

Annual General Meeting of Saab AB 11 April 2019

## **Agenda item 15**

### **THE BOARD'S PROPOSAL ON A LONG-TERM INCENTIVE PROGRAM 2020 AND ACQUISITION AND TRANSFER OF OWN SHARES**

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

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 Annual General Meeting 2017 for the first time also adopted a Special Projects Incentive as a complement to the Performance Share Plan. Since then, Saab's long-term incentive program ("LTI") consists of three parts, a Share Matching Plan, a Performance Share Plan and a Special Projects Incentive.

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. Accordingly, the Board of Directors has also implemented a policy with a requirement of certain shareholdings for senior executives. Moreover, Saab's current order backlog includes certain special projects and the execution of these projects is still challenging. Meeting this challenge requires both that Saab can retain the best competencies and their loyalty, and that the Company's management and other key employees continue to deliver results and performance at a very high level. In light of this, the Board of Directors proposes to the Annual General Meeting the below long-term incentive program for employees ("LTI 2020"). As the proposal to the last Annual General Meeting, this proposal also consists of three parts - a Share Matching Plan 2020, a Performance Share Plan 2020 and a Special Projects Incentive 2020. LTI 2020 is proposed to comprise a maximum of 1,465,000 shares of series B in Saab and to have corresponding terms and conditions as the Long-Term Incentive program adopted by the Annual General Meeting 2018.

LTI 2020 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 LTI 2020 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 2020 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 454

unevenly distributed over the years 2020-2024. The costs should be compared with the Saab Group's total remuneration costs 2018, including social security costs, amounting to MSEK 12 089.

The calculations are based on assumptions that all available shares in the LTI 2020 will be utilized.

#### Effects on the income statement and the cash flow

Compensation costs, corresponding to the value of shares transferred to employees, is estimated to approximately MSEK 352. The compensation costs are distributed over the years 2020-2024.

Social security costs, as a result of transfer of shares to employees at an assumed average share price at SEK 310, are estimated to amount to approximately MSEK 102. The social security costs are distributed over the years 2020-2024.

The expenditure for acquiring own shares affecting the cash flow is estimated to a maximum of MSEK 454 at an assumed share price of SEK 310 and a maximum of 1,465,000 shares.

#### Dilution and effects on key figures

The Company has approximately 136 million issued shares. As per 31 December 2018, the Company held 2,363,299 own shares of series B. In order to implement the LTI 2020 a total of 1,465,000 shares of series B are required, corresponding to approximately 1.08 per cent of the total number of issued shares.

As calculated as per 31 December 2018, the number of shares to be transferred to employees within the scope of all ongoing long-term incentive programs amounts to approximately 1,420,000 shares (excluding LTI 2019 which started in January) corresponding to approximately 1.04 per cent of the total number of issued shares. LTI 2019 comprises 1,340,000 shares, corresponding to approximately 1 per cent of the total number of issued shares, and are not included in the above calculation as it was launched in January 2019.

Out of the 1,465,000 shares of series B required for the LTI 2020, 1,135,000 shares may be transferred to employees free of consideration, which could cause a dilutive effect of approximately 0.8 per cent on earnings per share. The remaining 330,000 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, Performance Share Plan and Special Projects Incentive as well as transferred on Nasdaq Stockholm to cover certain costs associated with LTI 2020, 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 2020. The detailed terms and conditions for the Board of Directors' main alternative are presented below.

In the event that the required majority under item 15 b) 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 15 c) below.

### **Preparation of the proposals**

The LTI 2020 have been prepared by the Remuneration Committee and in consultation with the Board of Directors. The proposals have been adopted by the Board of Directors.

### **The Board of Directors' proposals**

The Board of Directors' proposals for the resolutions below entail that the Annual General Meeting resolves a) to implement LTI 2020, b) to authorize the Board of Directors to resolve on acquisitions of own shares on Nasdaq Stockholm and that acquired shares may be transferred, free of consideration, to the participants in LTI 2020, 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.

### **15 a) Implementation of LTI 2020**

LTI 2020 comprises of three parts, Share Matching Plan 2020, Performance Share Plan 2020 and Special Projects Incentive 2020. Participation in LTI 2020 requires own investment in shares in Saab. Investment made under the Performance Share Plan 2020 counts also as a basis for participation in the Share Matching Plan 2020, however, only up to an amount of maximum 5 per cent of the cash base salary.

### **Share Matching Plan 2020**

The Board of Directors proposes that the Annual General Meeting resolves on a long-term Share Matching Plan 2020 comprising a maximum of 993,000 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 2020 and/or Special Projects Incentive 2020, with the exception of what is mentioned in item 3) below, will be offered to participate in the Share Matching Plan 2020.
- 2) Employees who participate in the Share Matching Plan 2020 can during a twelve-month period 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 2020 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 2020 is not advisable. Such alternative incentive solution shall, as far as practically possible, correspond to the terms for the Share Matching Plan 2020.

### **Performance Share Plan 2020**

The Board of Directors proposes that the Annual General Meeting resolves on a long-term Performance Share Plan 2020 for a number of key employees, comprising a maximum of 310,000 shares of series B in Saab. The principal guidelines of the proposal are set out 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 2020.
- 2) Employees who participate in the Performance Share Plan 2020 can during a twelve-month period 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, free of consideration, as set out below. 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 Members of the Group Management (currently 12) 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:

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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 30 per cent of the maximum allotment is attributable to organic sales growth during the financial year 2020.
- Up to 40 per cent of the maximum allotment is attributable to EBIT margin during the financial year 2020.
- Up to 30 per cent of the maximum allotment is attributable to free cash flow during the financial year 2020.

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 2020. Information about the performance targets will be provided in the annual report for the financial year 2020. 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 310,000 shares (including shares to cover social security costs). 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 2023 and in February 2024.

- 4) Participation in the Performance Share Plan 2020 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 2020 is not advisable. Such alternative incentive solution shall, as far as practically possible, correspond to the terms for the Performance Share Plan 2020.
- 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.

### **Special Projects Incentive 2020**

The Board of Directors proposes that the Annual General Meeting resolves on a long-term Special Projects Incentive 2020 for a number of key employees, comprising a maximum of 162,000 shares of series B in Saab. The Special Projects Incentive 2020 constitutes a complement to the Performance Share Plan 2020. The principal guidelines of the proposal are set out below.

- 1) Up to 45 key employees, including the President, with the exception of what is mentioned in item 5) below, will be offered to participate in the Special Projects Incentive 2020.
- 2) Participation in the Special Projects Incentive 2020 presupposes savings under the Performance Share Plan 2020 or under the Share Matching Plan 2020 for purchasing shares of series B. For the President and for members of the Group Management, allotment of performance shares requires saving by an amount equivalent to 7.5 per cent of the cash base salary under the Performance Share Plan 2020 (i.e. maximum saving). For selected Heads of Business Unit and other specially selected key employees, allotment of performance shares requires participation in the Performance Share Plan 2020, or (if the individual is not covered by the Performance Share Plan 2020), participation in the Share Matching Plan 2020. Participants in the Special Projects Incentive 2020 will be entitled to allotment of performance shares, free of consideration, as set out below.

Group A Under the Special Projects Incentive 2020, the President may be entitled to allotment of performance shares corresponding to up to 52.5 per cent of the cash base salary for the financial year 2020. The total value of allotted performance shares under the Performance Share Plan 2020 and the Special Projects Incentive 2020 may not exceed 75 per cent of the cash base salary for the financial year 2020. If the total potential outcome of the Performance Share Plan 2020 and the Special Projects Incentive 2020 exceeds 75 per cent, performance matching of the actual outcome shall be made in accordance with the Performance Share Plan 2020 and allotment of performance shares in the Special Projects Incentive 2020 shall be reduced so that the total outcome does not exceed 75 per cent.

Group B Under the Special Projects Incentive 2020, members of the Group Management (currently 12) may be entitled to allotment of performance shares corresponding to up to 37.5 per cent of the cash base salary for the financial year 2020. The total value of allotted performance shares under the Performance Share Plan 2020 and the Special Projects Incentive 2020 may not exceed 60 per cent of the cash base salary for the financial year 2020. If the total potential outcome of the Performance Share Plan 2020 and the Special Projects Incentive 2020 exceeds 60 per cent, performance matching of the actual outcome shall be made in accordance with the Performance Share Plan 2020 and allotment of performance shares in the Special Projects Incentive 2020 shall be reduced so that the total outcome does not exceed 60 per cent.

Group C Under the Special Projects Incentive 2020, up to 32 selected Heads of Business Unit and other specially selected key employees may be entitled to allotment of performance shares corresponding to up to 15 per cent of the cash base salary for the financial year 2020.

- 3) The conditions for allotment of performance shares are based on the achievement of eight equally weighted performance targets, consisting of

operational targets and milestones within Saab's product areas Gripen, airborne radar systems (AEW&C) and submarines. The performance targets may be related to e.g. product design review, customer design review, partial deliveries or system implementation. Each performance target represents 12.5 per cent of the total performance targets. The performance measuring period is the financial year 2020. All participants will be allotted performance shares based on the achievement of the same performance targets.

- 4) The Board of Directors will resolve on whether or not the performance targets have been met and on the allotment of performance shares after the end of the one-year performance measuring period, i.e. the financial year 2020. The Board of Directors will assess at that time whether the limitation of maximum allotment in accordance with item 2) above becomes applicable. Information about the performance targets will be provided in the annual report for the financial year 2020. Allotment of performance shares and assessment regarding the limitation of maximum allotment in accordance with item 2) above will, in respect of the performance shares to be allotted under Special Projects Incentive 2020, be based on the volume-weighted average price for the Saab share during the ten trading days immediately following the day for the announcement of the year-end report for 2020. If all performance targets in the Special Projects Incentive 2020 are met, up to 162,000 performance shares (including shares to cover social security costs) may be allotted, however with potential reduction in accordance with item 2) above. If not all but at least one performance target is met, a proportional allotment of performance shares will be made in relation to the number of reached performance targets, however with potential reduction in accordance with item 2) above. Performance shares in the Special Projects Incentive 2020 will be delivered in February 2023. Delivery of performance shares is conditional on that the employment within the Saab Group has not been terminated during the period up until delivery in February 2023, and that the employee is still participating in the Performance Share Plan 2020 or the Share Matching Plan 2020. The Board of Directors may grant limited exemptions from the requirement of employment during the abovementioned period.
- 5) Participation in the Special Projects Incentive 2020 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 Special Projects Incentive 2020 is not advisable. Such alternative incentive solution shall, as far as practically possible, correspond to the terms for the Special Projects Incentive 2020.
- 6) Before the allotment of performance shares is finally determined, the Board of Directors shall verify whether the allotment 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 allocated to the lower number of shares deemed appropriate by the Board of Directors.

## **15 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 2020**

### Authorization for the Board of Directors to resolve on acquisitions 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 in Saab may only be effected on Nasdaq Stockholm.
- A maximum of 1,465,000 shares of series B in Saab may be acquired to secure delivery of shares to participants in Saab's long-term Share Matching Plan, Performance Share Plan and Special Projects Incentive and for subsequent transfers on Nasdaq Stockholm to cover certain costs associated with LTI 2020, 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 prevailing and disseminated by Nasdaq Stockholm from time to time.
- The authorization may be utilised on one or several occasions, however, only until the Annual General Meeting 2020.

### Resolution on transfers of acquired own shares of series B to participants in LTI 2020

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 1,135,000 shares of series B in Saab may be transferred, free of consideration, to participants in LTI 2020.
- 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 2020. 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 2020, transfer the shares to such persons within the Saab Group who participate in LTI 2020.
- 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 2020 have the right to acquire shares, i.e. normally during the financial year 2023 and in February 2024.



- The number of shares of series B in Saab that may be transferred under LTI 2020 may be subject to recalculation as a result of an intervening bonus issue, split, rights issue and/or other similar corporate events.

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

In the event that the required majority under item 15 b) above cannot be reached, the Board of Directors proposes that the Annual General Meeting resolves that the expected financial exposure of LTI 2020 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 2020. Additional costs for such equity swap agreement amount to approximately MSEK 13.

### **Conditions**

The General Meeting's resolution to implement LTI 2020 in accordance with item 15 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 2020 of acquired own shares of series B in Saab in accordance with item 15 b) above, or that an equity swap agreement with a third party may be entered into in accordance with item 15 c) above.

### **Majority requirements**

The General Meeting's resolution to implement LTI 2020 under item 15 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 2020 under item 15 b) 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 15 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 9 in Saab's Annual Report for the financial year 2018.

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 2019**

**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 2018, 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 2019**

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