

***Proposal regarding the implementation of a long-term incentive program in accordance with (A) and hedging arrangements in respect thereof in accordance with (B) or (C) (item 17)***

*Background*

The Board of Directors of Swedish Orphan Biovitrum AB (publ) (“**Sobi**”) proposes that the annual general meeting 2017 resolves on the implementation of a long-term incentive program (the “**Program**”). The proposed Program gives all present and future permanent employees of the Sobi Group the opportunity of becoming shareholders in Sobi. It is proposed that the Program should be divided into two parts: (I) one part directed to managers and executives (the “**Management Program**”) and (II) one part directed to all other employees (the “**All Employee Program**”). No employees based in the US will be invited to participate in the Program.

The overall purpose of the Program is to closely align the employees’ interests with those of the shareholders and to create a long-term commitment to Sobi. The Management Program provides Sobi with a crucial component of a competitive total remuneration package with which to attract and retain executives who are critical to Sobi’s long-term success. The purpose of the All Employee Program is to create commitment and motivation for the entire permanent workforce of the Sobi Group. For these reasons the Board of Directors considers that having recurring long-term incentive programs is a vital and important part of Sobi’s total remuneration package.

The Board of Directors of Sobi has evaluated the long-term incentive program approved by the 2016 annual general meeting and has concluded that while the All Employee Program fully satisfies the intended purposes, the Management Program would benefit from certain amendments to be more effective. In brief, the Board of Directors proposes that the Management Program should be amended such that no investment in Sobi shares is required by the participants, as that has proven to limit access to the program due to insider rules, and that no allocation of matching shares is offered. The CEO and other members of the executive leadership team of the Sobi Group will instead be subject to a set of shareholding guidelines established by the Board of Directors (see below). In addition, the performance conditions will not only relate to total shareholder return but partially to actual annual revenues compared to budgets, and the maximum allocation of Sobi shares will increase slightly to reflect the change that no matching shares are offered.

Similar to the incentive program approved by the 2016 annual meeting, the Program shall be inspiring, achievable, easy to understand, cost effective to administer, easy to communicate and in line with market practice. Following implementation of the Program, the Board of Directors intends to carry out an evaluation thereof in order to systematically analyse the achieved results in relation to the aims outlined above. The aim of the evaluation will be to determine whether the Program satisfies its purposes, and this will also include a review of the outcome and the costs for the Program.

**A. *Implementation of the Program***

The Board of Directors proposes that the annual general meeting 2017 resolves on the implementation of the Program in accordance with the principal terms and conditions set out below.

**I. Terms and conditions applying to the Management Program**

- a) It is proposed that the Management Program be open to no more than 231 permanent employees of the Sobi Group, whereof no more than 188 permanent employees on director level of the Sobi Group (“**Band D**”), no more than 30 permanent employees on vice president level of the Sobi Group (“**Band C**”), no more than 12 permanent employees who are members of the executive leadership team of the Sobi Group (“**ELT**”) and the CEO of Sobi (“**CEO**”).
- b) Each participant in Band D, Band C, ELT members and the CEO will free of charge receive an award under the Management Program (“**LTIP Award**”) entitling the participant to receive an allocation of a number of Sobi common shares free of charge from Sobi or from a designated third party, subject to the satisfaction of the condition in section f) below as well as the satisfaction of the performance conditions set out in section d) below (“**Management Performance Shares**”). Any Management Performance Shares will be allocated after the expiration of the three-year vesting period, starting on the date the participants in Band D, Band C, ELT members and the CEO were notified by Sobi of their admission to the Management Program (the “**Vesting Period**”). Sobi must notify the participants in Band D, Band C, ELT members and the CEO of their admission to the Management Program no later than on 31 December 2017.
- c) The value of the underlying shares at the time of grant in respect of each LTIP Award will amount to (i) 300% of the gross annual fixed salary in 2017 for the CEO (annualised, as applicable), (ii) 100% of the average gross annual fixed salary in 2017 for ELT Members, (iii) 75% of the average gross annual fixed salary in 2017 for Band C participants, and (iv) 35% of the average gross annual fixed salary in 2017 for Band D participants. The share price used to calculate the value of the underlying shares in respect of each LTIP Award, and hence the number of shares to which each LTIP Award entitles, shall be the volume-weighted average price paid for the Sobi common share on Nasdaq Stockholm, adjusted for any dividend payments, during a period of 10 trading days immediately prior to the commencement of the Vesting Period.
- d) The portion (if any) of an LTIP Award that will vest at the end of the Vesting Period is based on and subject to the satisfaction of the following performance conditions.

*Absolute TSR<sup>1</sup> increase*

60% of an LTIP Award granted to a participant will be subject to satisfaction of certain levels of absolute TSR increase over the Vesting Period. In order for any vesting related to absolute TSR increase to occur, the TSR must increase by more than 15% over the Vesting Period. In order for full vesting related to absolute TSR increase to occur, the TSR must increase by at least 50% over the Vesting Period. If the TSR increase is between 15% and 50% over the Vesting Period, a linear vesting related to absolute TSR increase will occur. The calculation of the TSR shall for the purpose of the TSR performance condition be based on a comparison of

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<sup>1</sup> So-called Total Shareholder Return.

the volume-weighted average price paid for the Sobi common share on Nasdaq Stockholm, adjusted for any dividend payments, during a period of 10 trading days immediately prior to the start of the Vesting Period and the volume-weighted average price paid for the Sobi common share on Nasdaq Stockholm, adjusted for any dividend payments, during the last 10 trading days of the Vesting Period.

*Annual revenues*

40% of an LTIP Award granted to a participant will be subject to the Sobi Group's actual annual revenues reaching or exceeding the Sobi Group's target annual revenues, as set out in the budget established by the Board of Directors. A comparison shall be made for each of the financial years 2017, 2018 and 2019. If the threshold is reached or exceeded for a financial year, full vesting related to annual revenues in respect of that financial year will occur (i.e. 1/3 of 40%). If the threshold is not reached for a financial year, no vesting related to annual revenues in respect of that financial year will occur.

- e) Management Performance Shares may be allocated only after the expiration of the Vesting Period, unless the Board of Directors of Sobi in an individual case resolves otherwise.
- f) In order for a program participant to be allocated Management Performance Shares it is a condition that, with certain specific exemptions, he/she has been permanently employed within the Sobi Group for the duration of the whole Vesting Period.
- g) If significant changes in the Sobi Group or in the market occur which, in the opinion of the Board of Directors, would result in a situation where the conditions for allocation of Management Performance Shares under the Program become unreasonable, the Board of Directors shall be entitled to make adjustments to the Program, including, among other things, be entitled to resolve on a reduced allocation of Management Performance Shares, or that no Management Performance Shares shall be allocated at all.

**II. *Terms and conditions applying to the All Employee Program***

- a) It is proposed that the All Employee Program be open to approximately 590 permanent employees of the Sobi Group ("**Employees**").
- b) The All Employee Program will require Employees to make investments of their own in common shares in Sobi on Nasdaq Stockholm ("**Employee Investment Shares**"). For each Employee Investment Share, the Employees will have the possibility to be allocated 2 common shares in Sobi free of charge ("**Employee Matching Shares**"), from Sobi or from a designated third party. The Employee Matching Shares will be allocated following expiration of the three-year vesting period, starting on the date the Employees were notified by Sobi of their admission to the All Employee Program (the "**Vesting Period**"). Sobi must notify the Employees of their admission to the All Employee Program no later than on 31 December 2017.

- c) The maximum number of Employee Investment Shares each Employee may invest in depends on the gross annual average fixed salary for Employees in 2017. Employee Investment Shares may be acquired for an amount corresponding to no more than 2.5% of the gross annual average fixed salary for Employees in 2017.
- d) Program participants must purchase Employee Investment Shares in connection with the start of the Vesting Period.
- e) Employee Matching Shares may be allocated only after the expiration of the Vesting Period, unless the Board of Directors of Sobi in an individual case resolves otherwise.
- f) In order for a Program participant to be allocated Employee Matching Shares it is a condition that, with certain specific exemptions, he/she has been permanently employed within the Sobi Group for the duration of the whole Vesting Period and that the participant, until the expiration of this Vesting Period, has retained the Employee Investment Shares purchased. Any disposal of Employee Investment Shares prior to the expiration of the Vesting Period will generally result in no Employee Matching Shares being allocated.

**III. *Terms and conditions applying to the Management Program and the All Employee Program***

- a) The Board of Directors shall be authorised to establish the detailed terms and conditions for the Program. The Board of Directors may, in that regard, make necessary adjustments to satisfy certain regulations or market conditions outside Sweden.
- b) Participation in the Program presupposes that such participation is legally possible in the various jurisdictions concerned and that the administrative costs and financial efforts are reasonable in the opinion of the Board of Directors.
- c) The Program shall comprise no more than 1,967,522 common shares in Sobi, of which 1,355,520 constitute Management Performance Shares and 141,605 constitute Employee Matching Shares. The remaining 470,397 common shares in Sobi are such shares that may be transferred by Sobi in order to cover the cash flow effects associated with the Program, primarily social security charges.
- d) The number of Employee Matching Shares and Management Performance Shares will be subject to recalculation as a result of intervening bonus issues, splits, rights issues and/or other similar corporate events.

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*Costs for the Program etc.*

The costs for the Program, which are charged in the profit and loss account, are calculated according to the accounting standard IFRS 2 and distributed on a linear basis over the Vesting Period. The calculation

has been made based on the following assumptions: (i) a market price of the Sobi common share of SEK 120, (ii) no dividend is paid by Sobi during the Program, (iii) an assessment of future volatility in respect of the Sobi common share and (iv) full vesting related to annual revenues will occur. In total, this can lead to maximum costs for the Program of approximately MSEK 108.3, excluding social security costs. The costs for social security charges are calculated to approximately MSEK 48.8 assuming an annual share price increase of 10% during the Vesting Period. In addition to what is set forth above, the maximum costs for the Program have been based on a share price of SEK 120 at the time of the commencement of the Vesting Period, that the Program comprises 821 participants, that each Employee Program participant makes a maximum investment and based on historical employee turnover for the group of 5%. If the share price increases from SEK 120 with 10% until the implementation of the Program the effect on costs would only be marginal as the number of Employee Matching Shares and Management Performance Shares would be reduced correspondingly. Also in case of a decrease in the share price the effect on costs would be marginal. Based on the assumptions above the annual costs for the Program, including social security charges, corresponds to approximately 4.9% of Sobi's total annual employee costs.

If the Program had been implemented in 2016, if the company had had costs in accordance with the example in the preceding paragraph, and Employee Matching Shares and Management Performance Shares had been allocated in 2016 in accordance with the assumptions in the sample calculation, which among other things assumes an annual share price increase of 10% during the Vesting Period, the earnings per share for the financial year 2016 had decreased by SEK 0.17 to SEK 2.84 and the shareholders' equity per share for the financial year 2016 had decreased by SEK 0.19 to SEK 19.61.

#### *Dilution*

Upon full allocation of Employee Matching Shares and Management Performance Shares, the number of shares under the Program amounts to 1,497,125 common shares in Sobi, corresponding to a dilution effect of approximately 0.55% of the share capital and the votes. Aggregated with the 470,397 shares that may be transferred in order to cover the cash flow effects associated with the Program, primarily social security charges, the maximum dilution effect of the Program amounts to approximately 0.73% of the share capital and the votes. If all outstanding long-term incentive programs are included in the calculation, then the corresponding maximum level of dilution amounts to 1.37%.

#### *Hedging arrangements*

The Board of Directors has considered different methods for transfer of shares under the Program, in order to implement the Program in a cost-effective and flexible manner. The Board of Directors has found the most cost-effective alternative to be, and thus proposes that the annual general meeting as a main alternative resolves on (i) a directed issue of redeemable and convertible series C shares and (ii) an authorisation for the Board of Directors to resolve on the repurchase of all issued redeemable and convertible series C shares. Following conversion to common shares in Sobi, the shares are intended to be transferred to Program participants as well as transferred on a regulated market in order to cover the cash flow effects associated with the Program, primarily social security charges. For this purpose, the Board of Directors further proposes that the annual general meeting resolves (iii) on transfers of

own common shares free of charge to Program participants. As further described in item B.(III) below, the Board of Directors proposes that shares acquired for the purpose of securing Sobi's obligations under previous share programs also may be transferred under the Program. The detailed conditions for the Board of Directors' main alternative are set out in item B. below.

Since the Program, in principle, is not expected to give rise to any initial social security payments for the Sobi Group, the Board of Directors has decided not to propose to the annual general meeting 2017 to resolve on transfers of own common shares on a regulated market in order to cover such payments. However, prior to the transfers of common shares to Program participants, the Board of Directors intends to propose to the annual general meeting 2020 that transfers be made of own common shares on a regulated market in order to cover such costs.

Should the majority required under item B. below not be reached, the Board of Directors proposes that Sobi shall be able to enter into an equity swap agreement with a third party, in accordance with item C. below.

#### *Preparations of the proposal*

The Compensation & Benefits Committee of Sobi has prepared guidelines for the proposed Program. These guidelines have been presented for and adopted by the Board of Directors.

The Board of Directors has established shareholding guidelines which recommend that the CEO and the ELT members over a three-year period accumulate personal holdings in Sobi shares representing a value of one gross base salary for the CEO and 50% of one gross base salary for other ELT members, by maintaining Sobi shares already held as well as Performance Shares and Matching Shares allocated under the Program and under previous incentive programs. It is recommended that the CEO and the ELT members maintain shares of such a value for the duration of their appointment as CEO or ELT member.

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#### ***Hedging arrangements in respect of the Program***

##### ***B. Directed issue of redeemable and convertible series C shares, authorisation for the Board of Directors to resolve to repurchase all issued redeemable and convertible series C shares and transfers of own common shares to Program participants***

##### ***I. Resolution on a directed issue of redeemable and convertible series C shares***

Increase of Sobi's share capital by no more than SEK 272,574.93 through an issue of no more than 496,760 series C shares in Sobi.

The issue shall be effected on the following terms.

- a) The new shares shall – with deviation from the shareholders’ preferential right to subscribe for shares – be subscribed for only by an external party who has been informed in advance.
- b) The price to be paid for each new share shall correspond to the quotient value of the share at the time of the subscription of the shares.<sup>2</sup>
- c) The new shares shall be subscribed for during the period 5 May–15 September 2017, with a right for the Board of Directors to extend the subscription period. Oversubscription is not permitted.
- d) Payment for shares subscribed for shall be effected at subscription of the shares.
- e) The new shares shall be entitled to dividends from and including the financial year 2017.
- f) The new shares will be subject to restrictions as set forth in Chapter 4, Section 6 (conversion provision) and Chapter 20, Section 31 (redemption provision) in the Swedish Companies Act (SFS 2005:551).

**II.** Authorisation for the Board of Directors to decide on a repurchase of all issued redeemable and convertible series C shares

Authorisation for the Board of Directors to decide on a repurchase of all issued redeemable and convertible series C shares in Sobi on the following terms.

- a) Repurchase may be made through a public offer directed to all owners of series C shares in Sobi.
- b) The authorisation is valid and may be exercised on one or several occasions until the annual general meeting 2018.
- c) The number of series C shares permitted to be repurchased shall amount to no more than 496,760.
- d) Repurchase of shares shall be made at a lowest price per share of 100% and a highest price of 105% of the quotient value, applicable at the time of the subscription of shares according to section B.(I) above.
- e) Payment for shares repurchased shall be made in cash.
- f) The Board of Directors shall be authorized to establish additional terms for the repurchase.

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<sup>2</sup> The quotient value of the share as per the day of this notice is approximately SEK 0.55.

- g) Repurchase shall also include a so-called interim share, designated by Euroclear Sweden AB as a "paid subscription share" (Sw. *BTA*) relating to a series C share.

The repurchase of own shares is an integrated part of the hedging arrangements for the Program. The reason for the proposed possibility to repurchase own shares is that Sobi shall be able to fulfil its obligations pursuant to the Program in a cost-effective manner.

### ***III. Resolution on transfers of own common shares to Program participants***

Series C shares have been issued and repurchased by Sobi under previous share programs for the purpose of securing Sobi's obligations under such programs. Those shares either have been or will be converted to common shares. Full allocation of shares will not take place under these programs and, accordingly, all shares will not be required to secure the obligations under such programs. The Board of Directors proposes that 1,470,762 common shares, which are no longer required to secure the obligations of Sobi under previous share programs, together with the shares issued and repurchased in accordance with items B.(I) and B.(II) above, following conversion to common shares, may be transferred under the Program.

Transfers of Sobi's own common shares to Program participants may be made on the following terms.

- a) Transfers may be made only of common shares in Sobi, whereby a maximum of 1,497,125 common shares in Sobi (corresponding to 1,355,520 Management Performance Shares and 141,605 Employee Matching Shares) may be transferred free of charge to Program participants.
- b) Right to purchase common shares in Sobi free of charge shall – with deviation from the shareholders' preferential rights – be granted to such persons within the Sobi Group who are participants in the Program.
- c) Transfers of common shares in Sobi shall be made free of charge at the time and on the other terms that the Program participants are entitled to be allocated shares.
- d) The number of common shares in Sobi that may be transferred under the Program will be subject to recalculation as a result of intervening bonus issues, splits, rights issues and/or other similar corporate events.

### ***C. Equity swap agreement with a third party***

Should the majority required under item B. above not be reached, the Board of Directors proposes that the annual general meeting resolves that the expected financial exposure of the Program shall be hedged by Sobi being able to enter into an equity swap agreement with a third party on terms in accordance with market practice, whereby the third party in its own name shall be entitled to acquire and transfer common shares in Sobi to the Program participants.

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*Conditions*

The annual general meeting's resolution on the implementation of the Program according to item A. above is conditional upon the meeting either resolving in accordance with the Board of Directors' proposal under item B. above or in accordance with the Board of Directors' proposal under item C. above.

*Majority requirements, etc.*

The annual general meeting's resolution according to item A. above requires a simple majority among the votes cast. A valid resolution under item B. above requires that shareholders representing not less than nine-tenths of the votes cast as well as of the shares represented at the meeting approve the resolution. A valid resolution under item C. above requires a simple majority among the votes cast.

The issue, repurchase and transfer of shares in Sobi are integral parts of the proposed Program. Therefore, and in light of the above, the Board of Directors considers it to be advantageous for Sobi and the shareholders that the Program participants are invited to become shareholders in Sobi.

For the purpose of minimizing Sobi's costs for the Program, the subscription price has been set at the quotient value of the share.

*Previous incentive programs in Sobi*

For a description of the company's other long-term incentive programs, reference is made to the company's annual report for 2016, note 12, and the company's web site, [www.sobi.com](http://www.sobi.com). Additionally, the company has implemented a long-term cash-based incentive program with a three-year vesting period. The program is subject to certain performance measures which must be satisfied in order for any compensation to be payable. The program is available for those employees who were legally prohibited from participating in the LTI 2016. The company's maximum costs for the long-term cash-based incentive program cannot on an individual basis exceed the maximum costs that otherwise could have arisen under the LTI 2016. No other long-term incentive programs than those described herein or in the annual report for 2016, note 12, have been implemented in Sobi.

*Authorisation for the CEO*

The Board of Directors proposes that the CEO shall be authorized to make the minor adjustments to the above resolution regarding the directed issue of redeemable and convertible series C shares in connection with the registration thereof with the Swedish Companies Registration Office and Euroclear Sweden AB.