

Proposal for guidelines for executive remuneration – Arjo AB

The Board of Directors of Arjo AB (publ) proposes that the annual general meeting 2020 resolves on the following guidelines for executive remuneration:

1. Scope of the guidelines, etc.

These guidelines cover remuneration and other terms of employment for individuals being part of the group management of Arjo AB during the validity of the guidelines, in the following referred to as “senior executives”. 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.

2. Promotion of Arjo’s business strategy, long-term interests and sustainability, etc.

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 skilful 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.

3. Principles for various types of remuneration

The total remuneration to senior executives shall be on market terms and comprise basic salary (fixed cash salary), variable remuneration, pension benefits and other benefits. Additionally, the general meeting may – irrespective of these guidelines – resolve on, among other things, share-related or share price-related remunerations.

Fixed remuneration

The fixed remuneration for each position is determined based on a global position evaluation system and external market payroll data. The fixed remuneration, meaning the basic salary, shall be based on the individual executive’s area of responsibility, authority, competence and performance.

Variable remuneration

The allocation of basic salary and variable remuneration shall be proportional to the responsibility and authority of the executive. The variable remuneration shall always be limited in advance to a maximum amount and be connected to predetermined and measurable criteria, designed with the purpose of promoting the company's business strategy and long-term value creation.

The company's sustainability work is incorporated in the ongoing operations of the company. If the company's key guidelines for sustainability work or ethical guidelines are not followed, the company may refrain from paying variable remuneration or reclaim the paid remuneration. The annual variable remuneration is constructed in such a way that it supports Arjo's strategy to develop products and solutions on a long-term basis which contribute to improve care outcomes, create a more efficient care process, enable a better work environment for healthcare professionals and increase the quality of life for patients. If the above activities are conducted in an efficient and sustainable way, it will result in improved financial results and increased capital efficiency, which form the basis for the variable remuneration.

Annual variable remuneration (STIP)

For senior executives, the annual variable remuneration (annual bonus) shall be capped at 50% of the fixed annual basic salary, except in cases where the nature and competition situation of the position, as well as the country of employment, so require. In such cases the annual variable remuneration shall be capped at 80% of the fixed annual basic salary. The variable remuneration shall be based on the objectives set by the Board of Directors. The objectives are related to earnings, volume growth, working capital and cash flow. All members of the group management have the same goals for annual variable remuneration with the purpose of promoting the shareholders' interests, the company's core values, and jointly strive to achieve the company's business strategy, long-term interests and a sustainable development of the company.

Variable long-term cash bonus (LTIP)

In addition to basic salary and the annual variable remuneration above, senior executives can obtain a variable long-term bonus (LTI bonus), awarding clear target based and measurable achievements, and which is conditional upon continued employment at the end of the performance period of the LTI bonus (with certain customary exceptions). The criteria for payment of the LTI bonus shall be designed to contribute to Arjo's business strategy and long-term interests, including its sustainability, by having a clear connection to the business strategy. The criteria for the LTI bonus are related to earnings per share, adjusted for potential acquisitions, divestments, restructuring costs and/or other material non-recurring costs. By connecting the targets to shareholder interests, common interests are created which further aim at promoting Arjo's business strategy and long-term interests. The performance period for the LTI bonus shall be at least three financial years and the LTI bonus shall be capped at 100% of one year's basic salary for each three-year period, i.e. one third of the annual basic salary per year. Senior executives in the group management shall reinvest at least 50% of the paid amount (net, after taxes) in each LTI program,

in Arjo shares, until an amount corresponding to an annual salary (gross) of the capital that the senior executive has been paid under LTI programs set up by the company, has been reinvested in shares in the company. The senior executives shall keep these shares for at least three years from the time of investment.

Determination of the outcome for variable remuneration, etc.

When the measurement period of the criteria for awarding variable cash remuneration has been finalised, the Board of Directors shall, based on a proposal from the remuneration committee, determine whether the criteria have been satisfied. When determining the satisfaction of the criteria, the Board of Directors, may based on a proposal from the remuneration committee, grant exceptions from the set criteria on the basis of what is mentioned in item 5 below. For the satisfaction of financial objectives, the evaluation shall be based on the latest financial information made public by the company, taking into account any adjustments that the Board of Directors has determined in advance when implementing the program. Variable cash remuneration can be paid after the completion of a measurement period (annual variable remuneration) or be subject to deferred payment (LTI bonus).

Arjo actively works with ensuring that the company is managed in the most sustainable, responsible and efficient way possible and that applicable legislation and other regulations are complied with. Arjo also applies internal rules which include a code of conduct and different steering documents on group level (policies, instructions and guidelines) in several areas. Variable remuneration shall not be awarded, or variable remuneration may be reclaimed, if senior executive has acted contrary to these rules, principles or the company's code of conduct. In case earnings before taxes are negative, variable remuneration shall not be awarded. The Board of Directors shall have the possibility, pursuant to applicable law or contractual provisions, to in whole or in part reclaim variable remuneration paid on incorrect grounds (claw-back).

Other variable remuneration

Further variable cash remuneration may be awarded in extraordinary circumstances, provided that such extraordinary arrangements are only made for the purpose of recruiting or retaining executives. Such remuneration may not exceed an amount corresponding to 50% of the basic salary and may not be paid more than once each year and per each individual. Any resolution on such remuneration shall be made by the Board of Directors based on a proposal from the remuneration committee. In addition to the variable remuneration above, share-related or share price-related incentive programs as resolved from time to time, may be set up according to the above.

Pension

For the CEO, pension benefits shall be premium defined. The pension premiums for premium

defined pension shall amount to not more than 30% of the fixed basic salary. Variable cash remuneration shall not qualify for pension benefits.

Other senior executives shall be covered by ITP 1 or ITP 2 and the pension benefits shall be premium defined. Variable cash remuneration shall only qualify for pension benefits to the extent required by mandatory collective agreement provisions as applicable to the executive. Should that be the case, it should be considered when forming the total remuneration package. The pension premiums for premium defined pension shall amount to not more than 30% for parts exceeding the cap in applicable ITP plan.

For employments governed by rules other than Swedish, pension benefits and other benefits may be duly adjusted for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of these guidelines.

Other benefits

Other benefits such as company car, extra health insurance or occupational health service may be provided to the extent this is considered customary for senior executives holding equivalent positions on the labour market on which the employee operates. The total value of these benefits shall amount to not more than 10% of the fixed basic salary.

Terms of notice

Senior executives shall be employed until further notice. Upon termination of the CEO's employment, if such termination is determined by the company, the notice period shall be twelve (12) months. The notice period may not exceed twelve (12) months if notice of termination of other senior executives' employment is made by the company. The notice period may not to exceed six (6) months, without any right to severance pay, when termination is made by the executive.

Senior executives may be compensated for a non-compete undertaking after the termination of the employment, however, only to the extent severance pay is not paid during the same period of time. The purpose of such remuneration shall be to compensate the senior executive for the difference between the monthly basic salary at the time of termination of the employment, and the (lower) monthly income which is obtained, or could be obtained, by a new employment agreement, assignment or own business. The remuneration may be paid during the period the non-compete undertaking is applicable, and no longer than a period of twelve (12) months after the termination of the employment.

Salary and employment conditions for employees

In the preparation of the Board of Directors' proposal for these remuneration guidelines, salary and employment conditions for employees of the company have been taken into account by including information on the employees' total income, the components of the remuneration and increase and growth rate over time, in the remuneration committee's and the Board of Directors' basis of decision when evaluating whether the guidelines and the limitations set out herein are reasonable.

The development of the gap between the remuneration to executives and remuneration to other employees will be disclosed in the remuneration report.

4. The decision-making process to determine, review and implement the guidelines

The Board of Directors has previously established a remuneration committee. The committee's tasks include preparing the Board of Directors' decision to propose guidelines for executive remuneration. These guidelines are subject to review on annual basis by the Board of Directors and submitted for resolution by the annual general meeting when changes are proposed, or at least every four years. The remuneration committee shall also monitor and evaluate programs for variable remuneration for the executive management, the application of the guidelines for executive remuneration as well as the current remuneration structures and compensation levels in the company. The CEO and other members of the executive management do not participate in the Board of Directors' processing of and resolutions regarding remuneration-related matters in so far as they are affected by such matters.

5. Deviation 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 are special reasons that motivate it 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.

6. Other

The guidelines entail a level of remuneration which in principle is equivalent to that for the financial year 2019.

Information on remuneration, etc. to senior executives during the financial year 2019 is set forth on page 85 (part of note 5) of the Annual Report 2019.

Malmö in January 2020

The Board of Directors of Arjo AB (publ)