

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

***Background***

The Board of Directors of Swedish Orphan Biovitrum AB (publ) (“**Sobi**”) proposes that the annual general meeting 2014 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 (excluding employees based in the U.S) the opportunity of becoming shareholders in Sobi. It is proposed that the Program be divided into two parts: (I) one part directed to executives and directors (the “**Executive Program**”) and (II) one part directed to all other employees (the “**All Employee 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 Executive Program provides Sobi with a crucial component of a competitive total compensation package with which to attract and retain executives who are critical to Sobi’s on-going success. The All Employee Program creates a motivating effect 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 compensation program.

The Board of Directors of Sobi has evaluated the long-term incentive program resolved on by the 2013 annual general meeting and has concluded that both the Executive Program and the All Employee Program satisfy the intended purposes.

Similarly to the incentive program resolved on by the 2013 annual meeting, the Program shall be inspiring, achievable, easy to understand, cost effective to administrate, and easy to communicate. 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 aim outlined above. The aim of the evaluation will be to determine whether the Program satisfies its purposes, and this will also include the 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 2014 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 Executive Program***

- (a) The Executive Program is proposed to be open to no more than 88 permanent employees of the Sobi Group, whereof no more than 69 permanent employees on director level of the Sobi Group (“**Directors**”), no more than 11 permanent

employees on executive level 1 of the Sobi Group (“**E1 Members**”), no more than 7 members on executive level 2 of the Sobi Group (“**E2 Members**”) and the Chief Executive Officer of Sobi (“**CEO**”).

- (b) The Executive Program will allow Directors, E1 Members and E2 Members and the CEO to make investments of their own in common shares in Sobi (“**Executive Investment Shares**”). For each Executive Investment Share, Directors, E1 Members and E2 Members and the CEO will have the possibility to be allotted 1 common share in Sobi free of charge (“**Executive Matching Share**”), from Sobi or from a designated third party. The Executive Matching Shares will be allotted after the expiration of a 3 year lock-up period, starting on the date the Directors, E1 Members and E2 Members and the CEO were notified by Sobi of their admission to the Executive Program (the “**Lock-up Period**”). Sobi must notify the Directors, E1 Members and E2 Members and the CEO of their admission to the Executive Program no later than on 31 December 2014.
- (c) Moreover, Directors, E1 Members and E2 Members and the CEO will, depending on the share price development of the Sobi common share, after the expiration of the Lock-up Period have the possibility to be allotted additional common shares in Sobi free of charge (“**Executive Performance Shares**”), from Sobi or from a designated third party. Directors may be allotted no more than 2 Executive Performance Shares, E1 Members and E2 Members no more than 3.5 Executive Performance Shares and the CEO no more than 5.5 Executive Performance Shares, for each Executive Investment Share. In order for any allotment of Executive Performance Shares to take place the share price of the Sobi common share, adjusted for any dividend payments,<sup>1</sup> must increase with more than 15%. For maximum allotment of Executive Performance Shares to take place, the share price of the Sobi common share, adjusted for any dividend payments,<sup>2</sup> must increase with at least 75%. If the share price increase, adjusted for any dividend payments,<sup>3</sup> is between 15% and 75% the program participants will receive a linear allotment of Executive Performance Shares. The calculation of the share price development shall be based on a comparison of the volume-weighted average price paid for the Sobi common share on NASDAQ OMX Stockholm, adjusted for any dividend payments,<sup>4</sup> during a period of 10 trading days immediately prior to the start of the Lock-up Period and the volume-weighted average price paid for the Sobi common share on NASDAQ OMX Stockholm, adjusted for any dividend payments,<sup>5</sup> during the last 10 trading days of the Lock-up Period.

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

<sup>2</sup> See footnote 1.

<sup>3</sup> See footnote 1.

<sup>4</sup> See footnote 1.

<sup>5</sup> See footnote 1.

- (d) The maximum number of Executive Investment Shares each program participant may invest in depends on if he/she participates in the Executive Program as Director, E1 Members, E2 Members or CEO and the respective gross annual average salary for 2014 for each such category. Executive Investment Shares may be acquired by Directors for an amount corresponding to no more than 10% of the gross annual average fixed salary for Directors in 2014, by E1 Members for an amount corresponding to no more than 15% of the gross annual average fixed salary for E1 Members in 2014, by E2 Members for an amount corresponding to no more than 20% of the gross annual average fixed salary for E2 Members in 2014 and by the CEO for an amount corresponding to no more than 20% of the gross annual salary (including pension) in 2014.

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

- (a) The All Employee Program is proposed to be open to approximately 400 permanent employees of the Sobi Group ("**Employees**").
- (b) The All Employee Program will allow Employees to make investments of their own in common shares in Sobi ("**Employee Investment Shares**"). For each Employee Investment Share, the Employees will have the possibility to be allotted 1 common share in Sobi free of charge ("**Employee Matching Share**"), from Sobi or from a designated third party. The Employee Matching Shares will be allotted after the expiration of a 3 year lock-up period, starting on the date the Employees were notified by Sobi of their admission to the All Employee Program (the "**Lock-up Period**"). Sobi must notify the Employees of their admission to the All Employee Program no later than on 31 December 2014.
- (c) Moreover, Employees will, depending on the share price development of the Sobi common share, after the expiration of the Lock-up Period have the possibility to be allotted additional common shares in Sobi free of charge ("**Employee Performance Shares**"), from Sobi or from a designated third party. Employees may be allotted no more than 1 Employee Performance Share for each Employee Investment Share. In order for any allotment of Employee Performance Shares to take place the share price of the Sobi common share, adjusted for any dividend payments,<sup>6</sup> must increase with more than 15%. For maximum allotment of Employee Performance Shares to take place, the share price of the Sobi common share, adjusted for any dividend payments,<sup>7</sup> must increase with at least 75%. If the share price increase, adjusted for any dividend payments,<sup>8</sup> is between 15% and 75% the program participants will receive a linear allotment of Employee Performance Shares. The calculation of the share price development shall be based on a comparison of the volume-weighted average price paid for the Sobi common share on NASDAQ OMX Stockholm,

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<sup>6</sup> See footnote 1.

<sup>7</sup> See footnote 1.

<sup>8</sup> See footnote 1.

adjusted for any dividend payments,<sup>9</sup> during a period of 10 trading days immediately prior to the start of the Lock-up Period and the volume-weighted average price paid for the Sobi common share on NASDAQ OMX Stockholm, adjusted for any dividend payments,<sup>10</sup> during the last 10 trading days of the Lock-up Period.

- (d) The maximum number of Employee Investment Shares each Employee may invest in depends on the gross annual average fixed salary for Employees in 2014. Employee Investment Shares may be acquired for an amount corresponding to no more than 5% of the gross annual average fixed salary for Employees in 2014.

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

- (a) Program participants must normally purchase Investment Shares<sup>11</sup> in connection with the start of the Lock-up Period.
- (b) Matching and Performance Shares<sup>12</sup> may normally be allotted only after the expiration of the Lock-up Period.
- (c) In order for a program participant to be allotted Matching and 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 Lock-up Period and that the participant, throughout this Lock-up Period, has retained the Investment Shares purchased. Investment Shares disposed of prior to the expiration of the Lock-up Period will not be included in the calculation to determine any allotment of Matching and Performance Shares.
- (d) 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 allotment of 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 allotment of Performance Shares, or that no Performance Shares shall be allotted at all.
- (e) 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.

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<sup>9</sup> See footnote 1.

<sup>10</sup> See footnote 1.

<sup>11</sup> "Investment Shares" includes Executive Investment Shares and Employee Investment Shares.

<sup>12</sup> "Matching Shares" includes Executive Matching Shares and Employee Matching Shares and "Performance Shares" includes Executive Performance Shares and Employee Performance Shares.

- (f) 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.
  - (g) The Program shall comprise no more than 1,445,929 common shares in Sobi, of which 197,486 constitute Executive Matching Shares, 571,459 constitute Executive Performance Shares, 165,645 constitute Employee Matching Shares and 165,645 constitute Employee Performance Shares. The remaining 345,694 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.
  - (h) The number of Matching Shares and 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 72, (ii) no dividend is paid by Sobi during the Program and (iii) an assessment of future volatility in respect of the Sobi common share. In total, this can lead to maximum costs for the Program of approximately SEK 38.3 million, excluding social security costs. The costs for social security charges are calculated to approximately SEK 15.1 million assuming an annual share price increase of 10% during the Lock-up Period. In addition to what is set forth above, the maximum costs for the Program have been based on a share price of SEK 72 at the time of the program participant's own investment, that the Program comprises approximately 490 participants, that each program participant makes a maximum investment and based on historical employee turnover for the group of 5%. If the share price increases from SEK 72 with 10% until the implementation of the Program the effect on costs would only be marginal as the number of Matching and Performance Shares would be reduced correspondingly. Also in case of a decrease in the share price the effect on costs would be marginal. The expected annual costs, including social security charges, corresponds to approximately 3% of Sobi's total employee costs.

If the Program had been implemented in 2013, if the company had had costs in accordance with the example in the preceding paragraph, and Matching and Performance Shares had been allotted in 2013 in accordance with the assumptions in the sample calculation, which among other things assumes an annual share price increase of 10% during the Lock-up Period, the earnings per share for the financial year 2013 had decreased by SEK 0.05 to SEK -0.40 and the shareholders' equity per share for the financial year 2013 had decreased by SEK 0.09 to SEK 17.54.

### *Dilution*

Upon full allotment of Matching Shares and Performance Shares, the number of shares under the Program amounts to 1,100,235 common shares in Sobi, corresponding to a dilution effect of approximately 0.41% of the share capital and the votes. Aggregated with the 345,694 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 0.53%. If all outstanding long-term incentive programs are included in the calculation, then the corresponding maximum level of dilution amounts to 1.87%.

### *Hedging arrangements*

The Board of Directors proposes that the annual general meeting, as a main alternative, resolves (i) on a directed issue of redeemable and convertible series C shares and (ii) to authorize 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.1(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.1 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 2014 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 2017 that transfers be made of own common shares on a regulated market in order to cover above mentioned costs.

Should the majority required under item B.1 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 B.2 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.

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

**B.1** *Directed issue of redeemable and convertible series C shares, authorization 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 217,385 through an issue of no more than 396,180 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>13</sup>
- (c) The new shares shall be subscribed for during the period May 9 – September 15, 2014, 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 entitle to dividends from and including the financial year 2014.
- (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) Authorization for the Board of Directors to decide on a repurchase of all issued redeemable and convertible series C shares

Authorization 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 authorization is valid and may be exercised on one or several occasions until the annual general meeting 2015.
- (c) The number of series C shares permitted to be repurchased shall amount to no more than 396,180.

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<sup>13</sup> The quotient value of the share as per the day of this notice is approximately SEK 0.55.

- (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.1(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.
- (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.

(iii) Resolution on transfers of own common shares to program participants

In total 5,163,172 series C shares were issued and repurchased by Sobi under previous share programs for the purpose of securing Sobi's obligations under such programs. The shares have subsequently been converted to common shares. Full allotment 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 1,049,749 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.1(i) and B.1(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 1,100,235 common shares in Sobi (corresponding to 197,486 Executive Matching Shares, 571,459 Executive Performance Shares, 165,645 Employee Matching Shares and 165,645 Employee Performance 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 allotted 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.



*B.2 Equity swap agreement with a third party*

Should the majority required under item B.1 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.1 above or in accordance with the Board of Directors' proposal under item B.2 above.

*Majority requirements*

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.1 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 B.2 above requires a simple majority among the votes cast.

*The reason for the deviation from the shareholders' preferential rights etc.*

The issue, repurchase and transfer of common shares in Sobi form part for the accomplishment 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 offered 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 2013, note 14, and the company's web site, [www.sobi.com](http://www.sobi.com). In addition to the programs described there, no other long-term incentive programs have been implemented in Sobi.

*Authorization 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.