

## Gunnebo AB (publ)

### Proposal of the Board of Directors for implementation of a long-term share based incentive program (LTI 2018/2022) including hedging activities in respect thereof

The Board of Directors of Gunnebo AB ("Gunnebo") proposes that the Annual General Meeting resolves on implementation of a long-term share based incentive program ("LTI 2018/2022") comprising the executive management and a number of key employees within the Gunnebo group (the "Group"). In order to hedge the undertakings and costs of Gunnebo related to LTI 2018/2022, the Board of Directors further proposes that the Board of Directors be authorised to resolve on issue and repurchase of series C shares and that the Annual General Meeting resolves on transfer of ordinary shares in Gunnebo ("Gunnebo Shares") to the participants in LTI 2018/2022.

#### A *Proposal for implementation of LTI 2018/2022*

##### 1. Background and reason

The overall purpose of LTI 2018/2022 is to closely align the interests of the executive management and other key employees with those of the shareholders and thus encourage long-term commitment. The purpose of LTI 2018/2022 is also to create a long-term focus on the Group's increase in value and growth among the participants and to facilitate for Gunnebo to recruit and retain members of the executive management and other key employees.

The Board of Directors' intention is that the structure of LTI 2018/2022 should be long-term, thus the Board intends to propose that the general meetings in the next years will resolve upon similar incentive programs.

##### 2. Terms and conditions for LTI 2018/2022

- i. It is proposed that LTI 2018/2022 shall comprise approximately 20 employees including the CEO, the executive management and other key employees within the Group (the "**Participants**").
- ii. The program shall comprise maximum 324,564 Gunnebo Shares (ordinary shares), of which 259,651 shares can be allotted to the Participants in LTI 2018/2022 ("**Performance Shares**") and 64,913 shares which are mainly intend, in terms of liquidity, to hedge payments of future social security contributions related to the program.
- iii. Subject to the performance and development of three different Performance Conditions (as defined below) during the financial year 2018 (the "**Performance Period**"), the Participants will receive Performance Shares free of charge on the Allotment Day (as defined below).
- iv. The maximum number of Performance Shares that may be received shall correspond to 20 per cent of fixed salary 2018 (actually paid) calculated on the volume-weighted average price paid for the company's share during a period of five trading days after the publication of the year-end report for 2018 (including the day of publication),

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rounded to the nearest whole number, with 0.5 rounded up. However, the CEO shall receive a maximum of 41,261 Performance Shares, other of the executive management (SVP) a maximum of 129,960 Performance Shares and other key employees a maximum of 88,430 Performance Shares.

- v. The performance conditions that have to be achieved or exceeded during the Performance Period for vesting Performance Shares relate to (i) earnings per share (EPS), (ii) operating margin (EBIT) excluding non-recurring items and (iii) organic growth in per cent (the “**Performance Conditions**”), whereby each condition is weighted by 1/3. The vesting shall be based on the minimum level and the maximum target level, respectively, during the Performance Period, as resolved by the Board. If the minimum level is not achieved, no Performance Shares are vested. If the maximum target level is achieved or exceeded, full vesting shall take place. If the minimum level is achieved but not exceeded, allotment corresponding to 1 per cent of maximum number of Performance Shares shall take place. If the minimum level is exceeded but the maximum target level is not achieved, a linear allotment of Performance Shares shall take place. The final number of Performance Shares vested by each Participant shall be rounded to the nearest whole number.
- vi. The Board of Directors resolves on the Performance Conditions before LTI 2018/2022 is offered to the Participants. The Board of Directors intends to present the determined Performance Conditions and the achievement of them in connection with the publication of the year-end report for 2018.
- vii. The Participant receives vested Performance Shares after the Annual General Meeting 2022 and before 30 June 2022 (the “**Allotment Day**”). Receiving of vested Performance Shares is conditional upon (i) the Participant being employed within the Group until the expiration of 2021. The Board of Directors may make minor exemptions from the requirement to be employed during the entire period. The Participant is not entitled to transfer, pledge or sell the right to receive Performance Shares or to exercise any shareholders’ rights in respect of the Performance Shares prior these have been allotted on the Allotment Day.
- viii. The number of Performance Shares shall be subject to recalculation in consequence of any intervening bonus issue, split, rights issue, extraordinary dividend and/or other similar company actions.
- ix. Further, the Board of Directors shall be entitled to resolve on the detailed terms and conditions for LTI 2018/2022, as well as such minor adjustments of these terms and conditions which are deemed appropriate or efficient due to legal or administrative conditions, local adaptations or due to significant changes in the market or the Group, comprising anyone, alone or together with related persons, acquires such large number of Gunnebo Shares, which, pursuant to applicable regulations, would result in an obligation to make a public offer to acquire the remaining shares in the company, or if the outcome otherwise is considered unreasonable. The Board of Directors is also entitled to adjust vesting and allotment if such has been made based on information which later proves to be incorrect. The Board of Directors may delegate the further administration of LTI 2018/2022 to its Remuneration Committee.

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### **3. Hedging activities**

In order to hedge delivery of Performance Shares and to cover administrative costs, mainly costs for social security contributions, the Board of Directors proposes, firstly, to resolve on a directed issue of convertible and redeemable C shares, followed by a repurchase and conversion into ordinary shares, and to resolve on transfer of own ordinary shares to senior executives in LTI 2018/2022 in accordance with section B below. In absence of the required majority, the Board of Directors, secondarily, intends to enter into a share swap agreement with a third party in order to hedge delivery of any costs related to the Performance Shares. The share swap agreement entails that the third party in its own name shall acquire and transfer Gunnebo shares to employees comprised by LTI 2018/2022.

### **4. Scope and dilution**

The maximum number of Performance Shares that may be allotted to the participants under LTI 2018/2022 amounts to 259,651 shares<sup>1</sup>, which corresponds to approximately 0.34 per cent of the share capital and votes in the company.<sup>2</sup> Aggregated with the maximum number of additional shares that may be transferred, which mainly consists of cash flow related hedging of costs for social security contributions, LTI 2018/2022 will comprise a maximum of 324,564 shares and the maximum dilution of the program will amount to approximately 0.42 per cent of the share capital and votes in Gunnebo.

### **5. Estimated costs and effects on key ratios**

Based on the assumption of a shares price of SEK 33 at the start of the program, an anticipated yearly 10 per cent increase in the share price from implementing the program until shares are received approximately 4 years later, an employee turnover of 5 per cent per year and an assessment of future dividends of the Gunnebo share, the total costs for LTI 2018/2022 including costs for social security contributions, are estimated to approximately MSEK 8.5, provided that the Performance Conditions are fully met. On a yearly basis this will equal approximately 0.1 per cent of Gunnebo's total staff costs for the financial year 2017. Under LTI 2018/2022, the maximum outcome for the participants is not limited, and therefore the maximum costs for social security contributions cannot be calculated.

Given the full-year result of 2017, the costs for LTI 2018/2022 would have a negative effect of approximately 0.04 percentage units on Gunnebo's operating margin and a reduction of profit per share of approximately SEK 0.02, provided that the Performance Conditions in the cost estimate above are fully achieved. However, the Board of Directors believes that the expected positive effects of LTI 2018/2022 on Gunnebo's financial result will outweigh the costs for the program.

### **6. Preparation of the proposal**

LTI 2018/2022 has been initiated by the Board of Gunnebo and prepared in consultation with external advisors. The program has been processed in the Board's Remuneration Committee and discussed at board meetings during 2017 and 2018.

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<sup>1</sup> The number of Performance Shares may, however, be subject to recalculation, taking into account general practice for an equivalent incentive program.

<sup>2</sup> Excluding 730,847 series C shares which may be allotted through LTIP 2015.

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## **7. Other incentive programs in Gunnebo**

At present, Gunnebo has two existing share based incentive program which were implemented by resolutions by the Annual General Meeting in 2015 (LTI 2015) and in 2017 (LTI 2017/2021).

LTI 2015 include so-called matching and performance shares to the executive management and a number of key employees within the Group. Under LTI 2015, matching shares of 103,580 can be allotted depending on the 2018 employment condition being fulfilled by the participants. In addition hereto, 25,403 shares sold by Gunnebo to cover the costs for social security contributions will be added. No allotment of performance shares will be made under this program as the related targets have not been fulfilled.

LTI 2017/2021 include so-called performance shares to the executive management and a number of key employees within the Group. No allotment of shares will be made under LTI 2017/2021 due to non-fulfilment of the targets.

Eight of the employees who are proposed to be comprised by LTI 2018/2022 participate in the previous incentive programs (LTI 2015).

### ***B Proposal for hedging activities***

In order to implement LTI 2018/2022 in a cost-effective and flexible manner, the Board of Directors proposes that the undertakings of the company for delivery and costs referable to Performance Shares primarily shall be hedged by a directed issue of convertible and redeemable C shares followed by repurchase and conversion to ordinary shares and a resolution on transfer of own ordinary shares to senior executives in accordance with the following.

#### **1. Authorisation for the Board of Directors to resolve on a directed issue of series C shares**

Authorisation for the Board of Directors to resolve on a directed issue of redeemable and convertible series C shares in Gunnebo on the following terms and conditions.

1. The maximum number of series C shares to be issued shall amount to 324,564.
2. The authorisation may be exercised on one or several occasions until the Annual General Meeting 2019.
3. With deviation from the shareholders' preferential rights, the new shares may be subscribed for only by one external party after arrangement in advance.
4. The amount to be paid for each new share (the subscription price) shall equal the share's quota value at the time of subscription.
5. The new series C shares shall be subject to Chapter 4, Section 6 of the Swedish Companies Act (conversion restriction) and Chapter 20, Section 31 of the Swedish Companies Act (redemption restriction).

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The purpose of the authorisation is to hedge the undertakings of Gunnebo according to LTI 2018/2022 and, in terms of liquidity, to hedge payments of future social security contributions related to Performance Shares.

## **2. Authorisation for the Board of Directors to repurchase issued series C shares**

Authorisation for the Board of Directors to resolve on repurchase of all issued redeemable and convertible series C shares in Gunnebo on the following terms and conditions.

1. Repurchase may take place by way of an acquisition offer directed to all holders of series C shares in Gunnebo.
2. The authorisation may be exercised on one or several occasions until the Annual General Meeting 2019.
3. The maximum number of series C shares to be repurchased shall amount to 324,564.
4. Repurchase shall be made at a price per share of minimum 100% and maximum 110% of the quota value applicable at the time of subscription.
5. Payment of repurchased shares shall be made in cash.
6. The Board of Directors shall have the right to resolve on other terms and conditions for the repurchase.
7. Repurchase may also be made of a so-called interim share, by Euroclear Sweden AB designated as a Paid Subscribed Share (*Sw. Betald Tecknad Aktie (BTA)*), regarding a series C share.

The purpose of the authorisation is to hedge the undertakings of Gunnebo according to LTI 2018/2022 and, in terms of liquidity, to hedge payments of future social security contributions related to Performance Shares.

## **3. Proposal for resolution on transfer of the company's own ordinary shares to participants in LTI 2018/2022**

Resolution on transfer of the company's own ordinary shares to participants in LTI 2018/2022 on the following terms and conditions.

1. A maximum number of 259,651 Gunnebo shares may be transferred free of charge to participants in LTI 2018/2022.
2. With a deviation from the shareholders' preferential rights, the right to acquire Gunnebo shares free of charge shall comprise employees in the Group participating in LTI 2018/2022, with a right for each of the participants to acquire the maximum number of shares stipulated in the terms and conditions of LTI 2018/2022.
3. Transfer of Gunnebo shares shall be made free of charge at the time for, and according to the terms for, the allotment of Gunnebo shares to participants in LTI 2018/2022.

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4. The number of Gunnebo shares that may be transferred under LTI 2018/2022 shall be recalculated due to any intervening bonus issue, split, preferential issue and/or similar corporate actions.

Since LTI 2018/2022 initially in principle is not expected to give rise to any costs for social security contributions of Gunnebo (and since a resolution on transfer is valid only until the next Annual General Meeting), the Board of Directors has decided not to propose that the Annual General Meeting 2018 resolves on transfer of the company's own ordinary shares on a regulated market for hedging of cash flow for social security payments. However, before any transfers of Gunnebo shares to participants in LTI 2018/2022 can be made, the Board of Directors intends to propose to a later General Meeting to resolve on transfers of the company's own ordinary shares on a regulated market in order to hedge such payments.

#### **4. Reasons for a deviation from the shareholders' preferential rights etc.**

The reason for deviation from the shareholders' preferential rights is Gunnebo's wish to implement the proposed incentive program LTI 2018/2022. Therefore, and in light of the above, the Board of Directors considers it to be advantageous to Gunnebo and the shareholders that the participants in LTI 2018/2022 are invited to become shareholders of Gunnebo.

In order to minimize Gunnebo's costs for LTI 2018/2022, the subscription price has been set to the share's quota value.

### ***C Majority of votes***

The resolution of the Annual General Meeting to implement LTI 2018/2022 in accordance with section A above is not conditional upon the hedging activities in section B above.

In order for the resolution by the Annual General Meeting on implementation of LTI 2018/2022 to be valid, the Board of Directors' proposal under section A must be supported by more than one half of the votes cast at the Annual General Meeting.

The Board of Directors proposes that the proposed resolutions on hedging activities under section B above are passed together as one resolution. A valid resolution of the Annual General Meeting on the proposed hedging activities in accordance with section B, requires that the Board's proposal is supported by shareholders representing at least nine-tenths of both the votes cast and shares represented at the Annual General Meeting.

The Board of Directors proposes that the CEO be authorised to make such minor amendments of the above proposals as may be required in connection with the registration with the Swedish Companies Registration Office and Euroclear Sweden AB.

The reasoned statement of the Board of Directors pursuant to Chapter 19, Section 22 of the Swedish Companies Act is attached as Appendix A.

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Gothenburg in March 2018  
Gunnebo AB (publ)  
The Board of Directors

## **Gunnebo AB (publ)**

### **Statement by the Board of Directors pursuant to Chapter 19, Section 22 of the Swedish Companies Act**

With regards to the Board of Directors' proposal that the annual general meeting 2018 should resolve to authorise the Board of Directors to decide on acquisition of the Company's own shares, the Board of Directors hereby issues the following statement pursuant to Chapter 19, Section 22 of the Swedish Companies Act.

With regards to the statement that has been provided in connection to the proposal for dividend in the annual report for the financial year 2017, the Board of Directors has made the assessment that the Board of Directors' proposal is justifiable with respect to the requirements that the business' nature, scale and risk place on the amount of the Company's and Group's equity, and the Company's and the Group's consolidation requirements, liquidity and position in other aspects.

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Gothenburg in March 2018

Gunnebo AB (publ)

*The Board of Directors*