

Item 18. The Board of Directors' proposed resolutions on a) implementation of the Employee Stock Option Program 2020/2023, b) directed issue of warrants to subsidiary and c) approval of transfer of warrants or shares to senior executives, key employees and other employees in the Company or its subsidiaries

The Board of Directors in Karolinska Development AB (publ) (Reg. No. 556707-5048) (the "**Company**") proposes that the general meeting resolve a) to implement the Employee Stock Option Program 2020/2023, b) on a directed issue of warrants to the wholly owned subsidiary KD Incentive AB, Reg. No. 556745-7675 (the "**Subsidiary**") in order to fulfil the obligations under the Employee Stock Option Program 2020/2023, and c) to approve the transfer of warrants or shares in the Company on the terms set forth below ("**Employee Stock Option Program 2020/2023**").

The Board of Directors considers it important and in the best interest of all the shareholders that senior executives, key employees and other employees, which are considered important for the Company's development, have a long-term interest in a positive value development of the Company's shares. A personal long-term shareholder engagement is expected to contribute to an increased interest in the Company's business and result, as well as to increase the participants motivation and affinity with the Company and its shareholders.

Information on previous incentive programs, preparation of the proposal, costs of the program and effects on key figures are described in Appendix A.

a) Employee Stock Option Program 2020/2023

The Board of Directors proposes that the general meeting resolves to implement the Employee Stock Option Program 2020/2023 in accordance with the following main terms:

1. The Employee Stock Option Program shall consist of not more than 8,783,270 stock options.
2. The stock options shall be offered without consideration to certain employees within the Company or its subsidiaries.
3. Each stock option confers the holder a right to acquire one new share of series B in the Company against an exercise price of SEK 0.01 per share, corresponding to the share's quota value. The exercise price and number of shares of series B that each stock option confers right to acquire may be recalculated in the event of a bonus issue, consolidation or split-up of shares, rights issue, etc. wherein the recalculation terms set forth in "Terms for warrants 2020/2023 in Karolinska Development AB (publ)" shall apply (Appendix B).
4. Senior executives, key employees and other employees will, within the Employee Stock Option Program 2020/2023, be offered to subscribe for stock options in accordance with below. The offer shall cover not more than approximately nine persons.

Category A (CEO) is offered not more than 3,513,308 stock options;

Category B (CFO) is offered not more than 1,317,490 stock options;

Category C (Other senior executives (3 persons)) are offered not more than 1,024,715 stock options each, however, with a total of not more than 3,074,145 stock options within category C; and

Category D (other employees (4 persons)) are offered not more than 219,582 stock options each, however, with a total of not more than 878,327 stock options within category D.

The Board of Directors will resolve on which persons that shall be included in category D based on position, qualification and individual performance.

5. The allotted stock options will be vested based on the Company's share price development within a period of three years starting three trading days after the annual general meeting 2020 ("**Vesting Period**"). The share price development is calculated by comparing the volume weighted average price (VWAP) for the Company's share as quoted on Nasdaq Stockholm during the period of ten trading days starting three trading days after the annual general meeting 2020 with the VWAP for the Company's share as quoted on Nasdaq Stockholm during the period of ten trading days starting 16 June 2023. To vest the maximum amount of stock options the share price development shall amount to 100 percent (maximum level). If the share price development amount to 20 percent, 20 percent of the stock options are vested (minimum level). If the share price development is lower than 20 percent no stock options are vested. If the share price development amounts to a level between the maximum and minimum level, the number of stock options vested by the participant shall be measured linear in comparison to the share price development between the maximum and minimum level.
6. If a participant ceases to be an employee with the Company or a subsidiary, before the end of the Vesting Period, by other reasons than below, the allotted stock options, pro rata in relation to the employment period during the Vesting Period, may be exercised at the ordinary time for exercise as described under section 5 above. If the employee's employment ceases due to dismissal from the employer due to personal reasons or the employee is fired or if the employee resigns at own request before the end of the Vesting Period, all allotted stock options will lapse.
7. The holder can exercise allotted and vested stock options to subscribe for shares of series B or warrants during the period from 30 June 2023 to 31 July 2023 in accordance with the terms for the stock options. The Board of Directors has the right to limit the number of dates for delivery of shares during the exercise period.
8. The stock options do not constitute securities and are not able to be transferred or pledged or otherwise disposed of by the holder. However, in the event of death, the rights constituted by the stock options shall accrue to the beneficiaries of the holder of the stock options.
9. Participation in the Employee Stock Option Program 2020/2023 requires that such participation is in accordance with applicable laws, as well as that such participation can be executed with reasonable administrative costs and financial efforts according to the Company's assessment.
10. The stock options shall be governed by separate agreements with each participant. The Board of Directors shall be responsible for the preparation and management of the Employee Stock Option Program 2020/2023 within the above mentioned main terms. The Board of Directors has the right to, within the framework of the agreement with each participant, make the reasonable changes and adjustments of the terms and conditions of the stock options that are deemed suitable or appropriate as a result of local employment law or tax law or administrative conditions.

In view of the above mentioned terms, the size of the allotment and other circumstances, the Board of Directors considers the proposed stock option program to be balanced and favourable for the Company and its shareholders.

b) Directed issue of warrants to the Subsidiary

In order to enable the Company's delivery of shares under the Employee Stock Option Program 2020/2023 as well as to hedge ancillary costs, primarily social security contributions, the Board of Directors proposes that the general meeting resolves on a directed issue of not more than 11,543,000 warrants of series 2020/2023. Each warrant confers a right to acquire one new share of series B in the Company. The issue shall be made with deviation from the shareholders' preferential rights and on the following terms.

1. The warrants shall, with deviation from the shareholders' preferential rights, only be able to be subscribed for by the Company's wholly owned Subsidiary.
 2. The warrants shall be issued without consideration.
 3. The reason for the deviation from the shareholders' preferential rights is that the warrants are a part of the implementation of the Employee Stock Option Program 2020/2023.
 4. The warrants shall be subscribed for by 30 June 2020 at the latest on a separate subscription list. The Board of Directors shall have the right to extend the subscription period.
 5. The Company's share capital can increase with SEK 115,430, provided that the warrants are fully exercised (provided that the quota value is not changed and that no recalculations have been made pursuant to Appendix B).
 6. Each warrant confers the holder a right to subscribe for one (1) new share of series B in the Company against an exercise price of SEK 0.01 per share, corresponding to the share's quota value. The subscription price shall never be less than the quota value of the share.
 7. The warrants may be exercised by application for subscription for new shares in accordance with the terms and conditions for the warrants, from and including 30 June 2023 up to and including 31 July 2023.
 8. The subscription price and the number of shares of series B that each warrant entitles to may be adjusted, and the time for exercising the warrants may be postponed pursuant to the terms and conditions set forth in "Terms for warrants 2020/2023 in Karolinska Development AB (publ)" (Appendix B).
 9. The newly subscribed shares shall confer entitlement to dividends for the first time on the next record day for dividends which occurs after the subscription has been registered with the Swedish Companies Registration Office (Sw. Bolagsverket) and the shares has been entered into the Euroclear Sweden AB's share register.
 10. The warrants are governed by the terms and conditions set forth in "Terms for warrants 2020/2023 in Karolinska Development AB (publ) (Appendix B)".
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Provided that all warrants are utilized for subscription, the share capital will increase with SEK 115,430 by the issuing of 11,543,000 shares of series B, each with a quota value of SEK 0.01, however, subject to the recalculation of the terms of the warrants following new issues etc. The new shares of series B represents, if fully exercised, about 6.2 percent of the total number of shares and 6.0 percent of the total number of votes in the Company.

c) Approval of transfer of warrants

The Board of Directors proposes that the annual general meeting resolves to approve that the Subsidiary may transfer warrants without consideration or shares against a price of SEK 0.01 per share, corresponding to the share's quota value, to the participants of the Employee Stock Option Program 2020/2023 when the stock options are exercised in accordance with the terms of the Employee Stock Option Program 2020/2023 or in any another way dispose of the warrants or shares in order to secure the Company's commitments in relation to the Employee Stock Option Program 2020/2023.

The CEO, or anyone appointed by the Board of Directors, shall be authorized to make such minor adjustments of the resolution which may be required for registration with the Swedish Companies Registration Office (Sw. Bolagsverket) or Euroclear Sweden AB.

The annual general meeting's resolutions under sections a–c above shall be made as one decision. A valid resolution requires that the proposal is supported by shareholders with at least nine-tenth of both the votes cast and the shares represented at the meeting.

Stockholm in May 2020
Karolinska Development AB (publ)
The Board of Directors

Previous share-based incentive programs

Information on the Company's previous incentive schemes can be found in the Company's Annual Report for 2019, Note 5, and on the Company's website www.karolinskadevelopment.com. Apart from the described programs there are no other share-based incentive programs in the Company.

Preparation of the Board of Director's proposal on the Employee Stock Option Program 2020/2023

The proposed employee stock option program has been prepared by the Board of Directors and its remuneration committee together with external consultants after obtaining opinions from shareholders.

Valuation, costs and effects on key figures

The options in the Employee Stock Option Program 2020/2023 do not have a market value since they are not transferable. However, the Board of Directors has calculated a theoretical value of the options in accordance with the Black Scholes formula. The calculations have been based on an assumed share price of SEK 3.10 and an assumed volatility of 43 percent. In accordance with this valuation, the value of the options in the Employee Stock Option Program 2020/2023 is approximately SEK 3.09 per option. Limitations in the disposal rights have not been taken into consideration in the valuation.

The Board of Directors considers that the Employee Stock Option Program 2020/2023 will trigger costs in reference partly to accounting salary costs and partly to social security contributions. The total costs for social security contributions will depend on the number of options that will be vested and on the value of the benefit that the participant finally will receive, i.e. on the value of the options when utilized in 2023.

Based on the assumption that 100 per cent of the options in the Employee Stock Option Program 2020/2023 will be vested and an assumed share price of SEK 6.20 when the options are utilized, the estimated total accounting salary costs for the options will amount to approximately SEK 54 million and the social security contributions for the options will amount to approximately SEK 17 million during the time period 2020-2023. The Company's entire costs for social security contributions are proposed to be hedged through a directed issue of warrants in accordance with Section B above.

Based on the assumption that 100 percent of the options had been vested on 1 January 2019, the earnings per share for the full year 2019 would decrease from SEK 4.1 to SEK 3.5 as a result of the additional number of shares.

It shall be noted that all calculations above are preliminary and are only intended to provide an illustration of what costs the Employee Stock Option Program 2020/2023 may entail. Actual costs may therefore deviate from what has been stated above.
