

*This is a translation of the Swedish original. In case of differences between the English translation and the Swedish original, the Swedish text shall prevail.*

## **Proposal by the Board of Directors of Sandvik AB for a resolution on a long-term incentive program for 2016**

### **Background**

At Sandvik's Annual General Meetings in 2014 and 2015 it was resolved to adopt a long-term incentive program for senior executives and key employees, in the form of a performance share program requiring investment by all participants. The intention of the Board of Directors was also to propose that the 2016 Annual General Meeting resolve on a long-term incentive program in accordance with the same main principles. Accordingly, the Board of Directors proposes that the Annual General Meeting resolve on a long-term incentive program for senior executives and key employees for 2016 ("LTI 2016"), on substantially the same terms and conditions as the 2014 and 2015 long-term incentive programs.

In addition to aligning the interests of the participants and the shareholders, the purpose of LTI 2016 is also to strengthen the Sandvik Group's ability to attract, retain and motivate qualified employees as well as to strengthen Sandvik's focus and objective to meet its long-term business goals.

The total number of shares that can be allocated pursuant to the long-term incentive programs during the years 2014–2016 must not exceed 12,540,000 shares, which corresponds to approximately 1 percent of the number of outstanding shares in Sandvik.

### **General**

LTI 2016 encompasses approximately 350 senior executives and key employees in the Sandvik Group, divided into four categories, and comprises a maximum of 4,500,000 Sandvik shares.

In order to participate in LTI 2016 the employee is required to invest in Sandvik shares at market price no later than 10 June 2016 ("Investment Shares"). In the event that the employee is not able to invest before this date due to being entered in an insider list (logbook) kept by Sandvik, the Board shall be entitled to postpone the date of investment for such employee. The employee may within the scope of LTI 2016 invest up to an amount corresponding to 10 percent of the employee's fixed annual salary before tax at the time of the investment.

Provided such acquisition of Investment Shares is made, participants of LTI 2016 will be entitled to allotment of Sandvik shares, free of charge, after a period of three years on the terms and conditions set forth below.

### **Matching Shares**

Each acquired Investment Share entitles participants, in all four categories, to be allotted one Sandvik share ("Matching Share").

## **Performance Shares**

Each acquired Investment Share entitles participants to be allotted, in addition to Matching Shares, further Sandvik shares provided certain performance targets are met ("Performance Shares"). The maximum number of Performance Shares that may be allotted for each acquired Investment Share is:

- 7 for the President,
- 6 for each additional member of the Group Executive Management (currently 10 persons),
- 5 for each senior manager (approximately 60 persons), and
- 4 for each key contributor (approximately 280 persons).

Each member of the Group Executive Management shall nominate the persons that are to be offered participation in LTI 2016 and that are to be classified as senior manager and key contributor, respectively, based on position, qualification and individual performance. All nominations are to be approved by the President.

The number of Performance Shares that will finally be allotted to the participant for each acquired Investment Share is dependent on the development of the Sandvik Group adjusted Earnings Per Share ("EPS") during the financial year 2016, compared to adjusted EPS for the financial year 2015. The Board of Directors establishes the levels regarding adjusted EPS that must be attained for allotment of a certain number of Performance Shares. In order for any Performance Shares to be allotted adjusted EPS growth for the financial year 2016 must exceed 5 percent in relation to adjusted EPS for the financial year 2015. The established levels and the extent to which they are attained will be disclosed in the 2016 Annual Report.

### **Prerequisites for allotment**

The allotment of Matching and Performance Shares, respectively, requires continuous employment and that all Investment Shares be held during a period of three years from the acquisition of the Investment Shares ("Vesting period"). The Chairman of the Board of Directors may in special cases grant exemptions from the requirement to hold the Investment Shares during the whole Vesting Period.

The right to be allotted Matching Shares presupposes that the 2017 Annual General Meeting decides on dividends for the financial year 2016. Whether or not dividends are decided on does not impact a participant's right to be allotted Performance Shares.

If the prerequisites for allotment set forth for LTI 2016 are met, allotment of Matching and Performance Shares, respectively, will take place during 2019, and no later than 30 June 2019. The allotment will take place free of charge, subject to tax.

### **Adjustment of the number of Performance Shares and/or Matching Shares etc.**

Before the allotment of Performance Shares takes place, the Board of Directors shall consider whether the number of Performance Shares is reasonable taking into account the financial results and position of Sandvik, the impact of larger acquisitions, divestments and other significant capital transactions, stock market conditions and other circumstances. If the Board of Directors deems that this is not the case, the Board of Directors shall reduce the number of Performance Shares to the lower number the Board of Directors finds appropriate or decide that no allotment should take place.

In the event of a bonus issue, split, rights issue and/or other similar events in Sandvik, the Board of Directors shall be entitled to decide on the recalculation of the terms of LTI 2016.

The Board of Directors may decide on the implementation of an alternative cash based incentive solution for participants in countries where the acquisition of Investment Shares or allotment of Matching and Performance Shares, respectively, is not appropriate, or if such solution is otherwise considered appropriate. Such alternative incentive solution shall to the extent practically possible be designed to correspond to the terms of LTI 2016.

The Board of Directors, or a committee appointed by the Board of Directors for this purpose, shall be responsible for the detailed design and administration of LTI 2016 based on the main terms set forth herein.

The right to be allotted Matching and Performance Shares, respectively, cannot be transferred and does not give the participant a right to compensation for dividend distributed during the Vesting period with respect to the underlying shares.

### **Costs of LTI 2016 and hedging arrangements**

The total costs of LTI 2016 are estimated at up to SEK 332 million, at maximum allotment of Matching and Performance Shares. The costs will be allocated over the years 2016–2018. The costs have been calculated as the sum of personnel costs, including social security costs, and administration costs for the program.

The administration costs have been estimated at SEK 3 million. The personnel costs (excluding social security costs) have been calculated based on the value, at the start of the program, of the Matching and Performance Shares that may be allotted at maximum performance, less the present value of the expected dividend during the Vesting Period. The calculation of the maximum costs is based on maximum performance and on a highest price per share of SEK 100.

Sandvik intends to secure its commitment to deliver up to 4,500,000 Sandvik shares under LTI 2016 through a share swap agreement with a third party. The interest cost for such a share swap is estimated at approximately SEK 1.5 million per year based on the current interest levels. Against this cost, however, stands the value of possible dividends. In addition, there will be administrative costs estimated at approximately SEK 0.5 million.

### **Preparation of the proposal**

The proposal has been prepared by the Board's Remuneration Committee and has been discussed and resolved on by the Board of Directors. The President has not taken part in the Board of Directors' discussion with respect to the proposal.

### **Majority requirement**

The resolution regarding LTI 2016 requires a majority of more than half of the votes cast at the Meeting.

### **Other**

For a description of other long-term incentive programs within Sandvik reference is made to note 3.5 in Sandvik's 2015 Annual Report and to the Company's website.

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Sandvik Aktiebolag (publ)  
The Board of Directors