

## AGM 2018/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 three members, Hans Wigzell (Chairman), Anders Härfstrand, and Vlad Artamonov, each being independent of the company.

According to the Guidelines established by the 2017 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 2017, 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 2014 program expired during 2017 and in total 23,840 so called Matching Shares were allotted, whereas no Performance Shares were allotted. There is one remaining PSP Program, PSP 2015. A warrant-based incentive program was adopted by the 2017 AGM. The vesting period is three years.

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 is covered by this program. So far, no payment has been made under these programs.

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

Compensation to executive management comply, with the exception of a severance pay to the former CFO, with the Guidelines for compensation, established by the 2017 AGM, which has also been confirmed by the company's auditor in its report.

Solna March, 2018

The Board of Directors of Karolinska Development AB