

## The Board's report April 2012 regarding evaluation of variable remuneration and application of the guidelines for remuneration.

### 1 Background

The report is prepared in accordance with the provisions of 9.1 and 10.3 of the Swedish Code of Corporate Governance and includes evaluation of (i) programs for variable remuneration, both ongoing and those that have ended during the year, for executive management, (ii) the application of the guidelines for remuneration to executive management that the AGM is required by law to establish and (iii) the current remuneration structure and levels in the company

The presentation is issued by the entire Board, since the entire Board fulfils the tasks of the remuneration committee.

### 2 Evaluation

#### (i) Program for variable remuneration

*Programs for variable remuneration for executive management, both ongoing and those that have ended during the year*

Karolinska Development's incentive program for the executive management is a combined warrant and profit sharing program, comprising three launched parts decided by the annual general meetings in 2008, 2009 and 2010, respectively.

Each launched program consists of two parts; one conventional warrant plan based on warrants issued by Karolinska Development and one profit sharing plan related to the value of the portfolio companies.

*The Warrant program:* During 2008-2010 the participants were entitled to subscribe for warrants once a year corresponding (if fully subscribed for) 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 the actual participation in the warrant programs the real maximum dilution amounts to 0.98 per cent. Warrants in the first program were issued in 2008 and entitle the participants to subscribe for new shares in 2012. Warrants in the second program were issued in 2009 and entitle participants to subscribe for new shares in 2013. Warrants in the third program were issued in 2010 and entitle the participants to subscribe for new shares in 2014. The warrants were issued at market value set by an independent valuer.

*Profit sharing plan:* Each warrant program during the years 2008 to 2010 is related to a profit sharing plan for the years 2008 to 2010 respectively. The profit sharing plan for the year 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 preceding the year of the plan.

Each annual plan entitles the participants to a cash payment corresponding to, in aggregate, five percentage units of the part of the return from the investments to which the annual plan relates, that exceed 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 by an annual threshold interest of 6 per cent for the years 2008-2012 and 8 per cent for the 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 the extent that the Surplus Return exceeds 50 per cent, another reduction by half 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 the participants to an aggregate of 37.5 per cent of the so called "KDAB Carried Interest" in accordance with the limited Partner Agreement signed with the European Investment Fund ("EIF") regarding KCIF Co-Investment Fund KB ("KCIF"). 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.

Participation in each profit sharing program is conditional of participation in the warrant program for the corresponding year. No more combined warrant/profit sharing programs will be implemented.

The board of directors will propose a new three year share based incentive program spanning 2012-2014, to the Annual General Meeting.

## **(ii) Application of Guidelines**

*Application of the guidelines for remuneration to executive management that the AGM is required by law to establish*

No deviations have been made.

## **(iii) Remuneration structure and levels**

*The current remuneration structure and levels in the company*

Karolinska Development shall maintain compensation levels and terms required to attract and keep an executive management with the competence and experience needed to achieve the objectives of the company's operation. The total compensation to an executive management employee shall be competitive, reasonable and appropriate. Fixed salary shall be based on responsibility and experience of the individual.

Variable compensation shall (i) be construed in order to support Karolinska Development's long-term value creation; (ii), have governing elements that are clear, measurable and that can be influenced; (iii) regarding variable salary, have a pre-determined maximum outcome (save for portions not effecting the result of the company other than as social security contribution); (iv) not be included in calculation of pension.

Solna April 18, 2012

The Board of Directors