

## **Notice of 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 May 24, 2017 at 5 p.m. (CET), at Tomtebodavägen 23 A 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 May 18, 2017, and

(ii) notify Karolinska Development of his/her intention to attend the meeting, no later than on Thursday May 18, 2017, by telephone +46 8 524 860 70, by e-mail to [eva.montgomerie@karolinskadevelopment.com](mailto:eva.montgomerie@karolinskadevelopment.com) or by regular mail to Karolinska Development, "AGM", Tomtebodavägen 23 A, SE-17165 Solna, Sweden.

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

### **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 May 18, 2017 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 five 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 evidencing signatory powers 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. Resolution regarding the number of directors and auditors and deputy auditors to be appointed
12. Resolution in respect of the fees for the Board of Directors and for the auditors
13. Election of chairman of the Board of Directors, directors and auditors and deputy auditors
14. Principles for appointing members of the Nomination Committee
15. The Board of Directors' proposal regarding principles for remuneration to executive management
16. The Board of Directors' proposal regarding authorization for the Board of Directors to resolve on transfer of own shares
17. The Board of Directors' proposal regarding authorization for the Board of Directors to resolve on new issues of shares
18. The Board of Directors' proposal regarding approval of new issues of warrants to employees in subsidiaries
19. The Board of Directors' proposal for an incentive program for the company's employees by way of a (A) directed issue of warrants and (B) approval of transfer of warrants

20. The Board of Directors' proposal regarding resolution on (A) amendment of the company's articles of association and (B) reduction of the share capital
21. Closing of the meeting

**Items 2 and 11-14: The Nomination Committee's proposal regarding chairman at the meeting; number of 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 principles for appointing members of the Nomination Committee**

The Nomination Committee, consisting of Niclas Adler (chairman), appointed by Sino Biopharmaceutical; Torgny Wännström, appointed by Insamlingsstiftelsen för främjande och utveckling av medicinsk forskning vid Karolinska Institutet; Magnus Persson, appointed by Karolinska Institutet Holding AB; Peter Lundkvist, appointed by Tredje AP-fonden (Third Swedish National Pension Fund) and Todd Plutsky, appointed by Coastal Investment Management, proposes that the Annual General Meeting resolves as follows:

Johan Hessius (Advokatfirman Lindahl) is appointed to chair the Annual General Meeting.

The number of directors will be seven 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. The fees to the directors remain unchanged compared to previous year.

The auditors will be paid as per invoice.

Re-election of the directors Tse Ping, Niclas Adler, Vlad Artamonov and Hans Wigzell. New election of Hans-Olov Olsson, Anders Härfstrand and Magnus Persson. Election of Niclas Adler as chairman of the Board of Directors. The composition of the Board of Directors meets the independence requirement of the Swedish Corporate Governance Code. The Nomination Committee proposes that voting shall take place individually.

Re-election of E&Y as auditor in accordance with the audit committee's recommendation, currently with Björn Ohlsson as auditor in charge, for the time until the end of the 2018 Annual General Meeting.

The Nomination Committee shall have five members of which the five largest owners (voting power, as set forth in the share register kept by Euroclear Sweden AB as of 31 August 2017) 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 2018. 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. The proposal by the Nomination Committee corresponds to previous years principles for how the members should be appointed.

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

The Board of Directors and the CEO proposes that the amount at disposal of the Annual General Meeting, in total SEK -12,406,768 shall be allocated as follows: To be carried forward SEK -12,406,768.

**Item 15: The Board of Directors' proposal regarding principles for remuneration to executive management**

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 executive management shall be competitive, reasonable and appropriate.

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

Variable remunerations shall be formed to promote Karolinska Development's long term value creation; be based upon criteria that are predetermined, clear, measurable and that can be influenced; if in form of variable salary, have a fixed cap; not be included when calculating pension insurance premiums.

The termination period at termination by the company 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 aggregated are not to exceed an amount equivalent to the individual's fixed salary for two years.

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

**Item 16 The Board of Directors' proposal regarding authorization for the Board of Directors to resolve on transfer of own shares**

Karolinska Development has previously, on the basis of authorizations from the Annual General Meeting, acquired own shares for the purpose of using these shares as a hedge to cover charges in the form of social security fees in the Company's Performance Share Program to employees resolved by the Annual General Meeting 2014 and 2015 (PSP 2014 and PSP 2015). For this purpose the Company holds 244,285 own shares of series B as per the date of this notice. On the basis of calculations of the Company's commitments in outstanding programs, it is currently estimated that no additional shares of series B are required to cover social security fees in the Company's outstanding share programs.

Each resolution to transfer shares for the purpose to cover charges of social security fees in the Performance Share Program has for legal reasons only been valid up to the following Annual General Meeting. Resolutions on transfer of own shares for this purpose have therefore been repeated at the subsequent Annual General Meeting.

The Board of Directors makes the assessment that it continues to be advantageous for the Company to be able to use repurchased shares as a hedge to cover social security fees in the Company's outstanding Performance Share Programs.

In view of the above, the Board of Directors proposes as follows.

The Board of Directors are proposed to be authorized to decide, on one or several occasions and until the next Annual General Meeting, to transfer earlier acquired shares of series B amounting to 244,285, to cover charges in the form of social security fees in PSP 2014 and PSP 2015. Transfer of the shares held by the Company may be executed with or without deviation from shareholders pre-emption right. Transfers shall be made on Nasdaq Stockholm. Transfers can only be made at a price within the price interval registered at each time for the share.

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 17: 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' pre-emption 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 18: The Board of Directors' proposal regarding approval of new issue of warrants to employees in subsidiaries**

According to Chapter 16 of the Swedish Companies Act (the "LEO Law") new issues of warrants 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.

Umecrine Cognition AB which is a subsidiary of Karolinska Development decided on March 2, 2017, to issue 398,228 warrants to personnel as follows. The chairman of the board Kenth Bergström a maximum of 88,495 warrants; CEO Magnus Doverskog a maximum of 176,991 warrants; director Bruce Scharschmidt a maximum of 88,495 warrants; consultant Lars Öhman a maximum of 44,247 warrants. The purpose of the issuance is to implement an incentive program for certain key individuals within Umecrine Cognition AB. The warrants are issued at price of SEK 0.35 per warrant. Each warrant entitles to subscription for one new share in Umecrine Cognition AB at a price of SEK 40.

The Board of Directors proposes that the Annual General Meeting approves the issue of warrants 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 on the Company's website.*

#### **Item 19 The Board of Directors' proposal for an incentive program for the company's employees by way of a (A) directed issue of warrants and (B) approval of transfer of warrants**

The Board proposes that the Annual General Meeting resolves on an incentive program for the company's employees (the "Warrant Program" 2017/2020"). To implement Warrant Program 2017/2020, the Board proposes that the Annual General Meeting resolves on a (A) directed issue of warrants series 2017/2020 with deviation from the shareholders' pre-emption right and the (B) approval of transfer of warrants to employees, on the following terms and conditions:

##### **A. Directed issue of warrants**

A maximum of 3,216,836 warrants shall be issued. Each warrant shall entitle to subscription of one (1) new share of series B in the company. The right to subscription shall, with deviation from the shareholders' pre-emption right, shall vest in the company's wholly-owned subsidiary, KD Incentive AB, with right and obligation for the subsidiary to transfer warrants to employees in the company in accordance with article B below. The warrants shall be issued without consideration to KD Incentive AB. Subscription of the warrants shall be made no later than 4 June 2017 with a right for the Board to extend this time limit. Subscription of shares by virtue of the warrants may be effected as from 30 June 2020 up to and including 31 August 2020. The subscription price per share shall correspond to 250 % of the volume weighted mean value according to Nasdaq Stockholm's official price list for share of series B in the company during ten (10) trading days immediately following the Annual General Meeting 2017. A share which has been issued upon subscription, will entitle to dividends for the first time on the first record date for dividend occurring after the subscription of shares through exercise of warrants has been executed. The share capital may be increased by a maximum of SEK 32,168.36, provided that the reduction of share capital is decided upon under item 20 below, or SEK 1,608,418 if the reduction under item 20 is not executed, at the time of subscription for new shares, which corresponds to a dilution effect of approx. 4.8 per cent of outstanding shares and approx. 4.0 per cent of the votes. If all outstanding incentive program to employees in the company are included in the calculation the corresponding dilution amounts to approx. 5.7 per cent of the outstanding shares and approx. 4.7 per cent of the votes. The dilution has been calculated as the number of new shares in proportion to the number of existing and new shares. Shares which are issued after subscription will entitle to dividends for the first time at the record date for dividends occurring immediately thereafter. The reasons for the deviation from the shareholders' pre-emption right are that the Board is of the opinion that an option program which offers the employees the opportunity to share in the value of the company will enhance the commitment and responsibility, and results in an increased motivation to work for a favourable financial development of the company. An incentive program is also expected to improve the possibilities to recruit and retain competent, motivated and committed employees.

##### **B. Transfer of warrants**

The warrants shall against payment be transferred by KD Incentive AB, at one or several occasions, to employees in the company. Transfer shall be made at market value at the time of transfer. First allotment of warrants shall be made in accordance with the following guidelines:

Category A (CEO) is allowed to acquire a maximum of 1,608,418 warrants.

Category B (Other members of Executive Management) is allowed to acquire a maximum of 402,105 warrants respectively, in total a maximum of 804,210 warrants.

Category C (Other personnel) is allowed to acquire a maximum of 107,228 warrants respectively, in total a maximum of 321,684 warrants.

First allocation is expected to be made in June 2017. The warrants remaining after the first allotment may be allotted to current and future employees at market value, applicable from time to time, in accordance with the allotment principles stated above. Participants have the right to subscribe for a larger number of warrants than stated by the guidelines above and may be allotted additional warrants if full subscription is not reached in the program. If such over-subscription occurs, allotment shall be made to the participants that wishes to subscribe for such additional warrants, pro-rated in relation to the number of warrants each participant have been allotted in the first allotment. 482,524 warrants and any warrants that have not been allocated in accordance with the above shall be reserved for future recruitments of employees in each category above of the group companies, whereby above stated guidelines for allotment shall be applicable. Transfer of warrants to future employees may not occur after March 2018. Right to allotment in the Warrant Program 2017/2020 requires that the employee, at the time of allotment, holds its position or has signed an agreement regarding it and has not, at such time, informed or been informed that the employment will be terminated. The company shall in connection with the transfer of warrants to the participant, reserve a pre-emption right regarding the warrants if the participant's employment with the company is terminated or if the participant wishes to transfer the warrants.

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 on the Company's website.*

## **Item 20 The Board of Directors' proposal regarding resolution on (A) amendment of the company's articles of association (B) reduction of the share capital**

### **A. Resolution regarding amendments of the articles of association**

In order to reduce the company's share capital in accordance with the Board of Directors' proposal under sub-resolution 20 (B) below, amendment of the articles of association regarding the share capital limits is required.

The Board of Directors' therefore propose that the Annual General Meeting resolves to amend the company's share capital limits from not less than SEK 25,000,000 and not more than SEK 100,000,000 to not less than SEK 500,000 and not more than SEK 2,000,000.

If the Annual General Meeting resolves to change the share capital limits in accordance with the proposal, section 4 of the company's articles of association will begin as follows:

"The company's share capital shall not be less than SEK 500,000 and not more than SEK 2,000,000."

Further, it is proposed that an editorial amendment is made under section 6 of the company's articles of association due to a name change of the stipulated act. Hereafter the company's articles of association is read as follows:

"The company's shares must be registered in a central securities depository register under the Central Securities Depository and Financial Instruments (Accounts) Act (SFS 1998:1479)."

### **B. Decision regarding reduction of share capital without retirement of shares**

The Board of Directors propose that the Annual General Meeting resolves on reduction of the company's share capital with SEK 31,524,981.04 (the reduction amount) without retirement of shares, and that the reduction amount is allocated to non-restricted equity in order to adjust the company's capital structure.

After the reduction, the Company's share capital will be SEK 643,366.96, divided on 64,336,696 shares, whereby the quota value for each share will be SEK 0.01.

To implement the resolution on reduction of the share capital without retirement of shares authorisation from the Swedish Companies Registration Office is required.

The sub-resolution 20 (A)–(B) above is subject to, and adopted as, a single joint resolution by the Annual General Meeting.

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.

*The proposal in full will be available on the Company's website.*

#### **Miscellaneous**

The annual report, the auditor's report, the proposal by the Nomination Committee and its reasoned statement, 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 at the Company's office at Tomtebodavägen 23 A in Solna, Sweden and on the Company's web site, [www.karolinskadevelopment.com](http://www.karolinskadevelopment.com) from May 3, 2017. 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 19 and 20 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 64,336,696 shares, representing a total of 77,864,578 votes outstanding in the Company, distributed among 1,503,098 shares of series A (with 15,030,980 votes) and 62,833,598 shares of series B (with 62,833,598 votes). As per the date of this notice, the Company holds 244,285 treasury shares of series B.

**Solna in April 2017**  
**Karolinska Development AB (publ)**  
***The Board of Directors***