

# The Board of Directors' proposal regarding the implementation of a long-term incentive programme, and hedging arrangements in respect thereof

## Background and reasons for the proposal

The Board of Directors of Clas Ohlson AB (publ) ("**Clas Ohlson**") proposes that the Annual General Meeting 2022 resolve on the implementation a long-term incentive programme ("**LTI 2022**"), giving senior management and key employees the opportunity of becoming shareholders in Clas Ohlson.

The overall purpose of LTI 2022 is to closely align the participants' interests with those of the shareholders and to create a long-term commitment as well as value creation for Clas Ohlson. LTI 2022 is also a key part of an overall competitive remuneration package for Clas Ohlson, intended to attract and retain senior management and key employees who are critical for Clas Ohlson's long-term success.

The Board of Directors considers that having recurring long-term incentive programmes is vital and an important part of Clas Ohlson's total remuneration package, and the Board of Directors, therefore, intends to annually propose incentive programmes for approval by the Annual General Meeting.

## A. Implementation of LTI 2022

The Board of Directors proposes that the Annual General Meeting 2022 resolves on implementation of LTI 2022 in accordance with the principal terms and conditions set out below:

- (a) It is proposed that LTI 2022 be open to no more than 50 employees of senior management and other key employees of the Clas Ohlson Group.
- (b) Each participant will free of charge receive a performance share award under LTI 2022 ("**LTIP Award**") entitling the participant to receive an allocation of a number of Clas Ohlson series B shares free of charge from Clas Ohlson or from a designated third party, subject to the satisfaction of the performance conditions set out in section (e) below as well as the condition in section (i) below ("**Performance Shares**").
- (c) Any Performance Shares will be allocated after the expiration of the three-year vesting period, which begins on the date decided by Clas Ohlson and notified to the participant in LTI 2022 and continues until the day of publication of the interim report for Q1 the 2025/2026 financial year (the "**Vesting Period**"). Offer of participation in LTI 2022 can be offered up to and including 31 December 2022.
- (d) The value of the underlying shares at the time of grant in respect of each LTIP Award will amount to 45 per cent of the gross annual fixed salary in 2022 (as per 1 May 2022) for each participant, on an individual basis. The share price used to calculate the value of the underlying shares in respect of each LTIP Award, and hence the number of shares to which each LTIP Award entitles, shall be the volume-weighted average price paid for the Clas Ohlson series B share on Nasdaq Stockholm during the period between 9 June 2022 and 22 June 2022 (ten trading days immediately after the publication of the interim report for Q4 the 2021/2022 financial year), i.e. SEK 108.74 (the "**Input Value**").

- (e) The portion (if any) of an LTIP Award that will vest at the end of the Vesting Period is based on and subject to the satisfaction of the performance conditions set out below during the 2022/2023, 2023/2024, and 2024/2025 financial years, i.e. during the period 1 May 2022 up to and including 30 April 2025 (“**Performance Period**”). The percentage weighting between the different performance conditions is stated below and the outcome for each performance condition will be determined individually. This means, inter alia, that all performance conditions do not have to be fulfilled for allocation of Performance Shares to take place.

#### *Net sales*

30 per cent of the allocation under an LTIP Award will depend on the average net sales (“**Net Sales**”) during the Performance Period. The Board of Directors will determine a minimum and maximum level, which will be disclosed after expiry of LTI 2022. If the minimum level is reached, an allocation of 30 per cent related to Net Sales will occur. If the maximum level is reached or exceeded, a full allocation related to Net Sales will occur. If the outcome is between the minimum level and the maximum level, a linear allocation related to Net Sales will take place. If the minimum level is not reached, no allocation related to Net Sales will occur.

#### *Earnings per share*

40 per cent of the allocation under an LTIP Award will depend on the average earnings per Clas Ohlson share (“**EPS**”) during the Performance Period. The Board of Directors will determine a minimum and maximum level, which will be disclosed after expiry of LTI 2022. If the minimum level is reached, an allocation of 30 per cent related to EPS will occur. If the maximum level is reached or exceeded, a full allocation related to EPS will occur. If the outcome is between the minimum level and the maximum level, a linear allocation related to EPS will occur. If the minimum level is not reached, no allocation related to the EPS will occur.

#### *Sustainability*

30 per cent of the allocation under an LTIP Award will be subject to whether the Clas Ohlson Group has achieved certain ESG targets according to the Group’s sustainability strategy during the last financial year of the Performance Period. The ESG targets consist of three sub-targets: (i) the portion of the Group’s suppliers that comply with Clas Ohlson’s Code of Conduct without any material deviations, (ii) gender equality among Clas Ohlson’s managers with direct reporting employees, and (iii) perceived inclusion among Clas Ohlson’s employees (the “**ESG Targets**”). For each sub-target, a minimum and maximum level have been determined in accordance with the table below. Each sub-target is weighted by one third (i.e. corresponding to 10 per cent of the total possible allocation according to LTI 2022). If the outcome of a sub-target is less than the minimum level, no allocation is made related to that sub-target. If the outcome of a sub-target is between the minimum and the maximum level, a linear allocation is made related to that sub-target. If the outcome of a sub-target reaches or exceeds the maximum level, a 100 per cent allocation is made related to that sub-target.

<b>Sub-targets</b>	<b>Minimum level (30% allocation)</b>	<b>Maximum level (100% allocation)</b>
The portion of the Group's suppliers that comply with Clas Ohlson's Code of Conduct without any material deviations	99%	99.5%
Gender equality among Clas Ohlson's managers with direct reporting employees	40% of the underrepresented gender	48% of the underrepresented gender
Perceived inclusion among Clas Ohlson's employees	85% of the employees are of the opinion that everyone has equal opportunities for career and development within Clas Ohlson	87% of the employees are of the opinion that everyone has equal opportunities for career and development within Clas Ohlson

- (f) The number of Performance Shares that can be allocated per each LTIP Award shall be adjusted for any dividend payments during the period from the determination of the Input Value and up to and including the date of allocation of Performance Shares after the expiry of the Vesting Period ("**Dividend Compensation Shares**").
- (g) The value of each Performance Share at allocation (inclusive compensation for dividend according to section (f) above) shall be capped to three times the Input Value. If so, the number of Performance Shares allocated will be reduced.
- (h) Performance Shares may be allocated only after the expiration of the Vesting Period, unless the Board of Directors of Clas Ohlson in an individual case resolves otherwise in case of any special reasons.
- (i) In order for an LTI 2022 participant to be allocated Performance Shares it is a condition that, with certain specific exemptions, the participant has been permanently employed within the Clas Ohlson Group for the duration of the whole Vesting Period.
- (j) If significant changes in the Clas Ohlson Group or in the market occur which, in the opinion of the Board of Directors, would result in a situation where the conditions for allocation of Performance Shares become unreasonable, the Board of Directors shall be entitled to make adjustments to LTI 2022, including, among other things, be entitled to resolve on a reduced allocation of Performance Shares or that no Performance Shares shall be allocated at all.
- (k) The Board of Directors shall be authorised to establish the detailed terms and conditions for LTI 2022. The Board of Directors may, in that regard, make necessary adjustments to satisfy certain regulations or market conditions outside Sweden, including, inter alia, offering cash remuneration instead of Performance Shares to employees in countries where Performance Shares may not be allocated in accordance with applicable rules or where this cannot be done at reasonable costs or administrative efforts.
- (l) Participation in LTI 2022 presupposes that such participation is legally possible in the various jurisdictions concerned and that the administrative costs and financial

efforts are reasonable in the opinion of the Board of Directors.

- (m) LTI 2022 shall comprise a maximum of 440,000 Clas Ohlson series B shares, of which 345,000 constitute Performance Shares and Dividend Compensation Shares. The remaining 95,000 Clas Ohlson series B shares are such shares that may be transferred by Clas Ohlson or a third party in order to cover the cash flow effects associated with LTI 2022, primarily social security contributions.
- (n) The number of Performance Shares, will be subject to recalculation as a result of intervening bonus issues, splits, rights issues and/or other similar corporate events.

#### *Costs*

The costs for LTI 2022, which are charged in the profit and loss account, are calculated according to the accounting standard IFRS 2 and UFR 7 and distributed over the Vesting Period. The calculation has been made based on the following assumptions: (i) a market price of the Clas Ohlson series B shares of SEK 102.00 (closing price on 22 July 2022), (ii) an average annual dividend of SEK 8.64, (iii) an assessment of future volatility in respect of the Clas Ohlson series B share, (iv) the assumed allocation of Performance Shares stated in the following paragraph, and (v) that LTI 2022 comprises 50 participants.

In total, this can lead to, at an assumed average target fulfilment of 50 per cent and based on a employee turnover of 10 per cent, a cost for LTI 2022 of approximately 11.9 MSEK, excluding social security contributions. The costs for social security contributions are calculated to approximately 6.0 MSEK assuming an annual share price increase of 10 per cent during the Vesting Period.

Based on the assumptions above the annual costs for LTI 2022, including social security contributions, corresponds to approximately 0.29 per cent of Clas Ohlson's total annual personnel costs.

If LTI 2022 had been implemented in 2021/2022, if Clas Ohlson had had costs in accordance with the example above, and if LTI 2022 had been allocated in 2021/2022 in accordance with the assumptions in the sample calculation above, the earnings per share for the 2021/2022 financial year would have decreased by SEK 0.08 to SEK 8.17.

In the event of a maximum allocation of Performance Shares and that all participants remain in LTI 2022 and that the value of each Performance Share upon allocation (including compensation for dividends) according to above amounts to three times the Input Value, the maximum cost for LTI 2022 is estimated at approximately 47.4 MSEK including social security contributions. In such a scenario, the value for Clas Ohlson's shareholders has increased by 13.0 billion SEK.

#### *Hedging arrangements and dilution*

The Board of Directors has considered different methods for transfer of shares to participants as well as to cover the cash-flow effects associated with LTI 2022 (primarily social security contributions), in order to implement LTI 2022 in a cost-effective and flexible manner. The Board of Directors has found the most cost-effective alternative to be, and thus proposes that the Annual General Meeting as a main alternative resolve on, repurchase and transfer of own shares (see item B. below). If the assessment is subsequently made that additional shares may need to be repurchased, the Board of Directors may propose that future general meetings issue authorisations to repurchase shares to further secure the company's obligations under LTI 2022.

Prior to expiry of LTI 2022, the Board of Directors intends to propose to the 2024 Annual General Meeting that transfers be made of own shares on a regulated market in order to cover the cash-flow effects associated with LTI 2022.

Should the majority required under item B. below not be reached, the Board of Directors proposes that Clas Ohlson shall be able to enter into an equity swap agreement with a third party, in accordance with item C. below.

Neither of the hedging alternatives referred to above give rise to an increase of the number of shares in the company and, accordingly, no dilutive effect in terms of shares issued will occur for existing shareholders.

## **B. Repurchase and transfer of own shares**

- (a) The Board of Directors proposes that the Annual General Meeting resolve to authorise the Board of Directors to resolve on repurchase of shares in the company in relation to LTI 2022 according to the following:
- Acquisitions may be made of no more than 440,000 series B shares in order to secure the delivery obligations of shares to participants in LTI 2022 and for subsequent transfers on a regulated market to cover cash-flow effects associated with LTI 2022, primarily social security contributions.
  - The shares may only be acquired on Nasdaq Stockholm.
  - The authorisation may be exercised on one or more occasions, until the 2023 Annual General Meeting.
  - The shares may only be acquired at a price per share within the from time to time registered trading interval.
- (b) The Board of Directors proposes that the Annual General Meeting resolve to transfer shares in the company in relation to LTI 2022 according to the following:
- No more than 345,000 series B shares may be transferred.
  - Right to acquire series B shares shall, with deviation from the shareholders' preferential rights, be granted the persons participating in LTI 2022, with a right for each participant to acquire the maximum number of shares as set out in the terms and conditions of LTI 2022.
  - Transfer of series B shares to the participants of LTI 2022 shall be made free of charge at a time and on the other terms and conditions of LTI 2022 at which participants of LTI 2022 are entitled to be allocated shares.
  - The number of shares that may be transferred shall be re-calculated in the event of intervening bonus issues, splits, rights issues or other similar corporate events.

The transfer of own shares is a part of the proposed LTI 2022 and the Board of Directors considers it to be of benefit for the company and its shareholders that the participants of LTI 2022 are offered the opportunity to become shareholders in the company on the terms and conditions of LTI 2022.

**C. Equity swap agreement with a third party**

Should the majority required under item B. above not be reached, the Board of Directors proposes that the Annual General Meeting resolve that the expected financial exposure of LTI 2022 shall be hedged by Clas Ohlson being able to enter into an equity swap agreement with a third party on terms in accordance with market practice, whereby the third party in its own name shall be entitled to acquire and transfer shares in Clas Ohlson to the participants.

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**Conditions**

The Annual General Meeting's resolution on the implementation of LTI 2022 according to item A. above, is conditional upon Annual General Meeting either resolving in accordance with the Board of Directors' proposal under item B. above or in accordance with the Board of Directors' proposal under item C. above.

**Majority requirements, etc.**

The Annual General Meeting's resolution according to item A. above requires a simple majority of the votes cast. A valid resolution under item B. above requires that shareholders representing not less than nine-tenths of the votes cast as well as of the shares represented at the Annual General Meeting approve the resolution. A valid resolution under item C. above requires a simple majority of the votes cast.

**Previous incentive programmes**

For a description of the company's other long-term incentive programmes, reference is made to the company's 2021/2022 Annual Report, Note 6, and the company's website. No other long-term incentive programmes than those described therein have been implemented in the company.

**Preparation of the proposal**

The company's People Committee has prepared the proposal for LTI 2022, and the proposal has subsequently been presented to and adopted by the Board of Directors. The Board of Directors has subsequently decided that LTI 2022 shall be proposed to the Annual General Meeting.

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25 July 2022,

Clas Ohlson AB

Board of

Directors