

Remuneration report 2020

Introduction

This report describes how the guidelines for executive remuneration of Orexo 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 10 (Employees and personnel costs) on pages 72-73 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 93-97 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 10 on pages 72-73 in the annual report 2020.

Key developments 2020

The CEO summarizes the company's overall performance in his statement on pages 7-9 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 salary, variable remuneration, long-term incentive programs, pensions and other customary 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 50-51 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 the company's website www.orexo.com. 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**	Other benefits***	One-year variable	Multi-year variable****	Extraordinary items	Pension expense	Total remuneration	Proportion of fixed and variable remuneration*****
Nikolaj Sørensen (CEO)	3,428	89	1,289	5,180	N/A	692	10,678	39/61*****

* Except for Multi-year variable remuneration, the table reports remuneration earned in 2020. Multi-year variable remuneration is reported if vested in 2020, as set out in column 10 of Table 2 and column 8 of Table 3 below (as applicable). Disbursement of any payments may or may not have been made the same year.

** Including holiday pay of kSEK 42.9.

*** Company car and health insurance.

**** Vested share options and share awards as set out in in column 10 of Table 2 and in column 8 of Table 3 below.

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

***** Pursuant to the company's remuneration guidelines adopted on the annual general meeting on 16 April 2020, the variable remuneration shall amount to a maximum of 40 percent of the annual fixed cash salary for the CEO. The variable remuneration reported in this column 6 of Table 1 exceeds 40 percent of the annual fixed cash salary for the CEO due to it including variable remuneration resolved by the general meeting.

Share-based remuneration

Outstanding share-related and share price-related incentive plans

The company has implemented one stock option program (LTIP 2011/2021) for the executive management.

LTIP 2011/2021

Each performance share shall give the right to acquire one (1) share in Orexo for payment of an exercise price corresponding to 100 percent of the volume weighted average price for the Orexo share during the ten trading days immediately prior to the allocation. The exercise price, determined as set out above, shall be rounded off to the nearest SEK 0.2, whereby SEK 0.10 shall be rounded off downwards. The right to acquire new shares through exercise of the performance shares shall, for each employee, be subject to vesting criteria. Of all performance shares allocated to a participant under the share program, 50 percent of the performance shares shall be vested according to time and internal operational criteria and 50 percent shall be vested according to share price performance and relative share performance. No performance shares shall be capable of being exercised following the 10th anniversary of the date of the shareholders' meeting adopting the share program. The LTIP 2011/2021 program expired on February 16, 2021 and 97,673 performance shares were exercised by the CEO.

The company has further implemented three share award programs (LTIPs 2017/2020, 2018/2021 and 2019/2022) and two combined share award and employee stock option programs (LTIPs 2020/2023 and Stay-On 2020/2023) for senior executives and key employees within the group, and for certain Global Management Team and US Leadership Team employees, respectively.

LTIP 2017/2020

The number of share awards that entitle to shares depends on the outcome of the performance conditions set by the board. The performance conditions focus on Orexo's financial and operational targets for 2017 ("Performance Target 1") and on the share-price development for the three-year vesting period ("Performance Target 2" and together the "Performance Targets"). Of each participant's granted share awards, 50 percent will pertain to Performance Target 1 and 50 percent will pertain to Performance Target 2. The allotment of shares that each participant later may receive depends on achievement of the Performance Targets. Vesting period means the three-year period from the start of the program. The program started on 22 June 2017. The CEO has been granted 45,000 share awards. In total, 214,619 share awards have been granted, which corresponds to 0,62 percent of the shares in the company on a diluted basis.

LTIP 2018/2021

The number of share awards that entitle to shares depends on the outcome of the performance conditions set by the board. The performance conditions focus on Orexo's financial and operational targets for 2018 ("Performance Target 1") and on the share-price development for the three-year vesting period ("Performance Target 2" and together the "Performance Targets"). Of each participant's granted share awards, 50 percent will pertain to Performance Target 1 and 50 percent will pertain to Performance Target 2. The allotment of shares that each participant later may receive depends on achievement of the Performance Targets. Vesting period means the three-year period from the start of the program. The program started on 15 June 2018. The CEO has been granted 62,000 share awards. In total, 363,500 share awards have been granted, which corresponds to 1,05 percent of the shares in the company on a diluted basis.

LTIP 2019/2022

The number of share awards that entitle to shares depends on the outcome of the performance conditions set by the board. In addition to the condition that the holder is still employed by the Orexo group ("Performance Target 1"), the performance conditions focus on Orexo's financial and operational targets for 2019 ("Performance Target 2") and on the share-price development for the three-year vesting period ("Performance Target 3" and together the "Performance Targets"). Of each participant's granted share awards, 20 percent will pertain to Performance Target 1, up to 40 percent will pertain to Performance Target 2 and up to 40 percent will pertain to Performance Target 3. The allotment of shares that each participant later may receive depends on achievement of the Performance Targets. Vesting period means the three-year period from the start of the program. The program started on 15 June 2019. The CEO has been granted 25,800 share awards. In total, 228,750 share awards have been granted, which corresponds to 0,66 percent of the shares in the company on a diluted basis.

LTIP 2020/2023

The number of share awards and employee stock options that entitle to shares depends on the outcome of the performance conditions set by the board. The performance conditions focus on the holder still being employed by the Orexo group ("Performance Target 1") and on Orexo's financial and operational targets for 2020 ("Performance Target 2" and together the "Performance Targets"). Of each participant's granted share awards, approximately 33 percent (one third) will pertain to Performance Target 1 and up to approximately 67 percent (two thirds) will pertain to Performance Target 2. Of each Participant's granted employee stock options, 100 percent will pertain to Performance Target 1, meaning that no Employee stock options will vest unless the performance target is met. The allotment of shares that each participant later may receive depends on achievement of the Performance Targets. Vesting period means the three-year period from the award date. The program started on 8 June 2020. The CEO has been granted 23,030 share awards and 48,030 employee stock options. In total, 199,364 share awards and 447,448 employee stock options have been granted, which corresponds to 1,86 percent of the shares in the company on a diluted basis.

LTIP Stay-on 2020/2023

Qualification for participation in the program is conditional upon the participant (i) keeping shares from allocations in any of Orexo's implemented LTIPs between 1 May 2020 and 31 July 2020 ("Opt-in 1"), or (ii) investing in new Orexo shares with part of or the entire annual cash bonus of the participant between 1 February 2021 and 30 April 2021 ("Opt-in 2"). The number of share awards and

employee stock options that entitle to shares depends on the outcome of the performance conditions set by the board. The performance conditions focus on the holder still being employed by the Orexo group (“Performance Target 1”) and on Orexo’s financial and operational targets for 2020 (“Performance Target 2” and together the “Performance Targets”). Of each participant’s granted share awards, 50 percent will pertain to Performance Target 1 and 50 percent will pertain to Performance Target 2. Of each Participant’s granted employee stock options, 100 percent will pertain to Performance Target 1, meaning that no employee stock options will vest unless the performance target is met. The allotment of shares that each participant later may receive depends on achievement of the Performance Targets. Vesting period means the three-year period from the award date. The part of the program relating to Opt-in 1 may not start later than 31 August 2020 and consequently end no later than on 31 August 2023. The part of the program relating to Opt-in 2 may not start later than 31 May 2021 and consequently end no later than on 31 May 2024. The CEO has been granted 4,230 share awards and 4,230 employee stock options. In total, 13,409 share awards and 13,409 employee stock options have been granted, which corresponds to 0,08 percent of the shares in the company on a diluted basis.

Table 2 – Share option plans (CEO)

Name of director (position)	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)	Opening balance	During the year			Closing balance	
								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
Nikolaj Sørensen (CEO)	LTIP 2011/2021	2011-2021	2011-10-17	2016-10-17	2021-02-16	2016-10-17 – 2021-02-16	29.0	97,763	0	0	97,763	0	97,763
	LTIP 2011/2021	2011-2021	2013-05-03	2018-05-03	2021-02-16	2018-05-03 – 2021-02-16	51.2	247,860	0	150,000***	97,860	0	97,860
	LTIP 2020/2023	2020-2023	2020-06-08	2023-06-08	2023-06-29	2023-06-08 – 2023-06-29	78.61	0	43,800**	0	43,800	43,800	43,800
	LTIP Stay on 2020/2023	2020-2023	2020-08-03	2023-08-03	2024-08-31	2024-08-03 – 2024-08-31	55.9	0	4,230**	0	4,230	4,230	4,230
Total							345,623	48,030	150,000	243,653	48,030	243,653	

* In 2020, 150,000 options were exercised regarding LTIP 2011/2021, where the CEO holds 195,623 options. In LTIP 2020/2023, the CEO was awarded 48,030 options in 2020.

** The aggregate market value of the underlying shares at the time of the award is SEK 3,302,520 and the aggregate exercise price is SEK 3,443,118 for LTIP 2020/2023 and the aggregate market value of the underlying shares at the time of the award is SEK 238,572 and the aggregate exercise price is SEK 236,457 for LTIP Stay on 2020/2023.

*** The aggregate market value of the underlying shares at the time of the exercise is SEK 10,252,650 and the aggregate exercise price (strike price) is SEK 7,680,000 for LTIP 2011/2021.

Table 3 – Share award plans (CEO)

Name of director (position)	The main conditions of share award 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	Opening balance	During the year		Closing balance		
						6 Share awards held at beginning of year	7 Awarded	8 Vested	9 Subject to performance condition	10 Awarded and unvested at year end	11 Shares subject to retention period
Nikolaj Sørensen (CEO)	LTIP 2017/2020	2017-2020	2017-06-22	2020-04-05	2020-06-21	42,300	0	42,300**	0	0	0
	LTIP 2018/2021	2018-2021	2018-06-15	2021-06-14	2021-06-14	62,000	0	0	62,000	62,000	62,000
	LTIP 2019/2022	2019-2022	2019-06-15	2022-06-15	2022-06-15	25,800	0	0	25,800	25,800	25,800
	LTIP 2020/2023	2020-2023	2020-06-08	2023-06-08	2023-06-29	0	18,800***	0	18,800	18,800	18,800
	LTIP Stay on 2020/2023	2020-2023	2020-08-03	2024-08-03	2024-08-03	0	4,230***	0	4,230	4,230	4,230
Total						130,100	23,030	42,300	110,830	110,830	110,830

* In 2020, LTIP 2017/2020 vested, whereupon shares (42,300) were transferred to the CEO. No changes occurred regarding LTIP 2018/2021, where the CEO holds 62,000 share awards. No changes occurred regarding LTIP 2019/2022, where the CEO holds 25,800 share awards. In LTIP 2020/2023, the CEO was awarded 18,800 share awards in 2020. In LTIP Stay on 2020/2023, the CEO was awarded 4,230 share awards in 2020.

** Value: SEK 2,607,161 calculated as the market price per share at vesting (SEK 61,6) multiplied by the number of awards (42,300) for LTIP 2017/2020. 50 percent of the allotted shares were held and 50 percent was paid out in cash to cover taxes for exercised share awards.

*** Value: SEK 1,417,520 calculated as the market price per share at the time of award (SEK 75.4) multiplied by the number of awards (18,800) for LTIP 2020/2023 and SEK 238,572 calculated as the market price per share at the time of award (SEK 56.4) multiplied by the number of awards (4,230) for LTIP Stay-on 2020/2023.

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 defined and measured in the Business Scorecard for 2020 have been taken into account. The non-financial performance measures further contribute to alignment with sustainability as well as the company values.

Table 4(a) - 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
Nikolaj Sørensen (CEO)	Finance Goals	30%	a) 100 % b) kSEK 386.8
	Business Processes – Initiatives with defined targets	30%	a) 100 % b) kSEK 386,8
	Customers & Society - Zubsolv NTRx volume, DTx regulatory approval for vorvida and full year revenue targets	30%	a) 100 % b) kSEK 386.8
	People & Organization – Number and severity of compliance issues and staff engagement score in annual employee survey	10%	a) 100 % b) kSEK 128.9

*Based on the company's Balanced Scorecard for 2019.

Table 4(b) - Performance of the CEO in the reported financial year: share-based incentives

Name of director (position)	Name of plan	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
Nikolaj Sørensen (CEO)	LTIP 2017/2020	Performance target 1, Fulfilment of the financial and operational targets for the financial year 2017 as established by the board of directors and relates to the company's key KPIs as per Balanced Scorecard	50%	a) 80% b) kSEK 1,159*
		Performance target 2, Development of the Orexo share price over the period from the date of the annual general meeting 2017 up to and including April 5, 2020	50%	a) 100% b) kSEK 1,448*
	LTIP 2020/2023 – Share awards**	Performance target 1, Being employed upon vesting	33%	a) Achieved b) N/A***
		Performance target 2, Fulfilment of the financial and operational targets for the financial year 2020 as established by the board of directors and relates to the company's key KPIs as per Balanced Scorecard	67%	a) 100% b) N/A***
	LTIP 2020/2023 – Employee stock options**	Performance target 1, Being employed upon vesting	100%	a) Achieved b) N/A***
		Performance target 1, Being employed upon vesting	50%	a) Achieved b) N/A***
	LTIP Stay on 2020/2023 – Share awards**	Performance target 2, Fulfilment of the financial and operational targets for the financial year 2020 as established by the board of directors and relates to the company's key KPIs as per Balanced Scorecard	50%	a) 100% b) N/A***
		Performance target 1, Being employed upon vesting	100%	a) Achieved b) N/A***
	LTIP Stay-on 2020/2023 – Employee stock options**	Performance target 1, Being employed upon vesting	100%	a) Achieved b) N/A***

* Total value is kSEK 2,607 for exercised 42,300 shares with an exercise price of SEK 61.6. 50 percent of the allotted shares were held and 50 percent was paid out in cash to cover taxes for exercised share awards.
** The program includes both share awards and employee stock options, please refer to the description of the program under section "Outstanding share-related and share price-related incentive plans" above.
*** Performance period still running.

Comparative information on the change of remuneration and company performance

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

	RFY 2020
CEO remuneration	10,678
Group operating profit	-19,900
Average remuneration on a full time equivalent basis of employees* of the parent company	681

* Excluding members of the group executive management.