

The Board's proposal to the Annual General Meeting of Vitrolife AB (publ) on April 28, 2021, concerning resolution on approval of the Board's remuneration report (agenda item 17)

Remuneration report Vitrolife AB 2020

Introduction

This report describes how the guidelines for executive remuneration of Vitrolife 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 incentive programmes. 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 (Remuneration Rules)* issued by the Swedish Corporate Governance Board.

Further information on executive remuneration is available in note 8 (Employees, personnel costs and Board fees) on page 52 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 36-39 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 8 on page 52 in the Annual Report 2020.

Key developments 2020

The CEO summarizes the company's overall performance in his statement on pages 4-5 in the Annual Report 2020.

The company's remuneration guidelines: scope, purpose and deviations

Vitrolife's business goal is to be the leading supplier of products and services that reduce the time to achieve a healthy baby and improve the efficiency and control for IVF clinics. To achieve this, the company is working on a strategy of growth-promoting priorities and efficiency-enhancing measures. In addition, there is a great focus on the employees. The company's strategies are based on a values-driven culture and core values, on sustainability and community engagement. The company's business concept provides collaboration that creates an efficient and strong Group. Vitrolife's vision, strategy and various objectives are described in further detail on the company's website at www.vitrolife.com.

Successful implementation of Vitrolife's business strategy and the safeguarding of the Group's long-term interests, including its sustainability, rely on Vitrolife recruiting and retaining qualified employees with the right competence. To achieve this, it is necessary that Vitrolife can offer competitive remuneration. The guidelines allow executive management to be offered competitive total remuneration.

Remuneration paid to the CEO and other executive management comprises basic salary, variable remuneration, pension and other benefits. The guidelines apply until the 2021 Annual General Meeting, unless a general meeting of shareholders decides otherwise. The guidelines do not cover remuneration decided by a general meeting of shareholders, such as fees for Board members or share-based incentive programmes. All pension benefits are defined-contribution plans. Variable remuneration is prepared by the Remuneration Committee and decided by the Board. The CEO's variable remuneration is capped at a maximum of 75% of annual salary. For other executive management, variable remuneration is capped at a maximum of 50% of annual salary. The variable remuneration for the CEO and other executive management is based on the outcome of two quantitative parameters compared with set targets. The quantitative parameters relate to the Company's sales and income (EBITDA). The total cost to the company of the total variable remuneration for the CEO and other executive management is not permitted to exceed SEK 19,000,000 (including social security expenses). A summary of guidelines for remuneration of executive management is available on pages 33-35 in the Annual Report 2020.

Deviation in 2020 from the guidelines regarding variable remuneration

As a result of the considerable impact of the pandemic on Vitrolife's business, the targets were not met either fully or partially. Given that the executive management were successful in minimising the negative effects of the pandemic on Vitrolife's business, the Board decided that target achievement for 2020 should amount to a third of the maximum level.

The auditor's report regarding the company's compliance with the guidelines is available on www.vitrolife.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 programmes. The performance standards used to assess the outcome of the programmes are clearly linked to the business strategy and to Vitrolife's long-term creation of value, including sustainability.

Table 1 – Total CEO remuneration in 2020 (kSEK) ¹

	1 Fixed remuneration		2 Variable remuneration		3	4	5	6
Name of director (position)	Base salary ²	Non-monetary benefits ³	One-year	Multi-year ⁴	Extraordinary items	Pension	Total remuneration	Proportion of fixed and variable remuneration ⁵
Thomas Axelsson (CEO)	5,848	50	1,392	-	-	2,238	9,528	85% / 15%

¹ 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 8 of Table 2 below (as applicable). Disbursement of any payments may or may not have been made the same year.

² Including holiday pay of kSEK 111.

³ Company car and health care benefits.

⁴ Vested share awards as set out in column 8 of Table 2 below

⁵ Pension expense (column 4), which in its entirety relates to Base salary and is premium defined, has been counted entirely as fixed remuneration

Share-based remuneration

Outstanding share-related incentive programmes

Vitrolife has three share-related incentive programmes outstanding, which were adopted by the 2018, 2019 and 2020 AGMs:

Long-term incentive programme 2018 (LTI)

The performance target set by the Board for the 2020 financial year with regard to the long-term incentive programme adopted by the 2018 Annual General Meeting amounted to SEK 4.60 EBITDA per share, recalculated for the 5:1 split, with payment pro-rata in the interval SEK 3.99 – 4.60 EBITDA per share. The outcome for 2020 was SEK 4.18 EBITDA per share. The target was thus partially met and payment of the performance amount to participants will be pro-rata during 2021 in accordance with the agreement. For more information, see www.vitrolife.com.

Long-term incentive programme 2019 (LTI)

Vitrolife has a share-related incentive programme outstanding in accordance with the resolution adopted by the 2019 Annual General Meeting. The total cost for the Group regarding payment of the Matching and Performance Amounts in accordance with this amounts to a maximum of SEK 6,700,000 over a five-year period. Vitrolife's outstanding obligation for this programme consists of Performance Amounts, which in total can amount to a maximum of approximately SEK 1,300,000. For more information, see www.vitrolife.com

Long-term incentive programme 2020 (LTIP)

The 2020 Annual General Meeting adopted the Board's proposal to introduce a long-term incentive programme (LTIP 2020) for certain key employees in order to encourage a personal long-term shareholding in Vitrolife and also to increase and strengthen opportunities for recruiting, retaining and motivating employees. The aim was also to use LTIP 2020 to align the interests of employees with those of shareholders. LTIP 2020 is aimed at certain key employees in the Group. Participants are based in Sweden and other countries where the Group operates. Each participant is entitled, after the end of a qualifying period, conditional upon continued employment (with the exception of "Good Leavers"), and dependent on the meeting of particular performance standards linked to Vitrolife's EBITDA per share, to receive an allotment of Vitrolife shares ("Performance Shares"). Allotment of Performance Shares to participants shall be free of charge. Performance Shares shall consist of ordinary shares. LTIP 2020 is aimed at a maximum of 8 employees, divided into 2 categories of participants: Category 1 (max 1 person): a maximum of 12,000 shares per person. Category 2 (max 7 persons): a maximum of 4,000 shares per person. Allotment of Performance Shares under the LTIP 2020 programme will be carried out for a limited period of time after the 2023 Annual General Meeting. The period up until this date is a qualifying period (vesting period). A condition for a participant being entitled to receive an allotment of Performance Shares is that the participant continues to be employed at Vitrolife during the entire qualifying period up until allotment. In addition, for allotment of Performance Shares it is necessary that performance standards linked to Vitrolife's EBITDA are met. The Board shall determine the customary definition of Good Leavers and whether any allotment is to be given to participants considered to be a Good Leaver. Performance standards are based on the average growth rate of Vitrolife's EBITDA per share as from the 2020 financial year up until the 2022 financial year (with the 2019 financial year as a benchmark). The minimum level has been set at 4% and the maximum level at 12%. 0% of the Performance Shares will be vested at or under the minimum level. 100% of the Performance Shares will be vested at or above the maximum level. The number of shares that may be allotted increases linearly between the minimum and maximum levels. Shareholders will be informed of the outcome after the allotment of Performance Shares to participants. Before allotment of Performance Shares the Board shall assess whether the allotment is reasonable in relation to the Group's financial results, position and development, as well as other factors. If there are considerable changes within the Vitrolife Group or in the market, which in the assessment of the Board would mean that the conditions for allotment/transfer of shares in accordance with LTIP 2020 are no longer reasonable, the Board has the right to carry out an adjustment of LTIP 2020, including, amongst other things, the right to reduce the number of Performance Shares allotted/transferred, or to not allot/transfer any Performance Shares at all. For more information, see www.vitrolife.com.

Table 2 – Share award plans (CEO)

	The main conditions of share award plans					Information regarding the reported financial year					
						Opening balance	During the year		Closing balance		
Name of director (position)	1 Name of plan	2 Performance period	3 Award date	4 Vesting date	5 End of retention period	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
Thomas Axelsson (CEO)	LTIP 2020	2020-07 2023-06	2020-07-01	2023-06-30	2023-06-30	0	12,000*	0	12,000	12,000	0

* Value: kSEK 2,648, calculated as the market price per share at the time of award (SEK 220.65) multiplied by the number of awards (12,000).
The CEO did not participate in the LTI 2018 or LTI 2019.

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 behavior 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 for 2020 have been taken into account.

Table 3(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*
Thomas Axelsson (CEO)	Net sales 2020	50%	a) 0 % b) kSEK 696*
	EBITDA 2020	50%	a) 0 % b) kSEK 696*

* As a result of the considerable impact of the pandemic on Vitrolife's business, the targets were not met either fully or partially. Given that the executive management were successful in minimising the negative effects of the pandemic on Vitrolife's business, the Board decided that target achievement for 2020 should amount to a third of the maximum level.

Table 3(b) - Performance of the CEO in the reported financial year: share-based incentives

Since the performance period is still ongoing for all incentive programmes in which the CEO holds instruments, there is nothing to report in this section.

Comparative information on the change of remuneration and company performance

Table 4 – Change of remuneration and company performance over the last five reported financial years (RFY) (kSEK)

Since this is Vitrolife's first remuneration report, the information in the table below pertains only to the 2020 financial year.

	2020
CEO remuneration	10,203*
Group operating profit	370,015
Average remuneration on a full-time equivalent basis of employees of the parent company	716

* To make comparison possible, the remuneration to the CEO presented in Table 4 corresponds to the remuneration presented in the remuneration note in the annual report for each year. Consequently, the remuneration to the CEO in Table 4 may differ from the remuneration reported in Table 1.