

Karolinska Development AB, AGM 2014

Item 16 Complete proposal

Proposal from the board of directors' of Karolinska Development AB (publ) for approval of *Guidelines for Remuneration to Executive Management*

It is proposed 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 and have been approved by the Annual General Meeting held May 15, 2014. The Guidelines shall be in force until the Annual General Meeting held 2015.

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, 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 company's operational goals. The total remuneration to a management employee shall be competitive, reasonable and appropriate.

Fixed salaries shall be set based on each individual's experience and field of responsibility. The fixed salary shall be revised annually for 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.

Fixed salary during a period of notice and severance pay are together not to exceed an amount equivalent to the individual's fixed salary for two years.

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. The company does not provide company cars.

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

3 Programs

3.1 Incentive program 2008-2010

The program is a combined warrant- and profit sharing program, comprising three parts decided by the annual general meetings 2008, 2009 and 2010. The 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.

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. The warrants in the first and second programs have expired. 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. Based on actual participation in the warrant programs, the maximum dilution amounts to 0.16 per cent.

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.

Participation in each profit sharing program is conditional of participation in the warrant program for the corresponding year.

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

3.2 Long Term Incentive program for 2012-2014 (PSP 2012)

The 2012 Annual General Meeting resolved 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.

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 took place December 27 2012, since since there was an impediment regarding the participant's acquisition prior to that date. 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**").

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.

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 was calculated to 15.70 SEK by the board. 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.

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.

Based on actual participation in the warrant programs, the maximum dilution amounts to 0.99 per cent.

3.3 Long Term Incentive program for 2013-2015 (PSP 2013)

The 2013 Annual General Meeting resolved on a Performance Share Program 2013 (PSP 2013). The program is based on the same conditions as the PSP 2012 program, with two exceptions. The number of participants has been increased from 10 to 17. The cap has been increased from 10 to 20 times the Starting Price.

Based on actual participation in the warrant programs, the maximum dilution amounts to 0.61 per cent.

3.4 Long Term Incentive program for 2014-2016 (PSP 2014)

It is proposed to the AGM to adopt a long term incentive program, PSP 2014.

The program is based on the same conditions as the PSP 2013 program, with the following exceptions. Saving shares may be purchase up to an amount related to the base salary before tax (20 per cent for executive management and 10 per cent for other employees); the max. allotment of performance shares varies (five for executive management and three for other employees), the cap has been increased from 20 to 35 times the Starting Price.

Dilution at full participation and full allotment is 1.2 per cent.

3.5 Short Term Incentive Program 2014 (STI 2014)

The Board of Directors has decided on a Short Term Incentive Program for executive management, based on a number of specified corporate goals set for 2014 by the Board, goals that are promoting Karolinska Development's long term value adding. Each goal is weighed based on priority, which impacts the calculation of the remuneration. The company's key executives are participants. The remuneration is depending on whether one or more goals are met and has a fixed cap corresponding to two base month salaries for each participant. Whether the goals are met or not is decided by the board after the end of 2014.

The company retains the right to at any time amend or discontinue the plan following a decision to do so by the Remuneration Committee. This right includes, but is not limited to, modifications of performance measurement methods, performance targets/and or performance results. This right includes modifications to the plan's terms and conditions which may prove necessary or desirable to bring the plan in line with local practices in countries where the company operates or where its employees are employed. The company's payout obligation is subject to any applicable statutes, rules or instructions from authorities with powers to regulate the payment of salaries and other forms of compensation.

3.6 Calculated total cost

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

3.7 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.

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

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 size 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.

PSP 2012

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 of 0.3 per cent and administrative costs during the life span of the *share rights*.

PSP 2013

At exercise of the Share Rights the number of shares increases. These new shares will constitute, at full exercise, approximately 1 percent of the outstanding shares and approximately 0.8 percent of the votes. At full exercise of the now proposed Share Rights and outstanding warrants the number of new shares constitutes approximately 2.3 percent of outstanding shares and approximately 1.8 percent of the votes calculated after full exercise of outstanding warrants and proposed Share Rights. In addition 150 800 shares of series B are required to cover social security fees, which corresponds to approximately 0.3 percent of the outstanding shares and approximately 0.2 percent of the votes.

The program does give rise to a dilution effects, in accordance with IAS 33 and does, therefore, result in an effect on reported earnings per share. At maximum allotment and average yearly growth in share price by 30 percent from an assumed share price of SEK 22, the dilution effect will be approximately 0.97 percent.

The Share Rights can cause costs for the Group in the form of social security fees at exercise. Social security fees shall be expensed, allocated to the periods during which services were performed. Expenses shall be calculated by applying the same valuation model as utilized when the Share Rights were issued. The provision that arises shall be revalued in conjunction with each financial report. Social security fees fall due to payment when the Share Rights are exercised. The social security fees are expected to amount to approximately 31 percent of the value of the Share Rights.

The effect on cash flow that may arise as a result of social security fees when Share Rights are exercised shall be hedged by acquisitions and future transfer of own shares on NASDAQ OMX Stockholm.

The Share Rights will in addition give rise to accounting costs in accordance with IFRS 2. These costs shall be determined on the allotment date and be allocated over the vesting period. In accordance with IFRS 2, the theoretical value of the Share Rights shall form the basis of the calculation of these costs. The theoretical value shall not be re-valued in subsequent reporting periods, although adjustments shall be made for the Share Rights that have not been earned in conjunction with every financial report. In this manner, the accumulated costs at the end of the vesting period will correspond to the number of Share Rights that fulfilled the conditions.

PSP 2014

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.

STI 2014

Maximum payout cost if all goals are met is 2.1 MSEK

Information

Information regarding decided remunerations not yet due

There are no decided remunerations not yet due, besides the programs described in the Guidelines.

Information regarding deviations from previously decided Guidelines

There are no deviations from the Guidelines.