



Remuneration report

Introduction

This report describes how the guidelines for executive remuneration of Swedish Match AB, adopted by the annual general meeting 2020, were implemented in 2020. The report also provides information on remuneration to the CEO. The report has been prepared in accordance with the Swedish Companies Act and the Rules on Remuneration of the Board and Executive management and on Incentive Programmes issued by the Swedish Corporate Governance Board. Further information on executive remuneration is available in *Note 5 Personnel* on pages 90–93 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 131–143 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 5* on page 90 in the annual report 2020.

Key developments 2020

2020 was another year of strong top-line growth and overall impressive financial performance for Swedish Match. COVID-19 related effects on consumer demand and channel shifts are estimated to have had a net positive effect of the financial development, but the key driver for the double-digit growth in both revenues and earnings in local currencies was the successful expansion with nicotine pouches on the US market. Further details on operational and financial performance of the Group are provided in the audited 2020 annual report. There have been no deviations from the Guidelines for executive remuneration, or other adjustments such as cancellations or significant amendments to any of the incentive plans.

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, it is necessary that the Company offers competitive remuneration. The remuneration structures shall encourage employees to do their utmost to safeguard shareholders' interests and thereby the Company's sustainability and long-term value creation.

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 criteria for variable remuneration shall be designed to contribute to the Company's business strategy and long-term interests, including its sustainability objectives. A majority of the criteria shall be linked to clear and measurable financial performance measures (e.g. operating profit and net sales). There may also be non-financial criteria (e.g. operational criteria or criteria linked to sustainability).

The guidelines are found on pages 90–93 in the annual report 2020. The remuneration guidelines, adopted by the annual general meeting 2020, have been fully implemented. 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 www.swedishmatch.com/Corporate-Governance/. No remuneration has been reclaimed. In addition to remuneration covered by the remuneration guidelines, the annual general meeting of the Company may resolve to implement long-term share-related incentive plans. Swedish Match has no outstanding share-plans.

Table 1 – Total CEO remuneration in 2020 (TSEK)

Name of director (position)	Fixed remuneration ¹⁾		Variable remuneration		Extraordinary items ¹⁾	Pension expense ¹⁾	Total remuneration	Proportion of fixed and variable remuneration ⁴⁾
	Base salary	Other benefits	One-year ^{1) 2)}	Multi-year ³⁾				
Lars Dahlgren (CEO)	7,446	140	5,255	3,166	Not applicable	2,667	18,674	54.9% (fixed) 45.1% (variable)

¹⁾ Remuneration earned in 2020. Disbursement may or may not have been made the same year.

²⁾ Includes profit sharing (45 TSEK) and short-term incentives (STI) 2020 presented in table 2a.

³⁾ Refers to LTI 2018–2020 (i.e. LTI that vested end of 2020), presented in table 2b.

⁴⁾ Pension expense is entirely calculated as fixed remuneration.

Share-based remuneration

Swedish Match has no outstanding share-based incentive plans. However, the CEO has undertaken to purchase Company shares for the award received net of income tax and retain for a period in all outstanding variable plans. For further details please refer to the section *Application of performance criteria*.

Application of performance criteria

The performance criteria for the CEO's variable remuneration have been selected to reflect successful implementation of the Company's strategy and to encourage behavior which is in the long-term interest of the company. In the selection of performance criteria, the strategic objectives as well as the short- and long-term business and sustainability related priorities have been taken into account.



Table 2(a) – Performance of the CEO in the reported financial year: One-year variable remuneration (STI 2020)

Name of director (position)	Performance criteria	Relative weighting of performance criteria	Measured performance and Remuneration outcome (MSEK)
Lars Dahlgren (CEO)	Group operating profit ¹⁾	75%	2019 baseline: 5,673 Threshold for payout: 5,773 Threshold for maximum payout: 6,184 Performance outcome: 100%
	Net sales from product segments ¹⁾	25%	2019 baseline: 14,382 Threshold for payout: 14,732 Threshold for maximum payout: 15,820 Performance outcome: 100%

¹⁾ Excluding larger one-time items. Adjusting for currency effects and other factors not considered in the target setting.

In the STI 2020 plan the CEO has undertaken to purchase Company shares for 50 percent of the award received net of income tax and retain these shares for a period of at least 3 years.

Table 2(b) – Performance of the CEO in the reported financial year: Multi-year variable remuneration (LTI 2018–2020)

Name of director (position)	Performance criteria	Relative weighting of performance criteria	Measured performance and Remuneration outcome (MSEK)
Lars Dahlgren (CEO)	Group operating profit ¹⁾	75%	Threshold for payout: 12,806 Threshold for maximum payout: 14,684 Performance outcome: 100%
	Net sales from product segments ¹⁾	25%	Threshold for payout: 34,399 Threshold for maximum payout: 39,444 Performance outcome: 100%

¹⁾ Excluding larger one-time items. Adjusting for currency effects and other factors not considered in the target setting.

In the LTI 2018–2020 plan the CEO has undertaken to purchase Company shares for 100 percent of the award received net of income tax and retain these shares for a period of at least 2 years.

Table 2(c) – Performance of the CEO in the reported financial year: Multi-year variable remuneration (LTI 2019–2021)

Name of director (position)	Performance criteria	Relative weighting of performance criteria	Measured performance and Remuneration outcome (MSEK)
Lars Dahlgren (CEO)	Group operating profit	75%	All targets are measured and disclosed end of performance period
	Net sales from product segments	25%	

In the LTI 2019–2021 plan the CEO has undertaken to purchase Company shares for 100 percent of the award received net of income tax and retain these shares for a period of at least 2 years.

Table 2(d) – Performance of the CEO in the reported financial year: share-based incentives (LTI 2020–2022)

Name of director (position)	Performance criteria	Relative weighting of performance criteria	Measured performance and Remuneration outcome (MSEK)
Lars Dahlgren (CEO)	Group operating profit	70%	All targets are measured and disclosed end of performance period
	Net sales from product segments	20%	
	Greenhouse gas reduction	10%	

In the LTI 2020–2022 plan the CEO has undertaken to purchase Company shares for 100 percent of the award received net of income tax and retain these shares for a period of at least 2 years.

Comparative information on the change of remuneration and Company performance

Table 3 – Change of remuneration and company performance over the last reported financial years (RFY)¹⁾

	RFY 2019	RFY 2020
CEO remuneration ²⁾ , TSEK	18,090	18,674 (+3.2%)
Group operating profit, MSEK	5,307	6,991 (+31.7%)
Average remuneration ²⁾ on full time equivalent basis of employees ³⁾ in Sweden, TSEK	618	625 (+1.2%)

¹⁾ The table will be extended over time to include 5 years historical comparison.

²⁾ All compensation elements, pension and benefits are included for both CEO and employees in Sweden.

³⁾ Excluding members of the Group Management Team.