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Proposal by the Board of Directors of Sandvik AB for a resolution on a long-term incentive program (LTI 2018)

Background

Since 2014 Sandvik's Annual General Meeting has annually resolved on long-term incentive programs for senior executives and key employees, in the form of performance share programs requiring investment by all participants. The Board of Directors considers that these programs fulfill their purpose of aligning the interests of the participants and the shareholders, strengthening the Sandvik Group's ability to attract, retain and motivate qualified employees and strengthening Sandvik's focus and objective to meet its long-term business goals.

In order to further strengthen alignment between pay and performance while still attracting and retaining competence on competitive terms, the Board of Directors' proposal for a long-term incentive program for senior executives and key employees for 2018 ("LTI 2018") contains the following main modification compared to previous long-term programs; no Matching Shares (i.e. shares not subject to performance targets) can be allotted but instead the maximum number of Performance Shares (as defined below) that may be allotted for each acquired Investment Share (as defined below) is increased by one share in each of the four respective participant categories. Accordingly, the Board of Directors proposes that the Annual General Meeting resolve on LTI 2018 on the below terms and conditions.

General

LTI 2018 encompasses approximately 350 senior executives and key employees in the Sandvik Group, divided into four categories. The maximum number of Sandvik shares that can be allocated pursuant to LTI 2018 is 3 million shares, which corresponds to approximately 0.24 percent of the number of outstanding shares in Sandvik.

In order to participate in LTI 2018 the employee is required to invest in Sandvik shares at market price no later than 12 June 2018 ("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 of Directors shall be entitled to postpone the date of investment for such employee. The employee may within the scope of LTI 2018 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 2018 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.

Performance Shares

Each acquired Investment Share entitles participants to be allotted 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:

- 8 for the President,

- 7 for each additional member of the Group Executive Management (currently 7 persons),
- 6 for each senior manager (approximately 60 persons), and
- 5 for each key contributor (approximately 283 persons).

Each member of the Group Executive Management shall nominate the persons that are to be offered participation in LTI 2018 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 and CEO.

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 2018, compared to adjusted EPS for the financial year 2017. 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 2018 must exceed 5 percent in relation to adjusted EPS for the financial year 2017. The established levels and the extent to which they are attained will be disclosed in the 2018 Annual Report.

Prerequisites for allotment

The allotment of Performance Shares 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 these requirements for individual participants, whereas the Board of Directors may decide on any such exemption concerning groups of participants.

If the prerequisites for allotment set forth for LTI 2018 are met, allotment of Performance Shares will take place during 2021, and no later than 30 June 2021. The allotment will take place free of charge, subject to tax.

Adjustment of the number of Performance 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 2018.

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 Performance Shares 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 2018.

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 2018 based on the main terms set forth herein.

The right to be allotted Performance Shares 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 2018 and hedging arrangements

The total cost of LTI 2018 is estimated up to SEK 327 million, assuming a Sandvik share price of SEK 150. The costs will be allocated over the years 2018–2020. The costs have been calculated as the sum of personnel costs, including social security costs of SEK 54 million, and administration costs of approximately SEK 2 million for the program.

Sandvik intends to secure its commitment to deliver up to 3 million Sandvik shares under LTI 2018 through a share swap agreement with a third party. The interest cost for such a share swap is estimated at approximately SEK 2 million per year based on the current interest levels and a share price of SEK 150. Against this cost, however, stands the value of possible dividends.

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 and resolution with respect to the proposal.

Majority requirement

The resolution regarding LTI 2018 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 2017 Annual Report and to the Company's website.

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Sandvik Aktiebolag (publ)
The Board of Directors