

AGM 2019/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 2018 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 2018, 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 2015 program expired during 2018 and in total 57,351 so called Matching Shares were allotted, whereas no Performance Shares were allotted.

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 Guidelines for compensation, established by the 2018 AGM, with two exceptions. According to the 2018 Guidelines, *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.* It has been deemed that six months termination period with no right to severance for a CEO was not in line with market terms and the notice period at termination by the company was increased from six to twelve months. The 2019 Guidelines has been changed accordingly.

Also severance was paid to the former CFO during 2018.

Solna March, 2019

The Board of Directors of Karolinska Development AB