



ANNUAL REPORT

2020

KAROLINSKA
DEVELOPMENT





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About Karolinska Development

Karolinska Development (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 sciences companies with substantial commercial opportunities. All of the portfolio companies are developing potentially ground-breaking treatments for medical conditions with a substantial need for improved therapies, including leukaemia, endometriosis, serious viral infections, bone defects, and hepatic encephalopathy. To date, two of the companies have launched their first products.

www.karolinskadevelopment.com

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Positive phase 2a results support the continued development of golexanolone within the field of hepatic encephalopathy



Strategic acquisition of Sirakoss Ltd means a fivefold increase in market potential



FDA approval for implants treated with a Promimic surface coating



Top line results were presented from a phase 3 trial of eprenetapopt in the treatment of patients with myelodysplastic syndrome, and an in-depth data analysis will be conducted ahead of a decision on continued development of the eprenetapopt candidate drug.



Upcoming results from Dilafor's phase 2b study in protracted labour

OUR STARTING POINT FOR 2021

- **Umecrine** has established a continued development plan for golexanolone as a treatment for hepatic encephalopathy, based on positive phase 2a results.
- **Dilafor's** upcoming results from the phase 2b study with their candidate drug, tafoxiparin, as a potential treatment for reducing protracted labour in conjunction with induced deliveries.
- **OssDsign** is working intensively to exploit the market potential that has opened up through the acquisition of Sikaross Ltd and announced a capital raising which included a fully guaranteed rights issue of SEK 240 million and over-allotment options with a total potential value of up to SEK 30 million. The purpose of the financing is to accelerate the company's commercial development pace.
- **Modus Therapeutics** is preparing a phase 2 study of sevuparin in patients with the new indication of sepsis/septic shock, and is preparing a listing on Nasdaq First North Growth Market during 2021 to facilitate the financing.
- **Aprea Therapeutics** is analysing data from a phase 3 study of eprenetapopt in myelodysplastic syndrome (MDS) and is also expected to present the results of additional studies of the candidate drug in both patients with MDS and those with acute myeloid leukaemia.
- **Karolinska Development's** overview of financing alternatives that will further strengthen our financial position in order to enable us to go all out in the development of our existing and potential new portfolio companies is an ongoing process.

FINANCIAL SUMMARY

SEKm	2020	2019
Net profit/loss	-207,5	303,0
Cash, cash equivalents and short-term investments	75,9	52,1
Earnings per share (SEK)	-1,2	4,1
Net asset value per share (SEK)	4,6	5,9
Equity per share (SEK)	4,6	5,7
Share price at year end (SEK)	1,8	3,5
Investments in portfolio companies	40,0	48,9
Total portfolio fair value	933,2	1 553,4
Net portfolio fair value	770,3	1 047,6



A gap year in our long-term value creation

2020 was a gap year for Karolinska Development in comparison with the record result posted in 2019. But a longer-term view reveals a different picture: the value of our combined investments (the portfolio's net fair value) has risen over the past five years from SEK 149 million to SEK 770 million after the potential dividend to Rosetta Capital, over SEK 3 billion has been invested in the portfolio companies by other specialised life science investors, five portfolio companies have been listed, and SEK 262 million has been generated through exits.

A more stable financial situation

My colleagues and I have worked hard, during the five years since I joined the company, to repay the company's convertible loan for SEK 466 million (including interest, as of 30 June 2019) and to buy the international specialist investor, Rosetta Capital, out of the jointly-owned company, KDev Investments. Both the convertible loan and the structure of the joint investments with Rosetta have restricted our ability to develop as companies, in spite of the good intentions that originally lay behind these financing solutions.

The final part of the convertible loan was redeemed in January 2020, and divestments of shares in listed portfolio companies, coupled with an extension of an earlier bridging loan, have enabled us to make further improvements to our financial situation. Last year's partial share sale of Aprea Therapeutics of a total of SEK 192 million added SEK 123 million to Karolinska Development, after contractual payments to EIF, Rosetta and Industrifonden. We expect continued progress by the portfolio companies to create opportunities for divestments of certain holdings on attractive terms, which would, in turn, enable us to buy Rosetta Capital out of the joint company. We are also, at the same time, evaluating a number of financing solutions with the aim of securing our long-term capital requirement and thereby increasing our strategic and operating scope.

Development by portfolio companies over the past year

A number of portfolio companies have made important progress in 2020 and early 2021, although the Covid-19 pandemic has hindered the conduct of clinical trials, resulting in delays to various projects.



Our most recent investment in Svenska Vaccinfabriken is also performing well and is timely, while the implant company, OssDsign, is well positioned for a sharp growth in sales over the coming years – not least in the light of the acquisition of Sirakoss Ltd. We are also working intensively to optimise the value of Modus Therapeutics' and Umeocrine Cognition's pharmaceutical projects, based on recently established plans for the further development of their respective candidate drugs in disease areas where the need for better therapies is substantial. Aprea Therapeutics, one of many companies where we, as owners, are in good company with other international specialist investors, is currently conducting an in-depth analysis of the results from a phase 3 study of eprenetapopt in patients with myelodysplastic syndrome (MDS) and are, at the same time, progressing several other studies of MDS and acute myeloid leukaemia. We remain convinced of the inherent and substantial value extant in Aprea's leading position in the development of pharmaceuticals for the treatment of p53-mutated tumour diseases.

A clear strategy for the road ahead

As our financial muscle grows – which can be achieved both through new financing solutions and the divestment of holdings in the most successful portfolio companies – we will make new investments. When we do so, we will have a clear focus on pharmaceutical projects that have demonstrated proof-of-concept in clinical studies and on companies with medtech products that have overcome the regulatory barriers and are in an early launch phase. We are also keen to get involved not only in companies approaching stock market flotation, but in those who are already listed. And, as always, we are looking for syndications with other respected specialist investors.

A sector that tests your stamina and adaptability

The vast majority of our pharmaceutical development portfolio companies have adhered to their development plans and succeeded in steering the projects through proof-of-concept studies – which is an achievement in itself – but the results have not always been what we hoped. This is not unusual: research studies are carried out precisely because the results are unpredictable. The challenge lies in not throwing the baby out with the bathwater, because a project may still have substantial inherent value despite having missed a primary endpoint. One of Karolinska Development's strengths is our ability, as a knowledgeable and committed owner, to help adjust the project's further development path in line with the growth in scientific understanding of the pharmaceutical substances' strengths and weaknesses. Modus Therapeutics and Dilafor are examples of companies that have successfully made just such adjustments.

The upsides in the life science sector can be enormous, and one successful project can balance out ten failed ones. My colleagues and I will do our utmost to create a long-term, stable financial situation going forward, at the same time as we continue to create value in the portfolio companies. Our owners and we have the same goal – to generate a good return based on revolutionary research that can result in millions of patients enjoying better, longer lives.

Solna, 25 March 2021

Viktor Drvota
Chief Executive Officer

Long-term investments in potentially ground-breaking innovations

KAROLINSKA DEVELOPMENT is a listed investment company that handpicks most of 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 in pharmaceutical projects and medtech products that have 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. 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 CREATION 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 FACTOR FOR SUCCESS involves continuously adjusting the composition of Karolinska Development's portfolio in order to maintain an acceptable total risk level.

THE MOST IMPORTANT ASSET of an 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.

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 2 studies. 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. Opportunities for entering into cashflow-generating licensing agreements, conducting stock market flotations, or divesting projects, are evaluated continuously throughout the companies' development processes.



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.

Aprea Therapeutics has gone from the lab bench to the New York stock exchange

Aprea's candidate drugs, eprenetapopt (APR-246) and APR-548, are 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. In 2019, after many years of research and development work, Aprea was floated on the USA's NASDAQ Global Select Market and simultaneously carried out a new share issue that raised almost SEK 1 billion.

Aprea's candidate drugs have the potential for use in many different types of cancer in that they reactivate a mutated protein – p53 – which occurs in around 50% of all cancers diagnosed. The FDA has granted both Fast Track Designation and Orphan Drug Designation for eprenetapopt, thereby ensuring, amongst other things, the acceleration of the authority's processing of any future registration application.

In December 2020, the company presented top line data from a comprehensive phase 3 study of a combination of eprenetapopt and azacitidine in the treatment of patients with myelodysplastic syndrome (MDS), a serious form of leukaemia. The percentage achieving complete remission was higher (33%) in the experimental arm that received a combination of eprenetapopt and azacitidine than in the arm that only received azacitidine (22.4%). The difference did not, however, achieve statistical significance and an in-depth data analysis will now be conducted ahead of any decision on the further development of the candidate drug for the treatment of this extremely vulnerable patient group.

ABOUT MYELOYDYSPLASTIC SYNDROME (MDS)

MDS is caused by genetic changes in the body's stem cells and results in disruptions to the maturation of blood and bone marrow cells. The disease most commonly presents in people in their 70s and quickly result in symptoms in the form of bleeding or severe infections that become life-threatening. The median survival rate in the most severe cases of MDS is only 1-2 years. There is also a substantial risk that the patient will develop acute myeloid leukaemia, another extremely serious form of leukaemia. The only potential treatment available is stem cell transplantation which cannot, in the majority of cases, be performed due to the patients' advanced age or co-presentations.

ABOUT ACUTE MYELOID LEUKAEMIA (AML)

Acute myeloid leukaemia (AML) is one of the most common forms of leukaemia. The disease results in the proliferation of immature blood cells, which leads to fatigue, shortage of breath, disruption to the blood's ability to coagulate, and an increased risk of infection, amongst other things. AML progresses rapidly and can be fatal within a few months if not treated.



About Aprea Therapeutics' candidate drugs

Aprea's development programme for eprenetapopt continues to be ambitious, with a number of ongoing trials, the results of which are scheduled for presentation as early as 2021:

- A phase 2 study of eprenetapopt in combination with azacitidine in MDS and AML patients who have undergone stem cell transplants.
- A phase 1/2 study in AML patients of eprenetapopt in combination with venetoclax, with or without azacitidine.
- A phase 1/2 study in patients with a variety of solid tumour diseases in which eprenetapopt is combined with anti-PD-1-antibodies.
- A study of patients with chronic lymphatic leukaemia is also planned.

Aprea is also developing a candidate drug, APR-548, which is in the preclinical phase and which, unlike eprenetapopt, has the potential for per oral administration.

A LARGE NUMBER OF WELL-KNOWN SPECIALIST INVESTORS

In addition to Karolinska Development, which through KDev Investments owns 8.4% of the shares in the company, Aprea Therapeutics has attracted a number of other reputable international specialist investors, including Fidelity Investments, Redmile Group, Consonance Capital, Sectoral Asset Management, Janus Capital Group, The Vanguard Group, Rock Springs Capital and BlackRock.





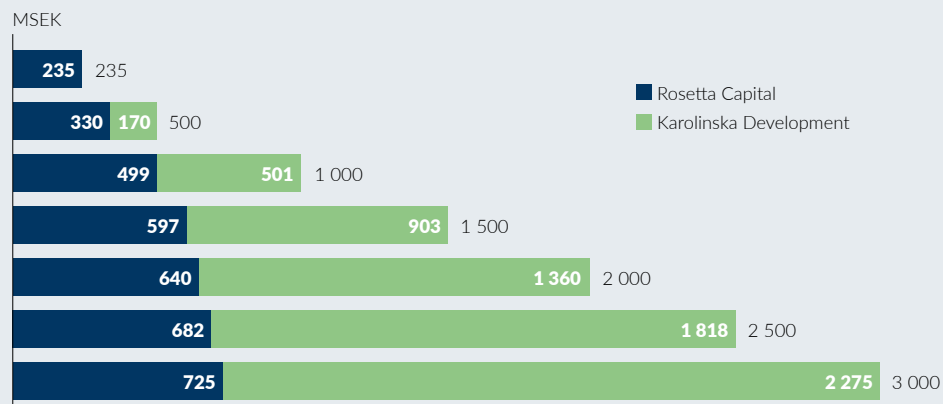
KDev Investments and the agreement with Rosetta Capital

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 Therapeutics, Modus Therapeutics, Dilafor, Promimic and Biosergen. The return, including Rosetta Capital's investment of SEK 44 million in the portfolio companies, 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 accu-

mulated 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.

KDev Investments' partial divestment of Aprea Therapeutics in December 2020, which yielded SEK 50.7 million for KDev Investments, enabled KDev Investments to pay a dividend to Rosetta Capital in 2020 of SEK 28.5 million which was, in turn, paid to Karolinska Development in order to redeem part of a receivable held by Karolinska Development against Rosetta for a delayed purchase price payment. The dividend initiated the winding up of the waterfall by a corresponding amount.

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, acc paid dividend amounts to 28.5 MSEK..

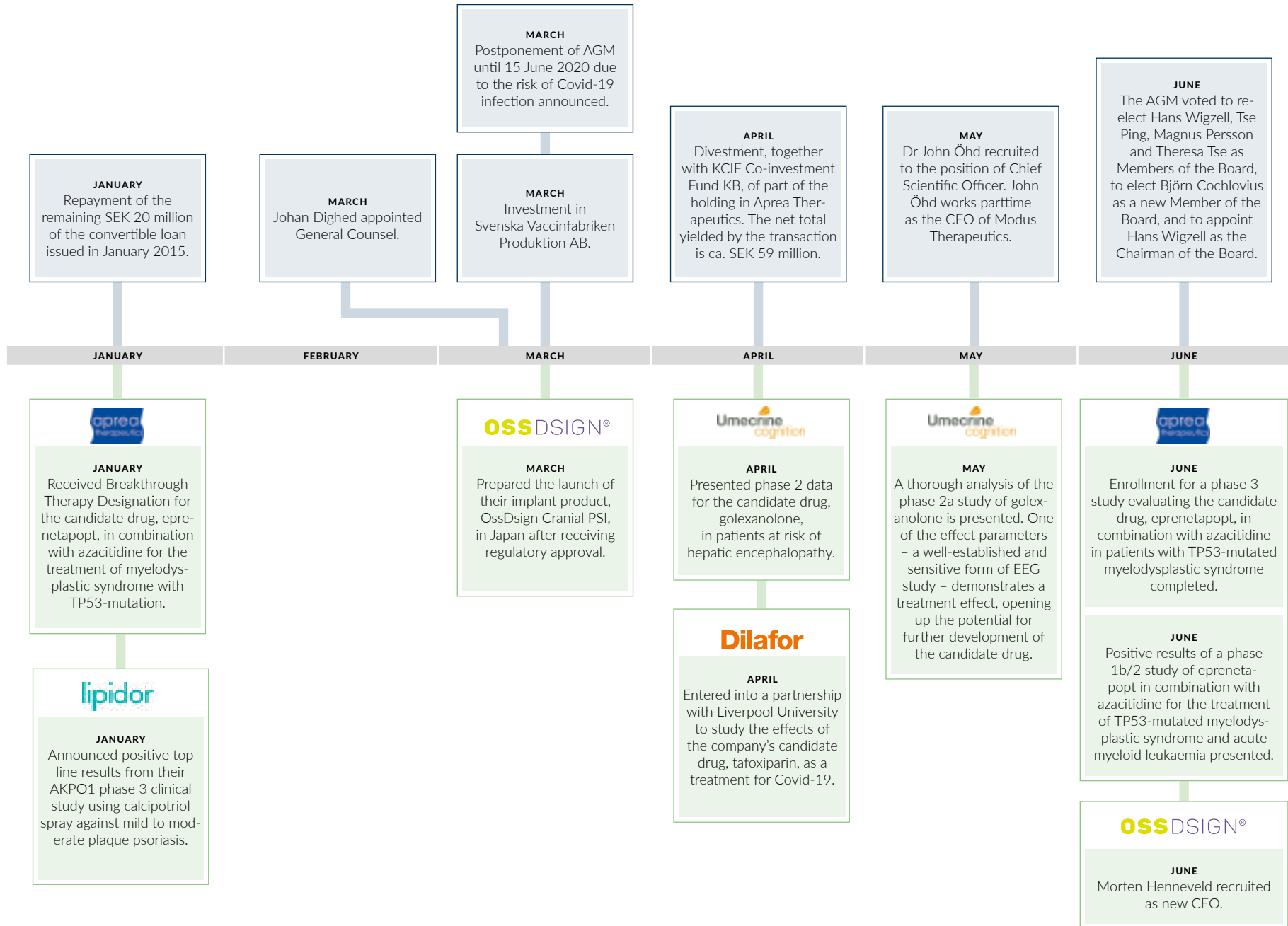
What is fair value?

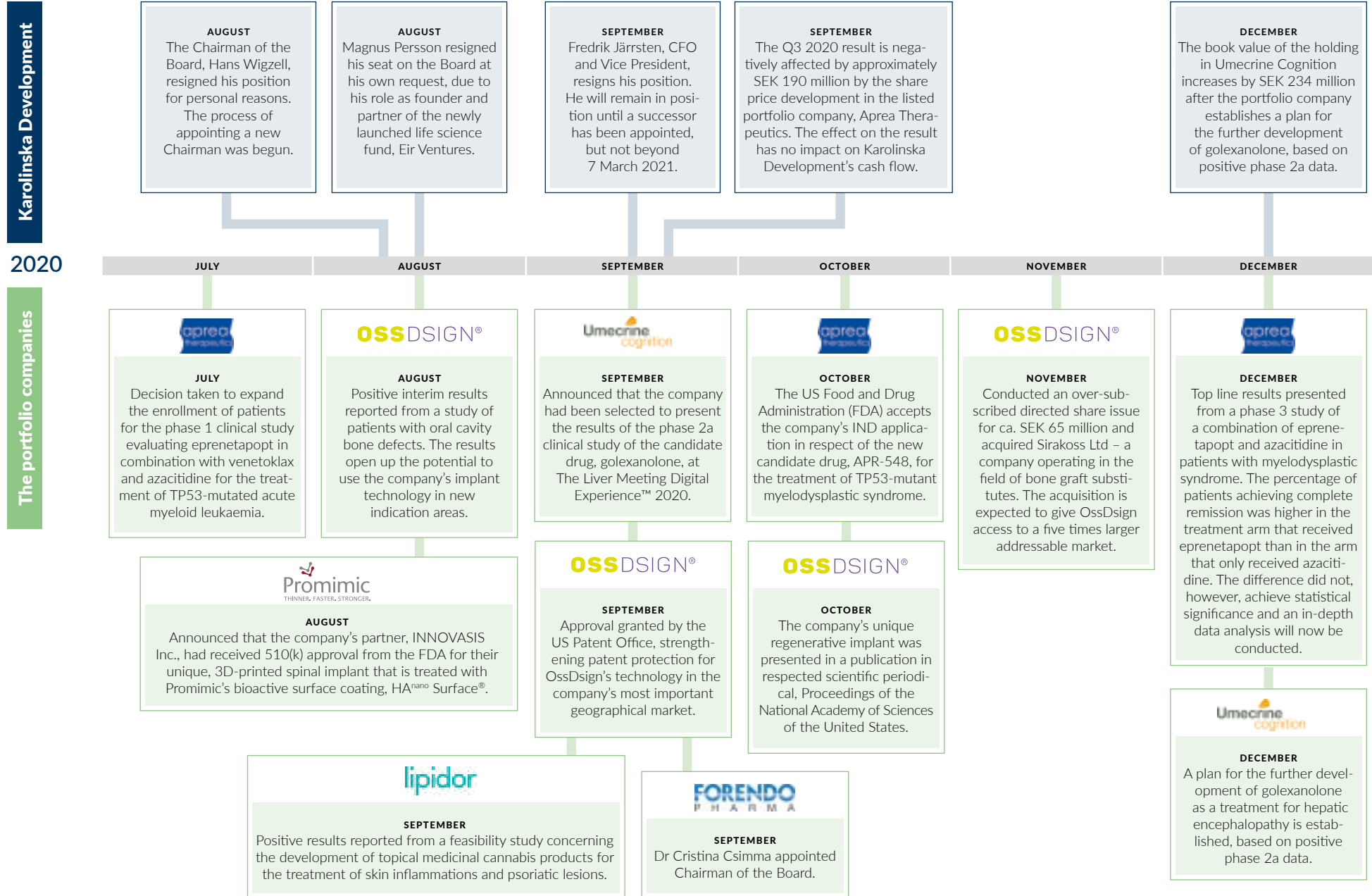
- **Fair value** quantifies the combined value of the company's investments at a given time. The calculation of the portfolio's fair value is based on the provisions of the international accounting standard, IFRS 13, and the International Private Equity and Venture Capital Valuation Guidelines (IPEV 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

2020





Investments: January – December 2020:

Karolinska Development's investments in the portfolio companies during the period January–December 2020 totalled SEK 40.0 million (SEK 48.9 million in 2019), of which SEK 39.1 million comprised cash investments and SEK 0.9 million comprised non-cash investments (interest on outstanding loans). Investments from external stakeholders totalled SEK 106.5 million (SEK 396.8 million 2019).

The portfolio fair value

The total fair value of portfolio companies owned both directly by Karolinska Development and indirectly via KDev Investments fell, year on year, by SEK 620.1 million to SEK 933.2 million at the end of the year. The main reasons for the negative change in fair value were the partial divestment of shares in the Aprea Therapeutics holding that occurred during the year and the fall in the share price of the same listed holdings. The positive change in fair value was, however, attributable to a new external valuation of Umecrine Cognition, performed after the positive phase 2a-results for the company's candidate drug, which increased the fair value of the holding by SEK 234 million.

The decrease in the fair value of the part of the portfolio owned via KDev Investments resulted in a decrease in the potential dividend to Rosetta Capital of SEK 342.9 million to SEK 162.9 million. This, in turn, resulted in a net decrease in the fair value of the portfolio by SEK 277.3 million in 2020 to SEK 770.3 million.

Effect on the profit of the increase in portfolio value, January – December 2020

The total result of the Changes in portfolio fair value, via the Income Statement, was SEK -215.4 (415.1) million and the change in fair value of other financial assets and liabilities, earn-out agreements, was SEK 43.1 (-28.2) million.

Revenues and profit/loss

Revenues totalled SEK 2.7 million during the year, compared to SEK 3.4 million in 2019 and primarily comprised income from services provided to portfolio companies.

The Investment Entity's operating profit/loss totalled SEK -202.4 million compared to SEK 334.9 million in 2019.

The Investment Entity's profit for the full year of 2020 totalled SEK -207.5 million compared to SEK 303.0 million in 2019, or SEK -1.18 per share in 2020 compared to SEK 4.1 in 2019.

Financial position

The Investment Entity's equity amounted to SEK 800.3 million on 31 December 2020 compared to SEK 1,007.7 million on 31 December 2019.

Interest-bearing liabilities consisted of a bridge loan, including accrued interest, amounting to SEK 75.9 million on 31 December 2020, compared to SEK 90.0 million on 31 December 2020.

On 31 December 2020, cash and bank balances totalled SEK 75.9 million compared to SEK 52.1 million at the end of 2019. The net debt thus amounted to SEK 0.0 million on 31 December 2020 compared to SEK 37.8 million on 31 December 2019.

Equity/assets ratio and net asset value

The equity/assets ratio of the Investment Entity amounted to 90% by 31 December 2020 compared to 86% on 31 December 2019. The net asset value amounted to SEK 4.6 per share at the end of 2020, compared to SEK 5.9 per share at the end of 2019.

Accounting principles

Karolinska Development is an Investment Entity as defined in IFRS 10, Consolidated Financial Statements.



High potential for continued value generation

KAROLINSKA DEVELOPMENT'S investments in therapeutic companies are conducted in syndicates with other professional life science investors, normally until proof-of-concept is demonstrated in Phase 2 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. The majority of Karolinska Development's portfolio companies are well-financed for their ongoing development and commercialisation work and are well-positioned to meet decisive value-generating milestones over the next two years. The ongoing pandemic has affected the portfolio companies to varying degrees, but the majority have been able to develop in accordance with previously set timetables.

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

Earn-out avtal

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

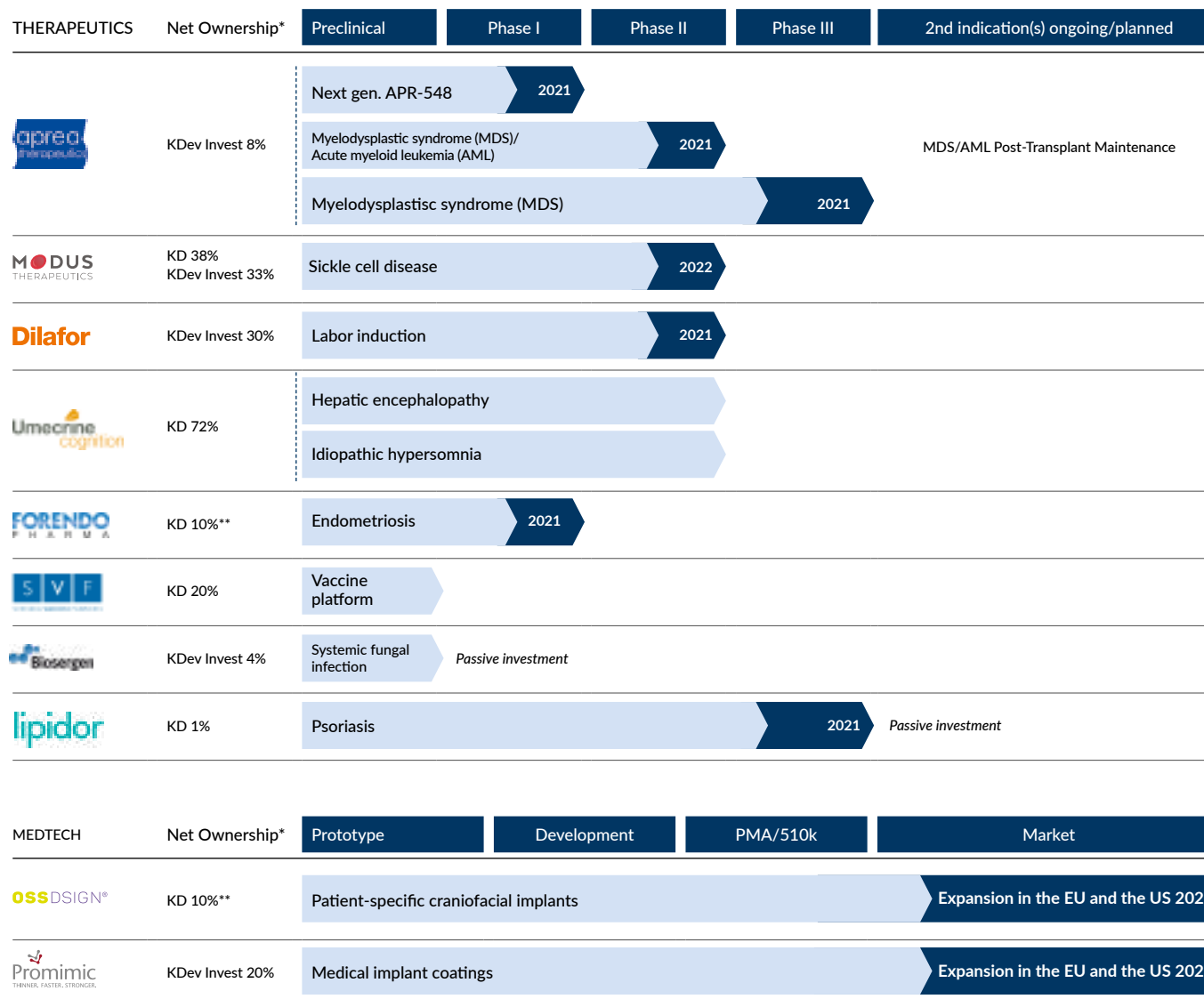


Phase III



Phase II

Portfolio



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)

Eprenetapopt (APR-246)
APR-548

Primary indication

Myelodysplastic syndrome (MDS)

Acute myeloid leukemia (AML)

Development phase

Phase III

Holding in company*

KDev Investments 8,4%

Other investors

Fidelity Investments
Redmile Group
Consonance Capital
Sectoral Asset Management
Janus Capital Group
The Vanguard Group
Rock Springs Capital
BlackRock

Origin

Karolinska Institutet

More information

aprea.com

* Fully-diluted ownership based on current investment plans.

Aprea Therapeutics Inc.

Unique approach to treating a broad range of cancers

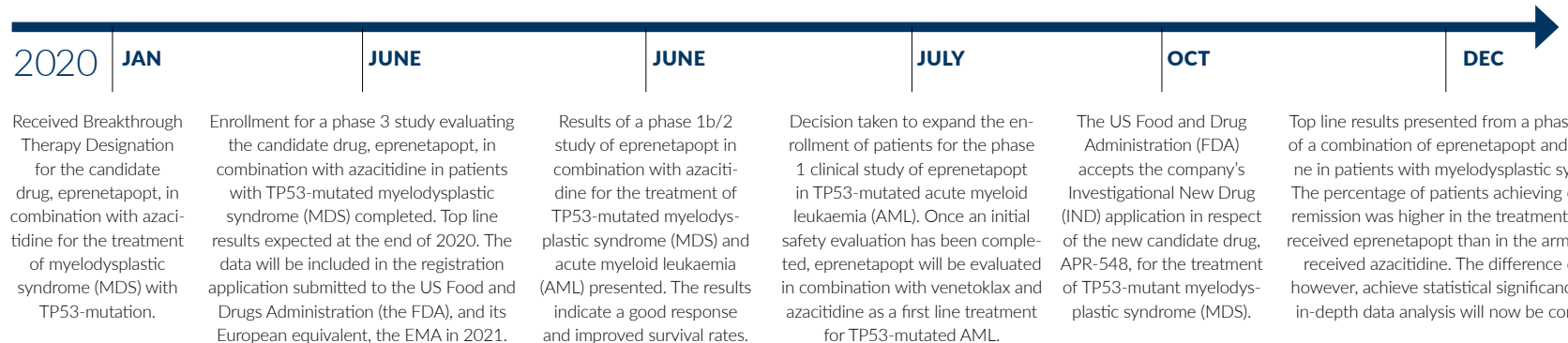
Aprea Therapeutics (Boston, USA and Stockholm, Sweden) develops novel anticancer drugs targeting the tumour suppressor protein, p53. Mutations of the p53 gene occur in around 50% of all human tumours and are associated with poor overall survival. Aprea's candidate drug, eprenetapopt (APR-246), has shown an ability to reactivate mutant p53 protein, inducing programmed cell death in many cancer cells. Early this year, eprenetapopt received a Breakthrough Therapy Designation from the American Food and Drugs Administration, the FDA.

The company presented positive results during the second quarter of the year from a phase 1b/2 study of eprenetapopt in combination with azacitidine for the treatment of TP53-mutated myelodysplastic syndrome (MDS) and acute myeloid leukaemia (AML). The results indicated better survival rates in patients treated with the candidate drug. The study has now been expanded to evaluate combination therapy with venetoclax, and further results are expected in 2021.

The FDA approved an Investigational New Drug (IND) application for APR-548 – a next generation candidate drug being developed for oral administration – during the third quarter. The company is now initiating a clinical development programme for APR-548 in the treatment of TP53-mutated MDS.

Top-line data from a phase 3 study of eprenetapopt in patients with p53-mutated myelodysplastic syndrome (MDS) were reported in December. The percentage achieving complete remission was higher (33%) in the experimental arm that received a combination of eprenetapopt and azacitidine than in the arm that only received azacitidine (22.4%). The difference did not, however, achieve statistical significance and an in-depth data analysis will now be conducted ahead of any decision on the further development of the candidate drug. A separate study to document the effect of eprenetapopt as maintenance treatment in MDS patients who have undergone stem cell transplantation is also ongoing. Aprea has been listed on the NASDAQ Global Select Market in the USA since October 2019.

DEVELOPMENT IN 2020



THE MARKET

Eprenetapopt has the potential for use in many different types of cancer as mutations in p53 are found in around 50% of all diagnosed cancers. The lead target indications thus far include blood tumours such 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

Dilafor

Project (First-in-class)

Tafoxiparin

Primary indication

Labor induction

Development phase

Phase IIb

Holding in company*

KDev Investments 30%

Other investors

The Foundation for Baltic and East European Studies
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 with 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.

It is thought that it is tafoxiparin's interaction with the body's immune system that causes the candidate drug to have a certain suppressive effect in conjunction with viral infections that can trigger a hyperinflammatory condition. Dilafor accordingly entered into a partnership with Liverpool University in the second quarter, studying the effect of tafoxiparin as a treatment for COVID-19.



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 2020

2020

APRIL

Entered into a partnership with Liverpool University to study the effects of the company's candidate drug, tafoxiparin, as a treatment for Covid-19.



Modus Therapeutics AB

Establishing new treatments of sepsis/septic shock

Project (First-in-class)
Sevuparin

Primary indication
Sepsis/septic shock

Development phase
Phase II

Holding in company*
Karolinska Development 38%
KDev Investments 33%

Other investors
The Foundation for Baltic and East European Studies
Praktikerinvest

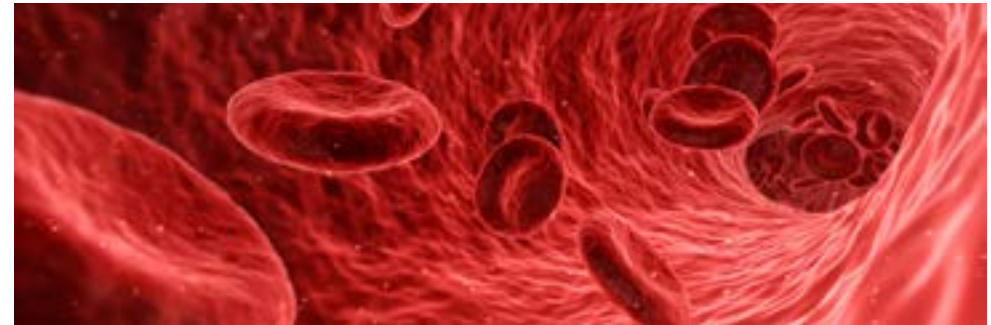
Origin
Karolinska Institutet
Uppsala University

More information
modustx.com

* Fully-diluted ownership based on current investment plans.

Modus Therapeutics (Stockholm, Sweden) is developing sevuparin as a treatment of sepsis/septic shock, a potentially life-threatening condition that is currently lacking efficient pharmaceutical therapies. Patients that are affected by sepsis are exposed to a risk of developing multi-organ failure and – in severe cases – decease. Sevuparin is a polysaccharide drug candidate with a multimodal mechanism of action, including anti-inflammatory, anti-adhesive and anti-aggregate effects. It acts by interfering with the harmful agents generated by white blood cells during systemic inflammation. This interference could potentially break the molecular chain of events that lead to vascular damage and plasma leakage in patients with sepsis/septic shock and other systemic inflammatory manifestations. Data from pre-clinical animal as well as in vitro human cell models has revealed that sevuparin was able to protect blood vessels and counteract lung plasma leakage during systemic inflammation.

Previous clinical trials in other patient groups have shown that sevuparin is well tolerated and has a favorable safety profile. In March 2021, Modus Therapeutics announced its intention to initiate a clinical development program in sepsis/septic shock. Sevuparin is believed to have a beneficial effect on the severe systemic inflammation that characterizes this condition. The company intends to finance the development within the new indication through a rights issue in connection with the intention to list at the Nasdaq First North Growth Market. Modus also continues to collaborate with academic partners to identify additional indications where sevuparin has potential to create substantial therapeutic value.

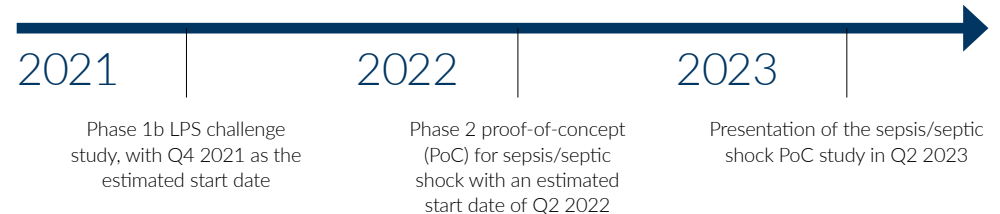


THE MARKET

Septic shock is a leading cause of death in intensive care units, with mortality rates typically exceeding 30 percent. There is currently no specific pharmaceutical treatment available for the treatment of sepsis. As a result, it is one of the costliest conditions to treat in the hospital care setting. In 2019, US in-patient care costs

for patients with sepsis was estimated to USD 23 billion. Sepsis/septic shock is triggered by an infection and causes the same form of severe uncontrolled inflammation that can occur in conjunction with extensive surgery, trauma, burns and autoimmunity.

EXPECTED MILESTONES





Umecrine Cognition AB

Unique treatment approach for CNS-related disorders

Project (First-in-class)
GR3027

Primary indication
Hepatic encephalopathy

Development phase
Phase IIa

Holding in company*
Karolinska Development 74%

Other investors
Norrlandsfonden
Fort Knox Förför AB
PartnerInvest

Origin
Umeå University

More information
umecrinecognition.com

* Fully-diluted ownership based on current investment plans.

Umecrine Cognition (Solna, Sweden) is developing golexanolone (GR3027) – 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 impairments and sleep disturbances. 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.

A clinical phase 2a study of golexanolone in patients with hepatic encephalopathy (HE) – a serious neuropsychiatric and neurocognitive condition that occurs in conjunction with acute and chronic hepatic damage with underlying cirrhosis – was conducted during the year. The results showed that the candidate drug was well-tolerated, that the safety profile was good, and that the pharmacokinetic profile was favourable. One of the effect parameters – a well-established and sensitive form of EEG study – demonstrates that the candidate drug has a significant effect on brain signalling, with a correlated positive effect on extreme daytime fatigue. There was no significant effect, however, on other secondary outcome measures. In December, the company announced that, based on these study results, it had established a plan for the further development of the candidate drug.



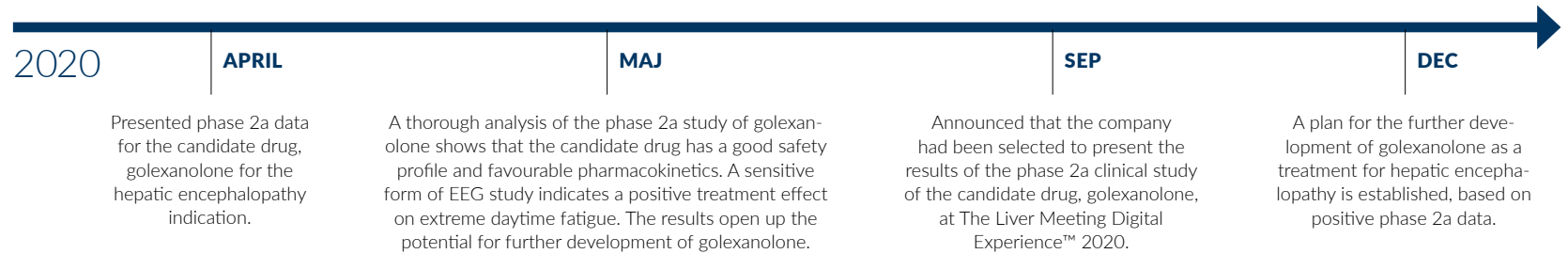
THE MARKET

HE is a serious disease with a large unmet need that affects up to 1% of the population in the USA and EU. 180,000-290,000 patients are hospitalised every year in the USA due to complications of HE. Once HE develops, mortality reaches 22-35% after five years. HE is also associated with substantial 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 2020





Forendo Pharma Ltd

Novel therapies for women’s health

Project (First-in-class)
FOR-6219

Primary indication
Endometriosis
Chronic liver diseases

Development phase
Phase Ib

Holding in company*
Karolinska Development 10%**

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

Origin
University of Turku, Finland

More information
forendo.com

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

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 one clear disadvantage of these types of treatment is that they disrupt the systemic oestrogen balance, giving rise to osteoporosis and other serious side effects that hinder their long-term usage.

Forendo’s candidate drug, FOR-6219, inhibits the HSD17B1 enzyme – a previously unresearched but powerful drug target for tissue-specific regulation of hormone activity. Forendo has demonstrated proof of mechanism 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. Based on these results, the company initiated a phase 1b study in healthy, post-menopausal women in 2019, with the aim of demonstrating proof of concept. The results of this study were expected in the first half of 2020, but have been delayed due to the ongoing COVID-19 pandemic.

The company has also, since late 2019, been developing new pharmaceuticals for the treatment of chronic hepatic disease in partnership with the pharmaceutical company, Novartis. The development programme is evaluating the effect of the company’s HSD inhibitor in the treatment of gynaecological conditions, and is currently in the preclinical discovery phase.



THE MARKET

It is estimated that 10% of all fertile women are affected by endometriosis. This corresponds to a total of 176 million women in the world. Endometriosis has a detrimental effect on the well-being of the women affected and the socio-economic burden of the disease from e.g. sick leaves is profound due to the lack of safe and effective treatment. Forendo’s approach to treat endometriosis therefore has a high potential to substantially impact future treatment regimens.

DEAL VALUES FOR SIMILAR PROJECTS

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

DEVELOPMENT IN 2020

2020

SEP

Dr Cristina Csimma appointed Chairman of the Board. Dr Csimma has a Ph.D. in pharmacy from the Massachusetts College of Pharmacy and extensive experience at the intersection point between global pharmaceutical development and value creation in biotech companies.

OSSDSIGN®

OssDsign AB

Commercializing the best craniofacial implants

Project
OSSDSIGN® Cranial and OSSDSIGN® Facial

Primary indication
Cranial implants
Bone graft substitute

Development phase
Marketed

Holding in company*
Karolinska Development 10%**

Other investors
SEB Venture Capital
Fouriertransform

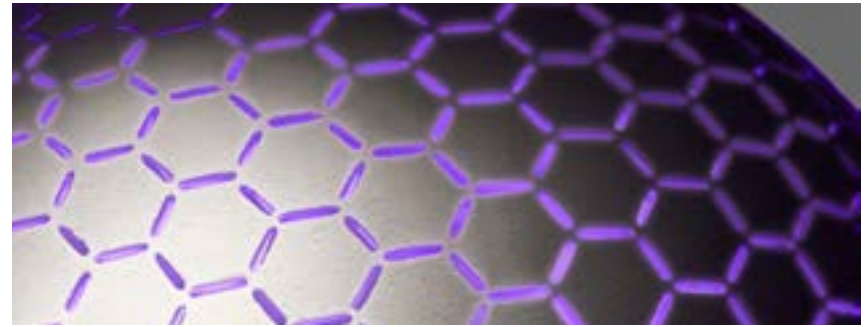
Origin
Karolinska University Hospital
Uppsala University

More information
ossdsign.com

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 commercializing its cranial implant in the USA and is currently preparing commercial activities in Japan after the approval of the company's OSSDSIGN® Cranial PSI product. Upon completion of a successful and over-subscribed share issue that yielded SEK 65 million, OssDsign acquired Sirakoss Ltd, a company operating in the field of bone graft substitutes. This strategic acquisition means a fivefold increase in the company's addressable market. A recent patent application from the US Patent Office further enhances OssDsign's opportunities for future growth in the United States.

In March 2021 OssDsign announced a capital raising which included a fully guaranteed rights issue of SEK 240 million and over-allotment options with a total potential value of up to SEK 30 million. The purpose of the financing is to accelerate the company's commercial development pace through the strategic initiative "ASCENT25".

OssDsign's clinically proven bone regeneration technology has better healing properties than similar products. The company uses cutting edge 3D printing, molding, and regenerative medicine technology to customize 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 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

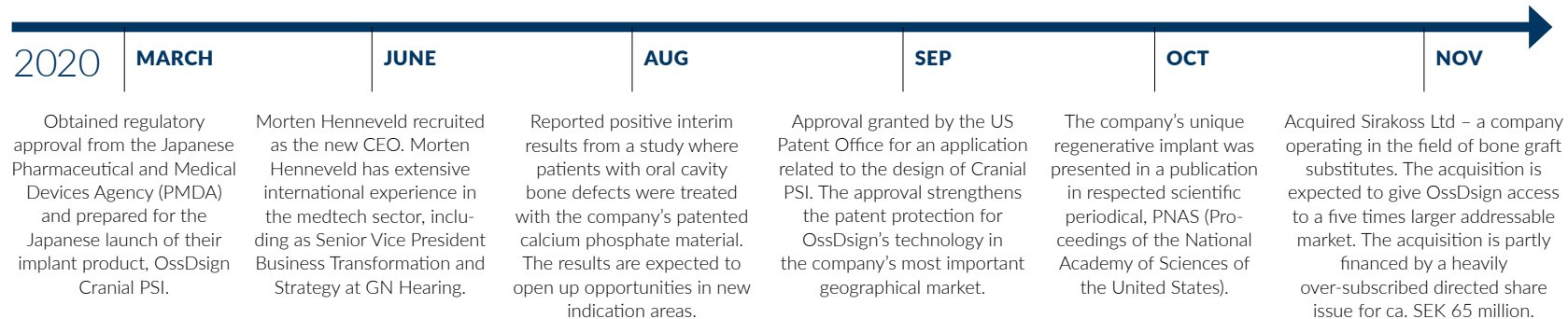
OssDsign focuses on the market for craniomaxillofacial (CMF) implants. The total market size was estimated to USD 1.8 billion in 2016 and is expected to grow at a CAGR of 5-9% worldwide over the next five years. The market for OssDsign's lead product in cranioplasty alone is estimated to approximately 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 2020



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



Project
HA^{nano} Surface

Primary indication
Implant surface coatings

Development phase
Marketed

Holding in company*
KDev Investments 20%

Other investors
K-Svets Ventures
ALMI Invest
Chalmers Ventures

Origin
Chalmers University
of Technology

More information
promimic.com

* Fully-diluted ownership based on current investment plans.

Promimic AB

Coatings to enhance the properties of medical implants

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

HA^{nano} 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^{nano} is based is FDA-approved, which means that a new implant coated with HA^{nano} 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 USA 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^{nano} Surface, and one with Danco Anodizing, which has established a manufacturing facility for implants with HA^{nano} Surface, targeting the US and Chinese markets. Promimic strengthened its position in the orthopaedic market in 2019 and 2020 by entering into partnerships with Onkos Surgical and INNOVASIS Inc. The partnership with Onkos Surgical includes the development and commercialisation of products treated with the HA^{nano} Surface technology for limb salvage surgery. INNOVASIS Inc. manufactures and sells 3D-printed spinal implants treated with HA^{nano} Surface® in order to improve osseointegration and stimulate new bone formation and bone growth on the implant surface.



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^{nano} 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 2020

2020

AUG

Announced that the company's partner, INNOVASIS Inc., had received 510(k) approval from the FDA for a 3D-printed spinal implant. The implant is the first of its kind in the market and is treated with Promimic's bioactive surface coating, HA^{nano} Surface®.



Svenska Vaccinabriken Produktion AB

Developing therapeutic proteins and DNA vaccines

Project (First-in-class)
SVF-001

Primary indication
Hepatit B and D
SARS-CoV-2
and other Corona virus

Development phase
Preclinical

Holding in company*
Karolinska Development 20 %

Origin
Karolinska Institutet

* Fully-diluted ownership based on current investment plans.

Svenska Vaccinabriken Produktion AB ("SVF") develops therapeutic proteins and DNA vaccines against hepatitis B and hepatitis D, as well as vaccines to prevent infections by SARS-CoV-2 and potential future Coronaviruses. Therapeutic vaccines, unlike preventative vaccines, have the potential to cure already infected patients.

Despite the availability of preventative vaccines and antiviral treatments, over 250 million people live with a chronic hepatitis B infection. One million chronic carriers die each year due to complications caused by the virus, such as liver cirrhosis and liver cancer. The closely related hepatitis D virus infects 15-25 million hepatitis B carriers and exacerbates the progression of the disease.

Svenska Vaccinabriken is using an in-house developed immune therapy to produce a specific form of antibodies that blocks the ability of the hepatitis virus to invade human cells. The company has generated promising efficacy data in a preclinical animal model and is now continuing its preclinical development with the goal of enabling a phase 1 study to be initiated in 2021.

Although Coronavirus infections are usually mild, some virus types can lead to life-threatening conditions. This has been the case in the outbreaks of SARS-CoV in 2003, MERS-CoV in 2012, and during the ongoing Covid-19 pandemic. SVF has also developed a platform to address and prevent severe infections of this kind and which is expected to afford the potential for quickly developing and producing vaccines against both existing and new forms of Coronaviruses. The company submitted a patent application specifically linked to a potential Covid-19 vaccine during the year.



THE MARKET

Svenska Vaccinabriken is currently focusing its innovative vaccine platform on the market for therapeutic vaccines for hepatitis B and D, and preventative vaccines for respiratory viral diseases, such as Covid-19. The 2017 KuicK research report, "Global Hepatitis Drug Market & Clinical Trials Insight 2023" estimated the value of the annual global market for hepatitis B at between USD 4 and 5 billion, growing to USD 5-6 billion by 2023. The annual global market for hepatitis D, by contrast, is estimated at around USD 1 billion. There is substantial competition between vaccine developers, who comprise both smaller biotech companies and international pharmaceutical companies. Svenska Vaccinabriken's business model is based on guiding their vaccine projects to the clinical development phase and then licensing

them out global pharmaceutical companies with established distribution networks. Investors' interest in early vaccine companies and platforms similar to Svenska Vaccinabriken's has increased markedly in recent years. This is thought to be due to an increased awareness of the potential for the commercialisation of vaccines based on next generation technology, such as RNA vaccines and DNA vaccines. Interest in therapies to treat hepatitis B and D has further intensified – two areas in which the unmet medical need is still significant.

DEAL VALUES FOR SIMILAR PROJECTS

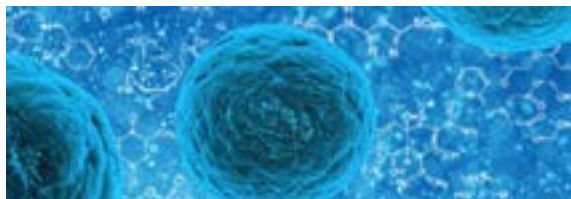
- USD 546 million – Affinivax Series B and C-financing, 2020
- USD 1,4 billion – MYR GmbH (acquired) & Gilead Sciences, Inc. (buyer) 2020

DEVELOPMENT IN 2020

2020

MAR

Karolinska Development invested in Svenska Vaccinabriken Produktion AB (SVF). SVF is engaged in the development of therapeutic proteins and DNA vaccines for hepatitis B and hepatitis D, amongst others, and of vaccines against infection with Covid-19 and potential future corona viruses.



Project
BSG005

Biosergen AS

Primary indication
Systemic fungal infections

Biosergen (Trondheim, Norway) are conducting a development programme, based on their expertise in biosynthetic technology and targeting systemic fungal infections where a candidate drug, BSG005 has been nominated.

Development phase
Preclinical

Patients whose immune systems are compromised due to cancer or treatment with immunosuppressive drugs have been shown to be particularly susceptible to systemic fungal infections. While effective pharmaceutical treatments are available, their use is limited due to serious side effects or an increasing incidence of drug resistance.

Holding in company*
KDev Investments 4%

Biosergen's candidate drug, BSG005, has demonstrated a wide spectrum of antimycotic effects in preclinical experimental models, and the candidate drug's properties have, to date, been shown to be far superior to those of conventional treatment in terms of effectiveness, toxicity, and pharmacokinetics.

Other investors
Östersjöstiftelsen
Sintef Venture II AS
Rosetta Capital

Origin
SINTEF och Norwegian
University of Science and
Technology

More information
biosergen.se

* Fully-diluted ownership based on current investment plans.

DEVELOPMENT IN 2020



Ongoing work on the development of the company's candidate drug, BSG005, for the treatment of systemic fungal infection.



Project (First-in-class)
AKVANO

Lipidor AB

Primary indication
Topical drug delivery

The use of topical pharmaceuticals is common in treatment of dermatological indications, such as psoriasis and eczema. In many cases, however, use of the preparations is awkward, resulting in reduced treatment compliance. Lipidor 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 for skin complaints.

Development phase
Produkt

Holding in company*
Karolinska Development 1%

In early 2020, the company announced that the results of the phase 3 clinical study of the candidate drug, AKPO1, in patients with psoriasis had demonstrated positive effects 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 already indicated that an additional candidate drug, AKPO2, can proceed directly to phase 3 studies on the basis of the positive results from the now concluded AKPO1 study. The subsidiary company, Emollivet AB, is engaged in a simultaneous programme of development work on veterinary products.

Other investors
Cerbios-Pharma SA

Origin
Start-up

More information
lipidor.se

* Fully-diluted ownership based on current investment plans.

Lipidor also has an evaluation and licensing option agreement with the Cannasure company. The agreement relates to the evaluation of new active substances with the potential to contribute to value-generating products in emerging therapeutic fields.

Lipidor has been listed on the NASDAQ First North Growth Market since September 2019.

DEVELOPMENT IN 2020



Announced positive top line results from their AKPO1 phase 3 clinical study using calcipotriol spray against mild to moderate plaque psoriasis. The randomised study of 277 patients achieved its primary endpoint of therapeutic equivalence with a comparator.

Positive results reported from a feasibility study concerning the development of topical medicinal cannabis products for the treatment of skin inflammations and psoriatic lesions. The study was conducted in partnership with Cannasure Therapeutics Ltd.

Ownership structure

On 31 December 2020, Karolinska Development had 5,302 shareholders. International investors controlled approximately 78% of the share capital and approximately 73% 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 2020 was SEK 3.54, and at the year end, the share traded at SEK 1.8, a decrease of 49%. No dividends have been paid in 2020.

Share capital

At year-end 2020, the share capital amounted to SEK 1.8 million distributed among 175,665,409 shares. The nominal value is SEK 0.01 per sharer.

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%
Östersjöstiftelsen	0	3,889,166	2.21%	2.06%
Tredje AP-Fonden	0	3,750,385	2.13%	1.98%
OTK Holding A/S	0	3,000,000	1.71%	1.59%
Stift För Främjande & Utveckling	0	2,641,389	1.50%	1.40%
Coastal Investment Management LLC	0	2,470,541	1.41%	1.31%
Friheden Invest A/S	0	1,000,000	0.57%	0.53%
Gålöstiftelsen	0	668,661	0.38%	0.35%
Sum Top 10 Shareholders	1,503,098	127,550,949	73.47%	75.36%
Sum Other Shareholders	0	46,611,362	26.53%	24.64%
SUM ALL SHAREHOLDERS	1,503,098	174,162,311	100.00%	100.00%



Björn Cochlovius

Chairman since 2020 and Board member since 2020 (elected chairman by the board when the, by the annual general meeting 2020, elected Chairman Hans Wigzell resigned).

Born 1968.
Ph.D., Assoc.Prof.

Other appointments: Chairman of Isogenica Ltd, founder of and General Manager in BC BioMed Consulting GmbH, Partner in Jürg Kurmann Merger and Acquisitions AG, Associate Professor Immunology at Ruprecht-Karls Universität Heidelberg.

Previous assignments includes, Senior Director Development Asia-Pacific i Abbvie Inc., member and Head Oncology in Otsuka, co-founder, Interim-CEO and Chariman in Ciliatech AG, Director Business Development Oncology in Roche AG, internal strategy consultat with Alpharma AS (nowadays Axellia), acting CEO of OnTarget Neurology AS, Head R&D at Affitech AS.

Independent in relation to the Company and its management as well as in relation to the Company's major shareholders.

Holdings in Karolinska Development:
No holdings in Karolinska Development.



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, 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 assignments includes, Member of the Ninth, Tenth, and Eleventh National Committee of the Chinese People's Political Consultative Conference.

Independent in relation to the Company and its management. Not independent as in relation to the Company's major shareholders.

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



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).

Independent in relation to the Company and its management. Not independent as in relation to the Company's major shareholders.

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



Anna Lefevre Skjöldebrand

Board Member 2021.
Born 1969.
Master of Laws.

Other appointments: CEO, Swedish Medtech Service AB. Current board assignments include Sweden Medtech4Health AB (chairperson), Dedicare AB, Swecare, COCIR, member of the advisory board Life Science office of Sweden.

Previous assignments includes, Head of Legal Swedish Medtech Service AB, Lawyer Delphi & Co, Lawyer GLS Legal, Lawyer Ernst & Young Law, Legal Counsel Front Capital Systems AB. Previous board assignments include The e-Health agency, SIS AB and Medtech Europe. She has also been a member of the board in the Board for Public Procurement.

Independent in relation to the Company and its management as well as in relation to the Company's major shareholders.

Holdings in Karolinska Development:
No holdings in Karolinska Development.



Ben Toogood

Board Member 2021
Born 1976.
BPharm. MSc. MBA

Other appointments: Head Global Business Development, Sino Biopharmaceuticals Limited.

Previous assignments, Head Global BD & M&A Sandoz AG, Group New Business Development Executive Aspen Pharmacare Holdings, Vice President Global Business Development Pharmathen SA, International Licensing Executive Niche Generics (Unichem Laboratories), Regulatory Affairs Merck Generics (Mylan).

Independent in relation to the Company and its management. Not independent as in relation to the Company's major shareholders.

Holdings in Karolinska Development:
No holdings in Karolinska Development.



Viktor Drvota

CEO
Appointed as CEO on June 1, 2017, and previously CIO since february 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.



Johan Dighed

General Council and deputy CEO
Employed since 2020.
Born 1973.
Master of Laws.

Johan Dighed has over 16 years' experience in financial and business law including positions as Head of Legal with the German bank SEB AG and legal counsel with SEB AB.

Prior to joining the financial sector he worked with the international law firm Baker & McKenzie and in the Swedish Judiciary.

Holdings in Karolinska Development: 15,000 shares.



Per Aniansson

Chief Financial Officer and Investment Director
Appointed 2021.
Born 1966.
MSc Engineering Physics and MBA.

Per Aniansson has more than 20 years of VC experience. Per has also been CEO of two medtech companies and CFO in another VC backed start-up. He has responsible in several significant fundraisings, IPOs and exits. Between 2011-2019, Per was an Investment Director at Fouriertransform with a focus on medtech. During his appointment at Fouriertransform he also served as a Board member in Osdsign AB, Scibase AB, Renewcell AB, Powercell AB, SmartEye AB and AAC Clydespace AB. Prior to this Per has set-up and been the CEO at Icon Medialab Capital and MD Nordics for Siemens Mobile Acceleration, two corporate VCs. He was also an investment director at Innovationskapital, Investment responsible within Life Science at Industrivärden and a management consultant at Arthur D Little and Accenture. Current Board assignments: AAC ClydeSpace, Cure Cancer Foundation and chairman of VOC Diagnostics.

Holdings in Karolinska Development: No holdings in Karolinska Development.



John Öhd

Chief Scientific Officer
Employed since 2020.
Born 1971.
M.D., Ph.D.

John has broad knowledge and experience of drug development in several therapeutic areas, including CNS, cancer and blood disorders. He has held leadership roles within the research organizations of Astra-Zeneca, Shire Pharmaceuticals and Medivir.

Before joining Karolinska Development he was the Chief Medical Officer of Modus Therapeutics. Prior to his drug development roles, John held various research and clinical positions at Lund University and Karolinska Institutet/University Hospital.

Holdings in Karolinska Development: No holdings in Karolinska Development.



Elisabet Gimbringer

Financial Manager
Employed since 2015.
Born 1965.
Economics and Business education from Stockholm University.

Elisabet has worked as an approved public accountant for 10 years, and as a financial manager, business controller and financial controller for a number of different companies and fields for the last 20 years.

Other appointments: Board member of KD Incentive AB.

Holdings in Karolinska Development: 16,000 shares.



Eva Montgomerie

Head of Accounting
Employed since 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.

Holdings in Karolinska Development: 6,834 shares.



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 2020 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 sciences companies with substantial commercial opportunities. All of the portfolio companies are developing potentially ground-breaking treatments for medical conditions with a substantial need for improved therapies, including leukaemia, endometriosis, serious viral infections, bone defects, and hepatic encephalopathy. To date, two of the companies have launched their first products.

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. 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 med-tech is to divest at the point when the companies have launched their first product and become cash flow-positive. At this point the potential for entering into cash-flow generating licensing deals, trade sales, or IPOs is increased.

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

- Karolinska Development repaid the remaining SEK 20.0 million of the convertible loan, including accrued interest. The entire convertible loan, issued by Karolinska Development in January 2015 and which was due for payment on December 31, 2019 has consequently been resolved (January 2020).
- Karolinska Development appointed Johan Dighed as General Counsel. Johan Dighed has extensive experience from the banking sector and will take up his position at the company from 1 May 2020, replacing Ulf Richenberg, who is retiring (March 2020).
- Karolinska Development postponed the date for the Annual General Meeting to 15 June 2020, due to the risk of infection by the COVID-19 virus (March 2020).
- Karolinska Development made an investment in Svenska Vaccinfabriken Produktion AB (SVF). SVF develops therapeutic proteins and DNA vaccines against hepatitis B, hepatitis D, and other viral diseases, as well as vaccines to prevent COVID-19 infections and potential future Corona viruses (March 2020).
- Karolinska Development sold some of its shares in the portfolio company Aprea Therapeutics. KCIF Co-investment Fund KB and Karolinska Development sold shares in Aprea Therapeutics in the same transaction. The transaction

amounted to 1 per cent of all shares outstanding in Aprea Therapeutics and netted approximately SEK 59 million for Karolinska Development.

Karolinska Development's remaining holding in Aprea Therapeutics, including indirect holding through KCIF Co-investment Fund, thereafter amounted to approximately 1 per cent of the total shares outstanding. KDev Investments' holding in Aprea Therapeutics remains unchanged at approximately 9.5% of the total number of outstanding shares (April 2020).

- Karolinska Development recruited Dr John Öhd for the position of Chief Scientific Officer. He has a solid scientific background and extensive experience from senior positions in global pharmaceutical companies' research organisations, including AstraZeneca and Shire Pharmaceuticals. John Öhd assumes the position on a half-time basis, allowing for a parallel commitment as CEO of Modus Therapeutics, one of Karolinska Development's portfolio companies (May 2020).
- At its Annual General Meeting, Karolinska Development voted to, among other things, re-elect Hans Wigzell, Tse Ping, Magnus Persson and Theresa Tse to its Board of Directors, to elect Björn Cochlovius as new board member, and to elect Hans Wigzell Chairman of the Board (June 2020).
- Karolinska Development sold part of its holding in the portfolio company Aprea Therapeutics. KCIF Co-investment Fund KB – a holding company that is jointly owned by the European Investment Fund and Karolinska Development – divested shares in Aprea as part of the same transaction. The transaction accounted for a total of 1% of all outstanding shares in Aprea and yielded a net total of approximately SEK 39 million for Karolinska Development. Karolinska Development retains an unchanged indirect

holding in Aprea through KDev Investment after the transaction, comprising approximately 9.5% of the total number of shares outstanding (July 2020).

- Karolinska Development's Chairman of the Board, Hans Wigzell, resigned his position for personal reasons. The process of appointing a new Chairman has been initiated (August 2020).
- Magnus Persson left his position as a Member of the Board of Karolinska Development at his own request, due to his role as a founding partner in Eir Ventures, a recently started fund for investments in the life science sector (August 2020).
- Karolinska Development announced that the company's CFO and Deputy CEO, Fredrik Järsten, has resigned from his position with the company. He will remain in his current role until a successor has been appointed, but no later than 7 March 2021 (September 2020).
- Karolinska Development announced that the company's result for the third quarter of 2020 will be negatively affected by approximately SEK 190 million as a result of the recent share price development in the listed portfolio company, Aprea Therapeutics. The effect on the result will have no effect on Karolinska Development's cash flow (September 2020).
- Karolinska Development AB announced that the company will, on the basis of an external valuation, increase the book value of its holding in the portfolio company, Umeocrine Cognition, by SEK 234 million. The background to this is that Umeocrine Cognition has now, based on previously communicated positive phase 2a results, established a plan for the continued clinical development of the candidate drug, gol-exanolone, within the field of hepatic encephalopathy (December 2020).

Important events for the portfolio companies**Aprea Therapeutics**

- Aprea Therapeutics was granted Breakthrough Therapy Designation by the FDA for its candidate drug, APR-246 in combination with azacitidine for the treatment of myelodysplastic syndrome (MDS) with a TP53 mutation. A Breakthrough Therapy Designation facilitates expedited development and a shorter regulatory review for the candidate drug (January 2020).
- Aprea Therapeutics completed enrolment in a phase III study for the evaluation of its candidate drug eprenetapopt in combination with azacitidine in patients with a TP53 mutant myelodysplastic syndrome (MDS). The top line results are expected to be ready to be presented at the end of 2020. Aprea plans to include the study results in filing for registration with the American pharmaceutical authority, FDA, and its European counterpart, EMA, which it expects to submit in 2021 (June 2020).
- Aprea Therapeutics presented the results from a phase Ib/II study of APR-246 (eprenetapopt) in combination with azacitidine for the treatment of TP53 mutant myelodysplastic syndrome (MDS) and acute myeloid leukaemia (AML). The overall response rate (ORR) of 28 evaluable MDS patients reached 75%, with a 57% complete remission (CR) rate. With a median duration of follow-up of 9.7 months, the median overall survival (OS) for all enrolled patients, as well as for the MDS patients, was 12.1 months (June 2020).
- Aprea Therapeutics decided to expand the enrolment of patients in its clinical phase 1 study evaluating eprenetapopt in TP53-mutant acute myeloid leukaemia (AML). Once the study's initial safety evaluation has been completed, the first expansion cohort will evaluate a combination of eprenetapopt with venetoclax and azacitidine in front line treatment of TP53-mutant AML (July 2020).
- The US Food and Drug Administration (FDA) accepted an Investigational New Drug (IND) application by Aprea Therapeutics in respect of its novel candidate drug, APR-548, to treat TP53-mutant myelodysplastic syndrome (MDS). APR-548 is a next-generation reactivator of mutant p53 that is being developed for oral administration (October 2020).
- Aprea Therapeutics was granted Fast Track designation by the FDA for eprenetapopt in the treatment of patients with acute myeloid leukaemia (AML) (November 2020).
- Aprea Therapeutics reported the results from a phase 3 study of eprenetapopt in myelodysplastic syndrome (MDS). The trial failed to meet its primary endpoint of complete remission (Complete response, CR). Analysis of the primary endpoint at this data cut demonstrated a higher CR rate in the experimental arm receiving eprenetapopt in combination with azacitidine versus the control arm receiving azacitidine alone, but did not reach statistical significance. Karolinska Development is now awaiting the forthcoming in-depth data analysis to gain a better understanding of the consequences for the further development of eprenetapopt in myelodysplastic syndrome and other potential indications (December 2020).

Dilafor

- Dilafor entered into a partnership with Liverpool University to study the effects of the company's candidate drug tafoxiparin as a treatment for COVID-19. The candidate drug is being developed primarily for use against prolonged labour, but the substance is also believed to be effective in treating certain viral infections (April 2020).

Umecrine Cognition

- In the second quarter, Umecrine Cognition completed a phase IIa study of its candidate drug golexanolon in patients at risk of developing hepatic encephalopathy. Golexanolon was tolerated well and demonstrated both a positive safety profile and favourable pharmacokinetics. One of the effect parameters used – a well-established and sensitive form of EEG study – demonstrates that the candidate drug has a significant effect on brain signalling, with a correlated positive effect on excessive daytime sleepiness. This is a symptom that occurred in a series of CNS-related disorders and dramatically reduces patients' quality of life. Taken together, the study results open interesting opportunities for further development of the candidate drug (April and May 2020).
- Umecrine Cognition presented the results of the recently conducted clinical phase IIa study of the candidate drug, golexanolone, at The Liver Meeting Digital Experience™ 2020 on November 13-16, 2020. Golexanolone is being developed for the treatment of hepatic encephalopathy (HE) (September 2020).

OssDsign

- OssDsign received regulatory approval in Japan and is preparing to launch its implant product, OssDsign Cranial PSI, there (March 2020).
- OssDsign has appointed Morten Henneveld to the role of CEO. He takes up his new position on 1 September, 2020 in conjunction with the retirement of current CEO Anders Lundqvist. Henneveld has extensive international experience in the medical technology sector, most recently in the position of Senior Vice President of Business Transformation and Strategy at GN Hearing, a global leader in hearing aids (June 2020).
- OssDsign presented positive interim results from a study in which patients with bone defects in the oral cavity were treated with the company's patented calcium phosphate material. It is thought that this will open up opportunities for OssDsign's implant technology in new indication areas (August 2020).
- OssDsign has received a notice of allowance from the USA Patent and Trademarks Office for a patent related to the design of the company's Cranial PSI product. The notice of allowance strengthens the patent protection for OssDsign's technology in the company's most important geographical market (September 2020).
- An article describing OssDsign's unique regenerative implants was published in the reputable scientific journal, PNAS (Proceedings of the National Academy of Sciences of the United States). The article describes how OssDsign's implant concept and patented material composition contribute to bone regeneration and adhesion with existing bone (October 2020).

- OssDsign acquired Sirakoss Ltd – a company operating in the field of bone graft substitutes. The acquisition, which is expected to give OssDsign immediate access to a five times larger addressable market, was partly financed by a heavily oversubscribed directed share issue of approximately SEK 65 million before transaction costs. A large number of Swedish and international investors took part in the issue (November 2020).

Promimic

- Promimic announced that the company's partner, INNOVASIS Inc., had received a 501(k) FDA clearance for a 3D-printed spinal implant. The implant, which will be the first of its kind on the market, is treated using Promimic's bioactive HA^{nano} Surface[®] technology that improves the integration process and stimulates new bone formation and bone ongrowth to the implant (August 2020).

Earn-out deal

Aprea Therapeutics

- Karolinska Development shall pay a five percent earn-out in accordance with the transfer agreement with Industrifonden regarding Aprea Therapeutics. The earn-out will be payed when Karolinska Development (directly or indirectly through KCIF Co-Investment Fund KB or KDev Investments AB) divest holdings in Aprea Therapeutics. Part of this earn-out, SEK 7.5 million, was realized during 2020 resulting in a SEK 5.1 million payment during 2020 and the remaining part SEK 2.4 million in the beginning of 2021.

Divestments

- Karolinska Development and KCIF Co-Investment Fund KB sold their shares in Aprea Therapeutics Inc during the second and the third quarter 2020, rendering a total of SEK 98 million (April and July 2020).
- Karolinska Development, via KDev Investments', partial divestment of Aprea Therapeutics in December 2020, which yielded SEK 50.7 million for KDev Investments, enabled KDev Investments to pay a dividend to Rosetta Capital in 2020 of SEK 28.5 million which was, in turn, paid to Karolinska Development in order to redeem part of a receivable held by Karolinska Development against Rosetta for a delayed purchase price payment (December 2020).

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 2020 (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 2020, investments from external investors and Karolinska Development totaled

SEK 146.5 million. In 2017, 2018 and 2019, total investments in portfolio companies amounted to SEK 397 million, SEK 791 million and SEK 446 million respectively, giving a total investment amount of SEK 1,780 million in the four-year period 2017–2020.

Karolinska Development's investments in portfolio companies amounted to SEK 40.0 million, of which SEK 39.1 million was cash investments and SEK 0.9 million was non-cash investments (accrued interest on loans).

Karolinska Development invested in three companies: Umecrine Cognition SEK 26.1 million, Modus Therapeutics SEK 10.3 million and Svenska Vaccinfabriken Produktion SEK 3.5 million.

Investments in Karolinska Development's portfolio companies in 2020

SEK million	Karolinska Development	External investors	Total Invested 2020
Umecrine Cognition	26.1	0.8	26.9
Modus Therapeutics	10.3	2.0	12.3
Svenska Vaccinfabriken Produktion	3.5	0.0	3.5
OssDsign	0.0	65.2	65.2
Promimic	0.0	25.0	25.0
Dilafor	0.0	13.6	13.6
Total	40.0	106.5	146.5

Portfolio Fair Value

Fair Value of the portfolio companies owned directly by Karolinska Development increased by SEK 160.9 million in 2020. Fair value increased mainly as a result of the positive change in Fair value attributable to a new external valuation of Umecrine Cognition, performed after the positive phase 2a-results for the company's candidate drug, but also through the investment in Modus Therapeutics and Svenska Vaccinfabriken Produktion. Fair value decreased in the listed holding OssDsign and Lipidor through a decline in the share prices. Fair value also decreased due to the holding in Aprea Therapeutics.

Fair value of the portfolio companies owned

indirectly via KDev Investments decreased by SEK 781.0 million in 2020. The main reason for the decrease in fair value was the partial divestment of shares in Aprea Therapeutics but also the downturn in the share price of the same listed holding.

Total Fair Value of portfolio companies owned directly by Karolinska Development as well as indirectly via KDev Investments decreased by SEK 620.1 million during 2020.

As a consequence of the decrease in Fair Value of the portfolio owned via KDev Investments, the potential distribution to Rosetta Capital decreased by SEK 342.9 million, resulting in a net decrease in Net Portfolio Fair Value by SEK 277.3 million in 2020.

SEK million	2020-12-31	2019-12-31	2020 vs 2019
Fair value in Karolinska Development portfolio (unlisted companies)	732.6	446.7	285.9
Fair value in Karolinska Development portfolio (listed companies)	37.8	162.8	-125.0
Fair value in KDev Investments portfolio	162.9	943.9	-781.0
Total Portfolio Fair Value	933.2	1,553.4	-620.1
Potential distribution to Rosetta Capital of fair value in KDev Investments	-162.9	-505.8	342.9
Net Portfolio Fair Value (after potential distribution to Rosetta Capital)	770.3	1,047.6	-277.3

Total Portfolio Fair Value at 31 december 2020 amounted to SEK 933.2 million. After the potential distribution to Rosetta Capital of SEK 162.9 million, Net Portfolio Fair Value amounted to SEK 770.3 million at 31 December 2020.

Results 2020 (comparable figures refer to 2019)

Karolinska Development's revenues primarily consist of services provided to portfolio companies, which amounted to SEK 2.7 million 2020 (SEK 3.4 million).

The result of Changes in Portfolio Fair Value through profit or loss amounted to SEK -215.4 million (SEK 415.1 million) in 2020. Other financial assets and liabilities, earn-out agreements, decreased in fair value by SEK 43.1 million (SEK -28.2 million) in 2020.

Other external expenses decreased to SEK 9.2 million (SEK 18.2 million), mainly caused by costs in relation to the completed set-off issue of a convertible loan charged to 2019.

Personnel costs increased to SEK 23.6 million (SEK 23.5 million) in 2020.

Operating profit/loss was SEK -202,4 million (SEK 347.9 million) in 2020.

In 2020, debt financing was arranged for a number of portfolio companies, and interest income amounted to SEK 0.9 million (SEK 1.9 million). As a result of the convertible loan being converted in 2019 and the remaining part repaid in January 2020, interest-bearing liabilities consist of a bridge loan of SEK 70 million. The interest expense thus decreased to SEK 5.7 million (SEK 32.4 million) in 2020. Net financial costs amounted to SEK -5.1 million (SEK -45.0 million).

The Investment Entity's profit/loss before tax amounted to SEK -207.5 million (SEK 303.0 million) in 2020. The main reason for the negative result was the decline in value of the listed holding Aprea Therapeutics but it was partially offset by the positive change in fair value attributable to a new external evaluation of Umecrine Cognition.

Financial position

The net loss of SEK -207,5 million led to a decrease of retained earnings of SEK 207.5 million (increase of SEK 710.6 million), the share capital is unchanged (increased by SEK 1.1 million) and equity amounted to SEK 800.3 million (SEK 1,007.7 million) at 31 December 2020. Total assets amounted to SEK 890.1 million (SEK 1,166.7 million) at 31 December 2020 and the Investment Entity's equity to total assets ratio was 90% (86%).

Interest-bearing liabilities consisted of a bridge loan from Sino Biopharmaceutical and has been extended to 31 December 2021. In January 2020 the remaining debt of SEK 20 million of the convertible loan (after the directed new share issue to the Company's convertible bond holders in 2019) was repaid. Interest-bearing liabilities thereby amounted to SEK 75.9 million (SEK 90.0 million) on 31 December 2020.

Cash and cash equivalents amounted to SEK 75.9 million (SEK 52.1 million) on 31 December 2020.

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 -30.1 million (SEK -40.0 million) in 2020, an improved cash flow of SEK 9.9 million compared to 2019.

During 2020, Karolinska Development invested SEK 39.1 million (SEK 47.0 million) in cash in its portfolio companies and, together with changes in working capital, cash flow from operating activities amounted to SEK 23.7 million (SEK 49.8 million). Net cash increased by SEK 23.8 million (increased by SEK 36.3 million) in 2020.

Information on risks and uncertainties

Investment Entity and Parent Company

The impact of the new coronavirus

Coronavirus's global spread affects the economy and society as a whole, including Karolinska Development and its portfolio companies. The value of listed companies can decline, delays in clinical trial programs may occur and that the opportunities for refinancing can be hampered. The Board monitors the evolution of the crisis closely and Karolinska Development is working intensively to minimize the impact on the value of our investments and continues with different financing alternatives to secure the long-term capital requirement and thereby increase the degree of strategic and operational headroom for the future.

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 de-

velopment 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 handpicks the majority of its investments from the flood of medical innovations that flow from the Karolinska Institute and other highly respected universities and research institutions in the Nordic region. Karolinska Development is, therefore, dependent on its relationships with universities, innovation centres, entrepreneurs, and investors for access to this business flow.

Karolinska Development may, potentially, also be unable to identify suitable deals in which to invest.

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 clinical phase 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 pat-

ent 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 com-

panies' 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 2020

(Amounts in SEK million, comparable figures refer to 2019)

During 2020, the Parent Company's operating profit amounted to SEK -202.4 million (SEK 347.9 million), an decrease of SEK 550.3 million compared to 2019. The Parent Company's net profit/loss for the year amounted to SEK -207.5 million (SEK 303.0 million).

The negative result for 2020 led to an decrease in equity from SEK 1,007.8 million at 31 December 2019 to SEK 800.3 million at 31 December 2020.

Corporate governance report

The Corporate Governance Report is on page 82-86.

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 2020 guidelines, see Note 5.

Guidelines for Remuneration to Executive Management, which were adopted at the Extraordinary General Meeting 19 February 2021:**1 Applicability etc.**

The Guidelines applies on salary and other forms of remuneration to the CEO and other management personnel (executive management) decided after the 2021 EGM. 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 General Meeting 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 based on the development of the portfolio and development of the business model, which are 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 2021 amounts to 4.1 MSEK.

Information about the exit bonus and the STI and LTI programs is 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 one long-term incentive program (LTI) for the year 2008–2010, resolved by the AGM and therefore not covered by the Guidelines.

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 Customary other 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

Deviations from the guidelines must be reported.

5 Previously decided remunerations not yet due for payment

Decided remuneration to senior executives who have not fallen due for payment must be reported.

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, Worldwide 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, Östersjöstiftelsen with a total of 3,889,166 B-shares representing 2.21% of the capital and 2.06% 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 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 2020 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 ten 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

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 both compelling clinical and health economic benefits and attractive returns on investment. The majority of Karolinska Development's portfolio companies are well-financed for ongoing development and commercialisation work and well positioned to deliver key value-generating milestones within the next two years.

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 for the Investment Entity

SEKm	2020	2019	2018	2017	2016	2015	2014 (restated)
Income statement							
Revenue	3	3	3	2	5	3	5
Result from change in fair value	-172	387	100	255	-147	-976	-304
Operating expenses	-33	-42	-29	-37	-33	-47	-69
Operating profit/loss	-202	348	74	221	-174	-1,020	-368
Financial net	-5	-45	-44	-41	-43	-34	-4
Profit/loss after financial items	-207	303	31	180	-217	-1,055	-372
Balance sheet							
Tangible non-current assets	1	1	-	-	-	-	1
Shares in portfolio companies	770	1,048	619	448	149	268	1,113
Loans receivable from portfolio companies	0	2	5	3	1	-	12
Other financial assets	0	0	27	41	38	38	38
Total non-current assets	771	1,050	651	492	188	306	1,164
Other current assets	43	64	58	2	2	10	17
Short-term investments	0	0	70	150	238	278	128
Cash and cash equivalents	76	52	16	19	11	20	13
Total current assets	119	117	143	171	250	308	157
Total assets	890	1,167	794	663	438	614	1,321
Equity	800	1,008	296	267	30	248	1,257
Long-term liabilities	0	0	11	384	399	355	35
Current liabilities	90	159	487	12	9	12	30
Total liabilities and equity	890	1,167	794	663	438	614	1,322
Cash flow							
Cash flow from operating activities and investing activities	25	50	-3	11	-9	-325	-109
Cash flow from financing activities	-1	-14	0	-3	0	332	86
Cash flow for the year	24	36	-3	9	-9	7	-22

Multi-year summary cont.

SEKm	2020	2019	2018	2017	2016	2015	2014 (restated)
Key ratios¹							
Net asset value	806	1 027	247	277	33	244	1,257
Net debt	0	38	393	210	150	57	106
Capital employed	876	1 008	307	651	429	603	1,292
Return on equity	-26%	30%	10%	66%	-729%	-425%	-30%
Return on capital employed	-24%	30%	10%	27%	-51%	-175%	-29%
Equity to total assets ratio	90%	86%	37%	40%	7%	40%	95%
Average number of employees	7	7	7	7	6	12	13
Data per share							
Profit/loss after tax, SEK, after dilution	-1.18	4.10	0.48	2.93	-4.08	-19.84	-7.64
Profit/loss after tax, SEK, before dilution	-1.18	4.10	0.48	2.93	-4.08	-19.84	-7.64
Equity, SEK	4.6	15.7	4.6	4.2	0.6	4.6	23.6
Net asset value, SEK	4.6	5.9	3.8	4.3	0.7	4.7	23.7
Share price at year-end, SEK	1.8	3.5	6.2	5.8	6.0	9.6	13.30
Dividend, SEK	0.0	0.0	0.0	0.0	0.0	0.0	0,0
Share price/Equity per share	40%	23%	135%	139%	1,076%	207%	56%
Share price/Net asset value per share	39%	60%	162%	133%	854%	205%	56%
Number of shares at year-end	175,665,409	175,665,409	64,361,206	64,361,206	53,464,998	53,449,640	53,384,558
Weighted average number of shares before dilution	175,421,124	73,874,552	64,136,941	61,243,234	53,210,223	53,151,328	48,606,243
Weighted average number of shares after dilution	175,421,124	73,874,552	64,136,941	61,300,516	53,210,223	53,151,328	48,606,243

1) Definitions of key ratios, see page 88

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

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

SEK	2020-12-31
Retained loss	-1,372,376,052
Share premium reserve	2,378,373,033
Net profit/loss for the year	-207,465,856
Total	798,531,125

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

SEK	2020-12-31
Share premium	2,378,373,033
Retained loss	-1,579,841,908
To be carried forward	798,531,125

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

SEK 000	Note	2020	2019
Revenue	2	2,651	3,384
Change in fair value of shares in portfolio companies	17	-215,378	415,136
Change in fair value of other financial assets and liabilities	17	43,077	-28,215
Other expenses	3,4	-8 466	-18,186
Personnel costs	5	-23,620	-23,474
Depreciation of right-of-use assets	4	-690	-704
Operating profit/loss		-202,426	347,941
Interest income		908	1,949
Interest expenses	6	-5,688	-32,387
Other financial gains and losses	6	-281	-14,526
Financial net		-5,061	-44,964
Profit/loss before tax		-207,487	302,977
Taxes	7	-	-
NET PROFIT/LOSS FOR THE YEAR		-207,487	302,977

Statement of comprehensive income for the Investment Entity

SEK 000	Note	2020	2019
Net profit/loss for the year		-207,487	302,977
Total comprehensive income/loss for the year		-207,487	302,977

Resultat per aktie

SEK 000	Note	2020	2019
Earnings per share, weighted average, before dilution		-1.18	4.10
Number of shares, weighted average before dilution	13	175,421,124	73,874,552
Earnings per share, weighted average, after dilution		-1.18	4.10
Number of shares, weighted average after dilution	13	175,421,124	73 874,552

Statement of financial position for the Investment Entity

SEK 000	Note	2020-12-31	2019-12-31
Assets			
Tangible non-current assets			
Right-of-use assets	4	690	704
Financial non-current assets			
Shares in portfolio companies at fair value through profit or loss	8	770,320	1,047,600
Loans receivable from portfolio companies	9	-	1,768
Total non-current assets		771,010	1,050,072
Current assets			
Accounts receivable		3	39
Receivables from subsidiaries		80	-
Receivables from portfolio companies		243	322
Other financial assets	10, 17	41,181	62,620
Other current receivables	11	768	787
Prepaid expenses and accrued income	11	929	732
Cash and cash equivalents	17	75,869	52,132
Total current assets		119,073	116,632
TOTAL ASSETS		890,083	1,166,704
Equity and liabilities			
Equity			
Share capital	12	1,757	1,757
Share premium		2,378,373	2,378,373
Accumulated losses including net profit/loss for the year		-1,579,863	-1,372,398
Total equity		800,267	1,007,732
Current liabilities			
Convertible loan	13	-	19,964
Current interest-bearing liability to related party	15	75,864	70,000
Other financial liabilities	14, 17	5,726	46,851
Accounts payable		617	11,484
Lease liabilities	4	711	726
Other current liabilities		1,373	2,991
Accrued expenses and prepaid income	16	5,525	6,956
Total current liabilities		89,816	158,972
Total liabilities		89,816	158,972
TOTAL EQUITY AND LIABILITIES		890,083	1,166,704

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	
Opening equity at 1 Jan 2020	12	1,757	2,378,373	-1,372,398	1,007,732
Net profit/loss for the year				-207,487	-207,487
Total comprehensive income/loss for the year				-207,487	-207,487
Closing equity at 31 Dec 2020		1,757	2,378,373	-1,579,885	800,245
Opening equity at 1 Jan 2019	12	644	1,970,752	-1,675,389	296,007
Net profit for the year				302,977	302,977
Total comprehensive income for the year				302,977	302,977
Effect off IFRS 16				14	14
Set-off issue		1,113	407,621		408,734
Closing equity at 31 Dec 2019		1,757	2,378,373	-1,372,398	1 007,732

Statement of cash flows for the Investment Entity

SEK 000	Note	2020	2019
Operating activities			
Operating profit/loss		-202,426	347,941
Adjustments for non-cash items			
Depreciation	4	690	704
Change in fair value	17	172,301	-386,921
Other items		-45	-32
Proceeds from short-term investments		-	783
Interest paid		-	-1,765
Cash flow from operating activities before changes in working capital and operating investments		-29,480	-39,290
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in operating receivables		29,988	-215
Increase (+)/Decrease (-) in operating liabilities		-33,708	32,780
Cash flow from operating activities		-33,200	-6,725
Investing activities			
Partial payment for/ from earn-out deal		-5,093	11,617
Sale of shares in portfolio companies		101,853	23,444
Acquisitions of shares in portfolio companies, loans to portfolio companies	33	-39,154	-46,958
Proceeds from sale of short-term investments	17	-	69,140
Cash flow from investing activities		57,606	57,243
Financing activities			
Amortization of lease liabilities	4	-669	-684
Issue costs		-	-13,545
Cash flow from financing activities		-669	-14,229
Cash flow for the year		23,737	36,289
Cash and cash equivalents at the beginning of the year	17	52,132	15,843
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	17	75,869	52,132

Income statement for the Parent Company

SEK 000	Note	2020	2019
Net sales	23	2,651	3,384
Revenue		2,651	3,384
Change in fair value of shares in portfolio companies	24	-215,378	415,136
Change in fair value of other financial assets and liabilities	25	43,077	-28,215
Other external costs	26, 27	-9,180	-18,901
Personnel costs	28	-23,620	-23,474
Operating profit/loss		-202,450	347,930
Interest income and similar income	29	908	1,949
Interest expenses and similar expenses	30	-5,924	-46,866
Financial net		-5,016	-44,917
Taxes	31	0	0
NET PROFIT/LOSS FOR THE YEAR		-207,466	303,013

Statement of comprehensive income for the Parent Company

SEK 000	Note	2020	2019
Net profit/loss for the year		-207,466	303,013
Total comprehensive income/loss for the year		-207,466	303,013

Balance sheet for the Parent Company

SEK 000	Note	2020-12-31	2019-12-31
Assets			
Financial non-current assets			
Shares in subsidiaries	32	0	0
Shares in joint ventures	33	683,096	818,430
Shares in associated companies	33	49,458	224,726
Other long-term securities holdings	34	37,766	4,444
Loans receivable from portfolio companies	36	-	1,768
Total non-current assets		770,320	1,049,368
Current assets			
Accounts receivable		3	39
Receivables from subsidiaries		80	-
Receivables from portfolio companies		243	322
Other financial assets	38	41,181	62,620
Other current receivables	39	768	787
Prepaid expenses and accrued income	40	929	732
Cash and cash equivalents		75,869	52,132
Total current assets		119,073	116,632
TOTAL ASSETS		889,393	1,166,000
Equity and liabilities			
Equity			
<i>Restricted equity</i>			
Share capital	12	1,757	1,757
<i>Unrestricted equity</i>			
Share premium	40	2,378,373	2,378,373
Accumulated losses		-1,372,376	-1,675,389
Net profit for the year		-207,466	303,013
<i>Unrestricted equity</i>		798,531	1,005,997
Total equity		800,288	1,007,754
Current liabilities			
Convertible loan	13	-	19,964
Current interest liabilities to related parties	42	75,864	70,000
Other financial liabilities	41	5,726	46,851
Accounts payable		617	11,484
Other current liabilities		1,373	2,991
Accrued expenses and prepaid income	43	5,525	6,956
Total current liabilities		89,105	158,246
Total liabilities		89,105	158,246
TOTAL EQUITY AND LIABILITIES		889,393	1,166,000

Statement of changes in equity for the Parent Company

SEK 000	Restricted equity		Unrestricted equity			Total equity
	Note	Share capital	Share premium reserv	Accumulated losses	Net profit/loss for the period	
Opening equity at 1 Jan 2020	12	1,757	2,378,373	-1,675,389	303,013	1,007,754
Appropriation of profit				303,013	-303,013	0
Net profit/loss for the year					-207,466	-207,466
Total		1,757	2,378,373	-1,372,376	-207,466	800,288
Closing equity at 31 Dec 2020		1,757	2,378,373	-1,372,376	-207,466	800,288
Opening equity at 1 Jan 2019	12	644	1,970,752	-1,705,899	30,510	296,007
Appropriation of loss				30,510	-30,510	0
Net profit for the year					303,013	303,013
Total		644	1,970,752	-1,675,389	303,013	599,020
Effect of incentive programs		1,113	407,621			408,734
Closing equity at 31 Dec 2019		1,757	2,378,373	-1,675,389	303,013	1,007,754

Statement of cash flows for the Parent Company

SEK 000	Note	2020	2019
Operating activities			
Operating profit		-202,450	347,930
Adjustments for non-cash items			
Change in fair value	24, 25	172,301	-386,921
Proceeds from short-term investments		-	782
Interest paid		-	-1,765
Cash flow from operating activities before changes in working capital and operating investments		-30,149	-39,974
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in operating receivables		29,988	-215
Increase (+)/Decrease (-) in operating liabilities		-33,708	32,780
Cash flow from operating activities		-33,869	-7,409
Investing activities			
Partial payment for/ from earn-out deal		-5,093	11,617
Sale of shares in portfolio companies	34	101,853	23,444
Acquisitions of shares in portfolio companies, loans to portfolio companies	33	-39,154	-46,958
Proceeds from sale of short-term investments		-	69,140
Cash flow from investing activities		57,606	57,243
Financing activities			
Issue costs		-	-13,545
Cash flow from financing activities		0	-13,545
Cash flow for the year		23,737	36,289
Cash and cash equivalents at the beginning of the year		52,132	15,843
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		75,869	52,132

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. 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.

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.

Note 1 continued

Subsidiaries

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

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

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

Associated companies

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

Karolinska Development is an investment entity in accordance with IAS 28 Investments in Associates and Joint Ventures and has chosen to recognize its holdings in associated companies at fair value with changes in value through profit or loss in accordance with 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.

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.

Note 1 continued

- 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 Investment 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.

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 at each reporting period. 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, internal discounted cash flow models (DCF) valuation through sales multiples, or valuation at net worth of the portfolio companies whose projects are suitable for this type of calculation, are used. Companies whose shares are listed on active market for the same instruments are valued at the share price on the final trading day in the reporting period and reported at Level 1 in the fair value hierarchy, in accordance with IFRS 13.

- Early-stage companies, defined as pharmaceutical assets prior to phase III development and technology assets prior to establishing targeted and sustainable sales revenues can be valued using a variety of different methods:

- Companies recently financed through a transaction that includes a third-party investor are valued in accordance with the price in conjunction with the most recent investment, known as post-money valuation. An increase in value may then occur through add-on investments in the form of capital or loans made including interest.
- Companies who have recently achieved significant milestones can be valued using a valuation from an external, independent valuation institute. A change in value may then occur through add-on investments in the form of capital or loans made including interest, for example.
- Early-stage companies, 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.

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 – still can be 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). Karolinska Development's unwillingness to invest may reflect 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. An opt out of an investment can of course also be due to Karolinska Development's ability to

Note 1 continued

invest, without it being due to the fair value of the portfolio company.

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.

- DCFs (internal discounted cash flow models) of the underlying business consider all of the forecasted cash flows of a portfolio company, which are then discounted with an appropriate rate and also risk-adjusted to take the development risks in pharmaceutical development into consideration. Revenue streams are approximated from epidemiological data on the intended therapeutic indication and a number of assumptions such as pricing per patient and year, market share and market exclusivity (from IPR and regulatory market protection). As described in the IPEV Valuation Guidelines, the inputs in the DCF models are constructed with a high level of subjectivity. Hence, this method is only suitable for late-stage assets, either pharmaceutical companies with lead projects in late-stage (phase III) development or technology projects with an established market presence and where rev-

enues can be projected with a higher degree of confidence than in products in earlier stages of development. As of 31 December 2020, there are no portfolio companies valued by internal DCFs.

- 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 2020, there are no portfolio companies valued according to sales multiples.
- 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. As of 31 December 2020, there are no companies valued according to net asset 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.

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.

Note 1 continued

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.

Note 1 continued

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 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 expected impaired receivables.

Note 1 continued

Share capital

Dividends

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

Employee benefits

Short-term benefits

Short-term benefits to employees are calculated without discounting and are reported as an expense when the related services obtained. A provision is reported for the expected cost for bonus payments and profit-sharing programs when the company has an applicable obligation to make such payments as a result of the services received from employees and the obligation can be calculated reliably.

Defined contribution pension plan

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.

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	2020	2019
Invoiced services	2,651	3,384
Total revenue	2,651	3,384

Note 3 Other external expenses

Fees and remuneration to the Investment Entity's auditors

SEK 000	2020	2019
EY		
Audit services	1,162	1,199
Audit related services	129	286
Tax consulting	216	288
Total	1,507	1,773

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	2020-12-31	2019-12-31
Future leasing payments		
Short-term - Within one year	711	745
Long-term - Between one year and five years	-	-
Total future leasing payments	711	745

Right-of-use assets

SEK 000	2020	2019
Accumulated acquisition cost		
At the beginning of the year	1,380	1,408
Depreciation	-690	-704
Closing balance	690	704

Lease liabilities

SEK 000	2020	2019
Accumulated acquisition cost		
At the beginning of the year	1,380	1,410
Amortization of lease liabilities during the year	-669	-684
Closing balance	711	726

The Company, which has only two leases (property lease and a lease of low value), used 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.

Note 5 Employees and personnel costs

Average number of employees

Full-time equivalent	Of whom		Of whom			
	2020	women	men	2019	women	men
Investment Entity	7	29%	71%	7	57%	43%
Total	7	29%	71%	7	57%	43%

Remuneration expenses for employees

Salaries, other remuneration and social security costs

SEK 000	2020		2019	
	Salaries and remuneration	Social security costs	Salaries and remuneration	Social security costs
Investment Entity	18,015	4,678	17,990	5,516
(of which pension expenses)	2,344	569	1 915	465

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 2020 for Remuneration to Executive Management

The Annual General Meeting 2020 did not adopt any new guidelines for 2020, why it is the 2019 guidelines that still apply.

1 APPLICABILITY

The Guidelines shall be in force until Annual General Meeting adopt new guidelines.

The guidelines apply to salary and other forms of remuneration to the CEO and other management personnel (Executive Management) for contracts signed after the 2020 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 2020 amounts to SEK 4.7 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 2019, 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 have been no deviations from the guidelines.

5 PREVIOUSLY DECIDED REMUNERATION NOT YET DUE FOR PAYMENT

At the time of the 2020 AGM, the Company did not have any approved remuneration to Executive Management that has fallen due for payment.

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, Chief Scientific 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.

2020

SEK 000	Base salary/Board fee ¹⁾	Variable Remuneration	Other benefits and remuneration ²⁾	Pension costs	Total remuneration
Viktor Drvota, VD	2,693	1,990	2	715	5,400
Other senior executives (3 persons)	4,030	2,785	6	1,014	7,835
Total management	6,723	4,774	8	1,729	13,235
Björn Cochlovius, Chairman from Sep-20 (board member Jul-Aug-20)	183				183
Hans Wigsell, former Chairman (until Aug-20)	500				500
Tse Ping, Board member	43				43
Theresa Tse, Board member	29				29
Vlad Artamonov, former board member (until Jun-20)	200				200
Magnus Modée Persson, former board member (until Aug-20)	221				221
Total, Board of Directors	1,176	-	-	-	1,176
Total	7,899	4,774	8	1,729	14,411

1) Since AGM 2018, the entire Board fee is based on meeting attendance.

2) Refers to benefit value of health insurance.

2019

SEK 000	Base salary/Board fee ¹⁾	Variable Remuneration	Other benefits and remuneration ²⁾	Pension costs	Total remuneration
Viktor Drvota, VD	2,650	1,324	1,334	694	6,002
Other senior executives (2 persons)	3,034	1,572	1,524	787	6,916
Summa management	5,684	2,896	2,858	1,481	12,918
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
Total, Board of Directors	1,031	-	-	-	1,031
Total	6,715	2,896	2,858	1,481	13,949

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.

Note 5 continued

Gender distribution of senior executives and Board of Directors

Information as of closing date

	2020	2019
Board of Directors		
Men	2	5
Women	1	1
Total	3	6
CEO and senior executives		
Men	4	3
Women	0	0
Total	4	3

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 2020 and LTI 2017 (LTI 2017 ended during 2020 without any allocation), both 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 2020 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 2020 and 2021 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

Note 5 continued

the ten (10) trading days immediately following the Annual General Meeting 2017.

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. The program ended during 2020 without any allocation.

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.

Short Term Incentive Program 2020 (STI 2020)

In 2020, the Board of Directors decided on a Short Term Incentive Program, STI 2020, for senior executives based on a number of specific corporate goals established by the Board for 2020. 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 1.5 million (SEK 2.0 million including social security costs). The expense is included as variable remuneration in the above table in 2020.

Note 6 Interest expenses and other financial gains and losses

Interest expenses

SEK 000	2020	2019
Interest expenses convertible loan	-	-29,975
Interest expenses credit facility	-	-2,241
Interest expenses loan from related party	-5,688	-171
Total	-5,688	-32,387

Other financial gains and losses

SEK 000	2020	2019
Change in value of short-term investments	-	198
Exchange rate gains and losses	-281	-38
Other financial expenses	-	-14,686
Total	-281	-14,526

Note 7 Taxes

Reconciliation of effective tax rate

SEK 000	%	2020	%	2019
Profit before tax		-207,487		302,977
Income tax expense at applicable rate in the Parent Company	21.4%	44,402	21.4%	-64,837
Tax effect of				
Non-deductible expenses		-6,661		-14,096
Tax-exempt revenue		9		4,244
Issue costs				2,899
Changes in fair value, non-taxable		-36,872		82,801
Increase in tax losses carried forward without corresponding capitalization of deferred taxes		-877		-11,011
Recognized current tax	0.0%	0	0.0%	0
Change in deferred tax	0.0%	-	0.0%	-
Recognized deferred tax	0.0%	-	0.0%	-
Total recognized tax	0.0%	-	0.0%	-

Unrecognized deferred tax assets

Deductible temporary differences and tax losses carried forward for which deferred tax assets have not been recognized through profit or loss and the balance sheet primarily relate to losses generated by the Parent Company. 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 170,834 thousand (SEK 167,920 thousand) at 31 December 2020, 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	2020-12-31	2019-12-31
Accumulated acquisition cost		
At the beginning of the year	1 047 600	618 927
Investments during the year	39 954	48 907
Conversions	-	5 865
Sales during the year	-101 856	-41 235
Changes in fair value in net profit/loss for the year	-215 378	415 136
Closing balance	770 320	1 047 600

Specification of shares in portfolio companies, at fair value through profit or loss 31 december 2020

SEK 000	Shares	Acquisition cost ¹ , acc	Value change through profit/loss ² , acc	Closing balance/ fair value ³
Listed companies (level 1)				
Lipidor	270,000	0	3,642	3,642
OssDsign	2,152,912	53,039	-18,916	34,124
Total listed companies (level 1)		53,039	-15,274	37,766
Unlisted companies (level 3)				
Forendo		25,069	14,808	39,877
Modus Therapeutics		10,100	33,775	43,875
Svenska Vaccinfabriken Produktion		3,500	327	3,827
Umecrine Cognition		191,411	447,811	639,222
KCIF Co-Investment Fund KB ⁴		-3,303	9,056	5,753
KDev Investments		533,706	-533,706	0
Total unlisted companies (level 3)		760,483	-27,929	732,554
Closing balance 31 December 2020		813,522	-43,203	770,320

1) Refers original acquisition values, additional investments, conversions and sales.

2) Refers to both realized and unrealized value changes through profit/loss.

3) See Note 1 Valuation of portfolio companies at fair value and Note 17 Fair value, for a description of valuation models.

4) Acquisition cost, acc: Net of acquisition cost of 10 198 KSEK and received payment of -13 501 KSEK.

Specification of shares in portfolio companies, at fair value through profit or loss 31 december 2019

SEK 000	Shares	Acquisition cost ¹ , acc	Value change through profit/loss ² , acc	Closing balance/ fair value ³
Listed companies (level 1)				
Aprea Therapeutics	283,693	24,756	96,540	121,296
Lipidor	270,000	0	4,444	4,444
OssDsign	2,152,912	53,039	-16,009	37,030
Total listed companies (level 1)		77,795	84,975	162,770
Unlisted companies (level 3)				
Forendo		25,069	16,381	41,450
Modus Therapeutics		2,000	0	2,000
Umecrine Cognition		165,297	212,962	378,259
KCIF Co-Investment Fund KB		10,198	14,751	24,949
KDev Investments		531,466	-93,294	438,172
Total unlisted companies (level 3)		734,030	150,800	884,830
Closing balance 31 December 2019		811,825	235,775	1,047,600

1) Refers original acquisition values, additional investments, conversions and sales.

2) Refers to both realized and unrealized value changes through profit/loss.

3) See Note 1 Valuation of portfolio companies at fair value and Note 17 Fair value, for a description of valuation models.

Note 8 continued

Specification of holdings in portfolio companies 31 december 2020

Company	Registered office	Corporate Identity Number	Number of shares
Karolinska Development			
Forendo Pharma Oy	Åbo	FI 2520329-3	1,658
Lipidor	Stockholm	556779-7500	270,000
Modus Therapeutics Holding AB	Stockholm	556851-9523	54,260,049
- Modus Therapeutics AB	Stockholm	556669-2199	100,000
OssDsign AB	Uppsala	556841-7546	2,152,912
Svenska Vaccinfabriken Produktion AB	Stockholm	559001-9823	125
Umecrine Cognition AB	Umeå	556698-3655	9,145,186
KCIF Co-Investment Fund KB			
Forendo Pharma Oy	Solna	969744-8810	26
OssDsign AB	Åbo	FI 2520329-3	612
	Uppsala	556841-7546	461,184
KDev Investments AB			
Aprea Therapeutics Inc	Solna	556880-1608	2,188,578
Biosergen AS	Boston	7312119	1,780,691
Dilafor AB	Trondheim	NO 687622075	4,506,669
Modus Therapeutics Holding AB	Stockholm	556642-1045	366,897
- Modus Therapeutics AB	Stockholm	556851-9523	43,943,405
Promimic AB	Stockholm	556669-2199	100,000
	Göteborg	556657-7754	252,392

Note 9 Loans receivable portfolio companies

SEK 000	2020-12-31	2019-12-31
Loans receivable portfolio companies		
At the beginning of the year	1,768	5,098
Loans provided	-1,768	2,520
Conversions	-	-5,865
Foreign exchange difference	-	15
Total	0	1 768

Not 10 Other financial assets

SEK 000	2020-12-31		
	Earn-out agreement Oncoceptides ¹	Receivable Rosetta Capital	Total
At the beginning of the year	34,372	28,248	62,620
Disposals/ compensations	-	-28,484	-28,484
Change in fair value in net profit/loss for the year	6,087	958	7,045
Closing balance	40,459	722	41,181

SEK 000	2019-12-31		
	Earn-out agreement Oncoceptides	Receivable Rosetta Capital	Total
At the beginning of the year	53,060	26,970	80,030
Disposals/ compensations	-24,623	-	-24,623
Change in fair value in net profit/ loss for the year	5,935	1,278	7,213
Closing balance	34,372	28,248	62,620

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 Oncoceptides. Maximum residual value amounts to KSEK 40,459.

Note 11 Other current receivables and prepaid expenses and accrued income

Other current receivables

Belopp i KSEK	2020-12-31	2019-12-31
Tax assets	673	673
Other	95	114
Total	768	787

Prepaid expenses and accrued income

SEK 000	2020-12-31	2019-12-31
Prepaid rental expenses	179	179
Accrued interest income	-	2
Insurance premiums	262	205
Other	488	346
Total	929	732

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
Total per 1 Jan 2011		33,331,417	16,665,709	1,503,098	31,828,319		0.5
April 2011	Share issue	15,200,000	7,600,000	0	15,200,000	40	0.5
Total per 31 Dec 2011		48,531,417	24,265,709	1,503,098	47,028,319		0.5
Total per 31 Dec 2012		48,531,417	24,265,709	1,503,098	47,028,319		0.5
Total per 31 Dec 2013		48,531,417	24,265,709	1,503,098	47,028,319		0.5
December 2014	Share issue	4,853,141	2,426,570		4,853,141	13	0.5
Total per 31 Dec 2014		53,384,558	26,692,279	1,503,098	51,881,460		0.5
December 2015	Share issue	65,082	32,541		65,082		0.5
Total per 31 Dec 2015		53,449,640	26,724,820	1,503,098	51,946,542		0.5
September 2016	Share issue	15,358	7,679		15,358		0.5
Total per 31 Dec 2016		53,464,998	26,732,499	1,503,098	51,961,900		0.5
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
Total per 31 Dec 2017		64,361,206	643,612	1,503,098	62,858,108		0.01
June 2018	Share issue	57,531	575		57,531		0.01
Total per 31 Dec 2018		64,418,737	644,187	1,503,098	62,915,639		0.01
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
Total per 31 Dec 2019		175,665,409	1,756,654	1,503,098	174,162,311		0.01
Total per 31 Dec 2020		175,665,409	1,756,654	1,503,098	174,162,311		0.01

Note 12 continued

Net asset value per share

SEK 000	Investment Entity	
	2020-12-31	2019-12-31
Net assets		
Cash and cash equivalents	75,869	52,132
Loans receivable portfolio companies	–	1,768
Net financial assets and liabilities	35,455	15,769
Convertible loan and current interest liabilities	-75,864	-89,964
Total net assets	35,460	-20,295
Estimated fair value of portfolio companies	770,320	1,047,600
Total net asset value	805,780	1,027,305
Number of shares	175,421,124	175,421,124
Net asset value per share	4.59	5.86

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	2020	2019
Net profit/loss for the year	-207,487	302,977
Weighted average number of shares before dilution	175,421,124	73,874,552
Earnings per share, SEK, before dilution	-1.18	4.10
Weighted average number of shares after dilution	175,421,124	73,874,552
Earnings per share, SEK, after dilution	-1.18	4.10

Note 13 Convertible loan

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 12 continued

SEK 000	2020-12-31		2019-12-31	
	Current liabilities	Of which affect cash flow	Current liabilities	Of which affect cash flow
Nominal value of convertible debenture issued on 2 January 2015	-		329,257	
Less issue costs	-		-23,982	
Share of equity	-		-42,164	
Remaining liability after issuance 1 January 2020	19,964	0	263,111	0
Accrued interest expenses	-		166,671	
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	-19,964	-19,964	-21,396	-
Total	0	-19,964	19,964	0

Note 14 Other financial liabilities

SEK 000	2020-12-31		2019-12-31	
		Of which affect cash flow		Of which affect cash flow
Earn-out regarding Aprea Therapeutics ¹				
Accumulated acquisition cost				
At the beginning of the year	46,851		11,423	
Paied compensations	-5,093	-5,093	-	-
Fair value change in net profit for the year	-36,032	-	35,428	-
Closing balance	5,726	-5,093	46,851	0

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. Residual value amounts to SEK 74.9 millions at 31 December 2020.

Note 15 Short-term interest-bearing liabilities to related party

SEK 000	2020-12-31	2019-12-31
Short-term loan debt		
Sino Biopharmaceutical Ltd ¹⁾	70,000	70,000
Accrued interest Sino Biopharmaceutical Ltd	5,864	-
Total	75,864	70,000

1) The bridge loan from Sino Biopharmaceutical Ltd has been extended to 31 December 2021. The interest rate amounts to 8% and falls due on 31 December 2021.

Note 16 Accrued expenses and prepaid income

SEK 000	2020-12-31	2019-12-31
Salaries and remuneration to personnel	2,637	2,770
Remuneration to Board of Directors	282	839
Auditor and consulting fees	611	586
Payroll tax and accrued pension costs	1,161	1,231
Social security costs	481	640
Other	353	890
Total	5,525	6,956

Note 17 Financial assets and liabilities, financial risk management**Financial assets and liabilities by category****2020**

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	770,320				770,320	770,320
Other financial assets	41,181				41,181	41,181
Accounts receivable		3			3	3
Receivables from group company		80			80	80
Receivables from portfolio companies		243			243	243
Cash and cash equivalents		75,869			75,869	75,869
Total	811,501	76,195			887,696	887,696
Short-term interest-bearing liability to related party				75,864	75,864	75,864
Other financial liabilities			5,726		5,726	5,726
Accounts payable				617	617	617
Total			5,726	76,481	82,207	82,207

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
Total	1,110,220	54,261			1,164,481	1,164,481
Convertible loan				19,964	19,964	19,964
Short-term interest-bearing liabilities 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
Total			46,851	101,448	148,299	148,299

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 2020

SEK 000	Level 1	Level 2	Level 3	Total
Financial assets				
Shares in portfolio companies at fair value through profit or loss	37,766		732,554	770,320
Other financial receivables			41,181	41,181
Cash and cash equivalents and short-term investments	75,869			75,869
Total	113,635		773,735	887,696
Financial liabilities				
Other financial liabilities			5,726	5,726
Total			5,726	6,343

Investment Entity's assets and liabilities at fair value as of 31 december 2019

SEK 000	Level 1	Level 2	Level 3	Total
Financial assets				
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
Total	214,903	2,129	947,449	1,164,481
Financial liabilities				
Other financial liabilities			46,851	46,851
Current interest liabilities			70,000	70,000
Accounts payable		11,484		11,484
Total		11,484	116,851	128,335

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 other financial receivables in Level 3, a discount rate of 7% has been used. For other financial liabilities, there is no significant difference compared to the carrying amounts included in Level 3, 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 2020

SEK 000	Shares in portfolio companies	Other financial assets	Other financial liabilities
At the beginning of the year	884,829	62,620	46,851
Acquisitions	39,952	-	-
Disposals/compensation	-13,500	-28,484	-5,094
Gains and losses realized in profit or loss	-178,727	7,045	-36,032
Carrying amount at year-end	732,554	41,181	5,726
Realized gains and losses for the period included in profit or loss	8,215	-	5,094
Unrealized gains and losses for the period included in profit or loss	-186,942	7,045	-41,125

There were no transfers between Level 1 and 2 in 2020.

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	336,073	7,213	35,428
Carrying amount at year-end	884,829	62,620	46,851
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.

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.

Change in fair value, gains and losses realized in profit or loss 2020

SEK 000	Shares in portfolio companies	Other financial assets and liabilities
Result level 1		
Listed companies, realized	-12,109	
Listed companies, unrealized	-24,542	
Total level 1	-36,651	
Result level 3		
Unlisted companies, realized	8,215	
Unlisted companies, unrealized	-186,942	
Total level 3	-178,727	
Result level 3		
Other financial assets, unrealized		7,045
Other financial liabilities, realized		-5,094
Other financial liabilities, unrealized		41,125
Total level 3		43,077
Gains and losses realized in profit or loss 2020	-215,378	43,077

Change in fair value, gains and losses realized in profit or loss 2019

SEK 000	Shares in portfolio companies	Other financial assets and liabilities
Result level 1		
Listed companies, realized	-4,965	
Listed companies, unrealized	84,028	
Total level 1	79,063	
Result level 3		
Unlisted companies, realized	12,747	
Unlisted companies, unrealized	323,326	
Total level 3	336,073	
Result level 3		
Other financial assets, realized		-3,440
Other financial assets, unrealized		10,653
Other financial liabilities, unrealized		-35,428
Total level 3		-28,215
Gains and losses realized in profit or loss 2019	415,136	-28,215

Note 17 continued

Shares in portfolio companies (level 3) on 31 december 2020

SEK 000	Ownership	Fair value	Valuation model ¹⁾
Forendo	8.9%	39,877	Last post-money valuation
Modus Therapeutics	39.5%	43,875	External valuation ²⁾
Svenska Vaccin-fabriken Produktion	20.0%	3,827	Last post-money valuation
Umecrine Cognition	74.5%	639,222	External valuation ³⁾
KCIF Co-Investment Fund KB	26.0%	5,753	A combination of post-money valuation and share price listed company ⁴⁾
KDev Investments	90.1%	0	A combination of post-money valuation, share price listed company and external valuation ⁵⁾
Total level 3		732,554	

1) See Note 1 Valuation of portfolio companies at fair value, for a description of valuation models.

2) Valuation level that corresponds to what was discussed with potential investors at the end of 2019, ahead of the investigation of a new indication.

3) Risk adjusted external valuation dated December 2020 by an independent valuation institute. The external valuation resulted in an rNPV value (see definitions page 89) which has been risk adjusted to reflect an assumed pricing in conjunction with an IPO and the need to secure development financing.

4) KCIF Co-Investment Fund KB holds both listed shares which are valued in accordance with the closing rate on the final trading day of the period, and unlisted shares which are valued in accordance with the most recent transaction, post-money valuation.

5) KDev Investments AB holds both listed shares which are valued in accordance with the closing rate on the final trading day of the period, unlisted shares which are valued in accordance with the most recent transaction (post-money valuation), and unlisted shares valued in accordance with an external valuation in conjunction with any new transaction.

Shares in portfolio companies (level 3) on 31 december 2019

SEK 000	Ownership	Fair value	Valuation model ¹⁾
Forendo	8.6%	41,450	Last post-money valuation
Modus Therapeutics	0.0%	2,000	External valuation ²⁾
Umecrine Cognition	74.5%	378,260	External valuation ³⁾
KCIF Co-Investment Fund KB	26.0%	24,949	A combination of last post-money and share price listed company ⁴⁾
KDev Investments	90.1%	438,171	A combination of last post-money, share price listed company and external valuation ⁵⁾
Total level 3		884,830	

1) See Note 1 Valuation of portfolio companies at fair value, for a description of valuation models.

2) Valuation level that corresponds to what was discussed with potential investors at the end of 2019, ahead of the investigation of a new indication.

3) External valuation by an independent valuation institute dated October 2017 which resulted in a rNPV value (see definitions page 89). The value has increased over time with investments up until the year-end closing.

4) KCIF Co-Investment Fund KB holds both listed shares which are valued in accordance with the closing rate on the final trading day of the period, and unlisted shares which are valued in accordance with the most recent transaction.

5) KDev Investments AB holds both listed shares which are valued in accordance with the closing rate on the final trading day of the period, unlisted shares which are valued in accordance with the most recent transaction, and unlisted shares valued in accordance with an external valuation in conjunction with any new transaction.

Sensitivity analysis of significant holdings, 31 december 2020

SEK 000	5%		-5%		+/-15%		+/-30%	
	MSEK	SEK/share	MSEK	SEK/share	MSEK	SEK/share	MSEK	SEK/share
Umecrine Cognition ¹⁾	36,086	0.21	-33,509	-0.19	+/-105,682	+/-0.6	+/-211,364	+/-1.2

1) Sensitivity to rNPV value in performed external valuation based on the assumed sales price of the drug candidate.

Sensitivity analysis of significant holdings, 31 december 2019

SEK 000	5%		-5%		15%		-15%		+30%		-30%	
	MSEK	SEK/share	MSEK	SEK/share	MSEK	SEK/share	MSEK	SEK/share	MSEK	SEK/share	MSEK	SEK/share
Umecrine Cognition ¹⁾	74	0.04	-8,750	-0.05	24,023	0.14	-29,621	-0.17	46,967	0.27	-52,738	-0.30
KDev Investments ²⁾	31,839	0.18	-29,488	-0.17	95,515	0.54	-84,065	-0.48	191,030	1.09	-165,930	-0.95

1) Sensitivity to rNPV value in performed external valuation based on the assumed sales price of the drug candidate.

2) Sensitivity to fair value, which is mainly driven by the share price of the listed holding Aprea Therapeutics.

Note 17 continued

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

"Potential distribution to Rosetta Capital" is the amount of SEK 162.9 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 43.6 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.

KDev Investments' partial divestment of Aprea Therapeutics in December 2020, which yielded SEK 50.7 million for KDev Investments, enabled KDev Investments to pay a dividend to Rosetta Capital in 2020 of SEK 28.5 million which was, in turn, paid to Karolinska Development in order to redeem part of a receivable held by Karolinska Development against Rosetta Capital for a delayed purchase price payment. The dividend initiated the winding up of the waterfall by a corresponding amount.

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

SEK 000	2020-12-31	2019-12-31
Fair value of Karolinska Development portfolio (unlisted companies)	732,554	446,658
Fair value of Karolinska Development portfolio (listed companies)	37,766	162,771
Fair value of KDev Investments portfolio	162,916	943,946
Total Portfolio Fair Value¹⁾	933,236	1,553,375
Potential distribution to Rosetta Capital of fair value in KDev Investments ²⁾	-162,916	-505,775
Net Portfolio Fair Value (after potential distribution to Rosetta Capital)³⁾	770,320	1,047,600

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

2) SEK 43.6 million repayment of Rosetta Capital's investments in KDev Investments and SEK 119.3 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.

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.

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

Change in:	+/-5%		+/-15%		+/-30%	
	Earnings/equity SEKm	Earnings/equity SEK/share	Earnings/equity SEKm	Earnings/equity SEK/share	Earnings/equity SEKm	Earnings/equity SEK/share
Change in share price on shares in portfolio companies at fair value through profit or loss	46.7	0.2	115.6	0.7	231.1	1.3
Currency	2.2	0.0	6.6	0.0	13.1	0.1
Interest	0.0	0.0	0.0	0.0	0.0	0.0

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.

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.

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.

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.

Note 17 continued

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 and cash equivalents is limited as the Investment Entity's counterparties are banks with high credit ratings, therefore is no reserve for expected credit losses on these made.

Assets exposed to credit risk

SEK 000	2020-12-31	2019-12-31
Loans receivable portfolio companies	-	1,768
Other financial assets	41,181	62,620
Accounts receivable	3	39
Receivables from group company	80	-
Receivables from portfolio companies	243	322
Other current receivables	768	787
Cash and cash equivalents	75,869	52,132
Maximum exposure to credit risk	118,144	117,668

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.

Karolinska Development is working intensively to minimize the impact on the value of our investments and continues with different financing alternatives to secure the long-term capital requirement and thereby increase the degree of strategic and operational headroom for the futures.

2020 SEK 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Current interest liabilities	-	75,864	-	-	75,864
Accounts payable	617	-	-	-	617
Other current liabilities	1,373	-	-	-	1,373
Total	2,701	75,864	0	0	78,565

2019 SEK 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Convertible loan	19,964	-	-	-	19,964
Current interest liabilities	-	70,000	-	-	70,000
Accounts payable	11,484	-	-	-	11,484
Other current liabilities	2,991	-	-	-	2,991
Total	35 165	70 000	0	0	105 165

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	2020-12-31	2019-12-31
Pledged assets		
Contingent liabilities		
Investment commitment in portfolio companies	-	2,000
Total pledged assets	-	2,000

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, the companies in the Karolinska Institutet Holding AB Group and with Sino Biopharmaceutical Ltd Group.

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 has a license to use the brand Karolinska, which expires December 2025.

Karolinska Development and the European Investment Fund ("EIF") have entered into an agreement whereby EIF invests in parallel with Karolinska Development in portfolio companies. The investments are made through KCIF Co-Investment KB ("KCIF"). In November 2009, KCIF entered into an agreement with Karolinska Development according to which KCIF will invest in parallel with Karolinska Development at a ratio of 27:73 (KCIF: Karolinska Development) on the condition that certain stated investment criteria are fulfilled. The investors and limited partners in KCIF are EIF, which has committed EUR 12.9 million, and Karolinska Development, which has committed EUR 4.5 million. The amounts are paid to KCIF as needed to make investments, to cover KCIF's expenses, and to pay an annual management fee to KCIF Fund Management AB ("FMAB"), a limited partner responsible for the operation of KCIF. The management fee for the financial year 2020 amounted to SEK 241 thousand (SEK 579 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	2020				2019			
	Sale of services	Interest income	Purchase of services	Interest expenses	Sale of services	Interest income	Purchase of services	Interest expenses
Associate relationship								
Owner: Karolinska Institutet Holding Group (of which rental cost)			714 (714)				957 (714)	
Owner: Sino Biopharmaceutical Ltd ¹⁾				5,693			171	171
Portfolio companies	2,186	897			3,142	1,949		
Total	2,186	897	714	5,693	3,142	1,949	171	171

SEK 000	2020-12-31		2019-12-31	
	Liability to associates	Receivable from associates	Liability to associates	Receivable from associates
Associate relationship				
Sino Biopharmaceutical Ltd ¹⁾		75,864	70,000	
Subsidiaries		79		80
Portfolio companies				68,188
Total		75,943	70,000	36,736

1) The bridge loan from Sino Biopharmaceutical Ltd has been extended to 31 December 2021. The interest rate amounts to 8% and falls due on 31 December 2021.

Note 20 Significant events after the closing date**Karolinska Development**

- The shareholders of Karolinska Development AB (publ) were invited to the Extraordinary General Meeting, on Friday February 19, 2021.
- The Extraordinary General Meeting elected Anna Lefevre Skjöldebrand and Ben Toogood as new directors, and elected Björn Cochlovius as new chairman of the Board of Directors. Further more, the Extra General Meeting approved the Board of Directors' proposal regarding principles for remuneration to executive management (February 2021).
- Johan Dighed has been appointed as Deputy CEO. He takes up the position immediately and will, in addition to his new duties, continue to hold his current role as the company's General Counsel (February 2021).
- Per Aniansson has been appointed as new CFO and Investment Director from 7 March 2021(March 2021).

The portfolio companies

- OssDsign has decided to carry out a fully guaranteed rights issue of SEK 240 million in combination with overallocation options of up to approximately SEK 30 million – a total of approximately SEK 270 million. The purpose of the financing is, among other things, to accelerate the company's development through the new strategy program ASCENT25 (March 2021).
- Forendo Pharma announces a successfully completed Phase 1 program for FOR-6219 – a candidate drug aimed for the treatment of endometriosis. Based on the positive results generated in this program, Forendo Pharma is now preparing a Phase 2 study in the US (March 2021).
- Modus Therapeutics announces an updated strategy that sees the Company focus on the clinical development of sevuparin as a new, important potential treatment for sepsis/septic shock, and possibly other severe inflammatory complications. The company is preparing a listing on Nasdaq First North Growth Market in Stockholm during 2021 to facilitate the financing (March 2021).

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.

This means, among other things, that the following accounting principles has been applied:

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

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..

SEK 000	2020	2019
Other revenue	2,651	3,384
Total revenue	2,651	3,384

Note 24 Change in fair value of shares in portfolio companies

SEK 000	2020	2019
Change in fair value of shares in subsidiaries	0	0
Change in fair value of shares in joint ventures and associated companies	-211 670	399 059
Change in value of other long-term securities holdings	-3 708	16 077
Total	-215 378	415 136

Note 25 Change in fair value of other financial assets

SEK 000	2020	2019
Change in fair value av other financial assets and liabilities	43,077	-28,215
Total	43,077	-28,215

Note 26 Other external expenses**Auditor fees**

SEK 000	2020	2019
EY		
Audit services	1,162	1,199
Audit related services	129	286
Tax consulting	216	288
Total	1,507	1,773

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 Leases

The Parent Company has chosen to finance premises through leases. The parent company applies the exemption rule in RFR 2 and recognises lease payments as a cost on a straight-line basis over the lease term. Expensed leasing payments and future contractual leasing payments are indicated below.

SEK 000	2020	2019
Expensed leasing payments during the period	714	716
Future leasing payments		
Within one year	711	745
Between one year and five years	-	-
Total future leasing payments	711	745

Note 28 Employees and personnel costs

See Note 5 for further information.

Average number of employees

Full-time equivalent	2020			2019		
	Antal	Of whom women	Of whom men	Antal	Of whom women	Of whom men
Investment Entity	7	29%	71%	7	57%	43%
Total	7	29%	71%	7	57%	43%

Employee benefits

SEK 000	2020	2019
Salaries and remuneration	15,671	16,074
Social security costs/payroll tax	5,246	5,516
Pension costs	2,344	1,915
Total	23,261	23,506

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

SEK 000	2020		2019	
	Board and CEO	Other employees	Board and CEO	Other employees
Salaries and remuneration	11,506	2,989	11,429	3,596
Pension costs	1,729	615	1,481	435
Total	13,235	3,604	13,499	4,030

Note 29 Interest income and similar income

SEK 000	2020	2019
Interest income from loan to portfolio companies	908	1,949
Total	908	1,949

Note 30 Interest expenses and similar expenses

SEK 000	2020	2019
Interest expenses convertible loan	-	-29,975
Interest expenses short-term credit facilities	-	-2,194
Interest expense loans from related parties	-5,690	-171
Change in value of short-term investments	-	198
Exchange rate losses	-234	-38
Other financial expenses	-	-14,686
Total	-5,924	-46,866

Note 31 Taxes

SEK 000	%	2020	%	2019
Profit before tax		-207,466		303,013
Income tax expense at applicable rate in the Parent Company	21,4%	44,398	21,4%	-64,845
<i>Tax effect of</i>				
Non-deductible expenses		-6,661		-14,096
Tax-exempt income		9		4,244
Issue costs		-		2,901
Fair value change, non-taxable		-36,872		82,801
Increase in tax losses carried forward without corresponding capitalization of deferred tax		-873		-11,006
Recognized tax	0,0%	0	0,0%	0

Unrecognized deferred tax assets

Deductible temporary differences and tax losses carried forward for which deferred tax assets have not been recognized through profit or loss or the balance sheet mainly refer to the deficits incurred in the Parent Company. 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 2020 amounted to SEK 170,834 thousand (167,920), 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	2020	2019
Accumulated book value		
At the beginning of the year	0	0
Sales during the year	-	-
Closing balance, book value	0	0

No investments in subsidiaries were made in 2020 or 2019.

Specification of holdings in subsidiaries

SEK 000	Total holding ¹⁾		Book value in Parent Company	
	2020-12-31	2019-12-31	2020-12-31	2019-12-31
KCIF Fund Management AB	75.00%	75.00%	-	-
KD Incentive AB	100.00%	100.00%	-	-
Total book value			0	0

¹⁾ 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	2020	2019
Accumulated book value		
At the beginning of the year	1,043,156	608,837
Investments during the year	39,954	48,907
Conversion during the year	-	5,865
Reclassification to other long-term securities holding	-37,030	-
Divestments during the year	-101,856	-19,512
Fair value measurement through profit or loss	-211,670	399,059
Closing balance, book value	732,554	1,043,156

Note 33 continued

Specification of holdings in joint ventures

SEK 000	Total holding	Fully diluted ¹	Total holding	Book value in Parent Company	
	2020-12-31		2019-12-31	2020-12-31	2019-12-31
Karolinska Development portfolio					
Umecrine Cognition AB	74.47%	72.00%	74.47%	639,220	378,259
Modus Thrapeutics Holding AB	39.52%	38.00%	0.00%	43,876	2,000
Modus Therapeutics AB	39.52%	38.00%	0.00%	43,876	2,000
KDev Investments AB²	90.12%		90.12%	0	438,171
Aprea Therapeutics Inc	8.40%	8.40%	9.61%		-
Biosergen AS	4.14%	4.14%	4.14%		-
Dilafor AB	30.54%	30.54%	34.46%		-
Modus Therapeutics Holding AB	32.01%	33.00%	61.75%		-
Modus Therapeutics AB	32.01%	33.00%	61.75%		-
Promimic AB	20.38%	20.38%	23.53%		-
Total book value				683,096	818,430

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 ¹	Total holding	Book value in Parent Company	
	2020-12-31		2019-12-31	2020-12-31	2019-12-31
Aprea Therapeutics Inc	-	-	1.37%	-	121,297
Forendo Pharma Oy	8.87%	8.87%	8.87%	39,878	41,450
OssDsign AB ²	-	-	12.14%	-	37,030
Svenska Vaccinfabriken Produktion AB	20.00%	20.00%	-	3,827	-
KCIF Co-Investment Fund KB	26.00%		26.00%	5,753	24,949
Aprea Therapeutics Inc	-	-	0.81%	-	-
Forendo Pharma Oy	3.27%	3.27%	3.27%	-	-
OssDsign AB	2.08%	2.08%	2.6%		-
Total book value					224 726

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

2) Reclassification to other long-term securities holdings 2020 due to decreased ownership.

Investments in joint ventures and associated companies

SEK 000	2020	2019
Forendo Pharma Oy	-	6,048
KCIF Co-Investment Fund KB	-	579
KDev Investments AB	2,240	366
Modus Therapeutics Holding AB	8,100	2,000
OssDsign AB ¹	-	5,500
Umecrine Cognition AB	26,114	34,414
Total investments in joint ventures and associated companies	39,954	48,907

1) Reclassification to other long-term securities holdings 2020 due to decreased ownership.

Non-cash investments in joint ventures and associated companies

SEK 000	2020	2019
Accrued interest		
Umecrine Cognition AB	897	1 949
Total non-cash investments	897	1 949

Note 34 Other long-term securities holdings

SEK 000	2020	2019
Accumulated book value		
At the beginning of the year	4,444	10,090
Reclassification from associated companies	37,030	-
Divestments	-	-21,723
Fair value measurement	-3,708	16,077
Closing balance, book value	37,766	4,444

Specification of holdings in other long-term securities

Name	Total holding		Book value in Parent Company	
	2020-12-31	2019-12-31	2020-12-31	2019-12-31
Lipidor AB	1.10%	1.10%	3,642	4,444
OssDsign AB ¹⁾	9.71%	-	34,124	-
Total book value			37,766	4,444

1) Reclassification from associated companies 2020.

Non-cash investments in other long-term securities holdings

SEK 000	2020	2019
Reclassification from associated companies	37,030	-
Fair value measurement	-3,708	4,444
Total non-cash investments	33,322	4,444

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
Karolinska Development					
Forendo Pharma Oy	Åbo	FI 2520329-3	1,658	87,850	-44,708
KD Incentive AB	Solna	556745-7675	100,000	149	-
KCIF Fund Management AB	Solna	556777-9219	75,000	220	-
Modus Therapeutics Holding AB	Stockholm	556851-9523	54,260,049	8,403	-4,611
- Modus Therapeutics AB	Stockholm	556669-2199	100,000	926	-3,817
Svenska Vaccinfabriken Produktion AB	Stockholm	559001-9823	125	3,431	-382
Umecrine Cognition AB	Umeå	556698-3655	9,145,186	37,464	-7,899
KCIF Co-Investment Fund KB					
Forendo Pharma Oy	Åbo	FI 2520329-3	612	87,850	-44,708
OssDsign AB	Uppsala	556841-7546	461,184	112,068	-84,590
KDev Investments AB					
Aprea Therapeutics Inc	Boston	7312119	1,780,691	728,973 ¹⁾	-318,725 ²⁾
Biosergen AS	Trondheim	NO 687622075	4,506,669	-6,475	-4,579
Dilafor AB	Stockholm	556642-1045	366,897	6,920	-14,641
Modus Therapeutics Holding AB	Stockholm	556851-9523	43,943,405	8,403	-4,611
- Modus Therapeutics AB	Stockholm	556669-2199	100,000	926	-3,817
Promimic AB	Göteborg	556657-7754	252,392	37,686	-13,295

1) As of 30 September 2020

2) As of 1 Januari - 30 September 2020

Note 36 Loans receivable from joint ventures and associated companies

SEK 000	2020-12-31	2019-12-31
Loans receivable from portfolio companies		
At the beginning of the year	1,768	5,098
Repaid loans	-1,768	-
Loans provided	-	2,520
Conversions	-	-5,865
Foreign exchange difference	-	15
Total	0	1,768

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

SEK 000	2020-12-31	2019-12-31
Conversions	-	-5,865
Foreign exchange difference	-	15
Total non-cash investments	0	-5,850

Note 37 Other financial assets

SEK 000	2020-12-31	2019-12-31
Receivable Rosetta Capital	722	28,248
Receivable earn-out agreement Oncopetides, see also note 10	40,459	34,372
Total	41,181	62,620

Note 38 Other current receivables

SEK 000	2020-12-31	2019-12-31
Tax assets	673	673
Other	95	114
Total	768	787

Note 39 Prepaid expenses and accrued income

SEK 000	2020-12-31	2019-12-31
Prepaid rental expenses	179	179
Accrued interest income	-	2
Insurance premiums	262	205
Other	488	346
Total	929	732

Note 40 Proposed appropriation of profit

SEK	2020-12-31
Retained loss	-1,372,376,052
Share premium reserve	2,378,373,033
Net profit for the year	-207,465,856
Total	798,531,125
The Board of Directors proposes that profits brought forward be appropriated as follows:	
Share premium reserve	2,378,373,033
Retained loss	-1,579,841,908
To be carried forward	798,531,125

Note 41 Other financial liabilities

SEK 000	2020-12-31	2019-12-31
Liability earn-out payment regarding Aprea Therapeutics, see also note 10	5,726	46,851
Closing balance	5,726	46,851

Note 42 Current interest-bearing liabilities to related party

SEK 000	2020-12-31	2019-12-31
Short-term loan debt Sino Biopharmaceutical Ltd ¹⁾	70,000	70,000
Accrued interest Sino Biopharmaceutical Ltd ¹⁾	5 864	
Total	75,864	70,000

1) See note 19 and 44.

Note 43 Accrued expenses and prepaid income

SEK 000	2020-12-31	2019-12-31
Salaries and remuneration to personnel	2,637	2,770
Remuneration to Board of Directors	282	839
Auditor and consulting fees	611	586
Payroll tax and accrued pension costs	1,161	1,231
Social security costs	481	640
Other	353	890
Total	5,525	6,956

Note 44 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	2020				2019			
	Sale of services	Interest income	Purchase of services	Interest expenses	Sale of services	Interest income	Purchase of services	Interest expenses
Associate relationship								
Karolinska Institutet Holding Group			741				957	
(of which rental cost)			(714)				(714)	
Sino Biopharmaceutical Ltd				5,693				171
Subsidiaries	175				457			
Joint ventures and associated companies	2,011	897			2,685	1,949		
Total	2,186	897	741	5,693	3,142	1,949	957	171

SEK 000	2020-12-31		2019-12-31	
	Liability to associate	Receivable from associate	Liability to associate	Receivable from associate
Associate relationship				
Owner: Karolinska Institutet Holding koncernen				
Owner: Sino Biopharmaceutical Ltd		75,864	70,000	
Subsidiaries		79		121
Joint ventures and associated companies				36,615
Total		75,943	70,000	36,736

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 25 March 2021. 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 5 May 2021.

Björn Cochlovius
Chairman

Tse Ping
Board member

Anna Lefevre Skjöldebrand
Board member

Ben Toogood
Board member

Theresa Tse
Board member

Viktor Drvota
CEO

Our Auditor's Report was presented on 25 March 2021

Ernst & Young AB

Oskar Wall
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 2020. The annual accounts for the parent company and the financial statements for the investment entity are included on pages 28-79 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 2020 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 2020 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 770 MSEK as per 31 December 2020, corresponding to 87% 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 49 and note 17 on page 66-68 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 remuneration report for financial year 2020 is considered other information. 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. 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 2020 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. 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 15 June 2020 and has been the company's auditor since the 20 May 2015.

Stockholm 25 March 2021
Ernst & Young AB

Oskar Wall
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

During 2020 (the 20th and the 25th of August) two board members have resigned which had the consequence, that the rule in the Swedish Code of Corporate Governance, that at least two board members independent of the company and its management also must be independent of the company's major shareholders, could not be complied with¹⁾. Karolinska Development complies in all other aspects 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.

Shareholders who want to participate in shareholders' meetings and vote according to the number of shares they hold, shall be listed in print-outs or other representation of the entire shareholders' register in accordance with aktiebolagslagen (the Swedish Companies Act), as well as notify the company the day which is specified in the notice to the meeting. 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 2020, five directors and no deputies were elected. During 2020 two board members have resigned which resulted in that the board thereafter consisted of three board members.²⁾

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 2020 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.

1) At an extra general meeting 2021 two new board members were elected resulting in compliance with the Swedish Code of Corporate Governance, that at least two board members independent of the company and its management also must be independent of the company's major shareholders. 2) At an extra general meeting 2021 two new board members were elected after which the board consists of five board members.

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

Nomination Committee

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

The five largest owners (as set forth in the share register kept by Euroclear Sweden AB as of August 31, 2020) have a right each to appoint one member of the Nomination Committee for the Annual General Meeting 2021. The members of the Nomination Committee

have elected the chairman among themselves. The Nomination Committee consists of Peter Lundkvist (ordförande) representing Tredje AP-fonden, Jack Li representing Sino Biopharmaceutical Ltd, Yan Cheng representing Worldwide International Investments Ltd, Hans Möller representing KIHAB and Torgny Wännström representing 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 Board³⁾

The Company's Board consists of five directors, Björn Cochlovius (Chairman), Tse Ping, Theresa Tse, Anna Lefevre Skjöldebrand and Ben Toogood. Hans Wigzell was Chairman and board member up and until the 20th August 2020 and Magnus Persson was board member up and until 25th August 2020. Vlad Artamonov and Viktor Drvota were board members up and until the annual general meeting 2020. None of the directors is employed by the company.

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".

³⁾ Up and until the extra general meeting 2021, the Company's board consisted of the following three board members, Björn Cochlovius (Chairman), Tse Ping and Theresa Tse.

Elected directors

Björn Cochlovius⁴. Chairman since 2020 (elected Chairman by the board when the, by the annual general meeting 2020, elected Chairman Hans Wigzell resigned). Born 1968. Ph.D., Assoc.Prof. Other appointments Chairman of Isogencia Ltd, found of and General Manager in BC BioMed Consulting GmbH, Partner in Jürg Kurmann Merger and Acquisitions AG, Associate Professor Immunology at Ruprecht-Karls Universität Heidelberg. Previous assignments include, among others Senior Director Development Asia-Pacific i Abbvie Inc., member and Head Oncology in Ot-suka, co-founder, Interim-CEO and Chariman in Ciliatech AG, Director Business Development Oncology in Roche AG, internal strategy consultat with Al-pharma AS (nowadays Axellia), acting CEO of OnTarget Neurology AS, Head R&D at Affitech AS. No holdings in Karolinska Development.

Tse Ping. Vice Chairman and Board member since 2015. Born 1952. Honorary Doct-rate, Fil Dr hc. Other appointments Founder and Chairman of Sino Biopharmaceutical Limited, 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 Com-mittee of the Chinese People's Political Consultative Conferen-ce. Holdings in Karolinska De-velopment 75,727,285 shares (by related legal person).

Theresa Tse. Board Member since 2017. Born 1992. Bachel-or Degree of Science in Econo-mics from the Wharton School of University of Pennsylvania. Other appointments, Executive Director, the Chairlady of the Board and the Chairlady of the Executive Board Com-mittee 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).

Anna Lefevre Skjöldebrand. Board Member since 2021. Born 1969. Masters of Law. Other appointments CEO, Swedish Medtech Service AB. Current board assignments in-

clude Sweden Medtech4Health AB (chairperson), Dedicare AB, Swecare, COCIR, member of the advisory board Life Science office of Sweden. Previous assignments include Head of Legal Swedish Medtech Service AB, Lawyer Delphi & Co, Law-er GLS Legal, Lawyer Ernst & Young Law, Legal Counsel Front Capital Systems AB. Previous board assignments include The e-Health agency, SIS AB and Medtech Europe. She has also been a member of the board in the Board for Public Procure-ment. No holdings in Karolinska Development.

Ben Toogood. Board Mem-ber since 2021. Born 1976, BPharm. MSc. MBA. Other appointments, Head Global Business Development, Sino Biopharmaceuticals Limited. Previous assignments, Head Global BD & M&A Sandoz AG, Group New Business Develop-ment Executive Aspen Pharma-care Holdings, Vice President Global Business Development Pharmathen SA, International Licensing Executive Niche Generics (Unichem Laborato-ries), Regulatory Affairs Merck Generics (Mylan). No holdings in Karolinska Development.

Independence requirements

The table below shows which elected direc-tors are considered independent in relation to the Company and its management as well as in relation to the Company's major sharehold-ers, per definitions in the Code.

Name	Function	Elected	Independent of:	
			company/ mgmt.	major holders
Björn Cochlovius	ordförande	2020	yes	yes
Tse Ping	vice ordf	2015	yes	no
Theresa Tse	ledamot	2017	yes	no
Anna Lefevre Skjöldebrand ⁷	ledamot	2021	yes	yes
Ben Toogood ⁸	ledamot	2021	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. The Company does not, at present, meet the Code requirement that a minimum of two of these must be independ-ent in relation to major shareholders. Recruit-ment of two new board members is ongoing.

The Board's work etc.

According to the Rules of procedure, the Board shall normally meet six times per year. During 2020 the Board held 13 meetings, of which 3 meetings were per capsulam. Of the other 10 meetings Björn Cochlovius (elected board member at the annual general meeting 2020) attended 4 meetings. Tse Ping attended 3 meetings and Theresa Tse 2 meetings. Vik-tor Drvota and Vlad Artamonov (board mem-

bers up and until the annual general meeting 2020) attended 6 meetings. Hans Wigzell (board member up and until his resignation 20th August 2020) attended 7 meetings and Magnus Persson (board member up and until his resignation 25th August 2020) attended 7 meetings

The General Counsel of the company (up and until the 30th April 2020 Ulf Richenberg and thereafter Johan Dighed) 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 consti-tute a foundation for the Company's internal control systems. These are the Information and Insider Policy, Gender Equality Policy, Environmental Policy, HR Policy, Ethics Policy, Policy on Pre-Approval of Non-Audit Services by Auditor and Dividend Policy.

4) Elected Chairman on the extra general meeting 2021. 5) Elected at the extra general meeting 2021. 6) Elected at the extra general meeting 2021. 7) Elected at the extra general meeting 2021. 8) Elected at the extra general meeting 2021.

The board evaluation of the board work has been conducted through interviews by 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 members⁹⁾: Björn Cochlovius (Chairman), Anna Lefevre Skjöldebrand and Ben Toogood, each being independent in relation to the Company's major shareholders and in relation to the Company and its management. Hans Wigzell was committee member up and until his resignation 20th August 2020, Magnus Persson committee member up and until his resignation 25th August 2020 and Vlad Artamonov was committee member up and until the annual general meeting 2020.

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 2020. Hans Wigzell (committee member up and until his resignation 20th August 2020) attended 4 meetings, Magnus Persson (committee member up and until his resignation 25th August 2020) attended 4 meetings and Vlad Artamonov (committee member up and until the annual general meeting 2020) attended 3 meetings. Björn Cochlovius attended 2 meetings.

Remuneration Committee

Karolinska Development's Remuneration Committee consists of three members¹⁰⁾: Björn Cochlovius (Chairman), Anna Lefevre Skjöldebrand and Ben Toogood, each being independent in relation to the Company and its management. Hans Wigzell was committee member up and until his resignation 20th August 2020, Magnus Persson committee member up and until his resignation 25th August 2020 and Vlad Artamonov was committee member up and until the annual general meeting 2020.

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 3 times during 2020. Hans Wigzell (committee member up and until his resignation 20th August 2020) attended 3 meetings, Magnus Persson (committee member up and until his resignation 25th August 2020) attended 3 meetings and Vlad Artamonov (committee member up and until the annual general meeting 2020) attended 2 meetings. Björn Cochlovius attended 1 meeting.

Investment Committee

Karolinska Development's Investment Committee consists of three members¹¹⁾: Björn Cochlovius (Chairman), Anna Lefevre Skjöldebrand and Ben Toogood. Hans Wigzell was committee member up and until his resignation 20th August 2020, Magnus Persson committee member up and until his resignation 25th August 2020 and Viktor Drvota was committee member up and until the annual general meeting 2020.

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 2020. Hans Wigzell (committee member up and until his resignation 20th August 2020) attended 2 meetings, Magnus Persson (committee member up and until his resignation 25th August 2020) attended 2 meetings and Viktor Drvota (committee member up and until the annual general meeting 2020) attended 2 meetings.

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.

9) From the resignation of Hans Wigzell and Magnus Persson as board members up and until the inaugural board meeting following the extra general meeting 2021 the Audit Committee consisted of Björn Cochlovius (Chairman), Tse Ping and Theresa Tse.

10) From the resignation of Hans Wigzell and Magnus Persson as board members up and until the inaugural board meeting following the extra general meeting 2021 the Remuneration Committee consisted of Björn Cochlovius (Chairman), Tse Ping and Theresa Tse.

11) From the resignation of Hans Wigzell and Magnus Persson as board members up and until the inaugural board meeting following the extra general meeting 2021 the Investment Committee consisted of Björn Cochlovius (Chairman), Tse Ping and Theresa Tse.

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 respon-

sible 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 in regularly management meetings.

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

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

timely information to the Company's management and the Board.

The Company has quite few employees, all active at the same workplace, 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 2021

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 2020 on pages 83-87 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 25 March 2021
Ernst & Young AB

Oskar Wall
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.

Return on equity

Profit/loss after financial items divided by equity.

rNPV

(Risk adjusted Net Present Value) is a risk adjusted capital budgeting formula that calculates the present value of the cashflows of a project or potential investment.

Return on capital employed

Profit/loss after financial items divided by capital employed.

Net asset value and net asset value per share

Net Portfolio Fair Value of the total portfolio (SEK 770.3 million), cash and cash equivalents (SEK 75.9 million), the net of financial assets and financial liabilities minus interest-bearing liabilities (SEK 35.5 million minus SEK 75.9 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 2020).

Other definitions

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).

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).

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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