of the year	0	0
Sales during the year	-	-
<b>Closing balance, book value</b>	<b>0</b>	<b>0</b>

No investments in subsidiaries were made in 2019 or 2018.

**Specification of holdings in subsidiaries**

SEK 000	Total holding <sup>1</sup>		Book value in Parent Company	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
KCIF Fund Management AB	75.00%	75.00%	-	-
KD Incentive AB	100.00%	100.00%	-	-
<b>Total book value</b>			<b>0</b>	<b>0</b>

<sup>1</sup> Including 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.

**Note 33 Shares in joint ventures and associated companies**

SEK 000	2019	2018
<b>Accumulated book value</b>		
At the beginning of the year	608,837	423,610
Investments during the year	48,907	124,556
Conversion during the year	5,865	-
Divestments during the year	-19,512	-
Fair value measurement through profit or loss	399,059	60,671
<b>Closing balance, book value</b>	<b>1,043,156</b>	<b>608,837</b>

Note 33 continued

## Specification of holdings in joint ventures

SEK 000	Total holding		Fully diluted <sup>1</sup>		Total holding	Book value in Parent Company	
	31 Dec 2019		31 Dec 2018		31 Dec 2018	31 Dec 2019	31 Dec 2018
<b>Karolinska Development portfolio</b>							
Umecrine Cognition AB	74.48%	72.00%	74.47%		378,259		343,845
Modus Therapeutics Holding AB	0.00%	30.00%	-		2,000		-
<b>KDev Investments AB</b>							
Aprea Therapeutics	9.61%	9.61%	11.69%		-		-
Asarina Pharma AB	-	-	1.10%		-		-
Biosergen AS	4.10%	4.10%	4.10%		-		-
Dilafor AB	34.46%	30.00%	38.87%		-		-
Modus Therapeutics Holding AB	61.75%	21.00%	62.76%		-		-
Modus Therapeutics AB	61.75%	21.00%	62.76%		-		-
Promimic AB	25.53%	25.53%	32.00%		-		-
<b>Total book value</b>					<b>818,430</b>		<b>470,172</b>

1) Ownership with full dilution according to current investment plans.

2) Karolinska Development owns 90.12% (88.18%) of KDev Investments, which in turn owns the shares in the portfolio companies.

## Specification of holdings in associated companies

SEK 000	Total holding		Fully diluted <sup>1</sup>		Total holding	Book value in Parent Company	
	31 Dec 2019		31 Dec 2018		31 Dec 2018	31 Dec 2019	31 Dec 2018
Aprea Therapeutics	1.37%	1.37%	1.66%		121,297		31,220
Forendo Pharma Oy	8.60%	8.60%	11.13%		41,450		25,193
OssDsign AB	12.14%	12.14%	27.67%		37,030		70 944
<b>KCIF Co-Investment Fund KB</b>							
Aprea Therapeutics	0.81%	0.81%	0.99%		-		-
Asarina Pharma AB	-	-	0.08%		-		-
Forendo Pharma Oy	3.18%	3.18%	4.11%		-		-
OssDsign AB	2.60%	2.60%	4.25%		-		-
<b>Total book value</b>					<b>224,726</b>		<b>138,665</b>

1) Ownership with full dilution according to current investment plans.

## Investments in joint ventures and associated companies

SEK 000	2019	2018
Aprea Therapeutics	-	17,889
Forendo Pharma Oy	6,048	5,947
KCIF Co-Investment Fund KB	579	1,509
KDev Investments AB	366	72,768
Modus Therapeutics Holding AB	2,000	-
OssDsign AB	5,500	9,866
Umecrine Cognition AB	34,414	16,577
<b>Total investments in joint ventures and associated companies</b>	<b>48,907</b>	<b>124,556</b>

## Non-cash investments in joint ventures and associated companies

SEK 000	2019	2018
<b>Accrued interest and converted interest</b>		
OssDsign AB	-	1,823
Umecrine Cognition AB	1,949	5,497
<b>Total non-cash investments</b>	<b>1,949</b>	<b>7,320</b>



**Note 34 Other long-term securities holdings**

SEK 000	2019	2018
<b>Accumulated book value</b>		
At the beginning of the year	10,090	24,173
Divestments	-21,723	-11,911
Fair value measurement	16,077	-2,172
<b>Closing balance, book value</b>	<b>4,444</b>	<b>10,090</b>

**Specification of holdings in other long-term securities**

Namn	Total holding		Book value in Parent Company	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Lipidor AB	1.10%	-	4,444	-
Pharmanest AB	-	9.58%	-	10,090
<b>Total book value</b>			<b>4,444</b>	<b>10,090</b>

**Non-cash investments in other long-term securities holdings**

SEK 000	2019	2018
Fair value measurement	4,444	-2,172
<b>Total non-cash investments</b>	<b>4,444</b>	<b>-2,172</b>

**Note 35 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
<b>Karolinska Development</b>					
Aprea Therapeutics Inc	Boston	7312119	283,693	441,568 <sup>1)</sup>	-185,540 <sup>2)</sup>
Forendo Pharma Oy	Åbo	FI 2520329-3	1,658	161,773	-43,095
KD Incentive AB	Solna	556745-7675	100,000	149	-
KCIF Fund Management AB	Solna	556777-9219	75,000	220	-
OssDsign AB	Uppsala	556841-7546	2,152,912	135,275	-84,245
Umecrine Cognition AB	Umeå	556698-3655	9,145,186	24,927	-26,067
<b>KCIF Co-Investment Fund KB</b>					
Aprea Therapeutics Inc	Boston	7312119	168,553	441,568 <sup>1)</sup>	-185,540 <sup>2)</sup>
Forendo Pharma Oy	Åbo	FI 2520329-3	612	161,773	-43,095
OssDsign AB	Uppsala	556841-7546	461,184	135,275	-84,245
<b>KDev Investments AB</b>					
Aprea Therapeutics Inc	Boston	7312119	1,992,591	441,568 <sup>1)</sup>	-185,540 <sup>2)</sup>
Biosergen AS	Trondheim	NO 687622075	4,506,669	1,624	-4,074
Dilafor AB	Stockholm	556642-1045	362,409	9,569	-15,531
Modus Therapeutics Holding AB	Stockholm	556851-9523	14,683,356	-1,893	-235,185
Modus Therapeutics AB	Stockholm	556669-2199	100,000	2,040	-38,213
Promimic AB	Göteborg	556657-7754	252,392	25,938	-11,295

1) As of 30 September 2019

2) As of 1 Januari - 30 September 2019

**Note 36 Loans receivable from joint ventures and associated companies**

SEK 000	31 Dec 2019	31 Dec 2018
<b>Loans receivable from portfolio companies</b>		
At the beginning of the year	5,098	3,436
Loans provided	2,520	1,620
Conversions	-5,865	-
Foreign exchange difference	15	42
<b>Total</b>	<b>1,768</b>	<b>5,098</b>

**Non-cash investments in loans receivable from joint ventures and associated companies**

SEK 000	31 Dec 2019	31 Dec 2018
Conversions	-5,865	-
Foreign exchange difference	15	42
<b>Total non-cash investments</b>	<b>-5,850</b>	<b>42</b>

**Note 37 Other financial assets, non-current**

SEK 000	31 Dec 2019	31 Dec 2018
<b>Other financial assets, non-current</b>		
Receivable Rosetta Capital (classified as current in 2019)	-	26,970
<b>Total</b>	<b>0</b>	<b>26,970</b>

**Note 38 Other financial assets, current**

SEK 000	31 Dec 2019	31 Dec 2018
<b>Other financial assets, current</b>		
Receivable Rosetta Capital (classified as non-current in 2018)	28,248	-
Receivable earn-out payment	34,372	53,060
<b>Total</b>	<b>62,620</b>	<b>53,060</b>

**Note 39 Other current receivables**

SEK 000	31 Dec 2019	31 Dec 2018
Receivable European Investment Fund, EIF	-	2 795
Tax assets	673	630
Other	114	7
<b>Total</b>	<b>787</b>	<b>3 432</b>

**Note 40 Prepaid expenses and accrued income**

SEK 000	31 Dec 2019	31 Dec 2018
Prepaid rental expenses	179	-
Accrued interest income	2	23
Insurance premiums	205	184
Other	346	425
<b>Total</b>	<b>732</b>	<b>632</b>

**Note 41 Proposed appropriation of profit**

SEK	31 Dec 2019
Retained loss	-1,675,388,981
Share premium reserve	2,378,373,033
Net profit for the year	303,012,928
<b>Total</b>	<b>1,005,996,980</b>

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

Share premium reserve	2,378,373,033
Retained loss	-1,372,376,053
<b>To be carried forward</b>	<b>1,005,996,980</b>

**Note 42 Other financial liabilities**

SEK 000	31 Dec 2019	31 Dec 2018
<b>Accumulated acquisition cost</b>		
Liability earn-out payment regarding Aprea Therapeutics, see also note 10	46,851	11,423
<b>Closing balance</b>	<b>46,851</b>	<b>11,423</b>

**Note 43 Current interest-bearing liabilities/current interest-bearing liabilities to related party****Current interest liabilities**

SEK 000	31 Dec 2019	31 Dec 2018
Short-term loan debt DNB	-	50,000
<b>Total</b>	<b>0</b>	<b>50,000</b>

**Current interest liabilities to related party**

SEK 000	31 Dec 2019	31 Dec 2018
Short-term loan debt Sino Biopharmaceutical Ltd	70,000	-
<b>Total</b>	<b>70,000</b>	<b>0</b>

**Note 44 Accrued expenses and prepaid income**

SEK 000	31 Dec 2019	31 Dec 2018
Salaries and remuneration to personnel	2,770	3,031
Remuneration to Board of Directors	839	1,011
Auditor and consulting fees	586	402
Payroll tax and accrued pension costs	1,231	1,243
Social security costs	640	723
Other	890	37
<b>Total</b>	<b>6,956</b>	<b>6,447</b>

**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	2019				2018		
	Sale of services	Interest income	Purchase of services	Interest expenses	Sale of services	Interest income	Purchase of services
<b>Associate relationship</b>							
Karolinska Institutet Holding Group			957				957
(of which rental cost)			(714)				(935)
Sino Biopharmaceutical Ltd				171			
Subsidiaries	457				443		14
Joint ventures and associated companies	2,685	1,949			2,628	7,318	
<b>Total</b>	<b>3,142</b>	<b>1,949</b>	<b>957</b>	<b>171</b>	<b>3,072</b>	<b>7,318</b>	<b>971</b>

SEK 000	31 Dec 2019		31 Dec 2018	
	Liability to associate	Receivable from associate	Liability to associate	Receivable from associate
<b>Associate relationship</b>				
Owner: Karolinska Institutet Holding koncernen			7	
Owner: Sino Biopharmaceutical Ltd	70,000			
Subsidiaries		121		177
Joint ventures and associated companies		36,615		296
<b>Total</b>	<b>70,000</b>	<b>36,736</b>	<b>7</b>	<b>473</b>

### 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 26 March 2020. 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 15 June 2020.

Hans Wigzell  
Chairman

Tse Ping  
Board member

Vlad Artamonov  
Board member

Magnus Modée Persson  
Board member

Theresa Tse  
Board member

Viktor Drvota  
Board member  
CEO

Our Auditor's Report was presented on 26 March 2020

Ernst & Young AB

Björn Ohlsson  
Authorized Public Accountant

## Auditor's report

To the general meeting of the shareholders of Karolinska Development AB (publ), 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 2019. The annual accounts for the parent company and the financial statements for the investment entity are included on pages 28-76 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2019 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 31 December 2019 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.

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

#### Basis for Opinions

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

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

#### Key Audit Matters

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

#### Valuation of shares in portfolio companies

##### Description

Carrying value for shares in portfolio companies, amounted to 1 048 MSEK as per 31 December 2019, corresponding to 90% of the Investment entity and parent entity's (hereafter collectively mentioned as Company) total assets.

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.

The Company has classified its shares in portfolio companies to fair value level 3 as defined

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

by IFRS 13, which means that fair value is based on models where significant data is based on non-observable data.

The process of valuation of unlisted shares in portfolio companies requires management assessment, changes in ownership strategy, the development of the portfolio companies and ownership shares have consequences for the method of valuing these shares and thus the carrying amount. As changes in these judgements affects the carrying amount, we have considered this as a particular important area in the audit.

##### How our audit addressed this key audit matter

In our audit we have gained an understanding of the valuation process and the key controls in this process. We have verified the Company's ownership in the portfolio companies, reviewed internal models regarding calculation of fair value and tested that the methodology is in

accordance with the International Private Equity, Venture Capital Valuation Guidelines (IPEV) and IFRS 13 Fair Value Measurement.

Refer to note 1 on the page 48 and note 17 on page 64 for description and specification of accounting principles regarding valuation of portfolio companies.

**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 financial statement and is found on pages 1-27. 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 Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

**Auditor's responsibility**

Our objectives are to obtain reasonable assurance about whether the annual accounts 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 Revisorsinspektionen's (the Swedish Inspectorate of Auditors) website at: [http://www.revisorsinspektionen.se/rn/showdocument/documents/rev\\_dok/revisors\\_ansvar.pdf](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 2019 and the proposed appropriations of the company's profit or loss.

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

#### Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the 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 investment entity's type of operations, size and risks place on the size of the parent company's and the investment entity'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 investment entity'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 Revisorsinspektionen's (the Swedish Inspectorate of Auditors) website at: [http://www.revisorsinspektionen.se/rn/showdocument/documents/rev\\_dok/revisors\\_ansvar.pdf](http://www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf). This description forms part of our auditor's report. Ernst & Young AB was appointed auditor of Karolinska Development AB by the general meeting of the shareholders on the 28 June 2019 and has been the company's auditor since the 20 May 2015.

Stockholm 26 March 2020  
Ernst & Young AB

Björn Ohlsson  
Authorized Public Accountant

*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), without deviations.

#### Information on the Company's website

On its website, the Company has a special section for corporate governance issues under the section Corporate Governance, <https://www.karolinskadevelopment.com/en/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, 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 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 2019, six 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 2019 authorized the board of directors to issue on one or several occasions without pre-emption rights for the shareholders new shares of series B up to a maximum of ten percent of the share capital.

The Annual General Meeting also authorized the Board to decide on transfer of earlier acquired shares of series B amounting to 244,285.

#### Holdings of ten percent or more of the votes

There are two holdings that represents more than one tenth of the voting rights for all shares in Karolinska Development, Sino Biopharmaceutical Ltd with 40,03 percent of the votes (43,11 percent of the shares) and Worldwide International Investments Ltd with 17,06 percent of the votes (18,37 percent of the shares).

#### 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,

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 member 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, 2019) have a right each to appoint one member of the Nomination Committee for the Annual General Meeting 2019. The members of the Nomination Committee have elected the chairman among themselves. The Nomination Committee consists of Peter Lundkvist (Chairman) appointed by Tredje AP-fonden, Jack Li appointed by Sino Biopharmaceutical, Yan Cheng appointed by Worldwide International Investments Ltd, Hans Möller appointed by KIHAB and Torgny Wännström appointed by Insamlingsstiftelsen för främjande och utveckling av medicinsk forskning vid KI.

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 six directors, Hans Wigzell (Chairman), Tse Ping (vice Chairman), Vlad Artamonov, Viktor Drvota (elected at the 2019 AGM), Magnus Persson and Theresa Tse. Viktor Drvota is employed by the company as

CEO. Anders Härfstrand was a board director until the 2019 AGM.

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

**Hans Wigzell.** Chairman since 2019. Board member since 2006. Born 1938. Professor Emeritus of Immunology and MD. Other appointments Chairman of Rhenman & Partner Asset Management AB. 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 Smittskyddsinstytutet. Holdings in Karolinska Development 51,609 shares.

**Tse Ping.** Vice Chairman and Board member since 2015. Born 1952. Honorary Doctorate, Fil Dr hc. Other appointments Founder and Chairman of Sino Biopharmaceutical Limited, Chairman and executive director of Hong Kong listed Lamtex Holdings Ltd, Vice Chairman of Charoen Pokphand Group (CP 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 75,727,285 (by related legal person).

**Vlad Artamonov.** Board member since 2012. Born 1978. MBA, B.Sc. Other appointments Board Member of Coastal Capital International Ltd., Managing Partner at Coastal Capital International Ltd. Previous appointments include Investment Analyst at Greenlight Capital Inc., position in the Global Merger & Acquisition Group at Merrill Lynch in New York. Holdings in Karolinska Development 2,470,541 shares (by related legal person).

**Viktor Drvota.** Board member since 2019. Viktor Drvota is also the CFO. For information regarding Viktor Drvota, see section "Chief Executive officer" below.

**Magnus Persson.** Board member since 2017. Born 1960. MD PhD Assoc Prof. Educated at Karolinska Institutet. Previous assignments CEO Karolinska Institutet Holding AB, Managing Partner The Column Group, Partner HealthCap, Clinical Research Physician Sanofi. Current board assignments include Gallecto Biotech AS (Chairman), Addi Medichal AB (Chairman), Cantargia AB (Chairman), Initiatior Pharma (Chairman), Immunicum AB, NeuroVive AB and Oncology Venture AS. No holdings in Karolinska Development.

**Theresa Tse.** Board Member since 2017. Born 1992. Bachelor Degree of Science in Economics from the Wharton School of University of Pennsylvania. Other appointments, Executive Director, the Chairlady of the Board and the Chairlady of the Executive Board Committee and the Nomination Committee, respectively, of Sino Biopharmaceutical Ltd (listed in Hong Kong). Holdings in Karolinska Development 75,727,285 shares (by related legal person).

## Independence requirements

The table below shows 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, as definitions in the Code.

Name	Function	Elected	Independent of:	
			company/ mgmt.	major holders
Hans Wigzell	chairman	2006	yes	yes
Tse Ping	director	2015	yes	no
Vlad Artamonov	director	2012	yes	yes
Viktor Drvota	director	2019	no	yes
Magnus Persson	director	2017	yes	yes
Teresa Tse	director	2017	yes	no

A major holder means a holder controlling, directly or indirectly, at least ten per cent 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 2019 the Board held 30 meetings, of which 13 meetings were per capsulam. Of the other 17 meetings Hans Wigzell and Magnus Person attended all the 17 meetings. Vlad Artamonov has attended 15 meetings. Anders Härfstrand who was a director until the 2019 AGM attended 11 meetings, Tse Ping has attended 1 meeting, Theresa Tse did not attend any meeting, Viktor Drvota who was elected at the 2019 AGM attended 6 meetings.

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

The Board annually adopts rules of pro-

cedure, 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 three committees, an Audit Committee, a Remuneration Committee and an Investment Committee.

## Audit Committee

Karolinska Development's Audit Committee consists of three members: Hans Wigzell (Chairman), Magnus Persson and Vlad Artamonov, each being independent in relation to the Company's major shareholders and in

relation to the Company and its management.

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 met 5 times during 2019. Hans Wigzell attended 5, Magnus Persson 3 and Vlad Artamonov 5.

## Remuneration Committee

Karolinska Development's Remuneration Committee consists of three members: Hans Wigzell, (Chairman), Magnus Persson (from the 2029 AGM) and Vlad Artamonov, each being independent in relation to the Company and its management. Anders Härfstrand was a member of the Remuneration Committee until the 2019 AGM. The remunerations 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 met 5 times during 2019. Hans Wigzell and Vlad Artamonov participated in all meetings, Anders Härfstrand in 3 meetings and Magnus Persson in 2 meetings.

## Investment Committee

Karolinska Development's Investment Committee consists of three members: Hans Wigzell (chairman), Magnus Person and Viktor Drvota.

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 2 times during 2019, attended by all members.

## Chief Executive Officer

**Viktor Drvota.** Appointed as CEO on June 1, 2017, and previously CIO since 2016. Born 1965 M.D, Ph.D. Associate Prof. In Cardiology. Viktor Drvota has over 17 years of Venture Capital experience with several investments, significant fundraisings, IPOs and exits. He was 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, 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. Holdings in Karolinska Development: 68,548 shares, 1 608 418 warrants.

### 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 infor-

mation 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 February 2020

Board of Directors of Karolinska Development AB

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

### Engagement and responsibility

It is the Board of Directors who is responsible for the corporate governance statement for the year 2019 on pages 80-83 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 March 26, 2020  
Ernst & Young AB

Björn Ohlsson  
Authorized Public Accountant



### Definitions of Key Terms

#### 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 Portfolio Fair Value (after potential distribution to Rosetta Capital)

The net aggregated proceeds that Karolinska Development will receive after KDev Investments' distribution of proceed to Rosetta Capital

#### Alternative Performance Measures

The Company presents certain financial measures in the annual report that are not defined under IFRS. The Company believes that these measures provide useful supplemental information to investors and the company's management as they allow for the evaluation of the company's performance. Because not all companies calculate the financial measures in the same way, these are not always comparable to measures used by other companies. Therefore, these financial measures should not be considered as substitutes for measures as defined under IFRS.

#### 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 year-end.

#### Capital employed

Total equity and interest-bearing liabilities

#### Equity to total assets ratio

Equity divided by total assets

#### Net asset value and net asset value per share

Net Portfolio Fair Value of the total portfolio (SEK 1,047.6 million), loans receivable from portfolio companies (SEK 1.8 million), cash and cash equivalents (SEK 52.1 million), and the net of financial assets and financial liabilities less interest-bearing liabilities (SEK 15.8 million minus SEK 90.0 million). Net asset value per share: the net asset value in relation to the number of shares outstanding, excluded repurchased shares (175,421,124) on the closing date (31 December 2019).

#### Return on equity

Profit/loss after financial items divided by equity

#### Return on capital employed

Profit/loss after financial items divided by capital employed

### Other definitions

#### Deal flow agreement

Agreement between Karolinska Development and KIAB aiming to grant Karolinska Development access to research projects through KIABs evaluation of innovations from research Karolinska Institutet.

#### 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

*Karolinska Institutet Innovations AB, Corporate Identity Number 556528-3909*

KIAB, which is owned (indirectly via KIHAB) 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

*Karolinska Institutet Holding AB, Corporate Identity Number 556525-6053*

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).

## Glossary

### Amino acids

Amino acids are the chemical building blocks that can be combined in chains, or sequences, to form proteins and peptides.

### CNS

Central Nervous System (CNS), including the brain and spinal cord.

### Double-blind (study)

En dubbelblindad studie/klinisk studie innebär att såväl försöksperson som försöksledare är ovetande om vilken av de prövande behandlingarna som ges.

### Chemotherapy

See Cytotoxics.

### Cohort (in medical research)

A group of individuals with defined characteristics who are followed for a period of time to examine the effect of one or several exposures.

### Complete remission (CR)

Disappearance of all clinical evidence of disease in response to treatment.

### 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.

### Overall Response Rate (ORR)

The proportion of patients who respond to treatment.

### Orphan disease

A rare disease that affects a small percentage of the population.

### Programmed cell death

A suicide mechanism a cell may go through if it is somehow damaged.

### Proof of Mechanism

Relates to early clinical development and typically refers to the demonstration of a drug candidate's mechanism by, for instance, showing that the drug reaches the target organ, interacts with the intended molecules, and affects cell biochemistry and biology in the desired direction.

### 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.

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