

REMUNERATION REPORT 2022

Introduction

This report describes how the guidelines for senior executive remuneration of BioArctic AB (publ), adopted by the annual general meeting held on 5 May 2022, were implemented in 2022. The report also provides information on remuneration to the CEO and the board members who receive remuneration other than board remuneration resolved by the general meeting 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 Stock Market Self-Regulation Committee.

Further information on senior executive remuneration is available in note 7 (Employees) on pages 84–89 in the annual report. Information on the work of the remuneration committee in 2022 is set out in the corporate governance report on page 113 in the annual report for 2022.

Remuneration of the board of directors is not covered by this report. Such remuneration is resolved annually by the annual general meeting and is disclosed in note 7 on page 88 in the annual report for 2022.

Key developments 2022

The CEO summarises the company's overall performance in the CEO's statement on pages 10–11 in the annual report.

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

A prerequisite for a 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 senior executives a competitive remuneration. Pursuant to the remuneration guidelines, senior 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 individualised 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 112–114 in the annual report. During 2022, 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. The auditor’s statement regarding the company’s compliance with the remuneration guidelines is available on <https://www.bioarctic.se/en/annual-general-meeting-2023/>. The company has not requested repayment of any compensation. 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 senior executives in 2022 (kSEK)

Name of director(position)	Fixed remuneration			Variable remuneration			Total remuneration	Portion of fixed and variable remuneration****
	Base salary	Milestone remuneration	Other benefits	One-year variable	Extraordinary items	Pension expense		
Gunilla Osswald (CEO) *	4,567	674	105	1,381		1,434	8,161	83/17
Wenche Rolfsen (Chairman of the board)	0						0	100/0
Lars Lannfelt (Board member) **	1,999		16			435	2,450	100/0
Pär Gellerfors (Board member) ***	64						64	100/0

* Basic salary includes an increase of holiday debt of 341 kSEK. The milestone bonus refers to achieved goals in accordance with the company’s milestone-based incentive program. Other benefits consist of car benefit, and benefit of health insurance. Variable remuneration consists of bonuses attributable to the achieved business targets 2022 and which are paid out in 2023.

** Lars Lannfelt is employed by the company and has not received board fees. The basic salary includes holiday pay of 41 kSEK. Other benefits consist of benefits of health insurance.

*** 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 in accordance with a decision by the annual general meeting, which is 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.

Existing 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 employee stock option program comprises a total of 1,000,000 employee stock options, which entitles the holder to acquire new B-shares in the company in accordance with the terms of the program. At the end of the year, 845,000 employee stock options have been awarded to employees, of which 150,000 employee stock options have 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 either:

- (i) 1 June 2019 for an offer of employee stock options submitted up to and including 31 August 2019, or
- (ii) on the first day of the quarter during which the employment started.

Share option plans

	The main conditions of share option plans						Information regarding the reported financial year*						
	1 Name of plan	2 Performance period	3 Award date	4 Vesting date	5 End of retention period	6 Exercise period**	7 Exercise price (SEK)	8 Share options held at beginning of year	9 Share options awarded	10 Share options vested	11 Share options subject to performance condition	12 Share options awarded and unvested	13 Share options subject to retention period
Name of director (position)		n/a	2019-09-11	2022-09-11	n/a	2022-09-11--2025-03-11							
		n/a	2019-09-11	2023-09-11	n/a	2023-09-11--2025-03-11	83.60	100,000	0	60,000	0	40,000	0
		n/a	2019-09-11	2024-09-11	n/a	2024-09-11--2025-03-11							
		n/a	2022-01-10	2025-01-10	n/a	2025-01-10--2027-07-10							
		n/a	2022-01-10	2026-01-10	n/a	2026-01-10--2027-07-10	129.82	0	50,000	0	0	50,000	0
		n/a	2022-01-10	2027-01-10	n/a	2027-01-10--2027-07-10							
Total							100,000	50,000	60,000	0	90,000	0	

* During year 2022, an additional 50,000 employee stock options were allotted regarding the employee stock option program 2019/2028, in which the CEO holds 150,000 employee stock options.

** Of the employee stock options, 60,000 can be exercised from 11 September 2022, 80,000 from 11 September 2023 and 100,000 from 11 September 2024 and of the employee stock options regarding this year's allotment, 30,000 can be exercised from 10 January 2025, 40,000 from 10 January 2026 and 50,000 from 10 January 2027.

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 senior executive's annual fixed salary. The milestone remuneration is excluded from the variable remuneration. The maximum variable compensation to the CEO for the financial years 2018–2022 was 35 percent of the fixed salary.

Reward program for all employees

BioArctic has two multi-year reward programs which both are linked to clinical research programs regarding the drug candidate lecanemab for Alzheimer's disease with Eisai. The reward programs cover all permanent employees, excluding the founder. Payment of the milestone 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 has 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 remuneration to the employee amounts to one monthly salary per achieved milestone. Pension contributions will not be made in relation to the milestone remuneration.

In 2022, two milestones under BioArctic's reward programs were achieved and milestone remuneration in accordance with the reward programs was paid in August and October 2022.

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 2022, the criteria for variable remuneration to the CEO have been linked to operational goals regarding, among other things, preclinical work with the out-licensed substances and support for collaborative projects with BioArctic's partners, progress of the own projects including strategy work with the aim of leading to new research collaborations, development of the company's organisation to be able to achieve the company's goals and to increase the awareness of BioArctic.

The table below shows the outcome of the CEO's fulfillment of the criteria for variable remuneration for the year 2022 and the variable cash remuneration for the year 2022.

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

Name of director (position)	1 Description of the criteria related to the remuneration component	2 Relative weighting of the performance criteria	3 a) Measured performance and b) actual award/ remuneration outcome*
Gunilla Osswald (CEO)	Individual operational goals 2022	60%	a) 98% b) 832 kSEK
	Company operational goals 2022	40%	a) 97% b) 549 kSEK

* Refers to the bonus for the 2022 financial year that will be paid out in 2023

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)

	2018 vs 2017		2019 vs 2018		2020 vs 2019		2021 vs 2020		2022 vs 2021	
CEO remuneration	1,712	49.2%	1,716	33.0%	-2,158	-31.2%	397	8.4%	3,013	58.5%
Group operating profit	469,500	2433.4%	-376,256	-77.0%	-197,550	-175.5%	-54,711	64.4%	112,281	87.5%
Average remuneration on a full time equivalent basis of employees* of the parent company	326	44.7%	-369	-35.1%	114	16.7%	57	7.2%	217	25.4%

* Excluding members of the group executive management

In 2018, all employees in the company received a monthly salary as a bonus payment in accordance with the company's reward program and a reservation was done regarding an additional four monthly salaries corresponding four upcoming bonus payments, which explains the increase in both the remuneration to the CEO and the average remuneration in 2018 compared to 2017. In 2019, the four reserved bonuses were paid out as well as an additional bonus payment. In addition, the board resolved 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 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. The increase in 2021 is mainly explained by the usual salary increase. In 2022, the board resolved on a raise of the salary of the CEO in accordance with the company's remuneration guidelines. During this year, two monthly salaries were paid out related to achieved milestones, which explains the increase of remuneration to the CEO as well as the average remuneration in 2022 compared to 2021.

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 when revenues from milestone remuneration are reported at the time when the performance commitments are met.

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