

The Board of Directors report of the remuneration committee's evaluation of the remuneration of the executive management for the financial year 2019

The Board of Directors of BioArctic AB (publ) reg. no. 556601-2679 (the “**Company**” or “**BioArctic**”) submits the following report of the remuneration committee's evaluation of the Company's remuneration of the Company's executive management.

Work and composition of the remuneration committee

The board has established a remuneration committee consisting of Wenche Rolfsen (chairperson), Hans Ekelund and Eugen Steiner. All members of the remuneration committee are independent in relation to the Company and the Company's executive management. The remuneration committee carries out its assignment in accordance with the instructions and rules of procedure adopted by the board. The remuneration committee's main tasks are to prepare decisions regarding remuneration and other terms of employment for the Company's executive management. The remuneration committee shall also monitor and evaluate programs for variable remuneration for the Company's executive management, both ongoing programs and programs that have ended during the year, as well as monitor and evaluate the application of the guidelines for remuneration to the Company's executive management that have been adopted by the annual general meeting. The remuneration committee has held four meetings (two in 2019 and two in 2020) since the annual general meeting held in 2019. At these meetings, the remuneration committee has discussed existing remuneration structures in the Company.

Remuneration strategy

The Company's goal is to attract and retain committed and competent executives who want to continuously develop, work innovatively and contribute to the Company's long-term success. The remuneration of senior executives shall be based on responsibility, competence, experience and performance as well as encouraging value creation and accountability. Remuneration levels shall be market-based, competitive and reflect the Company's earnings development, research work, product development and basic values etc. Remuneration levels shall also be in line with the shareholders' interests. The Company's ambition is to promote the Company's business and sustainability strategy and the safeguarding of the Company's long-term interests through a relevant remuneration structure and competitive remuneration levels.

Remuneration structure

The Company's remuneration structure mainly consists of fixed salary, variable remuneration (including share-related incentive programs), pension benefits and other benefits.

In accordance with the guidelines for remuneration to senior executives adopted by the Annual General Meeting on May 9, 2019, the Company shall offer the Company's executive management a market-based compensation that enables the Company to recruit and retain senior executives. The following is set out in the guidelines adopted by the Annual General Meeting in 2019.

Fixed salary should be in proportion to the individual's responsibilities and experience. Furthermore, the allocation between fixed salary and any variable remuneration should be proportionate to the manager's responsibility and authority. Variable remuneration (if any) shall not exceed an amount corresponding to six months' fixed salary.

Pension benefits shall be on market terms in relation to what applies to corresponding executives on the market and must be based on defined-contribution solutions.

If there are special reasons in an individual case, the board may deviate from the guidelines adopted by the Annual General Meeting.

The remuneration committee's evaluation and assessment

The remuneration committee has evaluated existing remuneration structures and remuneration levels in the Company. In its work, the remuneration committee considered that the Company shall offer remuneration on market terms in order to recruit and retain qualified senior executives.

During the financial year 2019, the CEO received SEK 2,725,420 in fixed annual salary. Pension contributions were made with 35 per cent of the fixed annual salary. In addition, the CEO received variable remuneration amounting to SEK 3,218,418.

During the financial year 2019, other senior executives received SEK 10,480,503 in fixed annual salary. Pension contributions were made with on average 26 per cent of the fixed annual salary. In addition, senior executives received variable remuneration amounting to in total SEK 3,472,420.

For further information, see Note 7 Personnel in the annual report.

The criteria for variable remuneration are based on milestones in the clinical research programs for the drug candidates BAN2401 (Alzheimer's disease) and ABBV0805 (Parkinson's disease). Variable remuneration is payable with one monthly salary per fulfilled milestone. The variable remuneration is not pension-qualifying.

During the financial year 2019, the Company introduced an employee stock option program for the Company's senior executives, researchers and other staff. The employee stock option program comprises a total of 1,000,000 options, of which 480,000 options have been granted. If the maximum number of options are exercised, i.e. 1,000,000 options, the dilution effect will be 1.1 per cent of the share capital and 0.5 per cent of the votes in the Company.

The remuneration committee has evaluated the Company's ongoing employee stock option program and other variable remuneration programs based on suitability and appropriateness and has found that these programs fulfill their purpose. Furthermore, the remuneration committee has found that the remuneration structures and remuneration levels in the Company are appropriate. This also applies to other terms of employment for senior executives.

However, the remuneration committee notes that the variable remuneration paid to the senior executives has deviated from the principles established by the Annual General Meeting held in 2019. This deviation is justified below.

Deviation from the guidelines

The Board of Directors can deviate from the guidelines described above, in accordance with an approved mandate from the 2019 Annual General Meeting, if there are particular reasons that justify doing so. If the board decides to deviate from the guidelines, it must explain the reason for doing so at the next Annual General Meeting.

The variable remuneration that is based on the outcome during the financial year 2018 was paid in full during the financial year 2019. In addition to the guidelines adopted and in accordance with the mandate issued by the Annual General Meeting, the board has utilized the possibility of deviating from the adopted guidelines, as particular reasons were deemed to exist in 2019. The payments thus exceed the guidelines adopted at the Annual General Meeting.

The Board of Directors was of the opinion that there were particular reasons for a deviation from the guidelines concerning the remunerations paid in the financial year 2019. The financial year 2018 was an exceptional one for BioArctic in many respects, which led to the decision to deviate from the guidelines. In May 2019, BioArctic received a significant milestone payment when Eisai began the confirmatory Phase 3 study for BAN2401. In addition, positive results were achieved in the Company's Parkinson's program in which BioArctic's staff successfully delivered strong research results, with a very high level of quality and in less time than planned, which enabled the Company's partner AbbVie to exercise the option to sign an agreement on full licensing ahead of schedule. The license led to a milestone payment for the Company that totaled 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 resulted in a recommendation to the board regarding the payment of an extra bonus for the financial year 2018. The bonus, which was paid out in 2019, totaled approximately SEK 6.2 million and meant that the Company's CEO received a bonus corresponding to an additional annual salary and that the Company's management group received on average a bonus corresponding to three months' additional salary per person during the year. The other employees in the Company received a bonus corresponding to two monthly salaries.

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

- the CEO and other senior executives fulfilling their individual performance targets in the financial year 2018 in accordance with the guidelines for the Company's variable remuneration, as established by the Annual General Meeting;
- 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 "Rewards programs") reaching two important project milestones each in 2018 that entitled to bonus under the reward programs, which meant that payments for four milestones were made 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 financial year 2018. The entire bonus was paid out in the financial year 2019.

In summarizing the outcome as regards the variable remunerations and bonuses paid out in 2019, it can be noted that the CEO and six of the management team's other members received variable remuneration exceeding the six-month salary cap adopted by the Annual General Meeting. The Company's CEO Gunilla Osswald 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.

Conclusion

The application of the principles for remuneration to senior executives has been correct.

Stockholm, April 2020

BioArctic AB (publ)

Board of Directors