Karolinska Development AB, AGM 2012 / Complete proposal

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

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 18, 2012, and have been approved by the Annual General Meeting held May 23, 2012. The Guidelines shall be in force until the Annual General Meeting held 2013.

The Guidelines applies on salary and other forms of remuneration to the CEO and other management personnel (executive management). They apply to all categories of 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 not covered by these Guidelines.

2 Guidelines for compensation

2.1 General

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

Fixed salaries 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 remunerations shall (i) be formed to promote 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 for an employee shall be paid during the period 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.

In addition, management employees are entitled also to such benefits that are 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 is thirty. Employees are not allowed to receive fees for serving as directors of the board of the portfolio companies of 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 no incentive program was launched. For 2012 a new incentive program is proposed.

Incentive program 2008-2010

The 2008-2010 incentive programs consist 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 three programs are part of what was intended as a five year program. The program for 2011 has not and the program for 2012 will not be implemented. This 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 maximum dilution amounts to 0.98 per cent. Warrants in the first program issued 2008 entitles to subscription for new shares 2012. Warrants in the second program issued 2009 entitles to subscription for new shares 2013. Warrants in the third program issued 2010 entitles to subscription for new shares 2014. The warrants were issued at market value set by an independent valuer.

Profit sharing plan: Each warrant program 2008-2010 is linked 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 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 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 for 2012-2014

It will be proposed that the 2012 Annual General Meeting resolves on a Performance Share Program 2012 (PSP 2012) which includes in total a maximum of 630 800 shares of series B according to the principal guidelines below.

1. Participants in PSP 2012, allotment and personal investment
PSP 2012 comprises a total of maximum 10 employees divided into three categories. Category 1 consists of CEO and can at maximum be allotted 180 000 shares of series B. Category 2 consists of CSO and CFO can at maximum be allotted 120 000 shares of series B per person. Category 3 consists of other participants and can at maximum be allotted 36 000 shares of series B per person.

To participate in PSP 2012, the participants must acquire shares of series B in the Company at market price on NASDAQ OMX Stockholm ("Saving Shares"). Participant in Category 1 must acquire 30 000 Saving Shares in order to be able to receive maximum allotment. Participant in Category 2 must acquire 20 000 Saving Shares in order to be able to receive maximum allotment. Participant in Category 3 must acquire 6 000 Saving Shares in order to be able to receive maximum allotment.

Acquisition of Savings Shares shall take place on June 15, 2012 at the latest, with a right for the Board of Directors to extend this period if there is any impediment regarding a participant's acquisition. As an employee is considered an individual who has signed a contract on permanent employment no later than the day for the Annual General Meeting 2012.

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 ("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, on basis of the held Share Rights, is made after the publication of the Company's interim report for the first quarter 2015, however not earlier than three years after the PSP 2012 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, based on the conditions set out below: that the participant remain employed within the Group during the Vesting Period; and 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 is, free of charge, allotted five (5) Performance Share Rights that give right to five (5) 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 Board of Directors intends to present whether the conditions have been fulfilled in the annual report of 2015.

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 OMX Stockholm during a period of ten (10) trading days beginning 2 May 2015 ("End Price") must at least exceed the average price paid for a share of series B on NASDAQ OMX Stockholm after the Annual General Meeting 2012 ("Start Price"). The Start Price is determined by the Board of Directors and shall cover a continuous measure period of ten (10) trading days that shall be no later than within six (6) months after the Annual General Meeting 2012. For maximum allotment of warrants the share must be traded at a level that corresponds to an average yearly share price growth of 30 percent from the Start Price. If the End Price is between the Start Price adjusted upwards by 6 percent yearly and the share price that triggers maximum allotment, the participants will receive a linear allotment of warrants.

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 participants are 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 after the publication of the Company's interim report for the first quarter 2015, however not earlier than three years after the PSP 2012 agreement is entered into. Each warrant entitled 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 participants in PSP 2012 for dividends distributed in respect of the shares that the respective warrants entitles to. The value that a participant can receive at allotment of warrants in the program is maximized at an amount per share that corresponds to ten (10) times the Starting Price.

Calculated total cost for Karolinska Development due to the incentive programs 2008-2010, see **Appendix 1A**. the calculated costs for the incentive program for 2012, see **Appendix 1B**.

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**.

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

Appendix 1A The programs 2008-2010

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 1B The program for 2012-2014

If all *share rights* are utilized the total number of shares will be increased. These new shares will correspond to around 1.0 per cent of the total number of shares and 0.8 per cent of the total number of votes. All *share rights* plus all outstanding warrants correspond to around 1.9 per cent of the total number of shares and 1.5 per cent of the total number of votes. The *share rights* may incur costs to the company in the form of social contribution costs up to a total of SEK 3.4 million including repurchase of shares, corresponding to a dilution 0f 0.3 per cent and administrative costs during the life span of the *share rights*.

Appendix 2

<u>Information</u>

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

No deviations.