

## **REMUNERATION REPORT 2020**

### **Introduction**

This report describes how the guidelines for executive remuneration of BioArctic AB (publ), adopted by the annual general meeting held on May 7, 2020, were implemented in 2020. The report also provides information on remuneration to the CEO and the board members who receive remuneration other than board fees and a summary of the company's outstanding share-related and share price-related incentive plans. The report has been prepared in accordance with the Swedish Companies Act and the Remuneration Rules issued by the Swedish Corporate Governance Board.

Further information on executive remuneration is available in note 7 (Employees and personnel costs) on pages 88-90 in the annual report. Information on the work of the remuneration committee in 2020 is set out in the corporate governance report available on page 58 in the annual report.

Remuneration of the board of directors is not covered by this report. Such remuneration is resolved annually by the annual general meeting and disclosed in note 7 on page 89 in the annual report.

### **Key developments 2020**

The CEO summarizes the company's overall performance in the CEO's statement on page 10-11 in the annual report.

### **The company's remuneration guidelines: scope, purpose and deviations**

A prerequisite for the successful implementation of the company's business strategy and safeguarding of its long-term interests, including its sustainability, is that the company can recruit and retain qualified personnel. To this end, the company must offer competitive remuneration. The company's remuneration guidelines enable the company to offer executives a competitive remuneration. Under the remuneration guidelines, executive remuneration shall be on market terms and may consist of the following components: fixed cash salary, variable cash remuneration, pension benefits and other benefits. The variable cash remuneration shall be linked to financial or nonfinancial criteria. Such criteria may be individualized and connected to quantitative or qualitative business objectives. The criteria shall be designed to contribute to the company's business strategy and long-term interests, including its sustainability, by for example being clearly linked to the business strategy or promote the executive's long-term development.

The guidelines are found on pages 60-63 in the annual report. During 2020, the company has complied with the applicable remuneration guidelines adopted by the general meeting. No deviations from the guidelines have been decided and no derogations from the procedure for implementation of the guidelines have been made. In addition to remuneration covered by the remuneration guidelines, the annual general meetings of the company have resolved to implement long-term share-related incentive plans.

*Total remuneration to executives in 2020 (kSEK)*

Name of director (position)	Fixed remuneration		Variable remuneration		Extraordinary items	Pension expense	Total remuneration	Proportion of fixed and variable remuneration****
	Base salary	Other benefits	One-year variable	Multi-year variable				
Gunilla Osswald (CEO) *	2 750	106	891			1 004	4 751	81% / 19%
Lars Lannfelt (board member) **	1 957	16				121	2 094	100% / 0%
Pär Gellerfors (board member) ***	125						125	100% / 0%

\*Basic salary includes holiday compensation of kSEK 224. Other benefits consist of car benefits, as well as benefits of health insurance and meals. Variable remuneration consists of bonuses attributable to achieved business objectives in 2020 and which are paid out in 2021

\*\*Lars Lannfelt is employed by the company and has not received board fees. The basic salary includes holiday compensation of kSEK 304. Other benefits consist of health insurance, meals and parking

\*\*\*Pär Gellerfors provides consulting services to the company against market-based remuneration. The basic salary refers to invoiced consulting fees. In addition, Pär Gellerfors receives board fees as decided by the Annual General Meeting. Such fees are not reported in this table.

\*\*\*\*Pension benefits, which in their entirety refer to basic salary and are premium based, have been fully reported as fixed remuneration

## Share-based remuneration

### *Outstanding share-related and share price-related incentive plans*

BioArctic has a long-term incentive program (program 2019/2028) in the form of an employee stock option program for the company's management, researchers and other employees. The purpose of the incentive program is to encourage broad shareholding among BioArctic's employees, facilitate recruitment, retain competent employees and increase the motivation and goal fulfillment of the company's employees.

The option program comprises a total of 1,000,000 employee stock options, which entitle the right to acquire new B-shares in the company in accordance with the terms of the program. At the end of the year, 540,000 employee stock options had been awarded to employees, of which 100,000 employee stock options had been awarded to the CEO. The maximum dilution effect of the employee stock option program 2019/2028 is estimated to amount to 1.1 percent of the share capital and 0.5 percent of the votes in the company (calculated based on the number of existing shares in the company), provided that all employee stock options are exercised.

The program extends over five years and six months from the award date for each employee. The employee stock options may only be exercised for subscription of shares after a certain vesting period. The terms of the employee stock options entitle the participants to exercise 60 percent of the awarded employee stock options for subscription after three years, an additional 20 percent after four years and the remaining 20 percent after five years. The employee stock options are linked to the participant's employment in the company. If the employment in the company is terminated before the employee stock options have been exercised for share subscription, all of the participant's unused employee stock options expire without the right to exercise them.

Each vested employee stock option gives the participant a right to subscribe for one B share in the company at an exercise price corresponding to 110 percent of the volume-weighted average price for the Company's share according to Nasdaq Stockholm's price list during a period of ten (10) trading days before

- (i) June 1, 2019 for an offer of employee stock options submitted up to and including August 31, 2019, and
- (ii) on the first day of the quarter during which the offer is submitted, for employee stock options that are offered after August 31 2019.

## Share option plans

Name of director (position)	1 Name of plan	2 Performance period	The main conditions of share option plans				6 Exercise period**	7 Exercise price (SEK)	Information regarding the reported financial year*				
			3 Award date	4 Vesting date	5 End of retention period	8 Opening balance Share options held at beginning of year			9 During the year		11 Share options subject to performance condition	12 Closing balance Share options awarded and unvested	13 Share options subject to retention period
									10 Share options awarded	10 Share options vested			
Gunilla Osswald (vd)	Employee stock option program 2019/2028	n/a	2019-09-11	2022-09-11	n/a	2022-09-11–2025-03-11	83,60	100 000	0	0	0	100 000	0
		n/a	2019-09-11	2023-09-11	n/a	2023-09-11–2025-03-11							
		n/a	2019-09-11	2024-09-11	n/a	2024-09-11–2025-03-11							
<b>Total</b>								<b>100 000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>100 000</b>	<b>0</b>

\* During 2020, no changes were made regarding the employee stock option program 2019/2028, in which the CEO holds 100,000 employee stock options

\*\* Of the employee stock options, 60,000 can be exercised from September 11, 2022, 80,000 from September 11, 2023 and 100,000 from September 11,

## Variable remuneration

### Criteria for payment of variable remuneration

The variable remuneration may consist of bonuses for senior executives in the form of cash, shares and/or share-related instruments in BioArctic AB. Variable remuneration shall relate to the outcome of BioArctic's goals and strategies and shall be based on predetermined and measurable criteria designed to promote long-term value creation. The criteria for variable remuneration shall be determined annually by the board in order to ensure that the criteria are in line with BioArctic's current business strategy and financial targets. The criteria can be individual or collective, financial or non-financial and shall be designed in such a way that they promote the Company's business strategy, sustainability strategy and long-term interests.

The share of the variable compensation in relation to the total compensation may vary depending on the executive's position. However, variable remuneration should not exceed an amount corresponding to 50 percent of the executive's annual fixed salary. The maximum variable compensation to the CEO for the financial years 2018-2020 was 35 percent of the fixed salary.

## Reward program for all employees

BioArctic has two reward programs which are linked to the clinical research programs for the drug candidates lecanemab (BAN2401) for Alzheimer's disease with Eisai and ABBV-0805 for Parkinson's disease with AbbVie. The reward programs cover all permanent employees, including the CEO. Payment of variable remuneration takes place when the company achieves certain predetermined goals (milestones) within the framework of its clinical development activities. As the reward programs are based in the achievements and results in the clinical research programs, the payments of the variable remuneration may occur irregularly, as milestones are reached in the projects. A condition for receiving variable remuneration is that the employee is permanently employed and that the employment lasted for at least six months at the time the milestone is achieved and that the employee has not terminated his/her employment at the time of payment. The potential variable remuneration to the employee amounts to one monthly salary per achieved milestone.

During 2020, no milestones under BioArctic's reward program were achieved and no consequently no variable remuneration pursuant to the reward programs has been paid for 2020.

## Variable remuneration to senior executives

The Board has also, in accordance with the remuneration guidelines, decided that senior executives in the company shall be able to receive variable cash remuneration based on predetermined and measurable criteria. The criteria for receiving variable remuneration are linked to collective and individual business goals that are determined individually for each executive.

In 2020, the criteria for variable remuneration to the CEO have been linked to operational goals regarding, among other things, preclinical work with the outlicensed substances and support for the collaborative projects with BioArctic's partners, progress of the self-owned projects including strategy work with the aim of leading to new research collaborations, work with strategic focus, including the company's capital plan, development of the company's sustainability strategy, work with investor contacts and meeting requirements from the stock market. Despite the challenges caused by the pandemic, the operational goals have been met to a very large extent.

The table below shows the outcome of the CEO's fulfillment of the criteria for variable remuneration for the year 2020 and the variable cash remuneration for the year 2020.

### *Performance of the CEO in the reported financial year: variable cash compensation*

Name of director (position)	<sup>1</sup> Description of the criteria related to the remuneration component	<sup>2</sup> Relative weighting of the performance criteria	<sup>3</sup> a) Measured performance and b) actual award/ remuneration outcome*
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Gunilla Osswald (CEO)	Individual operational goals 2020	60%	a) 97% b) 539 kSEK
	Company operational goals 2020	40%	a) 95% b) 352 kSEK

\* Refers to the bonus for the 2020 financial year that will be paid out in 2021

## Comparative information on the change of remuneration and company performance

*Change of remuneration and company performance over the last five reported financial years (RFY) (kSEK)*

	2016 VS 2015		2017 vs 2016		2018 vs 2017		2019 vs 2018		2020 vs 2019	
CEO remuneration	3 599	153,5%	-2 461	-41,4%	1 712	49,2%	1 716	33,0%	-2 259	-32,7%
Group operating profit	69 787	1440,7%	-55 337	-74,1%	469 500	2433,4%	-376 256	-77,0%	-197 550	-175,5%
Average remuneration on a full time equivalent basis of employees* of the parent company	177	40,7%	117	19,2%	326	44,7%	-369	-35,1%	114	16,7%

\* Excluding members of the group executive management

In 2016, the CEO received a retroactive salary increase, which resulted in an increase in remuneration to the CEO in 2016 compared to 2015 and also explains the decrease in 2017 compared to 2016. In 2018, all employees in the company received a monthly salary as a bonus payment in accordance with the company's reward program and another four monthly salaries were reserved corresponding to four future bonus payments, which explains the increase in both the CEO's remuneration and the average remuneration in 2018 compared to 2017. In 2019, the four reserved bonuses were paid out as well as another bonus payment. In addition, the board decided on an extra bonus payment to the entire staff in light of the good research results in 2018. Payment was made with 2-12 monthly salaries and where the CEO was awarded twelve monthly salaries. This explains the increase in remuneration to the CEO in 2019 compared to 2018 and also explains the decrease in 2020 compared to 2019 when no such bonus was paid in 2020.

BioArctic's revenues consist of milestone remuneration, remuneration from research agreements and research grants. Due to the nature of the business, there can be large fluctuations between revenues and operating profit for different periods depending on when revenues from milestone remuneration are reported at the time when the performance commitments are met.