



Remuneration report 2020

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Introduction

This report describes how the guidelines for executive remuneration of Xspray Pharma AB, adopted by the annual general meeting 2020, were implemented in 2020. The report also provides information on remuneration to the CEO 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 64-66 in the annual report 2020. Information on the work of the remuneration committee in 2020 is set out in the corporate governance report available on pages 39-43 in the annual report 2020.

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 64 in the annual report 2020.

Key developments 2020

The CEO summarizes the company's overall performance in his statement on page 6-7 in the annual report 2020.

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 total 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 non-financial criteria. They may be individualized, quantitative or qualitative 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 34-35 in the annual report 2020. 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. The auditor's report regarding the company's compliance with the guidelines is available on xspraypharma.com/en/investors/corporate-governance/compensation/. No remuneration has been reclaimed. 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.

Table 1 - Total CEO remuneration in 2020 (kSEK)

Name of director (position)	1 Fixed remuneration		2 Variable remuneration		3	4	5	6
	Base salary ¹⁾	Other benefits ²⁾	One-year variable	Multi-year variable ³⁾	Extraordinary items	Pension expense	Total remuneration	Proportion of fixed and variable remuneration, % ⁴⁾
Per Andersson (CEO)	1,989	44	218	-	-	454	2,704	92/8

¹⁾ Including holiday pay.

²⁾ Company car

³⁾ Variable remuneration refers to bonuses related to 2020, which will be paid out in 2021

⁴⁾ Pension expense (column 4), which in its entirety relates to Base salary and is premium defined, has been counted entirely as fixed remuneration

Share-based remuneration

Outstanding share-related and share price-related incentive programmes

Xspray Pharma has in total implemented four warrant programs (2015/2021, 2017/2020, 2018/2022 and 2020/2023) for employees and certain key individuals.

The warrants were subscribed on market terms at a price (premium) determined on the basis of computed market value if the warrants by an independent valuation institute applying the Black & Scholes valuation model. The warrant programs are subject to three-five years vesting periods and are exercisable during the third/fifth year after the grant.

Input data for each program is presented in Table 2 and refers to the valuation at the time of allocation. The expected volatility is based on historical volatility calculated based on the weighted average remaining term of the stock options, adjusted for any expected changes in future volatility due to officially available information. The expected term of the warrant has been determined taking into account the expected subscription before the end of the respective program's subscription period and has been assumed to amount to 3-5 years. Expected maturity has been calculated using historical data on how early people in different staff categories have exercised their warrants.

Table 2- Fair value and assumptions at the time of granting warrants

	Incentive program			
	2015/2021	2017/2020	2018/2022	2020/2023*
<i>Fair value at grant date</i>				
Share price (SEK)	10.0	22.0	69.2	52.4
Volume weighted share price at the exercise price (SEK)	-	32.89	70.61	52.4
Exercise price (SEK)	25.00	49.30	116.50	89.10
Expected volatility (%)	25	35	35	35
Warrant term (years)	5	3	3.1	3.1
Expected dividend	0	0	0	0
Risk-free interest rate (%)	-1.5	-0.44	-0.28	-0.30

* The CEO is not included in program LTIP 2020/2023

Xspray Pharma has issued and granted a total of 768,170 warrants. As of December 31, 2020, 467,996 were still outstanding. The CEO has been granted a total of 186,124 warrants, of which 116,267 warrants are still outstanding as of December 31, 2020.

The increase in the Company's share capital may, upon full exercise of the outstanding warrants, amount to a maximum of SEK 467,996 (assuming the current quota value and that no conversion has taken place according to the terms), which as of December 31, 2020 corresponds to a dilution of approximately 2.5 percent of the shares. in Xspray Pharma, calculated on the number of outstanding shares per year-end.

See Appendix 1 for further information on each program.

Table 3 - Overview of warrant programs (CEO)

Name of director (position)	The main conditions for the warrant programmes							Information regarding the reported financial year*					
								Opening balance	During the year		Closing balance		
	1	2	3	4	5	6	7	8	9	10	11	12	13
	Name of plan	Performance period	Award date	Vesting date	End of retention period	Exercise period	Exercise price (SEK)	Warrants held at beginning of year	Warrants awarded	Warrants vested	Warrants subject to performance condition	Warrants awarded and unvested	Warrants subject to retention period
Per Andersson (CEO)	2015/2021	2015-2021	2015-12-15	2021-01-01	N/A	2021-01-01 2021-01-21	25.00	85.000	-	-	-	85.000	N/A
	2017/2020	2017-2020	2017-09-12	2020-08-01	N/A	2020-08-01 2020-08-21	49.30	69.857	-	-69.857*	-	-	N/A
	2018/2022	2018-2021	2018-12-11	2021-12-01	N/A	2020-08-21 2022-01-17	116.50	31.267	-	-	-	31.267	N/A
Total								186,124	-	-69.857	-	116.267	

*On August 21, 2020, the CEO exercised 69,857 warrants from the 2017/2020 program at an exercise price of SEK 3,444 thousand. The share price as of the exercise date was SEK 120.00, which gave a market value at the time of SEK 8,382 thousand. No other changes regarding warrant programs 2015/2021 and 2018/2022 took place during 2020.

Application of performance criteria

The performance measures for the CEO's variable remuneration have been selected to deliver the company's strategy and to encourage behaviour which is in the long-term interest of the company. In the selection of performance measures, the strategic objectives, and short-term and long-term business priorities for 2020 have been taken into account. The non-financial performance measures further contribute to alignment with sustainability as well as the company values. The criteria may be linked to the development of the company's share price and / or the development and progress of the company's product candidates. They can also consist of individually tailored quantitative or qualitative goals.

When the measurement period for meeting the criteria for payment of variable cash compensation has ended, it must be assessed / determined to what extent the criteria have been met. The Remuneration Committee is responsible for the evaluation of remuneration to senior executives, including the CEO. Regarding financial targets, the assessment shall be based on the most recently published financial information by the company.

Table 4 - Performance of the CEO in the reported financial year: variable cash remuneration

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
Per Andersson (CEO)	Project related:	90 %	a) 18.75%	b) 113 KSEK
	Company value & IR activities:	10 %	a) 17.5%	b) 105 KSEK
			a) 36,25%	b) 218 KSEK

Comparative information on the change of remuneration and company performance

Table 5 - Changes of remuneration and company performance over the last five reported financial years (RFY) (kSEK)

Since this is Xspray Pharma's first remuneration report, the information in the table below pertains only to the 2020 financial year.

<i>SEK thousand</i>	RFY 2020
CEO remuneration	2,704
Group operating profit	-53,457
Average remuneration on a full-time equivalent basis of employees ¹⁾ of the parent company	897

¹⁾ Excluding members of the group executive management. The remunerations consists of base salary, other benefits, variable remuneration and pension expense, which is equal as the remuneration to CEO (Table 1). The average remuneration has been calculated by dividing the total remuneration with the average number of full-time employees in the parent company, excluding the group executive management.

Appendix 1

Warrant program

The Company has issued four series of warrants via incentive programs targeting all employees and certain key individuals with the aim of creating greater unity between employees at shareholders' interests.

Warrant program 1 (LTIP 2015/2021)

In 2015, all employees and the chairman of the board were granted 255,000 warrants which remain outstanding as of 31 December 2019 with an exercise price of SEK 25.00 per share. They can be exercised until 21 January 2021. The program has no vesting conditions. Recipients of these warrants paid market price, with no subsidy granted. By the end of 2020, 80,000 warrants had been exercised, the remaining part amounted to 175,000.

Warrant program 2 (LTIP 2017/2020)

In 2017, all employees were granted one warrant free of charge per share purchased at market price at the Company's IPO on Nasdaq First North. No subsidy was granted. A total of 199,591 warrants were granted, which may be exercised by August 2020 at an exercise price of SEK 49.30 per share. This program is conditional on the holder remaining an employee of the Company. The warrants can be exercised in the period 1-21 January 2018 inclusive, or 1-21 August 2018 inclusive, 1-21 January 2019 inclusive, or 1-21 August 2019 inclusive and 1-21 January 2020 inclusive, or 1-21 August 2020 inclusive. All warrants have been exercised as of 31 December 2020.

Warrant program 3 (LTIP 2018/2022)

An Extraordinary General Meeting on 28 November 2018 resolved to introduce an incentive program (LTIP 2018) involving a maximum of 234,505 warrants with the aim of creating greater unity between key employees' and shareholders' interests. LTIP 2018 was offered to all employees and other key individuals. The Company's directors were not eligible for LTIP 2018. The CEO, senior executives and other employees of the Company, and other individuals that had entered employment contracts with Xspray Pharma during the subscription period were entitled to subscribe for warrants, waiving shareholders' preferential rights. The warrants were subscribed on market terms at a price (premium) determined on the basis of computed market value of the warrants by an independent valuation institute applying the Black & Scholes valuation model. The value was computed at SEK 5.83 per warrant based on a subscription price per share of SEK 116.50. The warrants can be exercised until 17 January 2022.

The Company subsidized the participants' premium with an amount corresponding to the premium paid minus payroll tax and social security contributions. The subsidization has been reported as personnel costs. If the warrant holder's employment ends during the program's term, warrant will be redeemed proportionately based on the remaining term in relation to the program's original terms. Redemptions are made at the lower of current market value and acquisition price. In 2019, 20,583 warrants were redeemed, the payment for the redemption took place in January 2020. No warrants had been returned or exercised as of 31 December 2020.

Warrants program 4 (LTIP 2020/2023)

The program (LTIP 2020) was resolved at an Extraordinary General Meeting on March 26, 2020 and comprised 79,074 warrants linked to the Company's value growth, to create a stronger link between employees and shareholders' interest. LTI 2020 involved five persons, including the CFO. The CEO was not included in program. The warrants were subscribed on market terms at a price determined on the basis of an estimated market valuation (Black & Scholes) by an independent valuation institute. The value of the warrant was calculated at SEK 4.86 based on a subscription price per share of SEK 89.10. The program provides a maximum dilution effect of 0.47 percent on the current number of shares. The warrants can be exercised in the period 1 April 2023 to 14 May 2023. The Company subsidized the participants' premiums with an amount corresponding to the premium paid minus payroll tax and social security contributions. The subsidization has been reported as personnel costs. If the warrant holder's employment ends during the program's term, warrant will be redeemed proportionately based on the remaining term in relation to the program's original terms. Redemptions are made at the lower of current market value and acquisition price. No warrants had been returned or exercised during the year.