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Press release, March 16, 2017

Diamyd Medical takes decisive step to market and issues new shares with preferential rights for existing shareholders

The Board of Diamyd Medical, subject to the approval of an Extraordinary General Meeting, has decided to issue new shares and warrants in the form of units with preferential rights for existing shareholders ("Rights Issue") totaling about MSEK 68.8 before issuance costs. Upon full exercise of the warrants, the Company will raise an additional amount of approximately MSEK 44.7. The proceeds will mainly be used to conduct a new, pivotal follow-up Phase II trial, in which the diabetes vaccine Diamyd® will be administered directly to lymph nodes. 80 percent of the Rights issue is underwritten.

Positive results from the ongoing DIAGNODE-1 pilot study and a summarized analysis of previous trials with the diabetes vaccine Diamyd® underlie the Company's decision to conduct a new pivotal Phase II trial, DIAGNODE-2, in patients with recent-onset type 1 diabetes. The trial will be conducted at selected clinics in Europe. The clinical efficacy in terms of preserving the body's own capacity to produce insulin is expected to be greatly improved since the diabetes vaccine Diamyd® is administered directly into the lymph nodes, compared with subcutaneous injections used in earlier Phase III trials. Diamyd Medical's patent-pending concept can be compared with developments in allergy therapy, where allergen delivery directly to a lymph node has been found to significantly improve the treatment effect. A smaller trial with a proprietary GABA drug is also planned, in the light of recent scientific progress where preclinical research has demonstrated the strong synergistic effects of GABA and Diamyd® and identified GABA as one of the most promising compounds for stimulating insulin-producing beta cell growth.

"It is extremely gratifying that Diamyd Medical is now focusing on a pivotal study of the diabetes vaccine," says Professor Johnny Ludvigsson at Linköping University in Sweden, and principal investigator of the new trial. "Based on preliminary results from the ongoing DIAGNODE-1 trial, we are optimistic about finally achieving a clinically useful treatment of major value to patients with type 1 diabetes."

"We are taking a decisive step to market with a potentially transformative therapy for type 1 diabetes," says Ulf Hannelius, President and CEO of Diamyd Medical. "For the company, this will entail a clear prioritization of our resources and my hope is that Diamyd® and GABA will lay the foundation for something that can radically improve the lives of diabetics around the world."

The Rights Issue in summary

- For every three (3) existing shares, shareholders in Diamyd Medical will have preferential rights to subscribe for two (2) units, each consisting of (1) new share and one (1) warrant free of charge.
- Class A shares entitle the holder to subscribe for Class A shares, and Class B shares for Class B shares.
- Each new share will carry the same rights as existing shares of the same class in the company.
- The subscription price for the Rights Issue is SEK 3.50 per unit, corresponding to proceeds of approximately MSEK 68.8 (before issuance costs).
- The record date for the right to participate in the Rights Issue is May 5, 2017.
- Two (2) warrants carry the right to subscribe for one (1) new share. The warrants can be redeemed between November 1 and November 30, 2018 at an exercise price corresponding to SEK 4.55 per share.

- Upon full subscription of the Rights Issue, Diamyd Medical will raise approximately MSEK 68.8 before issuance costs.
- Upon full exercise of the warrants, Diamyd Medical will raise an additional MSEK 44.7 before issuance costs.
- The subscription period for the Rights Issue is May 10-24, 2017.
- 80 percent of the shares in the Rights Issue are underwritten through guarantees. However, no cash or any other assets have been pledged, and no other security has been provided to guarantee the commitments.
- The Rights Issue is subject to the approval of an Extraordinary General Meeting to be held on Wednesday, April 19, 2017. The Rights Issue is also conditional upon a resolution by the Extraordinary General Meeting to amend the Articles of Association in accordance with the Board's proposal.

Preliminary schedule

Wednesday, April 19, 2017	Extraordinary General Meeting
Thursday, May 4, 2017	First day of trading excluding right to participate in the Rights Issue
Friday, May 5, 2017	Record date for receiving unit rights and the right to participate in the Rights Issue
Friday, May 5, 2017	Estimated date of publication for the prospectus
Wednesday, May 10, 2017	Subscription period commences, first day of trading in unit rights
Monday, May 22, 2017	Last trading day for unit rights
Wednesday, May 24, 2017	Subscription period ends
Tuesday, May 30, 2017	Announcement of the results of the Rights Issue

Terms and conditions of the Rights Issue

Before the Rights Issue, Diamyd Medical's share capital amounts to SEK 2,991,219.7225 distributed between 29,492,562 shares. The share has a quotient value of approximately SEK 0.1014. Class A shares entitle the holder to subscribe for Class A shares, and Class B shares for Class B shares. The total number of shares in the Rights Issue is 19,661,707 shares, comprising a maximum of 852,074 Class A shares and 18,809,633 Class B shares, and a maximum of 19,661,707 warrants, of which a maximum of 852,074 warrants with a right to subscribe for Class A shares, and a maximum of 18,809,633 warrants with a right to subscribe for Class B shares (in the form of units). In addition, should the Rights Issue be oversubscribed, the Board has an over-allotment option, allowing the additional issue of 5,714,286 Class B shares and 5,714,286 warrants with a right to subscribe for Class B shares (in the form of units), which can increase the proceeds raised by the Rights Issue by up to MSEK 20.0. Finally, the underwriters of the Rights Issue will receive remuneration in the form of units corresponding to 7.5% of the guaranteed amount. A given guarantee of approximately MSEK 55.1 corresponds to remuneration of SEK 4,128,750 and will be paid in the form of 1,179,643 Class B shares and 1,179,643 warrants with a right to subscribe for Class B shares.

Overall, Diamyd Medical is therefore likely to issue up to 26,555,637 shares and 26,555,637 warrants, of which 852,074 Class A shares and 852,074 warrants carry a right to subscribe for Class A shares, provided that the Rights Issue is fully subscribed and the over-allotment option is fully exercised, and the underwriting guarantee amounts to an even amount of approximately MSEK 55.1. In addition, some of the remuneration to Diamyd Medical's financial advisor for the Rights Issue will be paid in the form of units.

Three (3) existing shares in the company entitle the holder to two (2) units, each consisting of one (1) new share and one (1) free warrant. The subscription price per unit is SEK 3.50. Two (2) warrants of the same class carry a right to subscribe for one (1) new share of the same class. The warrants are valid until November 30, 2018 and can

be redeemed between November 1 and November 30, 2018 at an exercise price corresponding to SEK 4.55 per share.

Guarantees

Under agreements with external investors, the Rights Issue is underwritten up to an amount of approximately MSEK 55.1, corresponding to about 80 percent of the Rights Issue. The underwriting fee is 7.5% of the guaranteed amount in the form of newly issued units at the same issue price as in the Rights Issue. No underwriting fees will be paid in cash. No cash or any other assets have been pledged, and no other security has been provided to guarantee the commitments. More information about the parties that have entered into underwriting commitments will be included in the prospectus, which is expected to be published on May 5 according to the preliminary schedule above.

Extraordinary General Meeting

The Board's decision regarding the Rights Issue and any related decisions are subject to approval by an Extraordinary General Meeting to be held on Wednesday, April 19 in Stockholm. Notice of the Extraordinary General Meeting will be published in a separate press release.

The Extraordinary General Meeting will resolve on the Board's decisions, and the proposals described below will be submitted for approval.

- (i) a new share issue of not more than 19,661,707 shares (of which 852,074 are Class A shares) and not more than 19,661,707 warrants (of which 852,074 carry a right to subscribe for Class A shares) (in the form of units) whereby shareholders will have a preferential right to subscribe for the new shares;
- (ii) a new share issue of not more than 1,179,643 new Class B shares and not more than 1,179,643 warrants with a right to subscribe for Class B shares (in the form of units) related to remuneration for the underwriting guarantees;
- (iii) a new share issue of not more than 5,714,286 Class B shares and not more than 5,714,286 warrants with a right to subscribe for Class B shares (in the form of units) related to an over-allotment option.
- (iv) authorization to issue shares and warrants (in the form of units). The authorization will be used to pay fees to Diamyd Medical's financial advisor in the Rights Issue, of which some will take the form of units. In addition, the authorization will also be used for additional issues due to increased underwriting guarantees and rounding effects.

Advisors

G&W Fondkommission is acting as financial advisor and Setterwalls Advokatbyrå AB is acting as Diamyd Medical's legal advisor in connection with the Rights Issue.

Important notice

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The subscription rights, the BTAs (interim shares) and the new shares will not be registered in accordance with the Securities Act or any provincial act in Canada and may not be transferred or offered for sale in the United

States or Canada or to persons resident there, or on account of such persons other than in such exceptional cases that do not require registration in accordance with the Securities Act or any provincial act in Canada.

About Diamyd Medical

Diamyd Medical is dedicated to finding a cure for diabetes and other serious inflammatory diseases through pharmaceutical development and investments in stem cell and medical technology.

Diamyd Medical develops the diabetes vaccine Diamyd®, an antigen-specific immunotherapy based on the exclusively licensed GAD-molecule. Six clinical studies are ongoing with Diamyd®. GABA constitutes alongside with the diabetes vaccine a key asset in Diamyd Medical and the Company uses its GABA in-licensed technology to develop a proprietary GABA drug product. Diamyd Medical is one of the major shareholders in the stem cell company NextCell Pharma AB. Diamyd Medical also has holdings in the medtech company Companion Medical, Inc., San Diego, USA and in the gene therapy company Periphagen, Inc., Pittsburgh, USA.

Diamyd Medical's B-share is traded on Nasdaq Stockholm First North under the ticker DMYD B. FNCA Sweden AB is the Company's Certified Adviser.

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