ALLIGATOR bioscience

Annual report 2016

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Major events in 2016

In April, Alligator Bioscience received a first milestone payment for the immuno-oncological antibody ADC-1013, which is now being developed in partnership with Janssen Biotech, Inc., a subsidiary of Johnson & Johnson Innovation.

"It is very encouraging for the ADC-1013 project and the ongoing Phase I studies that the trials are progressing extremely well and are being expanded by a systemic administration arm. This will give us and our partner Janssen important information for the future development of ADC-1013" says Per Norlén CEO at Alligator Bioscience.

In May, Alligator received the SwedenBIO Award. Extract from the citation: "The combination of high-quality research and a well-developed business sense has resulted in a collaboration agreement of a unique size with one of the world's biggest pharmaceutical companies."

In July, Alligator contracted BioInvent for process development and cGMP manufacturing of the immuno-oncology drug candidate ADC-1015

"ADC-1015 is a bispecific immune activating antibody that targets OX40 and CTLA-4. Since both OX40 and CTLA-4 are expressed on T cells in the tumor area, ADC-1015 is expected to induce strong tumor-directed immune activation. ADC-1015 has the potential to become first-in-class in this category of immune activating bispecific antibodies" says Per Norlén

In October, dosing started in a second clinical phase I study with the CD40 Agonistic Immuno-Oncology Antibody ADC-1013

"The start of the Janssen trial is very exciting. ADC-1013 now enters a phase of development where Janssen assumes responsibility for all future clinical studies" says Per Norlén

In November, Alligator Bioscience was listed on Nasdaq Stockholm.

"We are very grateful for the support from both existing and new institutional and private investors. It is an acknowledgement of our history and of our future potential. The IPO is an important step towards realizing our strategy of establishing ourselves as a leading research company within tumor-directed immunotherapy, and we look forward to continuing this journey as a listed company," says Per Norlén.

Alligator Bioscience in brief

Alligator, is a Swedish biotech company which develops innovative antibody-based drugs for tumor-directed immunotherapy. The aim is to activate the immune system to treat, or even cure, metastasizing cancer.

Alligator focuses on developing antibody-based product candidates within immuno-oncology, using the company's internal technology platforms, the human antibody library ALLIGATOR-GOLD®, and the protein optimization technology FIND®.

In 2015, Alligator entered a strategic partnership with Janssen Biotech, Inc. on the clinical product candidate ADC-1013. The partnership and a successful share issue coupled to the listing at Nasdaq Stockholm has put Alligator in a very strong financial position, and validates Alligator's technology and business model.

Alligator in figures (Dec 31, 2016)

Projects	5
Employees	36
MSEK in the bank	659
Shareholders	4,383

Vision

Alligator's vision is to be a world-leading biotech company creating novel immuno-oncology therapeutics with a focus on the individual patient.

Goal

Alligator's goal is to build an innovative and competitive portfolio of product candidates for tumor-directed immunotherapy.

Major milestones in the company's history

2001
Alligator Bioscience founded in Lund.

2007
Decision taken that Alligator should use the FIND® technology to develop its own product candidates.

2008
Strategic decision to focus on immuno-oncology.

2009
FIND® optimization of the antibody which later became ADC-1013.

2012
Decision taken to focus on mono and bispecific antibodies.

2013
Antibody library ALLIGATOR-GOLD® generated. This has since been used to develop Alligator's product candidates.

Atlas Therapeutics AB acquired.

2015
Exclusive license agreement signed with Janssen Biotech, Inc. for the development and marketing of ADC-1013. The first phase I clinical trial of ADC-1013 started.

2016
Alligator listed on Nasdaq Stockholm.

In October a second phase I trial of ADC-1013 started under the sponsorship of Janssen Biotech, Inc.



Strategy

Alligator's goal is to establish the company as a key player within tumor-directed immunotherapy. The strategy to achieve this involves:

- Strengthening competitive advantage by focusing on product candidates with potential to be 'first-in-class' or 'best-in-class'
- Extending internal product development up to clinical phase IIa, followed by licensing or strategic partnerships
- Expanding the product portfolio of agonistic tumor-directed product candidates, by internal development and in collaboration with partners
- Expanding the technology platforms
- Promoting an attractive environment for employees and further increasing the number of research partnerships

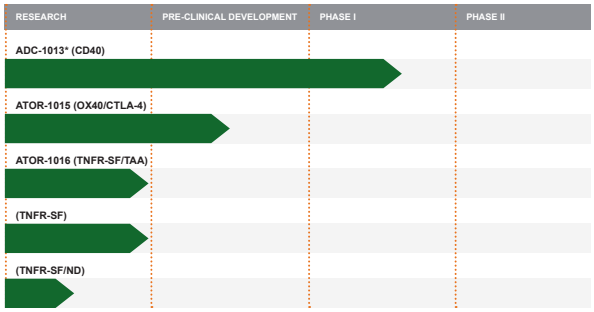
Alligator's overall strategy is to build a differentiated pipeline within tumor-directed immunotherapy, to develop more product candidates in parallel, and to push them faster and longer through clinical development. Alligator will develop candidates internally until effect is shown in cancer patients, i.e. until clinical phase IIa is completed. Alligator's product candidates will thus be developed further before licensing compared to what was done for ADC-1013.

The main reasons for out-licensing at a later stage is to allow even more advantageous deals to be made, with higher royalty percentages, and the fact that the strong competition within immuno-oncology will lead to successively higher demand for extensive clinical effect documentation prior to out-licensing.

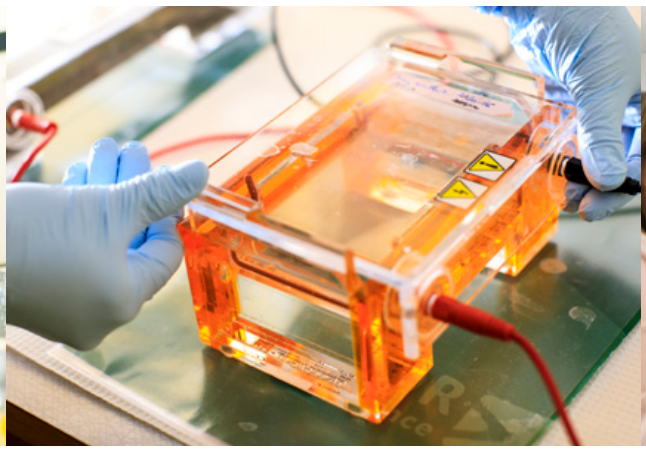
Project portfolio

Alligator currently has five drug development projects in its portfolio, with ADC-1013 in clinical phase I, ATOR-1015 in preclinical phase and three more projects in research phase.

Project portfolio



TNFR-SF: Tumor necrotic factor receptor superfamily
TAA: Tumor-associated antigen
ND: Not disclosed
* Licensed to Janssen Biotech, Inc. Further developed as JNJ-64457107.



CEO Statement

2016 – an outstanding year with an expanded project portfolio and strengthened finances, and with an explicit strategy of establishing Alligator as a leading player within tumor-directed immuno-oncology.

Alligator's vision is to be a world-leading biotech company creating novel immuno-oncology therapeutics with a focus on the individual patient. In 2016, Alligator took another step towards this goal. The product portfolio has progressed remarkably well and is strongly positioned. Further Alligator was successfully listed on Nasdaq Stockholm, and we are in a very good financial position after a major share issue and a milestone payment for ADC-1013. Overall, Alligator is in a strong phase of development since the significant agreement with Janssen Biotech, Inc. The company strategy is to build the portfolio of product candidates for tumor-directed immunotherapy, and to push them faster and further through clinical development.

Alligator invested heavily in R&D during 2016, allowing us to advance all projects at high speed. At the end of the period, we have a stronger product portfolio than ever, with five product candidates with the potential to be 'first-in-class' or 'best-in-class'. Notable product candidates include ADC-1013, the clinical CD40 antibody which has been licensed to Janssen Biotech, Inc., and the bispecific product ATOR-1015. Apart from these front runners two other projects progressed to the point where they are about to enter the preclinical phase and start production of clinical material.

Successful partnership with Janssen Biotech, Inc.

Our clinical trial with ADC-1013 has progressed rapidly during 2016 and has been expanded with an intravenous dose escalation arm. The expansion of the phase I trial triggered a milestone payment from Janssen of USD 5 million. In the second half of 2016, Janssen Biotech, Inc. initiated a second clinical trial including intravenous dose escalation, and they have now taken over all recruitment for intravenously administered ADC-1013 (JNJ-64457107). Apart from the ADC-1013 license agreement, a successful research colllaboration was concluded with Janssen Biotech, Inc. This increased our understanding of the ADC-1013 mechanism of action and of the combination therapies and treatment regimes to be evaluated in the upcoming clinical program.

ATOR-1015 takes immuno-oncology to the next level

Next to ADC-1013, the bispecific immune-activator ATOR-1015 is our most important product candidate. It has a good chance of becoming the first dual immune activating bispecific antibody. The product is directed against two important receptors in the immune system, OX40 and CTLA-4, and increases the ability of the immune system to attack tumor cells while reducing immune suppressive functions. Bispecific immune activation with two different immune-modulating entities in a single compund is a novel concept. I think this is a very promising way of taking immuno-oncology to the next level to improve long-term survival. We have developed ATOR-1015 to augment the effect of PD-1/PD-L1 antibodies, which are the drugs that we believe will be standard of care in the future. ATOR-1015 is in the pre-clinical phase.

> "At the end of the period, we have a stronger product portfolio than ever, with five product candidates with the potential to be 'first-in-class' or 'best-in-class'"

Cell line development for antibody production started in the first quarter of 2016. The work was outsourced to the contract manufacturer Cobra Biologics, which previously carried out cell line development for ACD-1013 on behalf of Alligator. In the third quarter, BioInvent International AB was also contracted for antibody production, in this case for process development and future production of clinical material. Towards the end of 2016, cell line development was successfully completed and process development ready to be started. The fast pace of development gives us high hope of being first in the world with a dual immune-activating antibody in clinical development.

Next generation tumor-directed immunotherapies

ATOR-1016 is an example of the next generation of tumor-directed immunotherapies. It is a bispecific product candidate comprising one immune-activating antibody and one tumor-binding antibody. The unique property of this product is that it will accumulate in the tumor area, to give a stronger immune activation there compared to the rest of the body. Alligator has augmented this further by designing the molecule in a way that makes it fully active only once bound to the tumor. During 2016, ATOR-1016 was optimized to obtain the properties needed for successful production and clinical development.

Alongside this, Alligator has developed a monospecific immune-activating antibody which activates a T-cell receptor in the TNFR superfamily. The product is expected to go into the preclinical development and start manufacturing in the first half of 2017.

> “We are now in a financial position to fully deliver on our strategy”

Listing on Nasdaq Stockholm

2016 was the year when Alligator was listed on Nasdaq Stockholm. The listing was accompanied by a share issue which brought the company another SEK 350 million. Together with the out-licensing milestone payments received from the partnership with Janssen Biotech, Inc., we are now in a financial position to fully deliver on our strategy.

The Nasdaq listing was managed in partnership with Carnegie as Global Coordinator and Joint Bookrunner, DNB Markets as Joint Bookrunner and Redeye as Co-Lead Manager.

More employees

We increased our workforce by 50% in 2016, with the vast majority joining R&D. At the end of the year, the company had 36 employees, of which 32 in R&D, and we plan to continue recruiting over the year. Our goal is to establish Alligator as a leading player in tumor-directed immuno-oncology, focusing on selective activation of the relevant part of the immune system. We are now running more projects in parallel, assigning more resources to them, and driving them forward even faster. We have also raised our ambitions with regard to clinical development, and we aim to take most projects all the way through clinical phase IIa, on our own or in partnership, before out-licensing.

Immuno-oncology holds great promise

Immuno-oncology is here to stay. It will make up a significant part of the therapeutic arsenal against cancer, for more indications and for larger target groups within each indication. The explanation for the immuno-oncology success is simple: The signalling pathways critical for the ability of the immune system to attack and eradicate cancer have been identified. Never before have such great advances been made so quickly, and never before have such extensive resources been invested. We will see huge progress over the coming years, and the final goal of curing metastasizing cancer could soon be a reality. Alligator intends to be part of the global effort to achieve this goal.

I look forward to 2017 with confidence, and thank both old and new shareholders for the trust and support they have given Alligator in our desire to be in the forefront of one of the fastest-growing areas within the pharmaceutical industry today.

Per Norlén, CEO at Alligator Bioscience

Round table discussion with Professor Thomas Tötterman

Professor Thomas Tötterman of Uppsala University is a pioneer in immunotherapy against cancer.
Here, he is talking to (from the left): Christina Furebring, Eva Dahlén, Per Norlén and, furthest to the right, Peter Ellmark.

In 2008 Alligator started a research collaboration with Thomas Tötterman, professor of clinical immunology at Uppsala University, on CD40 as a target for cancer immunotherapy. This collaboration was vital for the development of the CD40 activating antibody ADC-1013, and led to one of the largest out-licensing deals in Swedish biotech history. Thomas recently participated at a scientific symposium on immunotherapy, organized by Alligator.

You started to study immunotherapy of cancer a long time ago, long before it was generally accepted. What made you take that decision?

– I started my clinical career at the Department of Hematology, Uppsala University Hospital, in the early 1980-ies. There I got involved in allogeneic hematopoietic stem cell transplantation of patients with leukemia and lymphoma. Many people believe that these patients are cured because of the tough chemotherapy regimen preceeding the transplant, but in fact it is mainly the work of the donor immune system, more specifically the T cells. The chemotherapy will of course kill a lot of malignant cells, but it is the alloreactive donor T cells that eradicate surviving malignant cells in the patient. This was a turning point for me and I have believed in the power of immune-oncology ever since.

What can be achieved by the immunotherapies that exist today?

– There are many kinds of cancer immunotherapies, including allogeneic stem cell transplants for hematological malignancies, BCG instillation in bladder cancer, and of course, immune modulating antibodies such as the checkpoint inhibitors. The recent success of the checkpoint inhibitors has improved the prognosis in malignant melanoma and lung cancer significantly. It should be remembered however that these drugs primarily succeed in controlling the disease through reactivation of tumor-directed T cells, but in most cases they do not eradicate all malignant cells. This basically means that the patients can survive with their cancer for many years, but that they are likely to relapse if the integrity of the immune system is compromised.

What is the future potential of immuno-oncology?

– In the near future we will see immune-oncology succeed in other types of cancer, and also be approved for treatment of patients with earlier stage disease. The improvements demonstrated in the last few years have been very dramatic, probably unprecedented. We are however now entering a phase where it will take many years of clinical testing before we have identified the best combination treatment regimens for each cancer indication. Checkpoint inhibitors are very effective in some indications, but it is quite clear that their effect can be further improved by intelligent combinations, including the addition of

agonistic immune stimulators like e.g. Alligator's ADC-1013, combinations with standard therapies like radiation and chemotherapy, and also cancer vaccines. The vaccines have not been successful in the past, but my belief is that vaccines will see a renaissance in combination with other immunotherapies, especially when it comes to demonstrating efficacy in poorly immunogenic tumors like prostate, colorectal and breast cancer. All in all we will see improved survival in a larger number of cancer indications within the next 10 years thanks to immuno-oncology.

What made you focus your research on local immunotherapy?

– By local immunotherapy we usually mean tumor-directed immunotherapy, i.e. the idea to focus the immune activation to the relevant part of the immune system, specifically to the tumor-infiltrating immune cells and tumor-draining lymph nodes. Based on my experience with immune activating treatments it was clear to me that systemic immune activation is very toxic when it involves the full immune system. I started out in the late 1980-ies with a model involving viruses carrying genetic inserts coding for immune activating proteins. One such virus was the replication-deficient Adenoviral vector expressing CD40 ligand that later inspired the collaboration with Alligator. Using this system it became apparent that very powerful and curative immune activation could be achieved after local immune activation in mice, and basically without side effects. The main problem with local injections is that it is more difficult to commercialize, but I have no doubt that the field of immuno-oncology will incorporate this in the therapeutic weaponry going forward.

> "All in all we will see improved survival in a larger number of cancer indications within the next 10 years thanks to immuno-oncology"
>
> Thomas Tötterman

There is a story about a dog?

– This was back in 2006 when a colleague of mine was inspired of our success in mice and asked me to try the AdCD40L treatment on the family dog. It was a golden retriever with mucosal metastatic malignant melanoma with a very poor prognosis. We injected the CD40-activating adenovirus in a large tumor in the mouth, and the response was beyond belief. Very soon we could see that the injected tumor started to disappear, and within several weeks the general condition of the dog was much improved. Even lung metastases disappeared. She lived for another 1.5 years, and in the end did not succumb from the cancer, but for non-related reasons.

You started a research collaboration with Alligator shortly afterwards. This focused on a CD40 activating antibody rather than your CD40 activating virus. What are the pros and cons of an antibody versus a virus?

– One additional bonus with the virus is that it not only activates CD40 on dendritic cells, but in addition further stimulates Toll-like receptors leading to inflammation and T cell activation. However, overall the advantages of an antibody are quite obvious. It is an established format that can be controlled in many aspects such as dosing and manufacturing. The regulatory requirements are also clearly specified which makes it far easier to develop, and of course easier to out-license. One important factor is also that the humanized antibody is far less immunogenic than the virus. This allows repeated injections to be administered, whereas the virus will quickly trigger an anti-virus immune attack that makes long term treatment impossible.

You have retired from clinical practice, but you have recently co-founded a company active in the field of immune-oncology. Would you like to comment on that?

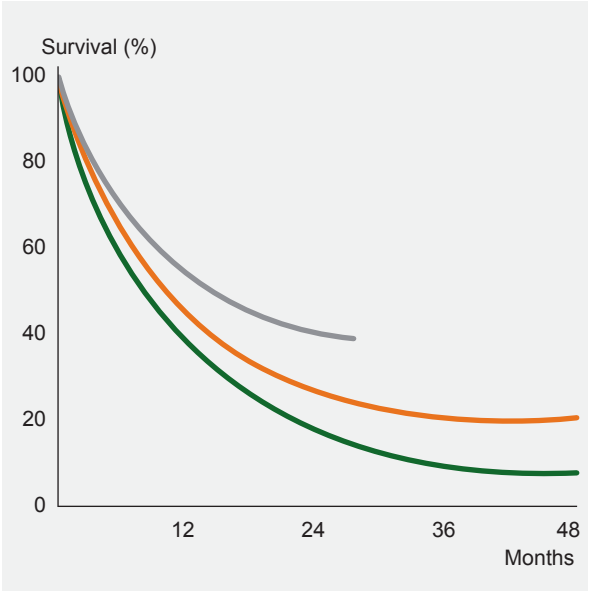
– Absolutely. I am the co-founder and a board member of a company called ImmuNeed, inc. The company provides a unique human whole blood loop method to assess the immune activating effects and potential toxicity of immune modulators, as a fee-for-service. Alligator has been one of the companies using this service for its preclinical drug development projects. In addition the company is developing novel multi-valent cancer vaccines with improved dendritic cell activation, which I much believe in, and which could be very promising in combination with products like Alligator's ADC-1013.

Immuno-oncology

The immune system

The immune system is the body's defense against external enemies such as viruses and bacteria, as well as against internal enemies like cancer. The immune system has two important attributes, specificity and memory.

The specificity of the immune system means that it has a unique ability to distinguish sick and dangerous cells and organisms from healthy cells in the body. Thus, in the case of an infection, or in cancer, only the immune cells that specifically recognize the infected or tumorous cells will be enriched and then destroy these cells, while healthy cells in the body are not affected. Immunological memory means that some of these immune cells survive in the body for a long time, thereby providing long-lasting protection (immunity) against recurring infection. These properties of the immune system are used in vaccination, and in immuno-oncological treatment of cancer.



Adapted from Schadendorf, J Clin Oncol, 17, 2015,
Robert, New Engl J Med, 2011, Topalian, J Clin Oncol, 2014

PD-1 antibody (Opdivo® or Keytruda®)

CTLA-4 antibody (Yervoy®)

Standard treatment before immunotherapy (Dacarbazine)

Effect of immunotherapy compared with cytotoxins to treat malignant melanoma.

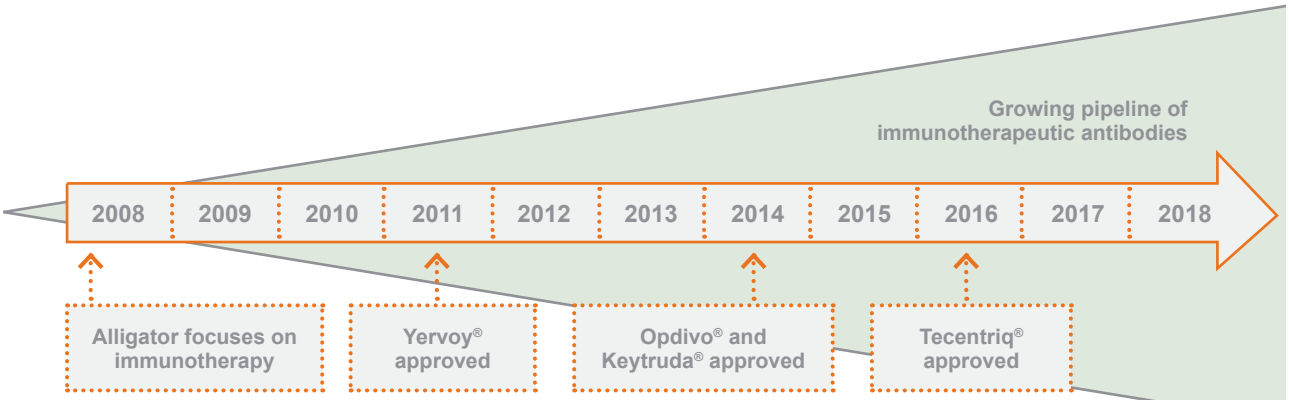
The immune system and cancer

The term immuno-oncology is used for the field of research studying the interaction of the immune system with cancer (oncology). This research is the basis for the immuno-therapies being developed to treat cancer.

Tumors often contain a large number of immune cells with the ability to attack and destroy the tumor. But cancer cells can escape immune recognition, for instance by producing immuno-suppressive substances, thereby hampering the capability of the immune system to destroy cancer. Immunotherapy enhances the ability of the immune system to fight cancer cells effectively, and weakens the tumor's defenses. The immunological memory also provides long-lasting protection against recurring tumor growth. This 'vaccination effect' is unique to immunotherapy.

Cancer immunotherapy has huge potential to treat, and perhaps even cure, cancer and is now seen as the most promising area within cancer treatment. The big breakthrough for immunotherapy has been made in the last five years, and is based on the good effect that antibody-based drugs against the target proteins CTLA-4 and PD-1 have displayed in the treatment of, for instance, malignant melanoma and lung cancer. The drug Yervoy® (ipilimumab, Bristol-Myers Squibb), which blocks the function of the immune-inhibiting target protein CTLA-4, was approved for the treatment of malignant melanoma in 2011. The chance of surviving for more than three years with the treatments that were on the market before that was around 10%. This figure doubled to around 20% with Yervoy®. Long-term survival over the ten years that Yervoy®-treated patients have been followed remains at 20%, which is a huge improvement compared to previous treatment results. In 2014, two additional immunotherapeutic antibodies were approved for the treatment of malignant melanoma: Opdivo® (nivolumab, Bristol-Myers Squibb) and Keytruda® (pembrolizumab, Merck). These antibodies block the function of another immune-inhibiting target protein, PD-1, and display an even better clinical effect than Yervoy®.

These drugs have also been shown to have a good effect on several other tumors and, including the recently approved Tecentriq® (atezolizumab, Roche), immunotherapeutic antibodies have now been approved for the treatment of malignant melanoma, renal, head & neck, lung and bladder cancer as well as lymphoma.



Some major milestones in immunotherapy of cancer.

The effect of these drugs convincingly demonstrates the huge potential of immunotherapy for treating cancer, and has stimulated growing interest in this area among pharmaceutical and biotech companies.

Alligator is one of the pioneers in immunotherapy of cancer, and the projects that eventually resulted in ADC-1013 and ATOR-1015 were initiated back in 2008, before there were any approved immunotherapeutic antibodies on the market and at a time when the industry was skeptical towards immunotherapy of cancer. The company therefore has long experience and an extensive knowledge, and hence a strong position in this field.

Market and environment

14 million people are diagnosed with cancer each year, and almost 9 million people died of cancer around the world in 2015. The number of new cancer cases is expected to increase to 24 million within the next two decades (WHO World Cancer Report 2014 and WHO Cancer Fact Sheet, February 2017), resulting in a vast need for advanced cancer care.

One reason for the increased number of diagnosed cancer cases is the increase in life expectancy. Another reason is the improvement in diagnostic methods. This leads to a larger number of cancer cases being detected, often in an early stage, which improves the chances of successful treatment. The increase in the number of cancer cases is reflected in the high social costs of treating cancer. During 2014, sales figures for cancer drugs increased by 7.9 per cent to reach over USD 81 billion, compared to USD 60 billion four years earlier (Global Data). By 2019, sales of cancer drugs are expected to continue to grow by an average of about 4.4 per cent per year, to USD 100 billion (Global Data).

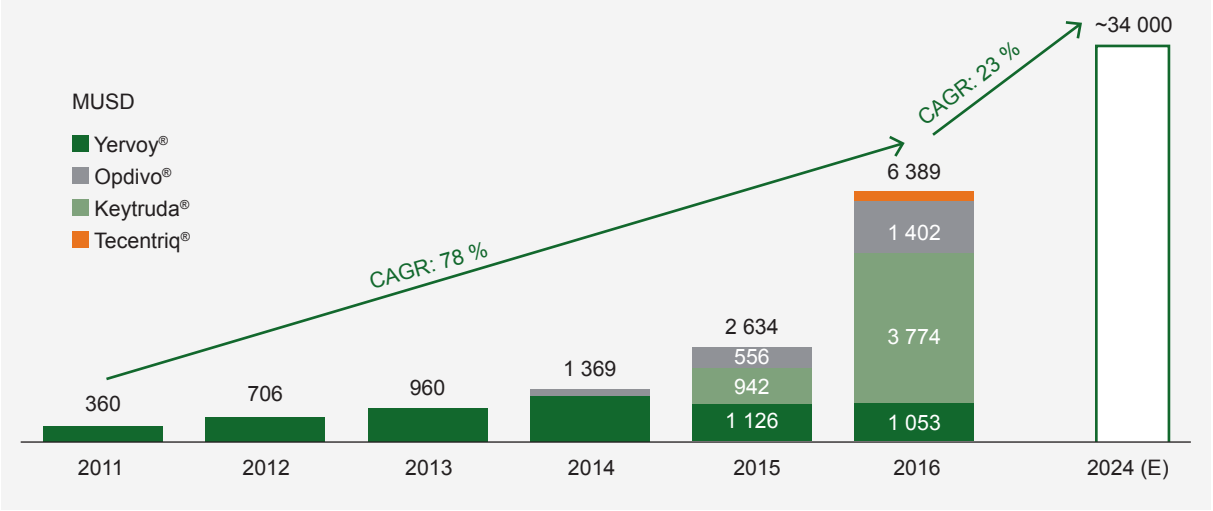
In the coming years a series of new innovative treatments are expected to be placed on the market, including new immunotherapies that will form an important part of the treatment options for cancer (IMS Institute for Healthcare Informatics, global forecast for drugs up to 2020, April 2015).

The first immunotherapeutic drug, Yervoy® (Bristol-Myers Squibb), was approved in 2011. Since then, three more immunotherapies for the treatment of cancer, Opdivo® (Bristol Myers-Squibb), Keytruda® (Merck & Co) and Tecentriq® (Roche) have been approved. Antibody-based immunotherapies have the potential to be used in the treatment of virtually all forms of cancer. Today such drugs are used for the treatment of malignant melanoma, kidney, head & neck, lung and bladder cancer as well as lymphoma. The number of cancers treated with immunotherapy is expected to increase in the future. Global Data estimates that the total immuno-oncology market will amount to USD 14 billion per year as early as 2019, and continue to grow to USD 34 billion per year in 2024.

Immunotherapy has revolutionized the treatment of cancer in the past five years, due to the treatment being effective in a greater proportion of patients than previous therapies and not least because the effect persists for a long time. Therefore immunotherapy is now seen as the most promising area within cancer treatment. This means that there is now great interest among pharmaceutical and biotech companies, and the number of immunotherapeutic product candidates in development is constantly increasing. Along with the existing immunotherapy products on the market, there are several antibody-based product candidates in clinical development.

The table on the next page lists the approved products and a selection of the approximately 100 immunotherapeutic product candidates in clinical development. Among the product candidates listed in the table five are directed against the target protein CD40, one of which is Alligator's product candidate ADC-1013.

The great interest in immunotherapy in the market offers good opportunities for small biotech companies such as Alligator to establish valuable collaboration



Sales of approved immunotherapy drugs for 2011–2016 and forecast estimate (E) for 2024, including annual percentage growth rate (CAGR). Source: annual reports for Bristol-Myers Squibb, Merck & Co and Roche, and Global Data Immuno-Oncology Strategic Insight 2016.

List of immunotherapeutic antibodies on the market, as well as a selection of the approx. 100 product candidates in clinical development as of March 1st, 2017.

Product/ candidate	Company	Indication	Phase	Target protein
Yervoy® (ipilimumab)	Bristol-Myers Squibb	Melanoma	L	CTLA-4
Keytruda® (pembrolizumab)	Merck	Melanoma, lung cancer, head and neck cancer	L	PD-1
Opdivo® (nivolumab)	Bristol-Myers Squibb	Melanoma, lung cancer, renal cell cancer, lymphoma, head and neck cancer, bladder cancer	L	PD-1
Tecentriq® (atezolizumab)	Roche	Bladder cancer, lung cancer	L	PD-L1
durvalumab	AstraZeneca	Bladder cancer	III*	PD-L1
avelumab	Pfizer & Merck	Merkel cell cancer	III*	PD-L1
tremelimumab	AstraZeneca	Lung cancer, bladder cancer, head and neck cancer	III	CTLA-4
urelumab	Bristol-Myers Squibb	Solid tumors, lymphoma	II	CD137
varlilumab	Celldex	Solid tumors	II	CD27
IMP-321	Prima Biomed	Breast cancer	II	LAG3
BMS-986016	Bristol-Myers Squibb	Solid tumors	II	LAG3
ADC-1013	**Alligator Bioscience**	**Solid tumors, leukemia**	**I**	**CD40**
RG7876	Roche	Solid tumors	I	CD40
APX005M	Apexigen	Solid tumors	I	CD40
SEA-CD40	Seattle Genetics	Solid tumors, leukemia	I	CD40
ABBV-428	Abbvie	Solid tumors	I	CD40
BMS-986178	Bristol-Myers Squibb	Solid tumors	I	OX40
RG7888	Roche	Solid tumors	I	OX40
MEDI0562	AstraZeneca	Solid tumors	I	OX40
GSK-3174998	GlaxoSmithKline	Solid tumors, leukemia	I	OX40
PF-04518600	Pfizer	Solid tumors	I	OX40
INCAGN1949	Agenus and Incyte	Solid tumors	I	OX40
utomilumab	Pfizer	Solid tumors, lymphoma	I	CD137
BMS-986156	Bristol-Myers Squibb	Solid tumors	I	GITR
MK-4166	Merck	Solid tumors	I	GITR
MK-1248	Merck	Solid tumors	I	GITR
TRX518	Leap Therapeutics	Solid tumors	I	GITR
AMG-228	Amgen	Solid tumors	I	GITR
MEDI1873	AstraZeneca	Solid tumors	I	GITR
GWN-323	Novartis	Solid tumors, lymphoma	I	GITR
INCAGN1876	Agenus and Incyte	Solid tumors	I	GITR

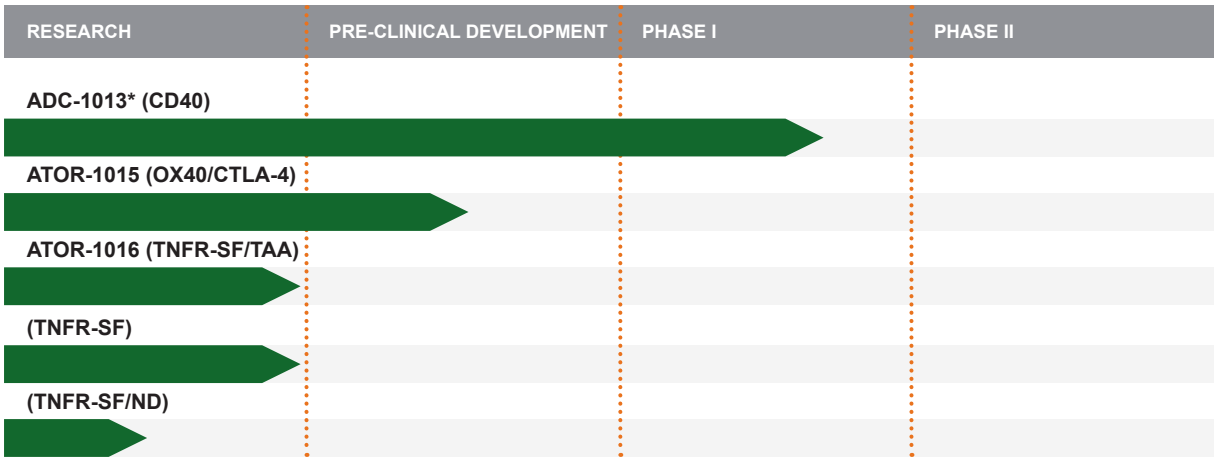
L: Launched drugs
I, II and III: Drug candidates in clinical phase I, II and III.
*Phase III completed, expected to be approved and launched shortly.

agreements with pharmaceutical companies for late clinical development and marketing of product candidates. At the same time, it creates a strong competition. Alligator's strategy is to develop antibody-based drugs with clear advantages over the drugs and product candidates on the market and in development. This makes the company competitive and also increases the chances of the company's product candidates benefiting patients. Several product candidates currently in development are directed at the same target proteins, particularly PD-1 or PD-L1, without any clear differentiation. Alligator strives to develop product candidates with a unique profile and clear advantages over their competitors in terms of safety, clinical effect or both. One example is ADC-1013, which is expected to have an improved safety profile compared to its competitors, along with a powerful clinical effect. Another example is ATOR-1015, which has a unique profile in being the only product candidate in development which combines effects on the two target proteins OX40 and CTLA-4, and it is expected to result in good clinical effects in combination with PD-1/PD-L1 therapies. Most of Alligator's product candidates, including ATOR-1015, are being developed as tumor-directed immunotherapies. This means that the immune activation will mainly act on the tumor-specific immune cells in and around the tumor, while the rest of the immune system is not affected to the same extent. This is expected to produce a good clinical effect while keeping side-effects to a minimum.

Project overview

Project portfolio

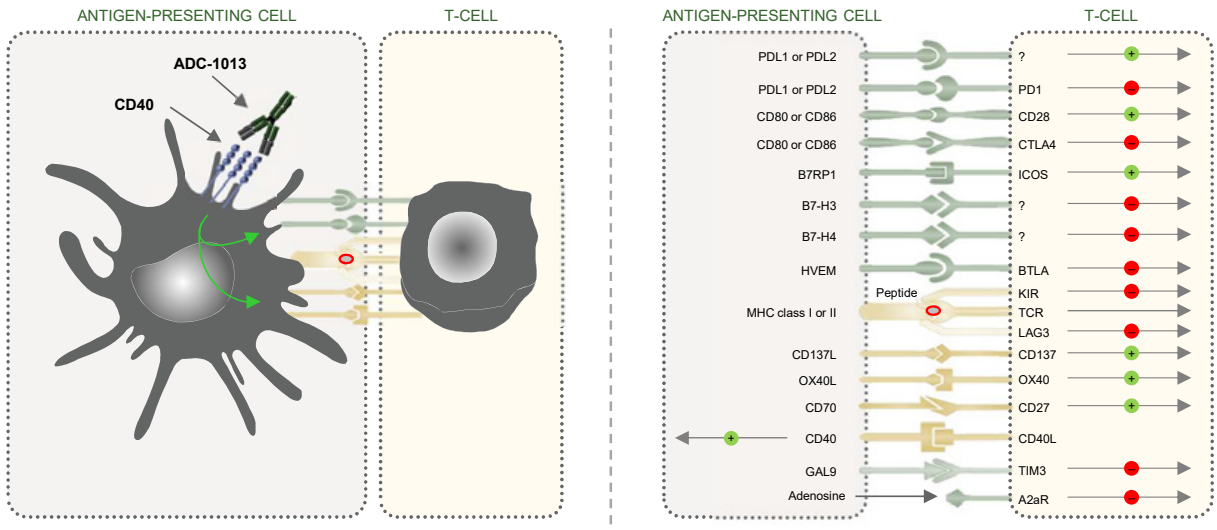
Alligator's project portfolio comprises five product candidates, with ADC-1013 in clinical phase I, ATOR-1015 in preclinical phase and the others in research phase. The product candidates are mono- or bispecific antibodies which act completely or partially on members of a family of immune-modulating target proteins called the 'tumor necrosis factor receptor superfamily' (TNFR-SF). All candidates have the potential to be 'best-in-class' or 'first-in-class'.



TNFR-SF: Tumor necrotic factor receptor superfamily
TAA: Tumor-associated antigen
ND: Not disclosed
* Licensed to Janssen Biotech, Inc. Further developed as JNJ-64457107.

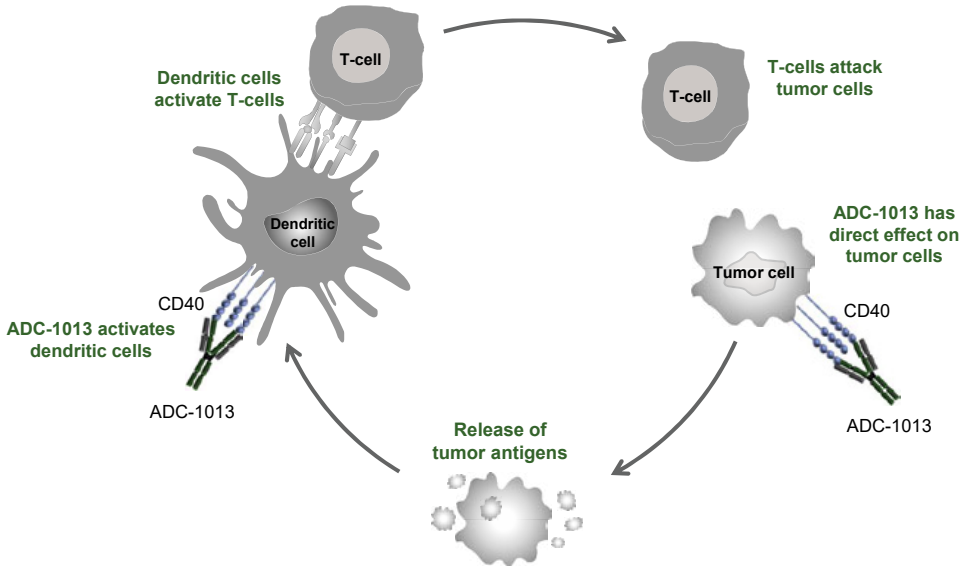
ADC-1013

The interplay between different cell types in the immune system is extremely important to all kinds of immunity, and in particular to tumor immunity. Two cell types are crucial in the development of an effective immune defense against cancer, the antigen-presenting cells (also called dendritic cells) and the T-cells. The dendritic cells reside in tissues and circulation, where their function is to detect external and internal threats such as viruses, bacteria and cancer cells. They take up proteins (antigens) from these and present them to T-cells which are then



Reference: Pardoll, Nature Reviews Cancer, 2012

Illustration of the mechanism of action of ADC-1013. ADC-1013 binds to and activates CD40 on dendritic cells. These can then more effectively activate the immune system's weapon against cancer, the T-cells. CD40 is unique in that it is the only known target protein which selectively activates antigen-presenting cells such as dendritic cells. ADC-1013 is therefore expected to work well in combination with T-cell activating therapies such as checkpoint inhibitors.



The figure shows the cancer immunity cycle, which describes how the immune system attacks tumors. The primary mechanism behind ADC-1013 is activation of dendritic cells. Dendritic cells which are activated by stimulation with ADC-1013 can effectively present cancer antigen for T-cells and instruct the T-cells to search out and kill these cancer cells in the whole body. As many cancer cells have CD40 on their surface, ADC-1013 can also act through a secondary mechanism and directly kill the cancer cells.

activated. The function of the T-cells is to recognize and kill infected cells or cancer cells. T-cells also develop into immunological memory cells which protect against recurring infection or tumors.

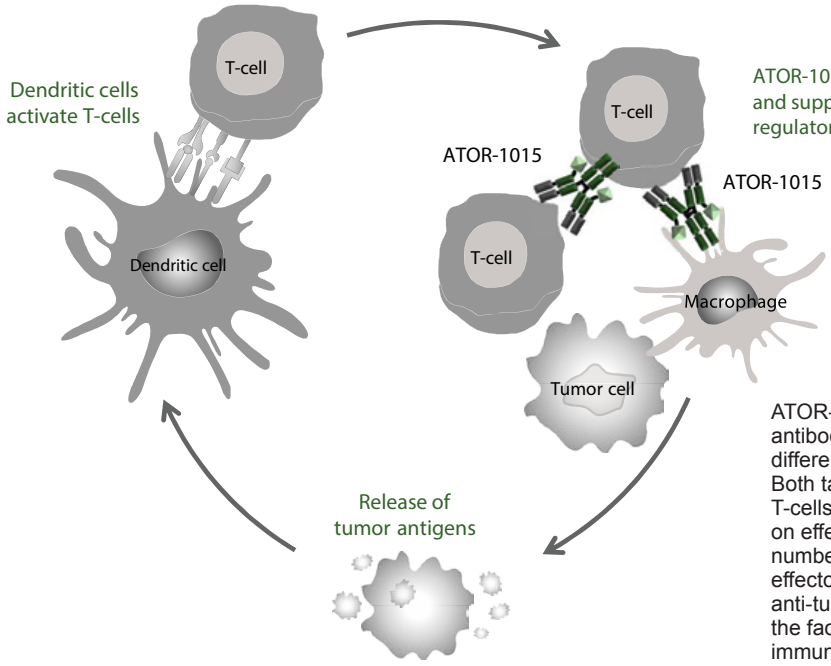
For induction of effective T-cell immunity to cancer, the T-cell needs to receive the right signals from the dendritic cell. These signals are received when protein structures in the surfaces of the two cells bind to each other. CD40, a stimulatory receptor expressed on the cell surface of the dendritic cell, plays a central role in this process. Activation of CD40, for instance by an immunotherapeutic antibody, improves the ability of the dendritic cell to activate T-cells. This directs the immune attack against the cancer. CD40 is the only known receptor which selectively activates dendritic cells in this way, and it is expected to have great potential in immunotherapy of cancer.

ADC-1013 is intended to treat metastatic cancer. It is a human IgG1 antibody which activates the co-stimulatory receptor CD40 on dendritic cells. The dendritic cells can then more effectively activate the immune system's weapon against cancer, the T-cells, directing the immune attack towards the cancer. As many cancer cells have CD40 on their surface, ADC-1013 can also act by directly killing the cancer cells; this is its secondary mechanism of action.

ADC-1013 has been optimized by using Alligator's FIND® technology in order to improve its binding strength, making it effective at very low doses. ADC-1013 has also been optimized to improve tumor retention, i.e. the ability to remain in the tumor. Models based on human immune cells from healthy blood donors as well as various mouse models have been used to show this immune-activating effect. ADC-1013 induces a powerful tumor-directed immune defense and prolonged immunity to tumors in preclinical models. In many tumor models, a large proportion of the mice were cured with ADC-1013, and these mice were then completely resistant to subsequent tumor growth (a so-called 'vaccination effect'). This immunity was shown to be T-cell dependent and selective for the tumor that the mouse had been cured of. Tumors which themselves express CD40 can also be attacked directly by ADC-1013, which could make the product candidate even more effective in patients with CD40-expressing tumors.

Preclinical studies suggest that CD40 antibody therapy can be used against several tumor types such as lymphoma, melanoma, liver cancer, osteosarcoma, renal cancer, breast cancer, colorectal cancer, lung cancer and bladder cancer. The preclinical results indicate a high tolerance of the product candidate, which supports the ongoing and continued clinical development with both intratumoral (injection into the tumor) and intravenous administration.

ADC-1013 is currently being investigated in two clinical phase I trials. The first trial was initiated by Alligator in April 2015. The trial is conducted at five



ATOR-1015 is a bispecific immune-activating antibody which simultaneously binds to two different target molecules: CTL-4 and OX40. Both targets are over-expressed on regulatory T-cells in the tumor area and are also expressed on effector T-cells. ATOR-1015 reduces the number of regulatory T-cells and activates effector T-cells, resulting in an immune-mediated anti-tumor effect. The effect is enhanced by the fact that the antibody also binds to other immune cells such as macrophages.

centers in the UK, Denmark and Sweden and includes patients with metastatic cancer who are being given ADC-1013 by intratumoral injection. This is an 'open-label trial', in which patients as well as physicians know that ADC-1013 is being administered. The purpose of the trial is to identify the maximum tolerable dose and assess the safety of the product candidate. The trial will also study pharmaco-kinetics (turnover of the drug in the body), anti-tumor activity and mechanism of action.

In August 2015, Alligator licensed all rights to further development and commercialization of ADC-1013 to Janssen Biotech, Inc. Alligator remains the sponsor of the clinical trial initiated in 2015, while Janssen Biotech, Inc. will manage all subsequent development under the name JNJ-64457107.

Events in 2016

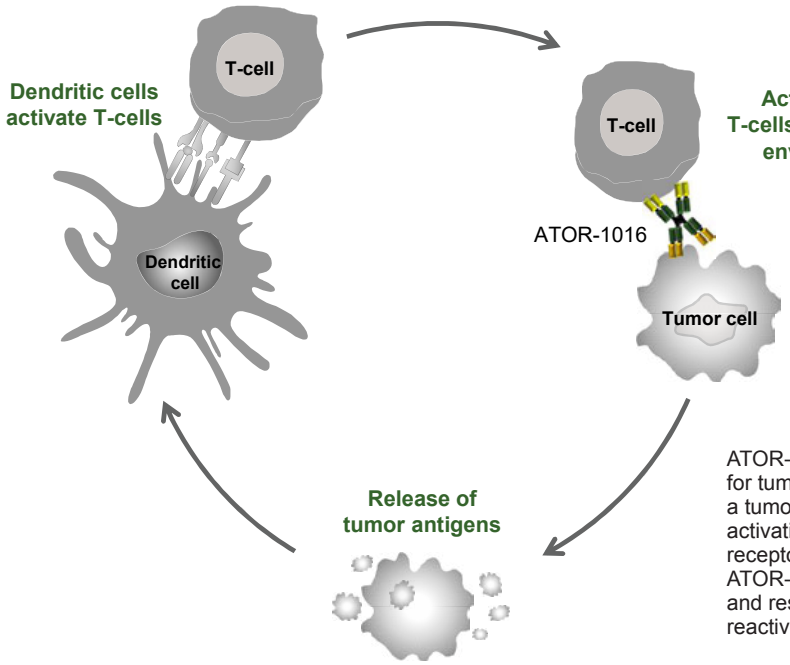
In 2016, the clinical phase I trial initiated by Alligator in 2015 progressed according to plan, and it is expected to be completed in the middle of 2017. In May, Alligator received regulatory approval to extend the trial to include intravenous administration. This triggered a milestone payment from Janssen Biotech, Inc. of USD 5 million. On October 9, 2016, administration began in a second phase I trial which includes intravenous dose escalation and is being run by Janssen Biotech, Inc. Alligator and Janssen Biotech, Inc. entered into a separate research collaboration agreement at the beginning of 2016. In this research collaboration, Alligator is conducting preclinical studies to further improve the understanding of how ADC-1013 works. The collaboration continued for the remainder of 2016, and was funded by Janssen Biotech, Inc.

The successful licensing of ADC-1013 to Janssen Biotech, Inc. resulted in Alligator being awarded the SwedenBIO Award and 'Deal of the Year' from Almi Invest in 2016.

ATOR-1015

CTLA-4 and OX40 are immune-regulating target proteins with great potential in immunotherapy of cancer. Both targets are expressed on T-cells. CTLA-4 is a so-called immune checkpoint which inhibits the ability of T-cells to attack cancer. Blockade of CTLA-4 results in improved tumor immunity, as shown by the good clinical effects achieved with Yervoy®, which binds to this target protein. But it also has immune-related side-effects which limit its use. OX40 is an activating (co-stimulatory) receptor. Treatment with OX40 antibodies give rise to improved tumor immunity in preclinical model systems. The mechanism of action is not completely understood, but is assumed to be a combination of activating tumor-specific T-cells and blocking or killing the immune-inhibiting regulatory T-cells. A handful of product candidates against OX40 are currently being evaluated in clinical phase I trials.

ATOR-1015 is a bispecific immune-activating antibody developed for tumor-directed immunotherapy, which binds to the two target proteins CTLA-4 and OX40. The bispecific antibody comprises an OX40 antibody from ALLIGATOR-GOLD® and a CTLA-4-



ATOR-1016 is a bispecific antibody developed for tumor-directed immunotherapy. It binds to a tumor-associated antigen and to an immune-activating receptor in the 'tumor necrosis factor receptor superfamily' (TNFR-SF).
ATOR-1016 is mainly active in the tumor area and results in selective activation of tumor-reactive T-cells.

binding protein created through FIND® optimization of CD86, a naturally occurring binder to CTLA-4.

By binding to two different receptors, ATOR-1015 acquires properties which allow it to combine different T-cells, thereby strengthening the immune-activating effect. The product candidate activates effector T-cells, i.e. the immune cells in the body which recognize and kill cancer cells. It also reduces the number of immuno-suppressive regulatory T-cells which are one of the tumor's defense mechanisms against the immune system. Powerful immune activation is expected to be achieved mainly in environments where both target molecules are expressed at high levels, such as inside a tumor, and it is further reinforced by the Fc region of the antibody binding other immune cells such as macrophages. This results in effective immune activation and localizes the effect to the tumor area, the latter being expected to result in less side-effects than other immuno-oncological products.

ATOR-1015 has a good chance of becoming the first dual immune-activating antibody in clinical development. The objective for ATOR-1015 is to be the first CTLA-4 and OX40-binding bispecific antibody to produce a powerful anti-tumor effect, either as a monotherapy or in combination with already established immunotherapies. ATOR-1015 is expected to be suitable for treating many different forms of cancer. Clinical material should be available in early 2018, when the application for a clinical trial will be submitted to the regulatory authorities. Alligator plans to conduct clinical trials of ATOR-1015 until a clinical effect is demonstrated in cancer patients in clinical phase II, and then to out-license the product for further development and commercialization.

Events in 2016

As results from the proof of concept studies and the initial preclinical studies were promising, Alligator started cell line development for future large-scale production of ATOR-1015 in January 2016. The work was outsourced to the contract manufacturer Cobra Biologics, which previously carried out cell line development for the ACD-1013 project on behalf of Alligator. In July 2016, an agreement was signed with BioInvent International AB for process development and cGMP production of ATOR-1015 for clinical trials. The cell line development was successful and process development started towards the end of the year. Production has thus progressed according to plan and ATOR-1015 has consolidated its leading position among bispecific dual immune activating antibodies.

ATOR-1016

The immune system is very powerful, which is a requirement for effective cancer eradication but is also associated with a risk of serious immune-related side-effects. In order to exploit the full potential of the immune system, Alligator has established a concept for tumor-directed immunotherapy which selectively activates tumor-reactive T-cells while other immune cells are unaffected. One way of achieving this is to design bispecific antibodies which are mainly active

in the tumor area, localizing the effect to the tumor-reactive T-cells residing in the tumor, resulting in an effective attack on the tumor with minimal side-effects.

ATOR-1016 is a bispecific antibody developed for tumor-directed immunotherapy. It binds both to a tumor-associated antigen and to an immune-activating receptor in the group of immune-modulating target proteins belonging to the 'tumor necrosis factor receptor superfamily' (TNFR-SF). The binding parts have been generated from the antibody library ALLIGATOR-GOLD®.

ATOR-1016 has been developed to be used as a monotherapy or in combination with currently established immunotherapies or other cancer therapies such as chemotherapies. The property of being effective without producing side-effects is expected to confer a decisive competitive advantage, particularly in combination therapies. The project is currently in research phase and is being performed in collaboration with world-leading experts in immuno-oncology and tumor localization. Cell line development for later clinical production is expected to start in the first half of 2017.

Events in 2016
In 2016 the concept was validated in several model systems for immunotherapy in cell cultures and animal models. Stability and optimization studies required for continued development and production were also carried out.

Research projects

Alligator is conducting a number of research projects to continuously develop the product portfolio with new and innovative product candidates for tumor-directed immunotherapy. The company bases this research on its expertise in immune-modulating target proteins such as the TNFR-SF. This is a group of closely-related target proteins including e.g. CD40 (ADC-1013), OX40 (ATOR-1015) and the target protein for ATOR-1016. Using the technology platforms ALLIGATOR-GOLD® and FIND®, the company is developing new mono and bispecific antibodies in this area.

A new antibody against a TNFR-SF member
In one of Alligator's research projects an immune-activating monospecific antibody directed against a receptor in the TNFR-SF is being developed. This antibody has been generated from the antibody library ALLIGATOR-GOLD®. Similar antibodies are already in early clinical development, but Alligator is using the FIND® technology to develop a candidate which is expected to be best-in-class by having an improved profile in terms of effect and safety. The project has exceeded expectations and is now in late research phase. Proof of concept studies have generated promising results and preclinical development as well as cell line development for production of clinical material are expected to start in 2017.

New bispecific antibodies against TNFR-SF and unpublished target proteins
In other research projects, bispecific antibodies are being developed. These are made up of activating antibodies directed against receptors in the TNFR-SF in combination with another target protein, and are created using ALLIGATOR-GOLD® and FIND®. These projects are currently in the early research phase.

Biosynergy
Through its subsidiary, Atlas Therapeutics AB, which Alligator acquired in 2013, the company has a share in the 'Biosynergy' research project. This project is being conducted by the Korean company AbClon Inc. and includes an antibody to the target protein HER2, which is expressed in, for instance, breast and stomach cancer. The antibody potentiates the effect of another drug against HER2 which is already on the market, Herceptin®. As the project does not fall within Alligator's strategic focus on immunotherapy, it is being conducted mainly with resources from AbClon. Alligator is guiding the preclinical and clinical development and is entitled to a share of AbClon's net revenue from licensing.

Events in 2016
In October 2016, AbClon licensed its anti-HER2 antibody to a third party. The license will generate revenue for AbClon in the form of upfront and milestone payments related to development and sales as well as royalties on any future sales. Alligator is entitled to 35 per cent of AbClon's revenue from this licensing arrangement and, in connection with the license, Alligator received an initial payment of around SEK 1 million after deducting local withholding taxes and conditional research contributions.

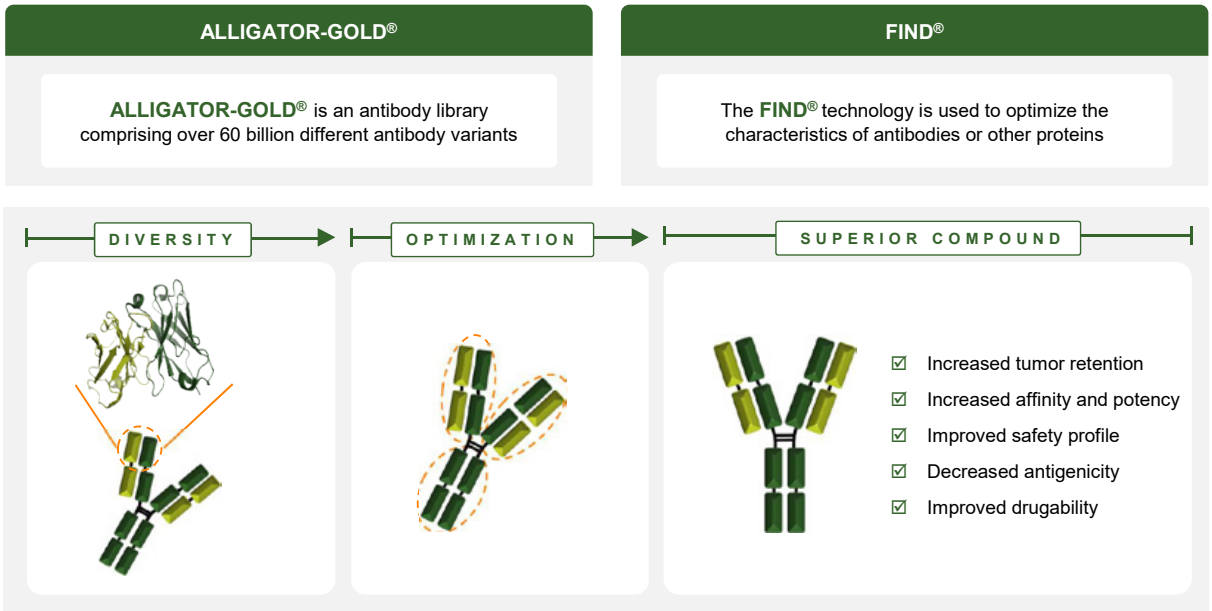
Technology platform

Antibodies are complex molecules and the production of effective and safe antibody-based drugs requires high-tech platforms. Alligator's technologies are the antibody library ALLIGATOR-GOLD® and the protein optimization technology FIND®. ALLIGATOR-GOLD® is the engine behind Alligator's research and development projects and is used to produce new product candidates. The FIND® technology is used to optimize the properties of the product candidates, and together these technology platforms are used to develop the company's immunotherapeutic product candidates with unique properties and a high probability of producing favorable results in clinical trials.

ALLIGATOR-GOLD® is a human antibody library containing more than 60 billion unique antibody fragments, developed by Alligator. This antibody library can be used to produce product candidates directed at any target molecule. The library has been developed to be able to create highly functional antibodies and is Alligator's most important technology platform, enabling the generation of new product candidates for the product portfolio. It has been used, for instance, to develop ATOR-1015 and ATOR-1016.

The various antibody fragments in ALLIGATOR-GOLD® differ from each other in specific sequences in the part of the antibody surface that binds to the target molecules. The remaining parts of the antibody fragments are identical in all antibodies in the library, and have been selected to provide optimal properties with regard to, for instance, stability and production. The variability in ALLIGATOR-GOLD® is designed to resemble and exceed the variability in the human immune system.

FIND® (Fragment INduced Diversity) is a technology, for optimizing antibodies and other proteins, based on molecular evolution. Thus, FIND® is used to further optimize antibodies identified from ALLIGATOR-GOLD®. The technology allows a very large number of functional variants of an antibody to be created in a short time. From these, antibodies with optimized properties can then be selected. The FIND® technology can be used to improve virtually any property of an antibody. Such improved properties can provide significant clinical benefits in terms of, for example, clinical effect, dosage or safety. The FIND® technology has been used to develop ADC-1013 and ATOR-1015.



Alligator's technology platform comprises the antibody library ALLIGATOR-GOLD® and the protein optimization technology FIND®. ALLIGATOR-GOLD® is a human antibody library containing more than 60 billion unique antibody fragments. This antibody library can be used to generate product candidates directed at any target molecule.
FIND® is a technology for optimizing antibodies and other proteins. The technology allows a very large number of functional variants of an antibody to be created in a short time, and can be used to improve practically any property antibody property.

Our employees

Alligator is a science- and knowledge-based company whose success is built on the experience, expertise, commitment and creativity of its employees. We work towards our common goal of producing medicines to conquer cancer.

At the end of 2016 Alligator had 36 employees, 32 working in research and development and 4 in administration. Most of our employees are graduates and many have PhDs. Our business is located in Medicon Village in Lund where we have purpose-built laboratories and offices and can operate in a creative environment.

We develop our employees' skills through active knowledge-sharing in international networks and collaboration with academic institutions and multinational partners. All of this makes Alligator an exciting and dynamic place to work, running leading research and development projects in tumor-directed immunotherapy.

> "Alligator is a science- and knowledge-based company whose success is built on the experience, expertise, commitment and creativity of its employees"

Here are interviews with two of our staff: Matthias Thórólfsson, senior researcher, who recently joined us; and Christina Furebring, head of R&D, who has been with the company since it started in 2001.

Matthías Thórólfsson
Principal Scientist, Protein Chemistry

"I started my research career as a PhD student in protein chemistry at Bergen University in Norway. This was followed by two years of post-doctoral research in Copenhagen, after which I applied for work in the pharmaceutical industry. I started as a researcher at Novo Nordisk, in bio-pharmacology. This was a period of incredibly rapid development within Novo Nordisk. Among other things, there were big investments in antibody-based medicines to treat cancer and inflammation, and in my 12 years with the company I was responsible for bio-physical characterization and preformulation within the company's platform for innovative antibodies.

Making the move from the biggest pharmaceutical company in Scandinavia to an innovative biotech company like Alligator has been incredibly stimulating. The short decision paths, with greater responsibility, increased visibility and more autonomy, are among many positive aspects. I also see it as a unique opportunity to be able to join Alligator at a time when the company is expanding fast with many of its own product candidates in preclinical and clinical development in the most exciting area of drug development. I bring a lot of experience and expertise in the development and production of antibodies, and I look forward to helping Alligator to become one of the major players in immuno-oncology."

Christina Furebring, Senior Vice President, Research and Development

"I started my research career in the Department of Immune Technology at Lund University, and I was in the team that developed the FIND® technology which is now a key part of Alligator's technology platform. In my time as a researcher in the Department of Immune Technology in the late 1990s, we took the first steps on the road that was to lead to ADC-1013. I supervised a PhD student, Peter Ellmark, who is now a principal scientist at Alligator, in a project intended to identify CD40-blocking antibodies against auto-immune disease. This was not successful, but we did find a powerful CD40-activating antibody which was to form the basis for Alligator's development of ADC-1013 many years later.

Working for Alligator is incredibly stimulating. We strive every day to take the next step in developing new medicines against dispersed cancer. In order to do this we work together in projects where we apply our different skills to solving complex problems in the best possible way.

I have worked for the company since we started up in 2001, and I can say that we have never had so many capable employees and so many different skills under one roof. This gives us a very stimulating and creative environment to work in. Together with our location in the dynamic Medicon Village in Lund and our many international contacts, this gives us the best chance of succeeding in our efforts to develop ground-breaking immuno-oncological medicines."


Staff breakdown, %
11
89
Research and Development
Administration
Education, %
6
36
58
Doctorate
Other university education
Other qualification

Alligator shares

Since 23 November 2016, Alligator shares have been listed on the Nasdaq Stockholm Mid Cap under ATORX.

Brief facts about Alligator shares (Dec 31, 2016)

Listed on: Nasdaq Stockholm Mid Cap
Number of shares: 70,113,615
Market value: MSEK 2,440
Ticker: ATORX
ISIN: SE0000767188

Price development and sales

Alligator shares were listed on Nasdaq Stockholm Mid Cap on November 23, 2016. In connection with the listing, a new issue was made at a price of SEK 32.50.

At the end of the year, Alligator shares were quoted at SEK 34.80. The highest price in 2016 was SEK 40.10 and the lowest SEK 31.30. Alligator's market value was MSEK 2,440 at the end of 2016.

In all, 12 million shares have been traded since the company was listed, with a total value of MSEK 433. This is equivalent to a turnover of 17 per cent of the company's shares.

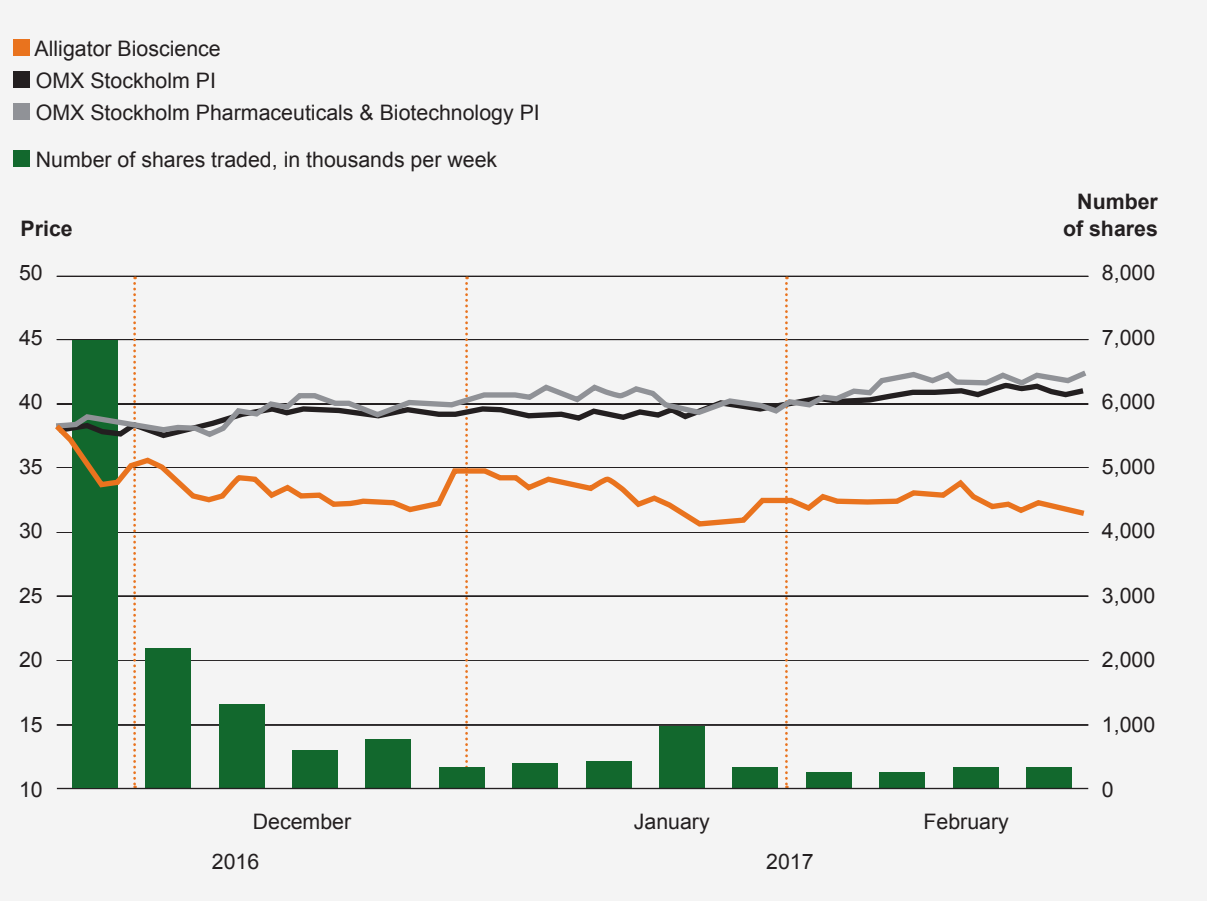
Since the company's shares have been listed, the average turnover per trading day has been 445,121 shares to the value of MSEK 16. On average, 765 deals have been closed per trading day.

Analysts following Alligator

Carnegie: Erik Hultgård and Kristofer Liljeberg
DNB: Patrik Ling
Redeye: Klas Palin

Ownership, 31 December 2016

In 2016, the number of shareholders increased by 4,101 to 4,383 (282). The proportion of foreign shareholders was 43.5% (41.9%). The 10 largest shareholders owned 60.6% (72.5%) of the shares.



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Share capital

The annual general meeting on April 20, 2016 voted to authorize the Board to issue a total of 15,000,000 new shares up to the next annual general meeting. In so far as the issue excludes existing shareholders' preferential rights, it is being conducted under market conditions.

A new issue of 10,769,231 shares was made in conjunction with Alligator's listing on Nasdaq OMX Stockholm. The issue was over-subscribed. The subscription price was set at SEK 32.50 per share, generating SEK 350 million for Alligator before underwriting costs.

Alligator has three option programs, which are described on page 35 (in the directors' report).

During the year, 330,000 subscription options were converted to the same number of new shares. On the closing date, subscription settlements had been paid for 700,000 subscription options, which were converted to the same number of shares in January 2017.

With full dilution of all option programs, a further 3,457,780 shares were subscribed to, giving a dilution of 4.9%.

Alligator's share capital, after the new issue and conversion of subscription options during the year, totals 70,113,615 shares.

There is only one class of share. Each share entitles the holder to one vote at the annual general meeting, and all shares have equal rights to Alligator's assets and profits.

Dividend and dividend policy

Alligator will continue to focus on developing and expanding its product portfolio. Available financial resources and reported profits will therefore be re-invested in the business to finance Alligator's long-term strategy. The Board's intention is therefore not to propose any distribution to shareholders until the company generates sustainable long-term profitability. Any future dividends, and the amount of these, will therefore be decided in the light of Alligator's long-term growth, financial performance and capital needs taking account of the goals and strategies in place at any given time. Where a dividend is proposed, it will be take proper account of the business objectives, scope and risk.

The Board and the CEO propose that no dividend should be paid for the 2016 financial year.

Distribution of financial reports

The annual report and quarterly reports are available on Alligator's website, www.alligatorbioscience.com. The annual report is distributed on request and can be ordered from Alligator Bioscience AB, Scheelevägen 2, 223 81 Lund, Sweden, by calling +46 286 42 80 or e-mailing info@alligatorbioscience.com.

Future report dates

Interim reports will be published in 2017 on May 2, August 23 and October 25.

Largest shareholders, December 31, 2016

Shareholder	Shareholding	%
Banque Internationale à Luxembourg SA	12,704,515	18.1
Johnson & Johnson Innovation	5,762,523	8.2
Sunstone Life Science Ventures Fund II K/S	5,758,485	8.2
Duba AB	4,907,901	7.0
Lars Spånberg	3,213,858	4.6
Atlas Antibodies AB	2,620,000	3.7
Stena AB	2,508,981	3.6
JP Morgan Bank Luxembourg	1,801,409	2.6
Norron	1,650,500	2.4
Catella funds	1,553,911	2.2
Other shareholders	27,631,532	39.4
Total shares	**70,113,615**	**100.0**

Share statistics, December 31, 2016

Size of holding	No of shareholders	No of shareholders (%)	No of shares (%)
1–500	3,153	71.9	0.8
501–1,000	452	10.3	0.6
1,001–5,000	492	11.2	1.8
5,001–10,000	79	1.8	0.9
10,001–15,000	29	0.7	0.5
15,001–20,000	27	0.6	0.7
20,001–	151	3.4	94.7
	4,383	**100.0**	**100.0**

Change in share capital

The table below shows the change in share capital since the company was formed in 2000.

Year	Transaction	Increase in share capital	Increase in number of shares	Share capital total	Number of shares	Par value, SEK
2000	Formation of company			100,000.00	1,000	100
2000	Split 250:1		249,000	100,000.00	250,000	0.40
2001	New share issues	1,230,869.60	3,077,174	1,330,869.60	3,327,174	0.40
2002	Non-cash issue	8,000.00	20,000,	1,338,869.60	3,347,174	0.40
2002	New share issue	269,130.40	672,826,	1,608,000.00	4,020,000	0.40
2003	New share issue	176,291.60	440,729	1,784,291.60	4,460,729	0.40
2004	New share issues	380,858.00	952,145	2,165,149.60	5,412,874	0.40
2004	Subs. options exercised	64,000.00	160,000	2,229,149.60	5,572,874	0.40
2005	New share issues	650,502.00	1,626,255	2,879,651.60	7,199,129	0.40
2005	Options exercised	33,600.00	84,000	2,913,251.60	7,283,129	0.40
2006	New share issues	973,901.20	2,434,753	3,887,152.80	9,717,882	0.40
2007	New share issues	987,432.00	2,468,580	4,874,584.80	12,186,462	0.40
2009	New share issues	1,105,743.20	2,768,358	5,980,328.00	14,950,820	0.40
2010	New share issue	134,000,.00	335,000	6,114,328.00	15,285,820	0.40
2011	New share issues	2,240,874.40	5,602,186	8,355,202.40	20,888,006	0.40
2012	New share issue	849,405.20	2,123,513	9,204,607.60	23,011,519	0.40
2013	Convertible bonds	400,000.00	1,000,000	9,604,607.60	24,011,519	0.40
2013	Subs. options exercised	1,188,596	2,971,490	10,793,203.60	26,983,009	0.40
2013	New share issues	4,666,316.00	11,665,790	15,459,519.60	38,648,799	0.40
2013	Non-cash issue	2,880,000.00	7,200,000,	18,339,519.60	45,848,799	0.40
2014	New share issue	1,056,749.20	2,641,873	19,396,268.80	48,490,672	0.40
2014	Subs. options exercised	48,628.80	121,572	19,444,897.60	48,612,244	0.40
2015	New share issues	4,160,856.00	10,402,140	23,605,753.60	59,014,384	0.40
2016	Subs. options exercised	132,000	330,000	23,737,753.60	59,344,384	0.40
2016	New share issue	4,307,692.40	10,769,231	28,045,446.00	70,113,615	0.40
Total				**28,045,446.00**	**70,113,615**	**0.40**

Multi-year overview of the Group

In this annual report, Alligator quotes a number of financial indicators, including some which are not defined under IFRS. The company believes that these indicators are an important addition because they enable a better assessment of the economic trends in the company. These financial indicators should not be viewed in isolation or considered to replace performance indicators calculated in accordance with IFRS. Nor should these indicators, as defined by Alligator, be compared with other indicators with similar names used in other companies. This is because these indicators are not always defined in the same way and other companies may derive them in a different way from Alligator.

The derivation of indicators is shown below, both for earnings per share as required by IFRS and for indicators that are not defined under IFRS or where the calculation is not shown in other tables in this report.

The company's business is research and development, so the indicator 'R&D costs as a percentage of operating costs excluding impairments' is a key measure of efficiency and of the proportion of the company's costs used within R&D.

As we have noted, the company does not have a steady flow of income; rather, this comes irregularly as license agreements are signed and milestones reached. The company therefore monitors indicators like the equity ratio and equity per share to assess its financial strength and stability. These are monitored together with its liquidity and the various cash flow measures to be found in the consolidated statement of cash flows.

For definitions, refer to this section on page 73.

Performance measures, Group	2016	2015	2014
Profit/loss (TSEK)			
Net sales	58,240	289,797	0
Operating profit/loss	-56,081	203,006	-77,213
Profit/loss for the period	-48,356	207,377	-76,782
R&D costs	-59,987	-49,490	-42,352
R&D costs as a percentage of operating costs excluding impairments	64.3%	61.5%	54.0%
Capital (TSEK)			
Cash and cash equivalents at end of period	659,136	365,605	37,428
Cash flow from operating activities	-37,610	204,894	-62,737
Cash flow for the period	287,135	326,232	-31,797
Equity	676,185	396,969	68,519
Equity ratio, %	96%	95%	70%
Data per share (in SEK)			
Earnings per share before dilution	-0.80	3.81	-1.59
Earnings per share after dilution*	-0.80	3.70	-1.59
Equity per share before dilution	9.64	6.73	1.41
Equity per share after dilution	9.47	6.55	1.36
Dividend per share	0.00	0.00	0.00
Share price, Dec 31	34.80	N/A	N/A
Staff			
Number of employees at end of year	36	27	27
Average number of employees	31	27	26
Average number of employees in Research and Development	28	24	23

* Dilution effect not included in negative result.

Derivation of performance indicators	2016	2015	2014
Profit/loss for the year	-48,356	207,377	-76,782
Average number of shares before dilution	60,114,511	54,393,338	48,355,761
Earnings per share before dilution, SEK	**-0.80**	**3.81**	**-1.59**
Average number of shares after dilution	60,114,511	55,993,338	48,355,761
Earnings per share after dilution, SEK	**-0.80**	**3.70**	**-1.59**
Operating costs	-115,432	-90,613	-78,385
Impairment of tangible and intangible assets	22,120	10,080	0
Operating costs excl. impairment	-93,312	-80,533	-78,385
Administrative expenses	30,770	28,456	33,848
Depreciation	2,555	2,587	2,185
Research and development costs	**-59,987**	**-49,490**	**-42,352**
R&D costs / Operating costs % excluding impairments	**64.3%**	**61.5%**	**54.0%**
Equity	676,185	396,969	68,519
Number of shares before dilution	70,113,615	59,014,384	48,612,244
Equity per share before dilution, SEK	**9.64**	**6.73**	**1.41**
Number of shares after dilution	71,388,615	60,619,384	50,217,244
Equity per share after dilution, SEK	9.47	6.55	1.36
Equity	**676,185**	**396,969**	**68,519**
Total assets	700,780	416,256	97,794
Equity ratio, %	**96%**	**95%**	**70%**

For definitions, refer to this section on page 73.

Board

PETER BENSON

Chairman of the Board since 2014.
Member of the Board since 2011.
BA in Economics, Lund University.
MA in Economics from the University of California.
Born 1955.
Managing Partner at Sunstone Capital Life Science Ventures and former head of Life Science Investments for the Danish Growth Fund (Vækstfonden) and member of the Board of Pharmacia AB.
Other current positions:
Member of the board of Arcoma AB,
Jollingham AB, Montela AB, Opsona Therapeutics Ltd. and Sunstone Capital A/S.
Shareholding: 0.
Independent of the company and its management and of major shareholders.

CARL BORREBAECK

Member of the Board since 2001.
Degree in Civil Engineering, Lund University.
Born 1948.
Professor at the Institute of Immune Technology and program director in the CREATE Health Translational Cancer Research Centre at Lund University.
Co-founder of Alligator, member of the Royal Swedish Academy of Engineering Sciences and former vice-principal of Lund University.
Other current positions:
Chairman of the board of Immunovia AB (publ) and SenzaGen AB.
Member of the board of Clinical Laserthermia Systems AB and CB Ocean Capital AB. Deputy member at Endo Medical AB.
Associate in Immunovia HB.
Shareholding: 1,200,833.
Not independent of the company and its management, but independent of major shareholders.

ULRIKA DANIELSSON

Member of the Board since 2016.
MBA, Gothenburg School of Business
Born 1972.
CFO, Castellum AB
Other current positions:
Board member or deputy for a large number of subsidiaries and second-level subsidiaries within the Castellum group.
Shareholding: 0.
Independent of the company and its management and of major shareholders.

JAKOB LINDBERG

Member of the Board since 2013.
Med. Lic. in molecular immunology. MSc in preclinical medicine, Karolinska Institute.
BA in Finance and Administration, Stockholm University.
Born 1972.
MD, Oncopeptides AB and venture partner in Investor Growth Capital Europe.
Other current positions:
Member of the board of Dipylon Medical AB, Atlas Antibodies AB, Affibody Medical AB and Lindberg Life-Science AB.
Deputy board member at Oncopeptides Incentive AB.
MD of Oncopeptides AB and Lindberg Life-Science AB.
Shareholding: 0.
Independent of the company and its management and of major shareholders.

KENTH PETERSSON

Member of the Board since 2001.
BA, Lund University.
Born 1956.
Long experience in the financial and biotech industries. Business angel for 15 years, founding a number of biotech companies.
Other current positions:
Chairman of the board of AlphaBeta Aktiebolag, Biocrine AB, Biocrine Regenerative Medicine AB, Spiber Technologies AB and Science Pacific AB. Member of the board of Genovis AB.
Shareholding: 408,000.
Independent of the company and its management and of major shareholders.

JONAS SJÖGREN

Member of the Board since 2015.
Studied electrical engineering at Chalmers Technical University, MD from Sahlgrenska Academy and MBA from INSEAD.
Born 1966.
Other current positions:
Member of the board of Storytel AB (publ), Orbit E-sport AB, Roxette Photo NV and Omentum SA.
Deputy board member at Exceca Allocation AB.
Shareholding: 4,736,700.
Independent of the company and its management and of major shareholders.

MATHIAS UHLÉN

Chairman of the Board since 2013.
Professor of Microbiology at the Royal Institute of Technology and the Technical University of Denmark.
Born 1954.
Member of the National Academy of Engineering (NAE) in the USA, the Royal Swedish Academy of Sciences (KVA) and the Royal Swedish Academy of Engineering Sciences (IVA).
Other current positions:
Chairman of the board of Antibodypedia AB and Atlas Antibodies AB. Member of the board of Affibody Medical AB, Antibodies Incentive AB, Atlasab Intressenter AB, Bure Equity AB, MU Bioteknik AB, Woodheads AB, Novozymes A/S, the Stockholm Science City Foundation and the HPR research foundation.
Shareholding: 1,152,000.
Independent of the company and its management and of major shareholders.

LAURA VON SCHANTZ

Member of the Board since 2017.
Degree in Bio-technology and PhD in Immune Technology, Lund University.
Born 1982.
Sits on the Board as employee representative.
Not independent of the company and its management, but independent of major shareholders.
Other current positions:
None.
Shareholding:
25,000 employee options.

Management

PER NORLÉN

CEO since 2015.
MD, registered physician and specialist in clinical pharmacology and lecturer in experimental and clinical pharmacology at Lund University
Born 1970.
25 years' experience of research in pharmacology including 14 years' experience of clinical drug development focusing in clinical phase I/II trials. Member of the management since 2010.
Other current positions:
Member of the board of Atlas Therapeutics AB and A Bioscience Incentive AB.
Shareholding: 100,500 shares, 200,000 subscription options, 250,000 employee options.

CHRISTINA FUREBRING

Senior Vice President Research and Development since 2001.
Degree in Engineering and PhD in Immune Technology from Lund University.
Born 1964.
Co-founder of the FIND technology, which is a cornerstone of Alligator's technology platform.
20 years' experience of optimizing proteins and antibodies. Member of the management since 2001.
Other current positions:
Deputy board member at A Bioscience Incentive AB and Atlas Therapeutics AB.
Shareholding: 100,000 shares, 120,000 subscription options, 150,000 employee options.

REIN PIIR

Vice President Investor Relations since 2016.
Degree in Economics, Uppsala University.
Born 1958.
Many years' experience of consultancy in listed companies, including work as strategist at Alecta and chief analyst at Carnegie Investment Bank AB. Other experience includes work as CFO/Head of Investor Relations at Medivir AB and auditor with PricewaterhouseCoopers AB. Rein Piir is currently also VP Investor Relations at Camurus AB. Member of the management since 2016.
Other current positions:
Chairman of the Board and CEO of Piir & Partner AB. Member of the board of Integrative Research Laboratories Sweden AB, L. E. Svensson Snickeri Aktiebolag and Trygga Pengar i Mobilen Sverige AB.
Shareholding: 5,000.

PER-OLOF SCHREWELIUS

Chief Financial Officer since 2016.
BA in Economics, Lund University.
Born 1963.
20 years' experience in various CFO and Finance Manager positions within different industries, including medical technology and manufacturing. Member of the management since 2016.
Other current positions:
None.
Shareholding: 1,800 shares and 125,000 subscription options.

The details of shares and options held by the Board and management refer to the position as of March 15, 2017.

Auditors
Ernst & Young AB, Malmö.
Principal auditor: Göran Neckmar, certified public accountant.
Auditor for the company since 2010.

Directors' report

The Board and CEO of Alligator Bioscience AB (publ), based in Lund, Sweden, corporate ID-no 556597-8201, hereby present the annual accounts for the 2016 financial year for the parent company and the Group.

Alligator's business

Alligator is a research-based biotech company which develops innovative immune-activating antibody-based drugs for tumor-directed immunotherapy. In immunotherapy, the immune system is activated to be able to attack cancer effectively, and the term 'tumor-directed' means that the drug is administered or designed in such a way that the pharmacological effect is localized to the tumor.

Alligator's research and development work is based on the company's technology platforms, which comprise the human antibody library ALLIGATOR-GOLD® and the protein optimization technology FIND®.

Focus

The company is mainly involved in the early phases of drug development, from the ideas stage up to clinical phase IIa trials. Alligator's strategy is to cement its position as a key player in tumor-directed immunotherapy by developing innovative immune-activating product candidates with the potential to be 'first-in-class' or 'best-in-class'. To achieve this goal, Alligator will be further broadening its product portfolio, taking the individual product candidates further into clinical development and accelerating the rate of development.

Projects

Alligator is running a number of projects both on its own behalf and together with international biotech and pharmaceutical companies and academic institutions. In particular, the company signed a licensing agreement in August 2015 for the further development and commercialization of the product candidate ADC-1013 with Janssen Biotech, Inc.

Background – ADC-1013

ADC-1013 is intended to treat metastatic cancer. It is a human IgG1 antibody which activates the co-stimulatory receptor CD40 on dendritic cells, which can then more effectively activate the immune system's weapons against cancer, the T-cells. This directs the attack from the immune system against the cancer. As many cancer cells have CD40 on their surface, ADC-1013 can also act by directly killing the cancer cells; this is its secondary effect mechanism. ADC-1013 is currently being tested in two clinical phase I trials. The first trial was launched by Alligator in April 2015. The trial is being run in five centers in the UK, Denmark and Sweden and includes patients with metastatic cancer who are given ADC-1013 by intratumoral or intravenous injection. This is an 'open-label trial', in which both patients and physicians know that ADC-1013 is being administered. The purpose of the trial is to identify the maximum tolerable dose and assess the safety of the product candidate. The trial will also study its pharmaco-kinetics (turnover of the drug in the body), anti-tumor activity and effect mechanism.

Events in 2016 – ADC-1013

In 2016, the clinical phase I trial initiated by Alligator in 2015 progressed according to plan, and it is expected to be completed in the middle of 2017. In May, Alligator received regulatory approval to extend the trial to include intravenous administration. This triggered a milestone payment from Janssen Biotech, Inc. of USD 5 million. On October 9, 2016, dosing began in a second phase I trial which includes intravenous dose escalation and is being run by Janssen Biotech, Inc. Alligator and Janssen Biotech, Inc. entered into a separate collaboration agreement for research at the start of 2016. In this research work, Alligator is conducting preclinical trials to further improve understanding of how ADC-1013 works. The collaboration went on for the remainder of 2016, and has been funded by Janssen Biotech, Inc.

Background – ATOR-1015

ATOR-1015 is a dual immune-activating bispecific antibody developed for tumor-directed immunotherapy, which binds to the two target proteins CTLA-4 and OX40. The bispecific antibody comprises an OX40 antibody from ALLIGATOR-GOLD® and a CTLA-4 binding protein created through FIND® optimization of CD86, a naturally occurring binder to CTLA-4.

Events in 2016 – ATOR-1015

As the proof of concept studies and initial preclinical trials produced promising results, Alligator started cell line development for future large-scale production of ATOR-1015 in January 2016. The work was outsourced to the contract manufacturer Cobra Biologics, which previously carried out cell line development for the ACD-1013 project on behalf of Alligator. In July 2016, an agreement was signed with BioInvent International AB for process development and cGMP production of ATOR-1015 for early clinical trials. The cell line development produced very good results, and process development started towards the end of the year. Production has thus gone to plan and

ATOR-1015 has consolidated its leading position among bispecific dual immune activating antibodies.

Background – ATOR-1016
ATOR-1016 is a bispecific antibody developed for tumor-directed immunotherapy. It binds both to a tumor-associated antigen and to an immune-activating receptor in the group of immune-modulating target proteins called TNFR-SF. The binding parts have been produced with the aid of the antibody library ALLIGATOR-GOLD®. ATOR-1016 has been developed for use as a monotherapy or in combination with currently established immunotherapies or other cancer therapies such as cytotoxins.

Events in 2016 – ATOR-1016
In 2016 the concept was validated in most model systems for immunotherapy and in cell cultures and animal models. Stability and optimization studies required for continued development and production were also carried out.

Background – TNFR-SF
One research project is concerned with developing an immune-activating monospecific antibody directed against a receptor in the TNFR-SF. Similar antibodies are already in early clinical development, but Alligator is using the ALLIGATOR-GOLD® and FIND® technology to develop a candidate which is expected to be best-in-class by virtue of an improved profile in terms of effect and safety.

Events in 2016 – TNFR-SF
The research project has exceeded expectations. Proof of concept studies have produced very good results and cell line and preclinical development are expected to start in the first half of 2017.

Bispecific research projects
Alligator also has ongoing research projects concerned with developing bispecific antibodies. These are made up of activating antibodies directed against receptors in the TNFR-SF in combination with a further target protein created with the aid of ALLIGATOR-GOLD® and FIND®. These projects are currently in the early research phase.

Significant events in 2016

In April, Alligator Bioscience received a first milestone payment for the immuno-oncological antibody ADC-1013, which has been in development since August 2015 in partnership with Johnson & Johnson Innovation, which holds the global development rights. The milestone payment was triggered when Alligator received regulatory approval to extend the trial to include systemic treatment. This was contractually tied to a milestone payment of USD 5 million.

In July, Alligator engaged BioInvent for process development and cGMP production of the immuno-oncological product candidate ATOR-1015. The agreement provides Alligator with ATOR-1015 for early clinical trials which are planned to start in mid-2018.

In October, the first patient in another clinical phase I trial was administered the immuno-oncological CD40 antibody ADC-1013. In April 2015, Alligator started dosing in the first clinical dose escalation trial of ADC-1013. This trial was extended in the spring of 2016 to include both intratumoral and intravenous dose escalation. At the beginning of October, dosing of the first patient began in this second clinical phase I trial, now also including intravenous dose escalation with ADC-1013 (JNJ-64457107), sponsored by Janssen Biotech, Inc.

On November 23, Alligator was listed on Nasdaq Stockholm. The exchange listing was accompanied by a share issue which added another SEK 350 million to the company.

Financial overview of 2016

Income, expenses and profit/loss
Due to the nature of the business, there can be large fluctuations in income between different periods. These are not seasonal or regular in any other way but mainly related to when milestones generating a payment are reached in licensed research projects.

Net sales in the year totaled TSEK 58,240 (289,797). Most of the year's income was generated in the first quarter when a milestone for ADC-1013 was attained, while the income for the previous year was mainly generated in the third quarter when the license agreement for ADC-1013 was completed. Other operating income of TSEK 1,110 (3,822) relates mainly to government grants for a Vinnova project and currency gains in operations.

Operating costs amounted to TSEK 115,432 (90,613). In 2016, the research project 'Biosynergy' was written down by TSEK 22,120. There was a write-down of TSEK 10,080 on the same project in 2015 also. The impairments were prompted by altered assessments of the market conditions for the project, where the likelihood of reaching milestones and of the project delivering a drug is considered to have decreased and contractual terms have changed since they were agreed. Other material differences between the years were increased costs for external contract research

in 2016 (for ATOR-1016) and costs of the IPO. The previous year's costs for winding up the employment of a former CEO and consultancy costs prior to signing the license agreement for ADC-1013 have a positive effect on the comparison.

Net operating profit/loss before financial items amounted to TSEK -56,081 (203,006).

Total financial items amounted to TSEK 7,726 (4,371), made of accrued interest income and currency gains/losses on significant currency holdings in EUR and USD. A capital gain of TSEK 863 (2,000) was made in 2016 from the sale of securities.

The Group has no tax cost for 2016 (0). At the end of 2016, the Group's cumulative tax loss carry-forward was MSEK 289 (241).

Net profit/loss before and after tax was TSEK -48,356 (207,377).

Earnings per share before and after dilution were SEK -0.80 (3.81 and 3.70 respectively).

Financial position

Equity totaled TSEK 676,185 (396,969) TSEK at the end of the year. At the end of the period, this equates to equity per outstanding share of SEK 9.64 (6.73) before dilution. The corresponding figure after dilution is SEK 9.47 (6.55).

The Group's cash and cash equivalents are made up of bank deposits, which totaled TSEK 659,136 (365,605) at the end of the period. No loans were taken out as of December 31, 2016 or since that date. The Group has no credits or loan ceiling.

It is planned to use the Group's liquidity for day-to-day operations. Some liquidity has been deposited in the currency accounts for USD and EUR. In line with the Group's financial policy, inflows of foreign currency in excess of eighteen months' consumption are converted to SEK at the time of receipt.

Investments and cash flow

Investments for the whole of the financial year totaled TSEK 3,596 (2,024), mainly for laboratory equipment.

The total cash flow for the financial year was TSEK 287,133 (326,231).

Future outlook

The company's overall goal is to build a portfolio of clinical development projects within immuno-oncology which have a balanced risk profile and can produce substantial income for the company through licensing or sales.

Risks

Alligator's results have been, and will be, affected by several factors, some of them outside the company's control. The principal factors which Alligator considers have affected the results and can be expected to do so in the future are set out below.

Preclinical and clinical development of product candidates

Alligator currently has one product candidate in clinical phase I and a number of product candidates that are the subject of preclinical trials and research. All of Alligator's product candidates have to undergo comprehensive preclinical and clinical trials to demonstrate their safety and effect on humans before they can be given regulatory approval to be launched onto the market as finished products. Clinical trials are expensive and time-consuming to conduct, and their outcome is uncertain. This could affect the possibility of commercializing the company's product candidates. Alligator tries to minimize the impact of this risk by working with standardized processes, an established project methodology, regular steering group meetings and regular evaluation of the different projects.

Delays in clinical trials are quite usual and may be caused by many different things. Clinical trials may be held up for many different reasons, including delays in e.g.: approval from supervisory authorities to commence a trial; failure of contract suppliers to provide their services; recruitment of patients to take part in clinical trials; and the necessary provision of clinical trial material. Particularly with regard to patients, there are many factors that influence the chances of successful recruitment, such as the type of patient population, competing clinical trials and the perception among clinics and patients of the potential benefits of participating in the trial. To avert these risks, Alligator's clinical team strives constantly to establish close relationships with the clinics that are needed to run planned clinical trials effectively.

Limited product portfolio in the early development phase

Alligator has five product candidates in its project portfolio, with ADC-1013 in clinical phase I, ATOR-1015 in the preclinical phase and the other projects in the research phase. Alligator has invested substantial sums in developing these product candidates and further significant investment will be needed for their ongoing and continued development. The company has licensed ADC-1013 to Janssen, which is responsible, among other things, for financing and managing the continued clinical development of the product candidate. This means that the company's remaining product portfolio consists of a few product candidates that are in the preclinical phase at best. In view of the large

amount of research and capital still to be invested in these product candidates, there could be a serious negative impact on the company if one or more of the product candidates should suffer setbacks. Alligator's strategy for reducing these risks is to expand the product portfolio with further product candidates for tumor-directed immunotherapy, developed in-house, under license or through partnerships.

Dependence on partners for development commercialization

The company is dependent on current and future licensing, collaboration and other agreements with experienced partners for the development and successful commercialization of existing and future product candidates. One example of this is that the company has licensed ADC-1013 to Janssen, which means that the financing and management of continued clinical development of ADC-1013 are handled by Janssen. In return, Alligator has the right to an introductory payment, development and sales-related milestone payments and sales-based royalties, which currently make up most of the company's income. The collaboration agreement with Janssen is therefore very important to Alligator's operations, profits and financial position. Alligator's dependence on collaboration carries a number of risks, such as: the company cannot control the volume of resources or the time when these resources are to be dedicated to the product candidates; the company may be required to waive significant rights, including intellectual property rights and marketing and distribution rights; and the ability of the company's partners to meet their commitments under the collaboration agreement may be affected by changes in a partner's business strategy. Alligator strives to reduce this risk by thoroughly evaluating potential partners, assigning sufficient and appropriate resources and running more projects.

Market acceptance

So far none of the company's product candidates has been commercialized. Even if the company's product candidates are approved for marketing and sale by the competent authorities, doctors might not prescribe them, which could prevent the company from generating income or achieving profitability. Market acceptance of potential future products from the company and its partners will depend on a number of factors, including: the clinical indications for which the product has been approved; acceptance by doctors, patients and buyers; perceived benefits compared to competing treatments; the extent to which the product has been approved for use in hospitals and 'managed care' organizations; and access to adequate reimbursement systems and price subsidies. Alligator's ability to influence these risks is limited and mainly involves the company considering these factors carefully when licensing product candidates.

Competition

The development and commercialization of new pharmaceutical products is extremely competitive. Alligator is exposed to competition in relation to its current product candidates, and will be exposed to competition in relation to all product candidates that it may try to develop or commercialize in the future, from large pharmaceutical companies, specialized drug companies and biotech firms all over the world. There are a small number of approved products on the market and a lot of pharmaceutical and biotech companies engaged in research and development of drugs for immunotherapy of cancer, including several large, well-defined pharmaceutical companies. Alligator strives to reduce competition by developing clearly differentiated product candidates and through strategic partnerships that can bring other competitive advantages.

Key persons and qualified staff

Alligator is dependent on the company's senior executives and on a number of other key persons. Alligator's ability to retain and recruit qualified staff is vital to the company's future success and growth opportunities, and there is a risk of not being able to recruit on satisfactory terms in the face of competition from companies in the industry, universities and other institutions. If the company should lose key persons or be unable to go on recruiting qualified staff in the future, this could have a negative effect on Alligator's business. The company handles these risks by working actively to make Alligator an attractive and enjoyable place to work, where employees are enabled to develop within their roles. The company also has a wide network from which to recruit the skills that it needs.

Liquidity risk

Alligator is dependent on liquidity to be able to meet its commitments related to the Group's financial liabilities. The company's activities in research and development work mean that parts of its available liquidity are being consumed all the time. The inflow of cash is very irregular and comes mainly with various events related to licensing agreements. To reduce this risk, the company has ensured that it has sufficient liquidity to run its ongoing projects through to eventual licensing. This has been achieved through the agreement to license ADC-1013 and through a new share issue in November 2016.

Currency fluctuations
Alligator is based in Sweden and reports its financial position and results in SEK. Alligator's income is currently made up mainly of payments under the licensing agreement with Janssen, which are made in USD. Alligator also regularly purchases services in currencies other than SEK. The currency flows from the purchase and sale of goods in currencies other than SEK produce what is known as transaction exposure. If Alligator's measures to handle the effects of movements in exchange rates do not prove to be effective enough, Alligator's results may be affected positively or negatively. In its financial policy, Alligator has established rules for minimizing the risk of losses arising from currency fluctuations. The company is based in Lund in Sweden, and most of its costs are in SEK. The company's cash and cash equivalents are therefore held mostly in SEK. A certain amount of USD and EUR is held in currency accounts equating to eighteen months' expected needs. Expected inflows in currencies other than SEK are not hedged as it is hard to determine the date on which the inflow will come.

Organization and personnel incl. guidelines for remuneration of senior executives

Employees
The average number of employees in the company in 2016 was 31 (27), of whom 24 (22) were women. At the end of the year, the number of employees was 36 (27), of whom 32 (24) were in Research and Development.

All employees are treated alike and given the same opportunities regardless of age, gender, religion, sexual orientation, disability or ethnicity.
Salaries, remuneration and other staff-related costs totaled MSEK 27.6 (28.6).

Changes in senior management
During the year, the company's management team was joined by VP IR Rein Piir, and the company took on a new CFO, Per-Olof Schrewelius.

Larger Board
The Board of the company was strengthened with an additional person when Ulrika Danielsson was elected in March 2016.

Guidelines for remuneration to senior executives
According to the Swedish Companies Act, the shareholders' meeting should decide on guidelines for payments to the CEO and other senior executives. The annual general meeting on April 20, 2016 adopted such guidelines. There have been no deviations from these guidelines. The Board proposes that unchanged principles regarding payments to the CEO and other senior executives should apply after the 2017 annual general meeting. These principles are essentially as follows.

The company's assumption is that payments should be made on market-based and competitive terms that enable senior executives to be recruited and retained. Payments to senior executives may consist of basic salary, variable remuneration, other benefits and share-related incentive programs. The CEO and other senior executives are generally entitled to other customary benefits according to what may be considered reasonable in terms of market practice and the benefit to the company.

Payments to the CEO and other senior executives should be based on factors such as work responsibilities, expertise, experience, position and performance. The breakdown between basic salary and variable remuneration should also be in proportion to the employee's position and responsibilities. Variable remuneration should be tied to predefined and measurable criteria, designed to promote the company's long-term value creation. The remuneration should not discriminate on the basis of gender, ethnic background, national origin, age, disability or other irrelevant circumstances.

The CEO and other senior executives should be offered a fixed salary which is in line with the market and based on the individual's responsibilities, competence and performance. Apart from their salary, the CEO and other senior executives will normally be entitled to an annual bonus of no more than 25 percent or 20 percent of their basic salary respectively.

Over and above what has been defined in collective agreements or other agreements, the CEO and other senior executives may be entitled to arrange pension solutions on an individual basis. Reductions in salary and variable remuneration may be used to increase pension provisions provided that the cost to the company is unchanged over time. According to the guidelines, the notice period for the CEO is six months on either side, and for other senior executives, the notice period may not exceed six months. Severance payments, apart from salary paid during the notice period, will only arise for the CEO, who will be entitled to a severance payment equal to six months' salary in the case of termination by the company.

The Board may deviate from the guidelines if there are specific grounds for doing so in any given case. The Board will consider each year whether or not to propose a share-based incentive program to the annual general meeting. New issues and transfers of securities decided by the shareholders' meeting according to the rules in Chapter 16 of the Companies Act where the shareholder's meeting has taken or is about to take such decisions.

Environmental information

Alligator's business does not require a permit under the Swedish Environmental Code but it is subjected to regular environmental inspections. We comply with official requirements for the management and destruction of hazardous waste and work actively to reduce our use of environmentally harmful substances and our energy consumption.

Share capital and ownership

Alligator's share capital as of December 31, 2016 totaled SEK 28,045,446, made up of 70,113,615 shares with a par value of SEK 0.40 per share. There is only one class of share. Each share entitles the holder to one vote at the annual general meeting. On December 31, 2016, Banque Internationale à Luxembourg was the largest shareholder, with 12,704,515 shares accounting for 18.1% of the capital and of the votes.

Share option programs

Subscription option program 2013/2017

In November 2013 it was decided to establish a subscription option program encompassing 1,605,000 options. Each subscription option entitles the holder to acquire one new share in the company at an exercise price of SEK 9. The subscription options can be exercised from April 1, 2014 to March 31, 2017 inclusive. On the reporting date, 330,000 subscription options had been exercised, cash had been deposited for 700,000 but they had not been converted, and 575,000 had not yet been exercised.

Subscription option program 2016/2020

At the annual general meeting on April 20, 2016, it was decided to establish a subscription option program by issuing no more than 1,000,000 subscription options to a subsidiary for transfer on to employees of the company. In all, 1,000,000 subscription options were acquired by the subsidiary, of which 857,000 have so far been transferred to participants in the program while the remaining 143,000 have been reserved for transfer to future employees. The transfer to participants was made at market value calculated by the Black-Scholes formula. Each subscription option entitles the holder to acquire one new share in the company at an exercise price of SEK 75. The subscription options can be exercised in the periods from June 1, 2019 to August 31, 2019 and from March 1, 2020 to May 31, 2020 inclusive.

Employee option program 2016/2020

At the annual general meeting on April 20, 2016, it was decided to set up a staff option program whereby 900,000 staff options were allocated free of charge to participants in the program. The staff options allocated are accrued 1/3 on May 1, 2017, 1/3 on May 1, 2018 and 1/3 on May 1, 2019. Accrual is subject to the participant remaining in the company's employment and not having resigned on a given qualifying date. If a participant ceases to be employed or resigns from the company before a qualifying date, any staff options already accrued may be exercised in the normal exercise period, but no more rights will be accrued. Each accrued staff option entitles the holder to acquire one new share in the company at an exercise price of SEK 75. Accrued staff options can be exercised in the periods from June 1, 2019 to August 31, 2019 and from March 1, 2020 to May 31, 2020 inclusive. To enable delivery of shares under the staff option program and to cover the associated costs (mainly social security charges), the annual general meeting also decided to issue further subscription options to a wholly-owned subsidiary. In all, the subsidiary acquired 1,182,780 subscription options under this program.

Proposed appropriation of profits

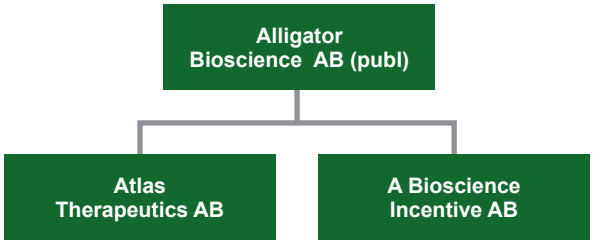
The Board proposes that sums available to the shareholders' meeting:	
Share premium reserve	651,776,283
Retained earnings	40,147,192
Profit/loss for the period	-49,256,200
Total	**642,667,275**
Be allocated as follows:	
Dividend to shareholders (SEK 0 per share)	0
Carried forward to new account	642,667,275
Total	**642,667,275**

Corporate governance report

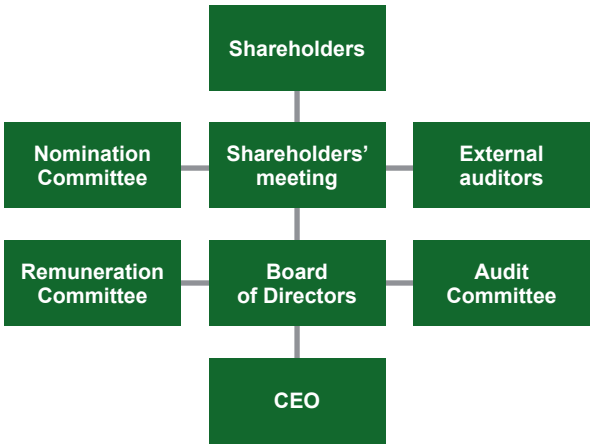
Alligator's corporate governance is governed by the Nasdaq Stockholm rules for issuers, the Swedish Corporate Governance Code (the 'Code'), the Swedish Companies Act, good practice in the stock market and other applicable rules and recommendations, and the company's articles of association and internal governing documents. The internal governing documents mainly cover the rules of procedure for the Board, the mandate to the CEO and the terms of reference for financial reporting. Alligator also has a number of policy documents and manuals containing rules and recommendations, laying down principles and providing guidance for the company's operations and for its employees.

This corporate governance report has been drawn up in accordance with the rules in the Annual Accounts Act and in the Code. The corporate governance report has been produced as a separate document from the annual accounts, so does not constitute part of the formal annual report documents. The corporate governance report has been reviewed by the company's auditors in accordance with the provisions of the Annual Accounts Act, and the auditor's opinion is included in the auditor's report on page 71.

Legal structure



Overview of corporate governance in the Alligator Group, 2016



Shareholders

At the end of 2016, Alligator had 4,383 shareholders. The number of shares was 70,113,615. There is only one class of share. Each share entitles the holder to one vote at the annual general meeting, and all shares have equal rights to the company's assets and profits.

Further details of Alligator's shareholder structure, shares etc. are presented on pages 22–24.

Shareholders' meeting

The shareholders' right to decide on the company's affairs is exercised through the supreme decision-making body, the shareholders' meeting (annual general meeting or extraordinary general meeting). For example, the meeting decides on changes to the articles of association, appoints the Board and the auditors, approves the income statement and balance-sheet, releases the Board and CEO from liability, decides on the appropriation of profit/loss, and adopts principles for appointing the nomination committee and guidelines for remuneration of senior executives.

Shareholders may raise a given issue for discussion at the shareholders' meeting. Shareholders who wish to exercise this right must submit a written request to the Board of the company. Such requests must normally reach the Board no later than seven weeks before the shareholders' meeting.

The shareholders' meeting is held in Lund, Sweden. Invitations to the annual general meeting and any extraordinary general meeting which is to discuss changes to the articles of association must be sent out no more than six weeks and no later than four weeks before the meeting. Invitations to other extraordinary general meetings must be sent out no more than six weeks and no less than three weeks before the meeting. Invitations are published in Post- och Inrikes Tidningar (the Swedish government gazette) and on the company's website. The fact that invitations have been issued is also advertised in Dagens Industri.

In order to participate in the shareholders' meeting, shareholders must be entered in the register of shareholders maintained by Euroclear Sweden AB no later than five working days before the meeting, and notify the company no later than the date given in the invitation to the meeting. This day may not be a Sunday, other public holiday, Saturday, Midsummer's Eve, Christmas Eve or New Year's Eve and may not be earlier than five working days before the shareholders' meeting.

Extraordinary general meeting 2016
An extraordinary general meeting was held on March 14, 2016 at which it was decided to amend the provisions of the articles of association concerning the number of Board members and to elect Ulrika Danielsson as a new ordinary member of the Board.

Annual general meeting 2016
At the annual general meeting held on April 20, 2016, Peter Benson was re-elected as Chairman of the Board and Carl Borrebaeck, Jakob Lindberg, Kenth Petersson, Mathias Uhlén and Ulrika Danielsson were re-elected as ordinary members of the Board. Ernst & Young AB were also appointed as auditors. The annual general meeting decided on the fees to the Board as described under 'Remuneration of the Board' below. It was also decided to introduce a subscription option program and a staff option program, as described in the directors' report. It was further decided to authorize the Board to issue a total of 15,000,000 new shares in one or more installments. In so far as the issue derogates from the shareholder's preferential rights, it is being conducted under market conditions. Finally, the annual general meeting also approved the instructions and rules of procedure for the nomination committee as described under 'Nomination committee' below, and the remuneration policy for senior executives as set out in the directors' report.

Nomination Committee

The Code stipulates that the company should have a nomination committee whose duties should include preparing and producing proposals for the election of Board members, the Chairman of the Board, the chair of the shareholders' meeting and the auditors. The nomination committee should also propose the fees payable to Board members and auditors. At the annual general meeting on April 20, 2016, it was decided to adopt an instruction and rules of procedure for the nomination committee whereby the nomination committee should be made up of four members representing the three largest shareholders on the last working day in September and the Chairman of the Board. The largest shareholders are owner-registered shareholders or other known shareholders as of the last working day in September. Before accepting the assignment, a member of the nomination committee should consider carefully whether there is any conflict of interest.

If any of the three largest shareholders declines to appoint a representative, or their representative leaves or steps down before completing the assignment without the shareholder that appointed the member appointing a new one, the Chairman of the Board must invite the next-biggest shareholders in order of size down to the tenth-largest (i.e. starting with the fourth-largest) to appoint a shareholder representative within a week of the request. If, despite such requests, only three members have been appointed four months before the annual general meeting, the nomination committee must be able to be constituted with three ordinary members and it must then be able to decide whether or not this procedure should be pursued to appoint the fourth member.

The members of the nomination committee should be published no later than six months before the annual general meeting on the company's website. In the event of significant changes of ownership earlier than six weeks before the annual general meeting, a new shareholder representative should be appointed. The Chairman of the Board should then contact whichever of the three largest shareholders has no shareholder representative and invite them to appoint one. When this shareholder representative is appointed they should join the nomination committee and replace the previous member who no longer represents one of the three largest shareholders.

The nomination committee must meet the requirements for its composition laid down in the Code. If the larger shareholders who are entitled to appoint members of the nomination committee wish to appoint people who cause the requirements for the composition of the committee laid down in the Code not to be satisfied, a larger shareholder will take precedence over a smaller in its choice of member. When a new member is appointed as a result of significant changes in ownership, the shareholder who is to appoint a new member must consider the composition of the existing nomination committee. The nomination committee should appoint its own chairperson. The Chairman of the Board or other Board representative may not chair the nomination committee. The mandate for the appointed nomination committee will run until a new nomination committee is appointed.

Fees may be paid to the members of the nomination committee as decided by the shareholders' meeting.

In accordance with the instruction adopted, a nomination committee has been constituted ahead of the 2017 annual general meeting comprising: Ulf Wiinberg

(chairman) representing Sunstone Life Science Ventures Fund II K/S, Thomas Kidane representing Duba AB and Jonas Sjögren representing Jonas Sjögren, plus the Chairman of the Board Peter Benson.

After the turn of the year, Duba AB announced that they refrained their place in the nomination committee. The nomination committee then contacted an ownership group at Banque International à Luxembourg who appointed Berit Levy as their representative on the committee.

External audit

The company's auditor is appointed by the annual general meeting for the period up to the end of the next AGM. The auditor reviews the annual report and accounts and the administration by the Board and the CEO. After each financial year, the auditor is required to submit an audit report to the shareholders' meeting. The company's auditor reports his/her observations from the audit to the Board each year, along with an assessment of the company's internal control. At the annual general meeting on April 20, 2016, Ernst & Young Aktiebolag was appointed as the company's auditor, with certified public accountant Göran Neckmar as chief auditor. The annual general meeting also decided that fees should be paid to the auditor in accordance with the usual charging rules and approved invoices. The auditor's fee for the 2016 financial year was SEK 330,000 in total.

The Board of Directors

Duties of the Board

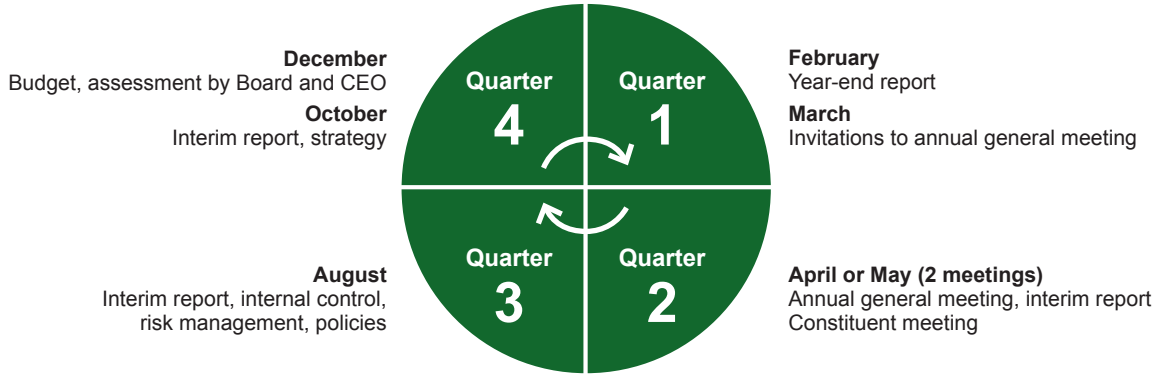
Next to the shareholders' meeting, the Board is the company's highest decision-making body. The Board is responsible for the organization of the company and the management of the company's affairs, e.g. by setting its goals and strategy, maintaining procedures and systems to monitor the specified goals, continuously assessing the company's economic situation and evaluating its operational management. The Board is also responsible for ensuring that correct information is given to the company's stakeholders, that the company complies with laws and regulations and that the company produces and implements internal policies and ethical guidelines. The Board also appoints the company's CEO and decides on his/her salary and other remuneration based on the guidelines adopted by the shareholders' meeting.

Composition of the Board

The members of the Board appointed by the shareholders' meeting are elected each year at the annual general meeting for the period up to the next AGM. According to the company's articles of association, the Board should comprise at least three and at most eight members, without deputies.

According to the Code, the majority of the Board members elected by the shareholders' meeting should be independent of the company and of its senior management. To decide whether or not a member is independent, an overall assessment should be made of all matters that could cast doubt on the member's independence of the company or its senior management. According to the Code, at least two of the members who are independent of the company and of its senior management should also be independent of major shareholders. Major shareholders are those who directly or indirectly control 10 percent or more of all shares and votes in the company. To determine a member's independence, the extent of that member's direct and indirect relationships with the major shareholder should be taken into consideration. A Board member who is an employee or board member in a company that is a major shareholder is not considered to be independent.

The members of the Board and the Board's assessment of the independence of its members in relation to the company and its senior management



Board and committee meetings in 2016

Name	Position	PRESENCE		
		Board*	Audit Committee	Remuneration Committee
Peter Benson	Chairman, RC and AC**	14/14	1/1	2/2
Carl Borrebaeck	Member	11/14		
Jakob Lindberg	Member, RC (chair)	13/14		2/2
Kenth Petersson	Member, AC	13/14	6/6	
Mathias Uhlén	Member, RC	13/14		1/2
Jonas Sjögren	Member, AC	12/14	4/6	
Ulrika Danielsson	Member, AC (chair)	11/12	5/5	

*Excl. 'per capsulam' meetings.
** Member of AC at the first meeting of the year.
All board members are independent of major shareholders. With the exception of Carl Borrebaeck, all board members are independent of the company and its management.

and to major shareholders are presented in the section on 'Board and committee meetings in 2016' on page 26. As stated there, the Board believes that the company complies with the requirements of the Code regarding independence.

Chairman of the Board

The role of the Chairman is to lead the work of the Board, and to ensure that its work is carried out effectively and that the Board can meet all its obligations. The Chairman should meet with the CEO to monitor developments in the company and ensure that the members of the Board are provided through the auspices of the CEO with the information needed to monitor the company's position, financial planning and development. The Chairman should also consult with the CEO on strategic matters and check that the decisions of the Board are implemented in an effective manner.

The Chairman is responsible for contacts with shareholders on matters of ownership and for conveying the views of shareholders to the Board. The Chairman is not involved in the day-to-day work of the company. Nor is he a member of senior management.

Work of the Board

The Board follows written rules of procedure which are reviewed each year and adopted by the constituent Board meeting. Among other things, the rules of procedure govern the Board's working methods, tasks, decision-making within the company, the meeting schedule for the Board, the tasks of the Chairman and the breakdown of responsibilities between the Board and the CEO. The terms of reference for financial reporting and instructions to the CEO are also adopted at the constituent Board meeting.

The work of the Board is also driven by an annual presentation schedule, to meet the Board's need for information. The Chairman and the CEO, along with the members of the Board, maintain an ongoing dialog on the management of the company.
The Board meets according to a predefined annual timetable and should hold at least seven ordinary Board meetings between annual general meetings. Extra meetings may also be arranged to deal with matters that cannot be postponed to any of the ordinary meetings. In 2016 the Board met on a total of 19 occasions, of which 5 were 'per capsulam' meetings held as part of the process of listing the company's shares on Nasdaq Stockholm.

Audit Committee

The tasks of the Audit Committee are mainly to monitor the company's financial position and the effectiveness of its internal control, internal audit and risk management, to keep itself informed of the audit of the annual accounts and consolidated accounts, and to review and monitor the impartiality and independence of the auditor. The Audit Committee should also assist the nomination committee with resolutions on the election of and fees payable to the auditor. Since the annual general meeting on April 20, 2016, the Audit Committee has comprised Ulrika Danielsson (chair), Kenth Petersson and Jonas Sjögren.

Remuneration Committee

The tasks of the Remuneration Committee are mainly to address questions of remuneration and other conditions of employment of the CEO and senior executives. The Remuneration Committee should also follow up and evaluate the current variable remuneration schemes for senior management and those adopted during the year and follow up and assess compliance with the guidelines on remuneration of senior executives decided on by the annual general meeting. Since the annual general meeting on April 20, 2016, the Remuneration Committee has comprised Jakob Lindberg (chair), Mathias Uhlén and Peter Benson.

Remuneration of the Board

Fees for the Board members elected by the shareholders' meeting are decided by the annual general meeting. Before the 2017 annual general meeting, the nomination committee will submit proposals for the fees to be paid. At the annual general meeting on April 20, 2016, it was decided that the fees should be SEK 300,000 to the Chairman and SEK 150,000 to each of the ordinary Board members who are not employees of the company. It was also decided that payment for committee work should be made at SEK 50,000 for the chair of the Audit Committee and SEK 25,000 to each of the ordinary members of the Audit Committee. No extra payment has been made for work on the Remuneration Committee.

See also Note 11 Payments to senior executives

CEO and other senior executives

The CEO is subordinate to the Board and his main task is to handle the company's day-to-day management and operations. The rules of procedure for the Board and the instruction to the CEO set out the matters to be decided by the Board of the company and those for which the CEO is responsible. The CEO is also responsible for producing reports and decision documents ahead of the Board meetings, and for presenting this material at Board meetings.

Alligator has a management group comprising four persons: the CEO plus the company's Chief Financial Officer, Senior Vice President Research & Development and Vice President Investor Relations.

Remuneration of senior executives

The remuneration of senior executives may consist of basic salary, variable remuneration, other benefits and severance conditions. The CEO and other senior executives were paid salaries and other remuneration for the 2016 financial year as set out in Note 11.

The notice period for the CEO is six months, whichever party serves notice. The CEO will be entitled to a severance payment equal to six months' salary in the case of termination by the company. The notice period for other senior executives is six months, whichever party serves notice. No severance payments have been agreed for other senior executives. The VP Investor Relations performs his assignment on a consultancy basis and the consultancy agreement has a fixed term of 12 months from the date of exchange-listing. Either party may however terminate the agreement early subject to six months' notice on either side. See also 'Guidelines for remuneration to senior executives' on page 34.

Internal control

The Board's responsibility for internal control is laid down on the Companies Act, the Annual Accounts Act, which contains requirements to the effect that details of the major features of Alligator's systems for internal control and risk management in relation to financial reporting must be included in the corporate governance report, and the Code. Among other things, the Board is required to ensure that Alligator has good internal control and formalized procedures to ensure that the established principles for financial reporting and internal control are adhered to and that there are suitable systems for follow-up and control of the company's activities and the risks inherent in the company and its operations.

The overall purpose of internal control is to provide reasonable assurance that the company's operational strategies and goals are followed up and that the shareholders' investments are protected. The internal control should also provide reasonable assurance that external financial reporting is reliable and prepared in accordance with good auditing practice, that applicable laws and regulations are obeyed and that requirements for listed companies are complied with. Internal control essentially covers the following five components.

Control environment

The Board bears the overall responsibility for internal control over financial reporting. In order to create and maintain a functioning control environment, the Board has adopted a number of policies governing financial reporting. These mainly comprise the rules of procedure for the Board, the mandate to the CEO and the terms of reference for financial reporting. The Board has also adopted a special set of signatory rules and a financial policy. The company also has a finance manual containing principles, guidelines and process specifications for accounting and financial reporting.

The Board has also set up an Audit Committee whose main task is to ensure that the approved principles for financial reporting and internal control are complied with and that regular contact with the company's auditor is maintained. The responsibility for maintaining an effective control environment and for the day-to-day work on internal control over financial reporting rests with the CEO. The CEO reports to the Board on a regular basis in accordance with the instruction to the CEO and the terms of reference for financial reporting. The Board also receives reports from the company's auditor.

Based on a control environment assessed as good and an external review by auditors, the Board has determined that there are no special circumstances in the business or other matters to justify setting up an internal audit function.

Risk assessment

The risk assessment includes identifying risks that could arise if the fundamental requirements for financial reporting in the company were not met. In a separate risk assessment document, Alligator's management group has identified and evaluated the risks arising in the company's operations and assessed how these risks can be handled. Within the Board, the Audit Committee bears the primary responsibility for regularly assessing the company's risk situation, after which the Board carries out an annual review of the risk situation.

Control activities

Control activities contain identified risks and ensure correct and reliable financial reporting. The Board is responsible for internal control and monitoring by senior management. This is done via both internal and external control activities and through review and follow-up of the company's governing documents relating to risk management.

Information and communication

The company has information and communication paths designed to promote accuracy in financial reporting and to enable reporting and feedback from the business to the Board and management, such as by making governing documents in the form of internal policies, guidelines and instructions available and known to the employees concerned. The Board has also adopted an information policy governing the company's disclosure of information.

Follow-up

Compliance with and effectiveness of the internal controls are followed up on a regular basis. The CEO ensures that the Board receives regular reports on the development of the company's operations, including the development of the company's results and financial position and details of significant events such as research findings and major agreements. The CEO also reports on these matters at each Board meeting.

Consolidated income statement

All amounts in TSEK	Note	2016	2015
Net sales	6	58,240	289,797
Other operating income	6	1,110	3,822
Total operating income		**59,350**	**293,619**
Operating costs			
Other external costs	7,8,9	-63,278	-49,335
Personnel costs	10,11	-27,479	-28,611
Depreciation and impairment of tangible and intangible assets	12,18,19,20	-24,675	*-12,667*
Total operating costs		**-115,432**	**-90,613**
Operating profit/loss		**-56,081**	**203,006**
Financial items			
Profit/loss from other securities and receivables	13	863	2,290
Financial income	14	8,704	2,081
Financial costs	15	-1,840	-1
Net financial items		**7,726**	**4,371**
Profit/loss before tax		**-48,356**	**207,377**
Tax on profit for the period	16	0	0
Profit/loss for the year attributable to Parent Company shareholders		**-48,356**	**207,377**
Earnings per share, SEK	**17**		
Before dilution		-0.80	3.81
After dilution		-0.80	3.70

Consolidated statement of comprehensive income

All amounts in TSEK	Note	2016	2015
Profit/loss for the year		-48,356	207,377
Other comprehensive income		0	0
Comprehensive income attributable to Parent Company shareholders		**-48,356**	**207,377**

Consolidated statement of financial position

All amounts in TSEK	Note	Dec 31, 2016	Dec 31, 2015
ASSETS			
Fixed assets			
Intangible assets			
Participations in development projects	18	17,949	40,069
Patents	19	2,306	3,354
Tangible assets			
Equipment, machinery and computers	20	4,349	2,323
Financial noncurrent assets			
Other investments held as fixed assets	13	0	95
Total fixed assets		**24,603**	**45,840**
Current assets			
Current receivables			
Accounts receivable	22	0	689
Other receivables	23	12,417	2,804
Prepayments and accrued income	24	4,624	1,319
Cash and cash equivalents	25	659,136	365,605
Total current assets		**676,178**	**370,417**
TOTAL ASSETS		**700,780**	**416,256**
EQUITY AND LIABILITIES			
Equity			
Share capital	26	28,045	23,606
Other capital contributions	26	657,949	335,051
Retained earnings		-9,809	38,312
Equity attributable to Parent Company shareholders		**676,185**	**396,969**
Current liabilities			
Accounts payable		13,340	4,890
Other liabilities		686	632
Accrued expenses and deferred income	27	10,569	13,765
Total current liabilities		**24,595**	**19,287**
TOTAL EQUITY AND LIABILITIES		**700,780**	**416,256**

Consolidated statement of changes in equity

All amounts in TSEK	Attributable to Parent Company shareholders Share capital	Other capital contributions	Retained earnings incl. profit/loss for the period	Total equity
Equity, Jan 1, 2015	19,445	218,139	-169,065	**68,519**
Profit/loss for the period			207,377	**207,377**
Other comprehensive income				**0**
Comprehensive income for the period	**0**	**0**	**207,377**	**207,377**
Other changes in equity				
New share issue	4,161	117,413		**121,574**
Underwriting expenses		-501		**-501**
Equity, Dec 31, 2015	**23,606**	**335,051**	**38,312**	**396,969**
Profit/loss for the year			-48,356	**-48,356**
Other comprehensive income				
Comprehensive income for the period	**0**	**0**	**-48,356**	**-48,356**
Other changes in equity				
New share issue	4,439	354,831		**359,270**
Underwriting expenses		-32,665		**-32,665**
Option premiums received		733		**733**
Effect of share-based payments			234	**234**
Equity, Dec 31, 2016	**28,045**	**657,949**	**-9,809**	**676,185**

Consolidated statement of cash flows

All amounts in TSEK	Note	2016	2015
Cash flow from operating activities			
Operating profit/loss		-56,081	203,006
Adjustments for items not generating cash flow:			
Depreciation and impairments		24,675	12,667
Other items, no impact on cash flow		253	0
Interest received		468	42
Interest paid		-4	-1
Income tax paid		0	0
Cash flow from operating activities before changes in working capital		**-30,689**	**215,715**
Changes in working capital			
Change in operating receivables		-12,229	-833
Change in operating liabilities		5,308	-9,988
Cash flow from operating activities		**-37,610**	**204,894**
Investing activities			
Sales of participations in other companies		957	2,291
Acquisition of intangible assets		-217	-1,187
Acquisition of tangible assets		-3,379	-838
Sales of tangible assets		45	0
Cash flow from investing activities		**-2,593**	**266**
Financing activities			
New share issue		359,270	121,574
Underwriting expenses		-32,665	-501
Option premiums received		733	0
Cash flow from financing activities		**327,338**	**121,073**
Cash flow for the period		**287,135**	**326,232**
Cash and cash equivalents at start of period		365,605	37,428
Exchange rate differences in cash and cash equivalents		6,396	1,944
Cash and cash equivalents at end of period	25	**659,136**	**365,605**

Parent Company income statement

All amounts in TSEK	Note	2016	2015
Net sales	6	57,338	289,797
Other operating income	6	1,110	3,822
Total operating income		**58,448**	**293,619**
Operating costs			
Other external costs	7,8,9	-63,278	-49,335
Personnel costs	10,11	-27,479	-28,611
Impairment of tangible and intangible assets	19,20	-2,555	-2,587
Total operating costs		**-93,310**	**-80,531**
Operating profit/loss		**-34,862**	**213,088**
Results from financial items			
Impairment of investments in subsidiaries	12	-22,120	-10,080
Profit/loss from other securities and receivables	13	863	2,290
Interest income and similar income statement items	14	8,704	2,081
Interest costs and similar income statement items	15	-1,840	-1
Net financial items		**-14,393**	**-5,709**
Profit/loss after financial items		**-49,256**	**207,379**
Tax on profit for the period	16	0	0
Profit/loss for the period		**-49,256**	**207,379**

Parent Company statement of comprehensive income

All amounts in TSEK	Note	2016	2015
Profit/loss for the period		-49,256	207,379
Other comprehensive income		0	0
Comprehensive income for the period		**-49,256**	**207,379**

Parent Company balance sheet

All amounts in TSEK	Note	Dec 31, 2016	Dec 31, 2015
ASSETS			
Fixed assets			
Intangible assets			
Patents	19	2,306	3,354
Total intangible assets		**2,306**	**3,354**
Tangible assets			
Equipment, machinery and computers	20	4,349	2,323
Total tangible assets		**4,349**	**2,323**
Financial noncurrent assets			
Participations in Group companies	21	20,294	42,120
Other investments held as fixed assets	13	0	95
Total financial noncurrent assets		**20,294**	**42,215**
Total fixed assets		**26,949**	**47,891**
Current assets			
Current receivables			
Accounts receivable	22	0	689
Other receivables	23	12,417	2,804
Prepayments and accrued income	24	4,624	1,319
Total current liabilities		**17,041**	**4,812**
Cash in hand and at bank	25	657,619	365,155
Total current assets		**674,659**	**369,966**
TOTAL ASSETS		**701,608**	**417,857**
EQUITY AND LIABILITIES			
Equity	26		
Restricted equity			
Share capital		28,045	23,606
Paid in, non-registered new share issue		6,300	0
Total restricted equity		**34,345**	**23,606**
Non-restricted equity			
Share premium reserve		651,776	335,051
Retained earnings		40,147	-167,466
Profit/loss for the period		-49,256	207,379
Total non-restricted equity		**642,667**	**374,964**
Total equity		**677,013**	**398,570**
Current liabilities			
Accounts payable		13,340	4,890
Other liabilities		686	632
Accrued expenses and deferred income	27	10,569	13,765
Total current liabilities		**24,595**	**19,287**
TOTAL EQUITY AND LIABILITIES		**701,608**	**417,857**

Parent Company statement of changes in equity

All amounts in TSEK	Restricted equity		Non-restricted equity			
	Share capital	Paid, not registered share capital	Share premium reserve	Retained earnings	Profit/loss for the period	Total
Equity, Jan 1, 2015	**19,445**	**33,679**	**184,460**	**-167,466**		**70,118**
Profit/loss for the year					207,379	**207,379**
Other comprehensive income						**0**
Comprehensive income for the period	**0**	**0**	**0**	**0**	**207,379**	**207,379**
Other changes in equity						
New share issue	4,161	-33,679	151,091			**121,573**
Underwriting expenses			**-501**			**-501**
Equity, Dec 31, 2015	**23,606**	**0**	**335,050**	**-167,466**	**207,379**	**398,569**
Equity, Jan 1, 2016	**23,606**	**0**	**335,050**	**39,913**	**0**	**398,569**
Profit/loss for the year					-49,256	**-49,256**
Other comprehensive income						**0**
Comprehensive income for the period	**0**	**0**	**0**	**0**	**-49,256**	**-49,256**
Other changes in equity						
New share issue	4,439	6,300	348,531			**359,270**
Underwriting expenses			-32,665			**-32,665**
Option premiums received			859			**859**
Share-related payments				234		**234**
Equity, Dec 31, 2016	**228,045**	**6,300**	**651,775**	**40,147**	**-49,256**	**677,013**

Parent Company statement of cash flows

All amounts in TSEK	Note	2016	2015
Cash flow from operating activities			
Operating profit/loss		-34,862	213,088
Adjustments for items not generating cash flow:			
Depreciation and impairments		2,555	2,587
Other items, no impact on cash flow		253	0
Interest received		468	42
Interest paid		-4	-1
Income tax paid		0	0
Cash flow from operating activities before changes in working capital		**-31,591**	**215,717**
Changes in working capital			
Change in operating receivables		-12,229	821
Change in operating liabilities		5,308	-9,988
Cash flow from operating activities		**-38,512**	**206,550**
Investing activities			
Acquisition of shares in subsidiaries		-294	0
Sales of participations in other companies		957	2,290
Acquisition of intangible assets		-217	-1,187
Acquisition of tangible assets		-3,380	-838
Sales of tangible assets		45	0
Cash flow from investing activities		**-2,889**	**265**
Financing activities			
New share issue		359,270	121,574
Underwriting expenses		-32,665	-501
Option premiums received		859	0
Cash flow from financing activities		**327,464**	**121,073**
Cash flow for the period		**286,064**	**327,888**
Cash and cash equivalents at start of period		365,155	35,322
Exchange rate differences in cash and cash equivalents		6,400	1,944
Cash and cash equivalents at end of period	25	**657,619**	**365,155**

Notes

Note 1 General information

Alligator Bioscience AB (publ), corporate ID number 556597-8201, is a public limited company based in Lund, Sweden. The address of the head office is Medicon Village, SE-223 81 Lund, Sweden.

Alligator is a biotech company which develops innovative antibody-based medicines for immunotherapy of cancer. These consolidated accounts cover the parent company and its wholly-owned subsidiaries Atlas Therapeutics AB (corporate ID no 556815-2424) and A Bioscience Incentive AB (559056-3663), both based in Lund, Sweden. All operations are run by the parent company.

Note 2 Accounting policies

The consolidated financial statements for Alligator Bioscience AB (publ.) have been prepared in accordance with International Financial Reporting Standards (IFRS) as approved by the EU, and interpretations from the IFRS Interpretations Committee (IFRIC).

The Group also complies with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 1 'Reporting for legal entities'.

New and amended standards and improvements which entered into force in 2016 had no material impact on the Group's financial statements for the period.

The consolidated accounts are denominated in Swedish kronor (SEK) and relate to the period January 1–December 31 for income statement items of December 31 for balance-sheet items. Assets and liabilities are recognized according to the historical cost method unless stated otherwise. The key accounting principles applied are described below.

New and amended standards and interpretations that have not yet taken effect

The International Accounting Standards Board (IASB) has issued a number of new and amended standards that have not yet taken effect. None of these has been applied in advance. The new and amended standards that are considered to affect the Group's financial statements in the period when they are first applied are described below.

IFRS 9 Financial Instruments

This standard will enter into force for financial years beginning January 1, 2018 or later, when it will supersede IAS 39 Financial Instruments: Recognition and Measurement. Management has not yet fully evaluated the effect of the new standard on the Group's financial statements, but the preliminary view is that the new standard will have a limited impact.

IFRS 15 Revenue from Contracts with Customers

This standard enters into force for financial years beginning January 1, 2018 or later. The standard replaces all previously issued standards and interpretations concerning revenue. Management will carry out a full evaluation of the possible effect of the new standard on the Group's financial statements in 2017, but the preliminary view is that the new standard will have a limited impact.

IFRS 16 Leases

This standard (not yet approved by the EU) enters into force for financial years beginning January 1, 2019 or after, and supersedes IAS 17 Leases. For lessees, IFRS 16 basically means that all leases have to be reported in the statement of financial position. There will therefore no longer be any classification into operational and financial leases. Management will fully evaluate the impact of IFRS 16 in 2017.

Management believes that other new and amended standards which have not yet taken effect will not have any material impact on the Group's financial statements in the period when they are first applied.

Consolidated reporting

The consolidated accounts cover the parent company Alligator Bioscience AB (publ) and the companies over which the parent company directly or indirectly exercises a controlling influence (subsidiaries). A controlling influence means a right to directly or indirectly define the strategy for a company in order to make economic gains. In determining whether there is a controlling influence, account should be taken of shareholder agreements and potential vote-bearing shares that can be used or converted without delay. There will normally be a controlling influence where the parent company directly or indirectly holds shares representing more than 50% of the votes.

Subsidiaries are included in the consolidated accounts from the acquisition date onwards, and excluded from the date on which the controlling influence ceases.

The Group's results and components of comprehensive income are attributable in their entirety to the shareholders in the parent company.

All intra-Group transactions, balances and unrealized gains and losses attributable to intra-Group transactions have been eliminated in the preparation of the consolidated accounts.

Business acquisitions

Business acquisitions are reported by the acquisition method.

The purchase price for the acquisition is assessed at fair value on the date of acquisition, calculated as the sum of assets paid, liabilities incurred or assumed and shareholders' equity issued in exchange for control over the acquired operation. Acquisition-related costs are reported in the income statement when they arise.

The identifiable assets acquired and liabilities assumed are reported at fair value on the acquisition date – apart from the exceptions specified in IFRS 3.

Segment reporting

The Group currently has only one business activity, and hence only one operating profit for the chief executive to take regular decisions on and allocate resources to. In light of this, there is only one operating segment which represents the Group as a whole, so there is no other segment reporting. Within the Group, the CEO of the company has been identified as the senior executive.

Income

The Group's operating income is made up of revenues from licensing its own pharmaceutical projects. Income is reported at the fair value of whatever has been or is to be received, minus value-added tax, discounts and similar deductions. Income is reported where it is likely that the economic benefits will accrue to the company and the income can be calculated in a reliable manner.

Income from licensing the company's own pharmaceutical projects is made up of initial license fees, milestone payments, payment for development work and future royalties on sales of the medicine. Initial license fees (upfront payments) are received when collaboration agreements are entered into. These payments are posted to income in their entirety when the collaboration agreement is entered into, provided that the company meets all its commitments under the agreement.

Milestone payments are received when the licensed pharmaceutical project passes significant steps in the development process, such as the start and end of clinical phases. Milestone payments are posted to income when all conditions of the agreement have been met. Payment for development work under collaboration agreements is posted to income as the work is completed. Future royalty income will be posted to income in accordance with the financial substance of the agreement, to be analyzed on a case-by-case basis.

Income from licensing is reported under net sales.

Government grants

Government grants are reported as other income when the performance required in order to receive the contribution is carried out. If the contribution is received before performance is effected, the contribution is reported as a liability in the balance-sheet. Government grants are recognized at the fair value of whatever has been or is to be received.

Dividends and interest income

Dividend income is reported when the right of shareholders to receive payment has been established.

Interest income is spread across the term, by the effective interest method. Effective interest is the interest that causes the present value of all future payments and receipts to be equal to the reported value of the receivable.

Leases with the Group as lessor

A financial lease is an agreement whereby the economic risks and benefits associated with ownership of an object are essentially transferred from the lessor to the lessee. Other leasing agreements are classified as operational leases. The Group current has only operational leases.

Leasing charges for operational leases are posted to expenses in a linear manner over the leasing period and reported as other external costs.

Foreign currency

The consolidated accounts are drawn up in Swedish kronor (SEK), which is the parent company's functional and reporting currency. Transactions in foreign currency are converted to SEK at the rate in effect on the transaction date. Receivables and liabilities in foreign currency are converted at the rate in effect on the reporting date. Exchange rate gains and losses on operating receivables and liabilities are reported under operating profit as other operating income or other operating costs. Gains and losses on financial receivables and liabilities are reported as financial items.

Exchange rate differences are reported in the income statement in the period in which they arise.

Borrowing costs

Borrowing costs are reported in the income statement in the period in which they arise.

Payments to employees

Short-term payments to employees

Payments to employees in the form of salary, bonuses, paid vacation, paid sick leave etc. and pensions are reported as and when they are accrued (usually monthly).

Severance payments

The Group reports severance payments when there is an existing legal or informal obligation and when it is likely that an outflow of resources will be required to meet the commitment and the amount can be calculated in a reliable manner.

Pensions

Pensions and other payments after cessation of employment are classified as defined-contribution or defined-benefit pension plans.

The Group's defined-benefit pension plans cover commitments for old-age and family pensions for salaried employees in Sweden covered by insurance with Alecta. According to an opinion from the Financial Reporting Board, UFR 10, this a defined-benefit plan covering multiple employers. The Group has not had access to the information that would allow it to report this as a defined-benefit plan. The ITP (white-collar) pension plan covered by insurance with Alecta is therefore reported as a defined-contribution plan.

Other pension plans in the Group are defined-contribution. A defined-contribution plan is a pension plan under which the Group makes fixed payments to a separate legal entity. The Group has no legal or informal obligations to make further payments if this legal entity does not have sufficient assets to make all payments to employees associated with the employees' service in the current or earlier periods. The Group's payments into defined-contribution pension plans are charged to profit/loss for the period in the year to which they are attributable.

Share-related payments

In 2016, Alligator issued staff options which were granted free of charge. The fair value of the staff options is determined on the date of assignment of the right to payment. This value is reported as a personnel cost in the income statement, distributed over the qualifying period, with a corresponding increase in equity. The cost reported is equal to the fair value of the number of options expected to be accrued. In subsequent periods, this cost is adjusted to reflect the fair value of options accrued.

Associated social security charges are reported as a cost and a liability and regularly revalued based on changes in the fair value of the options according to Financial Reporting Board opinion UFR 7.

Taxes

Income taxes are the sum of current and deferred tax.

Current tax

Current tax is calculated on the taxable profit/loss for the period, adjusted for current tax for previous periods. Taxable profits differ from the reported profit in the income statement because they have been adjusted for non-taxable income and non-deductible expenses and for income and expenses that are taxable or deductible in other periods. The Group's current tax debt is calculated at the tax rates decided on or announced as of the reporting date.

Deferred tax

Deferred tax is reported on temporary differences between the reported value of assets and liabilities in the financial statements and the taxable value used to calculated the taxable profit. Deferred tax is reported by the balance-sheet method. Deferred tax liabilities are reported for essentially all taxable temporary differences, and deferred tax assets are reported for essentially all deductible temporary differences where it is likely that the amount can be offset against a future taxable surplus. Deferred tax liabilities and assets are not reported if the temporary difference is attributable to goodwill or arises out of a transaction which triggers the initial recognition of an asset or liability (which is not a business acquisition) and which affects neither the reported nor the taxable profit at the date of the transaction.

Deferred tax is calculated at the tax rates that are expected to apply for the period when the asset is recovered or the debt paid, based on the tax rates (and laws) decided on or published at the reporting date. Deferred tax assets and liabilities are netted off when they are related to income tax charged by the same authority and the Group intends to settle the tax as a net amount.

Current and deferred tax for the period

Current and deferred tax are reported as expenses or as income in the income statement, except where the tax is attributable to transactions reported under other operating profit or directly against equity. In these cases, the tax should also be reported under other operating profit or directly under equity. For current and deferred tax arising from the recognition of business acquisitions, the tax effect should be shown in the acquisition calculation.

Tangible assets

Tangible assets consist of computers, equipment and machinery. These are reported at historical cost minus cumulative depreciation and any impairments. The historical cost includes the purchase price and any expenses directly attributable to the asset for putting it in place and making it fit for its intended purpose.

Depreciation of tangible assets is posted to expenses in such a way that the value of the asset minus its estimated residual value at the end of its service life is written down on a linear basis over its expected service life, estimated at:

Computers	3 years
Equipment and machinery	5 years

Estimated service lives, residual values and depreciation methods are reviewed at least at the end of each accounting period, and the effects of any changes in estimates are reported in advance.

The reported value of a tangible asset is removed from the statement of financial position when it is scrapped or sold, or when no future economic benefits are expected from using or scrapping/disposing of the asset. The gain or loss made from scrapping or disposing of the asset is the difference between any net income from the disposal and its reported value, posted to the income statement in the period in which the asset is removed from the statement of financial position.

Intangible assets

Separately acquired intangible assets
– Participations in development projects

Intangible assets with definable periods of use which have been acquired separately are reported at historical cost minus cumulative depreciation and any cumulative impairments. Depreciation is linear over the estimated period of use of the asset. Estimated periods of use and depreciation methods are reviewed at least at the end of each accounting period, and the effects of any changes in estimates are reported in advance.

Depreciation starts when the projects are ready for sale or licensing or otherwise ready for commercialization. Depreciation has not yet been initiated for acquired participations in development projects.

Acquisition through internal processing

Work to produce an internally processed intangible asset is broken down into a research phase and a development phase. All costs deriving from the Group's research phase are reported as expenses in the period in which they arise. The costs of developing an asset may be reported as an asset if all of the following conditions are met:

- it is technically possible to finish the intangible asset so it can be used or sold;
- the company intends to finish the intangible asset and to use or sell it;
- the conditions exist to use or sell the intangible asset;
- it is likely that the intangible asset will generate future economic benefits;
- necessary and adequate technical, economic and other resources are in place to complete the development and to use or sell the intangible asset; and
- the costs attributable to the intangible asset during its development can be calculated in a reliable manner.

If all of the above criteria are not satisfied, the development costs are reported as an operating cost as and when they arise.

The above rules will normally mean that capitalization starts when the end-product has been approved for sale on the market. This means that in-house projects will not reach the capitalization phase because the company has no rights to sell the final pharmaceutical products in the market. With Alligator's present business model, the capitalization phase of development costs is unlikely to be an issue.

Patents

Patents relating to Alligator's technology platforms are reported at historical cost minus any depreciation and impairments. These patents are depreciated over a period of five years. Annual service costs and internal costs associated with these patents are posted to operating costs when they arise. Patent costs attributable to development projects where the capitalization phase (see above) has not been reached are posted to operating costs as they arise.

Disposals

An intangible asset is removed from the statement of financial position when it is scrapped or sold, or when no future economic benefits are expected from using or scrapping/disposing of the asset. The gain or loss made when an intangible asset is removed from the statement of financial position is the difference between any net income from the disposal and the reported value of the asset, posted to the income statement when the asset is removed from the statement of financial position.

Impairment of tangible and intangible assets

Assets which have an undefinable period of use, such as the Group's intangible assets for which depreciation has not yet started, are impairment-tested at least once a year and when there is any indication of impairment. Assets being depreciated should be assessed for a possible decrease in value whenever events or changed circumstances indicate that the reported value is not recoverable.

An impairment is raised in the amount by which the reported value of the asset exceeds its recoverable value. The recoverable value is the greater of the fair value of the asset minus sales costs and its value in use. An impairment should be posted to the income statement immediately as an expense.

To test the value of intangible assets, Alligator uses a probability-adjusted cash flow model. The value of ongoing development projects is calculated by estimating the present value of future cash flows probability-adjusted to allow for the development risk.

Previously reported impairments are reversed if the recoverable value is considered to exceed the reported value. However, the reversal value cannot be greater than the reported value would have been if no impairments had been reported in previous periods.

Financial instruments

A financial asset or liability is reported in the balance-sheet when the company becomes a party to the contractual terms for the instrument. A financial asset or part of a financial asset is removed from the balance-sheet when the rights under the contract are exercised or mature or when the company loses control over it. A financial liability or part of a financial liability is removed from the balance-sheet when the obligation under the contract is discharged or otherwise extinguished.

On each reporting date, the company assesses whether there are objective indications that a financial asset or group of financial assets is in need of impairment because of events that have occurred. Examples of such events are a significantly worsened financial position for the counterparty or failure to pay amounts due.

Financial assets and liabilities that are not to be assessed at fair value via the income statement in the next report will be reported at their fair value on initial recognition minus any transaction costs. Financial assets and liabilities that are to be assessed at fair value via the income statement in the next report will be reported at their fair value on initial recognition. In the subsequent report, financial instruments will be reported at accrued historical cost or at fair value,

depending on the original categorization under IAS 39.
On initial recognition, a financial asset or liability is placed in one of the following categories:

Financial assets
- Fair value via the income statement
- Loans and accounts receivable
- Investments held to maturity
- Financial assets available for sale

Financial liabilities
- Fair value via the income statement
- Other financial liabilities reported at accrued historical cost

Fair value of financial instruments

For all financial assets and liabilities, the reported value is considered to be a good approximation to their fair value, unless specifically stated in later notes.

Netting of financial assets and liabilities

Financial assets and liabilities are netted off and reported as a net value in the balance-sheet where there is a legal right to net off and the intention is to settle the items with a net amount or to realize the asset and settle the liability at the same time.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and bank balances and other short-term liquid deposits that can easily be converted to cash and are subject to an insignificant risk of value changes. For them to be classified as cash and cash equivalents, the term to maturity must not exceed three months from the date of acquisition. Cash in hand and bank balances are classified as 'Loans and accounts receivable', which means they are reported at accrued historical cost. Because bank deposits are payable on demand, the accrued historical cost is the nominal amount. Short-term deposits are categorized as 'Held for trading' and reported at fair value with any value changes shown in the income statement.

Accounts receivable and other receivables

Accounts receivable and other receivables are classified as 'Loans and accounts receivable', which means they are reported at accrued historical cost. However, the expected term to maturity of these receivables is short, so they are reported at their undiscounted nominal value. Deductions are made for receivables that are considered doubtful. Impairments of accounts receivable are reported under operating costs.

Other investments held as fixed assets

Other long-term securities holdings are categorized as 'Financial assets available for sale'. The holding concerns shares whose fair value cannot be calculated in a reliable manner, so they are reported at historical cost.

Accounts payable and other current liabilities

Accounts payable and other current liabilities are classified as 'Other financial liabilities', which means they are reported at accrued historical cost. However, the expected term to maturity of accounts payable and other current liabilities is short, so they are reported at their undiscounted nominal value.

Provisions

Provisions are raised when the Group has an existing obligation (legal or informal) as a result of an event that has occurred, it is likely that an outflow of resources will be needed to discharge the obligation, and a reliable estimate of the amount can be made.

Accounting policies for the Parent Company

The parent company complies with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 'Reporting for legal entities'. The application of RFR 2 means that, as far as possible, the parent company applies all IFRS standards approved by the EU within the Annual Accounts Act and the Pension Obligations Vesting Act, and observes the relationship between reporting and taxation. Amendments to RFR 2 which entered into force in 2016 had no material impact on the Group's financial statements for the period. The differences between the accounting principles applied by the parent company and the Group are described below:

Classification and presentation

The parent company's income statement and balance-sheet are prepared in accordance with the schema in the Annual Accounts Act. The main difference from IAS 1 Presentation of Financial Statements applied in preparing the Group's financial statements is in the reporting of financial income and expenses, fixed assets and equity, and in the inclusion of provisions as a separate heading.

Subsidiaries

Participations in subsidiaries are reported at historical cost in the parent company's financial statements. Acquisition-related costs to subsidiaries which are posted to expenses in the consolidated report are included as part of the historical cost of participations in subsidiaries.

Financial instruments

The parent company does not apply IAS 39 Financial Instruments: Recognition and Measurement. The parent company uses a method based on historical costs pursuant to the Swedish Annual Accounts Act.

Approved changes to RFR 2 which have not yet taken effect

Management judges that changes to RFR 2 which have not yet taken effect are not expected to have any material impact on the parent company's financial statements when they are applied for the first time.

Proposed changes to RFR 2 which have not yet taken effect

Management judges that proposed changes to RFR 2 which have not yet taken effect are not expected to have any material impact on the parent company's financial statements when they are applied for the first time.

Note 3 Important estimates and judgments

When the Board and management prepare financial statements in accordance with the accounting principles applied, some estimates have to be made which may affect the reported values of assets, liabilities, income and expenses.

The estimates and assumptions are reviewed on a regular basis. Changes to estimates are reported in the period in which the change is made if it only affects that period, or in the period in which it is made and in future periods if it affects both the current and future periods.

In accordance with the Group's financial policy, currency risk is reduced by holding approx. 18 months' expected flows in the currency accounts for USD and EUR. No currency hedging is used for expected inflows in USD as the date of the inflow is so hard to define.

Uncertainties in estimates carry a substantial risk of the value of assets or liabilities needing to be significantly adjusted during the coming financial year. Regular impairment tests are therefore performed on intangible assets with indeterminate periods of use, at least once a year.

For impairment testing of intangible assets with an indeterminate period of use, a number of key assumptions and estimates have to be taken into account in order to calculate a recoverable value. Among other things, the assumptions and estimates relate to the expected sale price for the company's products, expected market penetration, expected development, sales and marketing costs and the probability of the product passing through the remaining development stages. The assumptions are based on industry and market-specific data and are produced by management and reviewed by the Board. For more information on impairment testing of intangible assets with an indeterminate period of use, see Note 18 – Intangible assets.

Note 4 Financial risk management and financial instruments

The Group is exposed through its activities to various types of financial risk such as market, liquidity and credit risks. The market risks are made up mainly of interest rate risk, currency risk and other price risk. The Board of the company bears the ultimate responsibility for exposure and handling and following up the Group's financial risks. The limits that apply to exposure, handling and following up the financial risks are set by the Board in a financial policy which is revised each year. In the finance policy, the Board has delegated the responsibility for day-to-day risk management to the company's CFO. The Board can decide on temporary deviations from the approved financial policy.

The Group's overall risk management focuses on the unpredictability in the financial markets and strives to minimize potential adverse effects on the Group's financial results. The Group's overarching objective for financial risks is to minimize the risk by investing surplus liquidity.

Market risks

Currency risks

Currency risk is the risk of fair value of future cash flows fluctuating as a result of changed exchange rates. The exposure to currency risk derives mainly from payment flows in foreign currency, known as transaction exposure.

The Group has transaction exposure from contracted payment flows in foreign currency. See table at the top of the next page for exposures in each currency. As can be seen from the table at the top of the next page, most of the Group's transaction exposure is in USD and EUR. A 5% stronger SEK against the USD would have a negative effect on post-tax profits and equity of approx. TSEK 2,850 (TSEK 14,400). A 5% stronger SEK against the EUR would have a negative effect on post-tax profits and equity of approx. TSEK 500 (TSEK 700).

Interest rate risks

Interest rate risk is the risk of fair value or future cash flows fluctuating as a result of changed market interest rates. The Group is exposed to interest rate risk mainly through its investment of surplus liquidity, as it has no borrowing. A 0.5% fall in interest rates would have a negative effect of approx. TSEK 1,970 on post-tax profits.

	2016		2015	
	Operating income	Operating costs	Operating income	Operating costs
Foreign exchange exposure				
USD	99%	2%	100%	1%
EUR	0%	12%	0%	15%
SEK	1%	86%	0%	74%
Other	0%	0%	0%	10%
	100%	100%	100%	100%

Liquidity and financing risk

In accordance with the Group's financial policy, liquidity risks are limited by liquidity planning and low-risk investments. An amount to cover the expected need for liquidity over the next eighteen months is deposited in bank accounts. Surplus liquidity may be deposited in bank accounts or invested in low-risk financial instruments. The average tie-in time for surplus liquidity must not exceed eighteen months under the financial policy.

Financing risk is the risk that cash and cash equivalents might not be available and that financing could be only partly obtainable, if at all, or only at increased cost. The Group now has substantial funds, mainly from licensing ADC-1013 and the new share issue in 2016. Alligator has used and will continue to need to use substantial sums to carry out research and development. The company's financial position has been strengthened but it may still need to seek external financing in the future.

The Group's contractual and undiscounted interest payments and repayments of financial liabilities can be seen in the table below. Amounts in foreign currency have been converted to SEK at the rate on the reporting date. Financial liabilities with variable interest rates have been calculated at the rate in place on the reporting date. Liabilities have been included in the earliest period in which repayment can be requested.

The maturity periods for the Group's financial liabilities are shown below.

	Dec 31, 2016			Dec 31, 2015		
	Within 3 mths	3–12 mths	Total	Within 3 mths	3–12 mths	Total
Accounts payable	13,340	0	13,340	4,890	0	4,890
Other current liabilities	686	0	686	632	0	632
Total	**14,026**	**0**	**14,026**	**5,522**	**0**	**5,522**

Credit and counterparty risk

Credit risk is the risk of the counterparty to a transaction causing a loss to the Group by not meeting its contractual obligations. The Group's exposure to credit risk is mainly attributable to cash and cash equivalents and accounts receivable. The Group has established guidelines to ensure that sales of products and services are made to customers with a suitable credit record. The payment terms may be between 30-60 days depending on the counterparty. There were no credit losses in 2016 or 2015.

Credit risk also arises when the company's surplus liquidity is invested in various types of financial instrument. According to the financial policy, surplus liquidity can be deposited in interest-bearing bank accounts or invested in interest-bearing securities. According to the financial policy, the credit risk from investing surplus liquidity should be reduced by only dealing with counterparties with a very good rating. The financial policy also states that investments should be spread across multiple counterparties or issuers.

The Group has no significant concentration of credit risks.

The Group's maximum exposure to credit risk is considered to be matched by the reported value of all financial assets, as shown in the table below.

	Group	
	Dec 31, 2016	Dec 31, 2015
Other investments held as fixed assets	0	95
Accounts receivable	0	689
Other current receivables	6,043	412
Short-term deposits	0	0
Cash and cash equivalents	659,136	365,605
Maximum exposure to credit risk	**665,179**	**366,800**

Categorization of financial instruments

The carrying value of financial assets and liabilities broken down by valuation category in accordance with IAS 39 is shown in the table below.

	Group	
	Dec 31, 2016	Dec 31, 2015
Financial assets		
Loans and accounts receivable	665,179	366,705
Financial assets available for sale	0	95
Total financial assets	**665,179**	**366,800**
Financial liabilities		
Other financial liabilities	686	632
Total financial liabilities	**686**	**632**

There were no reclassifications between the valuation categories above during the period.

Other non-current securities holdings relate to unlisted shares whose fair value cannot be calculated in a reliable manner, so they are reported at historical cost. For financial assets and liabilities, the reported value as stated above is considered to bee a reasonable approximation to their fair value.

Net gains/losses from financial assets and liabilities broken down by valuation category in accordance with IAS 39 are shown in the table below.

	Group	
	Dec 31, 2016	Dec 31, 2015
Loans and accounts payable	0	0
Financial assets available for sale	863	2,291
Other financial liabilities	0	0
Net gain/loss	**863**	**2,291**

Note 5 Capital management

The Group's objective for capital management is to maintain its ability to remain in operation to generate a reasonable return to shareholders and benefit to other stakeholders.

The Group monitors its capital structure on the basis of cash and cash equivalents (net). Cash and cash equivalents (net) should amount to at least the expected capital needs for the next eighteen months. Cash and cash equivalents (net) are calculated as cash and cash equivalents minus borrowing.

At the end of the financial year, cash and cash equivalents (net) totaled:

	Group	
	Dec 31, 2016	Dec 31, 2015
Cash and cash equivalents	659,136	365,605
Borrowing	0	0
Cash and cash equivalents (net)	**659,136**	**365,605**
Covering expected capital needs for the next eighteen months	YES	YES

The improved situation during the financial year is mainly due to the new share issue.

Note 6 Income

Net sales

	Group		Parent Company	
	2016	2015	2016	2015
Income from licensing	58,240	289,797	57,338	289,797
	58,240	**289,797**	**57,338**	**289,797**

Alligator's income is essentially made up of income from licensing ADC-1013 to Janssen Biotech, Inc. Alligator receives license income in USD when certain milestones in the development project are reached.

Other operating income

	Group		Parent Company	
	2016	2015	2016	2015
Swedish Government grants received	484	1,184	484	1,184
EU grants received	0	640	0	640
Exchange rate gains from operations	626	1,997	626	1,997
Other items	0	1	0	1
Total	**1,110**	**3,822**	**1,110**	**3,822**

Information on large customers

Income from the Group's customers which individually account for more than 10% of sales was TSEK 55,761 (TSEK 289,286, one customer), i.e. there is one customer which passes this threshold.

Geographical distribution of Net Sales.

	Group		Parent Company	
	2016	2015	2016	2015
USA	57,338	289,797	57,338	289,797
Sweden	0	0	0	0
Rest of the world	902	0	0	0
Total	**58,240**	**289,797**	**57,338**	**289,797**

For 2015 and 2016 net sales came mainly from the USA where Janssen Biotech, Inc. and Macro Genics Inc are located. The Group's intangible assets in the form of participations in development projects relate to collaboration with the South Korean company AbClon Inc. and are therefore attributed to the Rest of the World.

Details of intra-Group purchases and sales

There were no purchases or sales within the Group in 2015 or 2016.

Note 7 Other external expenses

	Group		Parent Company	
	2016	2015	2016	2015
Underwriting costs	-7,409	0	-7,409	0
Costs of R&D projects	-39,805	-31,460	-39,805	-31,460
Other costs	-16,064	-17,875	-16,064	-17,875
Total	**-63,278**	**-49,335**	**-63,278**	**-49,335**

Note 8 Details of the auditor's fee and reimbursement of costs

	Group		Parent Company	
	2016	2015	2016	2015
EY				
Audit assignment	330	250	330	250
Audit activities other than the audit assignment	635	0	635	0
Tax advice	15	0	15	0
Other services	786	75	786	75
Total	**1,766**	**325**	**1,766**	**325**

Note 9 Leasing

Operational leasing – lessees

The cost for the year of operational leases totals TSEK 5,286 (3,872) for the Group and TSEK 5,286 (3,872) for the parent company.

On the reporting date, the parent company and the Group had outstanding commitments in the form of minimum leasing charges under non-terminable operational leases with maturity dates as below:

	Group		Parent Company	
	Dec 31, 2016	Dec 31, 2015	Dec 31, 2016	Dec 31, 2015
Within 1 year	4,192	4,152	4,194	4,152
Between 1 and 5 years	803	6,978	803	6,978
Later than 5 years	0	0	0	0
Total	**4,997**	**11,130**	**4,997**	**11,130**

The total amount on the reporting date of future minimum leasing charges for non-terminable agreements related to sublet objects was TSEK 4,997 (11,130) for the parent company and TSEK 4,997 (11,130) for the Group.

The operational leases relate mainly to the hire of premises in Medicon Village, a rental agreement with Office IT Partner for computers and a rental agreement with Ikano Bank for photocopiers.

The leasing period for the Group's and the parent company's rented premises is five years. The lease may be extended at the end of the leasing period for what the Group considers to be a normal market price. The rental payments are made annually according to the agreement and include no variable components. The leasing period for other premises varies between 0.5 and 1 year.

The leasing period for photocopiers and computers varies between 3 and 4 years.

Note 10 Number of employees, salaries, other remuneration and social security costs

Average number of employees

	2016		2015	
	No. of employees	Of which men	No. of employees	Of which men
Parent company				
Sweden	31	7	27	5
Total in parent company	**31**	**7**	**27**	**5**
Subsidiaries				
Sweden	0	0	0	0
Total in subsidiaries	**0**	**0**	**0**	**0**
Total in the Group	**31**	**7**	**27**	**5**

Breakdown of senior executives on the reporting date

	Group		Parent company	
	Dec 31, 2016	Dec 31, 2015	Dec 31, 2016	Dec 31, 2015
Women				
Board members	1	0	1	0
other members of management incl. CEO	1	1	1	1
Men				
Board members	6	6	6	6
other members of management incl. CEO	2	2	2	2
Total	**10**	**9**	**10**	**9**

Salaries, remuneration etc.

	2016		2015	
	Salaries and other remuneration	Soc. sec. costs (of which) pension costs	Salaries and other remuneration	Soc. sec. costs (of which) pension costs
Parent company	18,960	8,020 (2,875)	19,205	8,506 (3,131)
Subsidiaries	0	0 (0)	0	0 (0)
Total Group	**18,960**	**8,020 (2,875)**	**19,205**	**8,506 (3,131)**

Note 11 Payments to senior executives

Salaries and remuneration broken down between board members etc. and employees

	2016		2015	
	Board and CEO (of which bonus etc.)	Other employees (of which bonus etc.)	Board and CEO (of which bonus etc.)	Other employees (of which bonus etc.)
Parent company	2,947	16,013	3,941	15,264
	(202)	(296)	(298)	(438)
Subsidiaries	0	0	0	0
	(0)	(0)	(0)	(0)
Total Group	**2,947**	**16,013**	**3,941**	**15,264**
	(202)	(296)	(298)	(438)

Of the parent company's pension costs, TSEK 419 (1,014) relate to the Board and CEO.
Of the Group's pension costs, TSEK 419 (1,014) relate to the Board and CEO.

Pensions

For salaried staff in Sweden, the defined-contribution pension commitments under the ITP plan for old-age and family pensions are covered by insurance with Alecta. According to an opinion from the Financial Reporting Board, UFR 10 'Classification of ITP plans financed through insurance with Alecta', this a defined-benefit plan covering multiple employers. For the 2016 financial year, the company has not had access to information to allow it to report its proportional share of the obligations under the plan, assets under management and total costs, so it was not possible to report it as a defined-benefit plan. The ITP (white-collar) pension plan covered by insurance with Alecta is therefore reported as a defined-contribution plan. Premiums for the defined-benefit old-age and family pension are calculated individually and depend among other things on salary, previously accrued pension and expected remaining period of employment.

The collective consolidation level is made up of the market value of Alecta's assets as a percentage of the insurance commitments calculated by Alecta's actuarial methods and assumptions, which do not conform to IAS 19. The collective consolidation level should normally be allowed to vary between 125 and 155 percent. If Alecta's collective consolidation level drops below 125 percent or exceeds 155 percent, measures should be taken to create the conditions for the consolidation level to return to the normal range. For low consolidation, a possible action might be to increase the agreed price for new cover and increasing existing benefits. For high consolidation, a measure might be to introduce premium reductions.

The Group's total costs for defined-contribution pension plans are TSEK 419 (268). The parent company's total costs for defined-contribution pension plans are TSEK 419 (268).

Payments to senior executives

*Guidelines*According to the Swedish Companies Act, the shareholders' meeting should decide on guidelines for payments to the CEO and other senior executives. The annual general meeting on April 20, 2016 adopted guidelines with essentially the following content.

The company's assumption is that payments should be made on market-based and competitive terms that enable senior executives to be recruited and retained. Payments to senior executives may consist

of basic salary, variable remuneration, other benefits and share-related incentive programs. The CEO and other senior executives are generally entitled to other customary benefits according to what may be considered reasonable in terms of market practice and the benefit to the company.

Payments to the CEO and other senior executives should be based on factors such as work responsibilities, expertise, experience, position and performance. The breakdown between basic salary and variable remuneration should also be in proportion to the employee's position and responsibilities. Variable remuneration should be tied to predefined and measurable criteria, designed to promote the company's long-term value creation. The remuneration should not discriminate on the basis of gender, ethnic background, national origin, age, disability or other irrelevant circumstances. The CEO and other senior executives should be offered a fixed salary which is in line with the market and based on the individual's responsibilities, competence and performance. Apart from their salary, the CEO and other senior executives will normally be entitled to an annual bonus of no more than 25 percent of their basic salary.

Over and above what has been defined in collective agreements or other agreements, the CEO and other senior executives may be entitled to arrange pension solutions on an individual basis. Reductions in salary and variable remuneration may be used to increase pension provisions provided that the cost to the company is unchanged over time.

According to the guidelines, the notice period for the CEO is six months on either side, and for other senior executives, the notice period may not exceed six months. Severance payments, apart from salary paid during the notice period, will only arise for the CEO who will be entitled to a severance payment equal to six months' salary in the case of termination by the company.

The Board may deviate from the guidelines if there are specific grounds for doing so in a given case.

The Board will consider each year whether or not to propose a share-based incentive program to the annual general meeting. New issues and transfers of securities decided by the shareholders' meeting according to the rules in Chapter 16 of the Companies Act where the shareholders' meeting has taken or is about to take such decisions.

2016	Basic salary/fee	Variable remuneration	Other benefits	Pension costs	Actuarial remuneration	Total
Peter Benson (Chairman)	257	0	0	0	0	**257**
Carl Borrebaeck*	128	0	0	0	0	**128**
Kenth Peterson	145	0	0	0	0	**145**
Mathias Uhlén	128	0	0	0	0	**128**
Jakob Lindberg	128	0	0	0	0	**128**
Jonas Sjögren	145	0	0	0	0	**145**
Ulrika Danielsson	133	0	0	0	0	**133**
Per Norlén (CEO)	1,680	202	0	419	215	**2,516**
Other senior executives (3 persons)	1,782	296	0	678	129	**2,885**
Total	**4,527**	**498**	**0**	**1,097**	**344**	**6,466**

2015	Basic salary/fee	Variable remuneration	Other benefits	Pension costs	Actuarial remuneration	Total
Peter Benson (Chairman)	170	0	0	0	0	**170**
Carl Borrebaeck*	85	0	0	0	0	**85**
Kenth Peterson	85	0	4	0	0	**89**
Mathias Uhlén	85	0	0	0	0	**85**
Jakob Lindberg	85	0	0	0	0	**85**
Jonas Sjögren	50	0	0	0	0	**50**
Sibylle Lenz (CEO)	2,222	2,280	0	752	0	**5,254**
Claes Eriksson (CEO)**	858	298	0	262	0	**1,417**
Other senior executives (2 persons)	2,082	438	0	752	0	**3,271**
Total	**5,721**	**3,016**	**4**	**1,765**	**0**	**10,506**

* In 2015 and 2016, Carl Borrebaeck received payment for consulting services of TSEK 720 (720) according to the specification in Note 29 – Transactions with related parties.

** Claes was CEO up to December 22, 2015, when he was succeeded by Per Norlén who is reported entirely on the line for 'Other senior executives'.

Where an individual Board member requests it and the conditions for the company to be able to do so are in place, the director's fee may be paid as a consultancy fee. This has not entailed any additional cost to the company.

Pensions

The retirement age for the CEO is 65. Pension premiums are determined in accordance with the current ITP plan. Pensionable salary is the basic salary [plus the average of the last three years' variable remuneration].

For other senior executives, the retirement age is 65. Pension premiums are determined in accordance with the current ITP plan.

Severance payments

Between the company and the CEO, the notice period is six months on either side. In the case of termination by the company, a severance payment of six months' salary will be payable. The severance payment is not set off against other income. In the case of termination by the CEO, no severance payment will be made.

Between the company and other senior executives, the notice period is six months on either side. No severance payment will be made.

Note 12 Profit/loss from shares in Group companies

	Parent company	
	2016	2015
Impairment of participations in Group companies	22,120	10,080
Total	**22,120**	**10,080**

Impairment of participations in Group companies is derived from the value of participations in development projects as described in Note 18.

Note 13 Profit/loss from other securities and receivables

In June 2015, Alligator and Mats Grahn (former chairman of the Board of Alligator) entered into an agreement whereby Mats Grahn undertook to transfer 1,650 shares in Biocrine AB and 400 shares in Spiber Technologies AB to Alligator by way of a gift. Alligator then transferred the shares in Spiber Technologies AB and 415 of the shares in Biocrine AB in 2015 and the remaining 1,235 shares in Biocrine in 2016. The agreement was not reported as an agreement with a related party in the company's annual report as Mats Grahn was not a related party when the agreement was signed.

Gains from the sale of the above shares of TSEK 2,290 in 205 and TSEK 863 in 2016 are reported under 'Profit/loss from other securities'.

In the financial statements for December 31, 2015, the remaining holding in Biocrine AB was valued at the intrinsic value in Biocrine AB at the date of the gift, namely TSEK 95.

Note 14 Financial income

	Group		Parent Company	
	2016	2015	2016	2015
Interest income	468	95	468	95
Other financial income	0	42	0	42
Exchange rate gains	8,236	1,944	8,236	1,944
Total financial income	**8,704**	**2,081**	**8,704**	**2,081**

All interest income is attributable to financial assets valued at historical cost.
Other financial income in 2015 relates to the intrinsic value of shares received as a gift (see Note 13).

Note 15 Financial costs

	Group		Parent Company	
	2016	2015	2016	2015
Exchange rate losses	-1,836	0	-1,836	0
Other interest costs	-4	-1	-4	-1
Total financial costs	**-1,840**	**-1**	**-1,840**	**-1**

All interest costs are attributable to financial liabilities valued at historical cost.

Note 16 Tax

	Group		Parent company	
	Dec 31, 2016	Dec 31, 2015	Dec 31, 2016	Dec 31, 2015
Current tax on profit/loss for the period	0	0	0	0
Deferred tax attributable to temporary differences	0	0	0	0
Total reported tax	**0**	**0**	**0**	**0**

Reconciliation of reported tax for the year

	Group		Parent Company	
	2016	2015	2016	2015
Profit before tax	-48,356	207,377	-49,256	207,379
Reported tax for the year				
Tax reported at Swedish tax rate (22%)	10,638	-45,623	10,836	-45,623
Tax effect of non-deductible costs	-4,951	-39	-4,951	-39
Tax effect of non-taxable income	0	0	0	0
Tax effect of deductible costs reported directly against equity	7,186	0	7,186	0
Use of taxable loss carry-forwards for which no deferred tax asset has been reported	0	45,552	0	45,552
Loss carry-forwards arising during the year whose taxable value is not reported as an asset	-12,874	0	-13,072	0
Other	0	110	0	110
Reported tax for the year	**0**	**0**	**0**	**0**

The Group's cumulative loss carry-forwards as of December 31, 2016 amounted to MSEK 289 (241), of which MSEK 230 (239) are Group contribution-locked. There is no maturity date which limits the use of the loss carry-forwards. However, it is uncertain when it will be possible to use these loss carry-forwards to set off against taxable gains. Deferred tax assets attributable to the loss carry-forward are therefore not reported with any value.

Note 17 Earnings per share

Earnings per share before dilution

The following results and weighted average numbers of ordinary shares have been used to calculate earnings per share before dilution:

	Group	
	2016	2015
Profit/loss for the year attributable to parent company shareholders	-48,356	207,377
Weighted average number of ordinary shares before dilution, number of shares	60,114,511	54,393,338
Earnings per share before dilution, SEK	**-0.80**	**3.81**

Earnings per share after dilution

The following results and weighted average numbers of ordinary shares have been used to calculate earnings per share after dilution:

	Group	
	2016	2015
Profit/loss for the year attributable to parent company shareholders	-48,356	207,377
Weighted average number of ordinary shares before dilution, number of shares	60,114,511	54,393,338
Effect of potential ordinary shares from options	N/A	1,605,000
Weighted average number of ordinary shares after dilution, number of shares	60,114,511	55,998,338
Earnings per share after dilution, SEK	**-0.80**	**3.70**

To calculate earnings per share after dilution, the weighted average number of outstanding ordinary shares is adjusted for the dilution effect or all potential ordinary shares. These potential ordinary shares relate to the options acquired at market value by management and employees in the company in 2014. If the profit/loss for the year is negative, the options are not regarded as diluting. Nor are the options diluting if the exercise price including mark-up for the value of outstanding future services to be reported during the qualifying period exceeds the average quotation for the period. There is no dilution effect for the 2016 option program because the profit/loss for the year was negative.

For details of changes in the number of ordinary shares, see Note 25 Equity.

Note 18 Participations in development projects

	Group	
	Dec 31, 2016	Dec 31, 2015
Historical cost brought-forward	50,149	50,149
Acquisitions in the period	0	0
Cum. historical cost carried-forward	**50,149**	**50,149**
Impairments brought-forward	-10,080	0
Impairments for the period	-22,120	-10,080
Cum. impairments carried-forward	-32,200	-10,080
Reported value carried-forward	**17,949**	**40,069**

When Atlas Therapeutics AB was acquired, a premium of TSEK 50,149 was paid; this was classified under 'Participations in development projects'. The acquisition of the subsidiary Atlas Therapeutics AB brought the Group 50% of a project together with the Korean company AbClon Inc. (80% of the total value) and exclusive rights to all therapeutic targets from the Human Protein Atlas (HPA) project (20% of the total value). These assets have been developed in the Biosynergy and 'Identification of new target molecules' projects.

The rights to the targets from the HPA project were written down to zero in 2015. This was because the HPA project was nearing completion and because it was unlikely that any more targets would be identified. The targets already identified are in such an early phase that it is uncertain when any economic benefit may be realized. Work to identify new target molecules continues, however.

With regard to the participation in the Biosynergy project, an impairment test was performed in 2016, as described below. Following the test on the cut-off date of June 30, it was decided to process a write-down. The impairments were caused by changed estimates of the market conditions for the project and the fact that amended contractual terms had been agreed, entitling Alligator to a smaller share of future income than before. The Board considers that the reported value of this project as of the December 31, 2016 cut-off is likely to exceed the previously reported value, and should certainly not be less.

Impairment test

To test the value of ongoing development projects, Alligator uses a probability-adjusted cash flow model. The fair value of the projects after deducting sales costs is calculated by estimating the present value of future cash flows probability-adjusted to allow for the development risk. The valuation is classed at level 3 in the valuation hierarchy and is based on the following key assumptions:

- Future income and expenditure forecasts for the development project. Income is calculated from estimates based on available data for various types of possible indicator, such as forecasts of total market size, expected market share for the product, projected price level and market-conformant level of one-off, milestone and royalty payments. The size of the market, royalty levels and milestone payments are estimated with the aid of information from secondary sources, assumptions accepted within the industry and assumptions made by Alligator.
- Costs cover development expenses and direct and indirect costs based on usual production and marketing costs within the pharmaceutical industry, and the experience Alligator has from previous development projects.
- The cash flows are calculated at present value and adjusted for the probability of the project succeeding. The probability is based on the assumptions as to the likelihood of a similar product reaching the market.
- A discount rate before tax of 12.7% (14%).

The most critical assumptions are those concerning market size, market share and the likelihood of the projects reaching a point where they can be licensed. As in many projects in the pharmaceutical industry, there are risks of delays, of failure to achieve the expected clinical effects, or of the market and competitive situation changing. A 5 percentage point change in the discount rate or in the estimated probability would not result in a write-down either.

The impairment test for the year showed that, with the assumptions made for various milestones, the project would generate cash flows well in excess of the present book value.

Write-offs will be initiated when the asset can be used, i.e. when it is in place and in the state required for it to be used in the manner intended by management.

Not 19 Patents

	Group		Parent company	
	Dec 31, 2016	Dec 31, 2015	Dec 31, 2016	Dec 31, 2015
Historical cost brought-forward	13,461	13,274	13,461	13,274
Acquisitions in the period	217	1,187	217	1,187
Disposal/scrapping	0	-1,000	0	-1,000
Cum. historical cost carried-forward	**13,678**	**13,461**		
Depreciation brought-forward	-10,107	-9,340	-10,107	-9,340
Disposal/scrapping	0	817	0	817
Depreciation in the period	-1,265	-1,584	-1,265	-1,584
Cum. depreciation carried-forward	**-11,372**	**-10,107**	**-11,372**	**-10,107**
Reported value carried-forward	**2,306**	**3,354**	**2,306**	**3,354**

Note 20 Equipment, machinery and computers

	Group		Parent company	
	Dec 31, 2016	Dec 31, 2015	Dec 31, 2016	Dec 31, 2015
Historical cost brought-forward	10,051	10,261	10.051	10,261
Acquisitions in the period	3,379	838	3,379	838
Sales/scrapping	-110	-1,048	-110	-1,048
Cum. historical cost carried-forward	**13,320**	**10,051**	**13,320**	**10,051**
Depreciation brought -forward	-7,728	-7,957	-7,728	-7,957
Sales/scrapping	45	1,049	45	1,049
Depreciation in the period	-1,288	-820	-1,288	-820
Cum. depreciation carried-forward	**-8,971**	**-7,728**	**-8,971**	**-7,728**
Reported value carried-forward	**4,349**	**2,323**	**4,349**	**2,323**

Note 21 Participations in Group companies

	Parent company	
	Dec 31, 2016	Dec 31, 2015
Historical cost brought-forward	52,200	52,200
Shareholder contributions	294	
Historical cost carried-forward	**52,494**	**52,200**
Impairments brought-forward	-10,080	
Impairments for the period	-22,120	-10,080
Cum. impairments carried-forward	-32,200	-10,080
Reported value carried-forward	**20,294**	**42,120**

	Dec 31, 2016	Dec 31, 2015	Dec 31, 2016	Dec 31, 2015	Dec 31, 2016	Dec 31, 2015
	Share of capital, %	Share of capital, %	Reported value	Reported value	Equity	Equity
Atlas Therapeutics AB (556815-2424)	100%	100%	20,000	42,120	1,351	450
A Bioscience Incentive AB (559056-3663)	100%	0%	294		289	N/A
Total			**20,294**	**42,120**		

Atlas Therapeutics is engaged in research, development and production of antibodies and other types of binder molecules for commercialization within the field of antibody-based therapy. The impairments posted in 2016 and 2015 were prompted by the valuation of participations in development projects as described in Note 18.
The business of A Bioscience Incentive AB is to administer the company's option programs.
Like the Group's parent company, both subsidiaries are based in Lund, Sweden.

Note 22 Accounts receivable

	Group		Parent company	
	Dec 31, 2016	Dec 31, 2015	Dec 31, 2016	Dec 31, 2015
Accounts receivable, gross	0	689	0	689
Provision for doubtful receivables	0	0	0	0
Total accounts receivable, net of provisions for doubtful receivables	**0**	**689**	**0**	**689**

Management considers that the reported value of total accounts receivable, net of provisions for doubtful receivables, matches the fair value.

Note 23 Other receivables

	Group		Parent company	
	Dec 31, 2016	Dec 31, 2015	Dec 31, 2016	Dec 31, 2015
Value-added tax	3,740	1,047	3,740	1,047
Receivables from business partners	4,746	192	4,746	192
Other items	3,931	1,565	3,931	1,565
Total	**12,417**	**2,804**	**12,417**	**2,804**

Note 24 Prepayments and accrued income

	Group		Parent company	
	Dec 31, 2016	Dec 31, 2015	Dec 31, 2016	Dec 31, 2015
Prepaid rents	1,165	932	1,165	932
Prepaid insurance premiums	141	70	141	70
Other items	3,318	317	3,318	317
Total	**4,624**	**1,319**	**4,624**	**1,319**

Note 25 Cash and cash equivalents

	Group		Parent company	
	Dec 31, 2016	Dec 31, 2015	Dec 31, 2016	Dec 31, 2015
Cash in hand	0	0	0	0
Disposable bank deposits				
SEK	601,323	330,937	599,805	330,487
USD	40,901	9,467	40,901	9,467
EUR	16,912	25,201	16,912	25,201
Total	**659,136**	**365,605**	**657,618**	**365,155**

Note 26 Equity

Share capital and Other capital contributions

	No of ordinary shares	Share capital	Other contributions
As at Jan 1, 2015	48,612,244	19,445	184,461
New share issue Feb 2, 2015	3,945,888	1,578	45,772
New share issue Feb 18, 2015	560,000	224	6,496
New share issue May 6, 2015	1,549,621	620	17,475
New share issue Sep 28, 2015	4,346,631	1739	80,847
As at Dec 31, 2015	**59,014,384**	**23,606**	**335,051**
New share issue	10,769,231	4,307	346,425
Underwriting costs			-32,665
Conversion of options paid, not registered			6,300
Conversion of subscription options	330,000	132	2,838
As at Dec 31, 2016	**70,113,615**	**28,045**	**657,949**

As of December 31, 2016, the registered share capital totaled 70,113,615 ordinary shares with a par value of SEK 0.40. All shares are of the same type, fully paid-up and entitling the holder to one vote. No shares are reserved for transfer under option contracts or other agreements. No shares are held by the company itself or its subsidiaries.

Other capital contributions

Other capital contributions are made up of capital contributed by the company's shareholders, e.g. share premiums.

Option programs

In accordance with the decision of the extraordinary general meeting on November 5, 2013, 1,605,000 subscription options were issued in 2014. These were acquired at market value by management and employees in the company. Each option entitles the holder to acquire one share in Alligator Bioscience AB (publ) at a price of SEK 9 per share up to March 31, 2017. The market value of the options on the subscription date has been extrapolated using the Black & Scholes model, and put at SEK 0.58 per option.

At the annual general meeting on April 20, 2016, it was decided to establish a subscription option program by issuing no more than 1,000,000 subscription options to a subsidiary for transfer on to employees of the company. In all, 1,000,000 subscription options were acquired by the subsidiary, of which 857,000 have so far been transferred to participants in the program while the remaining 143,000 have been reserved for transfer to future employees. The transfer to participants was made at market value calculated by the Black-Scholes formula. Each subscription option entitles the holder to acquire one new share in the company at an exercise price of SEK 75. The subscription options can be exercised in the periods from June 1, 2019 to August 31, 2019 and from March 1, 2020 to May 31, 2020 inclusive.

The market value of the options on the subscription date has been extrapolated using the Black & Scholes model. In the model, relevant data as described above was used for the maturity and subscription price, with a price of SEK 35 per share. For risk-free interest, the rate for Swedish government bonds was used, and for volatility, the Nasdaq Biotechnology Index (NBI). The market value was put at SEK 0.86 at the time of issue and at SEK 0.83 when further options were sold in September.

At the annual general meeting on April 20, 2016, it was decided to set up a staff option program whereby 900,000 staff options were allocated free of charge to participants in the program. The staff options allocated are accrued 1/3 on May 1, 2017, 1/3 on May 1, 2018 and 1/3 on May 1, 2019. Accrual is subject to the participant remaining in the company's employment and not having resigned on a given qualifying date. If a participant ceases to be employed or resigns from the company before a qualifying date, any staff options already accrued may be exercised in the normal exercise period, but no more rights will be accrued. Each accrued staff option entitles the holder t o acquire one new share in the company at an exercise price of SEK 75. Accrued staff options can be exercised in the periods from June 1, 2019 to August 31, 2019 and from March 1, 2020 to May 31, 2020 inclusive.

The market value of the options on the subscription date has been extrapolated using the Black & Scholes model. In the model, relevant data as described above was used for the maturity and subscription price, with a price of SEK 35 per share. For risk-free interest, the rate for Swedish government bonds was used, and for volatility, the Nasdaq Biotechnology Index (NBI). The market value was put at SEK 0.86 at the time of issue. A weighted average of the value at the end of the last three quarters of the year was SEK 0.78.

To enable delivery of shares under the staff option program and to cover the associated costs (mainly social security charges), the annual general meeting also decided to issue further subscription options to a wholly-owned subsidiary. In all, the subsidiary acquired 1,182,780 subscription options under this program.

Proposed appropriation of profits (SEK)

The Board proposes that sums available to the shareholders' meeting:	
Share premium reserve	651,776,283
Retained earnings	40,147,192
Profit/loss for the period	-49,256,200
Total	**642,667,275**
Be allocated as follows:	
Dividend to shareholders (SEK 0 per share)	0
Carried forward to new account	642,667,275
Total	**642,667,275**

Note 27 Accrued expenses and deferred income

	Group		Parent company	
	Dec 31, 2016	Dec 31, 2015	Dec 31, 2016	Dec 31, 2015
Accrued salaries	549	486	549	486
Accrued vacation pay	2,079	1,848	2,079	1,848
Accrued social security charges	826	734	826	734
Accrued development costs	628	7,120	628	7,120
Prepaid income	0	0	0	0
Other items	6,487	3,577	6,487	3,577
Total	**10,569**	**13,765**	**10,569**	**13,765**

Note 28 Securities and contingent liabilities

	Group		Parent company	
	Dec 31, 2016	Dec 31, 2015	Dec 31, 2016	Dec 31, 2015
Securities lodged	None	None	None	None
Contingent liabilities	None	None	None	None

There is one chattel mortgage for SEK 1,000,000 issued in 2009 remaining in the company. The chattel mortgage document was issued when the company took out a bridging loan from the then Chairman of the Board Per-Olof Mårtensson. The bridging loan was repaid and the chattel mortgage surrendered to the company, whereupon it lapsed. The company has initiated a release procedure with the Land Registration Authority for chattel mortgages.

Note 29 Transactions with related parties

Transactions between the company and its subsidiaries, which are related to the company, have been eliminated by consolidation, so no details of these transactions are given in this Note. Details of transactions between the Group and other related parties are presented below.

Sales of goods and services
No sales of goods and services have been made to related parties.

Purchase of goods and services

	Group		Parent company	
	Dec 31, 2016	Dec 31, 2015	Dec 31, 2016	Dec 31, 2015
Consulting services from Board member Carl Borrebaeck through Ocean Capital	720	720	720	720
Total	**720**	**720**	**720**	**720**

Assets and liabilities at end of period resulting from sales and purchases of goods and services

Assets resulting from sales of goods and services
There are no claims from related parties.

Liabilities resulting from sales of goods and services

	Group		Parent company	
	Dec 31, 2016	Dec 31, 2015	Dec 31, 2016	Dec 31, 2015
Consulting services from board member Carl Borrebaeck through Ocean Capital	225	0	225	0
Total	**225**	**0**	**225**	**0**

Sales and purchases of goods and services are made under normal market conditions.

Loans to related parties
No loans have been granted to related parties.

Payments to senior executives
Details of payments to senior executives are presented in Note 11.

Note 30 Events after the reporting date

After the end of the financial year, 1,265,000 subscription options were converted to the same number of shares.

Note 31 Dividends

No dividends were paid in 2015 or 2016.

No dividend will be proposed to the annual general meeting on May 2, 2017.

Note 32 Approval of financial reports

The annual accounts and consolidated accounts were adopted by the Board and approved for publication on March 21, 2017.

The annual accounts and consolidated accounts will be presented to the annual general meeting for adoption on May 2, 2017. The annual general meeting will be held in Lund, Sweden.

The Board and the CEO hereby declare that the annual accounts have been drawn up in accordance with the Annual Accounts Act and RFR 2 'Reporting for legal entities' and give a true picture of the company's position and results, and that the directors' report provides an accurate summary of the development of the company's business, position and results and describes the risks and uncertainty factors that the company faces. The Board and the CEO hereby declare that the consolidated accounts have been drawn up in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and give a true picture of the Group's position and results, and that the directors' report provides an accurate summary of the development of the Group's business, position and results and describes the risks and uncertainty factors that the Group faces.

Peter Benson
Chairman of the Board

Carl Borrebaeck
Board member

Ulrika Danielsson
Board member

Jakob Lindberg
Board member

Kent Petersson
Board member

Jonas Sjögren
Board member

Mathias Uhlén
Board member

Laura von Schantz
Board member

Per Norlén
CEO

Our audit report was submitted on March 21, 2017
Ernst & Young AB

Göran Neckmar
Certified public accountant

Auditor's report

This is a translation from the Swedish original.

To the general meeting of the shareholders of Alligator Bioscience AB (publ), corporate identity number 556597-8201

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Alligator Bioscience AB (publ) except for the corporate governance statement on pages 36-41 for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 30-67 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 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 36-41. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

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 group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts 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 consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Revenue recognition in accordance with license agreement

In June 2015, the Company signed a license agreement with Janssen Biotech Inc. for further development and commercialization of the product ADC-1013. The Company receives license revenue when certain milestones in the development project are reached. The initial license fee (so-called upfront payment) was received in 2015 and the first milestone payment of 5 MUSD has been received in 2016. Milestone payments are made when all conditions of the agreement are met.

The agreement is significant to the Company and contains parameters relating to the milestones, i.e. the contractual conditions that must be met in order to receive agreed revenue. The Company posts the milestone payment to revenue when the counterparty has confirmed that these conditions have been met. As this is the Company's only revenue stream, we considered that revenue recognition in accordance with the license agreement is a key audit matter of the audit.

In our audit, we evaluated the Group's accounting principles for revenue, which are described in Note 2 to the financial statements. We assessed and reviewed the process for revenue recognition. We examined the license agreement with Janssen Biotech Inc. and verified that the customer has confirmed that the milestone has been reached by reconciling the revenue received against the agreement, invoice and the amount paid. We assessed whether the information disclosed in the financial statements is appropriate.

Valuation of participations in development projects and valuation of participations in group companies

The carrying value of participations in development projects as of December 31 amounts to 17.9 MSEK in the consolidated statement of financial position and valuation of participations in group companies (Atlas Therapeutics AB) amounts to 20.0 MSEK in the parent company's balance sheet. The Company tests annually and when there is any indication of impairment, that the carrying values do not exceed the calculated recoverable amount. To test the value, the Company uses a probability-adjusted cash flow model in which the present value of future cash flows is estimated and probability-adjusted to allow for the development risk. The most

critical assumptions are those concerning market size, market share, and the likelihood of the project reaching a point where it can be licensed.

Changes in assumptions have a major impact on the calculation of the recoverable amount and if other assumptions had been used, this would have resulted in a different amount of impairment. We therefore considered that the valuation of participations in development projects and participations in group companies is a key audit matter of the audit.

In 2016, the Biosynergy project was written down by 22.1 MSEK. The impairment was caused by changed estimates of the market conditions for the project and the fact that amended contractual terms has been agreed, entitling the Company to a smaller share of future income than before. A new impairment test performed as of December 31, 2016 shows no further need for impairment. A description of the impairment test is disclosed in Note 18 ”Participations in development projects” and in Note 3 ”Important estimates and judgments”.

In our audit we evaluated and tested the process used by management to set up the impairment test. Together with our valuation specialists, we also made comparisons against other companies to assess the reasonableness of future cash flows and probability assumptions and tested the chosen discount rate. We also reviewed the Company’s model and method for preparing the impairment test and evaluated the Company’s sensitivity analysis. We assessed whether the disclosures in the financial statements are appropriate.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-29, 72-76. The Board of Directors and the Managing Director are responsible for this other information.

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

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company’s and the group’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 and consolidated accounts 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 and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Alligator Bioscience AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated 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 group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability.
As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 36-41 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is 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.

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

Malmö 21 March, 2017

Ernst & Young AB

Göran Neckmar
Authorized Public Accountant

Annual general meeting

The annual general meeting will be held on Tuesday May 2, 2017 at 4 p.m. at Medicon Village, Scheelevägen 2, Lund, Sweden. The invitation will be published in Post- och Inrikes Tidningar (the Swedish government gazette) and on the company's website.

Shareholders who wish to attend the annual general meeting must be entered in the register of shareholders maintained by Euroclear as of Tuesday April 25, 2017 and must notify Alligator of their intention to attend no later than Tuesday April 25, 2017 by letter to Scheelevägen 2, SE-223 81 Lund, Sweden, att: Lotten Almén, or by telephone to +46 (0) 46-286 42 80, or by e-mail to lotten.almen@alligatorbioscience.com.

Shareholders whose shares are registered with fund managers must request temporary entry in the Euroclear register of shareholders in order to participate in the annual general meeting. Re-registration must be completed by Tuesday April 25, 2017, and the manager must be informed of this in good time before this date.

The notification should include the name, personal or corporate ID number, shareholding, telephone number and the name of any representative. For shareholders to be represented by a proxy, authorization must be sent together with the notification. Anyone representing a legal person must carry a copy of the registration certificate or equivalent authorization documents showing authorized signatories. The company will provide authorization forms to shareholders who require them.

Financial calendar

Alligator intends to publish financial reports as follows:

- Interim reports: May 2, August 23 and October 25, 2017
- Year-end report for 2017: February 16, 2018

Notes to the reader

Unless stated otherwise in these annual accounts, the information refers to the Group. Figures in brackets refer to the corresponding period the year before. Unless stated otherwise, all amounts are in TSEK. All amounts quoted have been correctly rounded, so some totals may not add up.

Contact

For further information, please contact:
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556597-8201
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Prospective information

These annual accounts contain prospective statements which represent subjective estimates and forecasts of the future. These predictions are only valid as of the date on which they are made and are by their nature, like research and development work in the biotech field, fraught with risks and uncertainties. In view of this, the actual outcome may differ significantly from what is described in this annual report.

Financial definitions

Operating profit/loss	Profit/loss before financial items and taxes.
Earnings per share before and after dilution	Earnings divided by the weighted average number of shares during the period before and after dilution respectively. If the result is negative, the number of shares before dilution is also used for the calculation after dilution.
Average number of shares before and after dilution	Average number of outstanding shares during the period. The number of shares after dilution also takes account of outstanding options where the company's share price on the reporting date is at least equal to the conversion price of the option.
Operating costs excluding impairments	Other external costs, personnel costs and depreciation (excluding impairments of tangible and intangible assets).
R&D costs	The Company's direct costs for research and development. Refers to costs for personnel, materials and external services.
R&D costs as a percentage of operating costs excluding impairments	R&D costs as a percentage of operating costs excluding impairments.
Cash flow from operating activities	Cash flow before investing and financing activities
Cash flow for the period	Net change in cash and cash equivalents excluding the impact of unrealized foreign exchange gains and losses.
Equity per share before dilution	Equity divided by the number of shares at the end of the period.
Equity per share after dilution	Equity divided by the total number of shares at the end of the period and any outstanding options where the company's share price on the reporting date is at least equal to the conversion price of the option.
Total assets	Total of the Company's assets.
Equity ratio	Equity as a percentage of Total assets.
Average number of employees	Average number of employees at the beginning of the period and at the end of the period.
Average number of employees within R&D	Average number of employees within the Company's R&D departments at the beginning of the period and at the end of the period.

Glossary

Agonist	Substance which binds to a receptor and stimulates the activity of that receptor.
Antigen	Substance which triggers a reaction in the immune system, such as protein fragments from xenobiotic material.
Antigenicity	Tendency to be treated as xenobiotic by the immune system.
Antibody	Proteins used by the body's immune defenses to detect and identify xenobiotic material.
Bispecific antibodies	Antibody-based products which bind to two different targets and thus have dual functions.
Cancer	A disease in which cells divide in an uncontrolled manner and invade neighboring tissue. Cancer can also spread (metastasize) to other parts of the body through the blood and the lymphatic system.
Dendritic cell	A type of cell which detects xenobiotic substances.
Pharmaco-kinetics	Study of the turnover of substances in the body, i.e. how the amount substance is changed by absorption, distribution, metabolism and excretion.
Pharmacology	Study of how substances interact with living organisms to bring about a functional change.
Good Manufacturing Practice (GMP)	Quality assurance methodology designed to ensure that products are manufactured in a standardized manner, such that the quality requirements applicable to their intended use are satisfied.
Immuno-oncology	Field of oncology in which cancer is treated by activating the immune system.
Clinical trials	Trials conducted on humans.
Proof of concept studies	Studies carried out to provide support for dosages and administration paths in subsequent clinical trials.
Milestone payment	Financial consideration received in the course of a project/program when a specified objective is attained.
Monospecific antibodies	Antibody-based product containing antibodies which bind only to one target, such as a receptor.
Oncology	Term for the field of medicine concerned with the diagnosis, prevention and treatment of tumor diseases.
Preclinical trials	Studies carried out in model systems, i.e. not on people
Product candidate	A product not released onto the market.
Receptor	Receptor on a cell which picks up chemical signals.
Sponsor	The person, company, institution or organization responsible for initiating, organizing of financing a clinical trial.
T-cell	A type of white blood cell which is important to the specific immune defense.
Tumor-associated antigen (TAA)	A protein expressed to a much higher degree on the surface of tumor cells than healthy cells.
Tumor necrotic factor receptor superfamily (TNFR-SF)	A group of immune-modulating target proteins related to the tumor necrosis factor protein. The name 'tumor necrosis factor' derives from the fact that the first function detected for the protein was its ability to kill some types of tumor cells, followed later by the discovery of its immune-regulatory function.

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ALLIGATOR
bioscience