

Annual General Meeting of Saab AB (publ) on 7 April 2011

## **The Board's proposal for a resolution on long-term incentive programs 2011**

### **Agenda item15**

#### **Complete proposal**

#### **Background and reasons for the proposal**

The Board of Directors finds it essential and in all shareholders' interest that employees in the Group have a long-term interest of a good value development of the share in the Company and therefore proposes the Annual General Meeting in view of this the long-term incentive programs for employees: (a) Share Matching Plan 2011 and (b) Performance Share Plan 2011.

The purpose of the long-term incentive programs is to stimulate employees to continued loyalty and continued good performance. To participate in the programs it is required that the employee invests his/her own money. It is further the Board of Directors' view that the incentive programs increase the Group's attractiveness as an employer.

It is the intention of the Board of Directors to propose the Annual General Meeting long-term incentive programs also for 2012 in accordance with the now proposed principles.

#### **Costs**

The total effect on the income statement is estimated to approximately 165 MSEK unevenly distributed over the years 2012 – 2015. The costs shall be compared with Saab's total remuneration costs 2010, including social security fees, amounting to 8 805 MSEK.

The calculations are based on assumptions that all available shares in Share Matching Plan 2011 and Performance Share Plan 2011 will be utilized.

### Costs that affect the income statement, but will not have an effect on the cash flow

Compensation costs, corresponding to the value of matching shares transferred to employees, is estimated to approximately 128 MSEK. The compensation costs are distributed over the plan period 2012 – 2015.

Social security charges as a result of transfer of shares to employees on an assumed average share price at matching at SEK 123 is estimated to amount to approximately 37 MSEK. The social security costs are distributed over the term of the plans 2012 - 2015.

### Costs that affect the Income Statement and Cash Flow

Administration costs have been estimated at a maximum of 6 MSEK.

The cost for acquiring own shares is estimated to maximum 165 MSEK at an assumed share price of SEK 123.

### **Dilution and effects on key figures**

The Company currently has approximately 109 million issued shares. As per 31 December 2010, the Company held 4 432 615 of own shares. In order to implement the Share Matching Plan 2011 and Performance Share Plan 2011 a total of 1 340 000 shares of series B are required, corresponding to approximately 1.2 per cent of the total number of issued shares. The number of potential shares covered by the existing incentive program as per 31 December 2010, including shares to cover social security payments, amounts to 832 381 shares, corresponding to approximately 0.8 per cent of the total number of issued shares in the 2007 program, 1 146 441 shares corresponding to approximately 1.1 per cent of the total number of issued shares in the 2008 program, 878 102 shares corresponding to approximately 0.8 per cent of the total number of issued shares in the 2009 program and 1 340 000 shares corresponding to approximately 1.2 per cent of the total number of issued shares in the 2010 program.

Out of the 1 340 000 shares of series B required for the Share Matching Plan 2011 and Performance Share Plan 2011, approximately 1 040 000 shares may be transferred to employees free of consideration, which could cause a dilutive effect of approximately one per cent on earnings per share. The dilutive effect of the matching shares, approximately one per cent, is not affected by the price for the shares at the time of matching since they are transferred free of consideration to the employee. There will, however, be no dilutive effect on earnings per share of the approximately 300 000 shares, which may be transferred at the

NASDAQ OMX Stockholm in order to cover social security payments, as the shares are sold at market value.

### **Preparation of the matter**

The Share Matching Plan 2011 and Performance Share Plan 2011 have been prepared by the Remuneration Committee and in consultation with the Board of Directors. The proposal has been adopted by the Board of Directors. The CEO has not participated in the preparation and decision of the proposal.

### **Outstanding share related incentive programs**

The Company has ongoing incentive programs according to the below.

#### *The Share Matching Plan 2007, 2008, 2009 and 2010*

Under the Share Matching Plans, employees can save up to 5 percent of the gross salary, for purchase of class B shares at market price on the NASDAQ OMX Stockholm (purchased shares). If the purchased shares are retained by the employee for three years after the investment and the employment with the Saab Group continues during the entire three-year period, the employee will, by the Saab Group, be granted a corresponding number of shares free of consideration.

The below table show the period for employees' purchase of shares (savings contribution period) and participation details.

Plan	Savings contribution period	Number of participants at launch	Take-up rate (% of all offered employees)
Share Matching Plan 2007	November 2007 – October 2008	4,750	42%
Share Matching Plan 2008	November 2008 – October 2009	2,751	23%
Share Matching Plan 2009	January 2010 – December 2010	2,589	20%
Share Matching Plan 2010	January 2011 – December 2011	2,066	17%

#### *The Performance Share Plan 2008, 2009 and 2010*

Under the Performance Share Plans, up to 285 key employees and the CEO, can save up to 7.5 percent of the gross salary, for purchase of class B shares at market price on the NASDAQ OMX Stockholm (purchased shares). If the purchased shares are retained by the employee for three years after the investment and the employment with the Saab Group continues during the entire three-year period, the employee can, by the Saab Group, be granted up to two, three, four or five for each purchased share under the Performance Share Plan. Matching of shares is dependent on achievement of a performance target. The

performance target is average annual growth in earnings per share between 5 and 15 per cent. The Board of Directors can reduce the number of shares to be matched if deemed appropriate by the Board considering the Company's financial results and position, conditions on the stock market and other circumstances at the time of matching.

The below table show the period for employees' purchase of shares (savings contribution period) and participation details.

Plan	Savings contribution period	Number of participants at launch	Take-up rate (% of all offered employees)
Performance Share Plan 2008	November 2008 – October 2009	184	69%
Performance Share Plan 2009	January 2010 – December 2010	120	55%
Performance Share Plan 2010	January 2011 – December 2011	99	39%

## Proposals

### The Long-Term Incentive Programs 2011

The Board has proposed the Annual General Meeting 2011 that the short-term variable remuneration to senior executives is discontinued and replaced by revised long-term incentive programs and by adjusted fixed salary. Further it has become evident in an evaluation of the Performance Share Plan that the enrolment level has decreased. The Plan should therefore be amended in order to achieve its purpose of having a positive effect on business and thus counterbalance the costs.

The suggested revision of the long-term incentive programs in principal means that the number of shares that can be earned in the Performance Share Plan 2011 is reduced by one share per participant, compared to programs in earlier years, and is replaced with one matching share free of consideration without performance requirement. The savings amount allowed in the Performance Share Plan 2011 is still maximized to 7.5 per cent of the gross salary, however only an amount of maximum 5 per cent of the gross salary can be the basis for allocation of matching shares free of consideration in the Share Matching Plan 2011. The revision is technically accomplished by participants in the Performance Share Plan 2011 also enrolling in the Share Matching Plan 2011 and the savings amount in the Performance Share Plan 2011 is also counted as savings in the Share Matching Plan 2011.

In order to implement the Share Matching Plan 2011 and Performance Share Plan 2011, the Board of Directors proposes that no more than 1,340,000 shares of series B may be transferred to employees in the Saab Group and, moreover that a portion of the shares also may be transferred at NASDAQ OMX Stockholm in order to cover inter alia social security payments.

The Board of Directors proposes that the Annual General Meeting resolves on the implementation of (a) Share Matching Plan 2011 that shall cover all employees and (b) Performance Share Plan 2011 for key employees, according to the principal guidelines below.

#### **(a) Share Matching Plan 2011**

The Board of Directors proposes that the Annual General Meeting resolves on the implementation of a Share Matching Plan 2011, including 1,040,000 shares of series B, according to the principal guidelines below.

- 1) All employees within the Saab Group, with the exception of what is mentioned in item 3) below, will be offered to participate in the Share Matching Plan 2011.
- 2) Employees who participate in the Share Matching Plan 2011 can during a 12 month period from the implementation of the plan, save up to maximum 5 per cent of the gross salary for the purchase of shares of series B on NASDAQ OMX Stockholm. If the purchased shares are retained by the employee for three years from the date of investment and the employment within the Saab Group has remained during the entire three-year period, the employee will be given by the Saab Group the corresponding number of shares of series B free of consideration.
- 3) Participation in the Share Matching Plan 2011 presupposes that such participation is legally possible as well as possible with reasonable administrative cost and financial efforts according to the assessment of the Company. The Board of Directors shall however be entitled to implement an alternative incentive solution for employees in such countries where participation in Share Matching Plan 2011 is not advisable. Such alternative incentive solution shall, as far as practically possible, correspond to the terms for the Share Matching Plan 2011.

#### **Majority requirements**

In order for the Annual General Meeting's resolution in accordance with the proposal under this item to be valid, shareholders representing more than 50 per cent of the votes cast must be in favour of such proposal or, in case of parity of votes, the Chairman of the meeting being in favour of such proposal.

## **(b) Performance Share Plan 2011**

The Board of Directors proposes that the Annual General Meeting resolves on the implementation of a Performance Share Plan 2011, including 300,000 shares of series B, according to the principal guidelines below.

- 1) Up to 285 key employees and the CEO with the exception of what is mentioned in item 3) below will be offered to participate in the Performance Share Plan 2011.
- 2) Employees who participate in the Performance Share Plan 2011 can during a 12 month period from the implementation of the plan, save up to maximum 7.5 per cent of the gross salary for the purchase of shares of series B on NASDAQ OMX Stockholm. If the purchased shares are retained by the employee for three years from the date of investment and the employment within the Saab Group has remained during the entire three-year period, the employee will be entitled to the following matching of shares, free of consideration:

Group 1	Up to 250 employees in Management Teams, certain specialists and Project Managers may be entitled to a performance match of up to one share for each one purchased
Group 2	Up to 20 Heads of Business Units may be entitled to a performance match of up to two shares for each one purchased
Group 3	Up to 15 senior executives in Group Management may be entitled to a performance match of up to three shares for each one purchased.
Group 4	The CEO may be entitled to a performance match of up to four shares for each one purchased.
- 3) Participation in the Performance Share Plan 2011 presupposes that such participation is legally possible as well as possible with reasonable administrative cost and financial efforts according to the assessment of the Company. The Board of Directors shall however be entitled to implement an alternative incentive solution for employees in such countries where participation in Performance Share Plan 2011 is not advisable. Such alternative incentive solution shall, as far as practically possible, correspond to the terms for the Performance Share Plan 2011.

- 4) The terms and conditions of performance match for employees are based on an average annual percentage growth rate in earnings per share (“EPS”)<sup>1</sup> between 1 January 2012 and 31 December 2014, with EPS for the calendar year 2011 as the reference period. Matching of shares occurs between annual average EPS growth 5 and 15 per cent. No allocation of shares will occur if the annual average EPS growth is below 5 per cent. At 5 per cent annual average EPS growth an employee in group 2 – 4 who participates in the plan will be allocated one share for each one purchased. For an employee in group 1 who participates in the plan the allocation is fully linear. For a participant who has the possibility to receive more than one share, allocation of additional shares is linear up to 15 per cent annual average EPS growth. Maximum performance matching shares for employees in group 1 – 4 (i.e. one share, two shares, three shares and four shares respectively) will thus be allocated if the annual average EPS growth is at or above 15 per cent. The performance target shall be adjusted at the occurrence of an event affecting the operations of the Saab Group or the number of outstanding shares of the Company or otherwise affecting the performance target and deemed relevant by the Board of Directors.
- 5) Before the number of performance shares to be matched are finally determined, the Board of Directors shall examine whether the performance matching is reasonable considering the Company’s financial results and position, conditions on the stock market and other circumstances, and if not, as determined by the Board of Directors, reduce the number of performance shares to be matched to the lower number of shares deemed appropriate by the Board of Directors.

### **Majority requirements**

In order for the Annual General Meeting’s resolution in accordance with the proposal under this item to be valid, shareholders representing more than 50 per cent of the votes cast must be in favour of such proposal or, in case of parity of votes, the Chairman of the meeting being in favour of such proposal.

**Linköping, March 2011  
The Board of Directors**

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<sup>1</sup> Earnings Per Share is calculated by dividing the net income for the Saab Group by the average number of shares outstanding during the period.