

The board of director's report regarding evaluation of remuneration to executive management

Report, in accordance with the *Swedish Code of Corporate Governance*, regarding evaluation of variable remuneration for executive management, and of the application of the Guidelines for Remuneration to Executive Management established by the AGM ("Guidelines") and of the current remuneration structure and remuneration levels in the company.

Karolinska Development has a Remuneration Committee with four members, Bo Jesper Hansen (Chairman), Hans Wigzell, Carl Johan Sundberg and Vlad Artamonov, each being independent of the company.

According to the Guidelines established by the 2016 AGM, 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 company's operational goals. The total remuneration to a management employee shall be competitive, reasonable and appropriate.

Remuneration shall be in the form of fixed salary, variable compensation, pension fee and customary other benefits.

Information regarding the company's compensation will be found in the Annual Report for 2016, note 5. According to the Guidelines, variable remuneration shall be formed to promote Karolinska Development's long term value adding; be based upon criteria that are predetermined, clear, measurable and that can be influenced, and if in form of variable salary, have a fixed cap. In addition, variable remuneration shall not be included when calculating pension insurance premiums. The company's variable remunerations meet these criteria.

The short-term incentive programs implemented during the past years are appropriate. As regards the long-term incentive PSP program, based on the share price development, the PSP 2013 program expired during 2016 and in total 15,358 so called Matching Shares were allotted, whereas no Performance Shares were allotted. No long-term incentive program was proposed to the 2016 AGM. The Remuneration Committee has evaluated the need for a new long term incentive program and the board of directors have proposed to the 2017 AGM a new long term incentive program in accordance with a separate proposal, item 19 on the AGM agenda.

As regards the 2008-2010 long-term incentive program, the warrants have expired, whereas the profit sharing section of the programs remains. None of the present employees are covered by any of these three warrant programs.

The compensation levels in the company are in line with the principles of the Guidelines.

Compensation to executive management comply, without deviations, with the Guidelines for compensation, established by the 2016 AGM, which has also been confirmed by the company's auditor in its report.

Solna April, 2017

The Board of Directors of Karolinska Development AB