



Corporate governance report

At BioArctic, the purpose of corporate governance is to create value for the company's shareholders through active control of risks and a well-functioning corporate culture. Corporate governance refers to the rules and decision-making hierarchies that promote efficient and controlled management of the operations of a company.

GOVERNANCE MODEL

BioArctic AB, corporate registration number 556601-2679, is a Swedish limited company that has been listed on the Mid Cap segment of Nasdaq Stockholm since October 2017. The registered office is in Stockholm, Sweden. The Corporate Governance Report forms part of the company's Board of Directors' report.

Corporate governance at BioArctic, which can be divided into external and internal governance documents, is in compliance with Swedish law, the Nasdaq Stockholm Issuer Rules and the Swedish Code of Corporate Governance (the Code) as well as internal regulations and instructions.

External governance documents

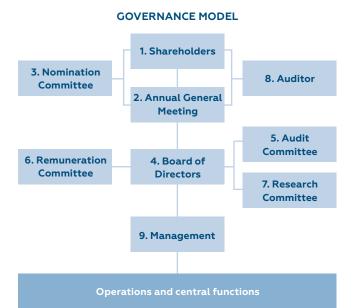
The external governance documents constitute the framework for corporate governance. These include the Swedish Companies Act, the Swedish Annual Accounts Act, the Nasdaq Stockholm Issuer Rules, and the Code. BioArctic applies the Code, and no deviations from the Code occurred during the year. The company was not subject to any decision of the Nasdaq Stockholm disciplinary board or any statement by the Swedish Securities Council during the year.

Internal governance documents

Internal governance documents include the Articles of Association adopted by the Annual General Meeting, internal instructions and guidelines. Examples of internal instructions and guidelines include the Board of Directors' rules of procedure, formal work plans for the committees and instructions to the CEO. In addition, the Board of Directors of BioArctic has adopted a number of policies and guidelines that control the company's operations, and instructions for financial reporting are documented in the company's finance handbook.

BioArctic aims for a high standard through clarity and simplicity in its management system and governing documents. In the company's business model, the shareholders of BioArctic are the ultimate decision makers regarding the Group's governance through their election of the company's Board of Directors at the Annual General Meeting. In turn, the Board is responsible for ensuring that corporate governance is in compliance with applicable laws as well as other external and internal governance documents.

Governance, management and control of BioArctic is divided among the shareholders through the Annual General Meeting, the Board of Directors, the CEO and the auditors in accordance with the Swedish Companies Act and the Articles of Association. Increased openness and transparency provide good insight into the company's activities, which contributes to effective governance.



1. SHAREHOLDERS

BioArctic's class B share (BIOA B) has been listed on Nasdaq Stockholm Mid Cap since October 12, 2017. At December 31, 2019 the share capital in BioArctic amounted to SEK 1,761,199.70 divided into 14,399,996 series A-shares (10 votes per share) and 73,659,989 series B-shares (one vote per share), each with a quotient value of SEK 0.02.

According to ownership data from Monitor by Modular Finance, the number of shareholders at year-end was 9,435 (8,221) and the ten largest shareholders owned 92.2 percent of the votes and 80.6 percent of the capital in the company. Swedish owners represented 97.7 percent of the votes and 94.4 percent of the capital.

As of December 31, 2019 the following shareholders had a holding in BioArctic representing at least ten percent of the voting power of all shares in the company:

Shareholder	Share of votes in BioArctic:		
Demban AB (controlled by Board member Lars Lannfelt)	50.1%		
Ackelsta AB (controlled by board member Pär Gellerfors)	33.4%		

For further information on BioArctic's share and ownership structure, see the BioArctic share section on pages 32-34 or visit www.bioarctic.com.

2. ANNUAL GENERAL MEETING (AGM)

The AGM is BioArctic's highest decision-making body and is held annually within six months of the end of the financial year. At the AGM, the balance sheet and income statement are presented, as well as the Group's balance sheet and income statement, and resolutions are passed on such matters as appropriation of the company's earnings, election of and fees to Board members and auditors, and other matters submitted to the AGM in accordance with the law. All shareholders who are recorded in the share register and have reported their participation in time in accordance with the instructions in the notice to attend have the right to participate in the AGM and vote for their shares. A shareholder who wishes to have a particular matter addressed at the AGM must request this from the Board well in advance of the meeting via the address available on the company's website. BioArctic's Articles of Association contain no restrictions on how many votes each shareholder can cast at a general meeting. Nor do the Articles of Association contain any specific provisions relating to the appointment or dismissal of board members or the amending of the Articles of Association.

The 2019 AGM of BioArctic AB was held on May 9, 2019 at Grant Thornton Sweden AB, Sveavägen 20, Stockholm, Sweden.

Resolutions at the 2019 AGM included:

- a dividend for the Group for the 2018 financial year of SEK 1.50 per share, corresponding to approximately MSEK 132 or approximately 35 percent of the profit for the year
- the discharge of the Board members and CEO from liability for the 2018 financial year
- the re-election of Board members Wenche Rolfsen (chairman), Ivar Verner (deputy chairman), Hans Ekelund, Pär Gellefors, Lars Lannfelt, Mikael Smedeby and Eugen Steiner; the election of Ewa Björling as new Board member
- that total fees determined yearly, including fees for committee work, of SEK 2,410,000 are to be paid to the Board
- the appointment of Grant Thornton Sweden AB as the auditing company, with Mia Rutenius as auditor in charge
- approval of the establishment of a stock warrant program intended for the company's management, researchers and other staff, a proposal for a private placement of warrants, and the transfer of warrants or shares to participants in the employee warrant program
- the passing a resolution on the process for establishing a Nomination Committee and guidelines for the committee's work
- the adoption of guidelines for remuneration to senior executives

The minutes and other documentation from this general meeting are available on BioArctic's website, www.bioarctic.com.

2020 ANNUAL GENERAL MEETING

The 2020 Annual General Meeting will be held on May 7, 2020 at 5:00 p.m. at Lindhagen Konferens, Lindhagensgatan 126 in Stockholm, Sweden. Registration will begin at 4:30 p.m.

Shareholders registered in the share register maintained by Euroclear Sweden AB as of April 30, 2020 and who have reported their intent to participate in the meeting by 12:00 p.m. that same day have the right to participate in the AGM.

Important dates for the 2020 AGM:

- April 30 record date for the 2020 AGM
- April 30 final reporting date for participation in the AGM
- May 7 admittance to the AGM begins, 4:30 p.m.
- May 7 the AGM begins, 5:00 p.m.

3. NOMINATION COMMITTEE

The task of the Nomination Committee is to ensure that the members of the Board of Directors of BioArctic jointly possess the knowledge and experience that are relevant for enabling the satisfactory performance of the company over time. The Nomination Committee reviews the work of the Board based on the Board evaluation conducted once a year, which is a requirement under the Code, the phase and needs of the company and the views of the other owners. Subsequently, the Nomination Committee presents a proposal to the AGM regarding the number of Board members and the composition of the Board as well as proposals regarding fees to the Board of Directors, including fees for committee work. The Nomination Committee also presents proposals concerning the Chairman of the Board and the AGM, as well as the auditors and their remuneration. In the election of auditors. the Audit Committee assists the Nomination Committee in developing proposals. The proposals of the Nomination Committee are presented in the notice to attend the AGM, and a justification for the Nomination Committee's proposals is published on BioArctic's website.

According to the resolution at the AGM of BioArctic on May 9, 2019, the members of the Nomination Committee for the 2020 AGM shall be appointed following that the Chairman of the Board is contacting the three largest shareholders in terms of voting rights according to Euroclear Sweden AB's transcription of the share register as of September 30, 2019 and asking each of them to appoint a member of the Nomination Committee. In the event that any of the three largest shareholders does not wish to appoint a member of the Nomination Committee, further shareholders

should be contacted until the Nomination Committee consists of three members.

As of September 30, 2019 the three largest shareholders were Demban AB, Ackelsta AB and the Third Swedish National Pension Fund.

The Nomination Committee for the 2020 AGM consists of Margareta Öhrvall (Demban AB), Claes Andersson (Ackelsta AB) and Gunnar Blix (Third Swedish National Pension Fund). The Nomination Committee appoints a Chairman from among its members, and Gunnar Blix has been appointed. All shareholders have been given the opportunity to present proposals for Board members for further evaluation in the context of the Nomination Committee's work. The Nomination Committee has held 3 (3) meetings as well as informal contacts.

4. BOARD OF DIRECTORS

The Board's tasks and responsibilities

The Board of Directors is BioArctic's second highest decision-making body after the AGM. The Board has overall responsibility for the company's organization and the administration of BioArctic's operations, as well as for working to create long-term value for the shareholders and other stakeholders. Together with company management, the Board is responsible for the overall strategy as well as the company's financing and financial position, and works to ensure the company has proper risk management and internal control.

Board members

According to BioArctic's Articles of Association, the Board shall consist of no less than three and no more than eight members, with no deputies. The members, who are normally elected annually at the AGM for the period until the close of the next AGM, must provide competence and experience that benefit BioArctic's performance. At present, the Board consists of eight regular members with no deputies. Seven members were re-elected and one new member was elected at the AGM on May 9, 2019. CEO Gunilla Osswald and CFO Jan Mattsson are present at all Board meetings. Jan Mattsson serves as the secretary of the Board. Other senior executives participate as rapporteurs in connection with particular issues. Six of the eight Board members are independent in relation to both the company and its management, as well as the major shareholders. The company's two founders, Lars Lannfelt and Pär Gellerfors – who are also Board members and primary owners - cannot be considered independent in relation to the company, its management and major shareholders. Lars Lannfelt is employed by the company and is part of the company's management team. Moreover, there is a consultancy agreement between Per Gellerfors's company, Ackelsta AB, and BioArctic AB regarding support in contract issues and patents. Pär Gellerfors submitted invoices for market-based remuneration of MSEK 0.1 (-) during the year

for consultancy services via Ackelsta AB. Furthermore, Pär Gellerfors is the CEO and a Board member of Swenora AB. Invoices for patent expenses of MSEK 0.2 (–) were submitted to Swenora AB during the year.

Until May 2019, Board member Mikael Smedeby worked as a lawyer and partner in Advokatfirman Lindahl KB, which provides routine business law advice to BioArctic. The fees invoiced totalled MSEK 0.6 (0.4).

BioArctic herewith meets the requirements from Nasdaq Stockholm and the Code regarding the independence of Board members. For a summary and presentation of the Board members, see pages 60-61.

Board tasks and Board evaluation

The work and tasks of the Board are governed by the Companies Act, BioArctic's Articles of Association and the Board of Directors' rules of procedure, which is revised annually and adopted at the inaugural Board meeting every year. The rules of procedure govern such aspects as Board functions, work tasks, the decision-making procedure within the company, the Board's meeting agenda, the Chairman's duties and the allocation of responsibilities between the Board and the CEO. The Board also establishes instructions for the Board's committees and the CEO.

The tasks of the Board are to continually monitor strategic orientation and financial performance as well as the company's routines, procedures and controls in order to maintain effectively functioning operations. The Board's tasks also include promoting good quality in financial reporting and internal control as well as evaluating established guidelines for senior executives. The Board is also responsible for continually evaluating the CEO of the company and acquainting itself with the annual audit conducted by Grant Thornton Sweden AB with Mia Rutenius as auditor in charge.

The Chairman, who is selected by the AGM, has the extra responsibility of governing and managing the work of the Board and of ensuring that the Board's work is properly organized and efficiently carried out, and that the Board fulfills its commitments in accordance with the Companies Act and the Board's rules of procedure. The Chairman shall also consult with the CEO on strategic matters and verify that the Board's decisions are implemented in an effective manner. The Chairman is responsible for contacts with the shareholders in ownership matters and for communicating the views of the owners to the Board. The Chairman is also responsible for conducting a Board evaluation in which all Board members evaluate their work over the preceding year. This evaluation also includes the work of the Audit, Remuneration, and Research Committees. The Board evaluation is presented to the Nomination Committee.

The Chairman plans the Board meetings together with the CEO of the company. The Board meets according to a meeting schedule that is established yearly. At each regular Board meeting, an update on the operations and a financial follow-up is given. These reports are compiled by the CEO and the CFO. During the year, matters relating to the company's strategy, project portfolio, current and potential partners, organization and competence requirements were also discussed. The company's auditor participated in the meeting concerning the annual accounts, two Audit Committee meetings and the Board meeting concerning the company's internal control. In this manner, the Board and the auditor had the opportunity to discuss operations, accounting issues and audit work.

In 2019, the Board held 10 (12) meetings, one of which was an inaugural meeting in connection with the AGM on May 9, 2019. The minutes taken at these meetings record decisions that have been taken.

Remuneration to the Board

Fees and other remuneration to the Board members are established at the AGM. At the AGM on May 9, 2019, it was resolved that the total fees to Board members, including committee work, would be SEK 2,410,000 to be allocated as follows:

- Fees to Chairman of the Board Wenche Rolfsen would total SEK 500,000 and fees to Deputy Chairman Ivar Verner would total SEK 300,000
- For regular Board members not employed by the company (i.e. five members excluding Lars Lannfelt) the fees would total SEK 250,000 each
- Fees in the Audit Committee would total SEK 100,000 to the Chairman and SEK 60,000 to the other non-employed committee members

- Fees in the Remuneration Committee would total SEK 60,000 to the Chairman and SEK 40,000 to the other non-employed committee members
- No fees are paid to the Research Committee

5. AUDIT COMMITTEE

The primary task of the Audit Committee is to support the Board in its work of fulfilling its financial reporting responsibilities including accounting, audits, internal control, internal audits and risk management. The Audit Committee also routinely ensures contact with the company's auditor and stays informed and active in decisions concerning financial issues, risks, the company's annual report and internal control. The Audit Committee is also responsible for reviewing and evaluating the auditor's work. The Audit Committee works in accordance with instructions established by the Board of Directors. All meetings of the Audit Committee are minuted and the minutes are reported in connection with the meetings of the Board.

Audit Committee members, 2019-2020

- Ivar Verner (Chairman)
- Hans Ekelund (member)
- Eugen Steiner (member)

The Audit Committee met 5 (4) times. The company's auditor participated in two of these meetings.

6. REMUNERATION COMMITTEE

The primary task of the Remuneration Committee is to submit proposals to the Board regarding remuneration to the

Remuneration and attendance	Wenche Rolfsen	lvar Verner	Ewa Björling ¹⁾	Hans Ekelund	Pär Gellerfors	Lars Lannfelt	Mikael Smedeby	Eugen Steiner
Board fees (meeting year)	500,000	300,000	250,000	250,000	250,000	-	250,000	250,000
Remuneration for committee work	60,000	100,000	-	100,000	-	-	-	100,000
Independent in relation to company and company management	Yes	Yes	Yes	Yes	No	No	Yes	Yes
Independent in relation to primary owners	Yes	Yes	Yes	Yes	No	No	Yes	Yes
Attendance, Board me- etings (10)	10	10	7	10	10	10	8	10
Attendance, Audit Com- mittee mtgs (5)	-	5	-	5	-	-	-	5
Attendance, Remuneration Committee mtgs (4)	4	-	-	4	-	-	-	4
Attendance, Research Committee mtgs (10)	-	-	-	-	-	10	-	-

 $^{^{1\!\}mathrm{j}}$ Ewa Björling was elected to the Board of Directors at the AGM on May 9, 2019.

CEO and principles of remuneration and other conditions of employment for management as well as monitoring and evaluating variable remuneration and long-term incentive programs. The Audit Committee works in accordance with a formal work plan established by the Board of Directors. All meetings of the Audit Committee are minuted and the minutes are reported to the Board.

Remuneration Committee members, 2019-2020

- Wenche Rolfsen (Chairman)
- Hans Ekelund (member)
- Eugen Steiner (member)

The Audit Committee met 4 (4) times.

7. RESEARCH COMMITTEE

BioArctic's operations have a strong scientific focus with drug projects in both early and late phases. Accordingly, the company also has a Research Committee that focuses on addressing scientific issues. The Research Committee works according to rules of procedure adopted by the Board and has an advisory capacity in relation to the Board and the CEO. The Research Committee has one ordinary member and the Chief Scientific Officer (CSO) as a co-opted member. In addition, internal and external researchers can take part depending on the area being discussed. The role of the Research Committee is primarily to identify and evaluate research areas and disease indications where BioArctic can develop commercially successful products.

Research Committee members, 2019–2020

• Lars Lannfelt, Senior Vice President University Collaborations (Chairman)

The Research Committee met 10 (3) times. All meetings of the Research Committee are minuted and reported at Board meetings.

8. AUDITORS

The auditor is to review BioArctic's annual report and financial statements, as well as the administration of the company. After each financial year, the auditor will submit an Auditor's Report and a Group Auditor's Report to the AGM. The external audit of the financial statements is to be carried out in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. The auditor for BioArctic will be appointed by the AGM in accordance with proposals from the Nomination Committee.

The company's auditor, Grant Thornton Sweden AB, was first elected at the 2016 Annual General Meeting. The current term for the period is until the end of the 2020 Annual General Meeting, and Mia Rutenius is the auditor in charge. An authorized public accountant, Mia Rutenius is a member of FAR, the association of Swedish professional accountants. Grant Thornton Sweden AB may be responsible for the audit until 2027, or until 2037 if a new procurement is carried out after ten years, before a new auditor must be chosen in accordance with the rules in force. Authorized public accountant Mia Rutenius can be the auditor in charge until the 2024 AGM, when in accordance with regulations she will need to rotate her assignments. For information on remuneration to auditors, refer to Note 8 in the 2019 Annual Report.

9. MANAGEMENT

The senior management of BioArctic comprises the CEO and nine other persons. Five executives are men, and five are women. For a summary and presentation of the senior management, see pages 62-63.

Remuneration to the CEO

In 2019, BioArctic's CEO Gunilla Osswald received fixed compensation of SEK 210,000 per month. Gunilla Osswald furthermore had the right to pension provisions corresponding to 35 percent of the fixed compensation.

The CEO is included in the variable remuneration programs covering all employees in the company. In addition, the CEO has the right to non-pensionable variable remuneration amounting to a maximum of 35 percent of the total annual compensation.

The CEO also has a company car that is cost-neutral for the company.

Remuneration to senior management

"Senior executives" refers to the CEO and the management group, which consists of ten persons in total. The purpose of the guidelines concerning remuneration to senior executives is to provide BioArctic with the conditions for attracting, motivating and retaining competent managers. Remuneration is to be market-based and competitive and should reflect the performance and responsibilities of the individual as well as the company's financial performance. At the same time, the remuneration should be in line with shareholder interests. Remuneration is to consist of fixed and variable salary, the customary employment benefits and market-based pension.

Fixed and variable salary

The fixed salary must be competitive and based on the individual's competence, areas of responsibility and experience. The fixed salary must be reviewed annually. The division between fixed salary and variable remuneration must be in proportion to the executive's responsibility and authority.

Variable salary may consist of bonuses to senior executives in the form of cash, shares and/or share-based instruments in BioArctic AB. Variable salary can be paid but should not exceed an amount corresponding to six months' salary. The variable remuneration must be based on the outcome

of predetermined and measurable criteria and designed to achieve greater communal interest between the executive and the company's shareholders. The maximum variable, non-pensionable remuneration to the CEO can be 35 percent of the total fixed annual remuneration, and the maximum remuneration to the company's senior executives can be 25 percent of the total fixed annual remuneration.

An incentive program in addition to the variable bonus programs described above is presented below.

INCENTIVE PROGRAMS

BioArctic has a long-term incentive program (the 2019/2028 program) in the form of an employee stock warrant program intended for the company's senior executives, researchers and other staff. The program has a vesting period of 3–5 years. The purpose of the incentive program is to encourage broad share ownership among BioArctic's employees, facilitate recruitment, retain skilled employees and increase employee motivation and fulfillment of targets. The program, which is intended for 41 employees in total, includes a total of 1,000,000 employee stock warrants. Of these, 480,000 warrants have been awarded. To facilitate the delivery of shares under the program, the 2019 AGM resolved on a private placement of 1,000,000 warrants. If the maximum number (i.e. 1,000,000 warrants) are utilized, the dilution will total 1.1 percent of the share capital and 0.5 percent of the voting rights in the company. The vesting period or alternatively the time from entering into the agreement until a share is acquired must not be less than three years.

In addition to the long-term incentive program described above, BioArctic's two founders - and principal owners, Demban AB and Ackelsta AB (separately from the company) – issued call options to a total of twelve Board members and senior executives in the company, including the CEO, in 2017. In total, the program grants the right to the purchase of 366,795 shares of the principal owners' class B shares in BioArctic, of which 207,405 have been utilized. The exercise period (i.e. the period during which the call option can be utilized) runs through June 30, 2020 according to the option agreement. The exercise price for the call options is SEK 26.67 per share. In connection with the issue of the call options, the holders have paid to the principal owners a premium corresponding to the market value of the options using the Black & Scholes model. The options are freely transferable. However, under the agreement, the principal owners have the right to repurchase the call options if the holder terminates his/her employment or assignment in the company during the tenor of the call options.

REWARD PROGRAMS

BioArctic has two rewards programs linked to the clinical research program for drug candidates BAN2401 for Alzheimer's disease with Eisai and ABBV-0805 for Parkinson's disease with AbbVie. The reward program covers all permanent employees, including the CEO. Variable remuneration is paid when the company achieves certain goals linked to the clinical programs. Since the reward programs are linked to the clinical progress, the variable remuneration payments may occur irregularly in conjunction with the milestones being reached. One condition for receiving variable remuneration is that the employee has been permanently employed and that the employment has lasted for at least six months at the time when the milestone is reached and that the employee has not given notice at the time of the payment. The potential variable remuneration for the employee amounts to one month's salary. The variable remuneration is not pensionable.

Other benefits and pension

BioArctic offers its employees other staff benefits in accordance with local practices. Benefits of this kind can include, for example, occupational health services and health and wellness contributions.

Pension terms must be market-based in relation to the regulations in force for similar positions in the local market. The pensions must be defined contribution solutions.

Departures from the guidelines

The Board of Directors can depart from the guidelines described above, in accordance with an approved mandate from the 2019 AGM, if there are particular reasons that justify doing so. In the event the Board decides on a departure from the guidelines, it must explain the reason for doing so at the AGM immediately following. The outcome of the contracted potential variable remunerations that form the basis for the outcome of the 2018 financial year was paid in full during the 2019 financial year. In addition to the guidelines adopted and in accordance with the mandate issued by the AGM, the Board has utilized the possibility of departing from the adopted guidelines, as particular reasons were deemed to exist in 2019. The payments thus exceed the guidelines adopted at the AGM.

The Board was of the opinion that particular reasons existed for a departure from the guidelines concerning the remunerations paid in the 2019 financial year. The 2018 financial year was an exceptional one for BioArctic in many respects, which gave rise to the decision to depart from the guidelines. In May 2019, BioArctic received a significant milestone

payment when Eisai started the confirmatory Phase 3 study for BAN2401. In addition, positive results were achieved in the company's Parkinson's program in which BioArctic staff successfully delivered strong research results, with a very high level of quality and in less time than planned, such that the company's partner AbbVie exercised the option to sign an agreement on full licensing ahead of schedule. The license led to a milestone payment for the company that totalled approximately SEK 449 million. Efforts from the company's CEO and senior executives in 2018 were deemed by the Remuneration Committee to be extraordinary, which gave rise to a recommendation to BioArctic's Board of Directors regarding the payment of an extra bonus for the 2018 financial year. The bonus, which was paid out in 2019, totaled approximately SEK 6.2 million and meant that the company's CEO received an extra year's salary and that the company's management group received an extra three months' salary per person during the year. The other employees in the company received two extra months' salary.

In summary, variable remunerations were paid out in light of:

- the CEO and other senior executives fulfilling their individual performance targets in the 2018 financial year in accordance with the guidelines for the company's variable remuneration, as established by the AGM;
- the two variable rewards programs (the Alzheimer's project with Eisai regarding BAN2401 and the Parkinson's project with AbbVie regarding ABBV-0805, described on the preceding page under "Reward programs") reaching two important project milestones in 2018 each that were bonus-based, which meant that payments for four milestones were issued in the 2019 financial year. These remunerations, which are few in number, fluctuate over time. This means that payments do not occur in every financial year. The payments in 2019 for four milestones that occurred in 2018 should be considered an exceptional event outside of a normal outcome.
- the Board of Directors resolving in accordance with the explanation above to pay a bonus to the company's CEO, senior management and other employees for their exceptional efforts in the 2018 financial year. The entire bonus was paid out in the 2019 financial year.

In summarizing the outcome as regards the variable remunerations and bonuses paid out in 2019, it can be stated that the CEO and six of the management team's other members received variable remuneration exceeding the six-month salary cap adopted by the AGM. Gunilla Osswald, CEO of the company, received a bonus during the year corresponding to 19 months' salary and the other senior executives received bonuses of between eight and ten months' salary on average per individual.

Termination and severance pay

For the CEO, a notice period of twelve months is in effect in the event of termination of employment by BioArctic and six months in the event of notice of termination from the CEO. Upon termination by the company, there is no work obligation during the notice period, but the CEO must be available to the company as needed. Severance pay is not applied.

The other senior executives and all other employees have a contractual mutual termination period of three months.

BOARD PROPOSALS FOR NEW GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

Prior to the 2020 AGM, the Board of Directors of BioArctic will revise the principles for remuneration to senior executives in accordance with the new amending directive legislation. The proposal for the new guidelines will be presented well in advance of the 2020 AGM, in conjunction with the notice to attend.

Internal control of financial reporting

The goal of internal control is to assess which risks in BioArctic are significant for the company and should thus be routinely managed through monitoring and control. Using effective risk management, the work can concentrate on the areas that are most important for reducing the company's total risk exposure.

In accordance with the Companies Act and the Swedish Code of Corporate Governance (the Code), the Board is ultimately responsible for structuring the company's organization so that financial reporting, administration and operations are monitored and controlled in a satisfactory manner. The Board shall, among other things, ensure that BioArctic has proper internal control and formal procedures ensuring that established principles for financial reporting and internal control are observed and that there are adequate systems for monitoring and control of the company's operations and the risks associated with the company and its operations. This report has been prepared in accordance with the Annual Accounts Act and the Code. In accordance with Point 7.4 of the Code, this report is limited to addressing internal control as regards financial reporting.

The CEO of BioArctic is ultimately responsible for monitoring whether the work on the company's internal control is being carried out in accordance with the form decided on by the Board of Directors. BioArctic's finance division, under the management of the CFO, manages the Group's work as regards internal control concerning financial reporting. The overall purpose of the internal control is to ensure, to a reasonable degree, that the company's operating strategies, targets and defined risks are monitored and that the owners' investments are protected. Furthermore, the internal control shall ensure, with reasonable certainty, that external financial reporting is reliable and prepared in accordance with accepted accounting practices in Sweden, that applicable laws and regulations are followed, and that the requirements imposed on listed companies are complied with.

In order to maintain good internal control, the Board has adopted a number of governing documents (e.g. rules of procedure for the Board, instructions to the CEO, instructions for financial reporting, a financial policy and an information policy). The Board has assessed the need for a special audit function (internal audit) and has come to the conclusion that such a function is not currently justified in BioArctic considering the scope of the operations and the existing internal control structures. The Board annually reassesses the need for a separate internal audit function. During the financial year, however, the Audit Committee resolved to add an external review function to be performed by an external party. This external review function carried out its work in 2019 and will review the financial year in its entirety. It is the opinion of the Board that monitoring, documentation and review of the company's internal control will henceforth be strengthened by the establishment of an external review function, which will serve as a special review function.

Since its listing in 2017, BioArctic's internal control structure has been based on the Committee of Sponsoring Organizations of the Threadway Commission (COSO) model, the framework of which has been applied to the company's operations and conditions. Under the COSO model, internal control is reviewed and assessed in five main areas: control environment, risk assessment, control activities, information and communication and monitoring.

Control environment

The control environment constitutes the basis for internal control concerning financial reporting. Clearly defining and communicating decision-making paths, authority and responsibility in the organization – as well as making governing documents in the form of internal policies, handbooks, guidelines and manuals available - is important.

The Board of Directors of BioArctic has established a work procedure and rules of procedure for its work and the work on the Board committees. An important part of the work of the Board is preparing and approving a number of fundamental policies, guidelines and frameworks. These include the Board's rules of procedure, instructions to the CEO, a finance policy and an information policy. Governing documents for accounting and financial reporting are the areas of particular importance for ensuring complete and correct reporting and information disclosure. As a stage in strengthening its internal control, BioArctic has chosen to gather the governing documents together on the company's intranet. The financial handbook, which is an important governing document also available on the company's intranet, describes routines and procedures for the accounting function.

In addition to the above-described internal control, there is also internal, operation-specific control of data regarding research and development and quality control systems, including systematic monitoring and evaluation of the company's research and manufacturing work and products.

The Audit Committee routinely contributes to the work on increasing the quality of the company's internal controls through its work on monitoring and quality assurance of the company's financial reporting, continuous contacts with the company's external auditor, monitoring the effectiveness of the company's internal control concerning financial reporting, and reviewing and monitoring the auditor's impartiality and independence.

Work during the year

After extensive work during the year, BioArctic established and implemented 34 control points in the following three areas:

- the accounting function
- research projects in operations
- company-wide controls in Group-wide areas such as insurance, taxes, budgets, etc.

The procedure for implementing, monitoring and documenting the controls has been approved by the Audit Committee.

BioArctic also continued its work on further developing the company's policies and how policies are implemented and monitored internally. The development of a new intranet at BioArctic has simplified accessibility to adopted policies internally for employees, and thus facilitated information disclosure in the organization.

Risk assessment

BioArctic continually updates its risk analysis as regards assessing risks that could lead to errors in financial reporting. Based on the annual review, the Board makes decisions on which risks are essential to monitor in order to ensure proper internal control in financial reporting. BioArctic identifies a number of items in the financial report and in the administrative flows that are specifically relevant and routinely subject to testing. The financial risks are managed, assessed and reported centrally and to the Audit Committee, where they are prepared and reported to the Board of Directors.

Work during the year

BioArctic reviewed the procedure and the structure of the annual risk analysis regarding risks in the financial reporting environment. As described above under Control environment – Work during the year, the accounting function is one of three main areas in BioArctic's control environment and the procedure for how the identified control activities in the financial area are carried out and monitored was implemented during the year.

Control activities

The company's organization and procedures are designed to manage the risks that the Board deems to be essential for internal control of financial reporting. At BioArctic, the company's control structure consists of an organization with clear roles that facilitate an efficient and suitable allocation of responsibilities as well as specific control activities designed to detect, or prevent in advance, risks of errors in the reporting. Examples of control activities can include decision-making processes in connection with important decisions or investments, as well as routine monitoring and procedures as regards earnings analyses, payments, VAT and tax accounting, spot checks, reconciliation and reviews.

Work during the year

As described above, 34 control activities have been identified in three areas central to BioArctic: finance, research projects

Additional information can be found on **BioArctic's website:**

- Articles of Association
- Corporate governance reports
- Information from previous AGMs
- Information on the Nomination Committee
- Information for the 2020 AGM
- Reports on the incentive programs
- The Board's evaluation of guidelines for remuneration to senior executives

and company-wide central areas. Phase One (i.e. the work on identifying activities and implementing a procedure for how they are controlled and monitored) was implemented and completed during the year. Phase Two, which included tests and controls of the 34 control points identified, was performed on a rolling basis during the year. Tests and controls are conducted both internally by BioArctic staff and by an external party who reviews the work.

Information and communication

Governing documents in the form of policies, financial handbooks, guidelines (and manuals, where they relate to financial reporting) are communicated primarily on the company intranet. The financial handbook is expanded as needed and routinely updated. Internal communication regarding financial reporting and monitoring essentially takes place in the accounting function. Issues related to financial reporting are also discussed at meetings where relevant working groups meet.

For communication with internal and external parties, there is an information policy that indicates the guidelines for how this communication is to take place. The purpose of the policy is to ensure that BioArctic complies correctly and completely with all its disclosure obligations. Internal communication is intended to keep employees routinely informed of what is happening in the company and to ensure that the company is working in accordance with its shared goals and corporate values. Active internal work, in which information is routinely communicated via the company intranet and in conjunction with joint staff meetings, is carried out to achieve the goal of having informed employees.

Monitoring

BioArctic's accounting function works in a joint finance and accounting system based on shared instructions and guidelines. The Board of Directors and senior management of BioArctic receives routine information on how operations are performing. The internal control work constitutes support for the Board and senior management in their work on assessing and evaluating material areas of risk in financial reporting in order to subsequently select initiatives and follow-up actions in the chosen areas.

Board of Directors

















WENCHE ROLFSEN

2017. Board member since 2016. Chairman of the Remuneration Committee.

Education

Pharmacist, Doctor of Pharmacy (pharma-cognosy), Adjunct Professor at Uppsala University, Sweden

Other assignments

Chairman of InDex Pharmaceuticals Holding AB. Board member of Swedish Match AB and InDex Diagnostics AB; CEO and Board member of Rolfsen Consulting AB. Partner in Serendipity Partners.

Experience and prior assignments

Head of pharmacology at Pharmacia & Upjohn; VP clinical trials Quintiles Europe, CEO of Ouintiles Scandinavia, Chairman of Aprea Therapeutics AB, Denator AB and Aprea Personal AB. Board member of SOBI AB, Recipharm AB, Smartfish AB, Moberg Pharma AB, TFS Trial Form Support Internatio-nal AB, Apotek Produktion & Laboratorier AB and Industrifonden.

Total holdings* and warrants 47,175 Class B shares

0 options

IVAR VERNER

Assignment and year elected Deputy chairman since 2017, Board member since 2010, Chairman of the Audit Committee

Education

Master of Business Administration. Stockholm School of Economics, Sweden.

Other assignments Chairman of Erlandsons Brygga AB, Centrum Fastigheter i Norrtalie AB, Tegner & Son AB and Valsattra Exploaterings AB. Board member of Sehlhall Fastigheter AB.

Experience and prior assignments Chairman of Rejlers AB, Welcome Hotel i Sverige AB, Constrera AB and Grant Thornton Sweden AB. Board member of Forex Bank AB and Svenska Vardfastigheter AB.

Total holdings* and warrants

99,770 Class B shares, privately and through Förvaltningsaktiebolaget Kanalen AB 0 options

EWA BJÖRLING

Assignment and year elected Board member since 2019.

Education

Licensed dentist, MD and associate professor from Karolinska Institutet, Stockholm, Sweden.

Other assignments

Chairman of the Board of the Swedish Petroleum and Biofuel Institute (SPBI). Board member of Essity AB, Biogaia AB and Mobilaris AB.

Experience and prior assignments

Member of Riksdag; Minister for Trade 2007–2014, Minister for Nordic Cooperation 2010-2014, Former associate professor at Karolinska Institutet, Stockholm, Sweden.

Total holdings* and warrants

0 options

HANS EKELUND

Assignment and year electedBoard member since 2014. Member of the Audit Committee and the Remuneration Committee.

Master of Business Administration. Stockholm School of Economics, Sweden.

Other assignments

Chairman of Connect Öst (non-profit organization) and board member of Ekarna Invest AB.

Experience and prior assignmentsFormer CFO of Ratos and several

assignments as Board member

Total holdings* and warrants 69,770 Class B shares through Ekarna Invest AB 0 options

PÄR GELLERFORS

Assignment and year electedBoard member since 2003. Former CEO.
Founder of BioArctic together with Lars Lannfelt.

Bachelor degree in chemistry; PhD in chemistry; Associate Professor of Biochemistry. All at Stockholm University, Sweden.

Other assignments

CEO and Board member of Swenora Biotech AB. Board member of Ackelsta AB, LPB Sweden AB and Sigrid Therapeutics AB.

Experience and prior assignments CEO and board member of SpineMedical Sverige AB and SpineMedical AB. Board member of LPB Sweden Holding AB.

Total holdings* and warrants 5,759,988 Class A shares through Ackelsta AB 15,150,036 Class B shares through Ackelsta AB 0 options

LARS LANNFELT

Assignment and year elected

Board member since 2003. Chairman of the Board, 2003–2017. Chairman of the Research Committee. Founder of BioArctic with Pär Gellerfors

Education

Medical degree (specialist in psychiatry) and doctoral thesis at Karolinska Institutet, Stockholm, Sweden: Associate Professor of Neurogenetics at Karolinska Institutet, specialist in geriatrics.

Other assignments Board member of Demban AB and LPB Sweden AB.

Experience and prior assignments Professor of Geriatrics at Uppsala University;

Senior Professor at Uppsala University and member of the Royal Swedish Academy of Sciences. Founder of BioArctic in 2003, Chairman of the Board and a number of assignments and roles in the company.

Total holdings* and warrants 8,639,998 Class A shares through Demban AB. 22,723,707 Class B shares through Demban AB.

MIKAEL SMEDEBY

Assignment and year elected

Board member since 2018.

Master of Laws, Uppsala University, Sweden.

Other assignments

Chairman of the Board of Coeli Holding AB and Sallengruppen AB (including subsidiaries)

Board member of Smedeby Förvaltning AB. Experience and prior assignments
General Counsel, Structures Freemont
SA. Active as a lawyer since 1994; with
Advokatfirman Lindahl, 1997–2019. Member
of the Swedish Bar Association, 1999–2019.

Executive positions at Advokatfirman Lindahl. including Managing Partner and Chairman of the Board. Member of the Board of Directors of BioArctic, 2014–2017. Special experience

in corporate law, mergers and acquisitions, financing and licensing. Total holdings* and warrants 10,000 Class B shares

Call options granting acquisition rights to 27,270 Class B shares (program issued by

EUGEN STEINER

Assignment and year elected Board member since 2017. Member of the

Audit Committee and the Remuneration

Medical doctor, Ph.D. in clinical pharmacology at Karolinska Institutet, Stockholm, Sweden.

Other assignments

Chairman of the Board of Spago Nanomedical AB and Empros Pharma AB. Board member of Apotek Produktion & Laboratorier AB, Inbox Capital AB, Karolinska Institutet Holding AB, Stiftelsen Forska!Sverige and Stockholm School of Entrepreneurship. Partner in HealthCap.

Experience and prior assignments

CEO or acting Chairman of the Board in several life science companies in Sweden, Norway and the US for more than 30 years, most recently as CEO of Glionova AB. CEO and Chairman of the Board of NVC Holdings AB.

Total holdings* and warrants

67,270 Class B shares

^{*} Pertains to own holdings, related party holdings, holdings in companies and in

Management





















GUNILLA OSSWALD

Position and role CEO since 2014. Employed at the company since 2013.

Pharmacist; Ph.D. in biopharmacy and pharmacokinetics at Uppsala University,

Other assignments Board member of PledPharma AB and SpineMedical AB.

Experience and prior assignments

More than 30 years of experience in drug development. Executive positions at Astra/ AstraZeneca, including Vice President responsible for the product portfolio in neurodegenerative diseases. Board member of SP Process Development AB, SpineMedical Sverige AB and LPB Sweden Holding AB

Total holdings* and warrants 33,800 Class B shares.

Call options granting acquisition rights to 66,270 Class B shares (program issued by founders) Warrants granting acquisition rights to

LARS LANNFELT

100,000 Class B shares (2019/2028 program)

Position and role

Senior Vice President University Collaborations. Founder of BioArctic in 2003.

Medical degree (specialist in psychiatry) and doctoral thesis at Karolinska Institutet, Stockholm, Sweden; Associate Professor of Neurogenetics at Karolinska Institutet, specialist in geriatrics.

Other assignments

Board member of Demban AB and LPB Sweden AB

Experience and prior assignmentsMore than 35 years of experience in research into Alzheimer's disease and other neurodegenerative diseases. Professor of Geriatrics at Uppsala University; Senior Professor at Uppsala University and member of the Royal Swedish Academy of Sciences. Founder of BioArctic in 2003, Chairman of the Board and a number of assignments and roles in the company.

Total holdings* and warrants

8.639,998 Class A shares through Demban AB. 22,723,707 Class B shares through Demban AB.

CHRISTER MÖLLER

Position and role

Vice President Pre-Clinical Development, Chief Scientific Officer. Employed at the company since 2006.

B.Sc. in Biology, Stockholm University, Sweden: Ph.D. in Medical Science, Karolinska Institutet, Stockholm, Sweden.

Other assignments

Experience and prior assignments21 years of experience in developing protein drugs from idea to clinical trials including leading positions at small biotech/pharma companies such as Zymenex A/S. In addition, comprehensive academic experience in pursuing research projects concerning growth factors and preclinical research in diabetes.

Total holdings* and warrants 35,505 Class B shares

Call options granting acquisition rights to 8,265 Class B shares (program issued by founders) Warrants granting acquisition rights to 20,000 Class B shares (2019/2028 program)

GUNILLA ANDERSSON

Position and role Senior Director HR. Employed since 2019. Contracted since 2014.

B.Sc. Human Resource Development and Labor Relations with a specialization in labor rights from Lund University, Sweden.

Other assignments

Manages her own consulting company focu-sing on HR, leadership and recruitment.

Experience and prior assignments

30 years of experience as HR consultant and HR manager in educational organizations and pharma companies such as Pharmacia and Novartis.

Total holdings* and warrants

0 shares

Warrants granting acquisition rights to 20,000 Class B shares (2019/2028 program)

CHRISTINE LIND

Assignment and role**

Strategy Advisor and acting Head of Investor Relations and Communications since 2019.

B.Sc. in Finance and Information Systems from New York University, and an MBA in Finance and Management from Columbia Business School.

Other assignments Chairman of the Board and CEO of Lind Growth Strategy AB. Board member of Xspray AB.

Experience and prior assignments

EVP Strategic Business Development as well as CEO of Medivir AB. Vice President Business Development, LifeCell Corporation. Worked in investment banking for twelve years, at Merrill Lynch & Co. and Gerard Klauer Mattison & Co., focusing on strategic advisory services and raising of capital for biotech and pharma companies.

NORA SJÖDIN

Vice President Regulatory Affairs. Employed

Prior assignments26 years of experience in leading positions

with global regulatory affairs, from early de-

velopment phases to products in the market, at companies such as AstraZeneca, NDA

Warrants granting acquisition rights to 20,000 Class B shares (2019/2028 program)

Regulatory Service and Pharmalink

Total holdings* and warrants 2,000 Class B shares

Total holdings* and warrants 2,000 Class B shares

Position and role

Other assignments

Education nsed nurse. B.Sc

at the company since 2017

HANS BASUN

Position and role***
Vice President Clinical Development, Chief
Medical Officer. Employed at the company since 2007.

Education

Medical degree and residency in psychiatry and geriatrics from Karolinska Institutet, Stockholm, Sweden; Associate Professor at Karolinska Institutet and Adjunct Professor at Uppsala University, Sweden.

Other assignments Member of the advisory board of Alzheimer-fonden (the Swedish Alzheimer's Foundation) and Stiftelsen Dementia (the Swedish Dementia Foundation); Board member of MultiPark, Lund University.

Experience and prior assignments

More than 20 years of experience in the pharma industry, in leading positions in clinical research at Astra Arcus/AstraZeneca. Background as Chief Physcician at Huddinge University Hospital and Uppsala University Hospital, Sweden

Total holdings* and warrants

48,093 Class B shares Warrants granting acquisition rights to 20,000 Class B shares (2019/2028 program)

JAN MATTSSON

Position and role

Vice President Finance, Chief Financial Officer. Employed at the company since 2017.

Education MBA from Örebro University.

Other assignments

Experience and prior assignments

More than 30 years of experience in business and administration, including CFO at Sefina Finance AB, Allenex AB, Argnor Wireless Ventures AB, Logitall AB and Investment AB Kinnevik, Board member of Sefina Svensk Pantbelaning AB and Humidus AB.

Total holdings* and warrants

33,000 Class B shares, privately and through Almsäter Interim Management AB Call options granting acquisition rights to 9,270 Class B shares (program issued by founders)

Warrants granting acquisition rights to 20,000 Class B shares (2019/2028 program)

JOHANNA FÄLTING

Position and roleVice President Translational Science & Pharmacology. Employed at the company since 2012, in her current role since 2018.

Education

Ph.D. in Physiology, Stockholm University; Licentiate degree in physiology, Stockholm University; Master's degree in biology, Stockholm University, Sweden.

Other assignments

Experience and prior assignments

19 years of experience in neuroscience/ pharmacology, drug research, translational science and development in the global pharma and biotech industry.

Total holdings* and warrants

24.135 Class B shares. Call options granting acquisition rights to 14,220 Class B shares (program issued by founders)

Warrants granting acquisition rights to 20,000 Class B shares (2019/2028 program)

MIKAEL MOGE

Position and role

Vice President Chemistry, Manufacturing & Control and Protein Chemistry. Employed at the company since 2012, in his current role since 2018.

Education

Master of Engineering chemical engineering, KTH Royal Institute of Technology; Ph.D. in organic chemistry, KTH; Stockholm, Sweden.

Other assignments

Experience and prior assignments
22 years of experience in drug development
and 18 years of experience as R&D director in process development and GMP manu-facturing. Former section manager in Process R&D at AstraZeneca.

Total holdings* and warrants

0 shares

Call options granting acquisition rights to 6,825 Class B shares (program issued by founders)

Warrants granting acquisition rights to 20,000 Class B shares (2019/2028 program)

NEW IN MANAGEMENT

- Tomas Odergren, Chief Medical Officer, part of management since January 1, 2020
- Oskar Bosson, VP Communication & IR part of management as of May 2020

Includes holdings by self, closely associated persons, controlled companies or otherwise controlled

^{**} Consultant since November 1, 2019.

*** Left the management group on December 31, 2019.

