

## **THE BOARD OF DIRECTORS' PROPOSAL REGARDING THE INTRODUCTION OF A SHARE BASED INCENTIVE PLAN, THE AUTHORISATION OF THE BOARD OF DIRECTORS TO RESOLVE ON DIRECTED ACQUISITION OF OWN SHARES AND THE AUTHORISATION OF THE BOARD OF DIRECTORS TO RESOLVE ON TRANSFER OF OWN SHARES**

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The Board of Directors proposes that the annual general meeting resolves (a) on the introduction of a share based incentive plan ("Performance Share Plan 2014") for Sanitec Corporation ("Sanitec"), (b) to authorise the Board of Directors to resolve on directed acquisition of own shares and (c) to authorise the Board of Directors to resolve on the transfer of own shares as set out below.

### **A) INTRODUCTION OF A SHARE BASED INCENTIVE PLAN**

#### **1.1 Performance Share Plan 2014 in brief**

The main reason for the introduction of Performance Share Plan 2014 is to align the participants' interests and rewards with those of the shareholders and it is, therefore, for the benefit of the company. Performance Share Plan 2014 will also strengthen Sanitec's ability to recruit, motivate and retain leading industry talents and to balance short and long-term remuneration and fixed and variable remuneration. Because Performance Share Plan 2014 is Sanitec's first share based incentive plan following Sanitec's listing on NASDAQ OMX Stockholm in December 2013, Performance Share Plan 2014 allows in part for shorter vesting periods than is customary for Swedish long-term incentive plans, to cater for the transition into a listed environment and to create share based incentives that can materialise before 2017.

Performance Share Plan 2014 comprises of approximately 25 employees, consisting of the top management team and other key employees. To participate in Performance Share Plan 2014, a personal shareholding in Sanitec is required. Following the vesting periods, the participants will be allocated shares in Sanitec free of charge provided that certain conditions are fulfilled. In order for so-called matching share rights to give the participant entitlement to receive shares in Sanitec, continued employment with Sanitec is required, the personal shareholding in Sanitec must have been continuously retained and the total shareholder return ("TSR") of the shareholders in Sanitec must be greater than zero percent. Allocation of shares on the basis of so-called performance share rights requires continued employment, the personal shareholding must have been continually retained and, furthermore, depends on the fulfilment of certain financial performance conditions. These financial performance conditions relate to Sanitec's average organic net sales growth, average EBIT margin, average return on capital employed (ROCE) and average growth in earnings per share. Performance Share Plan 2014 is split into three different series according to the term of the vesting periods (Series 2014, Series 2014-2015 and Series 2014-2016). As a maximum, 340,000 shares in Sanitec may be allocated under Performance Share Plan 2014, representing 0.34 percent of the outstanding shares and votes in Sanitec.

Depending on an evaluation of Performance Share Plan 2014 to be made following the annual general meeting, the Board of Directors may propose to future annual general meetings to adopt incentive plans based on principles similar to those of the proposed Performance Share Plan 2014, although such future plans are not expected to include vesting periods shorter than three years.

## **1.2 Participants in Performance Share Plan 2014**

Performance Share Plan 2014 comprises of approximately 25 individuals consisting of the top team management and certain key employees within the Sanitec Group, divided into three categories:

- The first category is comprised of the President & CEO of Sanitec.
- The second category is comprised of the seven other members of the top management team.
- The third category is comprised of approximately 17 other key employees whose performance has been considered to have a direct or indirect impact on the results of Sanitec.

New members of the top management team or other key employees who have not yet commenced their employment at the time when notification to participate in the plan at the latest shall be given, may, on condition that the employment commences no later than 30 November 2014, be offered to participate in the plan, however except for Series 2014, if the Board of Directors considers it to be in line with the purpose of Performance Share Plan 2014.

## **1.3 Personal shareholding, grant of share rights and vesting periods**

To participate in Performance Share Plan 2014, the participant must have a personal shareholding in Sanitec ("Saving Shares"), which shall be allocated to Performance Share Plan 2014. The Saving Shares may be acquired specifically for purposes of Performance Share Plan 2014 or be shares already held by the participant, provided that these have been acquired in connection with or after Sanitec's listing on NASDAQ OMX Stockholm in December 2013.<sup>1</sup> The first category may allocate up to 7,000 Saving Shares, the second category may allocate up to 3,000 Saving Shares and the third category may allocate up to 1,750 Saving Shares. For each Saving Share, the participant is granted one matching share right ("Matching Share Right") and four performance share rights ("Performance Share Right") (each a "Share Right"). The Share Rights will be split between the different series as follows: 1/6 to Series 2014, 2/6 to Series 2014-2015 and 3/6 to Series 2014-2016. The Share Rights will be granted to the participant following the Annual General Meeting 2014 in connection with, or shortly after, an agreement is made between the participant and Sanitec concerning participation in Performance Share Plan 2014. Each vesting period commences upon grant of the Share Rights and ends on the date

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<sup>1</sup> Shares subject to a lock-up undertaking made in connection with Sanitec's listing on NASDAQ OMX Stockholm in December 2013 may not be allocated to Performance Share Plan 2014.

when allocation, if any, of shares for the relevant Series occurs (a "Vesting Period"). Allocation of shares on the basis of Share Rights will, except for in exceptional circumstances, occur after the announcement of Sanitec's interim report for Q1 2015 with respect to Series 2014, the interim report for Q1 2016 with respect to Series 2014-2015, and the interim report for Q1 2017 with respect to Series 2014-2016.

#### **1.4 Conditions for the Share Rights**

The following conditions apply to the Share Rights:

- The Share Rights are granted free of charge.
- Each Matching Share Right entitles the participant to receive, free of charge, one Sanitec share on condition that the participant remains employed within the Sanitec Group, that the participant continues to hold all the Saving Shares, and that the TSR of the shareholders of Sanitec during the relevant Vesting Period is greater than zero percent.
- Allocation of shares on the basis of Performance Share Rights requires that the participant remains employed within the Sanitec Group, that the participant continues to hold all the Saving Shares and, furthermore, that certain financial performance targets are fulfilled.
- The participants may not transfer, pledge or dispose of the Share Rights or perform any shareholders' rights regarding the Share Rights during the Vesting Periods.
- Dividends paid on the Sanitec share will increase the number of shares that each Share Right entitles to, in order to align the participants' and shareholders' interests.
- The participant's maximum profit per Share Right is SEK 200 (including adjustments due to dividends paid). If the value of the Sanitec share exceeds SEK 200 at vesting, the number of shares that each Share Right entitles the participant to receive will be reduced correspondingly.

#### **1.5 Performance Share Rights**

The number of Sanitec shares that will be allocated to the participant based on his or her holding of Performance Share Rights will depend on the level of fulfilment of certain financial performance conditions. These financial performance conditions relate to Sanitec's average organic net sales growth, average EBIT margin, average return on capital employed (ROCE) and average growth in earnings per share during the respective performance measurement period.<sup>2</sup> A minimum target level and a maximum target level for each of these performance conditions has been established by the Board of Directors. These target levels differ between Series 2014, Series 2014-2015 and Series 2014-2016, with increased target levels the longer the term of the vesting period is. In order for each Performance Share Right to give entitlement

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<sup>2</sup> The financial performance conditions may be adjusted for items affecting comparability, i.e. non-recurring items, such as results from divestment of businesses, costs related to major restructuring programs, income or costs related to major legal issues and similar exceptional income or costs.

to one share in Sanitec, the maximum target level must have been fulfilled. Where the level of fulfilment is between the minimum and maximum target levels, allocation will occur on a linear basis.

### **1.6 Formulation and administration**

The Board of Directors, or a specific committee appointed by the Board of Directors, shall be responsible for the formulation and administration of Performance Share Plan 2014, and the terms that will apply between Sanitec and the participant in the plan, within the scope of the terms and directions set out herein. In connection therewith, the Board of Directors shall be authorised to establish divergent terms for the plan regarding inter alia the Vesting Periods and allocation of Sanitec shares in the event of termination of employment during the Vesting Periods as a result of e.g. retirement. The Board of Directors shall be authorised to make the necessary adjustments to fulfil specific rules or market prerequisites in other jurisdictions. In the event that the delivery of shares to persons outside of Sweden cannot be achieved at reasonable cost and with reasonable administrative efforts, the Board of Directors may decide that the participating person may instead be offered cash based settlement. The Board of Directors shall, in certain circumstances, be entitled to reduce the final allocation of Sanitec shares or, in whole or in part, terminate the plan prematurely without compensation to the participants if significant changes occur in Sanitec or on the market.

### **1.7 Scope**

As a maximum, 340,000 shares in Sanitec can be allocated to the participants under Performance Share Plan 2014, which represents 0.34 percent of all shares and votes in Sanitec. The number of shares included in Performance Share Plan 2014 shall, under conditions that the Board of Directors stipulates, be subject to recalculation where Sanitec implements a bonus issue, a share split, a rights issue or similar measures, taking into account customary practice for similar incentive plans.

### **1.8 Hedging**

The Board of Directors proposes a resolution to authorise the Board of Directors to resolve on directed acquisition of own shares (item B below) in order to provide Sanitec with the opportunity to transfer own shares (treasury shares) to the participants (item C below) under Performance Share Plan 2014 and also to use treasury shares to ensure sufficient liquidity for the payment of future social security fees associated with proposed and implemented plans. As an alternative to using, either wholly or in part, treasury shares to secure delivery of shares under the plan, Sanitec may, depending on the Board of Directors' assessment on which alternative is most cost-efficient and flexible, enter into one or several share swap agreement(s) with a third party, under which the third party shall, in its own name, buy and transfer shares in Sanitec to the participants in accordance with Performance Share Plan 2014. Such share swap agreement may also be used for the purpose of hedging against social security fees resulting from proposed and implemented plans.

## **1.9 Estimated costs, and value, of Performance Share Plan 2014**

The Share Rights cannot be pledged or transferred to others, but an estimated value for each right can be calculated. The Board of Directors has estimated that the average value of each Share Right is SEK 74.10. This estimate is based on the closing price (SEK 79.25) for the Sanitec share on 14 March 2014. Based on the assumption that all persons who have been offered participation in the plan participate, that they make the maximum investment and that there is a 50 percent fulfilment of the four performance conditions and an estimated annual employee turnover of ten percent, the aggregate estimated value of the Share Rights is approximately EUR 1.1 million. This value is equivalent to approximately 0.1 percent of the market capitalisation of Sanitec as of 14 March 2014.

The costs are recognised as employee benefits in the statement of profit and loss during the Vesting Periods, in accordance with IFRS 2 on share-based payments. Social security costs will be accrued in the statement profit or loss over the Vesting Periods. These costs will be calculated based on the Sanitec share price development during the Vesting Periods and allocation of the Share Rights. Based on an annual share price increase of 10 percent during the plan, and the three different Vesting Periods of one (1) to three (3) years, the total cost of Performance Share Plan 2014 including social security costs is estimated to amount to approximately EUR 1.5 million, which on an annual basis is approximately 0.3 percent of Sanitec's total employee benefits during the financial year 2013. The maximum cost for Performance Share Plan 2014, based on the assumptions above, equals approximately EUR 4.0 million, including EUR 1.6 million in social security costs.

## **1.10 Effects on key ratios**

In the event of full participation in Performance Share Plan 2014, Sanitec's employee benefits are expected to increase with approximately EUR 0.6 million annually (including social security costs). On a pro-forma basis for 2013, these costs are marginal and equal to a negative effect on Sanitec's operating margin of approximately 0.09 percentage points and a decrease of earnings per share of approximately EUR 0.005. The Board of Directors considers that the positive effects on Sanitec's financial performance which are expected from an increased shareholding by the participants, and the possibility to be allocated further shares in Sanitec under Performance Share Plan 2014, outweigh the costs related to Performance Share Plan 2014.

## **1.11 Other incentive plans in Sanitec**

There is no other share based incentive plan that is outstanding in Sanitec.

## **1.12 The preparation of the proposal**

Performance Share Plan 2014 has been initiated by the Board of Directors and prepared together with external advisors. The plan has been reviewed by the Remuneration Committee

and dealt with at meetings of the Board of Directors during the beginning of 2014.

## **B) AUTHORISATION OF THE BOARD OF DIRECTORS TO RESOLVE ON DIRECTED ACQUISITION OF OWN SHARES**

The Board of Directors proposes that the annual general meeting resolves to authorise the Board of Directors to on one or several occasions, resolve on directed acquisition of Sanitec's own shares as follows.

- A maximum of 340,000 shares may be acquired.
- Acquisitions shall be conducted on NASDAQ OMX Stockholm at a price that is within the registered range for the share price prevailing at the time (the so-called spread), that is, the range between the highest purchase price and the lowest selling price and observing the, from time to time, applicable rules set out in the NASDAQ OMX Stockholm Rule Book for Issuers. Where an acquisition is effected by a stock broker as assigned by Sanitec, the share price may, however, correspond to the volume weighted average price during the time period within which the shares were acquired, even if the volume weighted average price on the day of delivery to Sanitec falls outside the spread.
- Payment of the shares shall be made in cash.
- Acquisitions shall be made for the purpose to secure Sanitec's obligations (including costs for social security fees) under Performance Share Plan 2014, and other, at any time, share based incentive plans adopted by the general meeting of shareholders from time to time.
- The authorisation shall stay in force until 30 June 2015.

The reason for acquiring shares in deviation of the proportional holdings of each shareholder is that the acquisitions form a part of fulfilling the obligations under the Performance Share Plan 2014. Therefore, the Board of Directors is of the opinion that weighty financial reasons exist for the company to acquire shares in deviation of the proportional holdings of each shareholder.

## **C) AUTHORISATION OF THE BOARD OF DIRECTORS TO RESOLVE ON TRANSFER OF OWN SHARES**

The Board of Directors proposes that the annual general meeting resolves to authorise the Board of Directors to, on one or several occasions, transfer own shares in Sanitec as follows.

- Not more than 340,000 shares may be transferred.
- The shares may be transferred to participants in Performance Share Plan 2014 who, under the terms for Performance Share Plan 2014, are entitled to receive shares.
- Transfer of shares shall be made at the time and according to the other terms pursuant to which participants in Performance Share Plan 2014 are entitled to receive shares.
- Transfer may take place via directed share issue without payment.
- The authorisation shall stay in force until 12 May 2018.

The reason for deviating from the shareholders' preferential rights is that the transfer of shares is part of the execution of Performance Share Plan 2014. Therefore, the Board of Directors is of the opinion that, taking into account the interests of all the shareholders, especially weighty financial reasons exist for the company to carry out a share transfer deviating from the shareholders' preferential rights and which requires no consideration to be paid to the company.

### **Majority requirement**

The proposal shall be resolved upon as a single resolution. The resolution is valid where supported by shareholders representing at least two thirds of both votes cast and the shares represented at the Meeting.

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April 2014  
**Sanitec Corporation**  
*The Board of Directors*