

Karolinska Development AB AGM 2014

Item 19 Complete proposal: "LEO approval"

Proposal from the Board of Directors' of Karolinska Development AB (publ) for approval of *share transfers and new issues in subsidiaries*

It is proposed that the annual general meeting approves the proposal for approval of share transfers and new issues in subsidiaries.

"LEO-approval"

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

Two categories of transactions are subject to approval at the 2014 annual general meeting.

Category 1. New issues of shares in subsidiaries directed to KCIF Co - Investment Fund KB

KCIF Fund Management AB ("**FMAB**") is a company that manages the investment fund KCIF Co - Investment Fund KB ("**KCIF**"), which is co-owned by Karolinska Development and the European Investment Fund ("**EIF**"). KCIF co-invests with Karolinska Development in certain companies in Karolinska Development's portfolio. According to the agreements with the EIF a number of key persons in Karolinska Development ("**Key Executives**") must hold shares in FMAB. Six Key Executives shall hold 6,250 shares of series A each, in total 37,500 shares out of the 100,000 shares issued by FMAB. The holding is directly tied to the employment in Karolinska Development. The shares can only be transferred to and acquired by Karolinska Development or someone designated by Karolinska Development. The purchase price is fixed to 1 SEK per share. FMAB is not allowed to pay any dividend to its owners. The holding in FMAB is subject to restrictions in a shareholders' agreement which is governed by the agreement with the EIF. The value of the shares of FMAB is insignificant. For further information about the cooperation with the EIF, see **Appendix 1**.

Due to the construction described above, any co-investments in portfolio companies by KCIF are formally subject to LEO Law approval. Thus, any new issues in portfolio companies directed to KCIF must be approved by Karolinska Development's general meeting.

The new issues in subsidiaries directed to KCIF set forth below are subject to approval:

<i>Company</i>	<i>Datum</i>	<i>No of shares signed for by KCIF</i>	<i>Price per share (SEK)</i>	<i>Total number of outstanding shares in the company</i>
Pharmanest	2013-03-28	20 790	150	459 617
Aprea	2013-05-13	9 658	225	782 989
Aprea	2013-05-13	24 000	225	782 989
XSpray	2013-02-07	21 918	85	1 243 783

Category 2. Transfer of shares in KCIF Fund Management AB

If a *Key Executive* (see the text above under Category 1) is no longer a Karolinska Development employee he/she must transfer his/her FMAB shares to Karolinska Development or a new employee designated by Karolinska Development. The purchase price is always 1 SEK per share. In case Karolinska Development acquires the shares for transfer to a new employee, the latter transfer is subject to LEO Law approval. When Robin Wright, the previous CFO, left the company, he transferred his shares to Karolinska Development, which later transferred the shares to the new CFO Christian Tange.

Karolinska Development has transferred 6,250 FMAB shares to Christian Tange for a purchase price of 6,250 SEK.

It is proposed that the annual general meeting decides to approve the new shares issues and share transfer described above under Category 1-2.

The resolution requires support from shareholders with not less than 9/10 of votes cast as well as shares represented at the meeting.

Information regarding Karolinska Development's Co-operation with the European Investment Fund

Background

Karolinska Development and the European Investment Fund ("EIF") have established a co-operation implying that EIF will invest alongside Karolinska Development in portfolio companies. EIF normally invests in traditional venture capital fund structures. Such funds typically have a limited term, are usually required to immediately distribute any proceeds to the fund investors rather than reinvesting in other portfolio companies and are, typically, controlled by the investment managers of such funds. In order to structurally correspond, as closely as possible, to the traditional venture capital fund structures and thereby fulfilling the conditions provided by EIF in order to initiate the cooperation, the co-investments are carried out through the co-owned fund KCIF Co-Investment Fund KB ("KCIF"). The ownership and operations of KCIF are governed by a limited partnership agreement.

Co-investments

In November, 2009, KCIF entered into a co-investment agreement with Karolinska Development according to which KCIF shall invest alongside Karolinska Development in the proportions of 27:73 (KCIF:Karolinska Development), provided that certain specified investment criteria are fulfilled.

New investments by KCIF will be carried out during an investment period of four years from the commencement of the co-operation, after which only follow-on investments may be made. KCIF has a lifespan of 12 years.

Subject to certain conditions, EIF is entitled to terminate the co-operation and call for liquidation of KCIF in the event of a change of control in Karolinska Development or KCIF Fund Management AB ("KFMAB"), or if investment managers leave Karolinska Development and are not replaced by persons acceptable to EIF.

Ownership structure

Investors and limited partners in KCIF are EIF, committing EUR 21.4 million, and Karolinska Development, committing EUR 7.5 million. The commitments will be drawn down by KCIF on an as-needed basis in order to make investments, cover KCIF's costs and for the payment of an annual management fee to KFMAB, which is the general partner and manager of KCIF. In addition to the commitments to KCIF already made by EIF and Karolinska Development, EIF and Karolinska Development may, if requested by KFMAB during the period commencing in November 2013 and expiring in November 2017, decide to make additional contributions of approximately EUR 5.3 million and EUR 1.9 million, respectively.

KFMAB is owned to 37.5 percent by Karolinska Development, 25 percent by Karolinska Institutet Innovations AB ("KIAB") and to 37.5 percent by investment managers employed with Karolinska Development. The investment managers hold shares with increased voting power and jointly control a majority of the votes in KFMAB. Karolinska Development, KIAB and the investment managers have entered into a shareholders' agreement relating to KFMAB. The shareholders' agreement includes, *inter alia*, a number of provisions aiming to protect the voting minority; i.e. Karolinska Development and KIAB.

Remuneration and profit sharing

During the investment period, KFMAB is entitled to an annual management fee of 2.5 percent of the total amount committed to KCIF and, during the period thereafter, 1 percent of the invested capital. In practice, KFMAB fulfills its obligations to manage the operations of KCIF through the purchase of services from Karolinska Development in accordance with a service agreement. The service agreement entitles Karolinska Development to

an annual service fee corresponding to the amount remaining of the management fee after deduction of KFMAB's other costs and a buffer for future costs in KFMAB.

Any distribution from KCIF will, somewhat simplified, be distributed as follows. First, EIF and Karolinska Development will receive an amount equal to their respective commitment drawn down to KCIF at the time of the distribution, plus an annual interest rate of 6 percent on such amount. Thereafter, the remaining funds will be allocated with 80 percent to EIF and Karolinska Development in proportion to their respective part of the total commitment to KCIF. The remaining 20 percent will be distributed to Karolinska Development on the condition that 25 percent of such amount shall be redistributed to KIAB and at least 37.5 percent of such amount shall be redistributed to the investment managers through Karolinska Development's incentive scheme.