

# CORPORATE GOVERNANCE REPORT 2017/2018

Oasmia Pharmaceutical AB (publ) ("Oasmia" or "the company") is the Parent Company of the wholly-owned Swedish subsidiaries Qdoxx Pharma AB and Oasmia Incentive AB (formerly Animal Health AB), which are at present dormant companies, and AdvaVet Inc, Oasmia Pharmaceutical Asia Pacific Limited and Oasmia Rus LLC. Oasmia is a public limited liability company listed on NASDAQ Stockholm, the NASDAQ Capital Market, New York, and the Frankfurt Stock Exchange and is governed by a number of laws and regulations. The most important of these are the Swedish Companies Act, the Swedish Annual Accounts Act, NASDAQ Stockholm's Rule Book for Issuers, the Swedish Corporate Governance Code and the SEC's rules and regulations.

Management, guidance and internal control are divided between the shareholders (via the Annual General Meeting), the Board of Directors, the CEO and corporate management. Oasmia also works in accordance with the internal instructions and guidelines adopted by Oasmia's Board and management team. In addition, Oasmia's auditors are responsible for the external control of the company.

This report has been drawn up in accordance with the Swedish Annual Accounts Act and the Swedish Corporate Governance Code.

## SWEDISH CORPORATE GOVERNANCE CODE

The Swedish Corporate Governance Code is based on the principle of "comply or explain", which means that companies applying the Code may choose to deviate from individual rules, but must then report the deviation and the reason for this. Oasmia chose to make the following deviations from the Code during the financial year 2017/2018:

- i) Code rule 1.5. A shareholder and employee of the company was appointed to verify the minutes of the general meeting of shareholders. The reason for this is that none of the non-shareholders and non-employees at the meeting was willing to take on the task of verifying the minutes, and therefore the shareholder and employee was elected to verify the minutes of the meeting.
- ii) Code rule 2.3. The majority of the Nomination Committee members are not independent in relation to the company and management and the Executive Chairman of the Board is a member. The reason for this is that the independent Chairman of the Board departed from the company and the resolution adopted by the meeting of shareholders thus entails such a composition of the Nomination Committee.
- iii) Code rule 2.4. The majority of the Nomination Committee members consist of Board Members who are dependent in relation to the company's major shareholders. The reason for this is that the principal owners considered themselves best represented by their representatives on the company Board.
- iv) Code rule 9.7. The company has issued warrants that the Board has been able to acquire. The warrants mature in less than 3 years. The reason for this is that the company considered that such an incentive structure is that which is most appropriate for achieving the aims of the company's incentive programmes.

## THE SHARE AND SHAREHOLDERS

Oasmia's share has been listed on NASDAQ Stockholm since June 24, 2010, on the Frankfurt Stock Exchange since January 24, 2011 and on the NASDAQ Capital Market since October 23, 2015. The total number of shares on April 30, 2018 amounted to 176,402,372 and each share carries one vote at the general meeting of shareholders. The number of shareholders was 7,435 and Arwidsro Invest AB was the principal shareholder with 16.1%, followed by Alceco International S.A. with 11.0%. The ten largest shareholders owned 49.7 % of the total number of shares. For additional information on the ownership structure, see "The Share" section on page 27.

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held within six months after the end of the financial year. Notice of the Annual General Meeting shall be published in Post- och Inrikes Tidningar and by a notice made available on the company's website. Announcement of the notice shall be advertised in Dagens Nyheter. Shareholders who wish to participate in the Annual General Meeting must be recorded in the share register maintained by Euroclear Sweden AB at least five business days before the meeting.

### Annual General Meeting 2017

The 2017 Annual General Meeting was held on September 25 on Oasmia's premises in Uppsala. The resolutions adopted included the following:

- Adoption of the income statement and balance sheet for the financial year 2016/2017, a resolution on the allocation of non-restricted equity and discharge of the Board and CEO from liability.
- The Board shall consist of five members without any deputies.
- Re-election of the Board members Julian Aleksov, Bo Cederstrand, Alexander Kotsinas and Lars Bergkvist and election of the new Board member Per Langö. Julian Aleksov was elected Chairman.
- Remuneration to Board members who are not employees of the company shall be SEK 150,000 per annum, the Chairman's remuneration shall be SEK 300,000 per annum and the auditors' fees shall be paid as invoiced.
- Criteria for the composition of the Nomination Committee for the 2018 Annual General Meeting.
- Guidelines for the determination of salary and other remuneration for the CEO and other members of Oasmia's management.
- Authorization for the Board to repurchase and transfer the company's own shares.
- Authorization for the Board to adopt a resolution to issue new shares, warrants and convertible bonds, to be paid for in cash and/or in kind or by offsets.

### Extraordinary General Meeting 2017

The company held an Extraordinary General Meeting on June 2, 2017 on Oasmia's own premises in Uppsala. The resolutions adopted included the following:

- Resolution to issue warrants 2017:1 and to cancel 2016:1.
- Resolution to issue warrants 2017:2 and to cancel 2016:2.
- Authorization for the Board to adopt a resolution to issue new shares, warrants and convertible bonds, to be paid for in cash and/or in kind or by offsets.

### Annual General Meeting 2018

The 2018 Annual General Meeting will be held on Tuesday, September 25, 2018 at Oasmia's headquarters in Uppsala. Notice of the Annual General Meeting shall be published no earlier than six and no later than four weeks before the meeting. Shareholders are entitled to have matters considered at the meeting. In order for the company to be certain that it has sufficient time to include all matters in the notice, any request for a matter to be considered at the Annual General Meeting should reach the Board no later than 7 weeks before the meeting. Requests to have a matter considered at the meeting should be addressed to the Board and mailed to the address below.

Oasmia Pharmaceutical AB  
Att. Styrelsen  
Vallongatan 1  
752 28 Uppsala

### NOMINATION COMMITTEE

The main task of the Nomination Committee is to draw up and make proposals concerning Board members and the Chairman of the Board and their fees. The Nomination Committee also presents proposals to the Annual General Meeting on any remuneration for committee work and remuneration for the external auditor. The Nomination Committee's proposals are made public in connection with the notice of the Annual General Meeting.

The Nomination Committee's proposal regarding the selection criteria for the Nomination Committee for the next Annual General Meeting was adopted at the 2017 Annual General Meeting. The criteria were as follows: one member shall be the Chairman of the Board (convener) and two members shall be appointed by the two shareholders who have the largest shareholding in Oasmia Pharmaceutical AB on September 30, 2017 in terms of the number of votes. The Nomination Committee's mandate extends to when the next Nomination Committee has been appointed. The Nomination Committee members for the 2018 Annual General Meeting consist of Bo Cederstrand (Chairman), Julian Aleksov and Per Arwidsson. The full proposal for the 2018 Annual General Meeting will be presented in the Annual General Meeting notice. Bo Cederstrand was appointed by Alceco International S.A. and Per Arwidsson was appointed by Arwidsro Investment AB.

### BOARD OF DIRECTORS

Oasmia's Board consists of five members, including the Chairman. Board assignments are for a fixed term in accordance with the Swedish Companies Act, which means that the mandate will last until the first Annual General Meeting after the year the Board members were appointed.

#### ATTENDANCE, FINANCIAL YEAR 2017/2018

	INDEPENDENT*	BOARD MEETINGS	AUDIT COMMITTEE	REMUNERATION COMMITTEE
Julian Aleksov	No/No	25/25		
Bo Cederstrand	No/No	25/25		
Alexander Kotsinas	Yes/Yes	25/25	6/6	1/1
Lars Bergkvist	Yes/Yes	25/25	6/6	1/1
Per Langö	Yes/Yes	12/25	3/6	1/1

\* Independent of the company and its management and independent of major shareholders.

\*\* Up until the AGM in 2017, the Remuneration Committee consisted of Bo Cederstrand, Alexander Kotsinas and Lars Bergkvist. In conjunction with the AGM on September 26, 2017 Per Langö joined the Remuneration Committee.

### Board duties

The Board has the overall task of managing the company's affairs on behalf of the shareholders. The Board operates in accordance with the Swedish Companies Act, the Articles of Association and internal regulations and continually assesses the Group's financial situation and the operational management. The Board appoints the CEO and decides on significant changes in the company's organization and operations. The Board is also responsible for ensuring that the company's internal control of financial conditions is satisfactory and that the information regarding financial and overall performance is communicated accurately in the company's financial reports.

### Chairman of the Board

The Chairman follows, by regular contact with the CEO, the company's development and is responsible for ensuring that Board members regularly receive the information needed to fulfil their duties. In addition, the Chairman leads the Board's work and ensures that the Board's decisions are implemented. The Chairman also ensures that the work of the Board is evaluated annually and that the Nomination Committee is informed about the evaluation results. In addition, the Chairman is responsible for preparing the Corporate Governance Report and a report on how internal controls, as they relate to financial reporting, are organized and how effectively they worked during the last financial year.

### Board procedures

In accordance with the Swedish Companies Act, Oasmia's Board has adopted a formal written work plan and related CEO instructions that are reviewed once a year or as needed. This formal work plan governs how the work should be distributed between the Board members, the frequency of Board meetings (at least four times a year in addition to the statutory Board meeting), and how the work is divided between the Board and the Audit Committee. The CEO instructions contain, amongst

other things, restrictions regarding decisions on investments and acquisitions. The instructions on reporting, which complement the Board's formal work plan and the CEO's instructions, regulate the CEO's regular reporting to the Board and the Board's external reporting.

#### **Evaluation of the Board's work**

The Board annually evaluates its work regarding its procedures and work climate, the focus of the Board's work, and access to and the need for special competencies on the Board. The results of the evaluation are reported to the Nomination Committee and form the basis of the Committee's work on evaluating the composition of the Board and its remuneration.

#### **Board's work during the financial year**

During the financial year 2017/18 the Board met on 25 occasions. On these occasions the Board mainly addressed issues relating to the continued funding of the Group's business operations and negotiations for/ the signing of new partnership agreements, carefully monitored liquidity forecasts and updates regarding ongoing regulatory processes and made a decision regarding the transfer of veterinary assets.

#### **Audit Committee**

Since the 2017 Annual General Meeting the Audit Committee has consisted of Lars Bergkvist, Alexander Kotsinas and Per Langö. The Audit Committee's primary task is assisting the Board in overseeing the accounting and financial reporting processes and ensuring the quality of these reports and processes. The Audit Committee shall also monitor the auditors' work and the choice of auditing firm and scrutinize the auditors' objectiveness and independence and that the costs for services over and above the auditing assignment are at an appropriate level in relation to the auditing fee so as to not run the risk of impacting independence. The Audit Committee's responsibilities and tasks appear in specially prepared internal instructions. During the financial year, the Audit Committee held 6 meetings, with the auditors in attendance. In addition to this, the company had quarterly contact with the auditors during the financial year.

#### **Remuneration Committee**

The Remuneration Committee is the drafting committee for the company's Board and shall be responsible for preparing the Board's proposal to the Annual General Meeting regarding principles for remuneration and other terms of employment for senior executives. The Remuneration Committee shall also submit draft resolutions to the Board regarding salary and other forms of remuneration for the CEO, and make proposals for resolutions regarding warrant programs and other reward or compensatory matters that are intended to be directed to a broader group of employees within the company. The Committee has consisted of Alexander Kotsinas, Per Langö and Lars Bergkvist. During the year the Remuneration Committee held 1 meeting.

## **REMUNERATION TO THE BOARD AND SENIOR EXECUTIVES**

### **Board**

At the 2017 Annual General Meeting, it was decided that the remuneration to a Board Member who is not an employee of the company shall amount to SEK 150,000 per year. Remuneration to the Chairman shall be SEK 300,000 per year. After December 31, 2017 Board members may no longer invoice their Board member fee through a wholly-owned company.

### **Salaries and other benefits**

Remuneration to the CEO and other senior executives shall consist of a fixed salary, pension provisions and private health insurance.

### **Terms of notice and severance pay**

If notice is given by the company, the term of notice for the CEO will be no more than 12 months. If notice is given by the CEO, the term of notice shall be no more than three months. For other senior executives, the term of notice shall normally be six months if notice is given by the company, and three months if notice is given by the executive. No special severance pay shall be given.

### **Incentive programme**

Oasmia currently has two incentive programmes. Decisions on any incentive scheme for senior executives are to be made by the Annual General Meeting. Resolutions were adopted at the Extraordinary General Meeting held on June 2, 2017 regarding the ongoing warrant programmes.

### **Deviation in specific cases**

The Board has the right to deviate from these guidelines if there are special circumstances in a specific case. If such a deviation is made, information about the case and the reason for the deviation must be presented at the next Annual General Meeting.

### **Auditors**

According to the Articles of Association, the company shall have one or two external auditors. The accounting firm EY was re-elected at the 2017 Annual General Meeting. Authorized Public Accountant Fredrik Norrman will serve as principal auditor.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

Oasmia's process for internal control is designed to manage and minimize the risk of errors in financial reporting. The Board annually evaluates the need for an internal audit procedure and has determined that the company's current size and risk exposure do not justify a separate internal audit procedure. The following description explains how internal controls are organized. The description is limited to internal controls over financial reporting.

### Control environment

The basis of the internal controls concerning financial reporting is the overall control environment. The control environment requires that the organizational structure, decision-making processes and authorities are clearly defined and communicated in the form of internal policy documents such as policies, guidelines, manuals and codes. The control environment also includes laws and external regulations.

The Board has ultimate responsibility for internal controls over financial reporting. Effective Board work is therefore the basis for sound internal control. Oasmia's Board has established a formal work plan and clear instructions for its work, including the work of the Audit Committee. The Audit Committee's primary task is assisting the Board in overseeing the accounting and financial reporting processes and ensuring the quality of these reports and processes.

The Audit Committee's duties are supervisory. Responsibility for maintaining an effective control environment and the ongoing work regarding risk management and internal control over financial reporting is delegated to the CEO. Managers at various levels of the company are in turn responsible for their respective areas. Responsibility and authority are defined in the CEO instructions, instructions for authorization, manuals, other policies, procedures and codes.

The Board determines the company's major policies on information/communication, financing and risk management. Company management establishes instructions and the responsible managers issue guidelines and monitor implementation of all policies and instructions. The company's accounting and reporting instructions are defined in an accounting manual which is available to all financial staff. Along with laws and other external regulations, the organizational structure and the internal guidelines constitute the control environment.

### Risk assessment

The goal of risk assessment is to identify areas of high risk within the business and to define the controls needed to manage these risks. Balance sheet and income statement items that are based on estimates or generated by complex processes are relatively more prone to error than other items.

The Board initiates an annual risk identification process and the results of the risk identification are evaluated by the Board in order to make an assessment of what steps need to be taken. The Board believes that the company has effective internal controls over financial reporting.

### Control activities

Control activities are designed to prevent, detect and correct errors and deviations. The controls are integrated into the company's processes for payments, accounting and financial reporting and include authorization and approval procedures, reconciliation, performance analysis, division of administrative control and performance functions, and controls embedded in IT systems.

### Information and communication

Information that it is assessed will affect the company's share price (price-sensitive information) is made public in a rapid and non-discriminatory manner. Company publications are done through press releases sent simultaneously to the Stock Exchange, established news agencies and newspapers. The information will also be simultaneously published on the company website. Oasmia is represented publicly in all matters primarily by the CEO. The CEO has delegated certain responsibilities to the Communications Officer. The CEO and Communications Officer may, on behalf of the company, inform/comment on matters relating to the company's operations.

The company applies quiet periods, which occur thirty days before the publication of annual and interim reports. In the instance of a leak of price-sensitive information or other special situations that may affect the valuation of the company, the Stock Exchange is to be notified, followed by a press release containing the same information. The company's public disclosures are governed by an information policy that is intended to ensure the quality of both internal and external information. Furthermore, the policy should facilitate compliance with applicable laws, regulations and agreements. The management of insider information is regulated by specific guidelines stated in the company's insider policy and insider list policy (formerly logbook policy).