

Karolinska Development AB, AGM 2020

Item 15 Complete proposal

Proposal from the Board of Directors' of Karolinska Development AB (publ) for approval of *Guidelines for Remuneration to Executive Management*

It is proposed that the AGM resolves to approve the proposal for Guidelines for Remuneration to Executive Management.

Guidelines for Remuneration to Executive Management

1 Applicability etc.

The Guidelines applies on salary and other forms of remuneration to the CEO and other management personnel (executive management) decided after the 2020 AGM. They apply to all categories of remunerations and benefits, whether paid in cash, or paid now or in the future, or if certain or uncertain. The Guidelines do not apply to remuneration decided by the General Meeting.

The Guidelines are handled by the Remuneration Committee, which provide a proposal to the Board of Directors. The decision to submit the Guidelines for approval by the AGM is made by the Board of Directors.

2 Guidelines for Remuneration

2.1 General

Remuneration to executive management comprises fixed salary, variable remuneration, pension fees and other customary benefits.

Karolinska Development shall maintain compensation levels and terms required to recruit and keep executive management with the competence and experience necessary to fulfil the company's business strategy, long-term interests and sustainability. The total remuneration to executive management shall be on market terms, competitive, reasonable and appropriate.

For more information about the company's business strategy, see the company's website (<https://www.karolinskadevelopment.com/en/our-strategy>).

Market term consultancy fees may be paid to board directors that perform services to the company outside the scope of the directorship.

2.2 Fixed salary

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

2.3 Variable remuneration

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 CEO and other executive management are entitled to bonus based on exits in the portfolio. The remuneration totals of 4% of the net proceeds paid to the company upon the exit, limited to a

maximum exit related bonus of MSEK 50 per exit and financial year. The bonus create incentive to contribute to the realization of the company's business strategy, long-term interests and sustainability. Annual short-term incentive programs (STI) based on corporate objectives, set yearly by the Board of Directors, are proposed by the Remuneration Committee and resolved by the Board of Directors for each calendar year. The remuneration is conditional upon criteria based on the development of the portfolio and development of the business model, which are set up to realize Karolinska Development's long-term value creation and creates incentive to contribute to the realization of the company's business strategy, long-term interests and sustainability. The set objectives are divided into sub-objectives, each being clear, measurable and influenceable, which are weighed relatively depending on priority. The program is evaluated after the end of the year by the Remuneration Committee and the outcome is decided by the Board of Directors. The payment to an employee under a STI program shall be limited to an amount corresponding to six months' salaries. The cost for the company at maximum outcome of STI 2020 amounts to 4.1 MSEK.

Information about the exit bonus and the STI and LTI programs will be found in the Annual report for 2019, note 5. Information is also available on the Company's website in the Corporate Governance section.

As described above, the STI part of the total annual fixed cash salary cannot exceed 50%, which also means that the fixed salary will always be at least 66% per cent of the total remuneration. Potential exit bonus is not included in this calculation.

Karolinska Development has two long-term incentive programs (LTI), one earlier for the year 2008-2010 and one for 2017-2020, each resolved by the respective AGM and therefore not covered by the Guidelines. The new LTI option program that the Board of Directors are proposing to the AGM 2020 is also not covered by the Guidelines. Both the 2017-2020 and the intended new program are three-year programs with an outcome related to the share price development.

2.4 Pension

The company's costs for pension for an employee shall be paid during the period when the employee is active in the company. Pension insurance premiums shall not be paid when an employee has retired. In addition to what is required under Swedish law, premiums shall be paid in accordance with an adopted pension premium plan, with pension fees paid within intervals depending on age and salary. The pension premiums for defined-contribution may amount to maximum 35 % of the annual fixed cash salary.

2.5 Customary other benefits

Executive management are entitled to such other customary benefits that are applied for all employees at Karolinska Development, such as sick pay, health care and wellness program etc. The number of paid holidays amounts to thirty.

Executive management are not allowed to receive fees for serving on the Board of Directors, when related to the employment at Karolinska Development. The company does not provide company cars.

The termination period at termination by the company shall not exceed twelve months for the CEO and six months for other executive management. If notice of termination is given by the CEO, the notice period shall be at least six months and by other executive management, at least six months. 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.

2.6 Salaries and terms of employment for employees

When preparing the Board's proposal for these remuneration guidelines, salaries and terms of employment for the company's employees were considered in that information about employees' total remuneration, the remuneration components, the increase in the remuneration and the rate of the increase over time formed a part of the Board's decision basis for the evaluation of the reasonableness of the Guidelines and the limitations resulting from them.

2.7 Preparations and decisions

The company's Remuneration Committee is to prepare decisions related to salaries and other employment terms to executive management. The Board of Directors is to decide regarding salary to the CEO and principles for remuneration to other executive management. The Board must prepare a proposal for new guidelines at least every four years and present the proposal to the AGM for resolution. The Guidelines should apply until new guidelines are adopted by the General Meeting. The Board of Directors should also monitor and evaluate the program for variable remuneration to the executive management, the application of guidelines for remuneration to executive management and the applicable remuneration structures and levels in the company. The members of the Remuneration Committee are independent in relation to the Company and executive management. When the Board of Directors prepare and decides on remuneration-related matters, the CEO and other members of executive management do not attend the meetings to the extent they are affected by the matters.

3 Exceptions

The Board of Directors may temporarily deviate from the Guidelines in full or in part if there on a case by case basis and in accordance with The Swedish Companies Act (*sw. aktiebolagslagen*) are grounds for such a decision and a deviation is necessary to ensure the Company's long-term interests, including its sustainability, or to ensure the Company's economic viability. Circumstances known to the Board of Directors when the Guidelines were decided are normally not reason enough for an exception. Exceptions (if any) shall be commented on at the following AGM.

4 Deviations

Due to the financial stress that the company was exposed to during 2019, the Board of Directors resolved on a deviation from the Guidelines, and introduced, at the start of the year, a temporary salary increase in order to secure the personnel (including key executives), until a solution of the financial situation was in place. 1,5 extra month salary was paid for each full calendar quarter the employment remained. The increase in salary expired December 31, 2019 when the convertible loan was solved and the financing secured. The deviation was made in line with the guidelines adopted by the 2018 AGM. Compensation to executive management complies with the guidelines for compensation, established by the 2019 AGM.

5 Previously decided remunerations not yet due for payment

At the time of the 2020 AGM, there are no decided remunerations due for payment to executive management.
