

Svenska Cellulosa Aktiebolaget SCA (publ)

SCA's Remuneration Report 2020

Introduction

This report describes how the guidelines for remuneration of senior executives of Svenska Cellulosa Aktiebolaget SCA (publ) ("SCA"), as resolved by the 2020 Annual General Meeting, were applied in 2020. The report also contains information about the remuneration of the President and CEO. The report was prepared in accordance with the Swedish Companies Act and the Swedish Corporate Governance Board's *Rules on Remuneration of the Board and Executive Management and on Incentive Programmes*.

Further information concerning remuneration of senior executives is available in Notes C1-C5 on pages 99–104 of the 2020 Annual Report. Information concerning the work of the Remuneration Committee in 2020 can be found in the Corporate Governance Report on pages 71–81 of the 2020 Annual Report. Remuneration of the Board is not covered by this report. Such remuneration is decided each year by the Annual General Meeting and is presented in Note C4 on page 101 of the 2020 Annual Report.

Company's performance in 2020

The President and CEO summarizes the company's earnings in his statement on pages 6–7 of the 2020 Annual Report.

The company's remuneration guidelines: area of application, 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, motivate and retain qualified personnel through competitive remuneration in line with market levels. The company's remuneration guidelines make it possible to offer senior executives competitive total remuneration in line with market levels. According to the remuneration guidelines, total remuneration to senior executives is to correspond to market practice and be competitive in the senior manager's field of profession. They should also reflect the manager's responsibility, authority and performance. Remuneration may consist of the following components: fixed salary, variable salary, other benefits and pension. Variable remuneration shall be based on the outcome of short-term and long-term goals, comprising financial goals, goals that contribute to such, or to the value development of the company's share. Variable remuneration shall aim at promoting the company's business strategy and long-term interests, including its sustainability.

The guidelines and information regarding their application is available on pages 99–100 of the 2020 Annual Report. In 2020, the company has complied with the applicable remuneration guidelines as adopted by the Annual General Meeting. No deviations were made from the guidelines, nor were any deviations made from the decision-making process with regard to the determination of remuneration stated in the guidelines. The auditor's statement on the company's compliance with the guidelines is available on www.sca.se. No claims for the repayment of remuneration were made.

Table 1. Remuneration of President and CEO

The table shows total remuneration (SEK) of the President and CEO in 2020

	Fixed salary ¹	Other benefits ²	STI (one-year variable remuneration) ³	LTI (three-year variable remuneration) ⁴	Extraordinary remuneration	Pension costs ⁵	Total remuneration	Distribution between fixed and variable remuneration relative to total remuneration ⁶
Ulf Larsson (President and CEO)	9,250,000	130,078	1,100,750	4,625,000	0	3,859,438	18,965,266	70 % / 30 %

Application of performance criteria

Performance criteria for the President and CEO's short-term and long-term variable remuneration were selected to realize the company's strategy and to encourage behavior that promotes the company's long-term interests. The choice of performance criteria took into account strategic targets and short and long-term business priorities for 2020.

Short Term Incentive Program

The performance criteria⁷ in the short-term incentive program (STI) for the President and CEO comprise profit for the period, EBITDA, operating cash flow, return on capital employed (ROCE) for SCA's industrial operations, and the number of accidents per million hours worked (LTA) in the SCA Group.

Table 2. Overview of the President and CEO's short-term performance goals and goal achievement in 2020 (short-term variable remuneration)

	1	2	3
	Description of criteria attributable to the remuneration component	Relative weights of performance criteria	a) Measured performance and b) actual remuneration outcome
Ulf Larsson (President and CEO)	Profit for the period	25 %	a) 767 SEKm b) 0 SEK 000s
	EBITDA	20 %	a) 3,393 SEKm b) 0 SEK 000s
	Operating cash flow	25 %	a) 2,668 SEKm b) 777 SEK 000s
	Industrial return on capital employed	20 %	a) 5,4 % b) 0 SEK 000s
	LTA	10 %	a) 36 number b) 323.75 SEK 000s

¹ Fixed salary comprises base salary and vacation pay, paid in 2020.

² Vehicle benefits, Taxable mileage allowance, health insurance. The table shows benefits expensed in 2020.

³ The table reports STI pertaining to the 2020 fiscal year. Disbursements in 2021.

⁴ The table reports LTI pertaining to the 2020 fiscal year. Disbursements in 2021.

⁵ The pension costs pertain to the costs for defined contribution pension plans that affected profit for 2020. Supplementary health insurance is included in costs.

⁶ Calculated as Fixed salary + Any other benefits + Pension costs/Total remuneration. Calculated as STI + LTI /Total remuneration. The year's pension costs, which are exclusively calculated on fixed salary, were reported in full as fixed remuneration.

⁷ A definition of the performance criteria is presented on page 172 of the Annual Report

Long Term Incentive Program

The President and CEO participates in the company's long term cash-based incentive program (LTI), which is adopted by the Board each year. The LTI's performance criteria are linked to the value development of the company's Class B share, measured as Total Shareholder Return (TSR) compared with a weighted index composed of OMX Stockholm 30 and the shares of a number of identified⁸ peer companies over a three-year period. The maximum outcome of the LTI program requires a 5% stronger outcome for the SCA share compared to the peer group over the relevant three-year period. The payment of cash remuneration within the LTI program is linked to a requirement of investment in the SCA share, whereby half of the net outcome (after tax deductions) is to be used to buy shares in SCA, and a requirement that the acquired shares are retained for a period of at least three years after the acquisition. Similar information concerning the company's LTI program can be found in Note C3 on pages 99–100 of the 2020 Annual Report.

With respect to the LTI program relating to the 2018–2020 measurement period, the SCA share achieved an outcome of 75%⁹, which was 43 percentage points better than the outcome for the peer group. This meant the President and CEO received a maximum actual outcome of SEK 4,625,000 (50% of the fixed annual salary).

Information pertaining to the President and CEO's remuneration, company performance and remuneration of other employees

Table 3. Comparison of President and CEO's remuneration relative to the company's financial performance and remuneration of other employees

	2020
Remuneration of Ulf Larsson (President and CEO) (SEK)	18,965,266
SCA's economic performance	
• EBITDA (SEKm)	3,393
• Profit for the period (SEKm)	767
• Total Shareholder Return 2018–2020 (%)	75 %
Average remuneration based on the number of full-time equivalent employees at SCA Forest Products AB ¹⁰ (SEK). Variable salary during the year comprises expensed amounts.	692,294

⁸ In 2020, these industry companies comprised Holmen AB, Stora Enso OY, UPM-Kymmene OY and BillerudKorsnäs AB

⁹ Source: FactSet TSR index, Nasdaq for OMXS30GI

¹⁰ Refers to SCA Forest Products AB, which is the company in which employees of SCA's Group functions mainly operate. The Parent Company Svenska Cellulosa Aktiebolaget SCA (publ.) employs only the President and CEO and other members of company management and has no other employees. The current and previous members of Executive Management were excluded from the comparison between remuneration of the President and CEO and other employees.