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Proposal by the Board of Directors of Sandvik AB for a resolution on a long-term incentive program (LTI 2017)

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. 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 2017 ("LTI 2017"), on substantially the same terms and conditions as the previous three long-term incentive programs.

General

LTI 2017 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 2017 is 3,500,000 shares, which corresponds to approximately 0.28 percent of the number of outstanding shares in Sandvik.

In order to participate in LTI 2017 the employee is required to invest in Sandvik shares at market price no later than 12 June 2017 ("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 2017 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 2017 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 7 persons),
- 5 for each senior manager (approximately 60 persons), and

- 4 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 2017 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 2017, compared to adjusted EPS for the financial year 2016. 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 2017 must exceed 5 percent in relation to adjusted EPS for the financial year 2016. The established levels and the extent to which they are attained will be disclosed in the 2017 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 2018 Annual General Meeting decides on dividends for the financial year 2017. 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 2017 are met, allotment of Matching and Performance Shares, respectively, will take place during 2020, and no later than 30 June 2020. 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 2017.

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 2017.

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 2017 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 2017 and hedging arrangements

The total cost of LTI 2017 is estimated up to SEK 318 million, at maximum allotment of Matching and Performance Shares. The costs will be allocated over the years 2017–2019. The costs have been calculated as the sum of personnel costs, including social security costs, and administration costs of SEK 3 million for the program.

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 costs is based on maximum performance and on a price per share of SEK 100.

Sandvik intends to secure its commitment to deliver up to 3,500,000 Sandvik shares under LTI 2017 through a share swap agreement with a third party. The interest cost for such a share swap is estimated at approximately SEK 4 million per year based on the current interest levels and a share price of SEK 100. 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 2017 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 2016 Annual Report and to the Company's website.

Stockholm, January 2017

Sandvik Aktiebolag (publ)
The Board of Directors