

**The Board of Directors' proposal under item 16 on the Agenda of the Annual General Meeting of Swedish Match AB (publ) on April 2, 2020**

The Board of Directors proposes that the following guidelines for executive remuneration be adopted by the Annual General Meeting 2020.

**Guidelines for executive remuneration**

The guidelines govern the remuneration of the President and other members of the Group Management Team (GMT). The guidelines are forward-looking, i.e. they are applicable to remuneration agreed, and amendments to remuneration already agreed, after adoption of the guidelines by the Annual General Meeting 2020. These guidelines do not apply to any remuneration decided or approved by the General Meeting.

**The guidelines' promotion of the Company's business strategy, long-term interests and sustainability**

For information regarding the Company's business strategy, see <https://www.swedishmatch.com/Our-company/Vision-and-strategy/>.

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.

**The types of remuneration to GMT**

The total remuneration to the GMT consists of fixed cash salary, variable cash remuneration, pension benefits, other benefits and terms related to termination of employment. Additionally, the General Meeting may – irrespective of these guidelines – resolve on, among other things, share-related or share price-related remuneration.

Remuneration under employments subject to other rules than Swedish may be duly adjusted to comply with mandatory rules or established local practice, taking into account, to the extent and reasonably possible, the overall purpose of these guidelines.

**1. Fixed salary**

The fixed salary for the GMT shall be in cash, correspond with market practice and be based on each individual's competence, country of residence, area of responsibility and performance.

**2. Variable salary**

GMT may be entitled to a variable salary in addition to the fixed salary. The variable salary shall be capped in relation to the fixed salary and reflect the market practice in the country of residence of the member of the GMT.

The variable salary may include both a short-term (annual) cash incentive program (*2a below*), a long-term cash incentive program with a performance period which shall not be shorter than three years (*2b below*), and profit sharing (*2c below*). To correspond with

local market practice and to be able to attract and retain members of the GMT resident outside of Sweden, such members may participate in an additional incentive program (*2d below*).

The variable cash salary shall be linked to specified performance criteria. Performance criteria, their weight, thresholds and targets will be established at the beginning of each respective program.

The performance criteria will be established by the Board of Directors in relation to the President and by the Remuneration Committee in relation to all other members of GMT. The criteria shall be designed to contribute to the Company's business strategy and long-term interests, including its sustainability. 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 extent to which criteria for awarding variable cash remuneration has been satisfied shall be determined when the measurement period has ended. The Remuneration Committee is responsible for the evaluation of variable remuneration to be awarded the President as well as the other members of the GMT. For financial performance criteria, the evaluation shall be based on financial information made public by the Company.

By the end of a program, either the Board of Directors or the Remuneration Committee will have the right to adjust the outcome in case conditions have changed during the performance period. However, such potential adjustment(s) must have the primary purpose of strengthening the link between remuneration and the value creation for the shareholders, and to ensure that the level of remuneration is a fair reflection of the Company's and the individual's performance during the performance period for each individual program.

The Board of Directors shall have the possibility, subject to the restrictions that may apply under law, to in whole or in part reclaim variable remuneration paid on incorrect grounds (claw-back).

#### ***2a) Short-term incentive program***

The Board of Directors and the Remuneration Committee can annually resolve to implement an annual incentive program (*STI*). The maximum variable salary of such short-term incentive shall be 70 percent of the base salary.

To strengthen the connection to the shareholders' interest and the Company's long-term value creation, members of GMT may in the beginning of the program commit to purchase Company shares for at least 50 percent of the received cash award net of income tax and to retain such shares for a period of not less than three years. A 20 percentage points reduction in maximum variable salary shall apply to any GMT member who does not commit to such purchase and retention of shares.

#### ***2b) Long-term incentive program***

The Board of Directors and the Remuneration Committee can annually resolve to implement a long-term cash incentive program (*LTI*) where the maximum variable salary shall be 45 percent of the base salary. The LTI-program, with a performance period which shall not be shorter than three years, includes an obligation to purchase Company

shares for the full cash award net of income tax and to retain such shares for a period of not less than two years.

### ***2c) Profit-Sharing System***

In some countries employees, including members of the GMT, can participate in profit-sharing systems.

The Profit-Sharing System is not connected to a position and shall compose a small part of the remuneration for the member of GMT. The maximum award to members of GMT resident in Sweden shall not exceed 5 percent of the base salary.

### ***2d) Additional incentive program***

To correspond with local market practice, GMT members resident outside Sweden may participate in an additional incentive program capped over time at 50 percent of the base salary. Performance criteria shall be set at the beginning of each program whilst the thresholds and targets can be set at the beginning of the performance period or yearly.

## **3. Pensions**

Old age pension shall be designed to reflect the practices in the country where a member of the GMT is resident.

The retirement age of a member of GMT shall normally be 65 years.

With regard to employments in Sweden, the GMT may have a defined contribution plan applicable to the part of the salary which is not covered by the ITP-plan. Such pension contributions shall amount to not more than 40 percent of the part of the base salary which is not covered by another pension plan.

Pension for new members of the GMT shall preferably be covered by defined contribution plans, which can amount to a maximum of 40 percent of the salary which qualifies for pension. Variable cash remuneration shall not qualify for pension benefits unless it is stated in mandatory rules or collective bargaining agreements.

## **4. Other benefits**

Other benefits may include a Company car, disability and sickness benefits, medical insurance and life insurance.

Other benefits to members of the GMT shall be payable in accordance with local practice. The combined value of these benefits shall normally constitute a limited value in relation to the total remuneration package and shall correspond to market practice.

GMT members, who are expatriates to another country than their country of origin, may receive additional remuneration and other benefits to the extent reasonable in light of the special circumstances associated with the expatriate arrangement, taking into account the overall purpose of these guidelines. Such additional benefits will be payable under the same conditions as for other employees during expatriate arrangement.

## **5. Termination of employment**

The notice period may not exceed six months. Upon termination of employment by the Company, severance pay amounting to a maximum of 18 months fixed salary is paid. Notice of termination given by a GMT member due to significant structural changes, or other events that in a determining manner affect the content of work or the conditions for

the position, is equated with of notice of termination given by the Company. Fixed cash salary during the period of notice and severance pay may together not exceed an amount equivalent to the fixed cash salary for two years.

Additionally, remuneration may be paid for non-compete undertakings. Such remuneration shall compensate for loss of income and shall only be paid in so far as the previously employed executive is not entitled to severance pay. The remuneration shall amount to not more than 60 per cent of the fixed cash salary at the time of termination of employment, unless otherwise provided by mandatory collective bargaining agreements, and be paid during the time the non-compete undertaking applies, however not for more than nine months following termination of employment.

### **Salary and employment conditions for employees**

In the preparation of the Board of Directors' proposal for these guidelines and when evaluating whether the guidelines and the limitations set out herein are reasonable, the Remuneration Committee and the Board of Directors have taken into account salary and employment conditions for other employees in the Company. This typically include remuneration levels and elements, including changes in remuneration levels, as well as other employment conditions for employees in the Company that are not members of the GMT. The Committee regularly consults with the HR function of the Company in order to stay up to date with employee pay and conditions across the broader employee population.

### **The decision-making process to determine, review and implement the guidelines**

The Board of Directors has established a Remuneration Committee. The Committee's tasks include preparing the Board of Directors' decision to propose guidelines for executive remuneration. The Board of Directors shall prepare a proposal for new guidelines at least every fourth year and submit it to the Annual General Meeting. The guidelines shall be in force until new guidelines are adopted by the General Meeting. The Remuneration Committee shall also monitor and evaluate programs for variable remuneration for the GMT, the application of the guidelines for executive remuneration as well as the current remuneration structures and compensation levels in the Company. The President and other members of the GMT do not participate in the Board of Directors' deliberations or resolutions regarding remuneration-related matters in so far as they are affected by such matters.

### **The Board of Directors' right to derogate from the guidelines**

The Board of Directors may temporarily resolve to derogate from the guidelines, in whole or in part, if in a specific case there is special cause for the derogation and a derogation is necessary to serve the Company's long-term interests, including its sustainability, or to ensure the Company's financial viability. As set out above, the Remuneration Committee's tasks include preparing the Board of Directors' resolutions in remuneration-related matters. This includes any resolutions to derogate from the guidelines.