

**Summary of proposed SKF's Performance Share Programme 2014**

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 2014

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 2014 on SKF's Performance Share Programme 2014. The terms and conditions of the proposed SKF's Performance Share Programme 2014 are in essence the same as the terms and conditions of SKF's previous performance share programmes.

- The programme is proposed to cover not more than 310 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 financial year 2014, and the TVA development for the financial year 2016 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 in the country in which the business is conducted.

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.

- Based on the TVA for the financial year 2014, the participants of the programme may be preliminarily allotted a number of shares per person, however, not exceeding the following number of shares per person within the various key groups:

CEO and President – 10,000 shares

Business area Presidents and Executive Vice President – 5,000 shares

Other members of Group Management – 3,500 shares

Managers of large business units and other senior managers – 1,250 - 1,800 shares.

Following the expiry of the financial year 2016 a comparison is made between TVA for the financial year 2014 and TVA for the financial year 2016. The development in TVA between the two financial years is set out in percentage. Final allotment of shares is established by the preliminary number of allotted shares being multiplied with the percentage development in TVA. If the development is positive the participants will thus receive an increased number of shares in final allotment compared to the number preliminary allotted, whereas if the development is negative the participants will receive a decreased number of shares in final allotment compared to the number preliminary allotted. Final allotment may, however, never exceed 200% of the preliminarily allotted number of shares per person. The participants in the programme may thus in final allotment receive not more than the following number of shares per person within the various key groups:

CEO and President – 20,000 shares

Business area Presidents and Executive Vice President – 10,000 shares

Other members of Group Management – 7,000 shares

Managers of large business units and other senior managers – 2,500 - 3,600 shares

- The participants shall not provide any consideration for their rights under the programme, and shall receive compensation in cash equal to the dividend paid out during the three year calculation period.
- The company has 455,351,068 shares in issue as per 31 January 2014. In order to comply with the obligations of SKF's Performance Share Programme 2014, 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 2014 and a share price of SEK 150, the cost, including social security cost, is estimated at approximately MSEK 180. On the basis of a share price of SEK 200, the cost, including social security cost, is estimated at approximately MSEK 240. 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 2017.

## **The Board of Directors' proposal for a resolution on SKF's Performance Share Programme 2014**

### **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 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 2014 on SKF's Performance Share Programme 2014. The terms and conditions of the proposed SKF's Performance Share Programme 2014 are in essence the same as the terms and conditions of SKF's previous performance share programmes.

The programme is proposed to cover not more than 310 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 310 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 financial year 2014, and the TVA development for the financial year 2016 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 in the country in which the business is conducted.

Based on the TVA for the financial year 2014, the participants of the programme may be preliminarily allotted a number of shares per person, however, not exceeding the following number of shares per person within the various key groups:

CEO and President – 10,000 shares

Business area Presidents and Executive Vice President – 5,000 shares

Other members of Group Management – 3,500 shares

Managers of large business units and other senior managers – 1,250 - 1,800 shares

Following the expiry of the financial year 2016 a comparison is made between TVA for the financial year 2014 and TVA for the financial year 2016. The development in TVA between the two financial years is set out in percentage. Final allotment of shares is established by the preliminary number of allotted shares being multiplied with the percentage development in TVA. If the development is positive the

participants will thus receive an increased number of shares in final allotment compared to the number preliminary allotted, whereas if the development is negative the participants will receive a decreased number of shares in final allotment compared to the number preliminary allotted. Final allotment may, however, never exceed 200% of the preliminarily allotted number of shares per person. The participants in the programme may thus in final allotment receive not more than the following number of shares per person within the various key groups:

CEO and President – 20,000 shares

Business area Presidents and Executive Vice President – 10,000 shares

Other members of Group Management – 7,000 shares

Managers of large business units and other senior managers – 2,500 - 3,600 shares

The participants shall not provide any consideration for their rights under the programme.

Participants shall receive compensation in cash equal to the dividend paid out during the three year calculation period.

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 2014 are met, allotment of shares shall be made free of charge following the expiry of the three year calculation period, i.e. during 2017.

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 2014, 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 2014 are no longer appropriate.

Participation in SKF's Performance Share Programme 2014 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 2014 is not appropriate. Such alternative incentive solution shall, as far as practicable, be formulated employing the same conditions as SKF's Performance Share Programme 2014.

### **Preparation of the matter**

The proposal for SKF's Performance Share Programme 2014 has been prepared by AB SKF's Remuneration Committee and the Board with the support of independent expertise and in consultation with major shareholders.

### **Costs of SKF's Performance Share Programme 2014**

The company has 455,351,068 shares in issue as per 31 January 2014. In order to comply with the obligations of SKF's Performance Share Programme 2014, 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 2014 and a share price of SEK 150, the cost, including social security cost, is estimated at approximately MSEK 180. On the basis of a share price of SEK 200, the cost, including social security cost, is estimated at approximately MSEK 240. 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 2017.

### **Other long-term incentive programmes**

SKF's Performance Share Programmes 2008 - 2011 have expired. The terms and conditions of SKF's Performance Share Programmes 2012 and 2013 are in essence the same as the terms and conditions of the proposed SKF's Performance Share Programme 2014. For further information on SKF's Performance Share Programmes, reference is made to Note 25 in AB SKF's annual report for the financial year 2013.

### **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.