

# Annual General Meeting in Karolinska Development AB (publ)

The shareholders of Karolinska Development AB (publ), reg. no. 556707-5048, (“**Karolinska Development**” or the “**Company**”) are invited to the Annual General Meeting, on Wednesday 14 May, 2014, at 5 p.m. (CET), at Tomtebodavägen 23A Solna, Sweden.

## Participation and notification of attendance

A shareholder, who wishes to participate in the meeting, must

(i) be recorded as shareholder (not nominee registered) in the share register held by Euroclear Sweden AB on Thursday 8 May 2014, and

(ii) notify Karolinska Development of his/her intention to attend the meeting, no later than on Thursday 8 May 2014, by telephone +46 (0)8 524 860 70, by e-mail to [info@karolinskadevelopment.com](mailto:info@karolinskadevelopment.com) or by regular mail to Karolinska Development AB, Tomtebodavägen 23 A, SE-171 65 Solna, Sweden.

The notification should include name, identification-/registration number, address and telephone number and, if applicable, number of assistants.

## Nominee registered shares

Shareholders whose shares are registered in the name of a nominee shareholder must temporarily register their shares in their own name in the share register kept by Euroclear Sweden AB to be allowed to participate in the meeting. The registration must be completed on Thursday 8 May 2014 at the latest. Request for registration must be made well in advance.

## Proxy etc.

A shareholder attending the meeting by proxy, must issue a written proxy. The proxy is valid during the period set forth in the proxy, however, at most 5 years from the issuance. If a proxy is issued by a legal entity, a copy of the legal entity's registration certificate or similar document must be enclosed. Proxy forms in Swedish and English are available for download on the Company's website, [www.karolinskadevelopment.com](http://www.karolinskadevelopment.com).

## Proposal for agenda

1. Opening of the meeting
2. Election of chairman of the meeting
3. Preparation and approval of the voting list
4. Approval of the agenda
5. Election of one or two persons to verify the minutes
6. Determination of whether the meeting was duly convened
7. Presentation of the annual report and the auditor's report and the group annual report and the auditor's group report
8. Information from the CEO
9. Report on the work of the Board of Directors
10. Resolutions regarding
  - a) adoption of the profit and loss statement and the balance sheet, and consolidated profit and loss statement and consolidated balance sheet
  - b) appropriation of the Company's result according to the adopted balance sheet
  - c) discharge from liability for the directors and the CEO
11. Report on the work of the Nomination Committee
12. Resolution regarding the number of directors and auditors and deputy auditors to be appointed
13. Resolution in respect of the fees for the Board of Directors and for the auditor
14. Election of chairman of the Board of Directors, directors and auditors and deputy auditors
15. Procedure to appoint members of the nomination committee
16. The Board of Directors' proposal regarding principles for remuneration to executive management

17. The Board of Directors' proposal regarding a performance based share incentive program 2014 (PSP 2014)
18. The Board of Directors' proposal regarding authorization for the Board of Directors to resolve on new issues of shares
19. The Board of Directors' proposal regarding approval of transfer of shares and of new issues in subsidiaries
20. Closing of the meeting

**Items 2 and 12-15: The nomination committee's proposal regarding chairman at the meeting; number of directors, deputy directors, auditors and deputy auditors to be appointed; fees for the Board of Directors and auditors; election of chairman of the Board of Directors, directors, auditors and deputy auditors and instructions for appointment of members of the nomination committee**

The Nomination Committee, consisting of Gillis Cullin (Chairman), appointed by Östersjöstiftelsen (The Foundation for Baltic and East European Studies); Rune Fransson, appointed by Karolinska Institutet Holding AB; Peter Lundkvist, appointed by Tredje AP-fonden (Third Swedish National Pension Fund); Claes Kinell, appointed by Jarla Investment and; Todd Plutsky, appointed by Coastal Investment Management, proposes that the Annual General Meeting resolves as follows:

Johan Hessius (law firm Lindahl), is appointed to chair the Annual General Meeting.

The number of directors will be eight and no deputies will be appointed.

The number of auditors will be one and no deputy auditor will be appointed.

The Chairman will be paid a fixed amount of SEK 400,000. All other directors will be paid a fixed amount of SEK 200,000. In addition SEK 10,000 will be paid to the Chairman for each board meeting where the directors meet in person. The fees to the directors remain unchanged compared to previous year. The Nomination Committee consider it of importance that the directors hold shares in the Company.

The auditors will be paid as per invoice.

Re-election of the directors Bo Jesper Hansen, Vlad Artamonov, Charlotte Edenius, Hans Wigzell and Klaus Wilgenbus. New election of Robert Holland, Henrijetta Richter and Carl Johan Sundberg. Election of Bo Jesper Hansen as Chairman of the Board of Directors. The composition of the Board of Directors meets the independence requirement of the Swedish Corporate Governance Code.

*Information regarding the directors proposed for new election*

Robert Holland: Born 1955. MD PhD. Other appointments: Board member of Newron Pharmaceuticals SpA and Early Clinical Development Consulting Ltd. Chief Medical Officer and member of the executive team of Oxford Gene Technology IP Ltd. Previously, senior executive positions at AstraZeneca including Head of Personalised Healthcare & Biomarkers and Head of Neuroscience; clinical research roles at Wellcome, Solvay and Upjohn. Fellow of the Faculty of Pharmaceutical Medicine. Independent of the company and its senior management, as well as of major shareholders in the company.

Henrijetta Richter: Born 1971. PhD, MSc. Other appointments: Investment Director Novo Seeds, Novo A/S. Chairman of Avilex Pharma ApS and Affinicon ApS, Board Member of Orphazyme A/S, EpiTherapeutics A/S, and Board member of the Green Development and Demonstration Program (GUDP) under the Danish Ministry of Food, Agriculture, and Fisheries. Previous appointments: Chairman of Cytoguide ApS, Board member of MycoTeq ApS and Nanoference ApS. Advisory Board member, Department of System Biology, the Danish University of Technical Sciences. Independent of the company and its senior management, as well as of major shareholders in the company.

Carl Johan Sundberg: Born 1958. Licensed physician and Professor of Physiology. Currently Board director of Cobra Biologics AB, Coordinator Science & Society at the President's office, Head of the Unit for Bioentrepreneurship, Elected member of the Royal Swedish Academy of Engineering Sciences, Member of the International Olympic Committee's Medical Commission, Inspektor (guardian) for the Medical Student's association and Chair of Research!Sweden. Previously Investment director at Karolinska Investment Fund, Board director of Global Genomics AB, Angiogenetics AB, NsGene AS, Cellectricon AB, Alfta Rehab Center Holding AB, Karolinska Education AB and Feelgood Svenska AB, Vice-president of Euroscience and President Swedish Society for Sports Medicine. Independent of the company and its senior management. Not independent of major shareholders in the company.

Election of Deloitte as auditor, currently with Thomas Strömberg as auditor in charge, for the time until the end of the 2015 Annual General Meeting.

The Nomination Committee shall have five members of which the five largest owners (as set forth in the share register kept by Euroclear Sweden AB as of 31 August 2014) shall appoint one member each. The chairman of the Board of Directors shall convene the first meeting. If a shareholder does not exercise its right to appoint a member, the shareholder next in order of voting power, who has not already appointed a member or has a right to appoint a member, shall have the right to appoint a member to the Nominating Committee. The members of the Nomination Committee shall be made public as soon as the members have been appointed, and in no case later than six months prior to Annual General Meeting 2015. The members shall among themselves appoint the chairman of the committee. If a member resigns or is prevented from pursuing his/her assignment, the shareholder that has appointed such member shall appoint a new member. In the event that the shareholding in the Company is materially changed, before the Nomination Committee has completed its assignment, the Nomination Committee may decide to change the composition of the Nomination Committee, as determined by the Nomination Committee (considering the principles applicable for the appointment of the Nomination Committee). Any change in the composition of the Nomination Committee shall be announced as soon as possible. No fees shall be paid to the members of the Nomination Committee. Out of pocket expenses shall be reimbursed by the Company. The mandate of the committee shall be until the members of the succeeding committee have been announced. The Nomination Committee shall carry out the tasks that, according to the Swedish Corporate Governance Code, are the responsibility of the Nomination Committee.

#### **Item 10 b: Appropriation of the Company's result according to the adopted balance sheet**

The Board of Directors and the managing director proposes that the amount at disposal of the Annual General Meeting, in total SEK 1,275 001,150 shall be allocated as follows: To be carried forward SEK 1,275,001,150.

#### **Item 16: The Board of Directors' proposal regarding principles for remuneration to executive management**

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 objects of the Company's operations. The total remuneration 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; (iv) not be included in calculation of pension. The notice period in case of termination by the Company shall not exceed six months for executive management. Severance pay shall be paid only to CEO.

*The proposal in full will be available at Karolinska Development's website.*

## **Item 17: The Board of Directors' proposal regarding a performance based share program 2014 (PSP 2014)**

### ***Background***

The Board of Directors finds it essential and in all shareholders' interest that key employees in the Group 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 key employees.

The purpose of the long-term incentive program is to stimulate employees to continued and long-term good performance. Furthermore, it is the Board of Directors' view that the incentive program increases the Group's attractiveness as an employer. To participate in the program the employee is required to invest his/her own money. Thereafter, the participants will, after a three-year vesting period commencing on the day when the Performance Share Program 2014 (PSP 2014) agreement is entered into and ending at the earliest in conjunction with the publication of the Company's interim report for the first quarter 2017, 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 2014, the Board of Directors proposes that a maximum of 579 350 warrants, which entitles to 579 350 shares of series B, are issued to a wholly-owned subsidiary in the Group. In addition the Board of Directors proposes that maximum 182 000 shares of Series B will be able to be acquired and transferred on NASDAQ OMX Stockholm in order to cover social security fees under PSP 2014.

### ***Proposal***

The Board of Directors proposes that the Annual General Meeting resolves on a Performance Share Program 2014 (PSP 2014) which includes in total a maximum of 761 350 shares of series B according to the principal guidelines below.

#### ***1. Participants in PSP 2014, allotment and personal investment***

PSP 2014 comprises a total of maximum 14 employees divided into two categories.

Category 1 consists of CEO and other members of executive management.

Category 2 consists of other participants.

To participate in PSP 2014, 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 in order to be able to receive maximum allotment acquire Savings Shares corresponding to 20 percent of participant's fixed gross salary for 2014.

Participant in Category 2 must in order to be able to receive maximum allotment acquire Savings Shares corresponding to 10 percent of participant's fixed gross salary for 2014.

Acquisition of Savings Shares shall take place on June 13, 2014 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 2014.

For each Saving Share that the participant acquires and holds, the participant in category 1 and 2 will, free of charge, be allotted one (1) matching share right ("**Matching Share Right**") and participant in category 1 five (5) performance share rights ("**Performance Share Rights**") and participant in category 2 three (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, on basis of the held Share Rights, is made after the publication of the Company's interim report for the first quarter 2017, however not earlier than three years after the PSP 2014 agreement is entered into ("**Vesting Period**").

## **2. Matching Share Rights**

For each Saving Share that the participant acquires and holds, the participant in category 1 and 2 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:

- 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 is, free of charge, allotted five (5) Performance Share Rights that give right to five (5) warrants and participant in category 2 is, free of charge, allotted three (3) Performance Share Rights that give right to three (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 Board of Directors intends to present whether the conditions have been fulfilled in the annual report of 2017.

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 2017 ("**End Price**") must exceed the average price paid for a share of series B on NASDAQ OMX Stockholm during a period of ten (10) trading days immediately after the Annual General Meeting 2014 ("**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 75 percent from the Start Price. If the End Price is between the Start Price adjusted upwards by 30 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 30 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 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 2017, however not earlier than three years after the PSP 2014 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 participants in PSP 2014 for dividends distributed in respect of the shares that the respective warrants entitle 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 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 2014, within the scope of the given terms and guidelines. The Board of Directors shall be authorized to make

adjustments to fulfill certain rules or market pre-requisites in other jurisdictions. If delivery of warrants/shares cannot be accomplished at reasonable costs and with reasonable administrative effort to individuals outside Sweden, 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 industry would occur, which would entail that resolved conditions for allotment and the possibility to use the Share Rights under PSP 2014 would no longer be appropriate

#### **6. Hedging of commitments according to PSP 2012, PSP 2013 and PSP 2014**

##### *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 2014.

No more than 579 350 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 2014 up to and including 31 August 2017 at a subscription price corresponding to the quota value of the share.

The share capital can increase at maximum SEK 289 675, 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 182 000 shares of series B and transfer these and earlier acquired shares of series B amounting to 244 285, i.e. in total maximum 426 285 shares of series B to cover charges in the form of social security fees in PSP 2012, PSP 2013 and PSP 2014. Acquisitions and transfer shall be made on NASDAQ OMX Stockholm. Acquisitions and transfer can only be made at a price within the price interval registered at each time for the share.

#### **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 1.2 percent of the outstanding shares and approximately 0.9 percent of the votes. At full exercise of the now proposed Share Rights and outstanding warrants the number of new shares constitutes approximately 2.9 percent of outstanding shares and approximately 2.3 percent of the votes calculated after full exercise of outstanding warrants and proposed Share Rights. In addition 182 000 shares of series B are required to cover social security fees, which corresponds to approximately 0.4 percent of the outstanding shares and approximately 0.3 percent of the votes. The Share Rights can cause costs for the Group in the form of social security fees at exercise as well as accounting costs during the term of the Share Rights.

#### **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 senior executives of the Company to be of material importance for the development of the Company. The proposed program creates a common group focus for involved 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 involved employees and shareholders.

Incentive programs are also considered to facilitate recruitment and retention of key employees in the Group who are considered to be important for the Company's continued development.

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.

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.

*The proposal in full, including statement by the Board of Directors in accordance with Chapter 19, Section 22 of the Companies Act, will be available at Karolinska Development's website.*

**Item 18: The Board of Directors' proposal regarding authorization for the Board of Directors to resolve on new issues of shares**

The Board of Directors proposes that the Annual General Meeting resolves to authorize the Board of Directors for the period up to the next Annual General Meeting to resolve, whether on one or several occasions, with or without deviation from the shareholders' priority rights, and for payment in cash, by set-off or in kind, to issue new shares of series B up to a number that, at the time of the first resolution under this authorization, corresponds to ten (10) per cent of the total share capital; provided however that any such issue must not result in the Company's share capital exceeding the Company's maximum allowed share capital as set out in the articles of association.

A resolution in accordance with the Board of Directors' proposal requires support from shareholders with not less than 2/3 of votes cast as well as shares represented at the meeting.

**Item 19: Approval of transfer of shares and of new issues of shares in subsidiaries**

According to Chapter 16 of the Swedish Companies Act ("LEO Law") transfer of shares to inter alia directors or employees of the issuing company or another group company, and new issues of shares in subsidiaries directed to directors or employees of the issuer or another group company, must in some cases be approved by the general meeting of the parent company.

KCIF Fund Management KB ("KCIF") is the vehicle for co-investments by the European Investment Fund ("EIF") in Karolinska Development's portfolio. KCIF is managed by KCIF Fund Management AB ("FMAB"), a company which is partly held by Karolinska Development's management. The holding is a formal solution tied to the employment in Karolinska Development, is set forth in Karolinska Development's agreement with the EIF and with no possibilities for the holder to transfer the shares. Due to the construction, co-investments by KCIF require approval under the LEO Law, which means that any new share issue in a portfolio company directed to KCIF must be approved by the general meeting of Karolinska Development. The now concerned companies due to new issues directed to KCIF are Pharmanest, Aprea and XSpray.

There has been a change of personnel in Karolinska Development, with the effect that a previous employee has transferred his holding in FMAB to a new employee, which was executed via Karolinska Development, and thereby triggering approval under the LEO Law.

The Board of Directors proposes that the Annual General Meeting approves the share issues and the share transfer described above.

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

*The proposal in full will be available at Karolinska Development's website.*

**Miscellaneous**

The annual report, the auditor's report, the proposal by the nomination committee, the auditor's statement regarding compliance with the Guidelines for Remuneration to Executive Management and

complete proposals for decisions in all matters on the agenda will be available on the Company's web site, [www.karolinskadevelopment.com](http://www.karolinskadevelopment.com) and at the Company's office at Tomtebodavägen 23 A in Solna, Sweden, from 23 April 2014. Copies of the above mentioned documents will, upon request, be sent to shareholders who have provided their postal address. A request for such documents may be made in the way set forth above for notification of attendance. The Board of Directors' complete proposal regarding item 17 and 19 will automatically be sent to all shareholders that have notified the Company of their participation in the Annual General Meeting and who have informed the Company of their postal address.

A shareholder is entitled to require that the Board of Directors and the CEO (when possible without causing material damage to the Company) provides information regarding (i) circumstances that may have an effect on the assessment of an item on the agenda or on the economic situation of the Company or a subsidiary within the Group; (ii) the Company's relation to another Company within the Group; (iii) the consolidated Group report.

As per the date of this notice, there are 48,531,417 shares, representing a total of 62,059,299 votes outstanding in the Company, distributed among 1,503,098 shares of Series A (with 15,030,980 votes) and 47,028,319 shares of series B (with 47,028,319 votes). As per the date of this notice, the Company holds 244 285 treasury shares of Series B.

**Solna in April 2014**  
**Karolinska Development AB (publ)**  
***The Board of Directors***