



# **G5 ENTERTAINMENT AB**

## **Item 7 – Board’s proposal to resolve on a performance based, long-term share program for the executive management and key employees**

### **Background and rationale**

In connection with the Annual General Meeting 2018, the Board expressed its intention to implement a new share based incentive program for the Company’s executive management and other key employees. At the time of the Annual General Meeting 2018, the preparatory documents were not sufficient to reach the sufficient majority of votes. The Board has now calculated the costs and considered possible motives for an incentive program of the mentioned kind. Following the Board’s calculations and consideration, the Board has decided to propose a performance based, long-term share program (“**LTIP 2018**”). All resolutions are proposed to be conditional upon one another and are therefore proposed to be adopted in connection with each other.

The Board is convinced that the proposed program will be beneficial to the Company’s shareholders as it will contribute to the possibilities to recruit and retain competent employees, is expected to increase the commitment and the motivation of the program participants and will strengthen the participants’ ties to the Group and its shareholders.

As stated in the principal terms and conditions below, LTIP 2018 is proposed to have a vesting period of approximately 2.5 years. This constitutes deviation from the Swedish Corporate Governance Code (the “**Code**”), pursuant to which the vesting period of share based incentive programs for members of the executive management is not to be less than three years. The reason for the deviation from the Code is to enable the coming annual general meetings to adopt renewed performance based, long-term share programs with a vesting period of three years.

The Board proposes that the Company’s CEO, who is also a director of the Company, shall be given the opportunity to participate in LTIP 2018. The proposal regarding the CEO’s participation in LTIP 2018 is presented in a separate item 8 below.

The Board’s proposal under this item 7 is conditional upon that the Extraordinary General Meeting subsequently approves the Board’s proposals under items 8-12.

### **Principal terms and conditions**

- a) LTIP 2018 is proposed to include approximately 100 members of the executive management and other key employees of Company and its subsidiaries. Participants are offered to be allotted, free of

charge, ordinary shares in the Company (“**Performance Shares**”), provided that the participant remains employed by the Company or any of its subsidiaries until the date of publication of the Company’s interim report January – March 2021, estimated to be released on 5 May 2021.

- b) The allotment of Performance Shares relates to the development in the total shareholders return of the Company’s ordinary share (“**TSR**”) calculated from the volume weighted average price of the Company’s share<sup>1</sup> for the period from November 8, 2018 up to and including November 14, 2018 compared to the volume weighted average price of the Company’s share for a corresponding measurement period following publication of the interim report January – March 2021, estimated to be released on May 5, 2021 (the “**Performance Period**”). TSR is the development of the share price, plus dividend payments, expressed in percentage for a specific period.
- c) In order for allotment of Performance Shares to take place, the TSR must exceed a minimum level of 95 per cent for the entire Performance Period equal to 31 per cent per year during the Performance Period (the “**Threshold Level**”). Maximum allotment is awarded if the TSR reach or exceed a level of 205 per cent for the entire Performance Period equal to 56 per cent per year during the Performance Period (the “**Target Level**”).
- d) Not more than 120,000 Performance Shares may be allotted under the program. Provided that the TSR increase reaches the Target Level, the participants may be allotted the following maximum number of Performance Shares per person within six groups;
- Group 1: the COO – 10,000 Performance Shares
  - Group 2: approx. 2 key employees – 4,200 Performance Shares
  - Group 3: approx. 7 key employees – 3,300 Performance Shares
  - Group 4: approx. 14 key employees – 1,700 Performance Shares
  - Group 5: approx. 37 key employees – 500 Performance Shares
  - Group 6: approx. 28 key employees – 250 Performance Shares
- e) Invitation to participate in LTIP 2018 shall be provided by the Company no later than 30 November 2018. Application for participation shall be submitted to the Company no later than 14 December 2018. Additional member of the executive management and/or key employees, who have not started their employment prior to the last date of application for participation, may be invited to participate in LTIP 2018 provided that their employment is started on or before 31 December 2018 and that the Board considers it consistent with the rationale of LTIP 2018.
- f) The number of Performance Shares included in LTIP 2018 is subject to customary recalculation by the Board due to changes in the capital structure, such as bonus issue, consolidation or split of shares, new issue or reduction of the share capital or similar measures.

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<sup>1</sup> The share price is determined from the listed settled prices according to Nasdaq Stockholm's stock exchange list for shares in G5 Entertainment AB (publ), however, not less than the share’s quotient value being 0.1 SEK. Days at which no paid price is quoted shall be excluded from the calculation of the volume weighted average price.

- g) Before the number of Performance Shares to be allotted is finally determined, the Board shall examine whether the allotment is reasonable considering the Company's financial results and position, the conditions on the stock market as well as other circumstances, and if not, as determined by the Board, reduce the number of shares to be awarded to the lower number of shares deemed appropriate by the Board.
- h) The Board, or a committee established by the Board for this purpose, will be responsible for the detailed drafting and management of LTIP 2018, within the scope of the principal terms and conditions as specified. The Board shall thereupon be entitled to make adjustments to meet specific rules or market conditions abroad. The Board shall also be entitled to make other adjustments provided that there are substantial changes in the Group or its surroundings which would signify that conditions for allocation in accordance with LTIP 2018 are no longer appropriate.
- i) Participation in LTIP 2018 presupposes that such participation is legally and suitably possible and that the administrative costs and financial efforts are reasonable in the opinion of the Board.
- j) The Board is entitled to introduce an alternative incentive solution for employees in countries where participation in LTIP 2018 is not appropriate. Such alternative incentive solution shall, as far as practicable, be formulated employing the same conditions as LTIP 2018.

### **Costs of LTIP 2018**

The total costs of LTIP 2018 if the maximum number of Performance Shares is allotted are estimated to SEK 22,042,732 upon reaching full allocation, which corresponds to approximately 25 per cent of total employment costs for 2017. The costs will be allocated over the years 2018–2021. The costs have been calculated as the sum of salary costs, including social costs, and administration costs for the program. Administration costs are estimated to be less than SEK 1,000,000. If no allotment of shares is made, only expenses for administration will arise.

The salary costs have been calculated based on the value, at the start of the program, of the Performance Shares that may be allotted if the Target Level is reached, with a reduction of the present value of estimated dividend payments during a three-year period. The estimate on maximum costs assumes that Target Level is reached and that the number of participants that will end their employment with the Group during the Performance Period is the same as the historical average. In the calculation, a share price of SEK 336 per share has been applied.

The number of outstanding shares is estimated to increase with not more than 120,000 shares. Such maximum increase would have a dilutive effect of approximately 1.3 per cent.

### **Effect on certain key ratios**

The costs and dilution are expected to have marginal effect on key ratios of the Company.

The annual cost of LTIP 2018 including social charges is estimated to be approximately SEK 1.7 million based on the above assumptions. This cost can be related to the Company's total employment costs, including social charges, of SEK 88,956,000 in 2017.

### **Delivery of shares within the framework of LTIP 2018**

In order to implement LTIP 2018 in a cost-efficient and foreseeable way, the Board has considered various alternatives for delivery of ordinary shares to the participants in the program. In this respect, the Board has found the most cost-efficient method to include the following steps:

- 1) A new class of shares (class C shares), with the sole purpose of facilitating the delivery of ordinary shares under LTIP 2018, is introduced in the Company's articles of association. The new class C share is proposed to be convertible into ordinary shares and redeemable upon a resolution by the Board or the general meeting of shareholders. The new class C share will not be subject to trading on Nasdaq Stockholm or any other exchange or trading platform. For the purpose of this step 1), the Board proposes that the Extraordinary General Meeting resolves to amend the Company's articles of association as set out in item 9 at the Extraordinary General Meeting.
- 2) The Board resolves on a directed issue of class C shares to an assisting bank at a price corresponding to the quotient value (SEK 0.1 per share). For the purpose of this step 2), the Board proposes that the Extraordinary General Meeting authorizes the Board to resolve on issuance of class C shares as set out in item 10 at the Extraordinary General Meeting.
- 3) The Board resolves to reacquire the class C shares from the assisting bank at the quotient value of SEK 0.1 per share. For the purpose of this step 3), the Board proposes that the Extraordinary General Meeting authorizes the Board to resolve to acquire own class C shares as set out in item 11 at the Extraordinary General Meeting.
- 4) The Company will hold its own class C shares until the end of the Performance Period under LTIP 2018. When the number of ordinary shares to be delivered under LTIP 2018 has been calculated, the Board will resolve to convert class C shares held by the Company into ordinary shares to the extent needed to fulfil the Company's commitments under LTIP 2018, while the remaining class C shares will be redeemed or kept by the Company to secure delivery of ordinary shares under other share-based incentive programs adopted by the general meeting of shareholders. The possibility to convert and redeem class C shares is included in the proposed amendment of the Company's articles of association (item 9 at the Extraordinary General Meeting).
- 5) The ordinary shares held by the Company following completion of the conversion of class C shares, are transferred, free of charge, to the participants in LTIP 2018 who, according to the terms and conditions for LTIP 2018, are entitled to receive ordinary shares in the Company. For the purpose of this step 5), the Board proposes that the Extraordinary General Meeting resolves to transfer own ordinary shares as set out in item 12 at the Extraordinary General Meeting.

### **Preparation of the proposal**

The proposal for LTIP 2018 has been prepared by the Company's Remuneration Committee and the Board with the support of independent expertise and in consultation with major shareholders.

Vlad Suglobov, Board member and CEO, has not participated in preparing the proposal for LTIP 2018.

### **Previous incentive programs in the Company**

For a description of the Company's other share or share-price related incentive plans, reference is made to the annual report of 2017, note C13, and the Company's website, [www.g5e.com/corporate/share](http://www.g5e.com/corporate/share).

### **Majority requirement**

A valid resolution in respect of the Board's proposal at the general meeting requires that the resolution be supported by shareholders with more than half of the votes cast or, in the event of a tied vote, through the chairman exercising his casting vote.

## **Item 8 – Board's proposal to resolve on a performance based, long-term share program for the Company's CEO**

It is further suggested that the Company's CEO, who is also a director of the Company, shall be given the opportunity to participate in LTIP 2018 on the terms set out in item 7 above. The CEO may be allotted a maximum number of 10,000 Performance Shares under LTIP 2018.

The Board's proposal under this item 8 is conditional upon that the Extraordinary General Meeting formerly has approved the Board's proposal under item 7 and subsequently approves the Board's proposals under items 9-12.

### **Majority requirement**

A valid resolution in respect of the Board's proposal at the general meeting requires that shareholders at the general meeting representing both at least 9/10 of the number of votes cast and the number of shares represented voting for the proposal. Any shares held by the CEO shall be disregarded in the voting.

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Stockholm in October 2018

**G5 Entertainment AB (publ)**

Board of Directors