

### Summary of proposed SKF's Performance Share Programme 2015

This is a summary of the Board's proposed resolution on a performance share programme for senior managers and key employees of the SKF Group. For full details on the proposed programme, please see the complete Board proposal below.

#### SKF's Performance Share Programme 2015

The Board proposes, in order to continue to link the interests of the participants and the shareholders long-term, that a decision be taken at the Annual General Meeting 2015 on SKF's Performance Share Programme 2015.

- The programme is proposed to cover not more than 225 senior managers and key employees in the SKF Group with an opportunity to be allotted, free of charge, SKF B shares. Under the programme, not more than in total 1,000,000 SKF B shares may be allotted.
- The number of shares that may be allotted must be related to the degree of achievement of the Total Value Added (TVA) target level, as defined by the Board, for the TVA development for the financial years 2015–2017 compared to the financial year 2014.
- TVA is a simplified, economic value-added model promoting greater operating profit, capital efficiency and profitable growth. TVA is the operating profit, less the pre-tax cost of capital. After the expiry of the financial year 2017 a comparison is made between the average TVA for the financial years 2015–2017 and TVA for the financial year 2014. The TVA change is expressed as a percentage.

The TVA result development for the Group correlates well with the trend of the share price over a longer period of time. This means that if the TVA targets set by the Board are achieved and shares are allocated according to the programme, the shareholders will most likely have benefited from a positive share price development. The program does not give any openings to allocate shares without delivering a good performance.

- The allocation of shares is based on the level of TVA increase. In order for allocation of shares to take place the TVA increase must exceed a certain minimum level (the threshold level). In addition to the threshold level a target level is set. Maximum allotment is awarded if the target level is reached or exceeded.
- Provided that the TVA increase reaches the target level, the participants of the programme may be allotted the following maximum number of shares per person within the various key groups:

CEO and President – 30,000 shares  
 Other members of Group Management – 13,000 shares  
 Managers of large business units and similar – 4,500 shares  
 Other senior managers – 3,000 shares  
 Other key persons – 1,250 shares

- If the TVA increase exceeds the threshold level for allotment of shares but the final allotment is below 5% of the target level, payment will be made in cash instead of shares, whereupon the amount of the cash payment shall

correspond to the value of the shares calculated on the basis of the closing price for SKF's B share the day before settlement.

- Before the number of shares to be allotted is finally determined, the Board shall examine whether the allotment is reasonable considering SKF'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.
- The company has 455,351,068 shares in issue as per 31 January 2015. In order to comply with the obligations of SKF's Performance Share Programme 2015, a maximum number of 1,000,000 B shares are required, corresponding to approximately 0.2% of the total number of outstanding shares.
- Assuming maximum allocation under the Performance Share Programme 2015 and a share price of SEK 169, the cost, including social security cost, is estimated at approximately MSEK 158. On the basis of a share price of SEK 348, the cost, including social security cost, is estimated at approximately MSEK 325. In addition the administrative costs are estimated at approximately MSEK 2.
- The Board does not propose for the time being to take any action to hedge the SKF Group's obligations under the programme.
- Delivery of shares under the programme shall not take place until 2018.

## **The Board of Directors' proposal for a resolution on SKF's Performance Share Programme 2015**

### Background information

At the Annual General Meeting in 2008 the SKF Group introduced a long-term performance share programme for senior managers and key employees (SKF's Performance Share Programme 2008). Since 2008 the Annual General Meeting has resolved each year upon a performance share programme. In essence, all the previous programmes are on the same terms and conditions.

### The Board's proposed decision

The Board proposes, in order to continue to link the interests of the participants and the shareholders long-term, that a decision be taken at the Annual General Meeting 2015 on SKF's Performance Share Programme 2015.

The programme is proposed to cover not more than 225 senior managers and key employees in the SKF Group with an opportunity to be allotted, free of charge, SKF B shares in accordance with the following principal terms and guidelines.

Under the programme, not more than in total 1,000,000 SKF B shares may be allotted to not more than 225 senior managers and key employees in the Group. The number of shares that may be allotted must be related to the degree of achievement of the Total Value Added (TVA) target level, as defined by the Board, for the TVA development for the financial years 2015–2017 compared to the financial year 2014. TVA is a simplified, economic value-added model promoting greater operating profit, capital efficiency and profitable growth. TVA is the operating profit, less the pre-tax cost of capital. After the expiry of the financial year 2017 a comparison is made between the average TVA for the financial years 2015–2017 and TVA for the financial year 2014. The TVA change is expressed as a percentage.

The allocation of shares is based on the level of TVA increase. In order for allocation of shares to take place the TVA increase must exceed a certain minimum level (the threshold level). In addition to the threshold level a target level is set. Maximum allotment is awarded if the target level is reached or exceeded.

Provided that the TVA increase reaches the target level, the participants of the programme may be allotted the following maximum number of shares per person within the various key groups:

CEO and President – 30,000 shares

Other members of Group Management – 13,000 shares

Managers of large business units and similar – 4,500 shares

Other senior managers – 3,000 shares

Other key persons – 1,250 shares

If the TVA increase exceeds the threshold level for allotment of shares but the final allotment is below 5% of the target level, payment will be made in cash instead of shares, whereupon the amount of the cash payment shall correspond to the value of the shares calculated on the basis of the closing price for SKF's B share the day before settlement.

Allotment of shares normally requires that the persons covered by the programme are employed in the SKF Group during the entire calculation period. If all the conditions included in SKF's Performance Share Programme 2015 are met, allotment of shares shall be made free of charge following the expiry of the three year calculation period, i.e. during 2018.

The number of shares included in the proposal may be recalculated by the Board due to changes in the capital structure, such as a bonus issue, consolidation or split of shares, new issue or reduction of the share capital or similar measures.

The Board, or a committee established by the Board for this purpose, will be responsible for the detailed drafting and management of SKF's Performance Share Programme 2015, within the scope of the principal conditions and guidelines 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 SKF Group or its surroundings which would signify that conditions for allocation in accordance with SKF's Performance Share Programme 2015 are no longer appropriate.

Before the number of shares to be allotted is finally determined, the Board shall examine whether the allotment is reasonable considering SKF'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.

Participation in SKF's Performance Share Programme 2015 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.

The Board is furthermore entitled to introduce an alternative incentive solution for employees in countries where participation in SKF's Performance Share Programme 2015 is not appropriate. Such alternative incentive solution shall, as far as practicable, be formulated employing the same conditions as SKF's Performance Share Programme 2015.

#### Preparation of the matter

The proposal for SKF's Performance Share Programme 2015 has been prepared by AB SKF's Remuneration Committee and the Board with the support of independent expertise and in consultation with major shareholders.

The Board deems that it is an appropriate principle that each Group Management member during the coming five-year period holds the following number of SKF shares, provided that a corresponding number of shares has been allotted to such member under SKF's Performance Share Programme:

CEO and President – 15,000 shares

Other members of Group Management – 6,500 shares

#### Costs of SKF's Performance Share Programme 2015

The company has 455,351,068 shares in issue as per 31 January 2015. In order to comply with the obligations of SKF's Performance Share Programme 2015, a maximum

number of 1,000,000 B shares are required, corresponding to approximately 0.2% of the total number of outstanding shares.

Assuming maximum allocation under the Performance Share Programme 2015 and a share price of SEK 169, the cost, including social security cost, is estimated at approximately MSEK 158. On the basis of a share price of SEK 348, the cost, including social security cost, is estimated at approximately MSEK 325. In addition the administrative costs are estimated at approximately MSEK 2.

#### Hedging actions

The Board does not propose for the time being to take any action to hedge the SKF Group's obligations under the programme. Delivery of shares under the programme shall not take place until 2018.

#### Other long-term incentive programmes

SKF's Performance Share Programmes 2008 - 2012 have expired. For a description of SKF's Performance Share Programmes 2013 and 2014, reference is made to Note 25 in AB SKF's annual report for the financial year 2014, as well as SKF's website, [www.skf.com/group/investors/remuneration](http://www.skf.com/group/investors/remuneration).

#### 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.

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