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Item 17: The Board of Directors' proposal regarding a Performance Share Program 2015 (PSP 2015)

Background

The Board of Directors´ of Karolinska Development AB (publ), org.nr. 556707-5048 (the "Company") find it essential and in all shareholders' interest that the employees in the Company have a long-term interest of a good value development of the share in the Company and therefore proposes the Annual General Meeting the below long-term incentive program for the employees in the Company. The now proposed program corresponds to a large extent to the performance related share program that was approved by the Annual General Meeting 2014 with the exception of the following:

- The maximum allotment to the CEO in the program is based on 30 percent of the annual fixed gross base salary for 2015 (maximum allotment to the management in the performance related share program approved on the Annual General Meeting 2014 was based on 20 percent of the annual fixed gross base salary for 2014).
- The allotment of Performance Share Rights is based on a share price growth of between 15 percent and 100 percent (allotment of Performance Share Rights in the performance related share program approved on the Annual General Meeting 2014 was based on a share price growth of between 30 percent and 75 percent).

The purpose of the long-term incentive program is to stimulate the employees' to continued and long-term good performance. Furthermore, it is the Board of Directors' view that the incentive program increases the Company's attractiveness as an employer. To participate in the program the employee is required to invest his own money. Thereafter, the participant will, after a three-year vesting period commencing on the day when the Performance Share Program 2015 (PSP 2015) agreement is entered into and ending at the earliest three years after the PSP 2015 agreement is entered into, will be allotted free of charge warrants, which entitles to subscription of shares in the Company at a price equal to the quota value, provided that certain conditions are fulfilled.

In order to ensure the delivery of shares under PSP 2015, the Board of Directors proposes that a maximum of 1 078 410 warrants, which entitles to 1,078,410 shares of series B, are issued to a wholly-owned subsidiary in the Group. In addition the Board of Directors proposes that maximum 338,840 shares of Series B will be able to be acquired and transferred on Nasdaq Stockholm in order to cover social security fees under PSP 2015.

The Company's on-going share-related incentive programs are described in the Company's Annual Report for 2014 in note [6].

Proposal

The Board of Directors proposes that the Annual General Meeting resolves on a Performance Share Program 2015 (PSP 2015) which includes in total a maximum of 1,417,250 shares of series B according to the principal guidelines below.

1. Participant in PSP 2015, allotment and personal investment

PSP 2015 comprises a total of maximum 10 employees divided into three categories.

Category 1 consists of CEO.
Category 2 consists of other members of executive management.
Category 3 consists of other participants.

To participate in PSP 2015, the participant must acquire shares of series B in the Company at market price on Nasdaq Stockholm ("Saving Shares").

Participant in Category 1 must in order to be able to receive maximum allotment, acquire Savings Shares corresponding to 30 percent of his annual fixed gross base salary for 2015.
Participant in Category 2 must in order to be able to receive maximum allotment, acquire Savings Shares corresponding to 20 percent of his annual fixed gross base salary for 2015.
Participant in Category 3 must in order to be able to receive maximum allotment, acquire Savings Shares corresponding to 10 percent of his annual fixed gross base salary for 2015.

Acquisition of Savings Shares shall take place on June 15, 2015 at the latest, with a right for the Board of Directors to extend this period if there is any impediment regarding the participant's acquisition.

For each Saving Share that the participant acquires and holds, the participant will, free of charge, be allotted one (1) matching share right ("Matching Share Right") and five (5) performance share rights if a participant belongs to category 1 or 2 or three (3) performance share rights if a participant belongs to category 3 ("Performance Share Rights") (together referred to as "Share Rights"). Provided that the conditions set out below in item 2) and item 3) respectively, are fulfilled, the Share Rights entitle to allotment of warrants in the Company for conversion into shares of series B as described below. Allotment of warrants in the Company, on basis of the held Share Rights, is made at earliest three years after the PSP 2015 agreement is entered into ("Vesting Period").

2. Matching Share Rights
For each Saving Share that the participant acquires and holds, the participant is, free of charge, allotted one (1) Matching Share Right, which entitles the participant to, free of charge, receive one (1) warrant in the Company, based on the conditions set out below:
i. that the participant remain employed within the Group during the Vesting Period; and
ii. that the participant has not disposed of the Saving Shares held during the Vesting Period.

3. Performance Share Rights
For each Saving Share that the participant acquires and holds, the participant in category 1 and 2 is, free of charge, allotted five (5) Performance Share Rights that give right to five (5) warrants and the participant in category 3 is, free of charge, allotted three (3) Performance Share Rights that give right to five (3) warrants. In order for Performance Share Rights to entitle to allotment of warrants, it is required that the conditions for the Matching Share Rights are fulfilled. In addition, fulfillment of certain performance conditions is required in order for Performance Share Rights respectively to entitle to allotment of warrants.

The performance conditions for the Performance Share Rights are dependent on the Company share price development. For allotment of warrants the average price paid for a share of series B on Nasdaq Stockholm during a period of ten (10) trading days beginning 2 May 2018 (”End Price”) must exceed the average price paid for a share of series B on Nasdaq Stockholm during a period of ten (10) trading days immediately after the Annual General Meeting 2015 (”Start Price”) according to the following. For maximum allotment of warrants the share must be traded at a level that corresponds to a share price growth of 100 percent from the Start Price. If the End Price is between the Start Price adjusted upwards by 15 percent and the share price that triggers maximum allotment, the participants will receive a linear allotment of warrants. If the End Price is lower than the Start Price adjusted upwards by 15 percent, no allotment will be made.

4. Shared terms and conditions for Share Rights
In addition to what has been stated above, the following terms and conditions apply for both the Share Matching Rights and the Performance Share Rights:
• The Share Rights are allotted free of charge.
• The participant is not entitled to transfer, pledge, or dispose the Share Rights or perform any shareholder's rights regarding the Share Rights during the Vesting Period.

• Allotment, free of charge, of warrants in the Company on the basis of held Share Rights will take place at earliest three years after the PSP 2015 agreement is entered into.
• Each warrant entitles the holder to acquire a share of series B in the Company for a subscription price corresponding to the quota value of the share and requires that the option is exercised as soon as possible after receipt of warrant.
• The Company will, through a cash payment, compensate the participant in PSP 2015 for dividends distributed in respect of the shares that the respective warrants entitle to.
• The value that the participant can receive at allotment of warrants in the program is maximized at an amount per share that corresponds to thirty-five (35) times the Starting Price.

5. Detailed terms and administration
The Board of Directors, or a certain committee appointed by the Board of Directors, shall be responsible for the determining the detailed terms and the administration of PSP 2015, within the scope of the given terms and guidelines. If delivery of warrants/shares cannot be accomplished at reasonable costs and with reasonable administrative effort, the Board of Directors shall be entitled to decide that the participating individual may instead be offered a cash-based settlement. The Board of Directors shall also be entitled to decide on other adjustments in the event that major changes in the Group, the market or otherwise in the Company's industry would occur, which would entail that resolved conditions for allotment and the possibility to use the Share Rights under PSP 2015 would no longer be appropriate.

6. Hedging of commitments according to PSP 2012, PSP 2013, PSP 2014 and PSP 2015
Issue of warrants and approval of transfer of warrants
In order to secure delivery of shares at exercise of Share Rights, an issue of warrants ("Warrants") to a wholly owned subsidiary in the Group is proposed to be made. The subsidiary shall be authorized to dispose over and without consideration transfer the warrants with the purpose to fulfill commitments according to PSP 2015. The Warrants shall be issued to the subsidiary free of charge. Subscription of Warrants shall take place in the subscription list no later than 5 June 2015.

No more than 1,078,410 Warrants shall be issued. Each Warrant shall entitle to subscription of one share of series B in the Company during the period from 15 June 2015 up to and including 31 August 2018 at a subscription price corresponding to the quota value of the share.

The share capital can increase at maximum SEK 539,205, with reservation for the increase that can be caused by a re-calculation following new share issues etc.

Acquisition and transfer of own shares
The Board of Directors are proposed to be authorized to decide, on one or several occasions and until the next Annual General Meeting, to acquire maximum 338 840 shares of series B and transfer these and earlier acquired shares of series B amounting to 244 285, i.e. in total maximum 583 125 shares of series B to cover charges in the form of social security fees in PSP 2012, PSP 2013, PSP 2014 and PSP 2015. Acquisitions and transfer shall be made on Nasdaq Stockholm. Acquisitions and transfer can only be made at a price within the price interval registered at each time for the share. Each resolution has for legal reasons only been valid up to the following Annual General Meeting. Resolutions on transfer of treasury stock for the purposes of PSP 2012, PSP 2013 and PSP 2014 have therefore been repeated at the subsequent Annual General Meeting.

7. Dilution effects and costs for the program

At exercise of the proposed Share Rights the number of shares increases. These new shares will constitute, at full exercise, approximately 1.98 percent of the outstanding shares and approximately

1.59 percent of the votes. At full exercise of the now proposed Share Rights and outstanding warrants in outstanding incentive programs, the number of new shares constitutes approximately 3.03 percent of outstanding shares and approximately 2.43 percent of the votes calculated after full exercise of outstanding warrants and proposed Share Rights. The dilution has been calculated as the number of new shares in proportion to the number of existing and new shares. In addition 338 840 shares of series B are required to cover social security fees, which corresponds to approximately 0.63 percent of the outstanding shares and approximately 0.51 percent of the votes.

The Board's proposal does give rise to a dilution effects, in accordance with IAS 33 and does, therefore, result in an effect on reported earnings per share. At maximum allotment and average yearly growth in share price by 15 percent from an assumed share price of SEK 11.50, the dilution effect will be approximately 1.92 percent.

The Share Rights can cause costs for the Group in the form of social security fees at exercise. Social security fees shall be expensed, allocated to the periods during which services were performed. Expenses shall be calculated by applying the same valuation model as utilized when the Share Rights were issued. The provision that arises shall be revalued in conjunction with each financial report. Social security fees fall due to payment when the Share Rights are exercised. The social security fees are expected to amount to approximately 31 percent of the value of the Share Rights.

The Board has proposed that the effect on cash flow that may arise as a result of social security fees when Share Rights are exercised shall be hedged by acquisitions and transfer of own shares on Nasdaq Stockholm.

The Share Rights will in addition give rise to accounting costs in accordance with IFRS 2. These costs shall be determined on the allotment date and be allocated over the vesting period. In accordance with IFRS 2, the theoretical value of the Share Rights shall form the basis of the calculation of these costs. The theoretical value shall not be re-valued in subsequent reporting periods, although adjustments shall be made for the Share Rights that have not been earned in conjunction with every financial report. In this manner, the accumulated costs at the end of the vesting period will correspond to the number of Share Rights that fulfilled the conditions.

8. The objectives of the proposal and reasons for deviations from the shareholders' preferential rights

The Board of Directors considers the existence of effective share-related incentive programs for employees of the Company to be of material importance for the development of the Company. The proposed program creates a common group focus for the employees in the different parts of the Group. By linking the employees' remuneration to the Company's earnings and value trend, the long-term increase in value is rewarded and thus an alignment of interest of employees and shareholders.

In light of these circumstances, the Board of Directors consider, that the proposed incentive program, with regard to the terms and conditions, the size of the allotment, the existence of other incentive programs and other circumstances, is reasonable and advantageous for the Company and its shareholders.

Preparation of proposal

The proposal has been prepared by the Remuneration Committee and resolved on by the Board of Directors.

Majority vote requirement

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A resolution in accordance with the board's proposal requires support from shareholders with not less than 9/10 of votes cast as well as shares represented at the meeting.