

Karolinska Development AB – Remuneration Report 2020

Introduction

This report describes how the guidelines for executive remuneration of Karolinska Development AB, adopted by the annual general meeting 2019, were implemented in 2020. The report also provides information on remuneration to the CEO, the Deputy CEO from all companies in the group and from the portfolio companies and also a summary of the company's outstanding share-related and share price-related incentive plans. The report has been prepared in accordance with the Swedish Companies Act and the Remuneration Rules issued by the Swedish Corporate Governance Board.

Further information on executive remuneration is available in note 5 (Employees and personnel costs) on pages 55-59 in the annual report 2020. Information on the work of the remuneration committee in 2020 is set out in the corporate governance report available on pages 83-87 in the annual report 2020.

Remuneration of the board of directors is not covered by this report. Such remuneration is resolved annually by the annual general meeting and disclosed in note 5 on page 57 in the annual report 2020.

Key developments 2020

The CEO summarizes the company's overall performance in his statement on pages 3-4 in the annual report 2020.

The company's remuneration guidelines: scope, purpose and deviations

A prerequisite for the successful implementation of the company's business strategy and safeguarding of its long-term interests, including its sustainability, is that the company can recruit and retain qualified personnel. To this end, the company must offer competitive remuneration. The company's remuneration guidelines enable the company to offer executives a competitive total remuneration. Under the remuneration guidelines, executive remuneration shall be on market terms and may consist of the following components: fixed cash salary, variable cash remuneration, pension benefits and other benefits. The variable cash remuneration shall be linked to financial or non-financial criteria. They may be individualized, quantitative or qualitative objectives. The criteria shall be designed to contribute to the company's business strategy and long-term interests, by for example being clearly linked to the business strategy or promote the executive's long-term development.

The guidelines are found on page 56 in the annual report 2020. The remuneration guidelines, adopted unanimously by the annual general meeting 2019, have been fully implemented. No deviations from the guidelines have been decided and no derogations from the procedure for implementation of the guidelines have been made. The auditor's report regarding the company's compliance with the guidelines is available www.karolinskadevelopment.com/en/corporate-governance.

No remuneration has been reclaimed. In addition to remuneration covered by the remuneration guidelines, the annual general meetings of the company have resolved to implement long-term share-related incentive plans.

Table 1 – Total CEO and Deputy CEO remuneration 2020 (kSEK) ⁶

Name of director (position)	Fixed remuneration		Variable remuneration				Total remuneration	Proportion of fixed and variable remuneration ⁵
	Base salary ¹	Other benefits ²	Short-term incentive program 2020 ³	Extraordinary remuneration ⁴	Pension expense			
Viktor Drvota (CEO)	2,693	2	748	1,242	715	5,400	63/37	
Fredrik Järrsten (Deputy CEO)	2,063	2	0	941	482	3,488	73/27	

¹ Including holiday pay: Viktor Drvota (CEO) 33 kSEK, Fredrik Järrsten (deputy CEO) 44 kSEK.

² Refers to benefit value of health insurance.

³ Details, see table 2 below and Annual Report Note 5, page 58.

⁴ Refers to Exit bonus. Details, see Annual Report Note 5, page 58.

⁵ Pension expense, which in its entirety relates to Base salary and is premium defined, has been counted entirely as fixed remuneration.

⁶ Total CEO and Deputy CEO remuneration is in compliance with the company's guidelines on remuneration.

Share-based remuneration

Outstanding share-related and share price-related incentive plans

The company has one Long Term Incentive program "LTI 2008-2010" still outstanding, but no one currently employed with the company is covered by it. A detailed description of the program can be found in the Annual Report, Note 5, page 58.

The Annual General Meeting 2017 resolved on a Long Term Incentive program, "Warrant Program 2017/2020," for all company employees, according to the following terms. A maximum of 3,216,836 warrants will be issued. Each warrant entitles the holder to subscribe for one (1) series B share in the Company. Subscription of shares by virtue of the warrants may be effect-ed during the period 30 June 2020 – 31 August 2020. The subscription price per share will correspond to 250% of the volume weighted mean value according to Nasdaq Stockholm's official price list for shares of series B in the Company during the ten (10) trading days immediately following the Annual General Meeting 2017.

The warrants were allocated as follows: to the CEO, 1,608,418; to other senior executives, 402,105 each; and to other employees, 107,228 each. In total, 3,136,416 warrants were subscribed; 80,420 were reserved for new recruitments but never subscribed. With 107,228 warrants repurchased, outstanding warrants amounts to 3,029,188.

The program ended during 2020 without any allocation.

Application of performance criteria

The performance measures for the CEO and the Deputy CEO's variable remuneration have been selected to deliver the company's strategy and to encourage behavior which is in the long-term interest of the company. In the selection of performance measures, the strategic objectives and short-term and long-term business priorities for 2020 have been taken into account. The non-financial performance measures further contribute to alignment with sustainability as well as the company values.

Table 2 – Description of the outcome of the variable short-term compensation¹

Name of director (<i>position</i>)	Description of the criteria related to the remuneration component	Relative weighting of the performance criteria	a) Measured performance and b) Actual award/ remuneration outcome (kSEK)
Viktor Drvota (<i>CEO</i>)	Finance	30%	a) 5% b) 68,010
	Exit	20%	a) 20% b) 272,040
	New Business Model	35%	a) 20% b) 272,040
	Portfolio Progress	15%	a) 10% b) 136,020

¹ J Fredrik Järsten (Deputy CEO) had given his notice of termination when the short-term compensation was due and in accordance with his employment agreement was he not, in such circumstances, eligible to any short term compensation.

Table 3 – Change of remuneration and company performance over the last five reported financial years (RFY) (kSEK)

	RFY-5	RFY-4 vs RFY-5	RFY-4	RFY-3 vs RFY-4	RFY-3	RFY-2 vs RFY-3	RFY-2	RFY-1 vs RFY-2	RFY-1	RFY vs RFY-1	RFY 2020
CEO remuneration	6,158	-64,4%	3,746	49,4%	7,410	-44,3%	5,135	14,4%	6,002	-11,1%	5 400
Deputy CEO remuneration	4,607	100,0%	-	-	-	-	-	100,0%	4,33	-24,2%	3 488
Balance sheet: Portfolio companies at fair value through profit/loss	267,651	-79,1%	149,408	66,6%	447,783	27,7%	618,927	40,9%	1,047,600	-36,0%	770 320
Income statement: Change in fair value of shares in portfolio companies	-976,488	566,3%	-146,544	158,1%	252,072	-330,9%	58,499	85,9%	415,136	-292,7%	-215 378
Average remuneration on a full-time equivalent basis of employees of the parent company ¹	1,277	48,3%	2,469	-31,2%	1,881	-1,3%	1,857	-21,3%	1,35	16,1%	1 825
¹ Average full-time employee, except CEO and deputy CEO	10		5		7		6		5		5

Solna March 24, 2021

The Board of Directors of Karolinska Development

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