

## Annual General Meeting of Saab AB on 15 April 2015

### Agenda item 14

#### **The Board's proposal to resolve on a long-term incentive program 2015 and acquisition and transfer of own shares**

##### **Background and reasons for the proposals**

The Shareholders' Meeting of Saab AB ("Saab") has, for a number of years, resolved on long-term Share Matching Plan for all employees and Performance Share Plan for senior executives and other key employees. The Board of Directors finds it important and in all shareholders' interest that employees of the Group have a long-term interest in a good value development of the share in the Company. The Board of Directors has also implemented a policy with a requirement of certain shareholdings for senior executives. In light of this, the Board of Directors proposes to the Annual General Meeting the below long-term incentive program for employees ("LTI 2015"). The proposed terms and conditions for LTI 2015 correspond to the terms and conditions imposed by LTI 2014, that have been deemed effective. LTI 2015, as LTI 2014, consists of two parts, a Share Matching Plan and a Performance Share Plan. LTI 2015 is proposed to comprise a maximum of 1,340,000 shares of series B in Saab. The performance target named "operating cash flow" in LTI 2014 is in LTI 2015 named "free cash flow". The changed name implies no change in substance.

LTI 2015 enables present and future employees to become shareholders in Saab and includes a requirement of own investment in shares in Saab. The purpose of the program is to stimulate employees to continued long-term commitment and continued good performance as well as to increase the Group's attractiveness as an employer. In view of this, LTI 2015 is considered to have a positive effect on Saab's future development and thus be of advantage to both the shareholders and the employees in the Saab Group.

It is the intention of the Board of Directors to propose long-term incentive programs also to future Annual General Meetings.

##### **Costs, dilution and effects on key figures**

The total effect on the income statement is estimated to approximately MSEK 268 unevenly distributed over the years 2016-2019. The costs shall be compared with the Saab Group's total remuneration costs 2014, including social security costs, amounting to MSEK 9,590.

The calculations are based on assumptions that all available shares in the LTI 2015 will be utilized.

##### **Costs that affect the Income Statement, but not the Cash Flow**

Compensation costs, corresponding to the value of matching shares transferred to

employees, is estimated to approximately MSEK 208. The compensation costs are distributed over the years 2016-2019.

Social security charges as a result of transfer of shares to employees at an assumed average share price at matching at SEK 200 are estimated to amount to approximately MSEK 60. The social security costs are distributed over the years 2016-2019.

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

The cost for acquiring own shares is estimated to maximum MSEK 268 at an assumed share price of SEK 200 and a maximum of 1,340,000 shares.

#### Dilution and effects on key figures

The Company has approximately 109 million issued shares. As per 31 December 2014, the Company held 3,650,364 own shares of series B. In order to implement the LTI 2015 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.

As calculated as per 31 December 2014, the number of shares to be transferred within the scope of the ongoing long-term incentive programs 2011, 2012 and 2013, including shares to cover social security costs, amounts to approximately 2,035,000 shares corresponding to approximately 1.9 per cent of the total number of issued shares. The long-term incentive program 2014 comprises 1,340,000 shares, corresponding to approximately 1.2 per cent of the total number of issued shares, and is not included in the above calculation as it was launched in January 2015.

Out of the 1,340,000 shares of series B required for the LTI 2015, approximately 1,040,000 shares may be transferred to employees free of consideration, which could cause a dilutive effect of approximately 1 per cent on earnings per share. The remaining 300,000 shares are intended to be transferred on Nasdaq Stockholm in order to cover social security costs.

#### **Hedge**

As the main alternative, the Board of Directors proposes that the Annual General Meeting resolves to authorize the Board of Directors to resolve on acquisitions of own shares of series B on Nasdaq Stockholm, which subsequently may be transferred to the participants in Saab's long-term Share Matching Plan and Performance Share Plan as well as transferred on Nasdaq Stockholm to cover certain costs associated with LTI 2015, mainly social security costs. Furthermore, the Board of Directors proposes that the Shareholders' Meeting resolves on transfer of own shares of series B, free of consideration, to the participants of LTI 2015. The detailed terms and conditions for the Board of Directors' main alternative are presented below.

In the event that the required majority under items 14 b).I and 14 b).II below is not reached, the Board of Directors proposes that Saab should be able to enter into an equity swap agreement with a third party, in accordance with item 14 c) below.

## **Preparation of the proposal**

The LTI 2015 has 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 Board of Directors' proposal**

The Board of Directors' proposal for the resolution below entails that the Annual General Meeting resolves a) to implement LTI 2015, b) to authorize the Board of Directors to resolve on acquisitions of own shares on Nasdaq Stockholm and that the acquired shares may be transferred, free of consideration, to the participants in LTI 2015, or, in the event that the required majority under b) is not reached, c) that Saab shall be entitled to enter into an equity swap agreement with a third party.

### **14 a) Implementation of LTI 2015**

LTI 2015 comprises of two parts, Share Matching Plan 2015 and Performance Share Plan 2015. Participation in LTI 2015 requires own investment in shares in Saab. Investment made under the Performance Share Plan 2015 counts also as a basis for participation in the Share Matching Plan 2015, however, only up to an amount of maximum 5 per cent of the cash base salary.

#### **Share Matching Plan 2015**

The Board of Directors proposes that the Annual General Meeting resolves on a long-term Share Matching Plan 2015 comprising a maximum of 900,000 shares of series B in Saab, according to the principal guidelines below:

- 1) All permanent employees within the Saab Group, including employees who are covered by Performance Share Plan 2015, with the exception of what is mentioned in item 3) below, will be offered to participate in the Share Matching Plan 2015.
- 2) Employees who participate in the Share Matching Plan 2015 can during a twelve-month period from the implementation of the plan, save up to a maximum of 5 per cent of the cash base salary for the purchase of shares of series B on Nasdaq Stockholm. If the purchased shares are retained by the employee for three years from the date of investment and employment within the Saab Group has not been terminated during the entire three-year period, the employee will be allocated by the Saab Group the corresponding number of shares of series B free of consideration. The Board of Directors may grant limited exemptions from the requirement of employment during the full three-year period.
- 3) Participation in the Share Matching Plan 2015 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 be entitled to implement an alternative incentive solution for employees in such countries where participation in Share Matching Plan 2015 is not advisable. Such alternative incentive solution shall, as far as practically

possible, correspond to the terms for the Share Matching Plan 2015.

### **Performance Share Plan 2015**

The Board of Directors proposes that the Annual General Meeting resolves on a long-term Performance Share Plan 2015 for a number of key employees, comprising a maximum of 440,000 shares of series B in Saab. The principal guidelines of the proposal are listed below.

1) Up to 175 key employees, including the President, with the exception of what is mentioned in item 4) below, will be offered to participate in the Performance Share Plan 2015.

2) Employees who participate in the Performance Share Plan 2015 can during a twelve-month period from the implementation of the plan, save up to a maximum of 7.5 per cent of the cash base salary to purchase shares of series B on Nasdaq Stockholm. If the purchased shares are retained by the employee for three years from the date of investment and employment within the Saab Group has not been terminated during the entire three-year period, the employee will be entitled to matching of performance shares as set out below, free of consideration. The Board of Directors may grant limited exemptions from the requirement of employment during the full three-year period.

Group 1 Up to 142 employees in Management Teams, certain specialists and Project Managers may be entitled to a performance match of up to two shares for each purchased share.

Group 2 Up to 20 Senior Managers may be entitled to a performance match of up to four shares for each purchased share.

Group 3 Up to 12 members of the Group Management may be entitled to a performance match of up to five shares for each purchased share.

Group 4 The President may be entitled to a performance match of up to seven shares for each purchased share.

3) The number of performance shares is linked to the performance targets established by the Board of Directors. The conditions for the performance matching are based on three independent targets: Organic sales growth<sup>1</sup>, EBIT margin<sup>2</sup> and free cash flow<sup>3</sup>. The relative apportionment between the targets is:

- Up to 30 per cent of the maximum allotment is attributable to organic sales growth during the financial year 2016.

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<sup>1</sup> Adjusted for acquisitions and divestments, and exchange rates differences.

<sup>2</sup> Adjusted for acquisitions and divestments, and non-recurring items.

<sup>3</sup> Adjusted for acquisitions and divestments, and non-recurring items.

- Up to 40 per cent of the maximum allotment is attributable to EBIT margin during the financial year 2016.
- Up to 30 per cent of the maximum allotment is attributable to free cash flow during the financial year 2016.

The performance targets will be established by the Board of Directors with a minimum level and a maximum level for each performance target. The Board of Directors will resolve on the outcome of the performance matching after the end of the one-year performance measuring period, i.e. the financial year 2016 and will in connection therewith give information on the performance targets. If the maximum levels for the performance targets are reached or exceeded, the performance matching will amount to (and not exceed) the maximum number of 440,000 shares. If the performance outcome falls short of the maximum level but exceeds the minimum level, a linear proportioned performance matching will occur. No performance matching will occur if the performance outcome amounts to or falls short of the minimum level. Performance shares are allotted three years after the investment under item 2) above, i.e. normally during 2019 and in January 2020.

4) Participation in the Performance Share Plan 2015 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 be entitled to implement an alternative incentive solution for employees in such countries where participation in Performance Share Plan 2015 is not advisable. Such alternative incentive solution shall, as far as practically possible, correspond to the terms for the Performance Share Plan 2015.

5) Before the performance matching is finally determined, the Board of Directors shall verify whether the performance matching is reasonable considering the Company's financial results and position, conditions on the stock market and other circumstances. If the Board of Directors considers otherwise, it shall reduce the number of performance shares to be matched to the lower number of shares deemed appropriate by the Board of Directors.

#### **14 b) Authorization for the Board of Directors to resolve on acquisitions of shares and resolution on transfers of own shares to the participants in LTI 2015**

##### 14 b).I - Authorization for the Board of Directors to resolve on acquisition of shares of series B in Saab on Nasdaq Stockholm

The Board of Directors proposes that the Annual General Meeting authorizes the Board of Directors to resolve on acquisitions of own shares of series B in Saab on Nasdaq Stockholm in accordance with the following conditions.

- Acquisitions of shares of series B may only be effected on Nasdaq Stockholm.

- A maximum of 1,340,000 shares of series B in Saab may be acquired to secure delivery of shares to participants in Saab's long-term Share Matching Plan and Performance Share Plan and for subsequent transfers on Nasdaq Stockholm to cover certain costs associated with LTI 2015, mainly social security costs.
- Acquisitions of shares of series B in Saab on Nasdaq Stockholm may only be made at a price within the price range (spread) on Nasdaq Stockholm applicable from time to time, meaning the spread between the highest purchase price and the lowest selling price.
- The authorization may be utilised on one or several occasions, however, only until the Annual General Meeting 2016.

#### 14 b).II - Resolution on transfers of acquired own shares of series B to participants in LTI 2015

Transfers of shares of series B in Saab may be made on the following terms and conditions.

- Transfers may be made only of shares of series B in Saab, whereby no more than 1,340,000 shares of series B in Saab may be transferred, free of consideration, to participants in LTI 2015.
- Right to acquire shares of series B in Saab free of consideration shall, with deviation from the shareholders' preferential rights, be granted to such persons within the Saab Group who are participants in LTI 2015. Further, subsidiaries of Saab shall, with deviation from the shareholders' preferential rights, be entitled to acquire shares of series B in Saab free of consideration, whereby such company shall be obligated to, in accordance with the terms and conditions of LTI 2015, transfer the shares to such persons within the Saab Group who participate in LTI 2015.
- Transfers of shares of series B in Saab shall be made free of consideration at the time and on the other terms and conditions that participants in LTI 2015 have the right to acquire shares, i.e. normally during the financial year 2019 and in January 2020.
- The number of shares of series B in Saab that may be transferred under LTI 2015 may be subject to recalculation as a result of an intervening bonus issue, split, rights issue and/or other similar corporate events.

#### **14 c) Equity swap agreement with third party**

In the event that the required majority under item 14 b) above cannot be reached, the Board of Directors proposes that the Annual General Meeting resolves that the expected financial exposure of LTI 2015 shall be hedged by Saab entering into an equity swap agreement with a third party on terms and conditions in accordance with market practice, whereby the third party in its own name shall acquire and transfer shares of series B in Saab to employees who participate in LTI 2015. Additional costs for such equity swap agreement amount to approximately MSEK 10.

**Conditions**

The General Meeting's resolution to implement LTI 2015 in accordance with item 14 a) above is conditional upon the General Meeting resolving either in accordance with the proposal to authorize the Board of Directors to resolve on acquisitions of shares of series B in Saab on Nasdaq Stockholm and resolution on transfers to participants in LTI 2015 of acquired own shares of series B in Saab in accordance with item 14 b) above, or that an equity swap agreement with a third party may be entered into in accordance with item 14 c) above.

**Majority requirements**

The General Meeting's resolution to implement LTI 2015 under item 14 a) above requires that more than half of the votes cast are in favour of the proposal. The resolution to authorize the Board of Directors to acquire shares on Nasdaq Stockholm and the resolution on transfers to participants in LTI 2015 under items 14 b).I and 14 b).II above require that the resolution is supported by shareholders representing at least nine-tenths of the votes cast and votes represented at the meeting. The resolution that Saab may enter into an equity swap agreement with a third party under item 14 c) above requires that more than half of the votes cast are in favour of the proposal.

**Other**

For a description of Saab's other share-related incentive programs, reference is made to note 37 in Saab's Annual Report for the financial year 2014.

The Board of Directors' statement pursuant to Chapter 19, Section 22 of the Swedish Companies Act is enclosed to this proposal.

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**Linköping in March 2015**

**The Board of Directors of Saab Aktiebolag (publ)**

**APPENDIX****Statement pursuant to Chapter 19, Section 22 of the Swedish Companies Act**

The Board of Directors is of the opinion, with reference to the statement in connection with the proposed dividend in the Annual Report 2014, that the proposal is justified, taken into account the demands that the nature and scope of the business and the risks involved impose on the size of the company's and the group's equity, and the company's and the group's consolidation needs, liquidity and financial position in other respects.

**Linköping in March 2015**

**The Board of Directors of Saab Aktiebolag (publ)**