

Annual remuneration report 2020

Introduction

This report describes how the principles of remuneration for senior executives at Arjo, 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 Arjo's application of the performance criteria for awarding variable cash remuneration. 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 6 (Employee costs) on pages 82-84 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 57-65 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 6 on page 82-84 in the annual report 2020, this information can also be found as an appendix to this report.

Key developments 2020

The CEO summarizes Arjo's overall performance in his statement on page 8 in the annual report 2020.

Arjo's principles of remuneration for senior executive: 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 is able to recruit and retain qualified personnel. The basic principle is that remuneration and other terms and conditions of employment for senior executives shall be based on market conditions and be competitive in all markets where Arjo operates, to ensure that competent and skillful employees can be attracted, motivated and retained. Individual levels of remuneration shall be based on experience, competence, responsibility and performance and be market-conforming in the country in which the senior executive is employed.

The CEO of Arjo has during 2020 received the following remuneration components; base salary, short term incentive (based on EBITDA and Working Capital), Long Term incentive (based on EPS), Benefits and pension contributions.

The principles of remuneration for senior executives are found on pages 52-53 in the annual report 2020.

Description of significant changes to the guidelines and consideration of the opinions of the shareholders

During 2020, the company has complied with the applicable remuneration guidelines adopted by the general meeting. No deviations from

the principles have been decided and no derogations from the procedure for implementation of the principles have been made.

No opinions on the remuneration guidelines were presented.

Share-based remuneration

Arjo does not have long-term share-based incentive plans. Of note, Arjo's principal owner - Carl Bennet AB - has offered Arjo Management synthetic share options in the past, with a term of three years. Arjo's Board and the Arjo Management Team have been individually invited to sign an agreement for synthetic share options with Carl Bennet AB. The costs for this will not be charged to Arjo's income statement. The CEO of Arjo owns 1,190,476 such stock options.

Application of performance criteria

The performance measures for the CEO's variable remuneration have been selected to deliver the Arjo strategy and to encourage behavior that is in the long-term interest of the Arjo. In the selection of performance measures, the strategic objectives and short-term and long-term business priorities for 2020 have been taken into account.

ARJO Long Term Incentive-Program (LTIP)

The Arjo Board decided to introduce three year long term incentive programs year 2018, 2019 and 2020. The programs are cash-based and encompasses 50-55 participants. The incentive program is an addition to the annual base and variable salary.

Objective

The incentive programs are targeted and have a long-term content. The aim of the programs is to strengthen commitment and reward and retain key leaders and employees who can exercise the greatest influence over Arjo's mid and long-term performance.

Goal

Each program extends for three years and remuneration may total a maximum of twelve monthly salaries during a three-year period. The calculation of outcome excludes the Group's exceptional items and impact of any acquisitions and divestments.

Outcome and payment

The outcome of the programs are calculated every year and accumulated over the three-year period. Any outcome for the program that started 2018 will be paid in 2021 provided that the participant remains employed at the company on the payment date.

Table 1 – Total remuneration of the CEO (SEK)

Table 1 below sets out total remuneration expenses for Arjo's CEO during 2020, 2019 and 2018 (SEK).

Name of Director, position	Financial year	Fixed remuneration		Variable remuneration		Extra-ordinary items	Pension expenses	Total remuneration	Proportion of fixed and variable remuneration
		Basic pay	Other benefits	One-year variable	Multi-year variable				
Joachim Lindoff CEO	2020	8,130,000	118,592	6,426,000	2,258,678*	0	2,409,750	19,343,020	55/45
	2019	7,803,000	142,209	650,000	0	0	2,295,000	10,890,209	94/6
	2018	7,472,499	135,321	3,465,890	420,517	0	2,241,750	13,735,977	72/28

* Vested amount for year 2020 from Arjo LTI program 1-3, of which SEK 714,268 to be paid during 2021

Table 2a - Performance of the CEO in the reported financial year

Set out in Table 2a below is a description of how the criteria for payment of variable short-term compensation have been applied during the financial year.

Name of Director, position	Description of the criteria related to the remuneration component	Relative weighting of the performance criteria	a) Measured performance and	
			b) actual award/ remuneration outcome	
Joacim Lindoff CEO	Adjusted earnings before interest, tax depreciation and amortization (EBITDA)*	70%	a) SEK 1,964 M	b) SEK 5,341,612 M
	Working Capital (R12)	30%	a) 133 days	b) SEK 1,084,388

* Adjusted for exceptional items and translated at last year's exchange rates.

Table 2b - Performance of the CEO in the reported financial year

Set out in Table 2b below is a description of how the criteria for payment of variable long-term compensation have been applied during the financial year.

Name of Director, position	Description of the criteria related to the remuneration component	Relative weighting of the performance criteria	a) Measured performance and	
			b) actual award/ remuneration outcome	
Joacim Lindoff CEO	Earnings per share (adjusted EPS) year 2020*: Target: 1.80 (Program 1 2018–2020)	33.3%	a) 2.36	b) SEK 714,268 (earned)
	Earnings per share (adjusted EPS) year 2020*: Target: 1.80 (Program 2 2019–2021)	33.3%	a) 2.36	b) SEK 756,311 (granted)
	Earnings per share (adjusted EPS) 2020*: Target: 1.80 (Program 3 2020–2022)	33.3%	a) 2.36	b) SEK 788,099 (granted)

* Adjusted for exceptional items and translated at last year's exchange rates.

Comparative information on the change of remuneration and Arjo performance**Table 3 - Change of remuneration and Arjo performance over the last two reported financial years (RFY)**

Annual change	2019 vs 2018	2020 vs 2019	2020)
Joacim Lindoff, CEO	SEK -2,691,024	SEK +8,452,811	SEK +19,343,020
Arjo's performance			
Group operating profit	MSEK +178	MSEK +195	MSEK +866
Group net sales	MSEK +708	MSEK +102	MSEK +9,078
Average remuneration on a full-time equivalent basis of employees			
Employees of the Arjo* %	SEK +50,811	SEK +72,653	Average total remuneration is SEK 874,288 for 2020
Employees of the Arjo* Actual numbers	173 vs 150	179 vs 173	179 employees

* The average remuneration of a full-time equivalent for RFY 2018, 2019 includes all employees in Sweden (excluded Group Management), annual base salary during 2018, 2019, pension contributions during 2018, 2019 and actual variable pay paid out during 2018, 2019 but it relates to performance for the preceding year according to Arjo STIP Plan.

* The average remuneration of a full-time equivalent for RFY 2020 includes all employees in Sweden (excluded Group Management) annual base salary during 2020, pension contributions during 2020 and target of variable pay during 2020 since it is not yet calculated and paid out.