Item 16. Proposal from the board of directors' of Karolinska Development for approval of Guidelines for Remuneration to Executive Management

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The board of directors' of Karolinska Development AB, Reg. No. 556707-5048, proposes that the annual general meeting resolves to approve the proposal for Guidelines for remuneration to executive management.

Guidelines for Remuneration to Executive Management

1 Applicability

These Guidelines have been proposed by the Board of Directors of Karolinska Development at the board meeting held March 14, 2011, and have been approved by the Annual General Meeting held May 25, 2011. The Guidelines shall be in force until the Annual General Meeting held 2012.

The Guidelines applies on salary and other forms of remuneration to the CEO and other management personnel (executive management). They apply to all remunerations and benefits, regardless of paid in cash or not, or paid now or in the future, if certain or uncertain. Compensation and issues of securities covered by Chapter 16 of the Swedish Companies Act are excluded from the Guidelines.

2 Guidelines for compensation

2.1 General

Karolinska Development shall maintain compensation levels and terms required to recruit and keep executive management with competence and experience necessary in order to meet the goals for the company. The total remuneration to a management employee shall be competitive, reasonable and appropriate.

Fixed salary shall be set based on each individual´s field of responsibility and experience. The fixed salary shall be revised annually prior to each calendar year.

Variable remuneration shall (i) be formed to further Karolinska Development´s long term value adding; (ii) be based upon criteria that are predetermined, clear, measurable and that can be influenced, (iii) if in form of variable salary, have a fixed cap (unless such salary does not incur costs to the company other than social security contributions); (iv) be excluded when calculating pension insurance premiums.

The company´s costs for pension shall be born when the employee is active in the company. Pension insurance premiums shall not be paid when an employee has retired. Premiums shall be paid in accordance with an adopted pension premium plan. Premiums may, by way of exception, be paid with a flat percentage.

The termination period shall not exceed six months for the executive management. Severance pay may be paid only to the CEO.

Management employees are entitled also to other benefits applied for all employees at Karolinska Development, such as sick pay, health care. Fringe benefit cars shall not be provided. The number of paid holidays are thirty. Employees are not allowed to receive fees for serving as directors of the board, if within the employment in Karolinska Development.

2.2 Incentive programs

Karolinska Development has an incentive program for executive management. It is a combined warrant- and profit sharing program, comprising three launched parts decided by the annual general meetings 2008, 2009 and 2010. For the years 2011-2013 another form of incentive program will be considered for the executive management.

Incentive program (2008-2010)

The 2008-2010 incentive program consists of two parts; one conventional option plan based on warrants issued by Karolinska Development and one profit sharing plan related to the value of the portfolio companies. The above mentioned programs are part of what was originally intended as a five year program including also 2011 and 2012. The programs for 2011 and 2012 will not be implemented. The reduction will not have any effect on the programs already implemented.

Warrant program: During 2008-2010 the participants were entitled to sign for warrants once a year corresponding (if fully signed) to 0.5 per cent of the shares in Karolinska Development. Thus, the total dilution for the three years could have been maximum 1.5 per cent. Based on actual participation in the warrant programs the real dilution amounts to 0.98 per cent. Warrants in the first program issued the first time 2008 entitles to subscription for new shares 2012. Warrants in the second program issued the first time 2009 entitles to subscription for new shares 2013. Warrants in the third program issued the first time 2010 entitles to subscription for new shares 2014. The warrants were issued at market price set by an independent valuer.

Profit sharing plan: Each warrant program 2008-2010 is related to a profit sharing plan for 2008-2010 respectively. The profit sharing plan for 2008 relates to the investment portfolio of Karolinska Development as of December 31, 2007. The other plans relate to investments carried out during the calendar year prior to the year of the plan.

Each annual plan entitles to cash payment corresponding to, in aggregate, five per cent of the part of the return from the investments to which the annual plan relates, that exceeds a "threshold" ("Surplus Return"). At settlement the threshold shall consist of the initial value of the investments to which the annual plan relates to the extent that such investments have been exited, adjusted with an annual threshold interest of 6 per cent for the years 2008-2012 and 8 per cent for year 2013 and onwards. On the "credit side" there will be proceeds received from exits after tax, if any, relating to the exit.

To the extent the Surplus Return exceeds an annual return of 35 per cent, the part of the Surplus Return exceeding such percentage, to which the participants in the profit sharing plan are entitled, shall be reduced by half (to 2.5 %). To the extent that the Surplus Return exceeds 50 per cent, another reduction by half (to 1.25 %) shall apply to the Surplus Return which exceeds 50 per cent. Surplus Return over and above 60 per cent shall not increase the entitlement of participants in the profit sharing plan.

In addition, the 2010 plan shall also entitle to an aggregate of 37.5 per cent of the so called ”KDAB Carried Interest” in accordance with the limited Partner Agreement signed with European Investment Fund (”EIF”) regarding KCIF Co-Investment Fund KB (”KCIF”)[1]. KDAB Carried Interest can briefly be described as 20 per cent of the return exceeding a threshold interest of 6 per cent calculated on – and after repayment of – EIF´s investments in KCIF. According to the agreement with EIF, the company is entitled to that part of the KDAB Carried Interest only if it is included in the profit sharing program. Thus, the Company does not, when it comes to this part of the profit sharing program, in reality abstain from any amount it otherwise would be entitled to, besides social security contributions incurred due to the payout.

[1] The board of directors shall be authorized to allocate part thereof to any future incentive program instead of to the plan for 2010.

Participation in each profit sharing program is conditional of participation in the warrant program for the corresponding year. The programs for 2011 and 2012 will not be implemented. The reduction will not have any effect on the programs already implemented.

Incentive program (2011-2013)

No more combined warrant/profit sharing programs will be implemented. The board of directors considers a new incentive program for the years 2011-2013. A proposal is planned to be submitted for approval by an extraordinary general meeting during 2011.

The company´s costs for remuneration

Calculated total cost for Karolinska Development due to the incentive programs 2008-2010, see **Appendix 1**.

2.3 Directors of the Board

Directors of the board that are not also employees of the company may not participate in incentive programs for executive management. Incentive programs to the directors may not include warrants.

3 Exceptions

The board of directors may case by case decide on exceptions from Clause 2, if there are special reasons. Circumstances known to the board of directors when the Guidelines where decided are normally not reason enough for an exception. All exceptions shall be commented on the subsequent annual general meeting.

4 Information

Information to be provided according to the Swedish Companies Act, see **Appendix 2**.

Appendix 1

Information regarding the company´s costs due to its obligations towards participants in the incentive programs

<u>The programs 2008-2010</u>

Payment under each program is to be made annually, starting six years after the end of each individual program and during a total period of ten years.

Payment for a given year requires that the return from exits, milestone payments or royalty payments from investments during the time when the plan was active exceeds a threshold which is determined by the investment made during the relevant year, increased by an annual interest.

A calculation of the amount of expected payment is based on assumptions regarding all future investments by Karolinska Development in each portfolio company, the seize of these and the valuation at each investment, assumptions about new portfolio companies and investments in these as well as the cash flow generated from exits of portfolio companies or their liquidation.

For illustration a possible scenario is that Karolinska Development invests a total of SEK 2 billion in companies, where at least one investment is made during the periods when the plans are active, and later divests these at an average of SEK 150 million per company. The assumed revenues for these exits are the same for all holdings and represent a total surplus of SEK 6.5 billion. Based on the above, the profit sharing program would generate a payment of SEK 9.1 million per year for the management team as a group. In a case where the total surplus equals SEK 4 billion, the program would generate a payment of SEK 6 million for the management team as a group. The originally planned five year incentive programs have been aborted after three years and anticipated payouts should be proportionally reduced.

With the same assumptions as above and co-investments by KCIF of MSEK 20 during ten years, the payment above would increase by 20-30 per cent due to payments from KCIF under the profit sharing program. Apart from social security contribution this does not incur any additional cost to Karolinska Development.

Appendix 2

Information to be provided according to the Swedish Companies Act

Information regarding decided remunerations not yet due

There are no decided remunerations not yet due, besides the profit sharing programs for 2008-2010 described in the Guidelines.

Information regarding deviations from previously decided Guidelines

According to the Guidelines previously adopted, severance pay should not be part of employment agreements. The employment agreement for the new CEO includes 12 months' severance pay if the agreement is terminated by the company. On the other hand, the termination period has been agreed to six months, whereas the maximum according to the Guidelines where 12 months for the CEO. According to the previous Guidelines the pension premium should be flat 20 per cent of the salary. The pension premium for the new CEO is flat 21 per cent of the salary. The deviation is not material. Both deviations are a result of the negotiations when the new CEO was recruited.

A new pension premium plan has been implemented, based on the ITP premium principles. The plan deviates from the 20 per cent flat premium. The change has been made in order to achieve a more market/ITP like plan.

No other deviations have been made.